



Press Release

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Aareal Bank Group proposes a marked increase in the dividend, from €2.00 to €2.50 per share, reflecting a strong financial year 2017

- **Consolidated operating profit 2017 of €328 million within target range, following a solid fourth quarter; consolidated net income of €213 million**
- **New business in the Structured Property Financing segment exceeded projections at €8.8 billion; margins higher than expected**
- **IT subsidiary Aareon developing according to plan, with a €34 million contribution to consolidated operating profit**
- **Proposed dividend of €2.50 per share translates into dividend yield of more than 6 per cent – decision on the appropriation of excess capital to be taken during the course of 2018, as announced**
- **Implementation of the “Aareal 2020” programme for the future well on track after the first half, with efficiency initiatives and growth triggers gaining traction**
- **CEO Hermann J. Merkens: "Once again, we delivered on our promises and continue to consistently pursue our path"**

Wiesbaden, 28 February 2018 – Aareal Bank Group posted another set of good results for the 2017 financial year. The Bank wants to let its shareholders participate in the Company's sustainably positive development, with yet another marked dividend increase. According to preliminary, unaudited figures, consolidated operating profit amounted to €328 million for 2017; it was thus in the middle of the forecast target corridor of €310 million to €350 million, which had been raised in the course of the year – but did not fully reach the very good figure for the previous year (2016: €366 million), as expected. All of Aareal Bank's key indicators were within the forecast ranges: net interest income declined, as expected, due to the planned continued reduction of non-strategic portfolios, as well as on account of currency translation effects and high early loan repayments. Allowance for credit losses declined considerably, to the lower half of the forecast range, while net commission income rose markedly and administrative expenses decreased significantly. Return on equity before taxes of 11.9 per cent was lower than the previous year's very good figure (13.2 per cent), yet remained on the medium-term target level of around 12 per cent.

The fourth quarter accounted for consolidated operating profit of €66 million, below the figure for the same period of the previous year (Q4 2016: €85 million), which had benefited from positive non-recurring effects. On an adjusted basis, the Q4 figure was even slightly higher year-on-year. Consolidated net income amounted to €48 million for the fourth quarter (Q4 2016: €41 million), bringing the full-year figure to €213 million. Consolidated net income allocated to ordinary shareholders stood at €191 million for the full year (2016: €199 million), and at €44 million for the final quarter (Q4 2016: €33 million).

Hermann J. Merkens, Chairman of the Management Board of Aareal Bank AG, commented on the performance: "In spite of continuously fierce competition and a variety of uncertainty factors, we are very much satisfied with the results achieved during the past financial year. We delivered on our promises – and once again demonstrated that Aareal Bank Group knows how to handle challenging conditions as well."

Shareholder-friendly policy continued

Following another good year, Aareal Bank wants its shareholders to continue participating in these results. Therefore, the Management Board and the Supervisory Board will propose to the Annual General Meeting of Aareal Bank AG, to be held on 23 May 2018, a pronounced increase (€0.50) in the dividend per share, to €2.50 per share. This translates into a distribution ratio of 78 per cent, which is close to the upper end of the overall range of between 70 per cent and 80 per cent for the 2017 financial year, as communicated in February 2016.

This high distribution is also made possible thanks to Aareal Bank Group's capitalisation, which remains very comfortable: the Bank's fully phased-in Common Equity Tier 1 (CET1) ratio was 18.9 per cent as at 31 December 2017. Assuming the full implementation of new capital requirements (finalising Basel III – also known as "Basel IV"), the CET1 ratio was 13.4 per cent as at 31 December 2017, and thus significantly above regulatory requirements. Given persistent regulatory uncertainty, Aareal Bank currently considers a target CET1 ratio of around 12.5 per cent to be appropriate. As announced, the Bank intends to decide upon the appropriation of existing excess capital during the course of this year.

Excess capital may be applied for acquisitions and for expanding the Bank's business – but clearly, unless viable investment options are available, and provided this is permissible under regulatory rules, a return to shareholders is also an option. "Our decision on how to apply excess capital will be guided by how we can maximise value for our shareholders. This will also apply to a scenario where we return capital to shareholders, and will also define the most suitable manner for doing so, given the prevailing market conditions", said CEO Hermann J. Merkens.

"Aareal 2020" strategic programme: positive mid-term review

Implementation of the "Aareal 2020 – Adjust.Advance.Achieve" programme for the future, presented in February 2016, is fully on track at the mid-term point. The year under review was characterised on the one hand by extensive measures to enhance efficiency, and to optimise structures and processes. Aareal Bank successfully implemented the corresponding part of the programme: the organisational changes

and staffing adjustments will continue to be gradually implemented over the next months. On the other hand, the Bank launched strategic initiatives to further develop its business models in both segments during 2017. This included expanding the business of the Structured Property Financing segment in attractive markets such as the United States, exploring additional options along the value creation chain through the partnership with Mount Street, and winning new syndication partners.

In the Consulting/Services segment, Aareal Bank Group grew its business beyond its core housing industry business, into related industries such as utilities or the commercial property sector. Having established digital platforms, Aareal Bank Group has built a good foundation for further growth with digital solutions. Moreover, to boost the segment's innovative strength and to supplement the product portfolio, very promising partnerships with start-ups were agreed upon.

During the current year, Aareal Bank Group will further broaden the base for future success in both segments, within the framework of "Aareal 2020" – involving extensive investments into the future, such as the further expansion of digital solutions. At the same time, the Bank will continue to focus on the continued optimisation of processes and structures.

"Aareal Bank Group remains undeterred in the pursuit of its path, regardless of a still-challenging environment, consistently implementing its strategy. Our goal is clear: we will be the leading provider of smart financing, software products and digital solutions for the property sector and related industries. Over the next years, we intend to prove that we can be sustainably successful as a medium-sized, independent business, in changing markets – provided that you pursue the right business policy, with a forward-looking strategy. This will be to the benefit of clients, investors and staff – today and in the future", Merkens said.

2017 financial year: good results in a challenging environment

Net interest income in the 2017 financial year was €634 million, after €701 million in the previous year, and thus within the forecast range (€620 million to €660 million). Net interest income declined, as expected, largely due to the planned reduction of non-strategic portfolios, as well as on account of currency translation effects and high early loan repayments. In contrast, margins exceeded expectations: the Bank managed to maintain a stable level – compared to the previous year – of more than 220 basis points (after FX hedging costs) in a highly competitive environment, thanks to a flexible allocation of new business. The conservative risk policy which the Bank has maintained over recent years led to a further decline in allowance for credit losses: at €82 million, it was once again clearly lower than the previous year's figure (€97 million) and thus within the lower half of the communicated range of €75 million to €100 million. Thanks to further rising sales revenues in the Consulting/Services segment, net commission income increased to €206 million (2016: €193 million), and was thus also within the communicated range of between €195 million and €210 million.

The €7 million aggregate of net trading income/expenses, the net result from non-trading assets, and the net result on hedge accounting, resulted largely from the measurement and close-out of derivatives used to hedge interest rate and currency

risk. The previous year's figure of €86 million included €61 million in income from the divestment of the wholly-owned subsidiary Aqvatrium.

Administrative expenses declined to €511 million (communicated range: €470 million to €510 million; 2016: €547 million). Factors contributing to this decline include lower integration costs and running costs at Westdeutsche Immobilien Servicing AG (formerly: Westdeutsche ImmobilienBank AG). The total figure includes provisions for personnel measures resulting from the optimisation of processes and structures, within the scope of the "Aareal 2020" programme for the future, as well as costs for strategic projects. As communicated during the second quarter, net other operating income/expenses of €74 million (2016: €30 million) included a positive non-recurring item of €50 million from the reversal of provisions recognised within the scope of the Corealcredit Bank AG acquisition.

All in all, consolidated operating profit for the 2017 financial year totalled €328 million, after €366 million in 2016. Taking into consideration income taxes of €115 million and non-controlling interest income of €6 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to €207 million (2016: €215 million). Assuming the *pro rata temporis* accrual of net interest payments on the Additional Tier 1 (AT1) bond, consolidated net income allocated to ordinary shareholders stood at €191 million (2016: €199 million).

In its **Structured Property Financing segment**, Aareal Bank Group originated new business of €8.8 billion (2016: €9.2 billion) during 2017, thus exceeding the corridor of €7 billion to €8 billion targeted originally.

Net interest income in this segment stood at €646 million (2016: €716 million). The decline was largely due to the planned reduction of non-strategic portfolios, as well as currency translation effects and high early loan repayments.

Operating profit in the Structured Property Financing segment totalled €351 million (2016: €395 million).

Sales revenues in the **Consulting/Services segment** rose to €226 million in the 2017 financial year (2016: €206 million). The increase reflected a significant increase in sales revenues generated by subsidiary Aareon AG, and by the Bank's Housing Industry division.

Staff expenses of €151 million were higher than the previous year's level of €144 million, reflecting higher staffing levels and Aareon's acquisitions during 2017, amongst other factors.

At €34 million, Aareon matched the good profit level seen in the previous year.

In line with the "Aareal 2020" programme for the future, the volume of deposits from the housing industry rose to an average of €10.0 billion in the 2017 financial year (2016: €9.6 billion). Besides the increase in current account deposits, the share of rent deposits in particular also increased. 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.

The Consulting/Services segment registered an operating result of –€23 million (2016: –€29 million), due to the persistent burdens posed by the prevailing low interest rate environment. After inclusion of tax effects of –€8 million, the segment result amounted to –€15 million (2016: –€18 million).

Successful funding activities – strong capitalisation

Aareal Bank Group successfully carried out its funding activities as planned during the 2017 financial year. During the period under review, the Bank succeeded in raising a total of €2.4 billion in medium- and long-term funds on the capital market. The issued volume of unsecured funds amounted to €0.7 billion. Of the aggregate volume, Mortgage Pfandbriefe accounted for €1.7 billion.

Aareal Bank continues to have a very solid capital base. As at 31 December 2017, the Bank's Tier 1 ratio was 22.1 per cent, which is comfortable on an international level (31/12/2016: 19.9 per cent). The Bank's fully phased-in Common Equity Tier 1 (CET1) ratio was 18.9 per cent (31 December 2016: 15.7 per cent). Assuming the full implementation of new capital requirements (finalising Basel III – also known as "Basel IV"), the CET1 ratio was 13.4 per cent as at 31 December 2017.

Notes on the preliminary Income Statement for the fourth quarter of 2017

According to preliminary, unaudited figures, net interest income in the final quarter of 2017 stood at €148 million (Q4 2016: €169 million).

Allowance for credit losses amounted to €29 million (Q4 2016: €33 million) during the fourth quarter, and was thus in line with expectations. Net commission income of €61 million clearly exceeded the previous year's figure (Q4 2016: €56 million).

The aggregate of net trading income/expenses, the net result on hedge accounting, and net result from non-trading assets totalled –€1 million in the last quarter of 2017 after –€5 million the year before.

Consolidated administrative expenses amounted to €123 million during the fourth quarter (Q4 2016: €130 million).

On balance, consolidated operating profit for the fourth quarter amounted to €66 million (Q4 2015: €85 million – €57 million adjusted for the positive non-recurring effect from the successful conclusion of legal disputes in connection with the former Corealcredit, acquired in 2014). Taking tax deductions of €18 million into account, consolidated net income was €48 million. Assuming 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 €44 million (Q4 2016: €33 million).

Outlook for 2018: another solid financial year expected

Aareal Bank Group anticipates the challenging business environment to prevail during the current financial year – with continued low interest rates in Europe, and strong competitive and margin pressure on key target markets. Against this

background, Aareal Bank will continue to adhere to its business policy with a strict focus on risks and returns. Aareal Bank Group will further accelerate its strategic development, within the framework of the "Aareal 2020" programme for the future, in order to safeguard its long-term success – in a business environment that is set to remain highly challenging in the future.

Aareal Bank Group anticipates consolidated net interest income for the full year 2018 between €570 million and €610 million, including the net result from the derecognition of financial assets and liabilities not measured at fair value through profit or loss, which will be reported separately, in accordance with IFRS 9, in the future¹. Allowance for credit losses is expected to be in a range between €50 million and €80 million. Net commission income, whose importance for the Group is continuously rising due to the expansion of business activities in the Consulting/Services segment, is anticipated to rise further, to 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; this is in line with the previous year's figure, adjusted for the positive non-recurring effect related to Corealcredit. 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 at 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 remain stable year-on-year, in a 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 €40 million to consolidated operating profit.

Aareal Bank Group

Aareal Bank Group, headquartered in Wiesbaden, Germany, is one of the leading international property specialists. It is active across three continents – in 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 the Consulting/Services segment, Aareal Bank Group offers clients – particularly from the housing industry and the commercial property sector – services and products for managing residential property portfolios and processing payment flows.

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.

Preliminary results for the 2017 financial year (unaudited, in accordance with IFRSs)

| | 1 Jan-31 Dec 2017 | 1 Jan-31 Dec 2016 | Change |
|--|----------------------|----------------------|------------|
| | € mn | € mn | % |
| Net interest income | 634 | 701 | -10 |
| Allowance for credit losses | 82 | 97 | -15 |
| Net interest income after allowance for credit losses | 552 | 604 | -9 |
| Net commission income | 206 | 193 | 7 |
| Net result on hedge accounting | -7 | 0 | |
| Net trading income/expenses | 14 | 19 | -26 |
| Results from non-trading assets | 0 | 67 | |
| Results from investments accounted for using the equity method | - | 0 | |
| Administrative expenses | 511 | 547 | -7 |
| Net other operating income/expenses | 74 | 30 | 147 |
| Operating profit | 328 | 366 | -10 |
| Income taxes | 115 | 132 | -13 |
| Consolidated net income | 213 | 234 | -9 |
| Consolidated net income attributable to non-controlling interests | 6 | 19 | -68 |
| Consolidated net income attributable to shareholders of Aareal Bank AG | 207 | 215 | -4 |
| Earnings per share (EPS) | | | |
| Consolidated net income attributable to shareholders of Aareal Bank AG | 207 | 215 | -4 |
| of which: allocated to ordinary shareholders | 191 | 199 | -4 |
| of which: allocated to AT1 investors | 16 | 16 | 0 |
| Earnings per ordinary share (€) ²⁾ | 3.20 | 3.33 | -4 |
| Earnings per AT1 unit (€) ³⁾ | 0.16 | 0.16 | 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 of Aareal Bank Group
Preliminary results for the financial year 2017
(unaudited, in accordance with IFRSs)

| | Structured Property Financing | | Consulting/Services | | Consolidation/Reconciliation | | Aareal Bank Group | |
|--|-------------------------------|---------------------|---------------------|---------------------|------------------------------|---------------------|---------------------|---------------------|
| | 1 Jan - 31 Dec 2017 | 1 Jan - 31 Dec 2016 | 1 Jan - 31 Dec 2017 | 1 Jan - 31 Dec 2016 | 1 Jan - 31 Dec 2017 | 1 Jan - 31 Dec 2016 | 1 Jan - 31 Dec 2017 | 1 Jan - 31 Dec 2016 |
| Net interest income | 646 | 716 | 0 | 0 | -12 | -15 | 634 | 701 |
| Allowance for credit losses | 82 | 97 | | | | | 82 | 97 |
| Net interest income after allowance for credit losses | 564 | 619 | 0 | 0 | -12 | -15 | 552 | 604 |
| Net commission income | 7 | 10 | 191 | 171 | 8 | 12 | 206 | 193 |
| Net result on hedge accounting | -7 | 0 | | | | | -7 | 0 |
| Net trading income/expenses | 14 | 19 | | 0 | | | 14 | 19 |
| Results from non-trading assets | 0 | 66 | | 1 | | | 0 | 67 |
| Results from investments accounted for using the equity method | | | | 0 | | | | 0 |
| Administrative expenses ¹⁾ | 296 | 346 | 220 | 204 | -5 | -3 | 511 | 547 |
| Net other operating income/expenses | 69 | 27 | 6 | 3 | -1 | 0 | 74 | 30 |
| Operating profit | 351 | 395 | -23 | -29 | 0 | 0 | 328 | 366 |
| Income taxes | 123 | 143 | -8 | -11 | | | 115 | 132 |
| Consolidated net income | 228 | 252 | -15 | -18 | 0 | 0 | 213 | 234 |
| Consolidated net income attributable to non-controlling interests | 4 | 16 | 2 | 3 | | | 6 | 19 |
| Consolidated net income attributable to shareholders of Aareal Bank AG | 224 | 236 | -17 | -21 | 0 | 0 | 207 | 215 |

1) €27 million in provisions recognised for staff-related measures, resulting from the optimisation of processes and structures within the scope of the "Aareal 2020" programme for the future, was allocated to the Structured Property Financing segment in full.

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the fourth quarter 2017 (unaudited, in
accordance with IFRSs)

| | Q4 2017 | Q4 2016 | Change |
|--|------------|------------|------------|
| | € mn | € mn | % |
| Net interest income | 148 | 169 | -12 |
| Allowance for credit losses | 29 | 33 | -12 |
| Net interest income after allowance for credit losses | 119 | 136 | -13 |
| Net commission income | 61 | 56 | 9 |
| Net result on hedge accounting | -2 | -4 | -50 |
| Net trading income/expenses | 1 | -2 | |
| Results from non-trading assets | 0 | 1 | |
| Results from investments accounted for using the equity method | - | 0 | |
| Administrative expenses | 123 | 130 | -5 |
| Net other operating income/expenses | 10 | 28 | -64 |
| Operating profit | 66 | 85 | -22 |
| Income taxes | 18 | 44 | -59 |
| Consolidated net income | 48 | 41 | 17 |
| Consolidated net income attributable to non-controlling interests | 0 | 4 | |
| Consolidated net income attributable to shareholders of Aareal Bank AG | 48 | 37 | 30 |
| Earnings per share (EpS) | | | |
| Consolidated net income attributable to shareholders of Aareal Bank AG | 48 | 37 | 30 |
| of which: allocated to ordinary shareholders | 44 | 33 | 33 |
| of which: allocated to AT1 investors | 4 | 4 | 0 |
| Earnings per ordinary share (€) ²⁾ | 0.74 | 0.55 | 35 |
| Earnings per AT1 unit (€) ³⁾ | 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 of Aareal Bank Group
Preliminary results for the fourth quarter 2017 (unaudited, in accordance with IFRSs)

| | Structured Property Financing | | Consulting/ Services | | Consolidation/ Reconciliation | | Aareal Bank Group | |
|--|-------------------------------|------------|----------------------|-----------|-------------------------------|-----------|-------------------|------------|
| | Q4 | Q4 | Q4 | Q4 | Q4 | Q4 | Q4 | Q4 |
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| € mn | | | | | | | | |
| Net interest income | 152 | 174 | 0 | 0 | -4 | -5 | 148 | 169 |
| Allowance for credit losses | 29 | 33 | | | | | 29 | 33 |
| Net interest income after allowance for credit losses | 123 | 141 | 0 | 0 | -4 | -5 | 119 | 136 |
| Net commission income | 3 | 5 | 55 | 47 | 3 | 4 | 61 | 56 |
| Net result on hedge accounting | -2 | -4 | | | | | -2 | -4 |
| Net trading income/expenses | 1 | -2 | | | | | 1 | -2 |
| Results from non-trading assets | 0 | 0 | | 1 | | | 0 | 1 |
| Results from investments accounted for using the equity method | | | | 0 | | | | 0 |
| Administrative expenses ¹⁾ | 62 | 80 | 63 | 51 | -2 | -1 | 123 | 130 |
| Net other operating income/expenses | 7 | 26 | 4 | 2 | -1 | 0 | 10 | 28 |
| Operating profit | 70 | 86 | -4 | -1 | 0 | 0 | 66 | 85 |
| Income taxes | 19 | 45 | -1 | -1 | | | 18 | 44 |
| Consolidated net income | 51 | 41 | -3 | 0 | 0 | 0 | 48 | 41 |
| Consolidated net income attributable to non-controlling interests | 0 | 3 | 0 | 1 | | | 0 | 4 |
| Consolidated net income attributable to shareholders of Aareal Bank AG | 51 | 38 | -3 | -1 | 0 | 0 | 48 | 37 |

1) €3 million in provisions recognised for staff-related measures, resulting from the optimisation of processes and structures within the scope of the "Aareal 2020" programme for the future, was allocated to the Structured Property Financing segment in full.