



## Press Release

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### **Aareal Bank Group remains on course, following solid start into the new year**

- **First-quarter consolidated operating profit of €71 million (Q1 2016: €87 million) fully in line with expectations**
- **Very robust net interest income, thanks to continued strong margins – year-on-year decline primarily due to the continued reduction of WestImmo and Corealcredit portfolios**
- **Strong new business originated in the Structured Property Financing segment – very low allowance for credit losses**
- **Further growth in net commission income, thanks to good performance at Aareon**
- **Increased full-year outlook affirmed: Aareal Bank anticipates consolidated operating profit of between €310 million and €350 million**
- **CEO Hermann J. Merkens: "We are consistently pursuing our strategic priorities, making good progress."**

Wiesbaden, 11 May 2017 – Aareal Bank Group has enjoyed a good start into the 2017 financial year. In a market environment that continued to be challenging, the Group generated very solid consolidated operating profit of €71 million which was lower year-on-year, as expected (Q1 2016: €87 million). The forecast decline in net interest income was partly offset by higher net commission income and lower administrative expenses. Net interest income had risen strongly in previous years, predominantly due to the acquisitions of Corealcredit Bank AG and Westdeutsche ImmobilienBank AG ("WestImmo"). This effect is now gradually fading, due to the continued reduction of the portfolios acquired. Against this background, first-quarter operating profit is testament to the robustness of the Group's core business activities. Consolidated net income allocated to ordinary shareholders amounted to €38 million (Q1 2016: €51 million).

Net interest income for the first quarter was €164 million (Q1 2016: €180 million). Thanks to Aareal Bank's flexibility in allocating new business, good margins generated during the first months of 2017 also had a favourable impact on the net figure. Driven primarily by the continued positive development at

Aareon, which grew its international business in particular and successfully expanded its range of new digital solutions from Aareon Smart World, net commission income rose to € 48 million (Q1 2016: € 46 million). Allowance for credit losses of € 2 million was unchanged year-on-year, thus remaining at an extraordinarily low level. The Bank continues to anticipate a decrease in full-year allowance for credit losses, to a range between € 75 million and € 100 million.

Administrative expenses of € 139 million remained below the previous year's figure (Q1 2016: € 146 million), as anticipated, largely due to lower integration and running costs at Westdeutsche ImmobilienBank ("WestImmo"), acquired in 2015.

New business originated in the Structured Property Financing segment doubled year-on-year, to € 1.8 billion (Q1 2016: € 0.9 billion). At € 1.2 billion, the high level of newly-originated loans benefited from the business pipeline of the previous quarter to some extent. Aareal Bank continued to adhere to its selective new business policy geared towards high-margin markets – such as the US – during the first months of 2017. Aareal Bank Group maintains its new business target of between € 7 billion and € 8 billion for the 2017 financial year.

"Aareal Bank Group remains on course in the 2017 financial year. We are consistently pursuing the priorities defined in our "Aareal 2020" strategy, in both business segments, and making very good progress. Following the solid start into the current financial year, we remain confident that we will achieve our targets for 2017 and beyond", said Hermann J. Merkens, Chairman of the Management Board.

### **Structured Property Financing segment: focus on the US business**

In its Structured Property Financing segment, Aareal Bank Group generated operating profit of € 77 million (Q1 2016: € 96 million). In a persistently competitive business environment, and in a challenging general macroeconomic framework, Aareal Bank opened the 2017 financial year by originating markedly higher new business of € 1.8 billion (Q1 2016: € 0.9 billion), of which newly-originated loans accounted for approximately 69 per cent. In line with the Bank's growth strategy for business in North America, approximately 46 per cent of new business (and around 60 per cent of newly-originated loans) were extended in the United States, Aareal Bank's strategically most important growth market. The share of North American exposures in the overall credit portfolio rose to 24 per cent.

### **Consulting/Services segment: Aareon continues to develop on schedule – volume of deposits remains stable, on a high level**

Operating profit in the Consulting/Services segment totalled € -6 million during the first quarter of 2017 (Q1 2016: € -9 million). Subsidiary Aareon AG developed on schedule, its € 7 million profit contribution was in line with the corresponding quarter of the previous year.

The volume of deposits from the housing industry averaged € 10.2 billion during the quarter under review (Q4 2016: € 10.0 billion) and was in line with our

medium-term target level of around € 10 billion. The persistently low interest rate environment continued to burden income generated from the deposit-taking business, and therefore the segment result, at the outset of the financial year. Nonetheless, the importance of this business goes way beyond the interest margin generated from the deposits – which is under pressure in the current market environment. Deposits from the housing industry are a strategically important additional source of funding for Aareal Bank.

### **Comfortable funding situation, and strong capitalisation**

Aareal Bank remained very solidly funded during the first quarter of 2017, maintaining its long-term funding inventory at a high level. It raised a total of € 0.9 billion on the capital markets during the first quarter: especially worth noting was the very successful placement of a benchmark € 0.5 billion Mortgage Pfandbrief on the international capital markets.

Aareal Bank remains very well capitalised. As at 31 March 2017, the Bank's Tier 1 ratio was 19.2 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 16.2 per cent.

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

Net interest income of € 164 million was in line with projections (Q1 2016: € 180 million); The decrease in comparison to the same period of the previous year was largely attributable to the continued reduction of WestImmo and Corealcredit portfolios. Reflecting seasonal effects, allowance for credit losses of € 2 million was very low, as in the corresponding quarter of the previous year (Q1 2016: € 2 million). Net commission income increased to € 48 million (Q1 2016: € 46 million), driven by Aareon in particular. The aggregate of net trading income/expenses, the net result on hedge accounting, and net result from non-trading assets totalled € -4 million during the quarter under review.

Administrative expenses of € 139 million were lower year-on-year (Q1 2016: € 146 million), as expected – largely due to lower integration and running costs at WestImmo, acquired in 2015.

Consolidated operating profit totalled € 71 million for the quarter under review (Q1 2016: € 87 million). Taking tax deductions of € 24 million into account, consolidated net income was € 47 million. After deduction of € 5 million in non-controlling interest income, and assumed pro-rata net interest payable on the AT1 bond of € 4 million, consolidated net income allocated to ordinary shareholders of Aareal Bank AG amounted to € 38 million (Q1 2016: € 51 million).

### **Outlook for 2017 affirmed**

The macroeconomic environment in the spring of 2017 remains characterised by significant uncertainty. Intense competition as well as pressure to adjust to regulatory changes are expected to continue unabated.

Strategically, Aareal Bank Group will focus on further expediting investments for the future during the current year – continuing to expand its range of digital solutions, for example. At the same time, and in line with its strategy, the Bank will continue to reduce WestImmo and Corealcredit portfolios. In addition, the Bank is concentrating on the further optimisation of processes and structures, having focused on the integration of its two major acquisitions during the course of the previous years. As announced, this will also place a burden on results.

Nonetheless, Aareal Bank currently continues to see good opportunities to achieve consolidated operating profit for the current year of between € 310 million and € 350 million, including a positive non-recurring effect in the amount of € 50 million, to be recognised in the second quarter, from a subsidiary's reversal of provisions against income. Earnings per share (EpS) are projected in a range between € 2.85 and € 3.30. RoE before taxes for the current year is anticipated between 11 per cent and 12.5 per cent; when adjusted for the non-recurring effect mentioned above, the range is between 9 per cent and 10.5 per cent. Aareal Bank Group affirms its medium-term target RoE of at around 12 per cent before taxes.

Consolidated net interest income is expected at between € 620 million and € 660 million, Aareal Bank forecasts allowance for credit losses to fall to a range between € 75 million and € 100 million for 2017. Net commission income is projected to be in a range between € 195 million and € 210 million, slightly above the previous year's level. Administrative expenses are expected to fall, to a range between € 470 million and € 510 million, in spite of expected charges for optimising processes and structures, project costs and substantial forward-looking investments, such as for realigning the Bank's IT infrastructure.

New business of between € 7 billion and € 8 billion is targeted for the Structured Property Financing segment.

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 for the first quarter of 2017 is available on [www.aareal-bank.com/financialreports](http://www.aareal-bank.com/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 - 31 Mar 2017	1 Jan - 31 Mar 2016
<b>Results</b>		
Operating profit (€ mn)	71	87
Consolidated net income (€ mn)	47	60
Consolidated net income allocated to ordinary shareholders (€ mn) <sup>1)</sup>	38	51
Cost/income ratio (%) <sup>2)</sup>	53.1	49.2
Earnings per ordinary share (€) <sup>1)</sup>	0.63	0.85
RoE before taxes (%) <sup>1) 3)</sup>	9.6	12.4
RoE after taxes (%) <sup>1) 3)</sup>	6.1	8.3

	31 Mar 2017	31 Dec 2016
<b>Statement of financial position</b>		
Property finance (€ mn) <sup>4)</sup>	28,003	27,928
of which: international (€ mn)	23,651	23,423
Equity (€ mn)	2,906	3,129
Total assets (€ mn)	46,135	47,708
<b>Regulatory indicators <sup>5)</sup></b>		
Risk-weighted assets (€ mn)	13,958	14,540
Common Equity Tier 1 ratio (%)		
(CET 1 ratio) (%)	16.4	16.2
Tier 1 ratio (T1 ratio) (%)	19.2	19.9
Total capital ratio (%)	26.5	27.5
Common Equity Tier 1 ratio		
(CET1 ratio) (%) - fully phased -	16.2	15.7
<b>Employees</b>	2,724	2,728

	31 Mar 2017	31 Dec 2016
<b>Fitch Ratings</b>		
Issuer rating	BBB+	BBB+
long-term	(outlook:stable)	(outlook:stable)
short-term	F2	F2
Pfandbrief rating	AAA	AAA
<b>Moody's <sup>6)</sup></b>		
Issuer rating	Baa1	Baa1
long-term	(outlook:stable)	(outlook:stable)
short-term	P-2	P-2
Pfandbrief rating	AAA	AAA
<b>Sustainability <sup>7)</sup></b>		
MSCI	AA	AA
oekom	prime (C)	prime (C)
Sustainalytics	71	71

- 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 € 1.0 billion in private client business (31 December 2016: € 1.1 billion) and € 0.6 billion in local authority lending business by Westdeutsche ImmobilienBank AG (WestImmo) (31 December 2016: € 0.6 billion)
- 5) The calculation of regulatory capital takes into account the Management and Supervisory Board's proposal for the appropriation of profits for the financial year 2016. The appropriation of profits is subject to approval by the Annual General Meeting.
- 6) First published on 12 January 2017
- 7) Please refer to our Sustainability Report for more details.

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

	1 Jan - 31 Mar 2017	1 Jan - 31 Mar 2016	Change
			%
Net interest income	164	180	-9
Allowance for credit losses	2	2	0
<b>Net interest income after allowance for credit losses</b>	<b>162</b>	<b>178</b>	<b>-9</b>
Net commission income	48	46	4
Net result on hedge accounting	-3	1	
Net trading income / expenses	-1	9	
Results from non-trading assets	-	0	
Results from investments accounted for using the equity method	-	0	
Administrative expenses	139	146	-5
Net other operating income / expenses	4	-1	
<b>Operating profit</b>	<b>71</b>	<b>87</b>	<b>-18</b>
Income taxes	24	27	-11
<b>Consolidated net income</b>	<b>47</b>	<b>60</b>	<b>-22</b>
Consolidated net income attributable to non-controlling interests	5	5	0
Consolidated net income attributable to shareholders of Aareal Bank AG	42	55	-24
<b>Earnings per share (EpS)</b>			
Consolidated net income attributable to shareholders of Aareal Bank AG <sup>1</sup>	42	55	-24
of which: allocated to ordinary shareholders	38	51	-25
of which: allocated to AT1 investors	4	4	0
Earnings per ordinary share (in €) <sup>2</sup>	0.63	0.85	-26
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 quarter of 2017 (in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 31 Mar 2017	1 Jan - 31 Mar 2016	1 Jan - 31 Mar 2017	1 Jan - 31 Mar 2016	1 Jan - 31 Mar 2017	1 Jan - 31 Mar 2016	1 Jan - 31 Mar 2017	1 Jan - 31 Mar 2016
€ mn								
Net interest income	167	182	0	0	-3	-2	164	180
Allowance for credit losses	2	2					2	2
<b>Net interest income after allowance for credit losses</b>	<b>165</b>	<b>180</b>	<b>0</b>	<b>0</b>	<b>-3</b>	<b>-2</b>	<b>162</b>	<b>178</b>
Net commission income	1	2	45	42	2	2	48	46
Net result on hedge accounting	-3	1					-3	1
Net trading income / expenses	-1	9		0			-1	9
Results from non-trading assets		0						0
Results from investments accounted for using the equity method				0				0
Administrative expenses	89	95	51	51	-1	0	139	146
Net other operating income / expenses	4	-1	0	0	0	0	4	-1
<b>Operating profit</b>	<b>77</b>	<b>96</b>	<b>-6</b>	<b>-9</b>	<b>0</b>	<b>0</b>	<b>71</b>	<b>87</b>
Income taxes	26	30	-2	-3			24	27
<b>Consolidated net income</b>	<b>51</b>	<b>66</b>	<b>-4</b>	<b>-6</b>	<b>0</b>	<b>0</b>	<b>47</b>	<b>60</b>
Consolidated net income attributable to non-controlling interests	4	4	1	1			5	5
Consolidated net income attributable to shareholders of Aareal Bank AG	47	62	-5	-7	0	0	42	55
Allocated equity	1,853	1,627	146	109	509	695	2,508	2,431
Cost / income ratio (%)	53.1	49.2	113.4	122.4			65.9	62.2
RoE before taxes (%) <sup>1 2</sup>	14.5	21.2	-19.2	-37.7			9.6	12.4

1) On an annualised basis

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