



## Press Release

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### **Aareal Bank Group affirms full-year guidance, after good third quarter**

- **Consolidated operating profit of € 82 million for the third quarter (Q3 2016: € 74 million)**
- **Full-year outlook for 2017 affirmed: Aareal Bank anticipates consolidated operating profit of between € 310 million and € 350 million**
- **Structured Property Financing segment originated € 1.9 billion in new business during the third quarter (Q3 2016: € 1.6 billion)**
- **Net commission income rises to € 48 million (Q3 2016: € 44 million), thanks to Aareon's sustained positive development**

Wiesbaden, 14 November 2017 – Aareal Bank Group maintained its positive business development, in a market environment that continued to be shaped by numerous uncertainty factors and strong competition. After the first nine months of the year, the Bank is thus well on track for achieving its targets for the full year 2017. In the third quarter of 2017, the Bank generated consolidated operating profit of € 82 million, up 11 per cent year-on-year (Q3 2016: € 74 million). Consolidated operating profit of € 262 million for the first nine months of the year was only slightly lower than the very strong figure for the same period of the previous year (9m 2016: € 281 million). Nine-month consolidated net income allocated to ordinary shareholders amounted to € 147 million (9m 2016: € 166 million), of which € 47 million was generated during the third quarter (Q3 2016: € 42 million). Earnings per ordinary share rose to € 0.78 (Q3 2016: € 0.70).

Net interest income for the third quarter was down to € 164 million, as expected (Q3 2016: € 175 million). Positive non-recurring effects from high early loan repayments were offset by charges – also as expected – from the continued scheduled reduction of the credit portfolio, and by currency translation effects. At € 26 million, allowance for credit losses was lower year-on-year (Q3 2016: € 33 million), and also within the expected range. Thanks to the good development at IT subsidiary Aareon, whose importance for the success of the Group is growing in line with Group strategy, net commission income rose to € 48 million in the third quarter (Q3 2016: € 44 million).

At € 1.9 billion, the volume of new business in the Structured Property Financing segment during the third quarter exceeded the previous year's figure (Q3 2016: € 1.6 billion). Aareal Bank thus originated new business totalling € 5.7 billion for the

first nine months of the year, almost matching the previous year's volume of € 6.0 billion. Thanks to its flexible allocation of new business, with a clear focus on attractive markets such as the US, Aareal Bank was able to keep gross margins on new business stable – despite tough competition and in contrast to original expectations. Margins on newly-originated loans exceeded 230 basis points (after FX costs), with loan-to-value ratios remaining moderate.

The Company consistently pursued its "Aareal 2020" programme for the future throughout the third quarter. The programme comprises numerous initiatives for further developing business in its two segments, especially with respect to ongoing digitalisation and the expansion of business into new markets and neighbouring industries, as well as the expansion of syndication activities. A further key element of the programme is the optimisation of internal structures and processes, which also involves personnel measures. As already announced, this programme will be continued next year.

"Aareal Bank Group will consistently pursue its path, in a challenging environment", said Hermann J. Merkens, Chairman of the Management Board. "Thanks to our perfectly healthy operative business and financial strength, we are in a position to take the right strategic decisions to ensure the sustainably successful future for our Company – making the requisite investments as well as bearing the burdens associated with the changes from a position of strength", Merkens added.

### **Structured Property Financing segment: flexible business policy and new business allocation**

In its Structured Property Financing segment, Aareal Bank Group generated operating profit of € 89 million (Q3 2016: € 85 million) during the third quarter. In a business environment that continued to be characterised by intense competition, Aareal Bank originated new business volume of € 1.9 billion, virtually in line with the previous quarter (Q2 2017: € 2.0 billion). Newly-originated loans accounted for around 58 per cent of new business in the third quarter. At 43 per cent, the share of North American business in newly-originated loans remained at a high level; the share of North American exposures in the Bank's overall property financing portfolio rose to 25 per cent. Aareal Bank continues to adhere to its forward-looking, flexible business policy and new business allocation in the Structured Property Financing segment.

### **Consulting/Services segment: Aareon's sales revenue and results on schedule**

Operating profit in the Consulting/Services segment totalled € –7 million for the quarter under review (Q3 2016: € –11 million). Subsidiary Aareon AG developed on schedule, posting operating profit of € 6 million (Q3 2016: € 6 million), whilst sales revenue rose to € 51 million (Q3 2016: € 49 million).

The volume of deposits in the segment's banking business averaged € 9.7 billion during the quarter under review (Q3 2016: € 9.5 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 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 situation, continued strong capitalisation**

Aareal Bank remained very solidly funded during the third quarter of 2017, maintaining its long-term funding inventory at a high level. Total long-term funding as at 30 September 2017 amounted to approximately € 23.5 billion (30 June 2017: € 24.2 billion).

Aareal Bank raised € 2.1 billion on the capital markets during the first nine months of the year, of which € 1.7 billion was placed via Pfandbriefe – including two very successful non-euro Pfandbrief issues, placed in US dollars and pound sterling.

Aareal Bank continues to have a very solid capital base. As at 30 September 2017, the Bank's Tier 1 ratio was 19.9 per cent, which is comfortable also on an international level. Assuming full implementation of Basel III, the Bank's fully phased-in Common Equity Tier 1 (CET1) ratio would be 17.3 per cent.

### **Notes to Group financial performance**

Net interest income amounted to € 164 million in the quarter under review, up € 6 million from the previous quarter (Q2 2017: € 158 million). The slight increase compared to the previous quarter was largely due to higher positive non-recurring income from early loan repayments – as expected, this was offset by charges from the continued scheduled reduction of the credit portfolio, and by currency translation effects. Net interest income totalled € 486 million for the first nine months of the financial year (9m 2016: € 532 million).

Allowance for credit losses of € 26 million was lower than the previous year's figure (Q3 2016: € 33 million); bringing the figure for the first nine months of the year to € 53 million (9m 2016: € 64 million).

Net commission income of € 48 million improved on the previous year's figure (Q3 2016: € 44 million), bringing net commission income for the first nine months of the year to € 145 million (9m 2016: € 137 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 the result from non-trading assets, was € 11 million in the third quarter (Q3 2016: € 12 million); the relevant aggregate figure for the first nine months of 2017 was € 8 million (9m 2016: € 91 million).

Consolidated administrative expenses amounted to € 120 million during the third quarter (Q3 2016: € 127 million). Administrative expenses for the first nine months of the year totalled € 388 million (9m 2016: € 417 million). The expected decline in administrative expenses was primarily due to lower running costs and integration costs for the former WestImmo.

Net other operating income/expenses amounted to € 5 million (Q3 2016: € 3 million).

On balance, consolidated operating profit for the third quarter amounted to € 82 million. Taking tax deductions of € 31 million into account, consolidated net income was € 51 million. After deduction of non-controlling interest income, and assuming pro-rata temporis accrual of net interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders of Aareal Bank AG amounted to € 47 million (Q3 2016: € 42 million).

Aareal Bank Group's consolidated operating profit for the first nine months of the financial year totalled € 262 million (9m 2016: € 281 million). After deduction of € 97 million in taxes and € 6 million in non-controlling interest income, and assuming pro-rata net interest payable on the AT1 bond, consolidated net income allocated to ordinary shareholders of Aareal Bank AG amounted to € 147 million (9m 2016: € 166 million).

### **Outlook: Aareal Bank affirms full-year guidance**

Aareal Bank Group does not anticipate any fundamental changes to the demanding market and competitive environment for the remainder of the year. Against a background of successful business development during the first nine months of the financial year, the Bank affirms its full-year guidance for 2017, according to which net interest income is expected in a range between € 620 million and € 660 million. Aareal Bank forecasts allowance for credit losses to be in a range between € 75 million and € 100 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 increase to between € 195 million and € 210 million, mainly driven by the expected positive developments at Aareon. Administrative expenses are expected in a range between € 470 million and € 510 million.

Aareal Bank continues to anticipate being able to generate consolidated operating profit of between € 310 million and € 350 million for the current year. The Bank expects RoE before taxes in a range between 11 per cent and 12.5 per cent for the current financial year, with earnings per share between € 2.85 and € 3.30, based on an expected tax rate of around 37 per cent. Aareal Bank's medium-term target RoE of 12 per cent before taxes remains unchanged.

The Bank continues to target new business of between € 7 billion and € 8 billion for the Structured Property Financing segment during 2017.

In the Consulting/Services segment, Aareal Bank expects its IT subsidiary Aareon to contribute between € 34 million and € 35 million to results before taxes.

Note to editors: The full interim report as at 30 September 2017 is available at <http://www.aareal-bank.com/en/financialreports>.

**Aareal Bank Group**

Aareal Bank Group, headquartered in Wiesbaden, is a leading international property specialist. It provides smart financings, software products, and digital solutions for the property sector and related industries, and is present across three continents: Europe, North America and Asia. Aareal Bank AG, whose shares are included in Deutsche Börse's MDAX index, is the Group's parent entity. It manages the various entities organised in the Group's two business segments: Structured Property Financing and Consulting /Services. The Structured Property Financing segment encompasses all of Aareal Bank Group's property financing and funding activities. In this segment, the Bank facilitates property investment projects for its domestic and international clients, within the framework of a three-continent strategy covering Europe, North America and Asia. In its Consulting/Services segment Aareal Bank Group offers its European clients from the property and energy sectors a unique combination of specialised banking services as well as innovative digital products and services, designed to help clients optimise and enhance the efficiency of their business processes.

## Aareal Bank Group – key indicators

|   | 1 Jan - 30 Sep 2017 | 1 Jan - 30 Sep 2016 |
|---|---------------------|---------------------|
| <b>Results</b>  |                     |                     |
| Operating profit (€ mn)   | 262                 | 281                 |
| Consolidated net income (€ mn)  | 165                 | 193                 |
| Consolidated net income allocated to ordinary shareholders (€ mn) <sup>1)</sup> | 147                 | 166                 |
| Cost/income ratio (%) <sup>2)</sup>   | 41.1                | 41.6                |
| Earnings per ordinary share (€) <sup>1)</sup>                                   | 2.46                | 2.78                |
| RoE before taxes (%) <sup>1) 3)</sup>   | 12.6                | 13.5                |
| RoE after taxes (%) <sup>1) 3)</sup>  | 7.8                 | 9.0                 |

|  | 30 Sep 2017 | 31 Dec 2016 |
|--|-------------|-------------|
| <b>Statement of financial position</b>                       |             |             |
| Property finance (€ mn) <sup>4)</sup>                        | 25,564      | 27,928      |
| of which: international (€ mn)                               | 21,967      | 23,423      |
| Equity (€ mn)  | 2,884       | 3,129       |
| Total assets (€ mn)  | 43,267      | 47,708      |
| <b>Regulatory indicators</b>                                 |             |             |
| Risk-weighted assets (€ mn)                                  | 12,685      | 14,540      |
| Common Equity Tier 1 ratio (CET 1 ratio) (%)                 | 17.7        | 16.2        |
| Tier 1 ratio (T1 ratio) (%)                                  | 19.9        | 19.9        |
| Total capital ratio (%)                                      | 27.1        | 27.5        |
| Common Equity Tier 1 ratio (CET1 ratio) (%) - fully phased - | 17.3        | 15.7        |
| <b>Employees</b>   | 2,768       | 2,728       |

1) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

2) Structured Property Financing segment only

3) On an annualised basis

4) Excluding € 0.9 billion in private client business (31 December 2016: € 1.1 billion) and € 0.6 billion in local authority lending business by former Westdeutsche ImmobilienBank AG (former WestImmo) (31 December 2016: € 0.6 billion)

**Consolidated income statement for the first nine months of 2017**  
**(in accordance with IFRSs)**

|  | 1 Jan -<br>30 Sep 2017 | 1 Jan -<br>30 Sep 2016 | Change     |
|--|------------------------|------------------------|------------|
|  | € mn                   | € mn                   | %          |
| Net interest income  | 486                    | 532                    | -9         |
| Allowance for credit losses  | 53                     | 64                     | -17        |
| <b>Net interest income after allowance for credit losses</b>                         | <b>433</b>             | <b>468</b>             | <b>-7</b>  |
| Net commission income  | 145                    | 137                    | 6          |
| Net result on hedge accounting   | -5                     | 4                      |            |
| Net trading income / expenses  | 13                     | 21                     | -38        |
| Results from non-trading assets  | 0                      | 66                     |            |
| Results from investments accounted for using the equity method                       | -                      | 0                      |            |
| Administrative expenses  | 388                    | 417                    | -7         |
| Net other operating income / expenses  | 64                     | 2                      |            |
| <b>Operating profit</b>  | <b>262</b>             | <b>281</b>             | <b>-7</b>  |
| Income taxes   | 97                     | 88                     | 10         |
| <b>Consolidated net income</b>   | <b>165</b>             | <b>193</b>             | <b>-15</b> |
| Consolidated net income attributable to non-controlling interests                    | 6                      | 15                     | -60        |
| Consolidated net income attributable to shareholders of Aareal Bank AG               | 159                    | 178                    | -11        |
| <b>Earnings per share (EpS)</b>  |                        |                        |            |
| Consolidated net income attributable to shareholders of Aareal Bank AG <sup>1)</sup> | 159                    | 178                    | -11        |
| of which: allocated to ordinary shareholders   | 147                    | 166                    | -11        |
| of which: allocated to AT1 investors   | 12                     | 12                     | 0          |
| Earnings per ordinary share (in €) <sup>2)</sup>                                     | 2.46                   | 2.78                   | -12        |
| Earnings per AT1 unit (in €) <sup>3)</sup>   | 0.12                   | 0.12                   | 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.

## Consolidated income statement for the third quarter of 2017 (in accordance with IFRSs)

|  | Quarter 3<br>2017 | Quarter 3<br>2016 | Change    |
|--|-------------------|-------------------|-----------|
|  | € mn              | € mn              | %         |
| Net interest income  | 164               | 175               | -6        |
| Allowance for credit losses  | 26                | 33                | -21       |
| <b>Net interest income after allowance for credit losses</b>                         | <b>138</b>        | <b>142</b>        | <b>-3</b> |
| Net commission income  | 48                | 44                | 9         |
| Net result on hedge accounting   | 1                 | 3                 | -67       |
| Net trading income / expenses  | 10                | 4                 | 150       |
| Results from non-trading assets  | 0                 | 5                 |           |
| Results from investments accounted for using the equity method                       | -                 | 0                 |           |
| Administrative expenses  | 120               | 127               | -6        |
| Net other operating income / expenses  | 5                 | 3                 | 67        |
| <b>Operating profit</b>  | <b>82</b>         | <b>74</b>         | <b>11</b> |
| Income taxes   | 31                | 23                | 35        |
| <b>Consolidated net income</b>   | <b>51</b>         | <b>51</b>         | <b>0</b>  |
| Consolidated net income attributable to non-controlling interests                    | 0                 | 5                 |           |
| Consolidated net income attributable to shareholders of Aareal Bank AG               | 51                | 46                | 11        |
| <b>Earnings per share (Eps)</b>  |                   |                   |           |
| Consolidated net income attributable to shareholders of Aareal Bank AG <sup>1)</sup> | 51                | 46                | 11        |
| of which: allocated to ordinary shareholders   | 47                | 42                | 12        |
| of which: allocated to AT1 investors   | 4                 | 4                 | 0         |
| Earnings per ordinary share (in €) <sup>2)</sup>                                     | 0.78              | 0.70              | 11        |
| 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 for the first nine months of 2017 (in accordance with IFRSs)

|  | Structured Property Financing |                     | Consulting / Services |                     | Consolidation/ Reconciliation |                     | Aareal Bank Group   |                     |
|--|-------------------------------|---------------------|-----------------------|---------------------|-------------------------------|---------------------|---------------------|---------------------|
|  | 1 Jan - 30 Sep 2017           | 1 Jan - 30 Sep 2016 | 1 Jan - 30 Sep 2017   | 1 Jan - 30 Sep 2016 | 1 Jan - 30 Sep 2017           | 1 Jan - 30 Sep 2016 | 1 Jan - 30 Sep 2017 | 1 Jan - 30 Sep 2016 |
| € mn   |                               |                     |                       |                     |                               |                     |                     |                     |
| Net interest income  | 494                           | 542                 | 0                     | 0                   | -8                            | -10                 | 486                 | 532                 |
| Allowance for credit losses  | 53                            | 64                  |                       |                     |                               |                     | 53                  | 64                  |
| <b>Net interest income after allowance for credit losses</b>           | <b>441</b>                    | <b>478</b>          | <b>0</b>              | <b>0</b>            | <b>-8</b>                     | <b>-10</b>          | <b>433</b>          | <b>468</b>          |
| Net commission income  | 4                             | 5                   | 136                   | 124                 | 5                             | 8                   | 145                 | 137                 |
| Net result on hedge accounting   | -5                            | 4                   |                       |                     |                               |                     | -5                  | 4                   |
| Net trading income / expenses  | 13                            | 21                  |                       | 0                   |                               |                     | 13                  | 21                  |
| Results from non-trading assets  | 0                             | 66                  |                       |                     |                               |                     | 0                   | 66                  |
| Results from investments accounted for using the equity method         |                               |                     |                       | 0                   |                               |                     |                     | 0                   |
| Administrative expenses <sup>1)</sup>                                  | 234                           | 266                 | 157                   | 153                 | -3                            | -2                  | 388                 | 417                 |
| Net other operating income / expenses                                  | 62                            | 1                   | 2                     | 1                   | 0                             | 0                   | 64                  | 2                   |
| <b>Operating profit</b>  | <b>281</b>                    | <b>309</b>          | <b>-19</b>            | <b>-28</b>          | <b>0</b>                      | <b>0</b>            | <b>262</b>          | <b>281</b>          |
| Income taxes   | 104                           | 98                  | -7                    | -10                 |                               |                     | 97                  | 88                  |
| <b>Consolidated net income</b>   | <b>177</b>                    | <b>211</b>          | <b>-12</b>            | <b>-18</b>          | <b>0</b>                      | <b>0</b>            | <b>165</b>          | <b>193</b>          |
| Consolidated net income attributable to non-controlling interests      | 4                             | 13                  | 2                     | 2                   |                               |                     | 6                   | 15                  |
| Consolidated net income attributable to shareholders of Aareal Bank AG | 173                           | 198                 | -14                   | -20                 | 0                             | 0                   | 159                 | 178                 |
| Allocated equity   | 1,772                         | 1,587               | 155                   | 133                 | 592                           | 741                 | 2,519               | 2,461               |
| Cost / income ratio (%)  | 41.1                          | 41.6                | 114.2                 | 122.2               |                               |                     | 55.2                | 54.7                |
| RoE before taxes (%) <sup>2) 3)</sup>                                  | 19.6                          | 23.5                | -18.3                 | -30.3               |                               |                     | 12.6                | 13.5                |

1) € 24 million in provisions for staff-related measures, resulting from the optimisation of processes and structures within the scope of the "Aareal 2020" programme for the future, was allocated to the Structured Property Financing segment in full.

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 2017 (in accordance with IFRSs)

|  | Structured Property Financing |                | Consulting / Services |                | Consolidation / Reconciliation |                | Aareal Bank Group |                |
|--|-------------------------------|----------------|-----------------------|----------------|--------------------------------|----------------|-------------------|----------------|
|  | Quarter 3 2017                | Quarter 3 2016 | Quarter 3 2017        | Quarter 3 2016 | Quarter 3 2017                 | Quarter 3 2016 | Quarter 3 2017    | Quarter 3 2016 |
| € mn   |                               |                |                       |                |                                |                |                   |                |
| Net interest income  | 167                           | 179            | 0                     | 0              | -3                             | -4             | 164               | 175            |
| Allowance for credit losses  | 26                            | 33             |                       |                |                                |                | 26                | 33             |
| <b>Net interest income after allowance for credit losses</b>           | <b>141</b>                    | <b>146</b>     | <b>0</b>              | <b>0</b>       | <b>-3</b>                      | <b>-4</b>      | <b>138</b>        | <b>142</b>     |
| Net commission income  | 1                             | 2              | 45                    | 39             | 2                              | 3              | 48                | 44             |
| Net result on hedge accounting   | 1                             | 3              |                       |                |                                |                | 1                 | 3              |
| Net trading income / expenses  | 10                            | 4              |                       |                |                                |                | 10                | 4              |
| Results from non-trading assets  | 0                             | 5              |                       |                |                                |                | 0                 | 5              |
| Results from investments accounted for using the equity method         |                               |                |                       | 0              |                                |                |                   | 0              |
| Administrative expenses  | 68                            | 77             | 53                    | 51             | -1                             | -1             | 120               | 127            |
| Net other operating income / expenses                                  | 4                             | 2              | 1                     | 1              | 0                              | 0              | 5                 | 3              |
| <b>Operating profit</b>  | <b>89</b>                     | <b>85</b>      | <b>-7</b>             | <b>-11</b>     | <b>0</b>                       | <b>0</b>       | <b>82</b>         | <b>74</b>      |
| Income taxes   | 34                            | 27             | -3                    | -4             |                                |                | 31                | 23             |
| <b>Consolidated net income</b>   | <b>55</b>                     | <b>58</b>      | <b>-4</b>             | <b>-7</b>      | <b>0</b>                       | <b>0</b>       | <b>51</b>         | <b>51</b>      |
| Consolidated net income attributable to non-controlling interests      | 0                             | 5              | 0                     | 0              |                                |                | 0                 | 5              |
| Consolidated net income attributable to shareholders of Aareal Bank AG | 55                            | 53             | -4                    | -7             | 0                              | 0              | 51                | 46             |
| Allocated equity   | 1,772                         | 1,587          | 155                   | 133            | 592                            | 741            | 2,519             | 2,461          |
| Cost / income ratio in %   | 37.2                          | 39.7           | 117.0                 | 126.7          |                                |                | 52.8              | 54.4           |
| RoE before taxes in % <sup>1)2)</sup>                                  | 18.8                          | 18.8           | -20.2                 | -34.0          |                                |                | 12.0              | 10.3           |

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.