



Press Release

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Aareal Bank Group posts record results for the financial year 2014 – proposes dividend increase from € 0.75 to € 1.20 p€ share

- **Following a strong fourth quarter, consolidated operating profit of € 436 million (2013: € 198 million) slightly exceeded the forecast, which had last been raised in November – consolidated net income more than tripled to € 294 million (€ 93 million)**
- **RoE before taxes increased to 11.1 per cent (2013: 7.5 per cent), excluding negative goodwill from the Corealcredit acquisition**
- **New business of € 10.7 billion originated in the Structured Property Financing segment markedly exceeded the original target, more than offsetting – higher-than-expected – early loan repayments**
- **Dr Wolf Schumacher, Chairman of the Management Board: "We are in an excellent position to keep developing Aareal Bank Group, positively and sustainably."**

Wiesbaden, 25 February 2015 – Aareal Bank Group concluded the financial year 2014 with a record result. Based on preliminary, unaudited figures, consolidated operating profit more than doubled over the previous year, from € 198 million to € 436 million. The figure slightly exceeded the Bank's own projections, which had already been increased during the year, most recently in November – from € 420 million to € 430 million. The considerable rise in consolidated operating profit was partly due to a positive non-recurring effect resulting from the acquisition of COREALCREDIT BANK AG (Corealcredit), closed on 31 March 2014. This effect slightly increased at the year-end, from € 152 million to € 154 million, due to measurement effects. Adjusted for this effect, consolidated operating profit amounted to € 282 million – a rise of approximately 40 per cent on the previous year. In the fourth quarter, Aareal Bank Group generated consolidated operating profit of € 86 million (Q4 2013: € 58 million), making the last quarter of 2014 by far the Group's strongest quarter ever, in terms of operating profit. Consolidated net income more than tripled to € 294 million for the year as a whole (2013: € 93 million), of which € 35 million was generated in the fourth quarter (Q4 2013: € 27 million).

The main driver for the positive trend in operating result was yet another strong increase in net interest income. Both in the fourth quarter and the full year 2014, net interest income significantly increased on the previous year's figures, at € 194 million and € 688 million, respectively (Q4 2013: € 147 million; 2013: € 527 million). Net interest income in 2014 thus exceeded the target range of € 650 million to € 680 million, which had been raised once again in November. Allowance for credit losses of € 146 million (2013: €113 million) was in the upper half of the communicated range between € 100 million and € 150 million, as expected. New commercial property financing business again developed successfully: at € 10.7 billion (2013: € 10.5 billion), it exceeded both the previous year's figure and the Bank's projection, which had been raised from between € 8 billion and € 9 billion to approximately € 10 billion.

Return on equity before taxes, excluding the negative goodwill from the acquisition of Corealcredit, amounted to 11.1 per cent during the year under review. This represents a significant increase from 7.5 per cent in 2013 and a significant step towards Aareal Bank's medium-term target RoE of approximately 12 per cent. Aareal Bank affirmed this RoE target, also including the effects from the acquisition of Westdeutsche ImmobilienBank AG ("WestImmo"). On 22 February 2015, Aareal Bank announced that it entered into a sale and purchase agreement to acquire all of the shares of WestImmo, which specialises in commercial property financing. With the acquisition of WestImmo – a Pfandbrief issuer with a clear focus on its core business, whose portfolio supplements Aareal Bank's own activities, in line with the Bank's strategy – Aareal Bank exploited an attractive opportunity to execute a value-creating transaction, and to further expand its position on key target markets.

Aareal Bank aims to ensure that its shareholders participate appropriately in the very good results posted for the financial year under review. Therefore, the Management Board and the Supervisory Board will propose to the Annual General Meeting of Aareal Bank AG, to be held on 20 May 2015, a 60 per cent increase in the dividend per share, from € 0.75 to € 1.20. The distribution ratio, adjusted for the negative goodwill from the acquisition of Corealcredit, of approximately 50 per cent corresponds with the communicated dividend policy.

Dr Wolf Schumacher, Chairman of the Management Board, commented: "2014 was an eventful and successful year for us, and we are proud of our achievements. We not only successfully passed the European Central Bank's Comprehensive Assessment with convincing results, repaid the residual amount of the silent participation provided by the German Financial Markets Stabilisation Fund (SoFFin) in full, placed Additional Tier 1 capital, and integrated Corealcredit. We also expanded our market position and generated an excellent result despite a demanding market and an increasingly competitive environment. In short, we are in an excellent position to keep developing Aareal Bank Group further, positively and sustainably, in the years to come – with a proven business model and for the benefit of all our stakeholders."

Record results for the 2014 financial year

Net interest income in the 2014 financial year was € 688 million, after € 527 million in 2013. Unexpectedly high income from early loan repayments had a positive effect, as did low funding costs, a marked increase in lending volume and stable lending margins. However, net interest income was burdened 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 € 146 million (2013: € 113 million) and comprises € 78 million in specific allowance as well as € 68 million in portfolio-based allowance. € 35 million of this portfolio-based allowance for credit losses was due to a change in individual measurement parameters, and thus non-recurring. In addition, the subdued economic momentum in Southern Europe led to an increase in portfolio-based allowance for credit losses.

Net commission income was virtually unchanged on the previous year, at € 164 million (2013: € 165 million).

The aggregate of net trading income/expenses, the net result on hedge accounting, and net result from non-trading assets, of € 9 million (2013: € 4 million) resulted largely from the measurement of derivatives used to hedge interest rate and currency risk.

Administrative expenses of € 439 million (2013: € 375 million) were within the € 430 million to € 450 million range projected for the financial year. A material reason for the increase over the previous year was the acquisition of Corealcredit. Furthermore, higher project costs were incurred during the reporting period, including those in conjunction with regulatory measures such as the ECB's Comprehensive Assessment.

Including the non-recurring effect of € 154 million from the acquisition of Corealcredit, consolidated operating profit for the 2014 financial year totalled € 436 million, after € 198 million in 2013. Taking into consideration higher income taxes of € 101 million – the rise being attributable to an adjustment of the full-year tax ratio during the fourth quarter – and non-controlling interest income of € 19 million, net income attributable to shareholders of Aareal Bank AG amounted to € 316 million. After deduction of € 22 million in net interest payable until the end of October 2014 on the SoFFin silent participation, consolidated net income stood at € 294 million (2013: € 93 million).

New business originated in Aareal Bank Group's **Structured Property Financing segment** during the 2014 financial year amounted to € 10.7 billion (2013: € 10.5 billion), of which 60.2 per cent consisted of newly-originated loans (2013: 61.6 per cent). New business volume clearly exceeded the range between € 8 billion and € 9 billion originally forecast. The very dynamic transaction environment resulted in higher-than-expected loan repayments. The Bank therefore decided to expand its new loan origination during the course of the year. Early renewals also contributed to this higher-than-expected new business volume.

Net interest income was € 687 million (2013: € 519 million). Unexpectedly high income from early loan repayments had a positive effect, as did low funding costs, a marked increase in lending volume and stable lending margins. However, net interest income was burdened by a lack of attractive investment opportunities for the liquidity reserves, due to the persistent low interest rate environment.

At € 255 million, administrative expenses were higher than the previous year's level (€ 201 million) – largely due to the acquisition of Corealcredit, but also to

higher project costs – as mentioned earlier – including those in conjunction with regulatory measures such as the ECB's Comprehensive Assessment.

Operating profit in the Structured Property Financing segment totalled € 456 million (2013: € 209 million), including the negative goodwill from the acquisition of Corealcredit. After inclusion of € 109 million in income taxes, the segment result amounted to € 347 million (2013: € 144 million).

Sales revenues in the **Consulting/Services segment** were virtually unchanged, at € 185 million, in the 2014 financial year (2013: € 187 million). The slight decrease was attributable to markedly lower margins from the deposit-taking business with the housing industry, which was due to persistently low interest rates; these margins are reported in 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 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.

The volume of deposits from the housing industry rose to an average of € 8.6 billion in the 2014 financial year (2013: € 7.2 billion). Deposits in fact averaged € 9.1 billion during the fourth quarter of 2014.

Aareon's sales revenues increased by € 5 million to € 178 million during the year under review (2013: € 173 million). This resulted in operating profit for Aareon of € 26 million (2013: € 27 million).

The Consulting/Services segment registered operating profit of -€ 20 million (2013: -€ 11 million), largely due to the increased burden posed by the persistently low interest rate environment. After inclusion of tax reclaims in the amount of € 8 million, the segment result amounted to -€ 12 million (2013: -€ 8 million).

Successful funding activities – the capital position remains solid

Aareal Bank Group successfully carried out its funding activities as planned during the 2014 financial year. During the period under review, Aareal Bank succeeded in raising a total of € 3.9 billion in medium- and long-term funds on the capital market. The issue volume of our unsecured funds amounted to € 1.1 billion; subordinated debt accounted for an additional € 0.6 billion. Mortgage Pfandbriefe made up € 1.9 billion of the total volume. This highlights how very important the Pfandbrief remains to Aareal Bank's funding mix.

Furthermore, Aareal Bank fully repaid the remaining € 300 million SoFFin silent participation at the end of October. In mid-November, the Bank issued Additional Tier 1 (AT1) capital through a € 300 million perpetual note with a coupon of 7.625 per cent. The issue served to further strengthen Aareal Bank's regulatory capital base.

Aareal Bank continues to be very solidly financed. As at 31 December 2014, the Bank's Tier 1 ratio was 17.7 per cent, which is comfortable on an international level. Assuming full implementation of Basel III, the Bank's pro-forma Common Equity Tier 1 (CET1) ratio would be 12.9 per cent.

Notes on the preliminary Income Statement for the fourth quarter of 2014

At € 86 million, Aareal Bank Group's consolidated operating profit was up significantly year-on-year (Q4 2013: € 58 million).

According to preliminary, unaudited figures, net interest income in the final quarter of 2014 stood at € 194 million (Q4 2013: €147 million), and therefore exceeded the previous quarter's figure (€ 181 million) by € 13 million. The effects of the higher-than-expected loan repayments mentioned above totalled € 20 million in the fourth quarter, after € 13 million in the previous quarter.

Allowance for credit losses was € 41 million in the fourth quarter (Q4 2013: € 39 million), mainly because of the portfolio-based allowance for Southern Europe, as mentioned above.

Net commission income remained at € 48 million, stable year-on-year, and € 11 million higher than in the previous quarter (€ 37 million), thanks to the fact that Aareon traditionally enjoys a strong fourth quarter of the year.

The aggregate of net trading income/expenses, the net result on hedge accounting, and net result from non-trading assets totalled € 7 million in the last quarter of 2014 after € 1 million the year before.

Consolidated administrative expenses amounted to € 114 million during the fourth quarter (Q4 2013: € 99 million).

On balance, Aareal Bank Group generated consolidated operating profit for the fourth quarter of € 86 million (Q4 2013: € 58 million). Taking into consideration income taxes of € 39 million and non-controlling interest income of € 5 million, net income attributable to shareholders of Aareal Bank amounted to € 42 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated income stood at € 35 million (Q4 2013: € 27 million).

Outlook for 2015: Aareal Bank expects another very good result

Aareal Bank expects the market and competitive environment to remain very demanding throughout the current financial year. The main trends of 2014 are expected to continue.

Accordingly, Aareal Bank projects a subdued world economy in 2015, albeit with persisting substantial regional differences and major uncertainty factors, in particular with regards to the economic development of the euro zone and consequences of geopolitical tensions such as the Ukraine crisis. While the Anglo-American world is expected to see an interest rate turnaround for 2015, the low interest rate environment within the euro zone is assumed to solidify further as the ECB adheres to its expansive monetary policy. This development might tempt market participants to take on higher risks and poses the danger of capital misallocation. For the time being, however, commercial property markets continue to benefit from the persistent high level of liquidity caused by low interest rates. Transaction volumes might rise moderately compared to 2014. In

commercial property financing, competition is expected to intensify and the pressure on margins is set to remain.

In spite of substantial uncertainties and numerous risk factors, Aareal Bank Group remains generally optimistic for the 2015 financial year.

Given a higher lending volume compared to 2014, also due to the acquisition of WestImmo, net interest income is projected in a range between € 720 million to € 760 million, in spite of an expected lower volume of early loan repayments and declining margins on new business.

Despite a larger loan portfolio, Aareal Bank continues to forecast allowance for credit losses in a range of € 100 million to € 150million. 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 € 170 million and € 180 million.

Administrative expenses, including one-off effects related to the acquisition of WestImmo, are expected in the region of € 520 million to € 550 million.

All in all, Aareal Bank sees good opportunities, including a non-recurring effect from the acquisition of WestImmo (negative goodwill), to achieve consolidated operating profit of between € 400 million and € 430million for the current year. Negative goodwill from the acquisition of WestImmo is expected to amount to some € 150 million. The Bank expects RoE before taxes to be around 16 per cent, and earnings per share between € 4.80 and € 5.20 based on an assumed tax ratio of 31.4 per cent. Adjusted for non-recurring income from the acquisition of WestImmo, Aareal Bank expects RoE before taxes of around 10 per cent, with EPS in a range between € 2.30 and € 2.70.

Aareal Bank's medium-term target RoE before taxes of approximately 12 per cent remains unchanged.

New business for the Structured Property Financing segment is intended to range between € 6 billion and € 7 billion during the current financial year. The lower new business target, compared to the previous year, reflects the increase in Aareal Bank Group's credit portfolio following the acquisition of WestImmo.

In the Consulting/Services segment, Aareal Bank expects its IT subsidiary Aareon to contribute approximately € 27 million to results before taxes.

Aareal Bank Group

Aareal Bank Group, headquartered in Wiesbaden, Germany, is one of the leading international property specialists. With a staff base comprising employees from more than 30 nations, it is represented across three continents: in Europe, North America, and in 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.

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the financial year 2014
(unaudited, in accordance with IFRSs)

	1 Jan - 31 Dec 2014	1 Jan - 31 Dec 2013	Change
	€ mn	€ mn	%
Net interest income	688	527	31
Allowance for credit losses	146	113	29
Net interest income after allowance for credit losses	542	414	31
Net commission income	164	165	-1
Net result on hedge accounting	5	-6	
Net trading income / expenses	2	18	-89
Results from non-trading assets	2	-8	
Results from investments accounted for using the equity method	0	0	
Administrative expenses	439	375	17
Net other operating income / expenses	6	-10	
Negative goodwill from the acquisition of Corealcredit	154	-	
Operating profit	436	198	120
Income taxes	101	62	63
Net income / loss	335	136	146
Allocation of results			
Net income / loss attributable to non-controlling interests	19	19	0
Net income / loss attributable to shareholders of Aareal Bank AG	316	117	170
Appropriation of profits			
Net income / loss attributable to shareholders of Aareal Bank AG	316	117	170
Silent participation by SoFFin	22	24	-8
Consolidated profit / loss	294	93	216

Segment Results of Aareal Bank Group
Preliminary results for the financial year 2014
(unaudited, in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation / Reconciliation		Aareal Bank Group	
	1 Jan - 31 Dec 2014	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2014	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2014	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2014	1 Jan - 31 Dec 2013
€ mn								
Net interest income	687	519	0	0	1	8	688	527
Allowance for credit losses	146	113					146	113
Net interest income after allowance for credit losses	541	406	0	0	1	8	542	414
Net commission income	4	10	163	165	-3	-10	164	165
Net result on hedge accounting	5	-6					5	-6
Net trading income / expenses	2	18					2	18
Results from non-trading assets	2	-8					2	-8
Results from investments accounted for using the equity method	0		0	0			0	0
Administrative expenses	255	201	187	177	-3	-3	439	375
Net other operating income / expenses	3	-10	4	1	-1	-1	6	-10
Negative goodwill from the acquisition of Corealcredit	154						154	
Operating profit	456	209	-20	-11	0	0	436	198
Income taxes	109	65	-8	-3			101	62
Net income / loss	347	144	-12	-8	0	0	335	136
Allocation of results								
Net income / loss attributable to non-controlling interests	16	16	3	3			19	19
Net income / loss attributable to shareholders of Aareal Bank AG	331	128	-15	-11	0	0	316	117

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the fourth quarter 2014
(unaudited, in accordance with IFRSs)

	Quarter 4 2014	Quarter 4 2013	Change
	€ mn	€ mn	%
Net interest income	194	147	32
Allowance for credit losses	41	39	5
Net interest income after allowance for credit losses	153	108	42
Net commission income	48	48	0
Net result on hedge accounting	2	-3	-167
Net trading income / expenses	3	4	-25
Results from non-trading assets	2	0	
Results from investments accounted for using the equity method	0	0	
Administrative expenses	114	99	15
Net other operating income / expenses	-8	0	
Negative goodwill from the aquisition of Corealcredit	-	-	
Operating Profit	86	58	48
Income taxes	39	18	117
Net income / loss	47	40	18
Allocation of results			
Net income / loss attributable to non-controlling interests	5	4	25
Net income / loss attributable to shareholders of Aareal Bank AG	42	36	17
Appropriation of profits			
Net income / loss attributable to shareholders of Aareal Bank AG	42	36	17
Silent participation by SoFFin	7	9	-22
Consolidated profit / loss	35	27	30

Segment Results of Aareal Bank Group
Preliminary results for the fourth quarter 2014
(unaudited, in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation / Reconciliation		Aareal Bank Group	
	Quarter 4 2014	Quarter 4 2013	Quarter 4 2014	Quarter 4 2013	Quarter 4 2014	Quarter 4 2013	Quarter 4 2014	Quarter 4 2013
€ mn								
Net interest income	194	146	0	0	0	1	194	147
Allowance for credit losses	41	39					41	39
Net interest income after allowance for credit losses	153	107	0	0	0	1	153	108
Net commission income	1	3	47	47	0	-2	48	48
Net result on hedge accounting	2	-3					2	-3
Net trading income / expenses	3	4					3	4
Results from non-trading assets	2	0					2	0
Results from investments accounted for using the equity method	0		0	0			0	0
Administrative expenses	67	54	48	47	-1	-2	114	99
Net other operating income / expenses	-8	-1	1	2	-1	-1	-8	0
Negative goodwill from the acquisition of Corealcredit								
Operating profit	86	56	0	2	0	0	86	58
Income taxes	41	18	-2	0			39	18
Net income / loss	45	38	2	2	0	0	47	40
Allocation of results								
Net income / loss attributable to non-controlling interests	4	3	1	1			5	4
Net income / loss attributable to shareholders of Aareal Bank AG	41	35	1	1	0	0	42	36