



Press Release

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Aareal Bank again posts very good results for the third quarter – Consolidated operating profit forecast raised for the full year 2015

- Consolidated operating profit of € 82 million for the third quarter (Q3 2014: € 66 million) – marked increase in net interest income, to € 214 million (Q3 2014: € 181 million)
- Aareal Bank now anticipates full-year consolidated operating profit for 2015 in a range between € 450 million and € 460 million – equivalent to € 68 million to € 78 million for the fourth quarter
- New business target for the full year increased to between € 8 billion and € 9 billion
- CEO Hermann J. Merkens: We will continue to bring our specific strengths to bear going forward, developing Aareal Bank Group in a value-creating manner

Wiesbaden, 10 November 2015 – Aareal Bank Group again generated very good results during the third quarter of the current financial year. Based on the successful performance during the first nine months of the year, the Company has raised its forecast for the full year 2015: consolidated operating profit (including negative goodwill from the acquisition of Westdeutsche ImmobilienBank (WestImmo)) is now expected in a range between € 450 million and € 460 million; the Company had previously forecast a range of € 400 million to € 430 million. In an environment that remained challenging, Aareal Bank Group generated consolidated operating profit of € 82 million during the third quarter, up by more than 24 per cent year-on-year (Q3/2014: € 66 million). Consolidated operating profit for the first three quarters (including € 154 million in preliminary negative goodwill from the acquisition of WestImmo, which was closed on 31 May 2015) thus amounted to € 382 million, compared to € 350 million for the first nine months of 2014, the Bank's record year to date. Consolidated net income for the first nine months allocated to ordinary shareholders amounted to € 283 million (9m 2014: € 259 million); the corresponding figure for the third quarter was € 47 million (Q3 2014: € 36 million). Earnings per ordinary share for the period under review amounted to € 0.78.

The strong increase in third-quarter operating profit was largely due to another very strong rise in net interest income, which was up by 18 per cent to € 214 million (Q3 2014: € 181 million). This development was driven, in particular, by stronger effects from early loan repayments, as well as by the significant year-on-year increase in lending volume due to the acquisition of WestImmo, whose full-quarter results were included in Aareal Bank Group's consolidated income statement for the first time in the

third quarter. In contrast, as in the previous quarters, net interest income was burdened by a lack of attractive investment opportunities for the Bank's liquidity reserves, due to the persistent low interest rate environment.

Allowance for credit losses of € 37 million (Q3 2014: € 36 million) recognised in the third quarter was hardly changed year-on-year, despite the higher lending volume, and thus remained within the pro-rata forecast range of € 100 million to € 150 million for the full financial year. Aareal Bank originated € 2.7 billion in new business during the third quarter, bringing the nine-month figure to € 6.3 billion. Against this background, Aareal Bank raised the full-year target corridor for new business to between € 8 billion and € 9 billion, from an original forecast of € 6 billion to € 7 billion.

As expected, administrative expenses of € 147 million during the third quarter were markedly higher than the prior-year level (Q3 2014: € 109 million). This increase was due, among other factors, to costs incurred with the integration of WestImmo (which proceeded according to plan with the successful technical integration in October), and running costs for WestImmo.

"Throughout the last years, Aareal Bank Group has demonstrated – time and again – its ability to readily seize opportunities in its business segments, based on a viable strategy and clearly-defined principles – finding the right answers to the challenges posed by competition and regulation. Our sustained success, which was once again evident in the good results for the third quarter, is based on this combination of strategic clarity and flexibility, combined with outstanding expertise, a deep market understanding and consistent client orientation. I am confident that we will continue to bring our specific strengths to bear going forward, developing Aareal Bank Group in a value-creating manner", said Hermann J. Merkens, Chairman of the Management Board of Aareal Bank.

Structured Property Financing segment: marked increase in net interest income

At € 89 million, operating profit generated in the Structured Property Financing segment during the third quarter of 2015 was up € 15 million over the corresponding period of the previous year (Q3 2014: € 74 million).

Segment net interest income amounted to € 214 million in the third quarter of 2015, up significantly year-on-year (Q3 2014: € 182 million). The increase was driven, in particular, by WestImmo's quarterly results – which were fully included in Aareal Bank Group's consolidated income for the first time in the third quarter – as well as higher effects from early loan repayments.

New business in the third quarter of 2015 totalled € 2.7 billion (Q3 2014: € 3.4 billion), bringing the figure for the first nine months of the financial year to € 6.3 billion (9m 2014: € 7.6 billion). Newly-originated loans totalled € 0.9 billion during the quarter under review (Q3 2014: € 2.3 billion); and € 3.0 billion for the first nine months of the year (9m 2014: € 5.0 billion). Aareal Bank continues to pursue a selective policy regarding new business; this is firstly on account of margin pressure due to intensified competition, and secondly following the acquisition of WestImmo, which has led to non-organic growth in interest-bearing lending volume.

Consulting/Services segment: volume of deposits remains on a high level

Segment operating profit in the third quarter of 2015 was € -7 million (Q3 2014: € -8 million).

The business activities of the Aareon AG subsidiary developed in line with expectations: third-quarter operating profit of € 5 million was in line with the previous year's figure.

The volume of deposits in the segment's banking business averaged € 8.6 billion during the quarter under review (Q2 2015: € 9.2 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 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.

Full-year funding requirements already covered – very solid capitalisation

The total volume of long-term funding raised on the capital markets during the third quarter of 2015 amounted to € 0.3 billion, bringing total long-term funding during the first nine months of the year to € 1.3 billion – comprising € 0.7 billion in Mortgage Pfandbriefe and € 0.6 billion in unsecured issues. These issuing activities already covered all existing funding requirements for 2015.

Aareal Bank continues to be very solidly financed. As at 30 September 2015, the Bank's Tier 1 ratio was 16.2 per cent, which is comfortable on an international level. Assuming full implementation of Basel III, the Bank's Common Equity Tier 1 (CET1) ratio would be 12.1 per cent.

Notes to Group financial performance

Net interest income amounted to € 214 million in the third quarter of 2015, up significantly year-on-year (Q3 2014: € 181 million). Net interest income totalled € 583 million for the first nine months of the financial year (9m 2014: € 494 million).

Net commission income amounted to € 40 million for the third quarter (Q3 2014: € 37 million), bringing the total figure for the first nine months to € 123 million (9m 2014: € 116 million).

The aggregate of net trading income/expenses, the net result on hedge accounting, and the result from non-trading assets, was -€ 3 million in the third quarter (Q3 2014: € -5 million); the relevant aggregate figure for the first nine months of 2015 was € -2 million (9m 2014: € 2 million).

Administrative expenses amounted to € 147 million during the third quarter (Q3 2014: € 109 million). Administrative expenses for the first nine months of the year totalled € 415 million (9m 2014: € 325 million), thus clearly above the previous year's figure, as expected. The increase was due, among other factors, to integration and running costs at Corealcredit and WestImmo, as well as higher expenses for the bank levy.

Net other operating income/expenses of € 15 million (Q3 2014: € -2 million) include non-recurring income from the reversal of provisions recognised for risk protection in connection with the acquisition of Corealcredit; these provisions are no longer required.

On balance, consolidated operating profit for the third quarter amounted to € 82 million (Q3 2014: € 66 million). Taking tax deductions of € 26 million into account, consolidated net income was € 56 million. After deduction of € 5 million in non-controlling interest income, and assumed pro-rata net interest payable on the Additional Tier 1 (AT1) bond of € 4 million, consolidated net income allocated to ordinary shareholders of Aareal Bank AG amounted to € 47 million (Q3 2014: € 36 million).

Aareal Bank Group's consolidated operating profit for the first nine months of the financial year totalled € 382 million (9m 2014: € 350 million). Taking into consideration income taxes of € 72 million and non-controlling interest income of € 15 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 295 million. Assuming the pro rata temporis accrual of net interest payments on the AT1 bond (€ 12 million), consolidated net income allocated to ordinary shareholders stood at € 283 million (9m 2014: € 259 million).

Outlook for 2015 raised

Given the manifold macro-economic and geopolitical uncertainty factors, as well as industry-specific challenges, Aareal Bank Group continues to anticipate a very challenging business environment prevailing for the remainder of the year.

Competition on most commercial property financing markets relevant for Aareal Bank is expected to remain intensive. The readiness of finance providers to accept significantly lower margins and, to a moderate degree, higher loan-to-value ratios, has risen throughout the year. Even though there are no indications for this trend to end or even reverse, Aareal Bank remains committed to its conservative policy, strictly oriented toward risk and return in the current environment.

In view of the successful business development during the first nine months of the financial year, Aareal Bank raises its full-year guidance: net interest income – the Bank's most important source of income – is now expected in a range between € 760 million and € 800 million (previously: € 720 million to € 760 million). Aareal Bank continues to forecast allowance for credit losses in a range of € 100 million to € 150 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 for 2015 is projected to be in an unchanged range between € 170 million and € 180 million. Likewise, the range for administrative expenses remains unchanged, at € 520 million to € 550 million.

Overall, Aareal Bank now expects consolidated operating profit between € 450 million and € 460 million, including negative goodwill from the acquisition of WestImmo. This is equivalent to € 68 million to € 78 million for the fourth quarter. To date, Aareal Bank had forecast a range between € 400 million and € 430 million for the full year. The preliminary figure for negative goodwill from the acquisition is also unchanged, at

€ 154 million. As already stated, and in line with the negative goodwill resulting from the acquisition of Corealcredit in the previous year, the negative goodwill resulting from the acquisition of WestImmo will not be included in the calculation of potential dividend payments for the 2015 financial year.

The Bank expects RoE 2015 before taxes to be around 18 per cent (previously: around 16 per cent), and earnings per ordinary share (EpS) of between € 5.40 to € 5.51 (previously: € 4.80 to € 5.20), based on an assumed full-year tax ratio of 31.4 per cent. Adjusted for non-recurring income from the acquisition of WestImmo, Aareal Bank expects RoE before taxes of between 11 and 11.5 per cent (previously: around 10 per cent), with EpS in a range between € 2.83 and € 2.95 (previously: € 2.30 to € 2.70).

New business in the Structured Property Financing segment is now projected in a range between € 8 billion and € 9 billion during the 2015 financial year (previously: between € 6 billion and € 7 billion).

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

Note to editors: The full interim report as at 30 September 2015 is available on <http://www.aareal-bank.com/en/investor-relations/financial-reports/>.

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 - 30 Sep 2015	1 Jan - 30 Sep 2014
Results ¹⁾		
Operating profit (€ mn)	382	350
Consolidated net income (€ mn)	310	288
Consolidated net income allocated to ordinary shareholders (€ mn) ²⁾	283	259
Cost / income ratio (%) ³⁾	44.9	36.9
Earnings per ordinary share (€) ²⁾	4.73	4.32
RoE before taxes (%) ^{2) 4)}	20.3	20.3
RoE after taxes (%) ^{2) 4)}	16.4	16.6
Statement of financial position		
Property finance (€ mn) ⁵⁾	31,150	28,987
of which: international (€ mn)	25,225	22,894
Equity (€ mn)	2,992	2,723
Total assets (€ mn)	53,876	49,557
Regulatory indicators		
Risk-weighted assets (€ mn)	17,147	15,492
Common Equity Tier 1 ratio (CET1 ratio) (%)	12.8	13.6
Tier 1 ratio (T1 ratio) (%)	16.2	17.7
Total capital ratio (TC ratio) (%)	22.6	24.7
Common Equity Tier 1 ratio (CET1 ratio) (%) – fully phased –	12.1	12.9
Employees	2,819	2,548
Ratings		
Fitch Ratings, London		
long-term ⁶⁾	BBB+ (outlook: stable)	A- (outlook: negative)
short-term ⁶⁾	F2	F1
Fitch Pfandbrief ratings	AAA	AAA
oekom	prime	prime

1) Adjustment of previous year's figures due to completion of purchase price allocation in accordance with IFRS 3 for COREALCREDIT BANK AG (Corealcredit).

2) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis. SoFFin's silent participation was repaid on 30 October 2014. To facilitate comparison, and for the purposes of economic analysis, net interest paid on the SoFFin silent participation (in the amount of € 15 million) was deducted from the calculation of EpS allocated to ordinary shareholders and RoE as at 30 September 2014. Likewise, the SoFFin silent participation (in the amount of € 300 million) was deducted from equity used to calculate RoE.

3) Structured Property Financing segment only

4) On an annualised basis

5) Excluding € 1.6 billion in private client business and € 0.8 billion in local authority lending business by Westdeutsche ImmobilienBank AG (WestImmo).

6) As expected, rating agency Fitch Ratings ("Fitch") downgraded the Issuer Default Ratings of numerous banks around the world on 19 May 2015, against the background of the lower willingness of many countries to support banks in the event of a crisis and the regulatory measures introduced in this context, such as the EU Single Resolution Mechanism. Within the scope of this measure, Aareal Bank AG's Issuer Default Rating was changed from A- (with a negative outlook) to BBB+ (with a stable outlook). The Bank's short-term Issuer Rating was adjusted from F1 to F2. Fitch had raised Aareal Bank AG's stand-alone Viability Rating from bbb to bbb+ on 24 February 2015, citing the Bank's robust development throughout the financial markets crisis and the continuous strengthening of its capital base, amongst other factors.

Consolidated income statement¹⁾ for the first nine months of 2015 (in accordance with IFRSs)

	1 Jan - 30 Sep 2015	1 Jan - 30 Sep 2014	Change
	€ mn	€ mn	%
Net interest income	583	494	18
Allowance for credit losses	86	105	-18
Net interest income after allowance for credit losses	497	389	28
Net commission income	123	116	6
Net result on hedge accounting	5	3	67
Net trading income / expenses	8	-1	
Results from non-trading assets	-15	0	
Results from investments accounted for using the equity method	0	0	
Administrative expenses	415	325	28
Net other operating income / expenses	25	14	79
Negative goodwill from acquisitions	154	154	0
Operating profit	382	350	9
Income taxes	72	62	16
Consolidated net income	310	288	8
Consolidated net income attributable to non-controlling interests	15	14	7
Consolidated net income attributable to shareholders of Aareal Bank AG	295	274	8
Earnings per share (Eps)²⁾			
Consolidated net income attributable to shareholders of Aareal Bank AG	295	259	14
of which: allocated to ordinary shareholders ³⁾	283	259	9
of which: allocated to AT1 investors	12	-	
Basic earnings per ordinary share (in €) ^{3) 4)}	4.73	4.32	9
Basic earnings per AT1 unit (in €) ⁵⁾	0.12	-	

1) Adjustment of previous year's figures due to completion of purchase price allocation in accordance with IFRS 3 for Corealcredit.

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) SoFFin's silent participation was repaid on 30 October 2014. To facilitate comparison, and for the purposes of an economic analysis, net interest payable on the SoFFin silent participation was deducted when determining the comparative figure as at 30 September 2014 (€ 15 million) in the Eps calculation.

4) 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.

5) 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 third quarter of 2015 (in accordance with IFRSs)

	Quarter 3 2015	Quarter 3 2014	Change
	€ mn	€ mn	%
Net interest income	214	181	18
Allowance for credit losses	37	36	3
Net interest income after allowance for credit losses	177	145	22
Net commission income	40	37	8
Net result on hedge accounting	-3	0	
Net trading income / expenses	13	-5	
Results from non-trading assets	-13	0	
Results from investments accounted for using the equity method	0	0	
Administrative expenses	147	109	35
Net other operating income / expenses	15	-2	
Negative goodwill from acquisitions			
Operating profit	82	66	24
Income taxes	26	21	24
Consolidated net income	56	45	24
Consolidated net income attributable to non-controlling interests	5	4	25
Consolidated net income attributable to shareholders of Aareal Bank AG	51	41	24
Earnings per share (EpS) ¹⁾			
Consolidated net income attributable to shareholders of Aareal Bank AG	51	36	42
of which: allocated to ordinary shareholders ²⁾	47	36	31
of which: allocated to AT1 investors	4	-	
Basic earnings per ordinary share (in €) ^{2) 3)}	0.78	0.58	34
Basic earnings per AT1 unit (in €) ⁴⁾	0.04	-	

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) SoFFin's silent participation was repaid on 30 October 2014. To facilitate comparison, and for the purposes of an economic analysis, net interest payable on the SoFFin silent participation was deducted when determining the comparative figure as at 30 September 2014 (€ 5 million) in the EpS calculation.

3) 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.

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 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 results¹⁾ for the first nine months of 2015
(in accordance with IFRSs)**

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 30 Sep 2015	1 Jan - 30 Sep 2014	1 Jan - 30 Sep 2015	1 Jan - 30 Sep 2014	1 Jan - 30 Sep 2015	1 Jan - 30 Sep 2014	1 Jan - 30 Sep 2015	1 Jan - 30 Sep 2014
€ mn								
Net interest income	584	493	0	0	-1	1	583	494
Allowance for credit losses	86	105					86	105
Net interest income after allowance for credit losses	498	388	0	0	-1	1	497	389
Net commission income	4	3	120	116	-1	-3	123	116
Net result on hedge accounting	5	3					5	3
Net trading income / expenses	8	-1					8	-1
Results from non-trading assets	-15	0					-15	0
Results from investments accounted for using the equity method	0	0	0				0	0
Administrative expenses	274	188	143	139	-2	-2	415	325
Net other operating income / expenses	23	11	2	3	0	0	25	14
Negative goodwill from acquisitions	154	154					154	154
Operating profit	403	370	-21	-20	0	0	382	350
Income taxes	79	68	-7	-6			72	62
Consolidated net income	324	302	-14	-14	0	0	310	288
Consolidated net income attributable to non-controlling interests	13	12	2	2			15	14
Consolidated net income attributable to shareholders of Aareal Bank AG	311	290	-16	-16	0	0	295	274
Allocated equity	1,613	1,326	127	109	557	643	2,297	2,078
Cost / income ratio in %	44.9	36.9	117.1	116.4			56.9	51.9
RoE before taxes in % ^{2) 3)}	30.8	33.9	-24.5	-26.8			20.3	20.3

1) Adjustment of previous year's figures due to completion of purchase price allocation in accordance with IFRS 3 for Corealcredit.

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. SoFFin's silent participation was repaid on 30 October 2014. To facilitate comparison, and for the purposes of an economic analysis, net interest payable on the SoFFin silent participation (€ 15 million) was deducted when determining the comparative figure as at 30 September 2014 in the RoE calculation. Likewise, the SoFFin silent participation (€ 300 million) was deducted from equity used when calculating RoE.

Segment results for the third quarter of 2015 (in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation / Reconciliation		Aareal Bank Group	
	Quarter 3 2015	Quarter 3 2014	Quarter 3 2015	Quarter 3 2014	Quarter 3 2015	Quarter 3 2014	Quarter 3 2015	Quarter 3 2014
€ mn								
Net interest income	214	182	0	0	0	-1	214	181
Allowance for credit losses	37	36					37	36
Net interest income after allowance for credit losses	177	146	0	0	0	-1	177	145
Net commission income	2	1	39	36	-1	0	40	37
Net result on hedge accounting	-3	0					-3	0
Net trading income / expenses	13	-5					13	-5
Results from non-trading assets	-13	0					-13	0
Results from investments accounted for using the equity method	0	0	0				0	0
Administrative expenses	101	64	47	46	-1	-1	147	109
Net other operating income / expenses	14	-4	1	2	0	0	15	-2
Negative goodwill from acquisitions								
Operating profit	89	74	-7	-8	0	0	82	66
Income taxes	29	23	-3	-2			26	21
Consolidated net income	60	51	-4	-6	0	0	56	45
Consolidated net income attributable to non-controlling interests	5	4	0	0			5	4
Consolidated net income attributable to shareholders of Aareal Bank AG	55	47	-4	-6	0	0	51	41
Allocated equity	1,613	1,326	127	109	557	643	2,297	2,078
Cost / income ratio in %	44.4	37.1	116.2	119.6			55.1	51.8
RoE before taxes in % ^{1) 2)}	19.4	18.9	-22.4	-29.3			12.4	10.5

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. SoFFin's silent participation was repaid on 30 October 2014. To facilitate comparison, and for the purposes of an economic analysis, net interest payable on the SoFFin silent participation (€ 5 million) was deducted when determining the comparative figure for the third quarter in the RoE calculation. Likewise, the SoFFin silent participation (€ 300 million) was deducted from equity used when calculating RoE.