



Press Information

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Aareal Bank Group continues its successful development during the second quarter of 2014

- Consolidated operating profit of €65 million
- Consolidated net interest income rises to €169 million; increase reflects higher lending volume in particular
- Forecast for 2014 consolidated operating profit raised slightly, to between €380 million and €400 million

Wiesbaden, 12 August 2014 – Aareal Bank Group successfully concluded the second quarter of the 2014 financial year, in a still challenging market environment characterised by further intensified competition. At €65 million, consolidated operating profit was markedly higher – as expected – than in the same period of the previous year (Q2 2013: €45 million). The results for the first quarter of 2014, which totalled €217 million, can only be comparable to a limited extent – due to factors including the non-recurring negative goodwill of €152 million (after measurement adjustments) from the acquisition of COREALCREDIT BANK AG ("Corealcredit"). Aareal Bank Group's consolidated profit rose to €34 million in the second quarter (Q2 2013: €21 million).

Since the start of the second quarter, the figures from the operating business of Corealcredit, which was acquired as at 31 March 2014, have been included in consolidated income. These impact mainly on net interest income, and administrative expenses. In addition to the larger credit portfolio, Aareal Bank's second-quarter net interest income also benefited from the effects of early loan repayments. Overall, consolidated net interest income in the second quarter of 2014 rose markedly, to €169 million (Q2 2013: €126 million).

At €32 million, Aareal Bank's consolidated allowance for credit losses during the second quarter was lower than in the preceding quarter (€37 million), and thus remained within the pro-rata forecast range of €100 million to €150 million for the full financial year.

New business originated in the Structured Property Financing segment during the second quarter was €2.6 billion, thus clearly exceeding the figure for the first quarter (Q1 2014: €1.6 billion). As at the beginning of the year, the volume of

loans set for renewal was lower during the second quarter, too: accordingly, the share of newly-originated loans remained at a high level of 63.6 per cent.

"The year-to-date business development shows that Aareal Bank Group has been holding a steady course – despite the still subdued economic development, increasing geopolitical imponderabilities, the persistent low-interest rate environment and intensified competition in commercial property financing. Our business model is robust and provides a viable foundation for our ongoing success", said Dr Wolf Schumacher, Chairman of the Management Board of Aareal Bank.

Structured Property Financing segment: higher lending volume, increased net interest income

Operating profit in the Structured Property Financing segment was €71 million in the second quarter of 2014, clearly exceeding the previous year's figure of €50 million. The expected cost increase was offset by clearly higher net interest income.

Segment net interest income in the period under review was €168 million, after €124 million in the same period of the previous year. The rise in net interest income was primarily attributable to the higher lending volume, resulting from, among other things, the acquisition of Corealcredit. Net interest income for the second quarter of the year included €8 million in non-recurring effects from early loan repayments.

Allowance for credit losses was €32 million in the second quarter of 2014, compared with €28 million in Q2 2013. Allowance for credit losses during the first half of the year totalled €69 million (H1 2013: €45 million) and thus remained within the pro-rata forecast range of €100 million to €150 million for the full financial year.

The volume of new business originated in the second quarter amounted to €2.6 billion (Q2 2013: €2.4 billion): a total of €4.2 billion has now been originated during the first half of 2014 (H1 2013: €4.4 billion). At €2.7 billion, the volume of new loans originated during the first half of 2014 was up slightly year-on-year (H1 2013: €2.5 billion). The second quarter showed a similar development, with newly-originated loans totalling €1.6 billion (Q2 2013: €1.4 billion). Renewals declined, however, reflecting a lower volume of portfolio loans set for renewal. Accordingly, the share of newly-originated loans rose to 63.6% in the first half of the year (H1 2013: 57.0%).

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

At –€6 million, operating profit in the Consulting/Services segment during the quarter under review was in line with the level of the first quarter of 2014, and also virtually unchanged from the previous year (Q2 2013: –€5 million).

The business activities of the Aareon AG subsidiary were stable during the second quarter: operating profit amounted to €6 million, unchanged year-on-year. Aareon's positive business trend in international business continued through the

second quarter. New customers were acquired and products were rolled out successfully.

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 housing industry represent a strategically important additional source of funding for Aareal Bank.

Against this background, deposit volumes from housing industry clients continued to develop favourably during the second quarter. The volume of deposits remained high, averaging €8.5 billion during the quarter under review (Q1 2014: €8.1 billion). This is clear evidence of the strong level of trust which the Bank enjoys as the long-standing lead bank to the German housing industry.

Successful funding activities and strong capitalisation

Aareal Bank Group continued to successfully conduct its funding activities in the second quarter of 2014, thereby securing its very solid liquidity situation. The Group raised €400 million in long-term funds on the capital market during the quarter under review. This sum comprised Mortgage Pfandbriefe in the amount of €100 million, unsecured refinancing of €200 million, as well as subordinated liabilities of €100 million.

The total volume of long-term funding raised in the first half of 2014 amounted to €2.1 billion, with Mortgage Pfandbriefe accounting for €0.8 billion. Unsecured refinancing amounted to €0.8 billion. In addition, €0.5 billion in subordinated bonds were placed with investors.

Aareal Bank therefore continues to be very solidly financed. Compared to 31 March 2014, the Tier 1 ratio as at 30 June 2014 rose to 16.3 per cent, which is also comfortable on an international level, whilst the Common Equity Tier 1 (CET1) ratio, excluding SoFFin's contribution, was 12.5 per cent on the reporting date. Aareal Bank thus already complies today with the capital and liquidity requirements under the CRD IV, which will be gradually implemented between now and the end of 2018.

Notes to Group financial performance

Consolidated net interest income of €169 million in the second quarter was €43 million higher than for the same period of the previous year (€126 million). The increase was particularly due to the higher lending volume, also in conjunction with the acquisition of Corealcredit. Net interest income totalled €313 million for the first six months of the financial year (H1 2013: €247 million).

Net commission income of €39 million for the quarter under review was unchanged year-on-year. Net commission income totalled €79 million for the first half of the year (H1 2013: €77 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 second quarter (Q2 2013: €0 million); the relevant aggregate figure for the first six months of 2014 was €7 million (H1 2013: €2 million).

Consolidated administrative expenses totalled €114 million for the second quarter (Q2 2013: €90 million) and €216 million for the first half of the year (H1 2013: €182 million). The rise is due, among other things, to the running costs for Corealcredit that have been included in expenditure since the second quarter. Furthermore, higher project costs were incurred during the reporting period, including those in conjunction with the acquisition of Corealcredit, and regulatory measures such as the Asset Quality Review.

On balance, consolidated operating profit for the second quarter amounted to €65 million (Q2 2013: €45 million). Taking into consideration income taxes of €21 million and €5 million in income attributable to non-controlling interests, net income after non-controlling interest income amounted to €39 million. After deduction of net interest payable on the SoFFin silent participation, consolidated profit stood at €34 million for the second quarter (Q2 2013: €21 million).

Aareal Bank Group's consolidated operating profit for the first six months of the financial year totalled €282 million. Adjusted for the day-one profit from the initial consolidation of Corealcredit (€152 million), operating profit was €130 million and thus markedly higher year-on-year (H1 2013: €92 million). Taking into consideration income taxes of €41 million and non-controlling interest income of €10 million, net income attributable to shareholders of Aareal Bank AG amounted to €231 million. After deduction of net interest payable on the SoFFin silent participation, consolidated profit stood at €221 million.

Outlook: consolidated operating profit forecast raised slightly

Aareal Bank continues to expect a slight global economic recovery during the remainder of the 2014 financial year, even though the persistent low-interest rate environment presents a growing macro-economic challenge. Notwithstanding this demanding environment, against the background of the good business development in the first two quarters, Aareal Bank envisages a continuation of its positive business performance during the remainder of the year.

Aareal Bank is slightly increasing its original profit forecast of between €370 million and €390 million for the 2014 financial year. Thanks to the good business development during the first two quarters of the year, the Bank now believes there is a good chance to generate consolidated operating profit at the upper end of a range between €380 million and €400 million, including negative goodwill from the acquisition of Corealcredit. Adjusted for the non-recurring effect from the Corealcredit transaction, Aareal Bank expects consolidated operating profit of €230 million to €250 million. Excluding said non-recurring effect, return on equity (RoE) before taxes is projected to be around 9 %.

Aareal Bank expects net interest income to be at the upper end of the forecasted €610 million to €640 million range. Allowance for credit losses is expected to remain in the upper half of a range between €100 million and €150 million. As in

previous years, the Bank cannot rule out additional allowance for unexpected credit losses that may be incurred during 2014.

Net commission income is expected to remain in a range between €170 million and €180 million. Administrative expenses are expected in the region of €430 million to €450 million. A material reason for the projected increase over the previous year is the acquisition of Corealcredit.

In the Structured Property Financing segment, the Bank now projects new business for the full year 2014 at the upper end of the forecast range between €8 billion and €9 billion.

In the Consulting/Services segment, Aareal Bank anticipates a slightly higher profit before taxes over the previous year for its Aareon subsidiary, at around €28 million.

Note to editors: The full interim report for the second quarter of 2014 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, 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 housing industry and the commercial property sector services and products for managing residential property portfolios and processing payment flows. www.aareal-bank.com

Aareal Bank Group – key financial indicators

	1 Jan - 30 June 2014	1 Jan - 30 June 2013
Income statement ¹⁾		
Operating profit (€mn)	282	92
Consolidated profit (€mn)	221	43
Cost / income ratio (%) ²⁾	36.9	40.1
Earnings per share (€)	3.87	0.88
RoE before taxes (%) ³⁾	23.0	7.3
RoE after taxes (%) ³⁾	19.6	4.7
Portfolio data		
Property finance (€mn)	28,535	24,550
of which: international (€mn)	21,609	20,802
Equity (€mn)	2,653	2,450
Total assets (€mn)	48,608	42,981
Regulatory indicators ^{4) 5)}		
Risk-weighted assets	16,399	
Common equity tier 1 ratio (%) -fully phased - ⁶⁾	12.2	
Common equity tier 1 ratio (%)	14.3	
Tier 1 ratio (%)	16.3	
Total capital ratio (%)	22.4	
Employees ⁴⁾		
	2,532	2,375
Ratings		
Fitch Ratings, London		
long-term ⁷⁾	A - (outlook: negative)	A - (outlook: stable)
short-term ⁷⁾	F1 (outlook: negative)	F1 (outlook: stable)
Fitch Pfandbrief ratings	AAA	AAA
oekom	Prime	Prime

1) The disclosures covering the current period under review include negative goodwill (day-one profit) from the acquisition of COREALCREDIT BANK AG ("Corealcredit") as at 31 March 2014. Corealcredit's operating results have been included in the Income Statement of Aareal Bank Group since the beginning of Q2 2014.

2) Structured Property Financing segment only

3) On an annualised basis

4) Current reporting period, including Corealcredit

5) Since 1 January 2014, regulatory indicators have been determined in accordance with CRD IV/CRR, based on carrying amounts in accordance with IFRSs. Until 31 December 2013, these indicators were calculated in accordance with the German Solvency Regulation (SolV) and based on local GAAP (book values in accordance with the German Commercial Code (HGB)). The Bank therefore decided against stating comparative amounts.

6) Excluding silent participation from the German Financial Markets Stabilisation Fund (SoFFin)

7) At the end of the first quarter of 2014, rating agency Fitch Ratings changed its outlook for the Long-Term Issuer Default Rating (IDR) of 18 banks within the European Union from "stable" to "negative". The corresponding outlook for an additional 18 European commercial banks remained "negative". This revision reflects a global re-assessment of government support for banks.

Income statement for the first half of 2014
(in accordance with IFRSs)

	1 Jan - 30 Jun 2014	1 Jan - 30 Jun 2013	Change
	€ mn	€ mn	%
Net interest income	313	247	27
Allowance for credit losses	69	45	53
Net interest income after allowance for credit losses	244	202	21
Net commission income	79	77	3
Net result on hedge accounting	3	-3	
Net trading income / expenses	4	11	-64
Results from non-trading assets	0	-6	
Results from investments accounted for using the equity method	-	-	
Administrative expenses	216	182	19
Net other operating income / expenses	16	-7	
Negative goodwill from the acquisition of Corealcredit	152	-	
Operating profit	282	92	207
Income taxes	41	29	41
Net income / loss	241	63	283
Allocation of results			
Net income / loss attributable to non-controlling interests	10	10	
Net income / loss attributable to shareholders of Aareal Bank AG	231	53	336
Appropriation of profits			
Net income / loss attributable to shareholders of Aareal Bank AG	231	53	336
Silent participation by SoFFin	10	10	
Consolidated profit / loss	221	43	414

Segment reporting for the first half of 2014
(in accordance with IFRS)

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 30 Jun 2014	1 Jan - 30 Jun 2013	1 Jan - 30 Jun 2014	1 Jan - 30 Jun 2013	1 Jan - 30 Jun 2014	1 Jan - 30 Jun 2013	1 Jan - 30 Jun 2014	1 Jan - 30 Jun 2013
€mn								
Net interest income	311	242	0	0	2	5	313	247
Allowance for credit losses	69	45					69	45
Net interest income after allowance for credit losses	242	197	0	0	2	5	244	202
Net commission income	2	5	80	78	-3	-6	79	77
Net result on hedge accounting	3	-3					3	-3
Net trading income / expenses	4	11					4	11
Results from non-trading assets	0	-6					0	-6
Results from investments accounted for using the equity method								
Administrative expenses	124	97	93	86	-1	-1	216	182
Net other operating income / expenses	15	-6	1	-1	0	0	16	-7
Negative goodwill from the aquisition of Corealcredit	152						152	
Operating profit	294	101	-12	-9	0	0	282	92
Income taxes	45	31	-4	-2			41	29
Net income / loss	249	70	-8	-7	0	0	241	63
Allocation of results								
Net income / loss attributable to non-controlling interests	8	9	2	1			10	10
Net income / loss attributable to shareholders of Aareal Bank AG	241	61	-10	-8	0	0	231	53
Allocated equity	1,302	1,180	108	89	957	971	2,367	2,240
Cost / income ratio in %	36.9	40.1	115.0	111.1			52.0	57.1
RoE before taxes in % *)	44.0	15.6	-25.7	-23.2			23.0	7.3

*) On an annualised basis

Segment results for the second quarter of 2014
(in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation / Reconciliation		Aareal Bank Group	
	Quarter 2 2014	Quarter 2 2013	Quarter 2 2014	Quarter 2 2013	Quarter 2 2014	Quarter 2 2013	Quarter 2 2014	Quarter 2 2013
€mn								
Net interest income	168	124	0	0	1	2	169	126
Allowance for credit losses	32	28					32	28
Net interest income after allowance for credit losses	136	96	0	0	1	2	137	98
Net commission income	1	3	40	39	-2	-3	39	39
Net result on hedge accounting	1	0					1	0
Net trading income / expenses	2	5					2	5
Results from non-trading assets	0	-5					0	-5
Results from investments accounted for using the equity method								
Administrative expenses	68	47	47	44	-1	-1	114	90
Net other operating income / expenses	-1	-2	1	0	0	0	0	-2
Negative goodwill from the acquisition of Corealcredit								
Operating profit	71	50	-6	-5	0	0	65	45
Income taxes	23	15	-2	-1			21	14
Net income / loss	48	35	-4	-4	0	0	44	31
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	44	30	-5	-4	0	0	39	26
Allocated equity								
	1,302	1,180	108	89	957	971	2,367	2,240
Cost / income ratio in %	39.4	38.2	115.3	110.2			54.0	55.3
RoE before taxes in % *)	20.6	15.3	-26.0	-21.0			10.1	7.2

*) On an annualised basis