

**QUALITY**®  
made by **AAREAL**

# Fixed Income Presentation

## Preliminary 2018 Results

Aareal Bank AG, Wiesbaden  
February 27, 2019

**Aareal**

# Agenda

---

- Introduction of Aareal Bank
- Highlights 2018
- Preliminary 2018 at a glance
- Preliminary group results 2018
- Funding, B/S structure, regulation & capital
- Asset quality
- Outlook 2019
- Appendix
  - Strategic Outlook
  - Group Results
  - Defaulted Exposure
  - Development CRE Portfolio
  - SREP
  - AT1: ADI's
  - Dividend policy
  - Acquisition of Düsseldorfer Hypothekenbank AG
  - Sustainability Performance
  - Contacts



# Introduction of Aareal Bank

**Aareal**

# Aareal Bank Group

## Key messages

- Aareal is a leading finance and service provider to international property markets offering tailor-made products to a stable customer base within its two pillar business model focusing on
  - Structured Property Financing (SPF):  
Aareal provides low-risk commercial real estate financing solutions focusing on different property types in Europe, North-America and Asia/Pacific
  - Consulting/Services (C/S):  
Within the C/S segment Aareal is #1 provider of ERP solutions to the German and European institutional housing industry and additionally offering transaction banking services to the German housing market and related industries
- Aareal's balance sheet has a sound structure with a high quality and a well diversified credit portfolio, a stable deposit base and a sustainable long-term refinancing mix as well as a solid capital base
- Aareal is an independent publicly listed (MDAX) mid-sized company with high flexibility and adaptability
- The Aareal business model provides stable revenues and a risk management with a positive track record even under in an adverse market environment

# Aareal Bank Group

## One Bank – two segments

**QUALITY<sup>®</sup>**  
made by **AAREAL**

### Structured Property Financing

International presence and business activities on three continents: Europe, North America, Asia / Pacific

Providing commercial real estate financing solutions in more than 20 countries and different property types (hotel, logistic, office, retail, residential, student housing)

Additional industry experts in hotels, logistics and retail properties

Total real estate finance portfolio<sup>1)</sup>: ~ € 27 bn

### Consulting / Services for the property industry

Market-leading IT systems for the management of residential and commercial properties in Europe

Integrated payment transaction system for the housing industry (market-leading) and the utility sector

More than 10 mn units under management in Europe, thereof ~ 7 mn in the key market Germany

International presence:  
France, the Netherlands, the UK and Scandinavia

1) REF-portfolio incl. private client business (€ 0.6 bn) and WIB's public sector loans (€ 0.5 bn)

# Aareal Bank Group

One Bank – two segments – three continents



International property financing in more than 20 countries –  
Europe, North America and Asia / Pacific

# Structured Property Finance

## Specialist for specialists

### Aareal Bank Group Structured Property Finance

- Cash-flow driven collateralised business
  - Focus on senior lending
  - Based on first-ranking mortgage loans
- Typical products, e.g.:
  - Single asset investment finance
  - Portfolio finance (local or cross-border /-currency)
  - Value add-finance
- In-depth know-how in local markets and special properties
  - Local expertise at our locations
  - Additional industry expertise (head offices)
- International experience with employees from more than 30 nations



# Consulting / Services

High customer overlap with substantial cross-selling effects

## Aareal Bank Group Consulting / Services

### Aareon Group: IT Services

- Market-leading European IT-system house for the (ERP based) management of residential and commercial property portfolios
- ~ 60% market share in German key market with ~7 mn units under management
- Comprehensive range of integrated services and consulting

### Aareal Bank: Transaction banking

- Market-leading integrated payment transaction systems for the housing industry
- Key clients: large size property owners / managers and utility companies
- ~100 mn transactions p.a. (volume: ~€ 50 bn)
- Ø deposit volume of € 10.4 bn in 2018

### Strategic Management of residential portfolios

- Planning, Controlling, Steering
- Portfolio Management

### Administrative Management of residential portfolios

- Tenant Management
- Flat Management
- Maintenance
- Accounting



- Refurbishments
- New Developments

### Construction Management of residential portfolios

- Mass payments
- Cash Management
- Creditor and Debtor Management

### Financial Management of residential portfolios



# Aareal's ownership structure

## 100% Free Float

### Aareal Bank AG

- Listed in the German MDAX
- 59,857,221 outstanding shares
- 100% free float
- Approximately 2,800 employees
- Balance Sheet: 42.7 bn €
- Flat hierarchies

### Stock performance since 01. Jan 2006



# Aareal Bank Ratings



<b>Issuer Default Rating</b>	<b>A-</b>
<b>Short-term</b>	<b>F2</b>
<b>Deposit Rating</b>	<b>A</b>
<b>Senior Preferred</b>	<b>A</b>
<b>Senior non Preferred</b>	<b>A-</b>
<b>Viability Rating</b>	<b>bbb+</b>
<b>Subordinated Debt</b>	<b>BBB</b>
<b>Additional Tier 1</b>	<b>BB-</b>

<b>Issuer Rating</b>	<b>A3</b>
<b>Short-term Issuer Rating</b>	<b>P-2</b>
<b>Bank Deposit Rating</b>	<b>A3</b>
<b>Senior Preferred *</b>	<b>A3</b>
<b>Senior non Preferred **</b>	<b>Baa1</b>
<b>Baseline Credit Assessment</b>	<b>baa3</b>
<b>Mortgage Pfandbriefe</b>	<b>Aaa</b>

\* "Senior Unsecured" according Moody's terminology

\*\* "Junior Senior Unsecured" according Moody's terminology



# Highlights 2018

**Aareal**

# Highlights 2018

## Solid operative performance and major strategic milestones

### Highlights



Financial targets 2018 achieved:

- Delivered as promised despite a challenging environment
- EpS of 3.48 € (2017: 3.20 €) increased by 9 percent



Implementation Aareal 2020 on track:

Major strategic milestones in both segments accomplished



M&A-Track Record proceeded:

Acquisition of Düsseldorfer Hypothekenbank



Regulation anticipated:

Solid capital ratios even under consideration of currently known developments



Attractive dividend:

According to communicated dividend policy

# Highlights 2018: Financial targets

## Delivered as promised ... and even more

	Prelim 2018	(Orig.) Guidance 02/18	Comment
Operating profit (€ mn)	316	260 - 300 ✓	Good results (€ 261 mn; 9.5% pre-tax RoE <sup>1)</sup> + neg. goodwill from DHB acquisition (€55mn)
Pre-tax RoE (%)	11.6	9.5 - 11.0 ✓	
New business origination (€ bn)	9.5	7 - 8 ✓	Strong while retaining conservative risk policy
CREF new business margins (bp)	210	190 - 200 ✓	Solid risk/return by flexible new business allocation
REF portfolio (€ bn)	27.4	25 - 28 ✓	Portfolio growth (+4% yoy) by efficient use of excess capital and DHB
B4 CET1 (%)	13.2	>12.5 ✓	Solid capital base, B3 equivalent of 17.2% (incl. TRIM, prudential provisioning)

1) Excl. negative goodwill from DHB acquisition

# Highlights 2018

## Strategic achievements 2018 in line with Aareal 2020

Strategic Highlights	
Group	Acquisition of Düsseldorfer Hypothekenbank AG
Advance SPF	Further strengthened North American business and widened regional footprint (Australia)
	Expansion of asset classes (student housing) and enlarging syndication business
	Investment in BrickVest
Advance C/S	Aareon: accelerated growth of digital business – “phase 3” initiated
	Strengthening of position as “the bank for tenant security deposits” (acquisition of plusForta)
	Major step in C/S digitalization by client migration to Aareal Portal



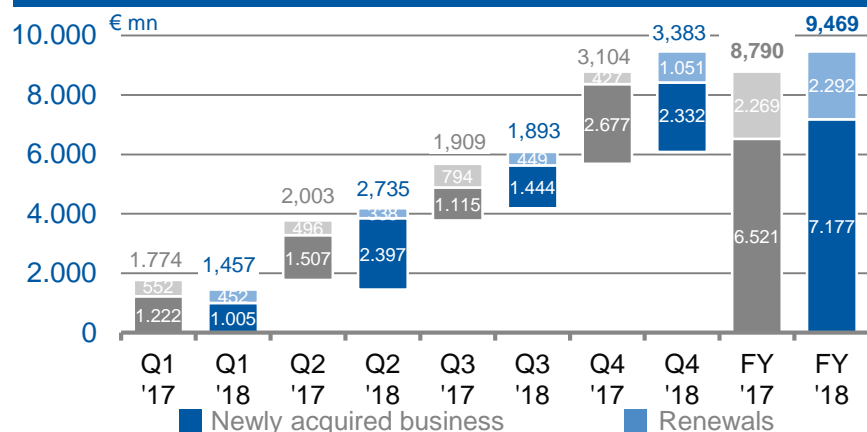
Preliminary 2018 at a glance

**Aareal**

# Structured Property Financing

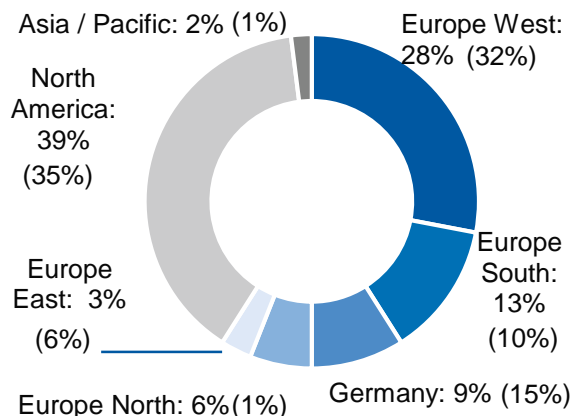
## Strong new business origination - conservative risk policy

New business origination by quarter<sup>1)</sup>

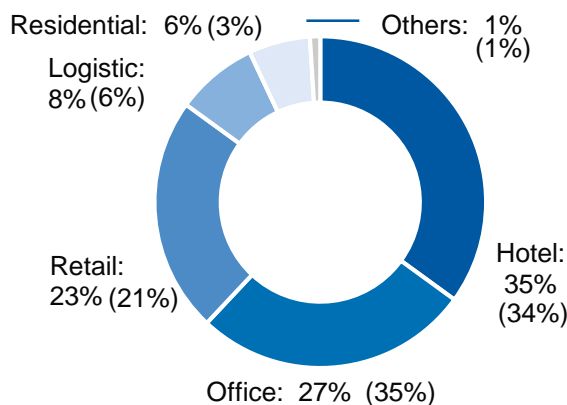


- Strong new business volume while retaining conservative risk policy: “Quality over Quantity”
- Newly acquired business (margin & volume) above plan:
  - FY ~210 bps (~190 bps after FX)
  - Q4 ~225 bps (~210 bps after FX)
  - Margin pushed by strong US share
- 12/2018: REF portfolio<sup>2)</sup> successfully increased to € 27.4 bn (of which € 26.4 bn CREF), in line with FY- targeted size (€ 25-28 bn REF), 2018 FY-Ø of € 26.3 bn (2017: € 28.8 bn<sup>3)</sup>)

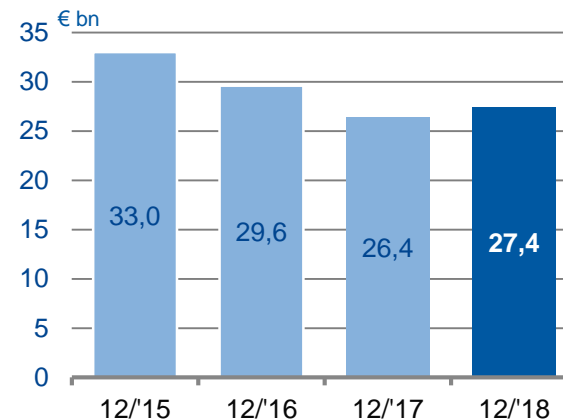
FY-new business by region<sup>1)</sup> (2017)



FY-new business by property type<sup>1)</sup> (2017)



REF<sup>2)</sup> portfolio development



1) Incl. renewals  
 2) 2018-REF-portfolio incl. private client business (€ 0.6 bn) and WIB's public sector loans (€ 0.5 bn)  
 3) 2017-REF-portfolio incl. private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn)



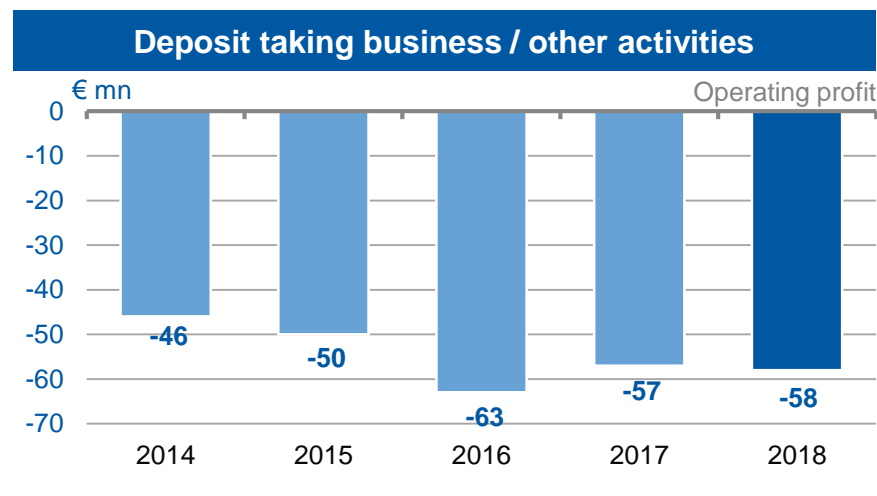
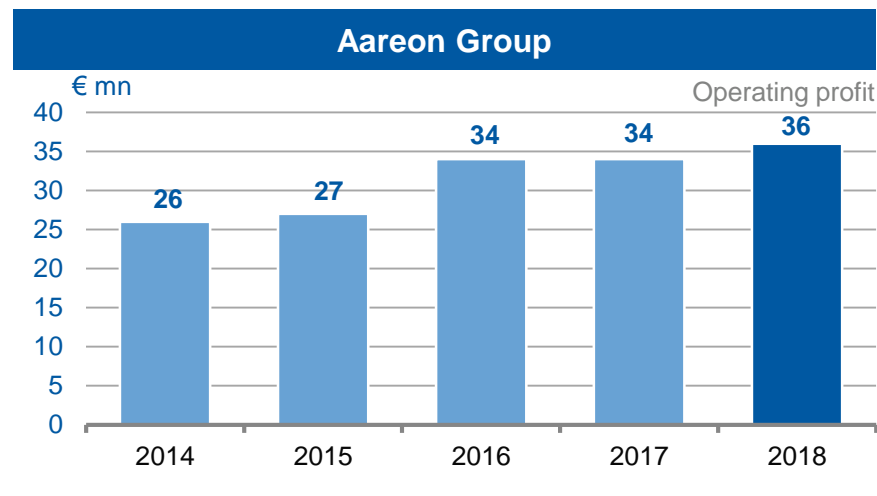
# Consulting / Services

## Aareon's operating profit – ex one offs – on track

P&L C/S Segment	2017	2018	Change
€ mn			
Sales revenue	226	242	7%
Own work capitalised	4	8	100%
Other operating income	7	7	-
Cost of materials purchased	35	42	20%
Staff expenses	151	159	5%
Depreciation, amortisation	12	15	25%
Other op. expenses	62	63	2%
Others	0	0	
<b>Operating profit</b>	<b>-23</b>	<b>-22</b>	<b>4%</b>

- Aareon revenues 7% up to € 237 mn (FY 2017: € 221 mn), EBT<sup>1)</sup> of € 36 mn, EBT margin ~15%
- Stronger Aareon revenues resulting from growth in all product lines, digital with highest rates (~ 16% yoy)
- Deposits
  - Volume remains on high level of Ø of € 10.4 bn in 2018 (Ø of € 10.0 bn in 2017)
  - Margins further burdened segment result by interest rate environment
  - Comparably attractive funding spreads
  - Focusing on further shift into sustainable deposit

1) Higher costs, delays and a compromise settlement in three client projects burdened the result of Aareon's consulting business





# Preliminary group results 2018

**Aareal**

# Preliminary results 2018

## Good results in a challenging environment

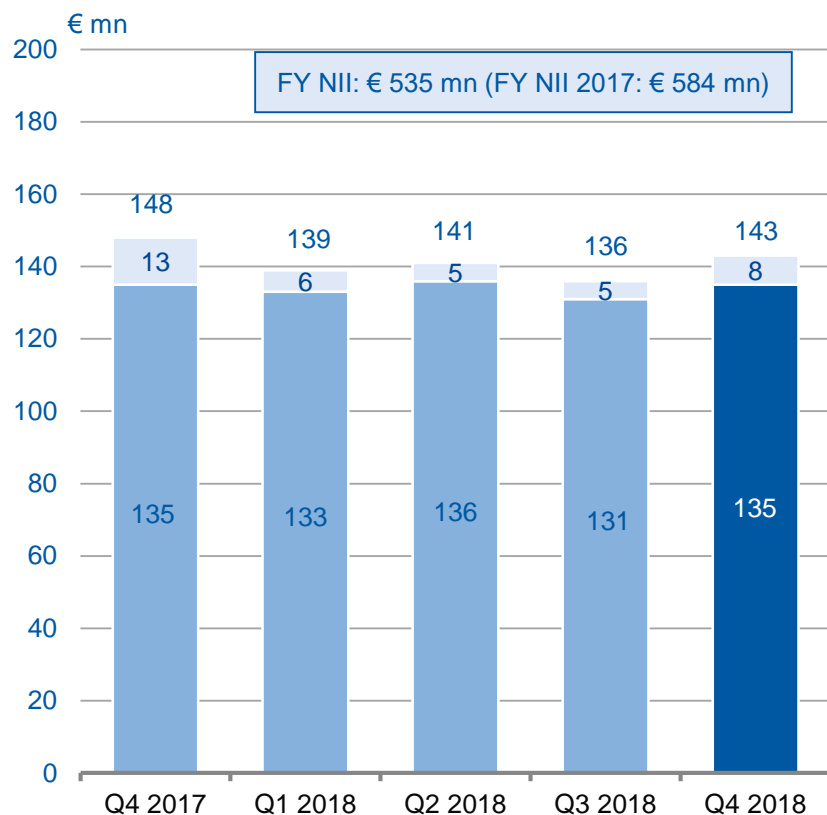
€ mn	Q4 '17	Q1 '18	Q2 '18	Q3 '18	Q4 '18	FY'17	FY'18	Comments
Net interest income	135	133	136	131	135	584	535	Strong new business activities stabilising NII
Derecognition result <sup>1)</sup>	13	6	5	5	8	50	24	Significantly below PY level / estimate
Loss allowance	29	0	19	14	39	82	72	Risk costs further declined
Net commission income	61	50	51	51	63	206	215	Aareon with positive development
FV- / hedge-result	-1	1	-5	1	-1	7	-4	
Admin expenses	123	128	109	107	118	511	462	Reversals of provisions offsetting transformation costs
Negative goodwill					55		55	Acquisition of Düsseldorfer Hypothekenbank AG
<i>Others</i>	10	5	3	3	14	74	25	
<b>Operating profit</b>	<b>66</b>	<b>67</b>	<b>62</b>	<b>70</b>	<b>117</b>	<b>328</b>	<b>316</b>	
Income taxes	18	23	21	24	22	115	90	
Minorities / AT1	4	5	4	5	4	22	18	
<b>Consolidated net income allocated to ord. shareholders</b>	<b>44</b>	<b>39</b>	<b>37</b>	<b>41</b>	<b>91</b>	<b>191</b>	<b>208</b>	
Earnings per share [€]	0.74	0.65	0.62	0.70	1.51	3.20	3.48	

1) Comparative amounts reclassified according to the new classification format

## Net interest income / Derecognition result

NII: Strong new business activities stabilising NII /

DR: Significantly below PY level and estimate



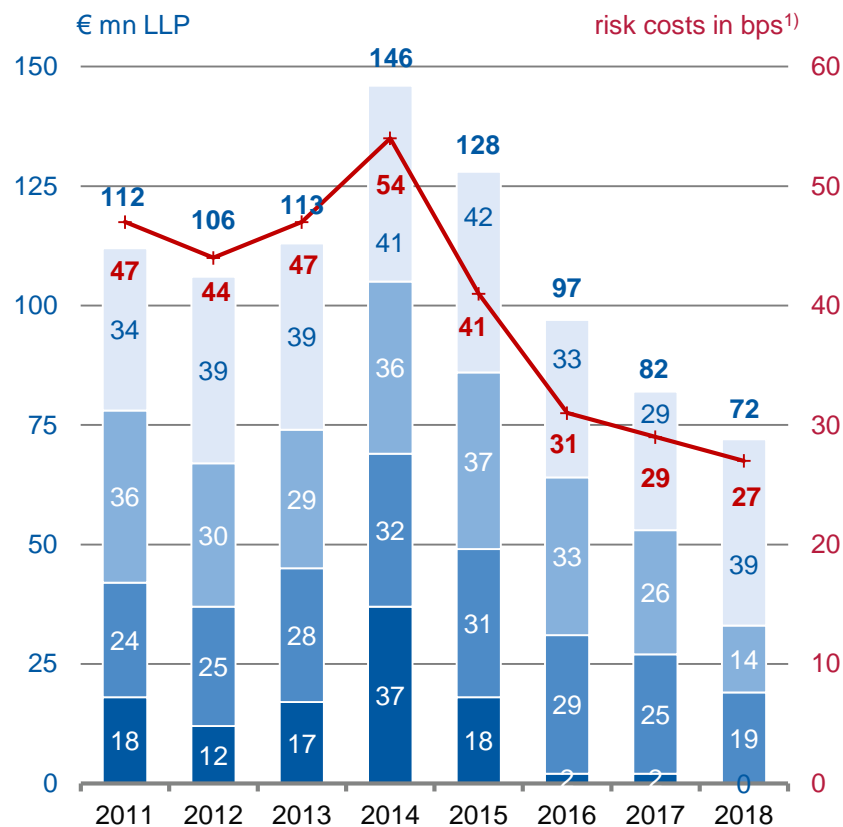
- NII increase vs. Q3 due to larger REF portfolio
- NII yoy -8% due to lower Ø-portfolio, 2018 FY-Ø of € 26.3 bn (2017: € 28.8 bn): -9%
- Newly acquired business:
  - FY: ~210 bps (~190 bps after FX)
  - Q4: ~225 bps (~210 bps after FX)
- Volatile derecognition result significantly below PY level and estimate

■ Net interest income

■ Derecognition result - to be reported separately under IFRS 9 starting Q1/2018 (mainly effects from early repayments)

# Loss allowance (LLP)

## Risk costs further declined



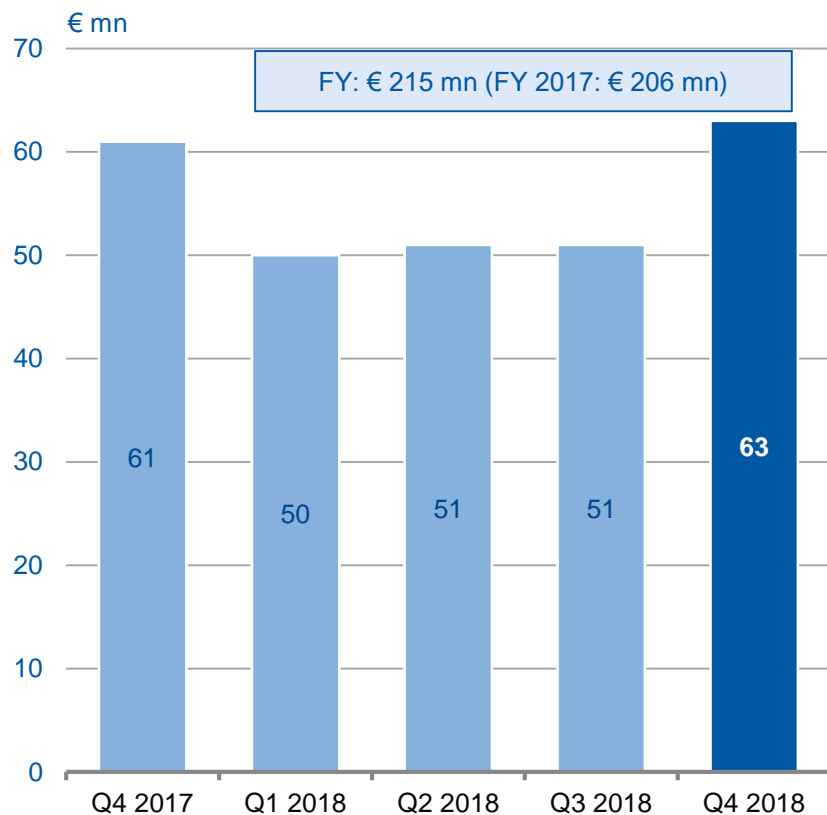
Q4  
Q3  
Q2  
Q1

1) Risk costs on avg. RE finance portfolio

- Lowest LLP since IPO with only 27 bps net addition
- Fully in line with FY guidance – however, remaining volatile throughout the year
- Latest downturn of the Italian macro environment is cautiously reflected in a slight increase of provisioning level
- New Italian NPL in Q4 resulted in just minor additional LLP
- FY-NPL inflow clearly below statistical expectation

# Net commission income

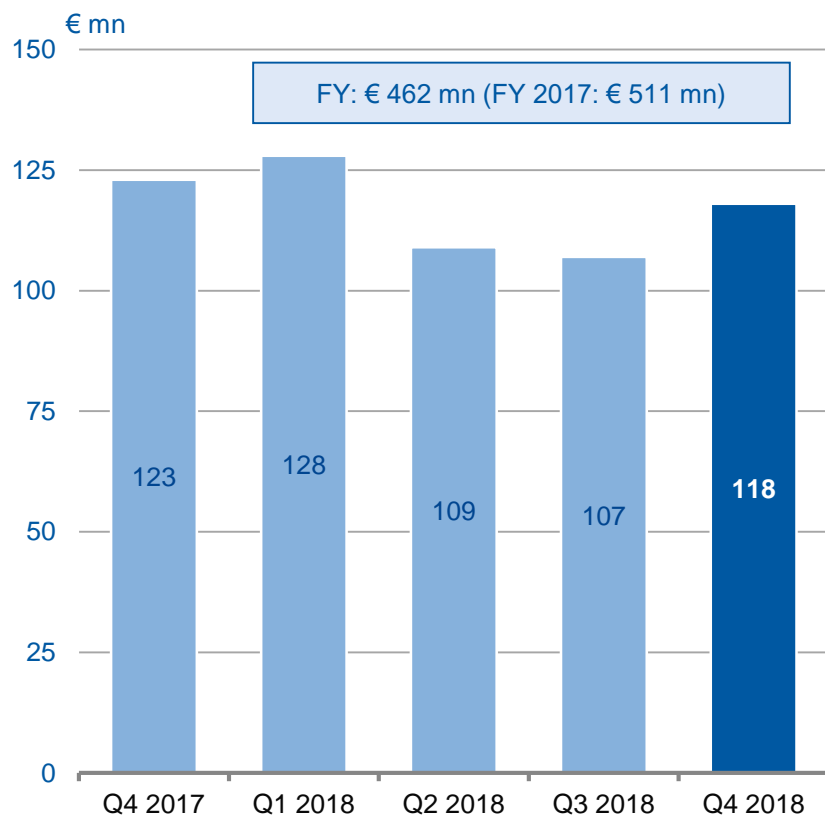
## Aareon with positive development



- Aareon
  - Increased NCI contribution of € 197 mn (2017: € 189 mn) resulting from growth in all product lines
  - Digital products with highest growth rates (Sales revenue up by ~16% yoy)
  - Q4 regularly includes positive seasonal effects
- Further strengthening of future NCI by strategic investments and acquisitions (e.g. plusForta)

# Admin expenses

## Reversals of provisions offsetting transformation costs



FY admin expenses include

- € 20 mn for the European bank levy and for the Deposit Protection Guarantee Schemes (both expensed in Q1)
- FY 2018: € 19 mn transformation costs (FY 2018 plan: € 25 mn)
- FY 2018: € 19 mn reversal of provisions



Funding, B/S structure, regulation & capital

**Aareal**



# Funding

## Favourable market environment used for strong funding activities

### Capital markets refinancing activities 2018




**Aareal Bank Group**  
0.125%  
**EUR** 500.000.000  
Hypothekendarlehenbrief

4 Years  
Maturity 01.02.2023  
ISIN: DE000AAR0231

Lead Manager  
BayernLB, Commerzbank, DZ Bank, HSBC, UniCredit

November 2018



**Aareal Bank Group**  
1.500%  
**GBP** 250.000.000  
Hypothekendarlehenbrief

4 Years  
Maturity 16.06.2022  
ISIN: XS1883300292

Lead Manager  
Goldman Sachs, HSBC, Nomura

September 2018




**Aareal Bank Group**  
0.125%  
**EUR** 500.000.000  
Hypothekendarlehenbrief

5 Years  
Maturity 31.07.2023  
ISIN: DE000AAR0223

Lead Manager  
DekaBank, Deutsche Bank, GS, HSBC, UniCredit

September 2018




**Aareal Bank Group**  
0.375%  
**EUR** 500.000.000  
Hypothekendarlehenbrief

7 Years  
Maturity 15.07.2025  
ISIN: DE000AAR0215

Lead Manager  
DZ Bank, LBBW, Natixis, NordLB, Societe Generale

August 2018



**Aareal Bank Group**  
0.375%  
**EUR** 500.000.000  
Hypothekendarlehenbrief

6 Years  
Maturity 30.07.2024  
ISIN: DE000AAR0207

Lead Manager  
BayernLB, BNP, DekaBank, Commerzbank, UniCredit

March 2018

### Capital markets refinancing activities 2019



**Aareal Bank Group**  
0.125%  
**EUR** 750.000.000  
Hypothekendarlehenbrief

5 Years  
Maturity 01.02.2024  
ISIN: DE000AAR0249

Lead Manager  
Commerzbank, Deka Bank, DZ Bank, Natixis, UniCredit

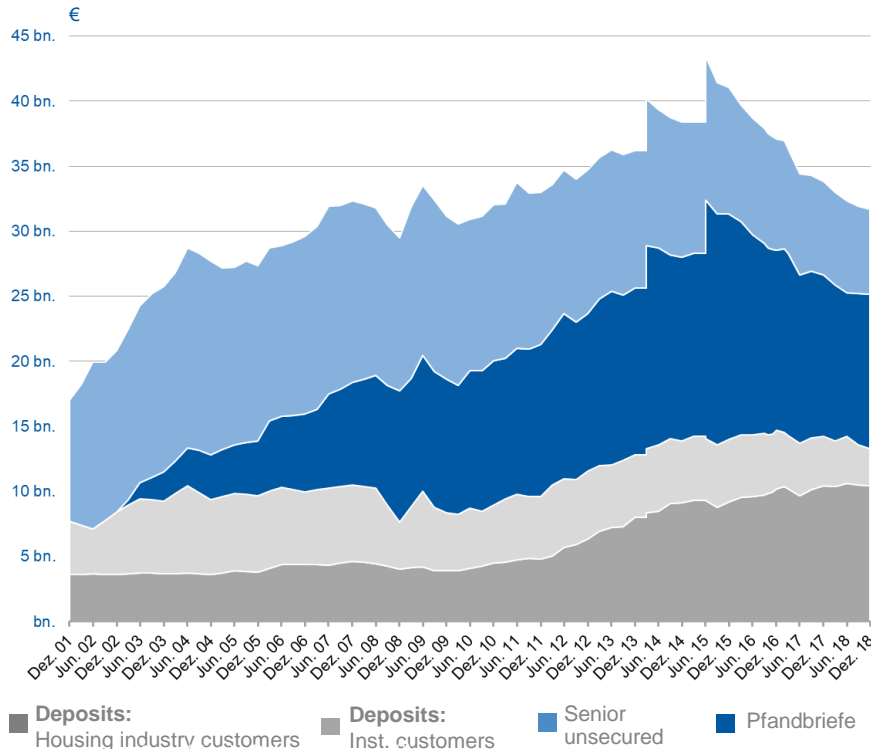
January 2019

- Successful placement of five Pfandbrief benchmark transactions in 2018
- Successful placements of more than € 900 mn of senior unsecured via several private placements
- Funding activities strengthened our already very comfortable liquidity composition. Our liquidity KPI's:
  - NSFR > 1
  - LCR >> 1
- Refinancing activities started very successfully in 2019 with a € 750 mn Pfandbrief benchmark transaction
- No strategic funding needs over the next months

# Funding

## Diversified funding position

### Diversified funding sources and distribution channels



### Positioning

- Sustainable and strong deposit base counts for more than 40% of the well diversified funding mix
- Dependency from expensive senior unsecured funding significantly reduced and compensated with stable deposits
- Rating<sup>1)</sup> upgrade from Fitch Ratings supports senior unsecured funding activities
- Senior unsecured funding based on well established private placement business
- High Pfandbrief issuance with positive effects on funding costs
- Due to comfortable liquidity position (NSFR / LCR well above target) opportunistic funding opportunities can be used: right product and time
- MREL is not a limiting factor due to large amount of outstanding long term senior funding

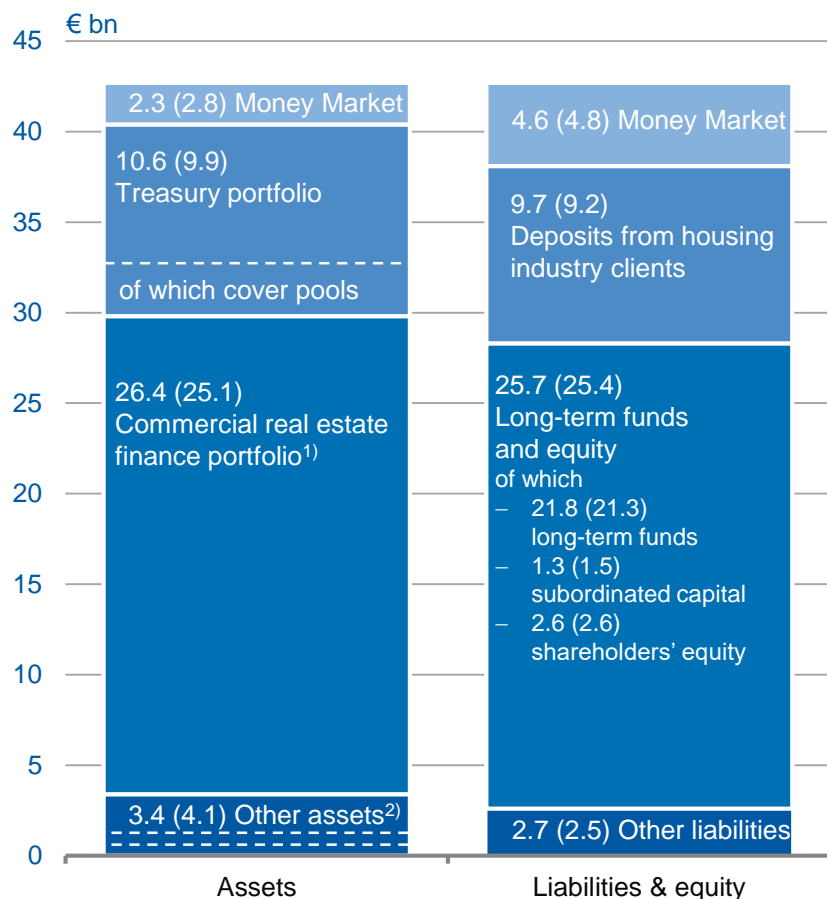


Despite volatile market conditions and widening credit spreads our overall funding costs are only marginally effected

1) Senior non preferred (SNP) Rating upgrade from BBB+ to A- and senior preferred (SP) from A- to A

# B/S structure according to IFRS

As at 31.12.2018: € 42.7 bn (31.12.2017: € 41.9 bn)



- Higher CREF portfolio reflecting strong new business origination and effects from DHB acquisition
- Treasury portfolio includes acquired DHB liquidity book
- Despite consolidation of DHB's Interbank business, active shift in high quality housing industry deposits allows to shrink Money Markets
- Favourable market environment used to strengthen funding position and consequently B/S stability
- Active de-risking of € 0.3 bn DHB treasury assets executed in Q1 2019

1) CREF-portfolio only, private client business (€ 0.6 bn) and WIB's public sector loans (€ 0.5 bn) not included

2) Other assets includes € 0.6 bn private client portfolio and WIB's € 0.5 bn public sector loans

# Regulation

## Current implications on capital already considered

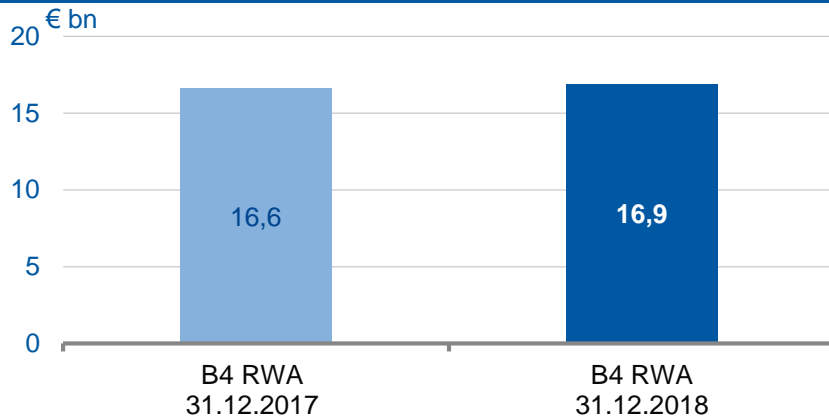
Regulation on capital...	...in regulatory figures reflected
<b>Basel IV (estimated)</b> <ul style="list-style-type: none"><li>AIRBA</li><li>CRSA</li></ul>	✓
<b>TRIM-effects (estimated)</b> <ul style="list-style-type: none"><li>Basel III</li><li>Basel IV</li><li>Leverage ratio</li></ul>	✓
<b>Prudential provisioning (NPL-Guideline)</b> <ul style="list-style-type: none"><li>Stock</li><li>Future NPL</li></ul>	✓ (pro rata) (not effective in 2018)
<b>IFRS 9</b>	✓

**Strong capital position**

# Capital

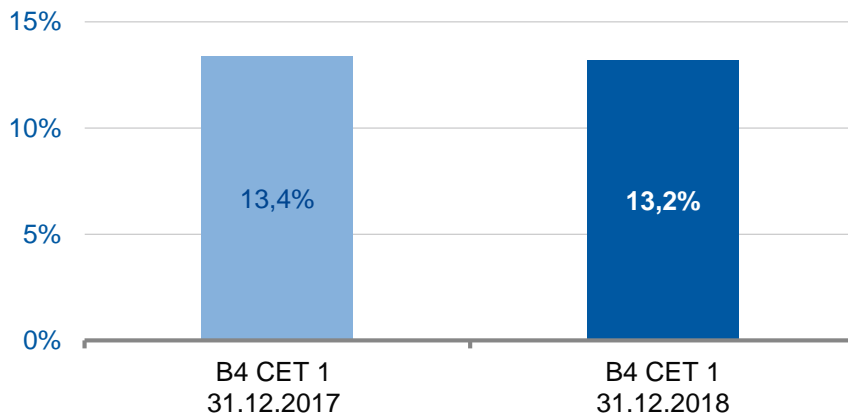
## Strong capital ratios already incl. TRIM effects & prudential provisioning

Estimated B4 RWA<sup>1)</sup>

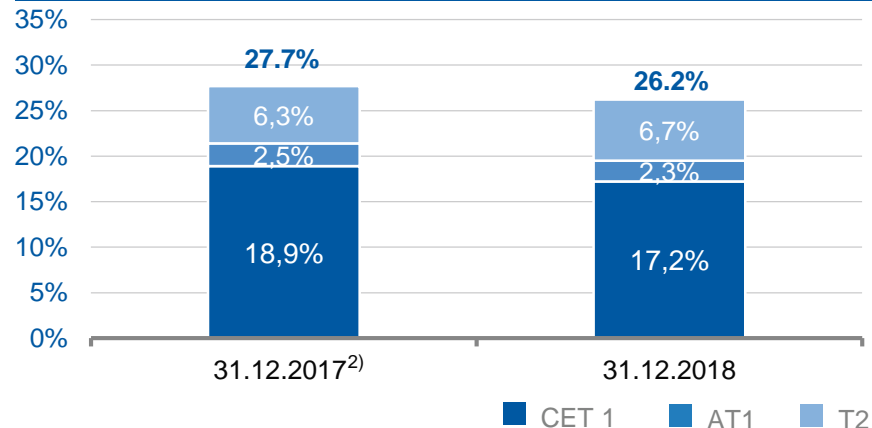


- Fulfilling Basel IV from day 1
- RWA up due to portfolio growth and DHB
- Capital ratios 2018 incl. relevant TRIM effects and prudential provisioning<sup>3)</sup>
- Remaining regulatory uncertainties well buffered (e.g. Hard test, CRR II, further implementation of countercyclical buffer)
- B4 target ratio of 12.5%
- B3 capital ratios significantly above SREP requirements
- T1-Leverage ratio: 6.1%% (2017: 6.2%)

Estimated B4 CET 1 ratio



B3 capital ratios



1) Underlying RWA estimate, given a 72.5 % output floor based on the final Basel Committee framework dated 7 December 2017, calculation subject to outstanding EU implementation as well as the implementation of further regulatory requirements

2) B3 fully loaded

3) Expected relevant TRIM effects on CREF portfolio and SREP recommendations with respect to NPL guidelines (NPL stock) from ECB

Note: All 2018 figures preliminary and unaudited; subject to approval of inclusion of profit in CET1 by ECB



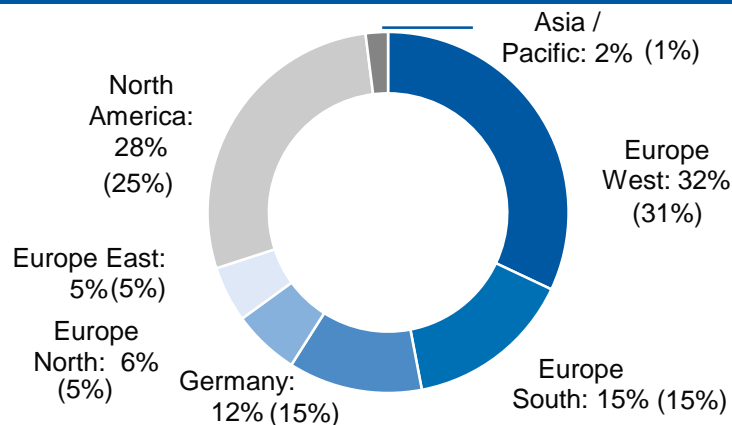
Asset quality

**Aareal**

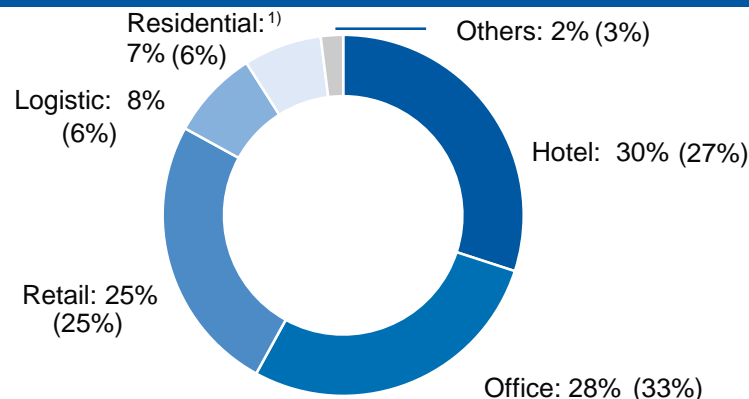
# Commercial real estate finance portfolio

## € 26.4 bn highly diversified and sound

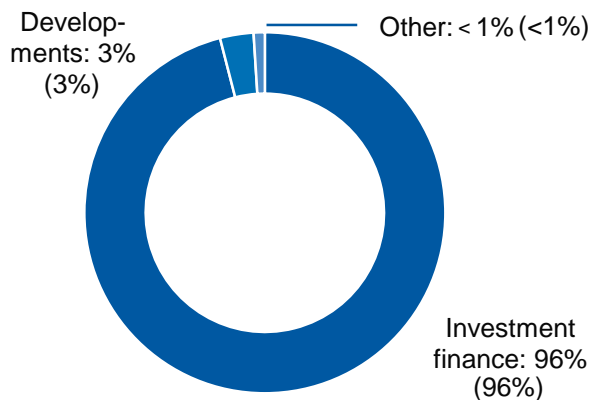
### Portfolio by region (2017)



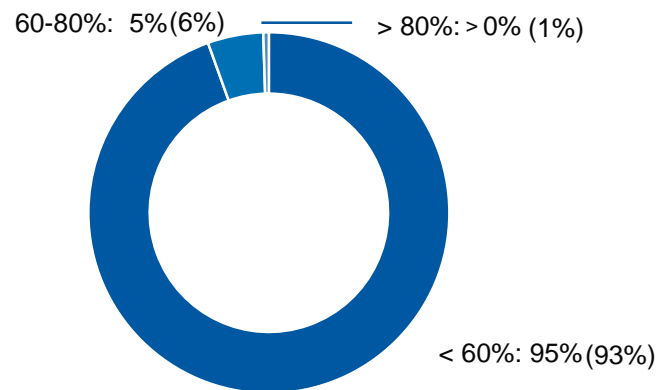
### Portfolio by property type (2017)



### Portfolio by product type (2017)



### Portfolio by LTV ranges<sup>2)</sup> (2017)



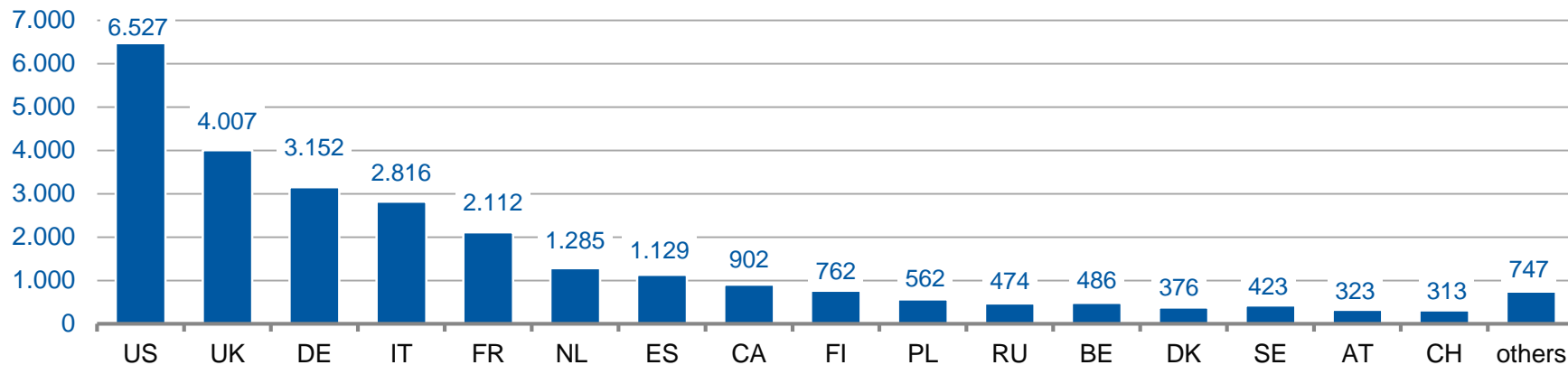
1) Incl. Student housing (UK only)

2) Performing CREF-portfolio only, exposure as at 31.12.2018

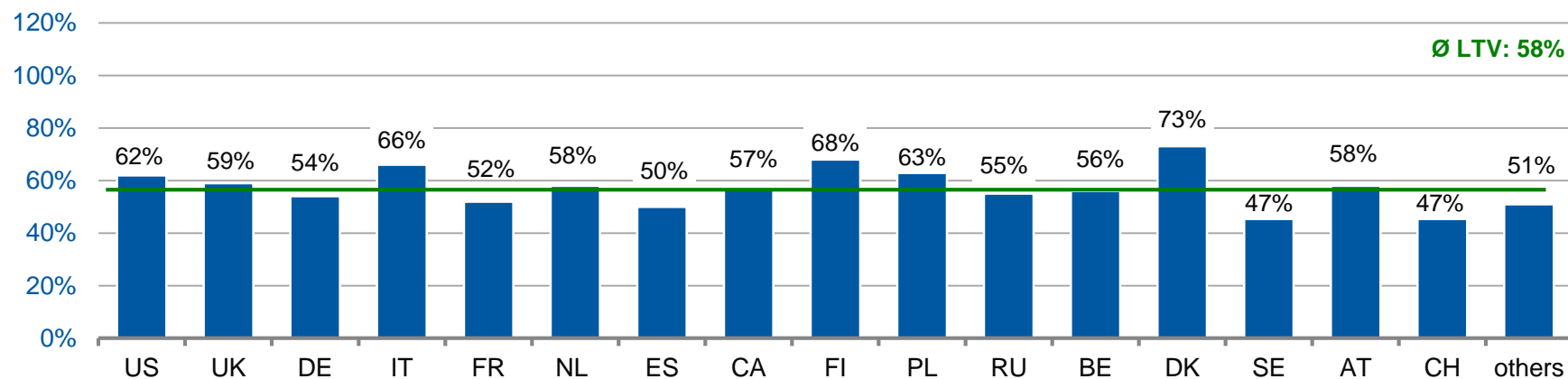
# Commercial real estate finance portfolio

## Portfolio details by country

Total commercial real estate finance portfolio (€ mn)



LTV<sup>1)</sup>

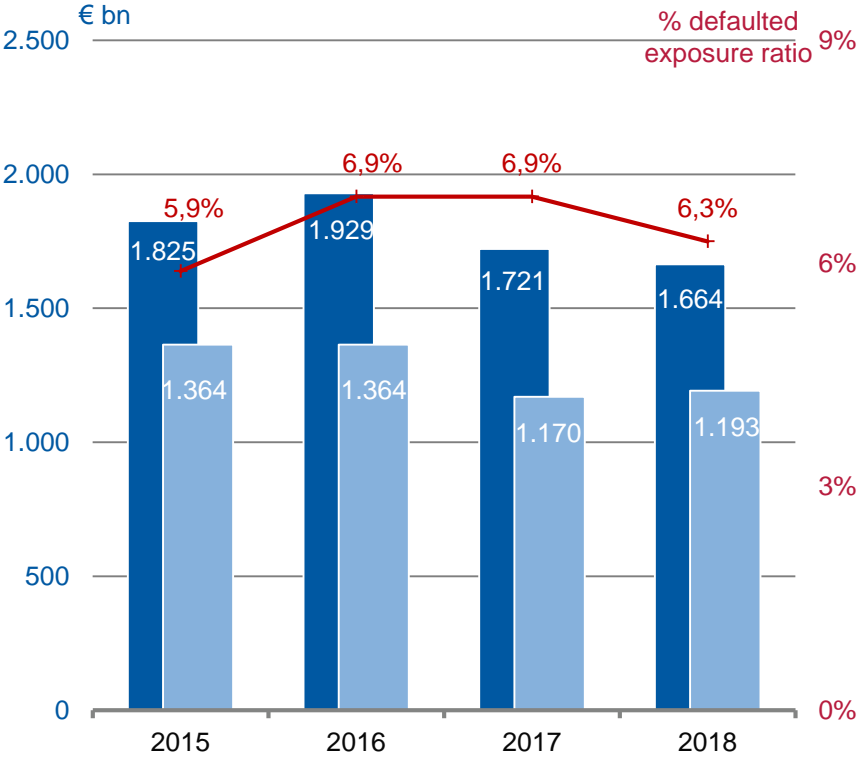


1) Performing CREF-portfolio only, exposure as at 31.12.2018

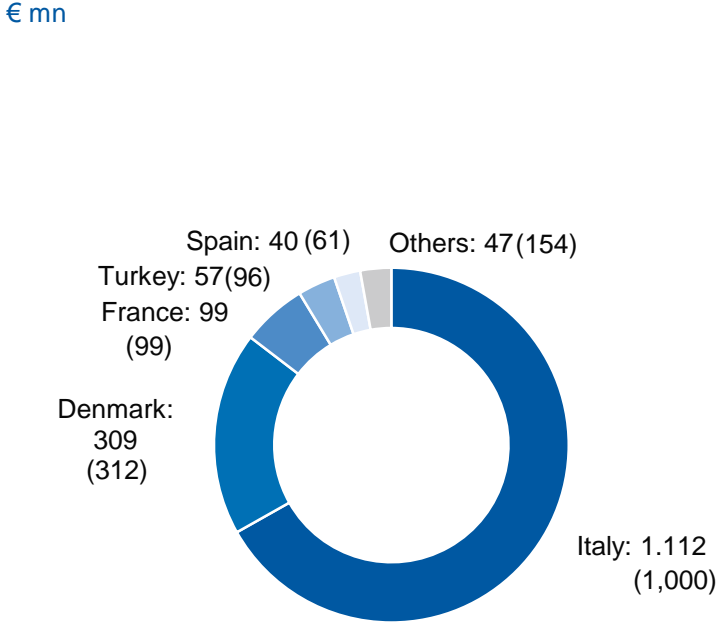


# Defaulted exposure

**Development of defaulted exposure**



**Defaulted exposure by country (2017)**



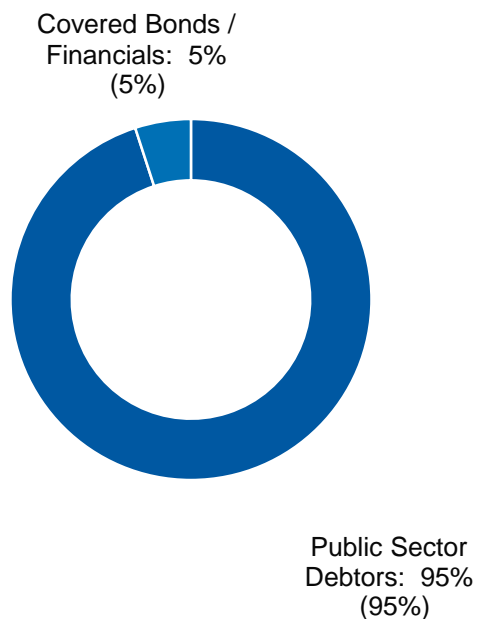
- Defaulted exposure / Total CRE portfolio
- Defaulted exposure
- Non performing loans (impaired loans acc. IAS 39)

Note: All 2018 figures preliminary and unaudited; subject to approval of inclusion of profit in CET1 by ECB

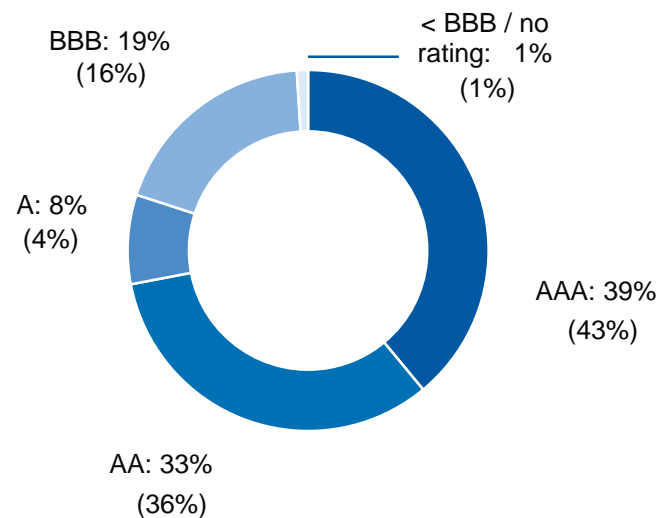
# Treasury portfolio

€ 8.7 bn of high quality and highly liquid assets

by asset class (2017)



by rating<sup>1)</sup> (2017)



As at 31.12.2018 – all figures are nominal amounts

1) Composite Rating

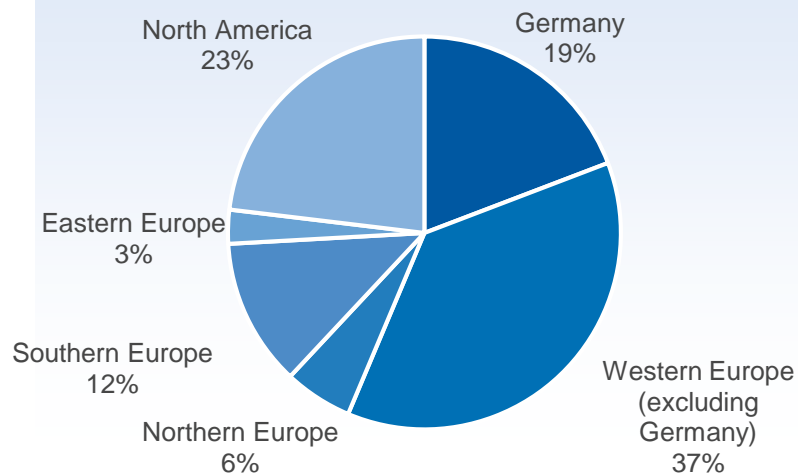
# Mortgage Cover Pool

## Well diversified regarding Geography and Property Type

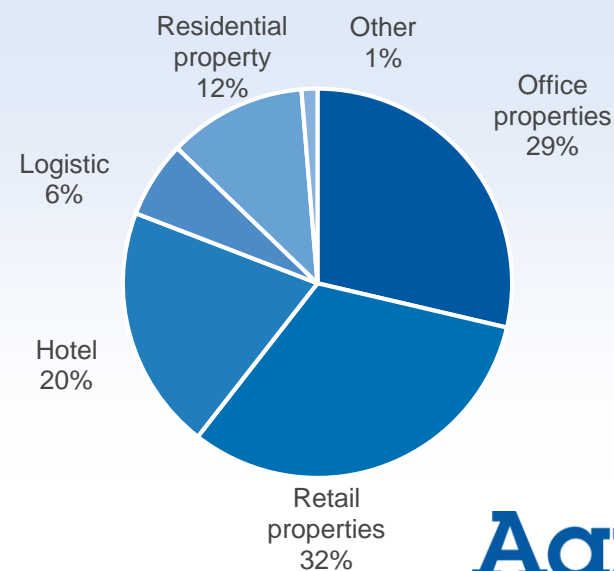
- Cover pool of € 12.2 bn including € 1.1 bn substitute assets diversified over 17 countries
- High quality of assets: first-class mortgage loans (mortgage-lending-value 56.1%)
- Mortgage-lending-value with high discount from market-value
- Ø LTV of the mortgage cover pool 37.0%
- Moody's has calculated a 'Aaa' supporting over-collateralisation ratio of 11.5% on a PV basis
- Over-collateralisation on a PV basis as of 31.12.2018: 16.0%
- High diversification within property types



### Cover Pool by Geography



### Cover Pool by Property Type





# Outlook 2019

**Aareal**

## Outlook 2019

<b>Net interest income</b>	▪ € 530 mn - € 560 mn
<b>Derecognition result</b>	▪ € 20 mn - € 40 mn (depending on client behaviour)
<b>Allowance for credit losses<sup>1)</sup></b>	▪ € 50 mn - € 80 mn
<b>Net commission income</b>	▪ € 225 mn - € 245 mn
<b>Admin expenses</b>	▪ € 470 mn - € 510 mn
<b>Operating profit</b>	▪ <b>€ 240 mn - € 280 mn</b>
<b>Pre-tax RoE</b>	▪ 8.5% - 10%
<b>EpS</b>	▪ ~ € 2.40 - € 2.80
<b>Target portfolio size</b>	▪ € 26 bn - € 28 bn
<b>New business origination<sup>2)</sup></b>	▪ € 7 bn - € 8 bn
<b>Operating profit Aareon<sup>3)</sup></b>	▪ ~ € 35 mn (~ € 41 mn before strategic investments)



**Expected 2019 results on good 2018 (clean) level despite strategic investments, DHB integration costs and the lack of positive 2018 effects from reversal of provisions**

1) As in 2018, the bank cannot rule out additional allowances for credit losses

2) Incl. renewals

3) After segment adjustments

# Conclusion

## Delivering stability – managing risks – seizing opportunities

### Key takeaways



#### **Delivering stability**

Aareal Bank Group's successful business development during the financial year under review continued – for 2019, the Bank endeavours to achieve a stable level of (adjusted) earnings which allows to maintain its shareholder-friendly dividend policy.



#### **Managing risks**

Aareal Bank Group affirms its selective, strictly risk-oriented business policy – thanks to its solid capital base, it is in a good position to face economic uncertainty as well as regulatory challenges.



#### **Seizing opportunities**

Thanks to its very robust financial position, Aareal Bank Group retains its ability to act from a position of strength, consistently investing in future growth – in particular, it will explore new potential by expanding the digital activities of its subsidiary Aareon.



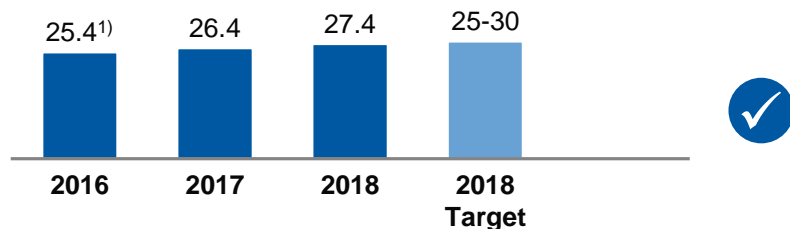
Appendix  
Strategic Outlook

# Aareal 2020

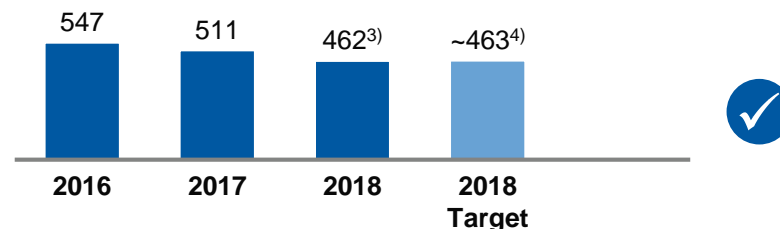
## Well on track

■ Actuals ■ Targets

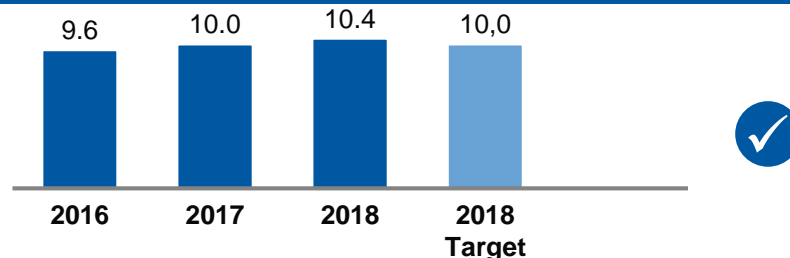
### REF Portfolio (€ bn)



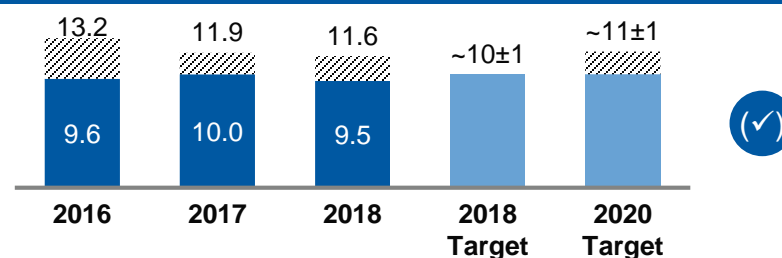
### Administrative Expenses (€ mn)



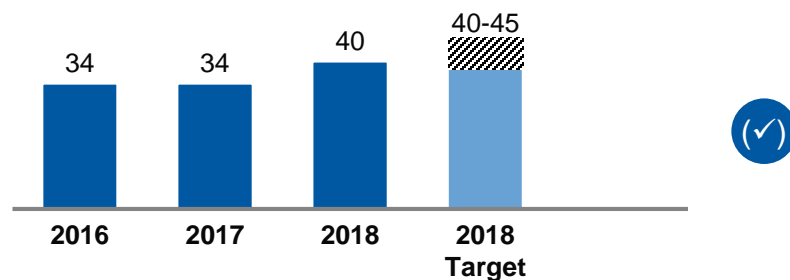
### Housing Industry Deposits (€ bn)



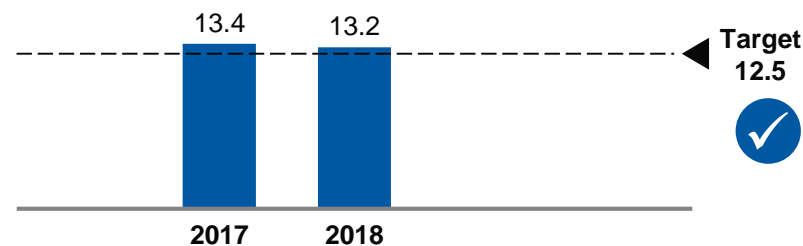
### Pre-Tax RoE<sup>5)</sup> (%)



### Aareon EBIT<sup>2)</sup> (€ mn)



### CET 1 Ratio Basel IV expected (%)



1) Core portfolio excl. Coreal and WestImmo  
 2) 2018 EBIT excl. one offs (reported EBIT € 36 mn)  
 3) Incl. € 13 mn additional expenses after Aareon M&A, € 19 mn transformation costs and € 19 mn reversal of provisions

4) Incl. € 13 mn additional expenses after Aareon M&A  
 5) Reported and excl. one-offs / negative goodwill, targets before employment of excess capital

Note: All 2018 figures preliminary and unaudited; subject to approval of inclusion of profit in CET1 by ECB



# Aareal 2020

## Three areas of particular focus 2019 and going forward

### Aareal 2020 as of today

- Aareal 2020 was designed already in 2016 to provide for **higher stability, efficiency and flexibility** in an increasingly changing environment
- **We have executed** – hence our business model today has **inherent optionalities** enabling us to **act adequately**

### Three areas of particular focus:

#### A CRE

**Fine-tuning of our strategic positioning** as a result of (i) sluggish growth and transaction volumes, as well as (ii) regulatory changes

#### B Regulatory capital

**Anticipation and implementation of regulatory changes** – coming from a strong basis  
– Flashlight on future ECB NPL guidelines and IFRS 9 stage 2 sensitivity

#### C Aareon

Where we are today

Where we will go

How we will achieve

#### Strengthening of capital-light / commission income business:










- European No 1 ERP provider<sup>1)</sup>; sustainable client base; digital products successfully established
- Accelerate growth by pushing the digital business further
- Increased R&D spend for iterative organic development; supported by selective M&A

Aareon  
Investor Seminar  
in 2019

1) For the institutional housing industry

## Preface: Outlook 2019

### Environmental change due to new uncertainties and increasing volatility

	Outlook 2018 (last year)	Outlook 2019 (today)
<b>GDP dynamics</b>		 Slowdown of growth in key regions
<b>Interest rates</b>		 Rather stable interest environment
<b>Funding costs</b>		 Secondary trading on higher credit spreads
<b>Brexit</b>	“One year ahead”	 “Hard Brexit” as relevant option
<b>Italy</b>		 High political and fiscal uncertainty
<b>Regulatory requirements (Aareal)</b>	Basel IV anticipated	TRIM, EBA, NPL-Guidelines anticipated

## A CRE: Continuing selective new business focus

Strong transaction volumes losing momentum in 2019 – slowing business cycle

### North America



#### Economy still supportive – CRE cycle plateauing on high level

- Economic growth moderating
- CRE cycle plateauing
- Transaction volumes strong in 2018, expecting decrease in 2019

### Europe



#### Peaking CRE cycle amid economic slowdown

- Economic growth slows down
- CRE cycle start to peak
- Downward trend in transaction volumes after four exceptional years
- Cross-border investment high

### Asia Pacific



#### Economic and CRE slowdown – cross-border investment strong

- Economic growth slows down
- Rental growth stagnating
- Transaction volumes down in 2019
- Cross-border upward trend, especially US

#### Aareal positioning

- Having capabilities to rotate the portfolio composition to geographies and asset classes considered most attractive; managing the new business volumes reflecting regulatory capital and NPL environment.

## B Regulatory capital

What is known today: Future implications on capital anticipated...

Regulation on capital...	...in regulatory figures reflected	...considered in strategic planning
<b>Basel IV (estimated)</b> <ul style="list-style-type: none"> <li>AIRBA</li> <li>CRSA</li> </ul>	✓	✓
<b>TRIM-effects (estimated)</b> <ul style="list-style-type: none"> <li>Basel III</li> <li>Basel IV</li> </ul>	✓	✓
<b>Prudential provisioning (NPL-Guideline)</b> <ul style="list-style-type: none"> <li>Stock</li> <li>Future NPL</li> </ul>	✓ (pro rata) (not effective in 2018)	✓
<b>IFRS 9</b>	✓	✓

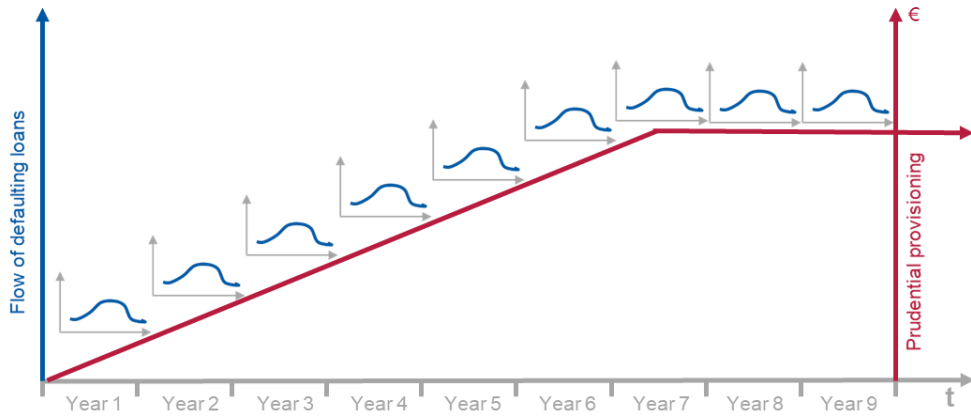
Strong capital position

Strong capital position  
but  
 slower (excess) capital growth

# B Regulatory capital

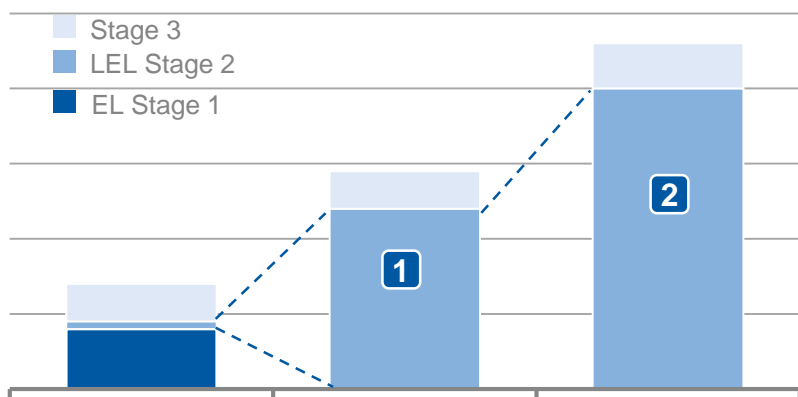
## What may come: future NPL regulatory provisioning

### Buffersize for regulatory provisioning of future NPL's may vary



- What: Anticipating impact of ECB guidelines of risk provisioning for future NPL
- How: 6 years pro rata build-up of buffer for regulatory required prudential provisioning depending on PD/LGD/fc period
- Impact: Recognition in regulatory capital; slower growth of (excess) capital but already fully reflected in capital planning
- Dimension: € 200 mn - € 300 mn

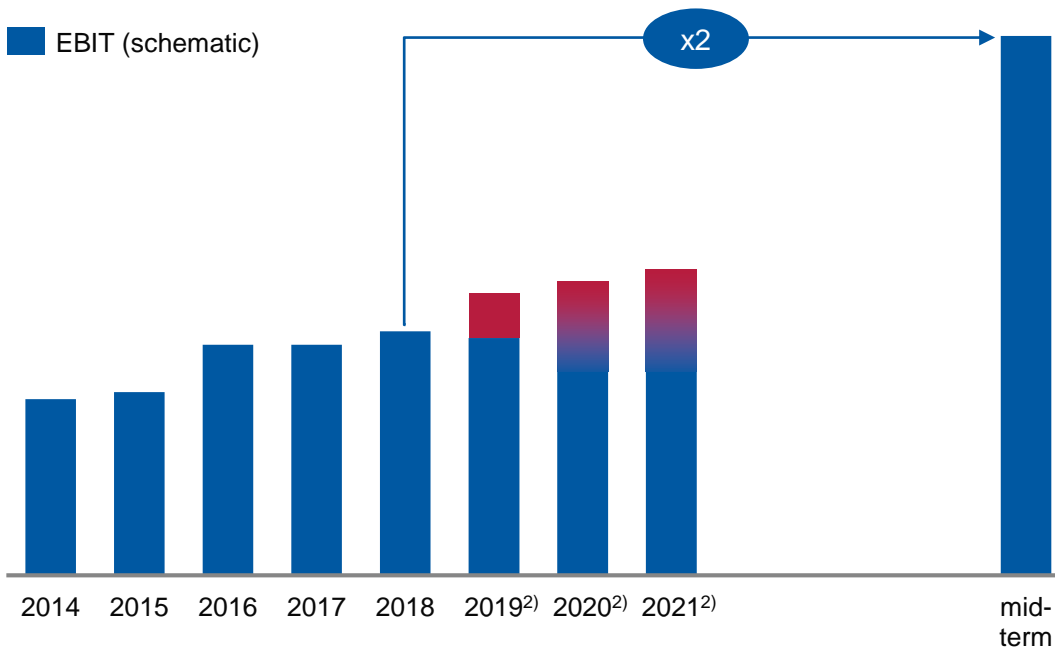
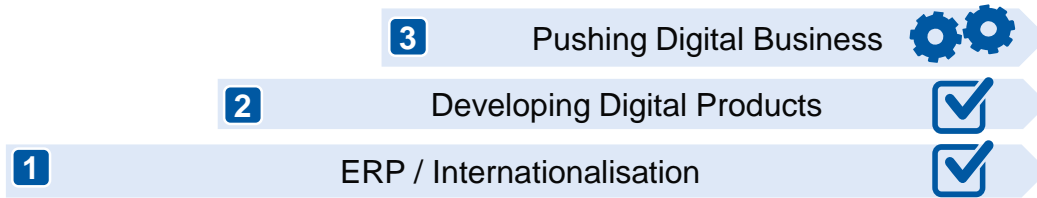
### Modelling theoretical maximum of IFRS 9 Stage 2 sensitivity (CREF business)



- What: IFRS 9 Stage 2 maximum shift, LLP dimension depending on rating development
- How:
  - 1**: Modelling an (unrealistic) theoretical case of 100% loan volume migrating to stage 2
  - 2**: Additional shift of 1-2 rating classes
- Impact: Recognition in P/L
- Dimension: Even in the absolute extreme scenario "only" € 150 – 200 mn additional LLPs would be required, hence all potential macro downturn scenarios digestible by Aareal's strong profit generation capacity

# C Aareon

## Pushing digital business to accelerate growth – self-funded from underlying operational growth



1) For the institutional housing industry

2) EBIT pre and after impact from new Digital Business

### Phase 1

- European No. 1 ERP provider building on a stable client base, migration from GES to Wodis Sigma completed




### Phase 2

- Implementing ERP-near digital solutions to support the housing industry in their digitization strategy

### Phase 3

- Push digital business by increased R&D budget and opportunistic M&A
- Keep ERP as a stable anchor
- Increase consulting efficiency

## Pushing digital business to accelerate growth

Areas of growth	Revenue growth potential	Expected CAGR
<p><b>Accelerated growth by pushing Digital Business</b></p> <ul style="list-style-type: none"> <li>▪ Further development of ERP-near digital solutions</li> <li>▪ Business driven by new technologies (VR, AR, IoT)</li> <li>▪ Innovation from ventures</li> <li>▪ SaaS, licence, consulting</li> </ul>		<p><b>20-25%</b></p>
<p><b>ERP Business</b></p> <ul style="list-style-type: none"> <li>▪ Strong and stable client base</li> <li>▪ Slower but steady growth</li> <li>▪ Stable margin</li> <li>▪ SaaS, licence, consulting</li> </ul>		<p><b>1-2%</b></p>
<p><b>Consulting (mainly for Digital and ERP Business)</b></p> <ul style="list-style-type: none"> <li>▪ Extension strictly linked to growth areas</li> <li>▪ Expand green consulting service and web-based solutions</li> <li>▪ Continuous focus on profitability</li> </ul>		<p><b>5%</b></p>



**Aareon**

## Pushing digital business to accelerate growth

### Key parameters

- Aareon will build on:
  - **Home Market** – Digital business with our current ERP client base
  - **Corresponding Markets** – Digital services for clients from industries with potential beyond housing / with similar processes
  - **Start-ups and Ventures** – Creating new digital solutions
- **R&D spend up** temporarily from 16% to ~25% of Aareon revenues (excl. Consulting) to support Phase 3
- **Digital initiative will be self-funded** from Aareon's underlying operational growth
- **EBIT** expected to remain above **levels higher than € 30 mn** throughout investment period
- First digital initiatives already started, leveraging the ERP client base
- Parallel to digital initiatives **Aareon will maintain its underlying growth plan**



## Conclusion

Strategy 2020 remains valid; business model provides for inherent optionalities to achieve mid-term  $\geq 12\%$  RoE target



### We have prepared ourselves well and built up numerous optionalities

- ✓ Strong market position in our business segments
- ✓ Strong capital and funding base...
- ✓ ...and P&L power to support growth in relevant areas



### We react adequately on environmental changes – hence focus in 2019 will be on

- Safeguarding our backbone SPF
- ↻ Self-funded growth of digital business...
- ↗ ...thereby increasing share of equity-light commission income...



... preparing to achieve our mid-term („2020 plus“)  $\geq 12\%$  RoE target even in a continuously low interest rate environment

We will continue reviewing our strategy and optionalities – and react if and when we deem appropriate



Appendix  
Group results

# Aareal Bank Group

## Results 2018

	01.01.- 31.12.2018 € mn	01.01.- 31.12.2017 <sup>1)</sup> € mn	Change
<b>Profit and loss account</b>			
Net interest income	535	584	-8%
Loss allowance	72	82	-12%
Net commission income	215	206	4%
Net derecognition gain or loss	24	50	-52%
Net gain or loss from financial instruments (fvpl)	-2	14	
Net gain or loss on hedge accounting	-2	-7	
Net gain or loss from investments accounted for using the equity method	0		
Administrative expenses	462	511	-10%
Net other operating income / expenses	25	74	-66%
Negative goodwill from acquisitions	55	-	
<b>Operating Profit</b>	<b>316</b>	<b>328</b>	<b>-4%</b>
Income taxes	90	115	-22%
<b>Consolidated net income</b>	<b>226</b>	<b>213</b>	<b>6%</b>
Consolidated net income attributable to non-controlling interests	2	6	-67%
Consolidated net income attributable to shareholders of Aareal Bank AG	224	207	8%
<b>Earnings per share (EpS)</b>			
Consolidated net income attributable to shareholders of Aareal Bank AG <sup>2)</sup>	224	207	8%
of which: allocated to ordinary shareholders	208	191	9%
of which: allocated to AT1 investors	16	16	0%
Earnings per ordinary share (in €) <sup>3)</sup>	3.48	3.20	9%
Earnings per ordinary AT1 unit (in €) <sup>4)</sup>	0.16	0.16	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 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.

# Aareal Bank Group

## Results Q4 2018

	01.10.- 31.12.2018 € mn	01.10.- 31.12.2017 <sup>1)</sup> € mn	Change
<b>Profit and loss account</b>			
Net interest income	135	135	0%
Loss allowance	39	29	34%
Net commission income	63	61	3%
Net derecognition gain or loss	8	13	-38%
Net gain or loss from financial instruments (fvpl)	-1	1	
Net gain or loss on hedge accounting	0	-2	-100%
Net gain or loss from investments accounted for using the equity method	0	-	
Administrative expenses	118	123	-4%
Net other operating income / expenses	14	10	40%
Negative goodwill from acquisitions	55		
<b>Operating Profit</b>	<b>117</b>	<b>66</b>	<b>77%</b>
Income taxes	22	18	22%
<b>Consolidated net income</b>	<b>95</b>	<b>48</b>	<b>98%</b>
Consolidated net income attributable to non-controlling interests	-	0	
Consolidated net income attributable to shareholders of Aareal Bank AG	95	48	98%
<b>Earnings per share (EpS)</b>			
Consolidated net income attributable to shareholders of Aareal Bank AG <sup>2)</sup>	95	48	98%
of which: allocated to ordinary shareholders	91	44	107%
of which: allocated to AT1 investors	4	4	0%
Earnings per ordinary share (in €) <sup>3)</sup>	1.51	0.74	104%
Earnings per ordinary AT1 unit (in €) <sup>4)</sup>	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 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.

# Aareal Bank Group

## Results 2018 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.01.- 31.12. 2018	01.01.- 31.12. 2017 <sup>1)</sup>	01.01.- 31.12. 2018	01.01.- 31.12. 2017 <sup>1)</sup>	01.01.- 31.12. 2018	01.01.- 31.12. 2017 <sup>1)</sup>	01.01.- 31.12. 2018	01.01.- 31.12. 2017 <sup>1)</sup>
	€ mn							
Net interest income	547	596	0	0	-12	-12	535	584
Loss allowance	73	82	-1				72	82
Net commission income	9	7	200	191	6	8	215	206
Net derecognition gain or loss	24	50					24	50
Gains / losses from financial instruments (fvp)	-2	14	0				-2	14
Net result on hedge accounting	-2	-7					-2	-7
Results from investments accounted for at equity	0						0	
Administrative expenses	241	296	227	220	-6	-5	462	511
Net other operating income / expenses	21	69	4	6	0	-1	25	74
Negative goodwill from acquisitions	55						55	
<b>Operating profit</b>	<b>338</b>	<b>351</b>	<b>-22</b>	<b>-23</b>	<b>0</b>	<b>0</b>	<b>316</b>	<b>328</b>
Income taxes	99	123	-9	-8			90	115
<b>Consolidated net income</b>	<b>239</b>	<b>228</b>	<b>-13</b>	<b>-15</b>	<b>0</b>	<b>0</b>	<b>226</b>	<b>213</b>
<b>Allocation of results</b>								
Cons. net income attributable to non-controlling interests	0	4	2	2			2	6
Cons. net income attributable to shareholders of Aareal Bank AG	239	224	-15	-17	0	0	224	207

1) Comparative amounts reclassified according to the new classification format

# Aareal Bank Group

## Results Q4 2018 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.10.- 31.12. 2018	01.10.- 31.12. 2017 <sup>1)</sup>	01.10.- 31.12. 2018	01.10.- 31.12. 2017 <sup>1)</sup>	01.10.- 31.12. 2018	01.10.- 31.12. 2017 <sup>1)</sup>	01.10.- 31.12. 2018	01.10.- 31.12. 2017 <sup>1)</sup>
	€ mn							
Net interest income	138	139	0	0	-3	-4	135	135
Loss allowance	40	29	-1				39	29
Net commission income	3	3	59	55	1	3	63	61
Net derecognition gain or loss	8	13					8	13
Net gain or loss from financial instruments (fvp)	-1	1	0				-1	1
Net gain or loss on hedge accounting	0	-2					0	-2
Net gain or loss from investments accounted for using the equity method	0						0	
Administrative expenses	59	62	61	63	-2	-2	118	123
Net other operating income / expenses	12	7	2	4	0	-1	14	10
Negative goodwill from acquisitions	55						55	
<b>Operating profit</b>	<b>116</b>	<b>70</b>	<b>1</b>	<b>-4</b>	<b>0</b>	<b>0</b>	<b>117</b>	<b>66</b>
Income taxes	22	19	0	-1			22	18
<b>Consolidated net income</b>	<b>94</b>	<b>51</b>	<b>1</b>	<b>-3</b>	<b>0</b>	<b>0</b>	<b>95</b>	<b>48</b>
<b>Allocation of results</b>								
Cons. net income attributable to non-controlling interests	0	0	0	0			0	0
Cons. net income attributable to shareholders of Aareal Bank AG	94	51	1	-3	0	0	95	48

1) Comparative amounts reclassified according to the new classification format

# Aareal Bank Group

## Results – quarter by quarter

	Structured Property Financing					Consulting / Services					Consolidation / Reconciliation					Aareal Bank Group				
	Q4	Q3	Q2	Q1	Q4	Q4	Q3	Q2	Q1	Q4	Q4	Q3	Q2	Q1	Q4	Q4	Q3	Q2	Q1	Q4
€ mn	2018					2018					2018					2018				
	2017 <sup>1)</sup>					2017 <sup>1)</sup>					2017 <sup>1)</sup>					2017 <sup>1)</sup>				
Net interest income	138	134	139	136	139	0	0	0	0	0	-3	-3	-3	-3	-4	135	131	136	133	135
Loss allowance	40	14	19	0	29	-1	0	0	0						39	14	19	0	29	
Net commission income	3	2	3	1	3	59	48	46	47	55	1	1	2	2	3	63	51	51	50	61
Net derecognition gain or loss	8	5	5	6	13										8	5	5	6	13	
Net gain or loss from financial instruments (fvpl)	-1	0	-4	3	1	0									-1	0	-4	3	1	
Net gain or loss on hedge accounting	0	1	-1	-2	-2										0	1	-1	-2	-2	
Net gain or loss from investments accounted for using the equity method	0														0					
Administrative expenses	59	53	55	74	62	61	56	55	55	63	-2	-2	-1	-1	-2	118	107	109	128	123
Net other operating income / expenses	12	2	2	5	7	2	1	1	0	4	0	0	0	0	-1	14	3	3	5	10
Negative goodwill from acquisitions	55														55					
<b>Operating profit</b>	<b>116</b>	<b>77</b>	<b>70</b>	<b>75</b>	<b>70</b>	<b>1</b>	<b>-7</b>	<b>-8</b>	<b>-8</b>	<b>-4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>117</b>	<b>70</b>	<b>62</b>	<b>67</b>	<b>66</b>
Income taxes	22	27	24	26	19	0	-3	-3	-3	-1					22	24	21	23	18	
<b>Consolidated net income</b>	<b>94</b>	<b>50</b>	<b>46</b>	<b>49</b>	<b>51</b>	<b>1</b>	<b>-4</b>	<b>-5</b>	<b>-5</b>	<b>-3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>95</b>	<b>46</b>	<b>41</b>	<b>44</b>	<b>48</b>	
Cons. net income attributable to non-controlling interests	0	0	0	0	0	0	1	0	1	0					0	1	0	1	0	
Cons. net income attributable to shareholders of Aareal Bank AG	94	50	46	49	51	1	-5	-5	-6	-3	0	0	0	0	95	45	41	43	48	

1) Comparative amounts reclassified according to the new classification format

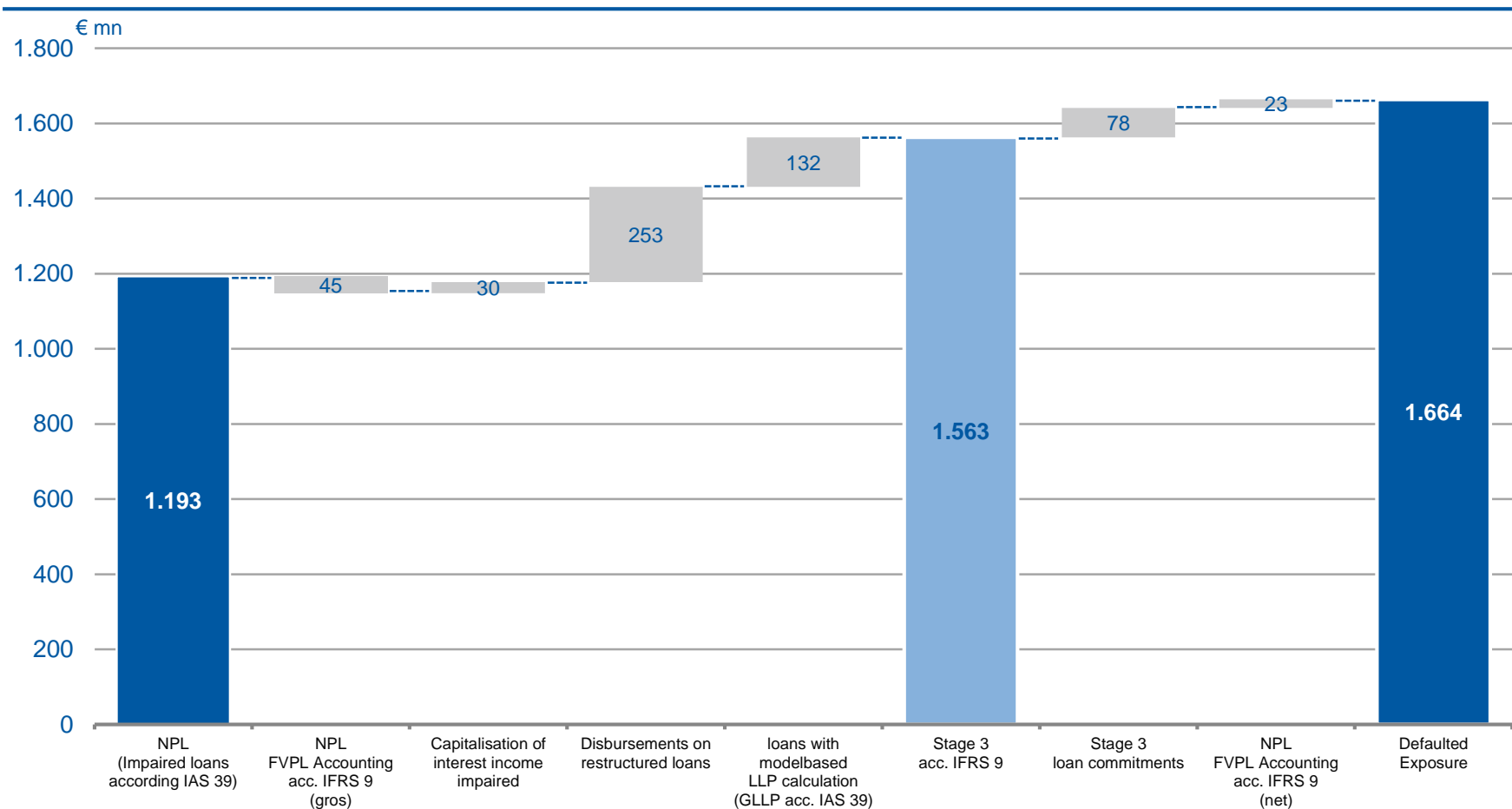


Appendix  
Defaulted exposure



# Defaulted Exposure

## NPL vs. Stage 3 (IFRS 9) vs. defaulted exposure acc. Reg. Disc. Report





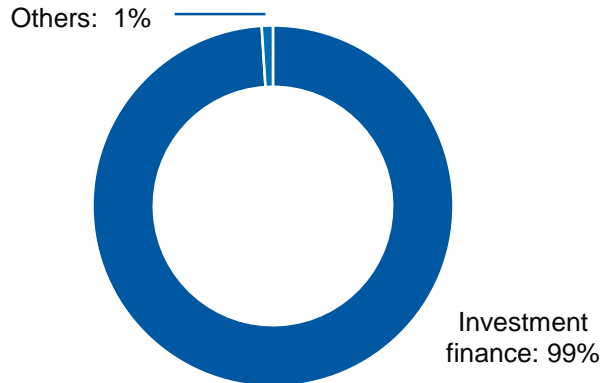
# Appendix

Development commercial  
real estate finance portfolio

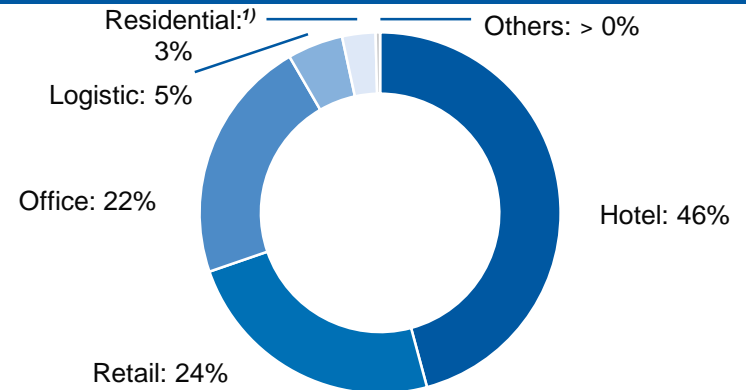
# Western Europe (ex Germany) CRE finance portfolio

Total volume outstanding as at 31.12.2018: € 8.6 bn

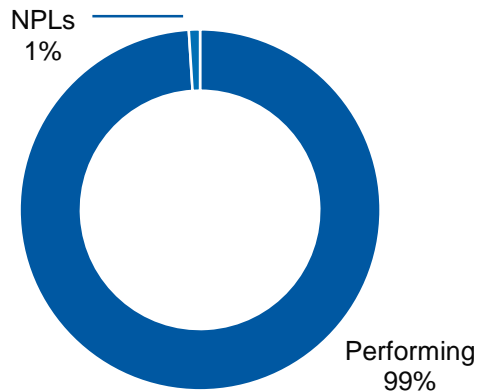
## by product type



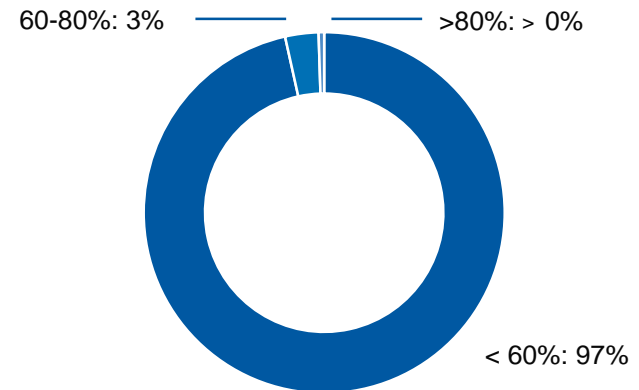
## by property type



## by performance



## by LTV ranges<sup>2)</sup>



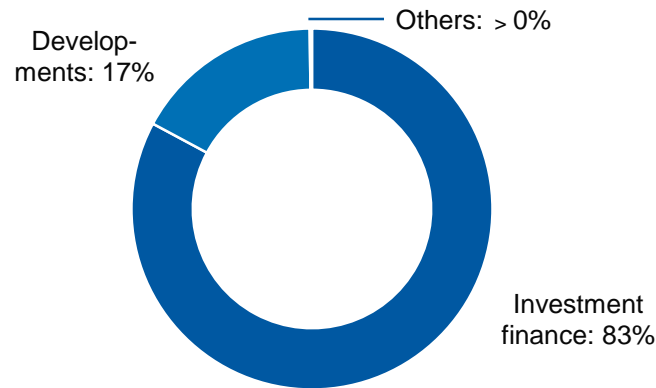
1) Incl. Student housing (UK only)

2) Performing CREF-portfolio only, exposure as at 31.12.2018

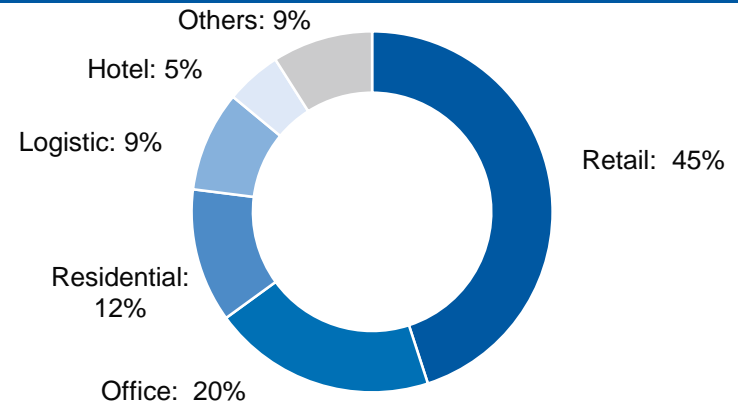
# Southern Europe CRE finance portfolio

Total volume outstanding as at 31.12.2018: € 3.9 bn

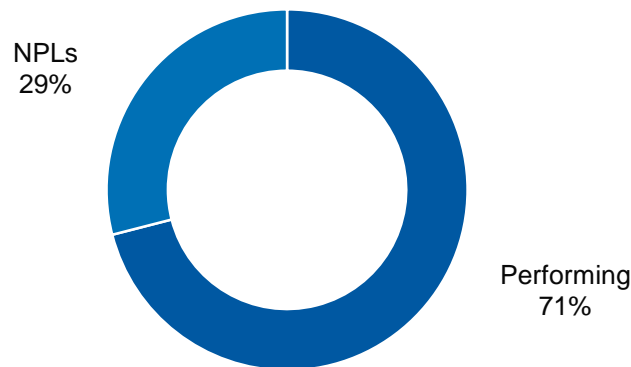
## by product type



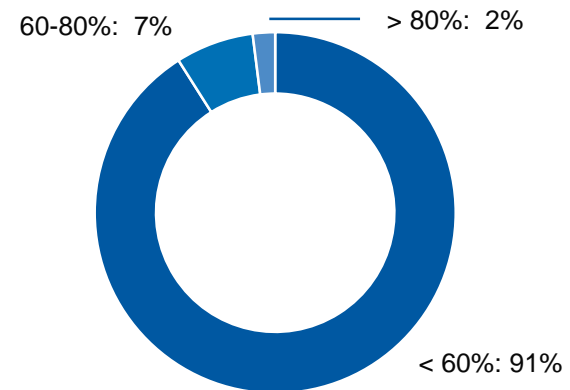
## by property type



## by performance



## by LTV ranges<sup>1)</sup>

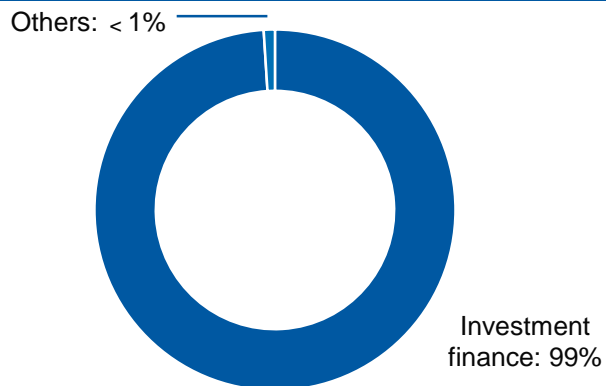


1) Performing CREFF-portfolio only, exposure as at 31.12.2018

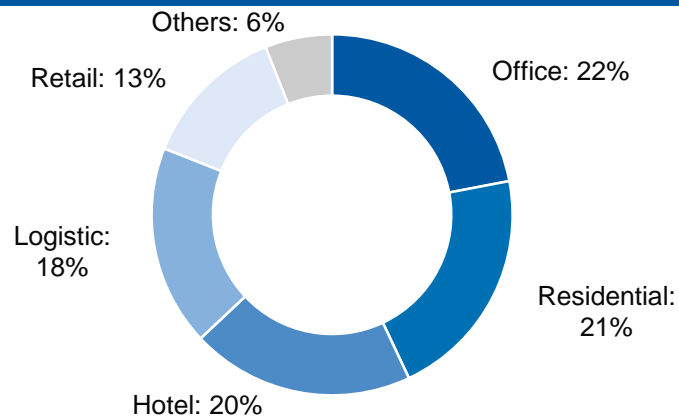
# German CRE finance portfolio

Total volume outstanding as at 31.12.2018: € 3.2 bn

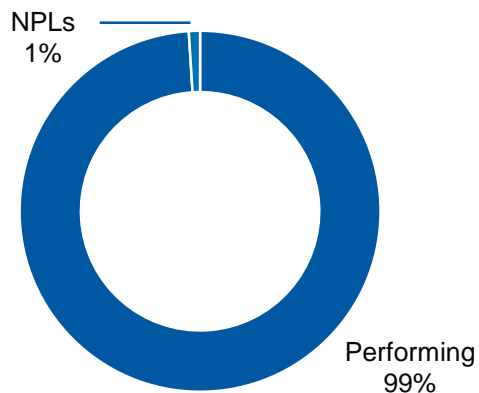
## by product type



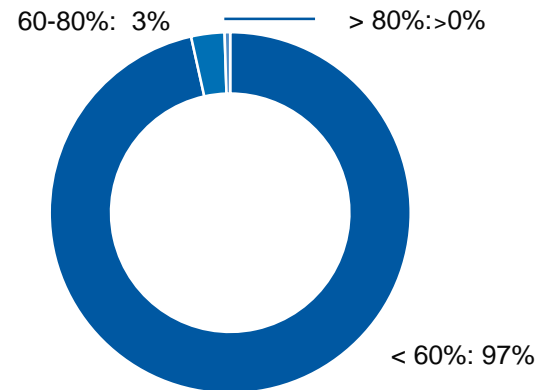
## by property type



## by performance



## by LTV ranges<sup>1)</sup>

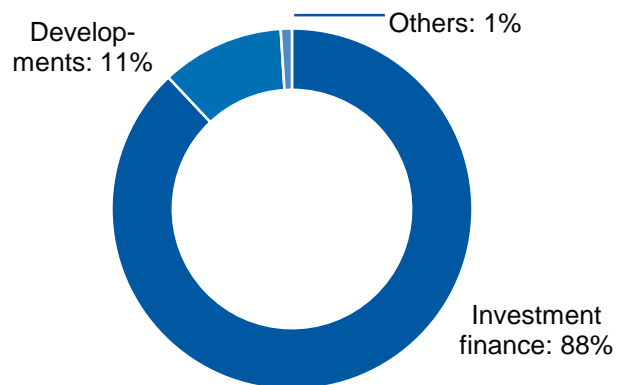


1) Performing CREFF-portfolio only, exposure as at 31.12.2018

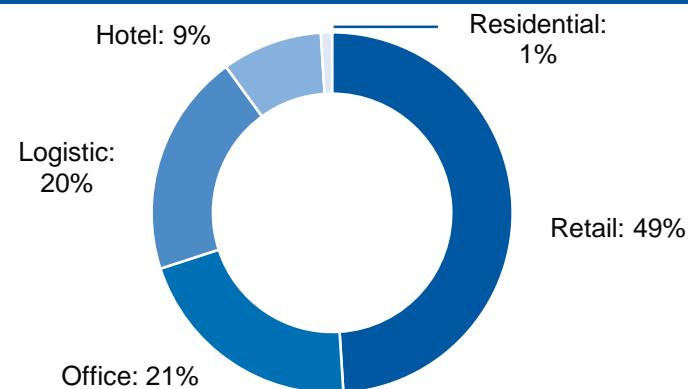
# Northern Europe CRE finance portfolio

Total volume outstanding as at 31.12.2018: € 1.6 bn

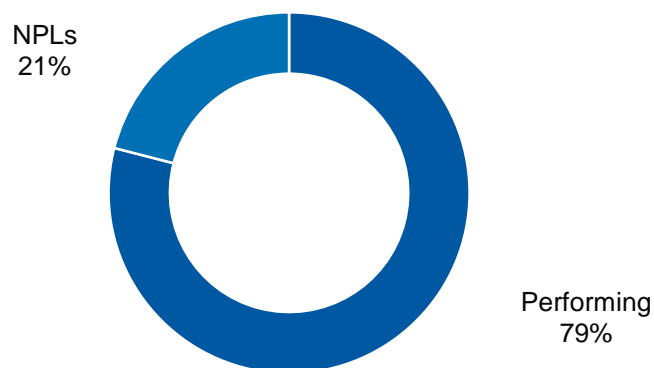
## by product type



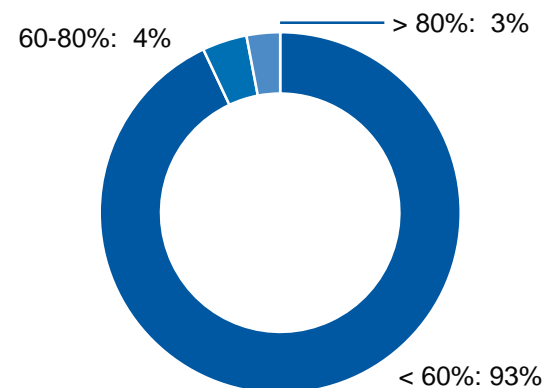
## by property type



## by performance



## by LTV ranges<sup>1)</sup>

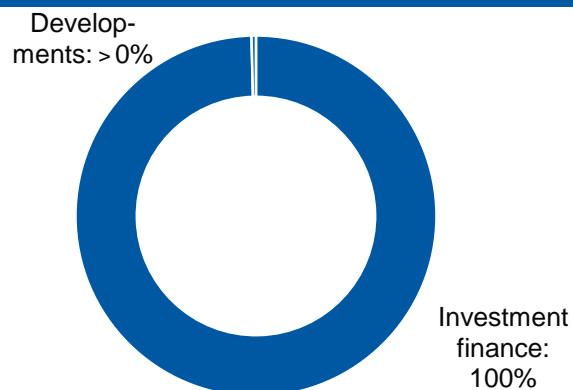


1) Performing CREFF-portfolio only, exposure as at 31.12.2018

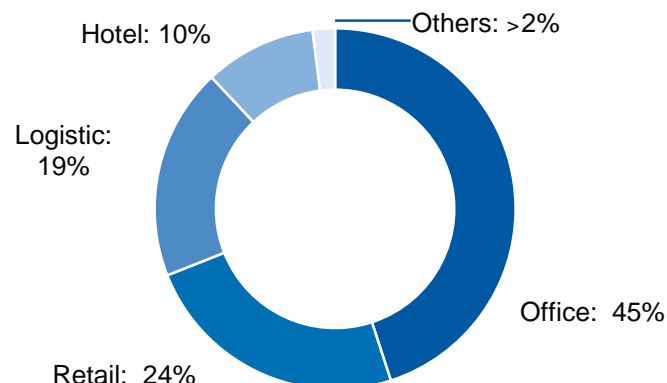
# Eastern Europe CRE finance portfolio

Total volume outstanding as at 31.12.2018: € 1.3 bn

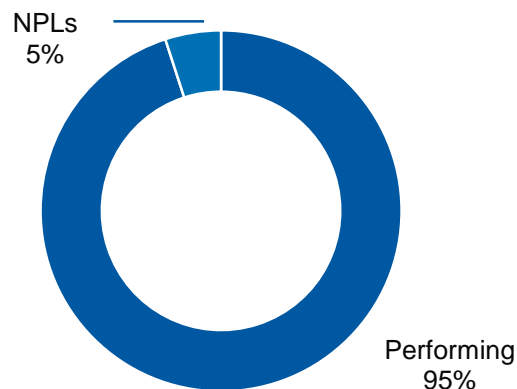
## by product type



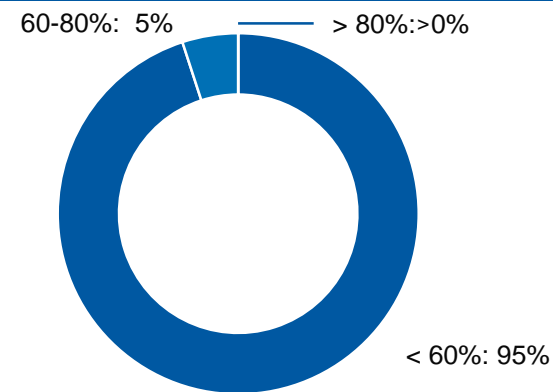
## by property type



## by performance



## by LTV ranges<sup>1)</sup>

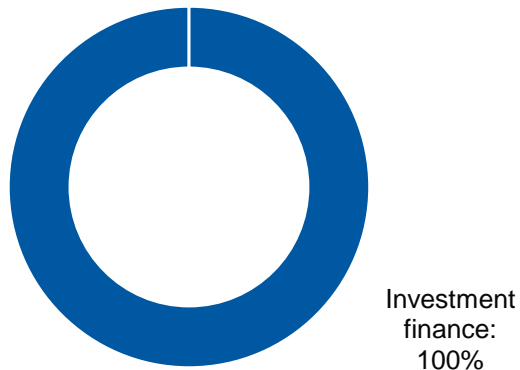


1) Performing CREFF-portfolio only, exposure as at 31.12.2018

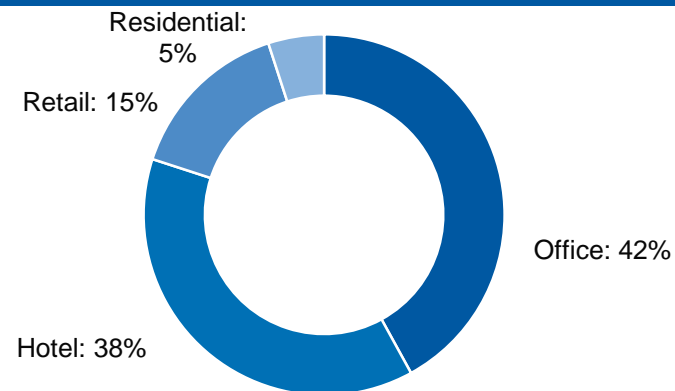
# North America CRE finance portfolio

Total volume outstanding as at 31.12.2018: € 7.4 bn

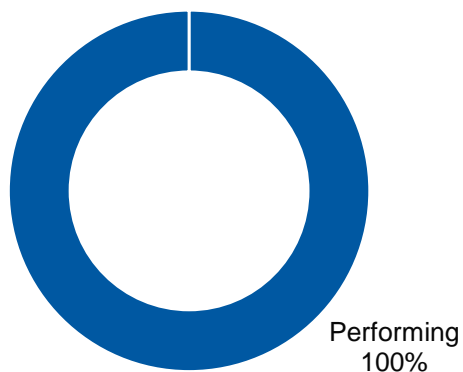
by product type



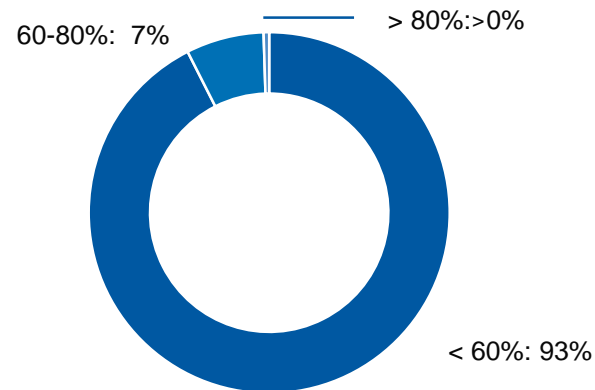
by property type



by performance



by LTV ranges<sup>1)</sup>



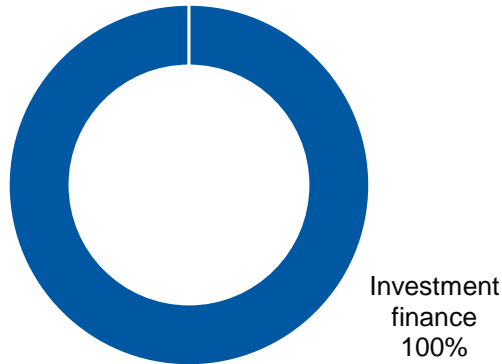
1) Performing CREFF-portfolio only, exposure as at 31.12.2018



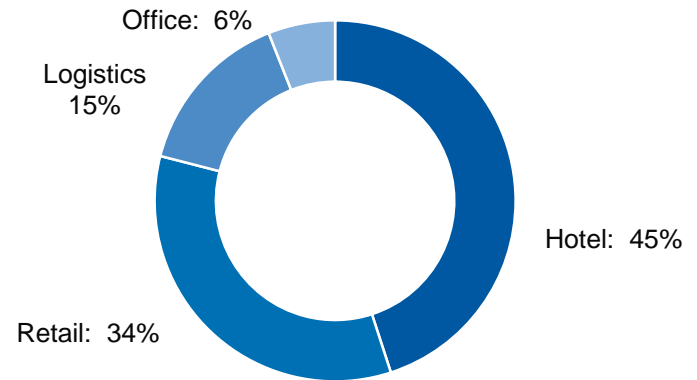
# Asia / Pacific CRE finance portfolio

Total volume outstanding as at 31.12.2018: € 0.4 bn

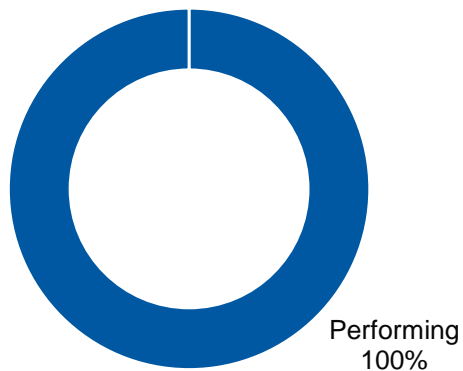
by product type



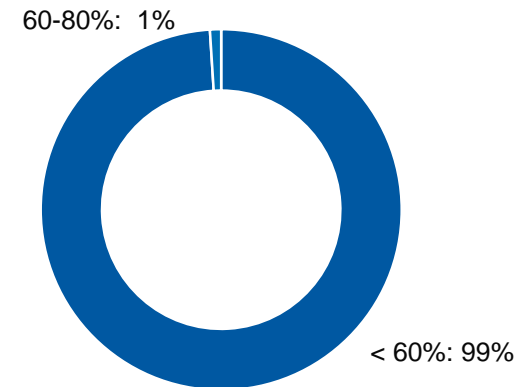
by property type



by performance



by LTV ranges<sup>1)</sup>

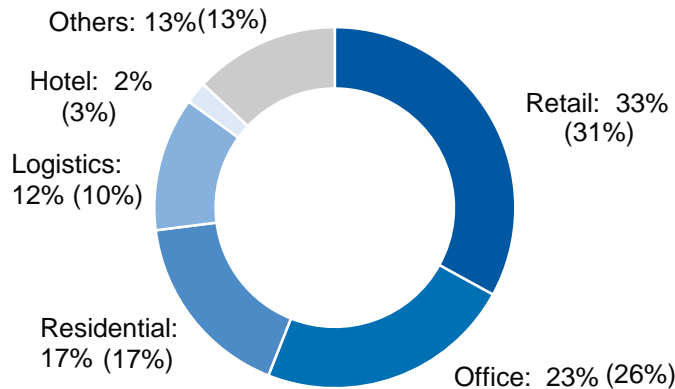


1) Performing CREF-portfolio only, exposure as at 31.12.2018

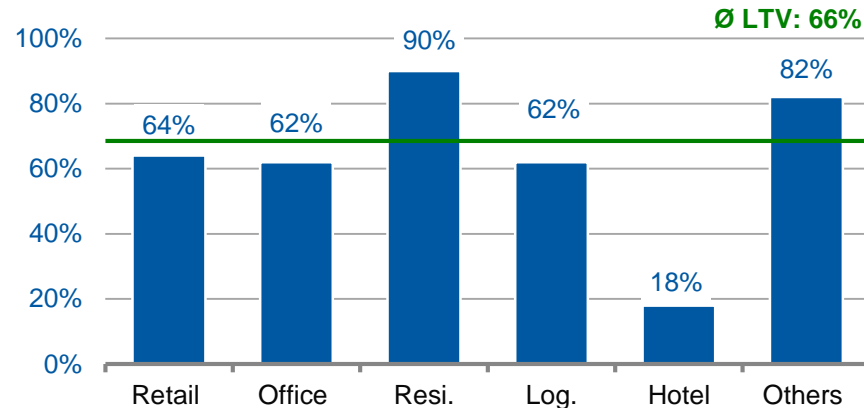
# Spotlight: Italian CRE finance portfolio

€ 2.8 bn (~11% of total portfolio)

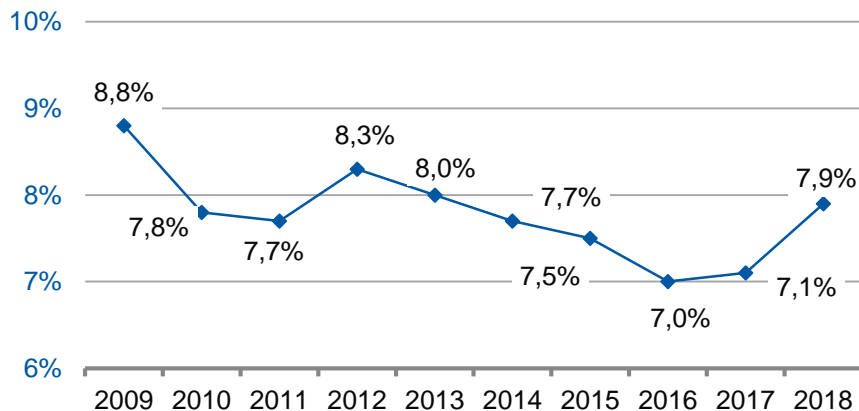
## Total portfolio by property type (2017)



## Average LTV by property type<sup>1)</sup>



## Yield on debt<sup>1)</sup>



1) Performing CREF-portfolio only, exposure as at 31.12.2018 new legislation

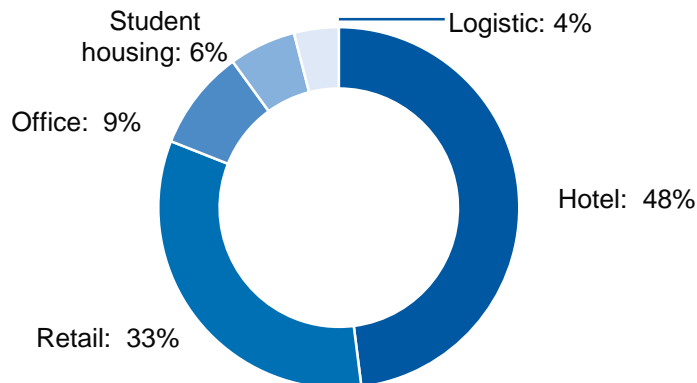
## Comments

- Performing:
  - Share of developments financed ~ 5%
  - ~ 50% of total portfolio in Greater Rome or Milan area
  - € 233 mn with LTV > 60%
  - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 85%
- Defaulted exposure: € 1,112 mn (2017: € 1,000 mn)

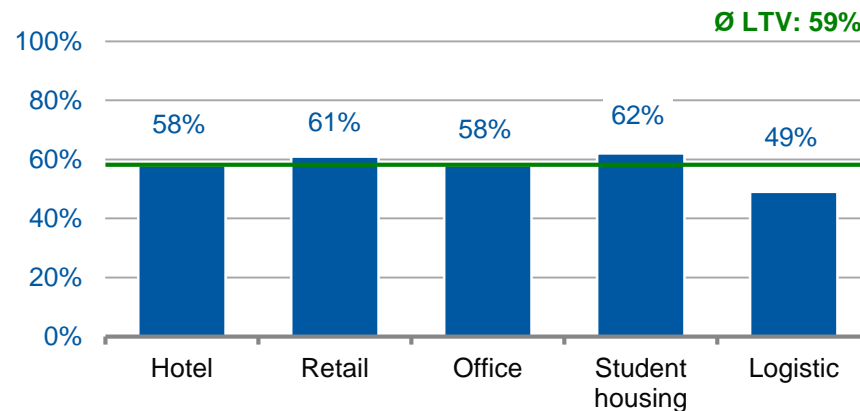
# Spotlight: UK CRE finance portfolio

€ 4.0 bn (~15% of total CRE-portfolio)

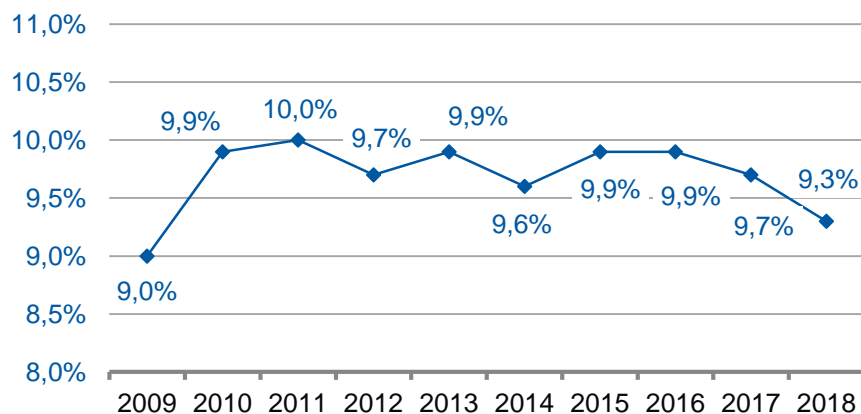
## Total portfolio by property type



## Average LTV by property type<sup>1)</sup>



## Yield on debt



1) Performing CREF-portfolio only, exposure as at 31.12.2018

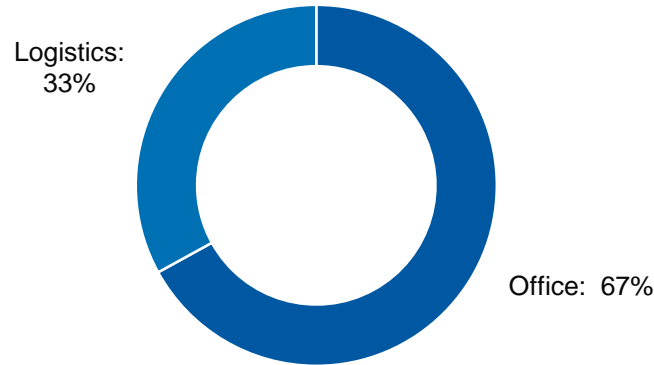
## Comments

- Performing:
  - Investment finance only, no developments
  - ~ 60% of total portfolio in Greater London area, emphasising on hotels
  - € 191 mn with LTV > 60%
  - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 74%
- No defaulted exposure

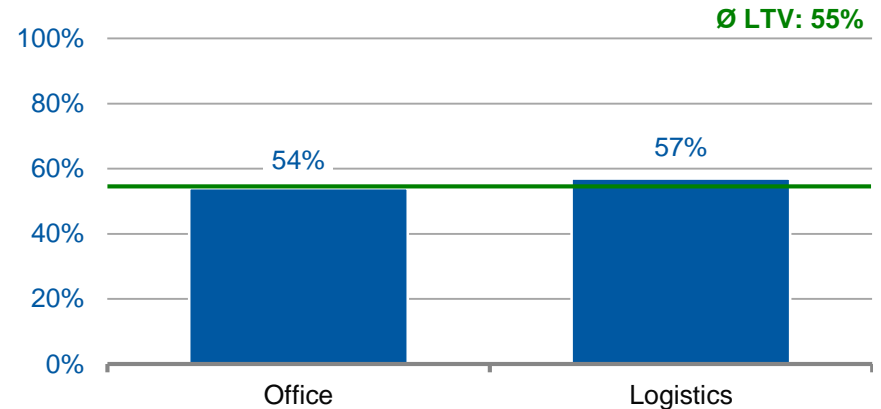
# Spotlight: Russian CRE finance portfolio

€ 0.5 bn (~2% of total portfolio)

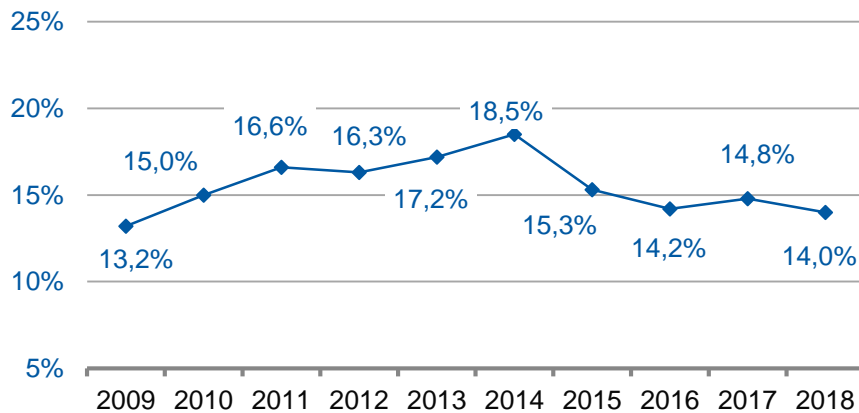
## Total portfolio by property type



## Average LTV by property type<sup>1)</sup>



## Yield on debt

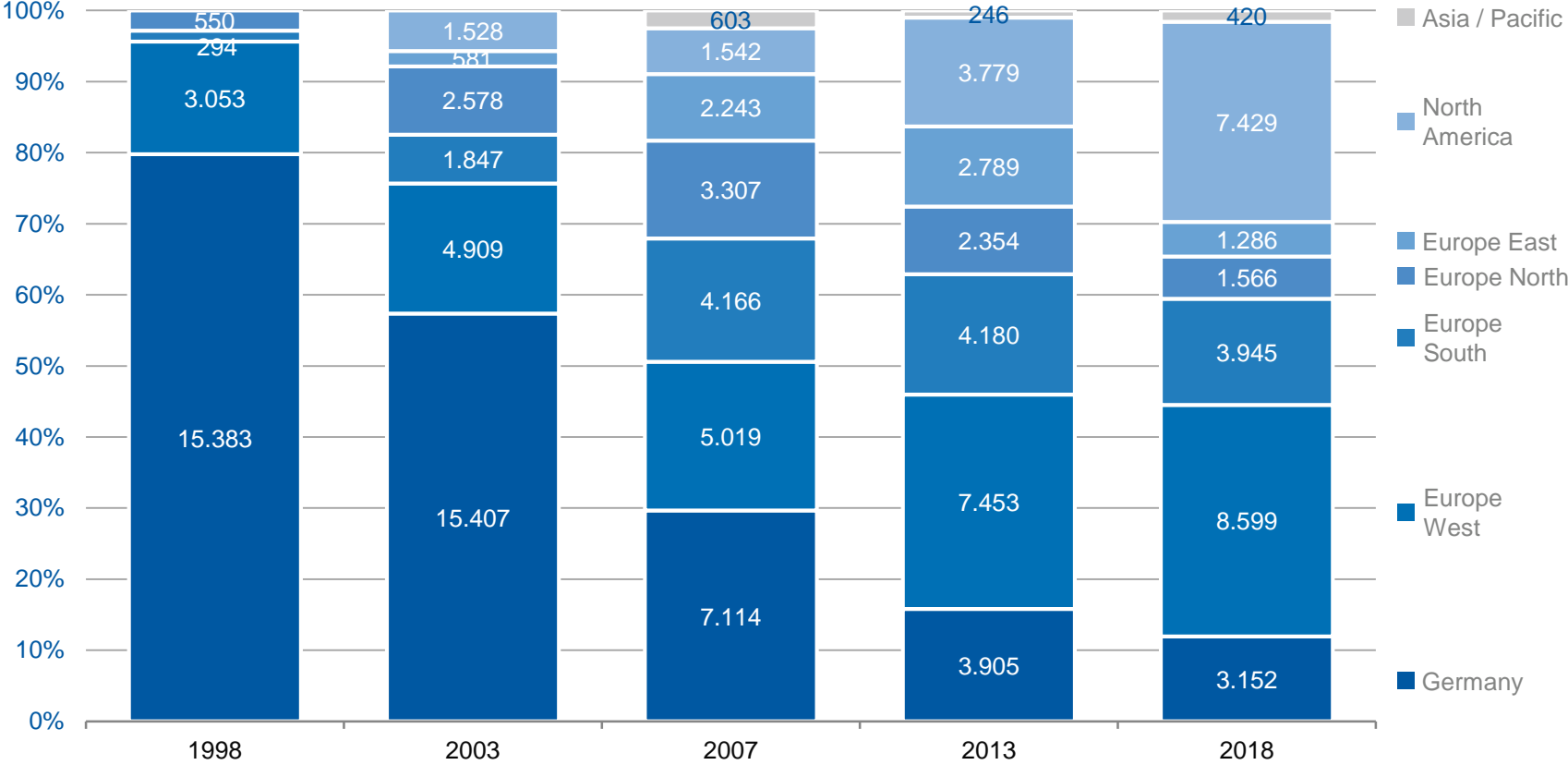


## Comments

- Performing:
  - Investment finance only: 2 logistics and 1 office in Moscow
  - No Deals with LTV > 60%
  - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 69%
- Defaulted exposure: € 11 mn, 1 office in St. Petersburg

1) Performing CREF-portfolio only, exposure as at 31.12.2018

# Development commercial real estate finance portfolio



Note: All 2018 figures preliminary and unaudited; subject to approval of inclusion of profit in CET1 by ECB

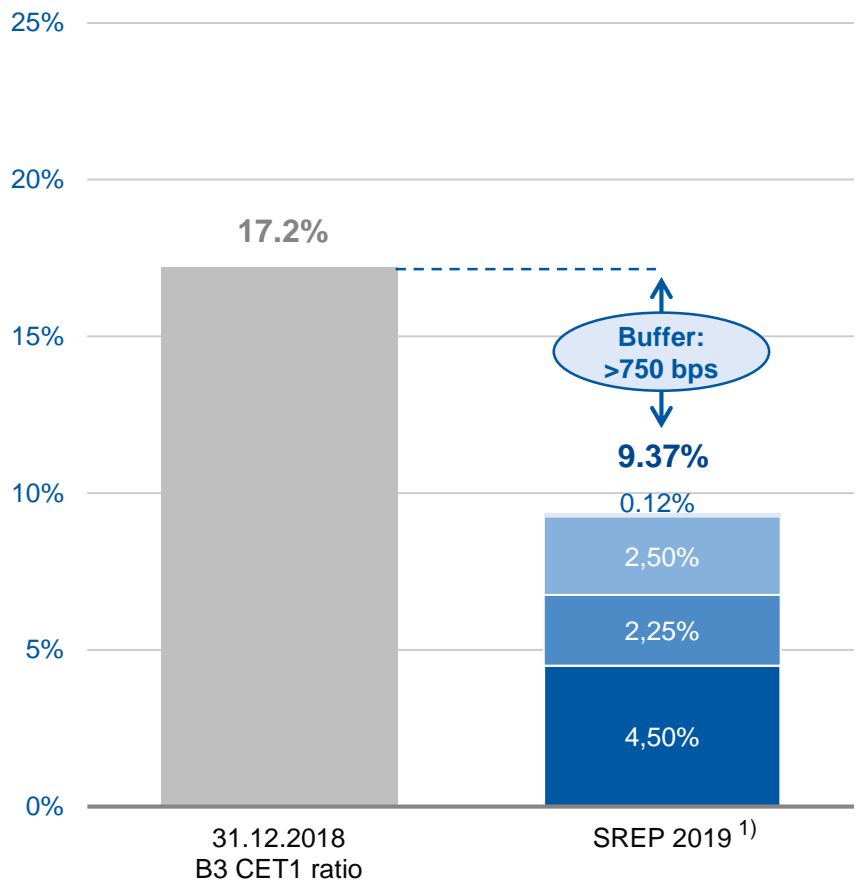


Appendix  
SREP

# SREP (CET 1) requirements

## Demonstrating conservative and sustainable business model

### B3 CET1 ratio vs. SREP (CET1) requirements



- Corresponding total capital requirement 2019 (Overall Capital Requirement (OCR) incl. buffers) amounts to 12.87%
- As of 31. December 2018 total capital ratio amounts to 26.2% and includes TRIM effects and prudential provisioning

- Countercyclical Buffer
- Capital Conservation Buffer
- Pillar 2 Requirement
- Pillar 1 Requirement

1) SREP-CET1 Requirements incl. buffers (Capital Conservation and Countercyclical)



# Appendix

AT1: ADI of Aareal Bank AG

**Aareal**



# Interest payments and ADI of Aareal Bank AG

## Available Distributable Items (as of end of the relevant year)

	31.12. 2014	31.12. 2015	31.12. 2016	31.12. 2017	31.12. 2018
€ mn					
Net Retained Profit	77	99	122	147	126
▪ Net income	77	99	122	147	126
▪ Profit carried forward from previous year	-	-	-	-	-
▪ Net income attribution to revenue reserves	-	-	-	-	-
+ Other revenue reserves after net income attribution	715	720	720	720	720
= Total dividend potential before amount blocked <sup>1)</sup>	792	819	842	870	846
./. Dividend amount blocked under section 268 (8) of the German Commercial Code	240	287	235	283	268
./. Dividend amount blocked under section 253 (6) of the German Commercial Code	-	-	28	35	42
= Available Distributable Items <sup>1)</sup>	552	532	579	552	536
+ Increase by aggregated amount of interest expenses relating to Distributions on Tier 1 Instruments <sup>1)</sup>	57	46	46	32	24
= Amount referred to in the relevant paragraphs of the terms and conditions of the respective Notes as being available to cover Interest Payments on the Notes and Distributions on other Tier 1 Instruments <sup>1)</sup>	609	578	625	584	560

1) Unaudited figures for information purposes only



Appendix  
Dividend policy

# Dividend policy<sup>1)</sup>

## Confirmed

### Base dividend

We intend to distribute **approx. 50% of the earnings per ordinary share (EpS)** as base dividend

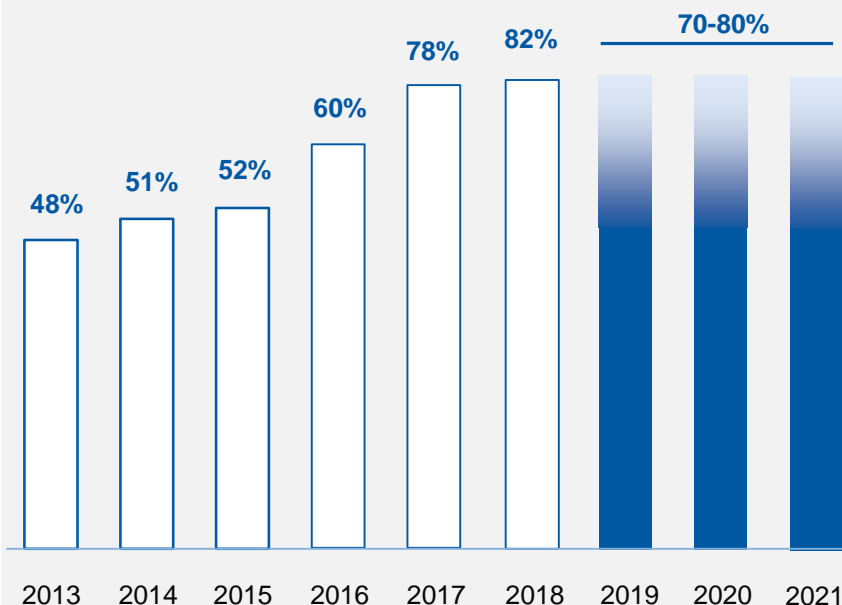
### Supplementary dividend

In addition, we plan to distribute **supplementary dividends, started in 2016 with 10% increasing up to 20-30% of the EpS**

#### Prerequisites:

- No material deterioration of the environment (with longer-term and sustainably negative effects)
- Neither attractive investment opportunities nor positive growth environment

### Payout ratio 2013 - 2021



1) The future dividend policy applies provided that the dividend payments resulting from it are consistent with a long-term and sustained business development of Aareal Bank AG. In addition, the dividend payments are subject to the proviso that corresponding dividend proposals have been made by the Management Board and the Supervisory Board for the respective year.



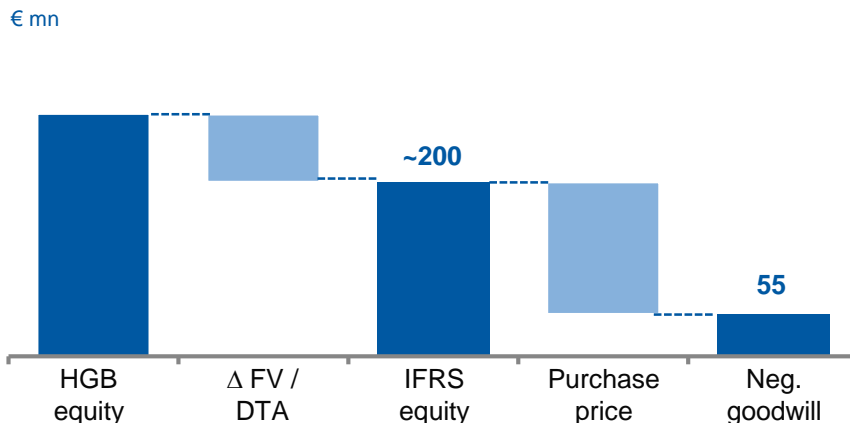
# Appendix

Acquisition of Düsseldorfer Hypothekenbank AG

# Acquisition of Düsseldorfer Hypothekbank AG

## Value enhancing transaction in line with business strategy

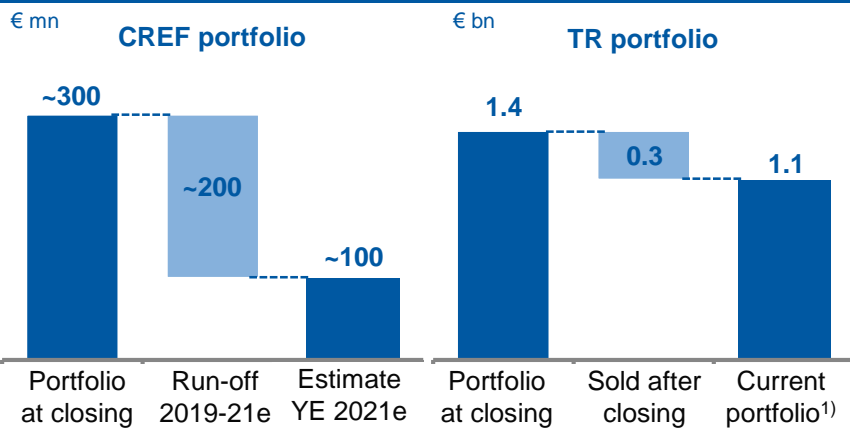
### Purchase price illustration



### Rationale and integration outlook

- Financially motivated transaction
- Attractive price-to-book valuation
- DHB in run-down mode already prior to acquisition with low asset base and lean operations
- Legal merger of banking business into Aareal Bank AG envisaged for 2019 with cessation of stand-alone banking operations of DHB

### Ongoing portfolio wind-down



1) As of February 2019

### Financial effects

- Closing as of 31.12.2018, all cash transaction
- Negative goodwill covers DHB related RWA increase
- Lower portfolio at closing (as originally announced) reflects in lower purchase price  
 ⇨ but still minor positive NII effects in the next years
- As communicated low double-digit burden in 2019 due to planned full integration



# Sustainability Performance

**Aareal**

# Aareal Bank Group

Stands for solidity, reliability and predictability

## Doing business sustainably

17.2% Common Equity Tier 1 ratio<sup>1)</sup>, exceeds the statutory requirements



€ 27.4 bn Valuable Real Estate Finance Portfolio<sup>2)</sup>



Aareon's products & services boost our client's sustainability records



Aareal Bank awarded as top employer for the 11<sup>th</sup> time in succession



Systematic approach: Code of Conduct for employees & suppliers



Solid refinancing base: Covered Bonds<sup>3)</sup> with best possible ratings



Aareal Bank & Aareon: Certified Ecoprofit companies, by using

**100%**  
green electricity<sup>4)</sup>

Positive results in sustainability ratings



1) Basel 3, as at 31.12.2018

2) REF-portfolio includes private client business (€ 0.6 bn) and WIB's public sector loans (€ 0.5 bn), as at 31.12.2018

3) Mortgage Pfandbriefe rated Aaa by Moody's

4) At our main locations in Wiesbaden and Mainz, selected other German and international sites

Note: All 2018 figures preliminary and unaudited; subject to approval of inclusion of profit in CET1 by ECB

# Sustainability data

## Extends the financial depiction of the Group

### Key takeaways at a glance



#### Transparent Reporting – facilitating informed investment decisions

- “COMBINED SEPARATE NON-FINANCIAL REPORT 2018 FOR AAREAL BANK AG” and SUSTAINABILITY REPORT 2018 “SETTING MILESTONES. CREATING PROSPECTS.” to be published on March 28, 2019
- PwC has been mandated by the Supervisory Board to perform a limited assurance engagement



#### Sustainability Ratings – confirming the company’s sustainability performance

MSCI	Aareal Bank Group with “AA Rating” in highest scoring range for all companies assessed relative to global peers reg. Corporate Governance practices <a href="#">[as per 01/2018]</a>
ISS-oekom	Aareal Bank Group holds “prime status”, ranking among the leaders in its industry <a href="#">[since 2012]</a>
Sustainalytics	Aareal Bank Group was classified as “outperformer”, ranking among the best 17% of its industry <a href="#">[as per 02/2017]</a>
CDP	Aareal Bank AG has received a score of B- which is within the Management band. This is equal to the General average of B- and equal to the Europe regional average of B-. <a href="#">[Report 2018]</a>
imug	Aareal Bank was rated “positive BB” in the category “Issuer Performance”; the second best result of all 60 rated Banks <a href="#">[as per 05/2018]</a>





# Definitions and contacts

# Definitions

- **New Business** = Newly acquired business + renewals
- **Common Equity Tier 1 ratio** = 
$$\frac{\text{CET1}}{\text{Risk weighted assets}}$$
- **Pre tax RoE** = 
$$\frac{\text{Operating profit ./. income/loss attributable to non-controlling interests ./. AT1 coupon}}{\text{Average IFRS equity excl. non-controlling interests, other reserves, AT1 and dividends}}$$
- **CIR** = 
$$\frac{\text{Admin expenses}}{\text{Net income}}$$
- **Net income** = net interest income + net commission income + net result on hedge accounting + net trading income + results from non-trading assets + results from investments accounted for at equity + results from investment properties + net other operating income
- **Net stable funding ratio** = 
$$\frac{\text{Available stable funding}}{\text{Required stable funding}}$$
- **Liquidity coverage ratio** = 
$$\frac{\text{Total stock of high quality liquid assets}}{\text{Net cash outflows under stress}}$$
- **Earnings per share** = 
$$\frac{\text{operating profit ./. income taxes ./. income/loss attributable to non controlling interests ./. net AT1 coupon}}{\text{Number of ordinary shares}}$$
- **Yield on Debt** = 
$$\frac{\text{Net operating income (NOI) x 100}}{\text{Current commitment incl. prior / pari-passu loans}}$$
- **CREF-portfolio** = Commercial real estate finance portfolio excl. private client business and WIB's public sector loans
- **REF-portfolio** = Real estate finance portfolio incl. private client business and WIB's public sector loans

# Contacts

## **Tobias Engel**

Treasury

Director - Head of Markets

Phone: +49 611 348 3851

tobias.engel@aareal-bank.com

## **Alexander Kirsch**

Treasury

Director - Markets

Phone: +49 611 348 3858

alexander.kirsch@aareal-bank.com

Funding Requests: [funding@aareal-bank.com](mailto:funding@aareal-bank.com)

- 
- ◆ Homepage <http://www.aareal-bank.com>
  - ◆ Bloomberg Equity: ARL GR, Bond: AARB
  - ◆ Reuters ARLG.F
  - ◆ Deutsche Börse ARL

# Disclaimer

© 2019 Aareal Bank AG. All rights reserved.

- This document has been prepared by Aareal Bank AG, exclusively for the purposes of a corporate presentation by Aareal Bank AG. The presentation is intended for professional and institutional customers only.
- It must not be modified or disclosed to third parties without the explicit permission of Aareal Bank AG. Any persons who may come into possession of this information and these documents must inform themselves of the relevant legal provisions applicable to the receipt and disclosure of such information, and must comply with such provisions. This presentation may not be distributed in or into any jurisdiction where such distribution would be restricted by law.
- This presentation is provided for general information purposes only. It does not constitute an offer to enter into a contract on the provision of advisory services or an offer to purchase securities. Aareal Bank AG has merely compiled the information on which this document is based from sources considered to be reliable – without, however, having verified it. The securities of Aareal Bank AG are not registered in the United States of America and may not be offered or sold except under an exemption from, or pursuant to, registration under the United States Securities Act of 1933, as amended. Therefore, Aareal Bank AG does not give any warranty, and makes no representation as to the completeness or correctness of any information or opinion contained herein. Aareal Bank AG accepts no responsibility or liability whatsoever for any expense, loss or damages arising out of, or in any way connected with, the use of all or any part of this presentation. The securities of Aareal Bank AG are not registered in the United States of America and may not be offered or sold except under an exemption from, or pursuant to, registration under the United States Securities Act of 1933, as amended.
- This presentation may contain forward-looking statements of future expectations and other forward-looking statements or trend information that are based on current plans, views and/or assumptions and subject to known and unknown risks and uncertainties, most of them being difficult to predict and generally beyond Aareal Bank AG's control. This could lead to material differences between the actual future results, performance and / or events and those expressed or implied by such statements.
- Aareal Bank AG assumes no obligation to update any forward-looking statement or any other information contained herein.