Press Release

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Aareal Bank Group remains on course in the 2019 financial year

- **First-quarter consolidated operating profit of € 61 million (Q1 2018: € 67 million) fully in line with projections**
- **Net interest income slightly higher year-on-year – net commission income increased further, thanks to good development of sales revenue at Aareon**
- **New business in the Structured Property Financing segment focussed on high-margin opportunities, given stable portfolio volume – once again, very low loss allowance, in line with seasonal trends**
- **Administrative expenses up year-on-year, as expected, also due to the integration of Düsseldorfer Hypothekenbank**
- **Full-year projections affirmed: Aareal Bank anticipates consolidated operating profit of between € 240 million and € 280 million**

Wiesbaden, 9 May 2019 – Aareal Bank Group has enjoyed a good start into the 2019 financial year, and affirms its full-year forecasts. The Bank generated consolidated operating profit of € 61 million during the first quarter (Q1 2018: € 67 million) – fully in line with projections. Consolidated net income allocated to ordinary shareholders amounted to € 35 million (Q1 2018: € 39 million); earnings per share amounted to € 0.59 (Q1 2018: € 0.65).

First-quarter income was characterised by a continuation of key trends seen in the previous year. At € 135 million, first-quarter net interest income was slightly higher than in the same quarter of the previous year (Q1 2018: € 133 million). Net interest income has been stabilising at this level for several quarters now – following a projected reduction for a protracted period of time, due to the reduction of non-strategic portfolios, where the Bank has made considerable progress. Net derecognition gain of € 16 million included positive effects from adjustments to the Treasury portfolio (Q1 2018: € 6 million).

Loss allowance of € 5 million (Q1 2018: € 0 million) was once again very low during the first quarter, thanks to seasonal factors. Aareal Bank continues to forecast loss allowance in a range of € 50 million to € 80 million for the full year. The positive trend in net commission income prevailed at the outset of the year: the figure rose to € 53 million in the first quarter (Q1 2018: € 50 million), driven in particular by higher sales revenue at Aareon. This means that net commission income consistently continues to gain importance for Aareal Bank Group – as set out in its "Aareal 2020" programme for the future.

Consolidated administrative expenses amounted to € 144 million during the first quarter (Q1 2018: € 128 million). As expected, factors behind the increase included integration expenses for Düsseldorfer Hypothekenbank (DHB), which Aareal Bank acquired at the end of 2018. In addition, administrative expenses for the first quarter of 2018 benefited from a release of provisions. As in the previous year, first-quarter administrative expenses already include anticipated full-year expenses for the bank levy and the deposit guarantee scheme, totalling € 21 million (Q1 2018: € 20 million).

"Following the successful start into the year, we are making good progress towards achieving our targets for the full year, in a challenging market environment. Once again, first-quarter results have shown that our operating business is very robust indeed, and that our strategy is viable", said CEO Hermann J. Merkens.

Structured Property Financing segment:
Good margins on new business – portfolio volume in line with projections

Following a very strong fourth quarter of 2018, new business in the Structured Property Financing segment amounted to € 0.8 billion (Q1 2018: € 1.5 billion) during the first quarter of 2019, with a particular focus on the US and the Asia/Pacific region. Portfolio volume – the key metric for new business – remained almost unchanged compared to the end of 2018: at € 27.3 billion, it remains comfortably within the projected range of between € 26 billion and € 28 billion for the full year 2019. The rather quiet start into the new year in terms of new business reflected this development.

On a very positive note, average gross margins on new business originated during the first quarter exceeded 250 basis points (before currency effects) – a level which, however, will not be possible to maintain over the course of the year. Aareal Bank continues to target a range between 180 and 190 basis points for the full year.

Consulting/Services segment: net commission income continues to increase at Aareon – volume of deposits remains on a high level

Operating profit in the Consulting/Services segment totalled € -9 million during the first quarter of 2019 (Q1 2018: € -8 million). The earnings contribution of subsidiary Aareon AG improved to €8 million in the first quarter (Q1 2018: € 6 million). Driven by higher sales revenue, Aareon's net commission income continued to rise, reaching € 49 million (Q1 2018: € 46 million). Aareon's digital business showed a particularly positive development, generating the highest growth rate (of around 25 per cent) compared to the same quarter of the previous year.

Averaging € 10.6 billion, the volume of deposits from the housing industry remained on a high level during the first quarter of 2019 (31 December 2018: € 10.4 billion). The persistently low interest rate environment continued to burden income generated from the deposit-taking business, and therefore the segment result, at the beginning of the financial year. 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.

Comfortable funding situation – solid capitalisation

Aareal Bank remained very well-funded during the first quarter of 2019, maintaining its long-term funding inventory at a comfortable level. It raised a total of € 1.1 billion on the capital markets during the first quarter: especially worth noting was the very successful placement of a benchmark € 750 million Mortgage Pfandbrief issue in January 2019.

Aareal Bank continues to have a very solid capital base. As at 31 March 2019, the Bank's Common Equity Tier 1 (CET1) ratio was 16.7 %, which is comfortable on an international level, and the Total Capital Ratio was 25.7 %. The CET1 ratio determined on the basis of the Basel Committee's final framework – the estimated so-called 'Basel IV' ratio, which is relevant for capital planning – was 13.1 %.

Notes to Group financial performance

At € 135 million, net interest income was slightly higher than in the previous year (Q1 2018: € 133 million), due to the higher volume of the loan portfolio. Due to seasonal effects, loss allowance amounted to a modest € 5 million (Q1 2018: € 0 million). Net commission income increased to € 53 million (Q1 2018: € 50 million), mainly due to higher sales revenue at Aareon.

Net derecognition gain of € 16 million for the first quarter (Q1 2018: € 6 million) resulted mainly from adjustments to the Treasury portfolio, as well as market-driven effects from early loan repayments. The net gain from financial assets (fvpl) and on hedge accounting in the aggregate amount of € 6 million (Q1 2018: € 1 million) reflected changes in the measurement of derivatives used to hedge interest rate and currency risks. Administrative expenses increased as expected, to € 144 million (Q1 2018: € 128 million), in particular due to integration expenses incurred for DHB. In addition, the previous year's figure included positive effects from the reversal of provisions.

Consolidated operating profit totalled € 61 million for the quarter under review (Q1 2018: € 67 million). Taxes were incurred in a total amount of € 21 million. Taking non-controlling interest income of € 1 million into consideration, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 39 million (Q1 2018: € 43 million). Assuming the *pro rata temporis* accrual of net interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders stood at € 35 million (Q1 2018: € 39 million).

Outlook for 2019 affirmed

Aareal Bank Group continues to anticipate a challenging business environment during the current year. Against this background, the Bank will adhere to its business policy with a strict focus on risks and returns. It will also continue to accelerate strategic development within the “Aareal 2020” programme for the future, with a particular focus on the expedited digital initiative in the Consulting/Services segment, as announced in February 2019.

Aareal Bank fully affirms its forecasts communicated for the full year 2019: consolidated net interest income (excluding net derecognition gain) is expected in a range of € 530 million to € 560 million. Net derecognition gain is anticipated to amount to € 20 million to € 40 million. Loss allowance is expected in a range between € 50 million and € 80 million. Net commission income, whose importance for the Group is continuously rising due to the strategic expansion of business activities in the Consulting/Services segment, is anticipated to rise further year-on-year, to between € 225 million and € 245 million. Administrative expenses are expected in a range between € 470 million and € 510 million, including additional investments at Aareon for accelerated growth, as well as costs for integrating DHB.

Against this background, Aareal Bank expects consolidated operating profit for the current year to be in a range between € 240 million and € 280 million; this is in line with the previous year's figure, adjusted for the positive non-recurring effect related to the acquisition of DHB. The Bank expects RoE before taxes of between 8.5 per cent and 10 per cent for the current financial year, with earnings per share of around € 2.40 to € 2.80.

The reduction of non-strategic portfolios in the Structured Property Financing segment will continue during 2019. At the same time, market conditions permitting, the core credit portfolio is planned to grow: overall, subject to exchange rate fluctuations, the volume of Aareal Bank Group’s property financing portfolio is expected to range between € 26 billion and € 28 billion. New business volume is targeted between € 7 billion and € 8 billion in the current year. Aareal Bank expects its IT subsidiary Aareon to contribute approximately € 35 million to consolidated operating profit, taking strategic investments for accelerated growth into account. Excluding strategic investments, the contribution is anticipated at around € 41 million.

Note to editors: the Interim Financial Information for the first quarter of 2019 is available on http://www.aareal-bank.com/en/financialreports.

Aareal Bank Group
Aareal Bank Group, headquartered in Wiesbaden, is a leading international property specialist. It provides smart financings, software products, and digital solutions for the property sector and related industries, and is present across three continents: Europe, North America and Asia/Pacific. 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 the Asia/Pacific region. In its Consulting/Services segment Aareal Bank Group offers its European clients from the property and energy sectors a unique combination of specialised banking services as well as innovative digital products and services, designed to help clients optimise and enhance the efficiency of their business processes.

Aareal Bank Group – Key Indicators

	1 Jan-31 Mar 2019	1 Jan-31 Mar 2018
Results		
Operating profit (€ mn)	61	67
Consolidated net income (€ mn)	40	44
Consolidated net income allocated to ordinary shareholders (€ mn) [1]	35	39
Cost/income ratio (%) [2]	53.5	49.5
Earnings per ordinary share (€) [1]	0.59	0.65
RoE before taxes (%) [1] [3]	8.5	9.7
RoE after taxes (%) [1] [3]	5.5	6.3

	31 Mar 2019	31 Dec 2018
Statement of Financial Position		
Property finance (€ mn) [4]	26,288	26,395
Equity (€ mn)	2,931	2,928
Total assets (€ mn)	42,686	42,687
Regulatory Indicators [5]		
Risk-weighted assets (€ mn)	13,125	13,039
Common Equity Tier 1 ratio (CET1 ratio) (%)	16.7	17.2
Tier 1 ratio (T1 ratio) (%)	19.0	19.5
Total capital ratio (TC ratio) (%)	25.7	26.2
Common Equity Tier 1 ratio (CET1 ratio) (%) – Basel IV (estimated) [6]	13.1	13.2
Employees	2,790	2,748

[1] The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.
[2] Structured Property Financing segment only
[3] On an annualised basis
[4] Excluding €0.5 billion in private client business (31 December 2018: € 0.6 billion) and € 0.4 billion in local authority lending business by the former Westdeutsche ImmobilienBank AG (WestImmo) (31 December 2018: € 0.5 billion)
5) When calculating own funds, annual profits were taken into account, based on the Management Board's proposal for appropriation of profits for the 2018 financial year. The appropriation of profits is subject to approval by the Annual General Meeting. The expected relevant impact of the TRIM exercise on commercial property financings, and of the SREP recommendations concerning ECB's NPL guidelines (NPL stock), were taken into account for determining regulatory indicators for 2018.
[6] Underlying estimate, given a 72.5% output floor based on the final Basel Committee framework dated 7 December 2017. The calculation of the material impact upon Aareal Bank is subject to the outstanding EU implementation as well as the implementation of additional regulatory requirements (CRR II, EBA requirements etc.).

Consolidated income statement for the first quarter of 2019 (in accordance with IFRSs)

	1 Jan-31 Mar 2019	1 Jan-31 Mar 2018	Change
	€ mn	€ mn	%
Net interest income	135	133	2
Loss allowance	5	0	
Net commission income	53	50	6
Net derecognition gain or loss	16	6	167
Net gain or loss from financial instruments (fvpl)	6	3	100
Net gain or loss from hedge accounting	0	-2	-100
Net gain or loss from investments accounted for using the equity method	0	-	
Administrative expenses	144	128	13
Net other operating income/expenses	0	5	-100
Negative goodwill from acquisitions	-	-	
Operating profit	**61**	**67**	**-9**
Income taxes	21	23	-9
Consolidated net income	**40**	**44**	**-9**
Consolidated net income attributable to non-controlling interests	1	1	
Consolidated net income attributable to shareholders of Aareal Bank AG	39	43	-9
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG [1]	39	43	-9
of which: allocated to ordinary shareholders	35	39	-10
of which: allocated to AT1 investors	4	4	
Earnings per ordinary share (in €) [2]	0.59	0.65	-9
Earnings per AT1 unit (in €) [3]	0.04	0.04	

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

[2] Earnings per ordinary share are determined by dividing the earnings allocated to ordinary shareholders of Aareal Bank AG by the weighted average of ordinary shares outstanding during the financial year (59,857,221 shares). Basic earnings per ordinary share correspond to diluted earnings per ordinary share.

[3] Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of € 3 each) are determined by dividing the earnings allocated to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Earnings per AT1 unit (basic) correspond to (diluted) earnings per AT1 unit.

Segment results for the first quarter of 2019 (in accordance with IFRSs)

€ mn	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan-31 Mar 2019	1 Jan-31 Mar 2018	1 Jan-31 Mar 2019	1 Jan-31 Mar 2018	1 Jan-31 Mar 2019	1 Jan-31 Mar 2018	1 Jan-31 Mar 2019	1 Jan-31 Mar 2018
Net interest income[1]	138	136	-3	-3	0	0	135	133
Loss allowance	5	0	0	0			5	0
Net commission income[1]	2	1	52	50	-1	-1	53	50
Net derecognition gain or loss	16	6					16	6
Net gain or loss from financial instruments (fvpl)	6	3					6	3
Net gain or loss from hedge accounting	0	-2					0	-2
Net gain or loss from investments accounted for using the equity method			0				0	
Administrative expenses	87	74	58	55	-1	-1	144	128
Net other operating income/expenses	0	5	0	0	0	0	0	5
Negative goodwill from acquisitions								
Operating profit	**70**	**75**	**-9**	**-8**	**0**	**0**	**61**	**67**
Income taxes	24	26	-3	-3			21	23
Consolidated net income	**46**	**49**	**-6**	**-5**	**0**	**0**	**40**	**44**
Consolidated net income attributable to non-controlling interests	0	0	1	1			1	1
Consolidated net income attributable to shareholders of Aareal Bank AG	46	49	-7	-6	0	0	39	43
Allocated equity[2]	2,115	2,065	195	168	254	252	2,564	2,485
Cost/income ratio (%)	53.5	49.5	119.2	117.9			68.5	65.6
RoE before taxes (%) [2) 3) 4)]	12.2	13.5	-20.6	-21.9			8.5	9.7

[1] As of this reporting year, interest on deposits from the housing industry is shown under the net interest income of the Consulting/Services segment (previously included in net commission income). The previous year's figures were adjusted accordingly.
[2] Equity allocated to the Structured Property Financing segment for the same period of the previous year was adjusted to bring it into line with Basel IV; RoE before taxes was thus also changed accordingly.
[3] On an annualised basis
[4] The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.