



Press Release

Contacts:

Sven H. Korndörffer
Phone: +49 611 348-2306
sven.korndorffer@aareal-bank.com

Christian Feldbrügge
Phone: +49 611 348-2280
christian.feldbruegge@aareal-bank.com

Heinrich Frömsdorf
Phone: +49 611 348-2061
heinrich.froemsdorf@aareal-bank.com

Aareal Bank Group raises operating profit forecast after successful third-quarter results

- Third-quarter consolidated operating profit rises to € 48 million – consolidated operating profit for the current financial year now expected to be on a level comparable to the very good results posted in 2011 (FY 2011: € 185 million)
- € 2.3 billion in new business generated by the Structured Property Financing segment during the third quarter – aggregate new business volume for the full year now forecasted to be in excess of € 8 billion
- CEO Dr Wolf Schumacher: "Our very robust liquidity base and capitalisation allow us to continue exploiting attractive market opportunities thoroughly and consistently."

Wiesbaden, 12 Nov 2013 – During the third quarter of the 2013 financial year, Aareal Bank Group maintained its successful business performance, in a market and competitive environment that remained challenging, achieving its best consolidated operating profit since the beginning of the financial crisis. At € 48 million, consolidated operating profit exceeded both the previous year's figure (Q3 2012: € 42 million) as well as the good result achieved in the previous quarter (Q2 2013: € 45 million). Third-quarter consolidated net income of € 23 million also exceeded the respective comparative figures (Q3 2012: € 22 million; Q2 2013: € 21 million).

The strong performance was mainly driven by the continued positive trend in net interest income. Whilst Aareal Bank benefited from good lending margins and low funding costs, net interest income was burdened by a lack of attractive investment opportunities for the Bank's liquidity reserves, on account of the prevailing low interest rate levels. Still, net interest income of € 133 million clearly exceeded the previous year's figure (Q3 2012: € 119 million) as well as the net figure for the previous quarter (Q2 2013: € 126 million).

The Structured Property Financing segment also maintained the positive development of new business origination during the third quarter: new business totalled €2.3 billion and was thus once again up significantly year-on-year (Q3 2012: €1.3 billion). Aggregate new business for the first nine months of the year thus already amounted to €6.7 billion (9m 2012: €3.0 billion).

"Even though as expected, competition grew even more intense in those markets that are particularly attractive, we further strengthened our position as one of the leading providers of commercial property finance during the third quarter, posting strong results. In our view, this once again confirms the strength and robustness of our business model, which will continue to provide the basis of our success in the future", said CEO Dr Schumacher.

Structured Property Financing segment: new business clearly above the previous year's levels

At €52 million, operating profit generated in the Structured Property Financing segment during the third quarter was up €10 million over the corresponding period of the previous year (Q3 2012: €42 million).

Segment net interest income in the period under review was €131 million, after €114 million in the comparable period of the previous year. The positive effects of high-margin new business and low funding costs outweighed the impact of the persistent low interest rate levels on investing the Bank's liquidity reserve.

Allowance for credit losses was recognised in the amount of €29 million in the third quarter of 2013, compared with €30 million in Q3 2012. Allowance for credit losses thus amounted to €74 million for the first nine months of the year, and was therefore lower than the pro-rata forecast range of €110 million to €150 million for the financial year, but within the expected range.

New business in the third quarter of 2013 totalled €2.3 billion (Q3 2012: €1.3 billion), bringing the figure for the first nine months of the financial year to €6.7 billion (9m 2012: €3.0 billion). In contrast to the previous year, benefiting from a transaction environment that was more active – and defined by a higher level of liquidity – Aareal Bank exploited opportunities for new business from the very beginning of 2013. New business thus clearly exceeded the previous year's figures in all three quarters of 2013. The share of newly-originated loans was 52% in the third quarter and 55% for the first nine months of 2013.

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

Operating profit in the Consulting/Services segment totalled €-4 million for the quarter under review (Q3 2012: €0 million).

The business activities of the Aareon AG subsidiary developed in line with expectations: Aareon's operating profit amounted to €5 million during the third quarter of 2013 (Q3 2012: €5 million). Aareon succeeded in winning new corporate clients for its Wodis Sigma product line, which sets the benchmark for institutional housing software, thanks in particular to its interface with state-of-the-art cloud computing.

The results generated from the deposit-taking business were burdened by persistently low interest rate levels. However, the importance of this business goes way beyond the interest margin generated from the deposits, which is under pressure in the current market environment. This is because the deposits from the institutional housing industry represent a strategically important additional source of funding for Aareal Bank.

Against this background, deposit volumes from institutional housing industry clients continued to develop favourably during the third quarter: averaging €7.1 billion during the quarter under review, the figure was roughly at the level of the previous quarter (Q2 2013: €7.2 billion), thus remaining high.

Successful funding activities and strong capitalisation

The Bank raised more than €500 million in long-term funds on the capital market during the third quarter. This sum comprised Mortgage Pfandbriefe in the amount of €200 million, unsecured refinancing of €300 million, as well as subordinated liabilities of just under €50 million. Aareal Bank has therefore maintained its long-term funding at a high level.

The total volume of long-term funding raised up to 30 September 2013 amounted to €3.1 billion, with Mortgage Pfandbriefe accounting for €2.3 billion. Unsecured refinancing amounted to €700 million, and the remainder of almost €100 million was accounted for by subordinated liabilities.

Aareal Bank therefore remains very solidly financed. The tier 1 ratio rose to 18.2 per cent as at 30 September 2013, which is comfortable on an international level. At the same time, the core tier 1 ratio increased to 12.5 per cent on the reporting date. Aareal Bank thus already complies today with the capital and liquidity requirements under Basel III, which will be gradually implemented between now and the end of 2018.

Notes to Group financial performance

The positive development in net interest income continued throughout the third quarter. Whilst Aareal Bank benefited from good lending margins and low funding costs, net interest income was burdened by a lack of attractive investment opportunities for the Bank's liquidity reserves, on account of the prevailing low interest rate levels. Still, net interest income of €133 million clearly exceeded the previous year's figure of €119 million. It totalled €380 million (9m 2012: €370 million) for the first nine months of the financial year.

Net commission income of €40 million for the quarter under review was slightly higher than the figure of €39 million for the same period of the previous year, bringing the total figure for the first nine months of 2013 to €117 million (9m 2012: €119 million).

The aggregate of net trading income/expenses, the net result on hedge accounting, and the result from non-trading assets, was €1 million in the third quarter (Q3 2012: €3 million); the relevant aggregate figure for the first nine months of 2013 was €3 million.

Consolidated administrative expenses amounted to € 94 million during the third quarter (Q3 2012: € 90 million). The slight increase was due to (i) measurement effects related to share-based remuneration (under the Long-Term Incentive Programme – "LTIP"), as defined by the German Ordinance on Remuneration in Financial Institutions (*Instituts-Vergütungsverordnung* – "InstVergV"), due to the positive performance of the Aareal Bank share; (ii) expenses for regulatory projects; and (iii) the takeover of Sweden's Incit AB with effect from 1 July 2013. Administrative expenses for the first nine months of the year totalled € 276 million (9m 2012: € 270 million).

On balance, consolidated operating profit for the third quarter amounted to € 48 million (Q3 2012: € 42 million). Taking into consideration income taxes of € 15 million and € 5 million in income attributable to non-controlling interests, net income after non-controlling interest income amounted to € 28 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at € 23 million (Q3 2012: € 22 million).

Aareal Bank Group's consolidated operating profit for the first nine months of the financial year totalled € 140 million (9m 2012: € 130 million). Taking into consideration income taxes of € 44 million and non-controlling interest income of € 15 million, net income attributable to shareholders of Aareal Bank AG amounted to € 81 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at € 66 million (9m 2012: € 67 million).

Outlook: consolidated operating profit forecast raised

Looking ahead to the remainder of the 2013 financial year, in spite of signs for a stabilisation of the global upturn, Aareal Bank anticipates economic momentum in key markets to pick up only at a low level, and a very slow pace. Moreover, there still is significant uncertainty – for instance in view of the European sovereign debt crisis, for which a sustainable solution still has to be found. Aareal Bank expects competition in the commercial real estate financing business to intensify further, particularly in regard to first-class properties with low loan-to-value ratios in numerous markets in Western and Northern Europe, but also in the US, and in key Asian markets.

Net interest income benefits from good margins in the lending business and funding costs that were lower than anticipated at the beginning of the year. Although the persistent low interest rate environment continues to burden net interest income, both in the deposit-taking business as well as due to a lack of attractive investment opportunities for the Bank's liquidity reserves, Aareal Bank now expects net interest income to exceed € 500 million in the 2013 financial year. From today's perspective, allowance for credit losses is likely to be at the lower end of the € 110 million to € 150 million range communicated. As in the previous years, the Bank cannot rule out additional allowance for unexpected credit losses.

Aareal Bank expects a stable trend for full-year net commission income in 2013, between € 165 million and € 175 million. Administrative expenses are expected in the region of € 375 million. The slight increase compared to the previous

projection of € 360 million to € 370 million is due to (i) measurement effects related to share-based remuneration (under the Long-Term Incentive Programme – "LTIP"), as defined by the German Ordinance on Remuneration in Financial Institutions (Instituts-Vergütungsverordnung – "InstVergV"), due to the positive performance of the Aareal Bank share; (ii) expenses for regulatory projects; and (iii) the takeover of Sweden's Incit AB with effect from 1 July 2013.

Aareal Bank's new business target in the Structured Property Financing segment was originally € 6 billion to € 7 billion for the year 2013. Thanks to the positive business development, Aareal Bank currently anticipates aggregate new business volume for this year to exceed € 8 billion.

In the Consulting/Services segment the Bank continues to expect Aareon Group to generate operating profit at the level of the previous year.

Based on the positive earnings performance in the first three quarters, Aareal Bank has raised its forecast for consolidated operating profit in the 2013 financial year. From today's perspective, the Bank now expects that it will be able to generate consolidated operating profit for the current financial year on a level comparable to the very good results posted in 2011, thereby exceeding 2012's figures.

"The fact that we have raised our profit forecast shows that we are well-positioned to master the current and future challenges confronting us. We have aligned our business to the 'new normal' for banks, adjusting our short- to medium-term planning accordingly. We will continue to carefully plan our business, managing it sustainably and delivering reliably. Key factors in this respect are our very robust liquidity base and capitalisation. These allow us to exploit attractive market opportunities wherever they arise – thoroughly and consistently", said CEO Dr Schumacher.

Note to editors: The full interim report for the third quarter of 2013 is available on <http://www.aareal-bank.com/en/investor-relations/financial-reports/>.

Aareal Bank

Aareal Bank AG, whose shares are traded in Deutsche Börse's MDAX segment and which celebrates its 90th anniversary this year, is a leading international property specialist. The Bank concentrates its business activities on the Structured Property Financing and the Consulting/Services segments. The Structured Property Financing segment encompasses all of Aareal Bank's property financing and funding activities. In this segment, the Bank facilitates property investment projects for its domestic and international clients, within the framework of a three-continent strategy covering Europe, North America and Asia. In the Consulting/Services segment, Aareal Bank offers the institutional housing industry services and products for managing residential property portfolios and processing payment flows.

**Aareal Bank Group: consolidated results as at 30 September 2013
(in accordance with IFRSs)**

	1 Jan - 30 Sep 2013	1 Jan - 30 Sep 2012	Change
	€ mn	€ mn	€ mn
Income Statement			
Operating profit	140	130	10
Net income / loss after non-controlling interests	81	82	-1
Kennzahlen			
Cost / income ratio (%) ¹⁾	39.6	43.2	
Earnings per share (€)	1.35	1.38	
RoE before taxes (%) ²⁾	7.4	7.1	
RoE after taxes (%) ²⁾	4.8	5.1	

	30 Sep 2013	31 Dec 2012	Change
	€ mn	€ mn	€ mn
Portfolio data			
Property finance	23,775	23,304	471
of which: international	20,272	19,991	281
Property finance under management	23,938	23,496	442
of which: international	20,272	19,991	281
Equity ⁴⁾	2,420	2,317	103
Total assets ⁴⁾	43,352	45,750	-2,398
	%	%	
Regulatory Indicators			
Tier 1 ratio pursuant to AIRBA ⁵⁾	18.2	16.7	
Total capital ratio pursuant to AIRBA ⁵⁾	22.3	20.6	

	30 Sep 2013	31 Dec 2012	
Ratings			
Fitch Ratings, London			
Long-term	A -	A -	
Short-term	F1	F1	

1) Structured Property Financing segment only

2) On an annualised basis

3) The figure for property finance under management includes property loans managed on behalf of Deutsche Pfandbriefbank AG.

4) Comparative figures for the previous year were adjusted. Further information is included in the "Accounting policies" section of the notes to the consolidated financial statements.

5) Advanced Internal Ratings-Based Approach (AIRBA)

**Consolidated income statement for the first nine months of 2013
(in accordance with IFRSs)**

	1 Jan - 30 Sep 2013	1 Jan - 30 Sep 2012	Change
	€ mn	€ mn	%
Net interest income	380	370	3
Allowance for credit losses	74	67	10
Net interest income after allowance for credit losses	306	303	1
Net commission income	117	119	-2
Net result on hedge accounting	-3	-7	
Net trading income / expenses	14	-17	
Results from non-trading assets	-8	-2	
Results from investments accounted for using the equity method	-	-	
Results from investment properties	0	5	
Administrative expenses	276	270	2
Net other operating income / expenses	-10	-1	
Impairment of goodwill	0	-	
Operating profit	140	130	8
Income taxes	44	33	33
Net income / loss	96	97	-1
Allocation of results			
Net income / loss attributable to non-controlling interests	15	15	
Net income / loss attributable to shareholders of Aareal Bank AG	81	82	-1
Appropriation of profits			
Net income / loss attributable to shareholders of Aareal Bank AG	81	82	-1
Silent participation by SoFFin	15	15	
Consolidated profit / loss	66	67	-1

Segment results for the first nine months of 2013 (in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 30 Sep 2013	1 Jan - 30 Sep 2012	1 Jan - 30 Sep 2013	1 Jan - 30 Sep 2012	1 Jan - 30 Sep 2013	1 Jan - 30 Sep 2012	1 Jan - 30 Sep 2013	1 Jan - 30 Sep 2012
€mn								
Net interest income	373	350	0	0	7	20	380	370
Allowance for credit losses	74	67					74	67
Net interest income after allowance for credit losses	299	283	0	0	7	20	306	303
Net commission income	7	16	118	124	-8	-21	117	119
Net result on hedge accounting	-3	-7					-3	-7
Net trading income / expenses	14	-17					14	-17
Results from non-trading assets	-8	-2					-8	-2
Results from investments accounted for using the equity method								
Results from investment properties	0	5					0	5
Administrative expenses	147	147	130	124	-1	-1	276	270
Net other operating income / expenses	-9	-5	-1	4	0	0	-10	-1
Impairment of goodwill	0						0	
Operating profit	153	126	-13	4	0	0	140	130
Income taxes	47	32	-3	1			44	33
Net income / loss	106	94	-10	3	0	0	96	97
Allocation of results								
Net income / loss attributable to non-controlling interests	13	13	2	2			15	15
Net income / loss attributable to shareholders of Aareal Bank AG	93	81	-12	1	0	0	81	82
Allocated equity	1,159	1,255	92	76	1,001	834	2,252	2,165
Cost / income ratio in %	39.6	43.2	110.7	97.2			56.4	57.8
RoE before taxes in % *)	16.1	12.1	-21.5	3.2			7.4	7.1

*) On an annualised basis

Segment results for the third quarter of 2013 (in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation / Reconciliation		Aareal Bank Group	
	Quarter 3 2013	Quarter 3 2012	Quarter 3 2013	Quarter 3 2012	Quarter 3 2013	Quarter 3 2012	Quarter 3 2013	Quarter 3 2012
€ mn								
Net interest income	131	114	0	0	2	5	133	119
Allowance for credit losses	29	30					29	30
Net interest income after allowance for credit losses	102	84	0	0	2	5	104	89
Net commission income	2	6	40	39	-2	-6	40	39
Net result on hedge accounting	0	-2					0	-2
Net trading income / expenses	3	6					3	6
Results from non-trading assets	-2	1					-2	1
Results from investments accounted for using the equity method								
Results from investment properties	0	0					0	0
Administrative expenses	50	51	44	40	0	-1	94	90
Net other operating income / expenses	-3	-2	0	1	0	0	-3	-1
Impairment of goodwill	0						0	
Operating profit	52	42	-4	0	0	0	48	42
Income taxes	16	10	-1	0			15	10
Net income / loss	36	32	-3	0	0	0	33	32
Allocation of results								
Net income / loss attributable to non-controlling interests	4	5	1	0			5	5
Net income / loss attributable to shareholders of Aareal Bank AG	32	27	-4	0	0	0	28	27
Allocated equity	1,159	1,255	92	76	1,001	834	2,252	2,165
Cost / income ratio in %	38.6	41.6	109.8	99.7			55.1	55.6
RoE before taxes in % ^{*)}	16.5	11.9	-19.9	0.3			7.7	6.9

*) On an annualised basis