



## Press Release

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### **Aareal Bank Group raises forecast for full-year consolidated operating profit, following a good performance during the third quarter of 2016**

- **Third-quarter consolidated operating profit of € 74 million**
- **Forecast for full-year consolidated operating profit 2016 raised from between € 300 million and € 330 million to between € 360 million and € 380 million including an expected positive non-recurring, pre-tax effect of € 28 million in the fourth quarter**
- **€ 1.6 billion in new business generated by the Structured Property Financing segment during the third quarter – aggregate new business volume for the full year raised from between € 7 billion and € 8 billion to between € 8 billion and € 9 billion**
- **IT subsidiary Aareon continues to develop favourably, in line with expectations**
- **CEO Hermann J. Merkens: "We continue to perform well in the operating business, implementing our strategy on schedule"**

Wiesbaden, 10 November 2016 – Aareal Bank Group again maintained its positive business development during the third quarter of 2016. Based on a successful performance during the first nine months, the Group raises its earnings forecast for the full year: consolidated operating profit is now expected in a range between € 360 million and € 380 million (previously: € 300 million to € 330 million). This includes a positive non-recurring, pre-tax effect of € 28 million – expected to be realised in the fourth quarter – due to the successful conclusion of material legal disputes in connection with the former Corealcredit, acquired in 2014. However, since this non-recurring effect will be offset by a corresponding tax expense of virtually the same amount, this development will have only a minor impact upon results after taxes.

In a market and competitive environment that remained very challenging, involving numerous uncertainty factors, Aareal Bank Group once again generated a very solid consolidated operating profit of € 74 million during the third quarter. The figure was down slightly year-on-year (Q3 2015: € 82 million), predominantly reflecting an expected decline in net interest income, due to the reduction of portfolios no longer in line with the Bank's strategy. Nine-month consolidated operating profit of € 281 million was up 23% from the figure for the previous year,

adjusted for negative goodwill from the acquisition of Westdeutsche ImmobilienBank AG (WestImmo) (9M 2015: € 228 million). Consolidated net income for the first nine months attributable to ordinary shareholders amounted to € 166 million, 29% higher than the previous year's adjusted figure (9M 2015: € 129 million), of which € 42 million was generated during the third quarter (Q3 2015: € 47 million). Earnings per ordinary share amounted to € 0.70, compared to € 0.78 in the previous year.

At € 175 million, net interest income for the third quarter was thus approximately at the same level as in the previous two quarters, but fell short of the same quarter of the previous year (Q3 2015: € 214 million), as expected, due to the reduction of non-strategic portfolios. Besides this impact on volumes, lower effects from early loan repayments also contributed to lower net interest income. Net interest income also continued to be burdened by a lack of attractive investment opportunities for the Bank's liquidity reserves, due to the persistent low interest rate environment. At € 33 million, allowance for credit losses was slightly lower year-on-year (Q3 2015: € 37 million), and thus within the expected range. Allowance for credit losses for the first three quarters totalled € 64 million and was therefore markedly lower than the aggregate figure for the same period of the previous year (9M 2015: € 86 million). Aareal Bank affirms the forecast range of € 80 million to € 120 million for the full year 2016.

New business generated by the Structured Property Financing segment totalled € 1.6 billion in the third quarter, including € 0.6 billion in newly-originated loans. In line with the "Aareal 2020" programme presented in February, a focal point in the Bank's new business origination was once again on the US market, which accounted for a share in newly-originated loans of around 68%. At € 6.0 billion, aggregate new business during the first nine months almost matched the previous year's level of € 6.3 billion, in spite of markedly lower global transaction volumes. Aareal Bank has thus raised the full-year target range for new business to between € 8 billion and € 9 billion, from an original forecast of € 7 billion to € 8 billion, also reflecting a higher level of early renewals.

In the Consulting/Services segment, which – in line with Group strategy – is set to evolve into the Group's growth driver over the coming years IT subsidiary Aareon AG continued to develop positively during the third quarter, with significant increases in both sales revenue and operating profit compared to the previous year.. In particular, Aareon enjoyed further success in growing the international business, and expanded its portfolio of digital products. Results in the banking business with the housing industry continue to be shaped by historically low interest rates. At an average of € 9.5 billion, the volume of deposits remained at a high level throughout the third quarter.

"The figures for the third quarter once again show that Aareal Bank Group continues to perform very well in its operating business. We are progressing on schedule with the implementation of our "Aareal 2020" strategy, too, having already launched all material projects designed to optimise our structures and processes. In addition, we have commenced numerous initiatives to explore potential new sources of income, with a particular focus on digital products and solutions. In this way, we are creating the prerequisites for continuing our

successful development, even given the fundamental changes to the market environment which we can perceive today", said Hermann J. Merkens, Chairman of the Management Board.

### **Structured Property Financing segment: new business target raised**

In a business environment that continued to be shaped by intense competition and a very challenging general framework, operating profit in the Structured Property Financing segment stood at € 85 million in the third quarter of 2016 (Q3 2015: € 89 million).

Net interest income for the third quarter was € 179 million (Q3 2015: € 214 million). The decline in net interest income, compared to the same quarter of the previous year, was largely due to the reduction of non-strategic portfolios and lower effects from early loan repayments. Net interest income was only slightly below the previous quarter (Q2 2016: € 181 million), with stable margins.

New business in the third quarter of 2016 totalled € 1.6 billion (Q3 2015: € 2.7 billion), bringing the figure for the first three quarters of the year to € 6.0 billion – almost in line with the previous year's levels (9M 2015: € 6.3 billion), despite markedly lower global transaction volumes. Also reflecting a higher level of early renewals, Aareal Bank has raised the full-year target range for new business to between €8 billion and €9 billion, from an original forecast of € 7 billion to € 8 billion.

Newly-originated loans totalled € 0.6 billion during the quarter under review (Q3 2015: € 0.9 billion), and € 3.6 billion for the first nine months of the year (9M 2015: € 3.0 billion).

### **Consulting/Services segment: Aareon continues to develop positively**

Segment operating profit in the third quarter of 2016 was –€ 11 million (Q3 2015: –€ 7 million).

Subsidiary Aareon AG developed on schedule, increasing operating profit to € 6 million during the third quarter of 2016 (Q3 2015: € 5 million). At € 49 million, Aareon's third-quarter sales revenues fell slightly short of the two previous quarters, reflecting seasonal factors, but was markedly higher than in the same quarter of the previous year (Q3 2015: € 42 million).

The volume of deposits in the segment's banking business averaged € 9.5 billion during the quarter under review, in line with the previous quarter and 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.

## **Sound funding and capitalisation**

Aareal Bank Group has remained very solidly funded throughout the first nine months of 2016. Total long-term funding as at 30 September 2016 amounted to € 28.1 billion (31 Dec 2015: € 30.9 billion).

The Bank raised a total of € 1.2 billion funds on the capital market during the first nine months of the year, comprising €1.1 billion in senior unsecured, and € 0.1 billion in secured issues.

Aareal Bank continues to have a very solid capital base. As at 30 September 2016, the Bank's Tier 1 ratio was 17.6%, which is comfortable on an international level. Assuming full implementation of Basel III, the Bank's fully phased-in Common Equity Tier 1 (CET1) ratio would be 13.6%.

## **Notes to Group financial performance**

Net interest income amounted to € 175 million in the quarter under review, down € 2 million from the previous quarter (Q2 2016: € 177 million). Net interest income totalled € 532 million for the first nine months of the financial year (9M 2015: € 583 million). The decline was largely attributable to lower early loan repayments and the planned reduction of non-strategic portfolios. Net interest income was also 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 € 33 million in the third quarter was in line with expectations (Q3 2015: € 37 million). Aareal Bank affirms the forecast range of € 80 million to € 120 million for the full financial year 2016. Once again, this demonstrates the high quality of Aareal Bank's credit portfolio.

Net commission income of € 44 million clearly exceeded the previous year's figure (Q3 2015: € 40 million), bringing net commission income for the first nine months of the year to € 137 million (9M 2015: € 123 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 net result from non-trading assets, stood at € 12 million in the third quarter (Q3 2015: -€ 3 million); net trading income/expenses and the net result on hedge accounting resulted largely from the measurement and close out of derivatives used to hedge interest rate and currency risk. Results from non-trading assets of € 5 million (Q3 2015: -€ 13 million) were attributable to the disposal of the remaining asset-backed securities (ABS).

Consolidated administrative expenses totalled € 127 million for the second quarter (Q3 2015: € 147 million) and € 417 million for the first nine months of the year (9M 2015: € 415 million). The marked decline compared to the same quarter of the previous year was due particularly to lower running costs for Westlmmo and for the former Corealcredit, as well as lower integration costs.

Net other operating income and expenses amounted to € 3 million for the quarter under review (Q2 2016: € 0 million).

On balance, consolidated operating profit for the third quarter amounted to € 74 million. Taking tax deductions of € 23 million into account, consolidated net income was € 51 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 attributable to ordinary shareholders of Aareal Bank AG amounted to € 42 million (Q3 2015: € 47 million).

Aareal Bank Group's consolidated operating profit for the first nine months of the financial year totalled € 281 million (9M 2015: € 378 million). Taking into consideration tax expenses of € 88 million and non-controlling interest income of € 15 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 178 million. Assuming the pro rata temporis accrual of net interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders stood at € 166 million (9M 2015: € 279 million).

### **Outlook: guidance raised for consolidated operating profit and new business**

Aareal Bank expects global economic growth to remain subdued for the remainder of the 2016 financial year, with the Bank's business activities likely to be subject to numerous economic, political and regulatory risks and uncertainty factors. Adhering to its conservative policy on the granting of loans, Aareal Bank remains generally optimistic.

Based on its successful performance during the first nine months, Aareal Bank has thus raised its forecast for full-year consolidated operating profit in 2016, and now anticipates consolidated operating profit of between € 360 million and € 380 million. This includes a positive non-recurring, pre-tax effect of € 28 million— expected for the fourth quarter of 2016 – due to the successful conclusion of legal disputes in connection with the former Corealcredit, acquired in 2014. The Bank had previously forecast consolidated operating profit to be in a range between € 300 million and € 330 million.

Return on equity (RoE) before taxes is expected to be around 13% for the current year. Adjusted for the expected positive non-recurring effect, this translates into a higher RoE projection of around 12% (previously around 11%). Whilst said non-recurring effect will only have a minor effect on results after taxes, due to positive effects from its operating business the Bank expects earnings per share to be in a range between € 3.20 and € 3.43, up from its previous forecast of between € 2.85 and € 3.19. Aareal Bank's medium-term target RoE of around 12% before taxes remains unchanged.

Full-year net interest income is expected in a range between € 700 million and € 740 million. Aareal Bank forecasts allowance for credit losses to be in a range between € 80 million and € 120 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 be in a range between € 190 million and € 200 million, mainly driven by the expected positive development at Aareon. Administrative expenses are expected to be in a range between € 520 million and € 550 million, including one-off expenses for integration measures, projects, and investments.

New business in the Structured Property Financing segment is now projected in a range between € 8 billion and € 9 billion during the 2016 financial year (previously: between € 7 billion and € 8 billion).

In the Consulting/Services segment, Aareal Bank expects its IT subsidiary Aareon to contribute between € 33 million and € 35 million to consolidated operating profit.

Note to editors: The full interim report as at 30 September 2016 is available on <http://www.aareal-bank.com/en/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 2016	1 Jan-30 Sep 2015
<b>Results <sup>1)</sup></b>		
Operating profit (€ mn)	281	378
Consolidated net income (€ mn)	193	306
Consolidated net income allocated to ordinary shareholders (€ mn) <sup>2)</sup>	166	279
Cost / income ratio (%) <sup>3)</sup>	41.6	44.9
Earnings per ordinary share (€) <sup>2)</sup>	2.78	4.65
RoE before taxes (%) <sup>2) 4)</sup>	13.5	20.1
RoE after taxes (%) <sup>2) 4)</sup>	9.0	16.2

	30 Sep 2016	31 Dec 2015
<b>Statement of financial position</b>		
Property finance (€ mn) <sup>5)</sup>	28,429	30,894
of which: international (€ mn)	24,059	25,243
Equity (€ mn)	3,064	3,044
Total assets (€ mn)	50,534	51,948
<b>Regulatory indicators</b>		
Risk-weighted assets (€ mn)	15,445	16,709
Common Equity Tier 1 ratio (CET1 ratio) (%)	14.3	13.8
Tier 1 ratio (T1 ratio) (%)	17.6	17.2
Total capital ratio (TC ratio) (%)	24.7	23.8
Common Equity Tier 1 ratio (CET1 ratio) (%) – fully phased –	13.6	13.1
<b>Employees</b>	2,818	2,861
<b>Ratings</b>		
Fitch Ratings, London		
long-term	BBB+ (outlook: stable)	BBB+ (outlook: stable)
short-term	F2	F2
Fitch Pfandbrief ratings	AAA	AAA
<b>Sustainability <sup>6)</sup></b>		
oekom	prime (C)	prime (C)
Sustainalytics	68	68

1) Adjustment of previous year`s figures due to completion of purchase price allocation for Westdeutsche ImmobilienBank AG (WestImmo), in accordance with IFRS 3

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) Structured Property Financing segment only

4) On an annualised basis

5) Excluding € 1.2 billion in private client business (31 December 2015: € 1.5 billion) and € 0.6 billion in local authority lending business by WestImmo (31 December 2015: € 0.6 billion).

6) Please refer to our Sustainability Report for more details.

## Consolidated income statement<sup>1)</sup> for the first nine months of 2016 (in accordance with IFRSs)

	1 Jan - 30 Sep 2016	1 Jan - 30 Sep 2015	Change
	€ mn	€ mn	%
Net interest income	532	583	-9
Allowance for credit losses	64	86	-26
<b>Net interest income after allowance for credit losses</b>	<b>468</b>	<b>497</b>	<b>-6</b>
Net commission income	137	123	11
Net result on hedge accounting	4	5	-20
Net trading income / expenses	21	8	163
Results from non-trading assets	66	-15	
Results from investments accounted for using the equity method	0	0	
Administrative expenses	417	415	0
Net other operating income / expenses	2	25	-92
Negative goodwill from acquisitions	-	150	
<b>Operating profit</b>	<b>281</b>	<b>378</b>	<b>-26</b>
Income taxes	88	72	22
<b>Consolidated net income</b>	<b>193</b>	<b>306</b>	<b>-37</b>
Consolidated net income attributable to non-controlling interests	15	15	0
Consolidated net income attributable to shareholders of Aareal Bank AG	178	291	-39
<b>Earnings per share (Eps)</b>			
Consolidated net income attributable to shareholders of Aareal Bank AG <sup>2)</sup>	178	291	-39
of which: allocated to ordinary shareholders	166	279	-40
of which: allocated to AT1 investors	12	12	0
Earnings per ordinary share (in €) <sup>3)</sup>	2.78	4.65	-40
Earnings per AT1 unit (in €) <sup>4)</sup>	0.12	0.12	0

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

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 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.



## Consolidated income statement for the third quarter of 2016 (in accordance with IFRSs)

	Quarter 3 2016	Quarter 3 2015	Change
	€ mn	€ mn	%
Net interest income	175	214	-18
Allowance for credit losses	33	37	-11
<b>Net interest income after allowance for credit losses</b>	<b>142</b>	<b>177</b>	<b>-20</b>
Net commission income	44	40	10
Net result on hedge accounting	3	-3	
Net trading income / expenses	4	13	-69
Results from non-trading assets	5	-13	
Results from investments accounted for using the equity method	0	0	
Administrative expenses	127	147	-14
Net other operating income / expenses	3	15	-80
Negative goodwill from acquisitions	-	-	
<b>Operating profit</b>	<b>74</b>	<b>82</b>	<b>-10</b>
Income taxes	23	26	-12
<b>Consolidated net income</b>	<b>51</b>	<b>56</b>	<b>-9</b>
Consolidated net income attributable to non-controlling interests	5	5	0
Consolidated net income attributable to shareholders of Aareal Bank AG	46	51	-10
<b>Earnings per share (Eps)</b>			
Consolidated net income attributable to shareholders of Aareal Bank AG <sup>1)</sup>	46	51	-10
of which: allocated to ordinary shareholders	42	47	-10
of which: allocated to AT1 investors	4	4	0
Earnings per ordinary share (in €) <sup>2)</sup>	0.70	0.78	-10
Earnings per AT1 unit (in €) <sup>3)</sup>	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<sup>1)</sup> for the first nine months of 2016 (in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 30 Sep 2016	1 Jan - 30 Sep 2015	1 Jan - 30 Sep 2016	1 Jan - 30 Sep 2015	1 Jan - 30 Sep 2016	1 Jan - 30 Sep 2015	1 Jan - 30 Sep 2016	1 Jan - 30 Sep 2015
€ mn								
Net interest income	542	584	0	0	-10	-1	532	583
Allowance for credit losses	64	86					64	86
<b>Net interest income after allowance for credit losses</b>	<b>478</b>	<b>498</b>	<b>0</b>	<b>0</b>	<b>-10</b>	<b>-1</b>	<b>468</b>	<b>497</b>
Net commission income	5	4	124	120	8	-1	137	123
Net result on hedge accounting	4	5					4	5
Net trading income / expenses	21	8	0				21	8
Results from non-trading assets	66	-15					66	-15
Results from investments accounted for using the equity method		0	0	0			0	0
Administrative expenses	266	274	153	143	-2	-2	417	415
Net other operating income / expenses	1	23	1	2	0	0	2	25
Negative goodwill from acquisitions		150						150
<b>Operating profit</b>	<b>309</b>	<b>399</b>	<b>-28</b>	<b>-21</b>	<b>0</b>	<b>0</b>	<b>281</b>	<b>378</b>
Income taxes	98	79	-10	-7			88	72
<b>Consolidated net income</b>	<b>211</b>	<b>320</b>	<b>-18</b>	<b>-14</b>	<b>0</b>	<b>0</b>	<b>193</b>	<b>306</b>
Consolidated net income attributable to non-controlling interests	13	13	2	2			15	15
Consolidated net income attributable to shareholders of Aareal Bank AG	198	307	-20	-16	0	0	178	291
Allocated equity	1,587	1,613	133	127	741	555	2,461	2,295
Cost / income ratio (%)	41.6	44.9	122.2	117.1			54.7	56.9
RoE before taxes (%) <sup>2)3)</sup>	23.5	30.5	-30.3	-24.5			13.5	20.1

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

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 third quarter of 2016 (in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation / Reconciliation		Aareal Bank Group	
	Quarter 3 2016	Quarter 3 2015	Quarter 3 2016	Quarter 3 2015	Quarter 3 2016	Quarter 3 2015	Quarter 3 2016	Quarter 3 2015
€ mn								
Net interest income	179	214	0	0	-4	0	175	214
Allowance for credit losses	33	37					33	37
<b>Net interest income after allowance for credit losses</b>	<b>146</b>	<b>177</b>	<b>0</b>	<b>0</b>	<b>-4</b>	<b>0</b>	<b>142</b>	<b>177</b>
Net commission income	2	2	39	39	3	-1	44	40
Net result on hedge accounting	3	-3					3	-3
Net trading income / expenses	4	13					4	13
Results from non-trading assets	5	-13					5	-13
Results from investments accounted for using the equity method		0	0	0			0	0
Administrative expenses	77	101	51	47	-1	-1	127	147
Net other operating income / expenses	2	14	1	1	0	0	3	15
Negative goodwill from acquisitions								
<b>Operating profit</b>	<b>85</b>	<b>89</b>	<b>-11</b>	<b>-7</b>	<b>0</b>	<b>0</b>	<b>74</b>	<b>82</b>
Income taxes	27	29	-4	-3			23	26
<b>Consolidated net income</b>	<b>58</b>	<b>60</b>	<b>-7</b>	<b>-4</b>	<b>0</b>	<b>0</b>	<b>51</b>	<b>56</b>
Consolidated net income attributable to non-controlling interests	5	5	0	0			5	5
Consolidated net income attributable to shareholders of Aareal Bank AG	53	55	-7	-4	0	0	46	51
Allocated equity	1,587	1,613	133	127	741	555	2,461	2,295
Cost / income ratio in %	39.7	44.4	126.7	116.2			54.4	55.1
RoE before taxes in % <sup>1)2)</sup>	18.8	19.4	-34.0	-22.4			10.3	12.4

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.