



Press Release

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Aareal Bank Group maintains positive business development during the second quarter, affirms earnings forecast for the full year 2018

- **Second-quarter consolidated operating profit of € 62 million within expectations; previous year's figure (Q2 2017: € 109 million) strongly influenced by non-recurring effects – previous quarter: € 67 million**
- **Full-year consolidated operating profit still expected in a range between € 260 million and € 300 million**
- **Stabilisation of net interest income, at a solid level, continues as announced – slight quarter-on-quarter increase to € 136 million; derecognition gain remains at a low level**
- **Administrative expenses of € 109 million below the previous quarter and Q2 2017**
- **Strong new business of € 2.7 billion for the first half of the year in the Structured Property Financing segment clearly exceeded the previous year's figure**

Wiesbaden, 14 August 2018 – Aareal Bank Group maintained its positive business development during the second quarter of 2018, and thus remains on course to achieve full-year earnings target. In a market and competitive environment that continued to be challenging, the Group once again generated solid consolidated operating profit which, at € 62 million, was fully in line with expectations. Consolidated operating profit for the same quarter of the previous year (€ 109 million) had included a positive one-off effect of € 50 million arising from the reversal of provisions at a subsidiary. The corresponding figure for the first quarter of 2018 was € 67 million. Aareal Bank Group's consolidated operating profit for the first six months of the current financial year thus totalled € 129 million (H1 2017: € 180 million, including said one-off effect). Consolidated net income allocated to ordinary shareholders of Aareal Bank amounted to € 37 million for the second quarter (Q2 2017: € 62 million), and € 76 million for the first half of the year (H1 2017: € 100 million). Earnings per share amounted to € 0.62 for the second quarter and € 1.27 for the first half of 2018 (Q2 2017: € 1.05; H1 2017: € 1.68).

Strong evidence of Aareal Bank Group's continued robust operating performance was to be found in the development of net interest income, which increased during the second quarter for the first time since an extended phase of planned decreases, reflecting the scheduled reduction of non-strategic portfolios from the acquisitions of Corealcredit and WestImmo. Net interest income totalled € 136 million in the second quarter, compared to € 133 million in the first quarter of 2018 and € 151 million in the second quarter of 2017. Net interest income including gains on derecognition¹ (which must be reported separately in accordance with IFRS 9) amounted to € 141 million: at € 5 million, the derecognition gain remained at a low level, as in the first quarter.

As with the slight increase in the credit portfolio, this is in line with Aareal Bank's announcement that it will stabilise its aggregate credit portfolio – and hence, net interest income – at a solid level during the current year.

Loss allowance for the second quarter amounted to € 19 million (Q2 2017: € 25 million). Aareal Bank continues to forecast loss allowance for the full year in a range of € 50 million to € 80 million, which is markedly lower than in the previous year.

Net commission income improved to € 51 million (Q2 2017: € 49 million), which was mainly due to higher sales revenue at Aareon. This means that net commission income continues to gain importance for Aareal Bank Group – as set out in its "Aareal 2020" programme for the future.

Consolidated administrative expenses amounted to € 109 million during the second quarter (Q2 2017: € 129 million). For the first half of 2018, the figure thus markedly decreased year-on-year: from € 268 million to € 237 million. Amongst others, this reflects the efficiency-enhancing measures adopted within the scope of "Aareal 2020".

"We are satisfied with our overall performance during the second quarter. Our operating performance continues to be robust, and we are making good progress with the transformation we have initiated with 'Aareal 2020'. At the mid-year point, we therefore remain on track not only to meet our earnings target for the current year, but also our medium- to long-term strategic goals", said CEO Hermann J. Merkens.

Structured Property Financing segment: strong new business, higher credit portfolio

In the Structured Property Financing segment, Aareal Bank – whilst maintaining its conservative lending policy – posted a significant increase in new business, to € 2.7 billion (Q2 2017: € 2.0 billion). New business volume for the first six months of the year totalled € 4.2 billion, compared to € 3.8 billion in the same period of

¹ In accordance with IFRS 9, the result from the derecognition of financial assets and financial liabilities which are not measured at fair value through profit or loss is reported separately. (In particular, this includes the effects from early loan repayments.)

the previous year. Thanks to the strong performance in new business, aggregate portfolio volume as at 30 June 2018 rose to € 26.5 billion (Q1 2018: € 25.9 billion), despite the continued reduction of non-strategic credit portfolios. The volume is thus in the middle of the target corridor of between € 25 billion and € 28 billion for the current year. The average gross margin for newly-originated loans (after currency hedging costs) of 171 basis points for the second quarter was lower than in the previous quarter (approximately 220 basis points); this was as expected, and reflected a lower portion of business generated in North America. Looking at projections for the year as a whole, however, gross margins achieved remain in line with the plan, and on a good level.

Consulting/Services segment: Aareon's sales revenue keeps growing – deposit volumes in the banking business remain at a high level

Operating profit in the Consulting/Services segment of € –8 million during the quarter under review was in line with the previous quarter (Q1 2018: € –8 million; Q2 2017: € –6 million). Subsidiary Aareon AG generated operating profit of € 8 million during the quarter under review, which was in line with the same quarter of the previous year. Aareon's profit contribution for the first half of the year was € 14 million (H1 2017: € 15 million); the figure was burdened by non-recurring cost increases as well as delays affecting two major projects. Aareon's sales revenue increased to € 57 million in the second quarter of 2018 (Q2 2017: € 55 million).

The volume of deposits in the segment's banking business averaged € 10.5 billion during the quarter under review (Q1 2018: € 10.2 billion), thus remaining at a high level. The persistently low interest rate environment burdened income generated from the deposit-taking business, and therefore the segment result. Nonetheless, the importance of this business goes way beyond the interest margin generated from 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 Group has remained very solidly funded throughout the first half of the 2018 financial year. Total long-term funding as at 30 June 2018 amounted to € 21.0 billion (31 December 2017: € 22.8 billion), comprising Pfandbrief issues as well as senior unsecured and subordinated issues.

Aareal Bank Group very successfully raised € 0.7 billion on the capital markets during the first half of 2018, including a € 0.5 billion benchmark Mortgage Pfandbrief issue with a term of 6.3 years. The remaining € 0.2 billion was accounted for by senior unsecured issues.

Aareal Bank continues to have a very solid capital base. As at 30 June 2018, the Bank's Common Equity Tier 1 (CET1) ratio was 19.9 %, which is comfortable on an international level. Its Total Capital Ratio was 31.3 %. The CET1 ratio determined on the basis of the Basel Committee's final framework – the estimated so-called 'Basel IV' ratio, which is relevant for capital planning – was 13.5 %.

Notes to Group financial performance

Net interest income for the second quarter of 2018 was € 136 million (Q2 2017: € 151 million). The year-on-year decline was attributable to the portfolio reduction in the previous year, particularly due to the planned reduction of WestImmo and Corealcredit portfolios. Gains from derecognition declined to € 5 million (Q2 2017: € 7 million), due to lower effects from early loan repayments. Net interest income including derecognition gains or losses totalled € 280 million for the first six months of the financial year (H1 2017: € 322 million).

Loss allowance of € 19 million was lower than the previous year's figure (Q2 2017: € 25 million); the total figure for the first half-year was thus also € 19 million (H1 2017: € 27 million).

Net commission income of € 51 million exceeded the previous year's figure (Q2 2017: € 49 million), bringing net commission income for the first half of the year to € 101 million (H1 2017: € 97 million). The increase was due, in particular, to higher sales revenue posted by Aareon.

The net loss from financial instruments (fvpl²) and on hedge accounting in the aggregate amount of € -5 million (Q2 2017: € 1 million) mainly resulted from exchange rate fluctuations. The total figure for the first half-year was € -4 million (H1 2017: € -3 million).

Consolidated administrative expenses declined to € 109 million for the second quarter (Q2 2017: € 129 million) and to € 237 million for the first half of the year (H1 2017: € 268 million). Factors contributing to this expected decrease in administrative expenses included lower running costs due to the efficiency-enhancing measures adopted within the scope of "Aareal 2020".

Net other operating income/expenses amounted to € 3 million; the figure for the same quarter of the previous year (Q2 2017: € 55 million) included a positive one-off effect of € 50 million arising from the reversal of provisions through profit or loss at a subsidiary. The total figure for the first half-year was € 8 million (H1 2017: € 59 million).

On balance, consolidated operating profit for the second quarter amounted to € 62 million. Taking tax deductions of € 21 million into account, consolidated net income was € 41 million. Assuming the pro rata temporis accrual of net interest payments on the AT1 bond (€ 4 million), consolidated net income allocated to ordinary shareholders stood at € 37 million (Q2 2017: € 62 million).

Aareal Bank Group's consolidated operating profit for the first six months of the financial year totalled € 129 million (H1 2017: € 180 million). After deduction of € 44 million in taxes and € 1 million in non-controlling interest income, and assuming pro-rata net interest payable on the AT1 bond (€ 8 million),

² Net gain or loss from financial assets measured at fair value through profit or loss.

consolidated net income allocated to ordinary shareholders of Aareal Bank AG amounted to € 76 million (H1 2017: € 100 million).

Outlook for 2018: full-year earnings forecast affirmed

Following a solid performance during the first half of 2018, Aareal Bank Group affirms its full-year forecasts for key indicators: consolidated net interest income (including derecognition gains or losses reported separately, in accordance with IFRS 9) is projected between € 570 million and € 610 million. Loss allowance is expected in a range between € 50 million and € 80 million, which is significantly lower than in the previous year. A further increase in net commission income is projected, in a range between € 215 million and € 235 million. Administrative expenses are expected to decline to between € 470 million and € 500 million.

Against this background, Aareal Bank expects consolidated operating profit for the current year to be in a range between € 260 million and € 300 million. The Bank expects RoE before taxes of between 9.5 per cent and 11.0 per cent for the current financial year, with earnings per share between € 2.60 and € 3.00. Aareal Bank affirms its medium-term target RoE of around 12 per cent before taxes.

Aareal Bank will continue the reduction of non-strategic portfolios in the Structured Property Financing segment during 2018. At the same time, its core credit portfolio is planned to grow: overall, subject to exchange rate fluctuations, the aggregate credit portfolio is expected to range between € 25 billion and € 28 billion. The Bank targets new business between € 7 billion and € 8 billion for the current year, with a continued focus on the high-margin US market. In the Consulting/Services segment, Aareal Bank expects its IT subsidiary Aareon to contribute a markedly higher amount, of approximately € 37 million to € 38 million, to consolidated operating profit – slightly below its original expectation of approximately € 40 million, on account of non-recurring burdens from two projects. Aareal Bank Group affirms its positive medium-term outlook for Aareon's results.

Note to editors: The full interim report for the second quarter of 2018 is available on <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 Jun 2018	1 Jan - 30 Jun 2017
Results		
Operating profit (€ mn)	129	180
Consolidated net income (€ mn)	85	114
Consolidated net income allocated to ordinary shareholders (€ mn) ¹⁾	76	100
Cost/income ratio (%) ²⁾	44.2	43.0
Earnings per ordinary share (€) ¹⁾	1.27	1.68
RoE before taxes (%) ¹⁾³⁾	9.4	13.0
RoE after taxes (%) ¹⁾³⁾	6.1	8.0

	30 June 2018	31 Dec 2017
Statement of financial position		
Property finance (€ mn) ⁴⁾	25,307	25,088
Equity (€ mn)	2,798	2,924
Total assets (€ mn)	40,162	41,908
Regulatory indicators		
Risk-weighted assets (€ mn)	10,615	11,785
Common Equity Tier 1 ratio (CET1 ratio) (%)	19.9	19.6
Tier 1 ratio (T1 ratio) (%)	22.7	22.1
Total capital ratio (TC ratio) (%)	31.3	30.0
Common Equity Tier 1 ratio (CET1 ratio) (%) – Basel IV (estimated) ⁵⁾ –	13.5	13.4
Employees	2,769	2,800

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 € 0.7 billion in private client business (31 December 2017: € 0.8 billion) and € 0.5 billion in local authority lending business by former Westdeutsche ImmobilienBank AG (WestImmo) (31 December 2017: € 0.5 billion)

5) Underlying RWA estimate, given a 72.5 % output floor based on the final Basel Committee framework dated 7 December 2017. The calculation of the material impact upon Aareal Bank is subject to the outstanding EU implementation as well as the implementation of additional regulatory requirements (CRR II, EBA requirements, TRIM, etc.).

Consolidated Income Statement for the first half of (in accordance with IFRSs)

	1 Jan - 30 Jun 2018	1 Jan - 30 Jun 2017 ¹⁾	Change
	€ mn	€ mn	%
Net interest income	269	305	-12
Loss allowance	19	27	-30
Net commission income	101	97	4
Net derecognition gain or loss	11	17	-35
Gains/losses from financial instruments (fvpl)	-1	3	
Net result on hedge accounting	-3	-6	
Results from investments accounted for using the equity method	-	-	
Administrative expenses	237	268	-12
Net other operating income/expenses	8	59	-86
Operating profit	129	180	-28
Income taxes	44	66	-33
Consolidated net income	85	114	-25
Consolidated net income attributable to non-controlling interests	1	6	-83
Consolidated net income attributable to shareholders of Aareal Bank AG	84	108	-22
Earnings per share (Eps)			
Consolidated net income attributable to shareholders of Aareal Bank AG 2)	84	108	-22
of which: allocated to ordinary shareholders	76	100	-24
of which: allocated to AT1 investors	8	8	0
Earnings per ordinary share (in €) ³⁾	1.27	1.68	-24
Earnings per AT1 unit (€) ⁴⁾	0.08	0.08	0

1) Comparative amounts reclassified according to the new classification format

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 attributable 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 second quarter of (in accordance with IFRSs)

	Q2 2018	Q2 2017 ¹⁾	Change
	€ mn	€ mn	%
Net interest income	136	151	-10
Loss allowance	19	25	-24
Net commission income	51	49	4
Net derecognition gain or loss	5	7	-29
Gains/losses from financial instruments (fvpl)	-4	4	
Net result on hedge accounting	-1	-3	
Results from investments accounted for using the equity method	-	-	
Administrative expenses	109	129	-16
Net other operating income/expenses	3	55	-95
Operating profit	62	109	-43
Income taxes	21	42	-50
Consolidated net income	41	67	-39
Consolidated net income attributable to non-controlling interests	0	1	
Consolidated net income attributable to shareholders of Aareal Bank AG	41	66	-38
Earnings per share (Eps)			
Consolidated net income attributable to shareholders of Aareal Bank AG 2)	41	66	-38
of which: allocated to ordinary shareholders	37	62	-40
of which: allocated to AT1 investors	4	4	0
Earnings per ordinary share (in €) ³⁾	0.62	1.05	-40
Earnings per AT1 unit (€) ⁴⁾	0.04	0.04	0

1) Comparative amounts reclassified according to the new classification format

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 attributable 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 half of (in accordance with IFRSs)

	Structured Property Financing		Consulting/Services		Consolidation/Reconciliation		Aareal Bank Group	
	1 Jan - 30 Jun 2018	1 Jan - 30 Jun 2017 ¹⁾	1 Jan - 30 Jun 2018	1 Jan - 30 Jun 2017	1 Jan - 30 Jun 2018	1 Jan - 30 Jun 2017	1 Jan - 30 Jun 2018	1 Jan - 30 Jun 2017 ¹⁾
€ mn								
Net interest income	275	310	0	0	-6	-5	269	305
Loss allowance	19	27	0				19	27
Net commission income	4	3	93	91	4	3	101	97
Net derecognition gain or loss	11	17					11	17
Gains/losses from financial instruments (fvpl)	-1	3					-1	3
Net result on hedge accounting	-3	-6					-3	-6
Results from investments accounted for using the equity method								
Administrative expenses	129	166	110	104	-2	-2	237	268
Net other operating income/expenses	7	58	1	1	0	0	8	59
Operating profit	145	192	-16	-12	0	0	129	180
Income taxes	50	70	-6	-4			44	66
Consolidated net income	95	122	-10	-8	0	0	85	114
Consolidated net income attributable to non-controlling interests	0	4	1	2			1	6
Consolidated net income attributable to shareholders of Aareal Bank AG	95	118	-11	-10	0	0	84	108
Allocated equity	1,788	1,813	172	152	520	548	2,480	2,513
Cost/income ratio (%)	44.2	43.0	116.4	112.8			61.6	56.3
RoE before taxes (%) ^{2) 3)}	14.9	19.5	-19.9	-17.7			9.4	13.0

1) Comparative amounts reclassified according to the new classification format

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 second quarter of (in accordance with IFRSs)

	Structured Property Financing		Consulting/Services		Consolidation/Reconciliation		Aareal Bank Group	
	Q2	Q2	Q2	Q2	Q2	Q2	Q2	Q2
	2018	2017 ¹⁾	2018	2017	2018	2017	2018	2017 ¹⁾
€ mn								
Net interest income	139	153	0	0	-3	-2	136	151
Loss allowance	19	25	0				19	25
Net commission income	3	2	46	46	2	1	51	49
Net derecognition gain or loss	5	7					5	7
Gains/losses from financial instruments (fvpl)	-4	4					-4	4
Net result on hedge accounting	-1	-3					-1	-3
Results from investments accounted for using the equity method								
Administrative expenses	55	77	55	53	-1	-1	109	129
Net other operating income/expenses	2	54	1	1	0	0	3	55
Operating profit	70	115	-8	-6	0	0	62	109
Income taxes	24	44	-3	-2			21	42
Consolidated net income	46	71	-5	-4	0	0	41	67
Consolidated net income attributable to non-controlling interests	0	0	0	1			0	1
Consolidated net income attributable to shareholders of Aareal Bank AG	46	71	-5	-5	0	0	41	66
Allocated equity	1,788	1,813	172	152	520	548	2,480	2,513
Cost/income ratio (%)	38.8	35.2	114.9	112.2			57.5	48.7
RoE before taxes (%) ^{2) 3)}	14.3	24.2	-18.4	-16.9			9.0	16.4

1) Comparative amounts reclassified according to the new classification format

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.