Press Release

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Aareal Bank Group affirms its full-year profit forecast, after successful third-quarter results

- **Consolidated operating profit of € 70 million for the third quarter (Q2 2018: € 62 million; Q3 2017: € 82 million)**
- **Raised full-year earnings guidance for 2018 affirmed: Aareal Bank anticipates consolidated operating profit of between € 312 million and € 352 million**
- **Net interest income at a solid level; net derecognition gain markedly lower year-on-year, driven by the market**
- **Net commission income once again rises year-on-year**
- **Administrative expenses markedly below the previous year's level**
- **New business of € 6.1 billion for the first nine months rises above the same period of the previous year – new business target for the full year raised to between € 8 billion and € 9 billion**

Wiesbaden, 13 November 2018 – Aareal Bank Group has remained on track in the current financial year, posting yet another good set of results for the third quarter of 2018. Third-quarter consolidated operating profit was € 70 million, compared to € 62 million in the second quarter of 2018, and € 82 million in the same quarter of the previous year. Aareal Bank thus generated consolidated operating profit of € 199 million during the first nine months of this year (9m 2017: € 262 million, including a positive non-recurring effect amounting to € 50 million). Consolidated net income allocated to ordinary shareholders of Aareal Bank amounted to € 41 million for the third quarter (Q3 2018: € 47 million), and € 117 million for the first nine months of the year (9m 2017: € 147 million). Earnings per share amounted to € 0.70 for the third quarter and € 1.97 for the first nine months of 2018 (Q3 2017: € 0.78; 9m 2017: € 2.46).

The developments of Aareal Bank Group's key income items, as seen over the last quarters, prevailed during the quarter under review, in a continuously challenging market and competitive environment. Third-quarter net interest income of € 131 million was at a solid level, comparable to the two preceding quarters. The net derecognition gain, which must be reported separately in accordance with IFRS 9 and especially comprises effects from early loan repayments, amounted to € 5 million (Q3 2017: € 20 million). As in the earlier quarters of this year, the figure was thus lower than in the same quarters of the 2017 financial year. Aggregate net derecognition gain for the first nine months totalled € 16 million, and was thus clearly lower year-on-year (9m 2017: € 37 million). Loss allowance for the third quarter amounted to € 14 million, which was markedly below the previous quarter (Q2 2018: € 19 million) and the same quarter of the previous year (Q3 2017: € 26 million).

Net commission income improved year-on-year, to € 51 million (Q3 2017: € 48 million), thanks to the continued positive development of IT subsidiary 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. At € 107 million, consolidated administrative expenses for the third quarter were significantly lower than in the corresponding period of the previous year (Q3 2017: € 120 million).

Aareal Bank continues to expect the closing of the acquisition of Düsseldorfer Hypothekenbank AG, agreed upon in September, to take place in the current financial year. This would lead to a positive one-off effect from initial consolidation (negative goodwill) in the amount of approx. € 52 million, to be recognised in 2018. Against this background, Aareal Bank had raised its earnings forecast for the 2018 financial year accordingly: assuming that the acquisition is completed in 2018 as planned, consolidated operating profit is expected in a range between € 312 million and € 352 million. Aareal Bank has affirmed this guidance following good performance during the third quarter.

“Aareal Bank Group remains well on track in a challenging market environment. With the acquisition of Düsseldorfer Hypothekenbank, announced during the third quarter, we once again demonstrated our determination to exploit attractive, value-adding opportunities. Moreover, our operative business remains very robust indeed – and not least, we are making very good progress with the transformation we have initiated with 'Aareal 2020'. We therefore remain on track not only to meet our earnings target for the current year, but also to safeguard a sustainable, positive long-term performance for Aareal Bank Group", said CEO Hermann J. Merkens.

Structured Property Financing segment: strong new business, margins remain in line with projections

Aareal Bank continued to originate strong new business in its Structured Property Financing segment, whilst maintaining its conservative lending policy. At € 1.9 billion in the third quarter, the volume of new business was on a par with the previous year. New business volume for the first nine months of the year totalled € 6.1 billion, compared to € 5.7 billion in the same period of the previous year.

Thanks to the strong performance in new business, aggregate credit portfolio volume reached € 26.2 billion as at 30 September 2018, virtually matching the figure for the previous quarter (30 June 2018: € 26.5 billion) – in spite of the continued planned reduction of non-strategic credit portfolios. The average gross margin on newly-originated loans (after currency hedging costs) of 172 basis points in the third quarter was in line with the previous quarter. Gross margins realised thus remain within projections for the full year.

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 totalled € –7 million for the quarter under review (Q3 2017: € –7 million). Subsidiary Aareon AG developed on schedule, posting operating profit of € 7 million (Q3 2017: € 6 million), whilst sales revenue rose to € 56 million (Q3 2017: € 51 million).

The volume of deposits in the segment's banking business averaged € 10.4 billion during the quarter under review (Q2 2018: € 10.5 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.

Successful funding activities – capitalisation remains strong

In the wake of the termination of the ECB's bond-buying programme, Aareal Bank used the market environment to place a series of successful issues during the third quarter. The Bank issued a total amount of € 2.5 billion during the first nine months of the year, comprising € 2 billion in Pfandbriefe and € 0.5 billion in senior unsecured issues.

Aareal Bank thus maintained its long-term funding inventory at a high level: total long-term refinancing as at 30 September 2018 amounted to € 21.4 billion (30 June 2018: € 21.0 billion).

Aareal Bank continues to have a very solid capital base. As at 30 September 2018, the Bank's Common Equity Tier 1 (CET1) ratio was 20.8 %, which is comfortable on an international level, and the Total Capital Ratio was 32.6 %. 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 13.4 %.

Notes to Group financial performance

Net interest income for the third quarter of 2018 was € 131 million (Q3 2017: € 144 million). The year-on-year decline was attributable, in particular, to the portfolio reduction in the previous year, due to the planned reduction of WestImmo and Corealcredit portfolios. The net derecognition gain declined to € 5 million (Q3 2017: € 20 million), due to lower effects from early loan repayments. Net interest income (including net derecognition gain) totalled € 416 million for the first nine months of the financial year (9m 2017: € 486 million).

Loss allowance of € 14 million was lower than the previous year's figure (Q3 2017: € 26 million), bringing the figure for the first nine months of the year to € 33 million (9m 2017: € 53 million).

Net commission income of € 51 million improved on the previous year's figure (Q3 2018: € 48 million), bringing net commission income for the first nine months of the year to € 152 million (9m 2017: € 145 million). The increase was due, in particular, to higher sales revenue posted by Aareon.

The net gain or loss from financial instruments (fvpl) and from hedge accounting totalled € 1 million (Q3 2017: € 11 million). The net figure for the first nine months of the year was € -3 million (9m 2017: € € 8 million); this was largely attributable to exchange rate fluctuations and changes in the measurement of hedging derivatives.

Consolidated administrative expenses declined to € 107 million in the third quarter (Q3 2017: € 120 million), and to € 344 million for the first nine months of the year (9m 2017: € 388 million). Specifically, measures adopted within the scope of "Aareal 2020" contributed to this expected decrease in administrative expenses.

Net other operating income/expenses amounted to € 3 million (Q3 2017: € 5 million). The figure for the first nine months was € 11 million (9m 2017: € 64 million, including € 50 million arising from the reversal of provisions through profit or loss at a subsidiary).

On balance, consolidated operating profit for the third quarter amounted to € 70 million. Taking tax deductions of € 24 million into account, consolidated net income was € 46 million. After deduction of € 1 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 € 41 million (Q3 2017: € 47 million).

Aareal Bank Group's consolidated operating profit for the first nine months of the financial year totalled € 199 million (9m 2017: € 262 million). Taking tax deductions of € 68 million into account, consolidated net income was € 131 million. After deduction of € 2 million in non-controlling interest income, and assumed pro-rata net interest payable on the AT1 bond of € 12 million, consolidated net income allocated to ordinary shareholders of Aareal Bank AG amounted to € 117 million (9m 2017: € 147 million).

Outlook: Raised earnings guidance affirmed, new business target raised

Aareal Bank Group does not anticipate any fundamental changes to the challenging market and competitive environment for the remainder of the year. Following its successful performance during the first nine months of the year, the Bank affirms its earnings forecast for the full year 2018, which it had raised in September, in connection with the agreed acquisition of Düsseldorfer Hypothekenbank AG.

Whilst net interest income is developing in line with projections, net derecognition gain has been markedly lower than original estimates, as well as lower year-on-year, driven by the market. Accordingly, from today's perspective, achieving net interest income (including net derecognition gain) in the projected range between € 570 million and € 610 million for the full year 2018 will be difficult. However, as an offsetting effect, administrative expenses are highly likely to be slightly below the projected range of € 470 million to € 500 million.

Loss allowance is expected to be in a range between € 50 million and € 80 million. Net commission income is projected to increase to between € 215 million and € 235 million compared to last years figure.

Aareal Bank continues to anticipate consolidated operating profit of between € 312 million and € 352 million for the current year, including the expected positive one-off effect (negative goodwill) from the acquisition of Düsseldorfer Hypothekenbank, in the amount of approx. € 52 million – provided that the purchase, agreed upon in September, will be closed in the current year, as planned. The Bank expects RoE before taxes of between 11.5 per cent and 13 per cent for the current financial year, with earnings per share between € 3.47 and € 3.87. Adjusted for non-recurring income from the acquisition of Düsseldorfer Hypothekenbank, Aareal Bank envisages RoE before taxes of between 9.5 per cent and 11.0 per cent. The Bank affirms its medium-term target RoE of around 12 per cent before taxes.

The aggregate credit portfolio in the Structured Property Financing segment is projected to stand at between € 25 billion and € 28 billion by the end of 2018, subject to currency fluctuations. The Bank now projects new business volume for the current year in a range between € 8 billion and € 9 billion (previously: between € 7 billion and € 8 billion). In the Consulting/Services segment, Aareal Bank expects its IT subsidiary Aareon to contribute approximately € 37 million to € 38 million to consolidated operating profit.

Note to editors: the full interim report as at 30 September 2018 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 2018	1 Jan - 30 Sep 2017
Results		
Operating profit (€ mn)	199	262
Consolidated net income (€ mn)	131	165
Consolidated net income allocated to ordinary shareholders (€ mn) [1)]	117	147
Cost/income ratio (%) [2)]	41.8	41.1
Earnings per ordinary share (€) [1)]	1.97	2.46
RoE before taxes (%) [1) 3)]	9.7	12.6
RoE after taxes (%) [1) 3)]	6.3	7.8

	30 Sep 2018	31 Dec 2017
Statement of financial position		
Property finance (€ mn) [4)]	25,126	25,088
Equity (€ mn)	2,853	2,924
Total assets (€ mn)	40,269	41,908
Regulatory indicators		
Risk-weighted assets (€ mn)	10,063	11,785
Common Equity Tier 1 ratio (CET1 ratio) (%)	20.8	19.6
Tier 1 ratio (T1 ratio) (%)	23.8	22.1
Total capital ratio (TC ratio) (%)	32.6	30.0
Common Equity Tier 1 ratio (CET1 ratio) (%) – Basel IV (estimated) [5)] –	13.4	13.4
Employees	2,775	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 € 0.6 billion in private client business (31 December 2017: € 0.8 billion) and € 0.5 billion in local authority lending business by the 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 nine months of 2018 (in accordance with IFRSs)

	1 Jan - 30 Sep 2018	1 Jan - 30 Sep 2017[1]	Change
	€ mn	€ mn	%
Net interest income	400	449	-11
Loss allowance	33	53	-38
Net commission income	152	145	5
Net derecognition gain or loss	16	37	-57
Net gain or loss from financial instruments (fvpl)	-1	13	
Net gain or loss from hedge accounting	-2	-5	
Net gain or loss from investments accounted for using the equity method	-	-	
Administrative expenses	344	388	-11
Net other operating income/expenses	11	64	-83
Operating profit	**199**	**262**	**-24**
Income taxes	68	97	-30
Consolidated net income	**131**	**165**	**-21**
Consolidated net income attributable to non-controlling interests	2	6	-67
Consolidated net income attributable to shareholders of Aareal Bank AG	129	159	-19
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG 2)	129	159	-19
of which: allocated to ordinary shareholders	117	147	-20
of which: allocated to AT1 investors	12	12	0
Earnings per ordinary share (in €) [3]	1.97	2.46	-20
Earnings per AT1 unit (€) [4]	0.12	0.12	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 third quarter of 2018 (in accordance with IFRSs)

	Q3 2018	Q3 2017[1]	Change
	€ mn	€ mn	%
Net interest income	131	144	-9
Loss allowance	14	26	-46
Net commission income	51	48	6
Net derecognition gain or loss	5	20	-75
Net gain or loss from financial instruments (fvpl)	0	10	
Net gain or loss from hedge accounting	1	1	0
Net gain or loss from investments accounted for using the equity method	-	-	
Administrative expenses	107	120	-11
Net other operating income/expenses	3	5	-40
Operating profit	**70**	**82**	**-15**
Income taxes	24	31	-23
Consolidated net income	**46**	**51**	**-10**
Consolidated net income attributable to non-controlling interests	1	0	
Consolidated net income attributable to shareholders of Aareal Bank AG	45	51	-12
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG 2)	45	51	-12
of which: allocated to ordinary shareholders	41	47	-13
of which: allocated to AT1 investors	4	4	0
Earnings per ordinary share (in €) [3]	0.70	0.78	-9
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 nine months of 2018 (in accordance with IFRSs)

€ mn	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 30 Sep 2018	1 Jan - 30 Sep 2017[1)]	1 Jan - 30 Sep 2018	1 Jan - 30 Sep 2017	1 Jan - 30 Sep 2018	1 Jan - 30 Sep 2017	1 Jan - 30 Sep 2018	1 Jan - 30 Sep 2017[1)]
Net interest income	409	457	0	0	-9	-8	400	449
Loss allowance	33	53	0				33	53
Net commission income	6	4	141	136	5	5	152	145
Net derecognition gain or loss	16	37					16	37
Net gain or loss from financial instruments (fvpl)	-1	13					-1	13
Net gain or loss from hedge accounting	-2	-5					-2	-5
Net gain or loss from investments accounted for using the equity method								
Administrative expenses	182	234	166	157	-4	-3	344	388
Net other operating income/expenses	9	62	2	2	0	0	11	64
Operating profit	**222**	**281**	**-23**	**-19**	**0**	**0**	**199**	**262**
Income taxes	77	104	-9	-7			68	97
Consolidated net income	**145**	**177**	**-14**	**-12**	**0**	**0**	**131**	**165**
Consolidated net income attributable to non-controlling interests	0	4	2	2			2	6
Consolidated net income attributable to shareholders of Aareal Bank AG	145	173	-16	-14	0	0	129	159
Allocated equity	1,735	1,772	177	155	573	592	2,485	2,519
Cost/income ratio (%)	41.8	41.1	115.3	114.2			59.7	55.2
RoE before taxes (%) [2) 3)]	15.7	19.6	-18.2	-18.3			9.7	12.6

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 third quarter of 2018 (in accordance with IFRSs)

€ mn	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	Q3 2018	Q3 2017[1]	Q3 2018	Q3 2017	Q3 2018	Q3 2017	Q3 2018	Q3 2017[1]
Net interest income	134	147	0	0	-3	-3	131	144
Loss allowance	14	26	0				14	26
Net commission income	2	1	48	45	1	2	51	48
Net derecognition gain or loss	5	20					5	20
Net gain or loss from financial instruments (fvpl)	0	10					0	10
Net gain or loss from hedge accounting	1	1					1	1
Net gain or loss from investments accounted for using the equity method								
Administrative expenses	53	68	56	53	-2	-1	107	120
Net other operating income/expenses	2	4	1	1	0	0	3	5
Operating profit	**77**	**89**	**-7**	**-7**	**0**	**0**	**70**	**82**
Income taxes	27	34	-3	-3			24	31
Consolidated net income	**50**	**55**	**-4**	**-4**	**0**	**0**	**46**	**51**
Consolidated net income attributable to non-controlling interests	0	0	1	0			1	0
Consolidated net income attributable to shareholders of Aareal Bank AG	50	55	-5	-4	0	0	45	51
Allocated equity	1,735	1,772	177	155	573	592	2,485	2,519
Cost/income ratio (%)	36.9	37.2	113.2	117.0			55.9	52.8
RoE before taxes (%) [2) 3)]	16.3	18.8	-15.8	-20.2			10.3	12.0

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.