Press Release

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Following a positive performance in the 2018 financial year Aareal Bank Group expects level of results to remain stable in 2019

- **Consolidated operating profit in 2018 in line with the target range, at € 316 million, including the non-recurring effect from the acquisition of Düsseldorfer Hypothekenbank (DHB) – consolidated net income allocated to ordinary shareholders after taxes up by 9 per cent, to € 208 million**
- **Dividend of € 2.10 per share envisaged; payout ratio at upper end of communicated range**
- **Strong new business in Structured Property Financing: at € 9.5 billion, new business target was markedly exceeded, with margins remaining strong; credit portfolio grows as planned**
- **Aareon IT subsidiary performed well during the past year – new growth initiative launched for the Consulting/Services segment**
- **Consolidated operating profit in 2019 expected to be roughly in line with adjusted 2018's level, reaching € 240 million to € 280 million, despite increased growth investments and costs for the integration of DHB**
- **CEO Hermann J. Merkens: "We are well-prepared to meet upcoming challenges, and continue to invest in our future"**

Wiesbaden, 27 February 2019 – Aareal Bank Group continued its positive business development during the 2018 financial year, taking further important steps along the path to a sustainably successful future. The Company continued building on the strong performance of prior years: on a preliminary, unaudited basis, consolidated operating profit reached € 316 million during the past year, meeting the target range of € 312 million to € 352 million despite a challenging environment. As previously announced, this result includes a positive non-recurring item (negative goodwill) in the amount of € 55 million from the acquisition of Düsseldorfer Hypotheken AG (DHB), a transaction that was closed at the end of 2018. In the operating business key indicators developed in line with the Company's guidance: net interest income decreased as planned and was met by lower loss allowance; net commission income rose again, in line with the Group strategy, while administrative expenses were down markedly. Return on equity, including the non-recurring item resulting from DHB and before taxes, was 11.6 per cent, beating the original target range of 9.5 to 11.0 per cent and coming in only slightly below the previous year, when 11.9 per cent was recorded.

The fourth quarter of 2018 contributed € 117 million to consolidated operating profit (2017: € 66 million), including the negative goodwill mentioned above. Consolidated net income allocated to ordinary shareholders generated during the fourth quarter amounted to € 91 million (Q4 2017: € 44 million), and totalled € 208 million in the full year (2017: € 191 million). Earnings per share were € 3.48, up by 9 per cent on the € 3.20 of 2017.

Aareal Bank wants its shareholders to continue participating adequately in these results. As announced on 18 February 2019, a dividend in the amount of € 2.10 per share is set to be proposed to the Annual General Meeting on 22 May 2019 – striking a balance between shareholder interest and the increasingly uncertain market environment. At the same time, this will allow the Company to continue to realise existing potential and future opportunities. The envisaged distribution translates into a pay-out ratio of 82 per cent, at the upper end of the range between 70 per cent and 80 per cent, which was communicated as part of the Bank's dividend policy – based on earnings per ordinary share (EPS), excluding the positive non-recurring effect (negative goodwill) resulting from the acquisition of DHB. At the current share price level, the envisaged distribution would result in a dividend yield of around 7.6 per cent.

Aareal Bank continues to have a very solid capital base. As at 31 December 2018, the Bank's Common Equity Tier 1 (CET1) ratio was 17.2 per cent, which is comfortable on an international level (31 Dec 2017: 19.6 per cent). Regulatory indicators as at 31 December 2018 already incorporate the expected impact of TRIM on the Bank's commercial property finance portfolio, as well as the SREP recommendations regarding the ECB's NPL guidelines. The inclusion of profits into CET1 capital is subject to approval by the ECB.

Strategic focus on controlled portfolio growth, and further consistent implementation of "Aareal 2020"

In the Structured Property Financing segment, Aareal Bank recorded strong new business totalling € 9.5 billion, and thus clearly exceeded the target range of € 7 billion to € 8 billion it had originally envisaged. The average gross margin also beat Aareal Bank's expectations, coming in at a good level of 210 basis points (excluding currency effects) in spite of fiercer competition. Portfolio volume grew – thanks to the strong new business activity and the consolidation of DHB – by 4 per cent year-on-year, reaching € 27.4 billion as at year-end. Given the margins achievable, portfolio growth represented efficient use of excess capital. Thanks to strong new business flow over the past few months, Aareal Bank is well placed to act in an increasingly difficult market environment in 2019 – without pressure to originate, and being able to selectively focus on attractive markets.

The financial year under review was much influenced by the consistent implementation of the “Aareal 2020” programme for the future. For the Structured Property Financing segment, this meant focusing on expanding its geographical footprint by entering the Australian market and venturing into new asset classes such as student housing (apart from the acquisition of DHB). In addition, the Bank reinforced its commitment to digitalisation by investing in BrickVest, a leading European online platform for commercial real estate investments.

In the Consulting/Services segment, IT subsidiary Aareon further consolidated its market leadership in the area of ERP products, while also successfully marketing a growing number of digital solutions. Aareal Bank also recently acquired plusForta GmbH, a market-leading broker of tenant deposit guarantees in Germany, thereby expanding its range of property industry services while also strengthening its digital solutions offering for the housing industry and the housing industry’s clients.

In the years to come, the growth rates generated at Aareon through digital products and solutions are set to accelerate markedly, mainly driven by proprietary developments but also by acquisitions – when opportunities present themselves. With this growth initiative as a key contributing factor, Aareon plans to double its EBIT over the medium term.

CEO Hermann J. Merkens commented: “The strong figures of the past financial years are proof, once more, that Aareal Bank Group is well-prepared to face the challenges of the years to come. We have a robust capital base and a strong operating business, in whose future we continue to invest – fully aware of any risks, but also of the ample opportunities that we would like to grasp in a rapidly changing market and competitive environment.”

2018 financial year: good results despite a challenging environment

Net interest income in the 2018 financial year was € 535 million, after € 584 million in the previous year, and thus within the forecasted range (€ 520 million to € 540 million). The year-on-year decline was attributable, in particular, to the planned reduction of WestImmo and Corealcredit portfolios. The net derecognition gain – which is volatile and beyond the Bank's control – declined to € 24 million (2017: € 50 million), due to lower effects from early loan repayments. Including the net derecognition gain, net interest income amounted to € 559 million during the 2018 financial year (2017: € 634 million).

The conservative risk policy which the Bank has maintained over recent years led to a further decline in loss allowance: at € 72 million, it once again remained below the previous year's figure of € 82 million. Net commission income increased further, to € 215 million (2017: € 206 million).

The result from financial instruments (fvpl) and net result on hedge accounting totalled €–4 million (2017: € 7 million); this was largely attributable to exchange rate fluctuations and changes in the measurement of hedging derivatives.

Consolidated administrative expenses decreased markedly, to € 462 million, in the 2018 financial year (2017: € 511 million). Specifically, measures adopted within the scope of "Aareal 2020" contributed to this expected reduction.

Net other operating income/expenses amounted to € 25 million (2017: € 74 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), mainly consisting of income from subsidiaries.

Including the non-recurring effect of € 55 million from the acquisition of Düsseldorfer Hypothekenbank, consolidated operating profit for Aareal Bank Group for the 2018 financial year totalled € 316 million, after € 328 million in 2017. Taking tax deductions of € 90 million into account, consolidated net income was € 226 million. After deduction of € 2 million in non-controlling interest income, and assumed pro-rata net interest payable on the AT1 bond of € 16 million, consolidated net income allocated to ordinary shareholders of Aareal Bank AG amounted to € 208 million (2017: € 191 million).

In its **Structured Property Financing segment**, Aareal Bank Group originated new business of € 9.5 billion (2017: € 8.8 billion) during 2018, which clearly exceeded the target corridor of € 7 billion to € 8 billion targeted originally.

The margin for the full year of 2018 was targeted to be between 190 and 200 basis points, but despite a challenging environment, it also exceeded the original range, coming to an average level of 210 basis points before foreign-exchange effects. This underscores Aareal Bank’s capability of flexibly allocating new business activity to the most attractive markets.

Thanks to the Bank’s efficient use of excess capital the portfolio volume rose to € 27.4 billion as per 2018’s year-end, even though the Bank continued to run down its non-strategic credit portfolio (31 Dec 2017: € 26.4 billion). This means that the portfolio level reached the upper end of the original target range of € 25 billion to € 28 billion.

Operating profit in the Structured Property Financing segment totalled € 338 million (2017: € 351 million).

Sales revenue in the **Consulting/Services segment** rose to € 242 million in the 2018 financial year (2017: € 226 million). The increase reflected a significant increase in sales revenue generated by subsidiary Aareon. The persistent low interest rate environment continued to burden margins from the deposit-taking business that are reported in sales revenue.

The cost of materials purchased as well as staff expenses rose to 42 Mio. € (2017: 35 Mio. €) and 159 Mio. € (2017: 151 Mio. €), respectively – as expected and in line with sales revenue.

Aareon contributed € 36 million to consolidated operating profit (2017: € 34 million).

The volume of deposits from the housing industry rose to an average of € 10.4 billion in the 2018 financial year (2017: € 10.0 billion). 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 €–22 million (2017: €–23 million), due to the persistent burdens posed by the prevailing low interest rate environment.

Successful funding activities – strong capitalisation

Aareal Bank Group's funding activities on the capital markets were very successful during the 2018 financial year: the Bank succeeded in raising a total of € 3.4 billion in medium- and long-term funds. € 2.5 billion was raised through Pfandbriefe, € 0.9 billion by means of uncovered debt (€ 0.7 billion in senior preferred, and € 0.2 billion in senior non-preferred issues). The Pfandbrief issuance volume includes five benchmark Pfandbriefe totalling € 2.3 billion, complemented by private placements. Aareal Bank has thus moved early to secure liquidity in the long term, at favourable conditions – before the capital markets environment grows more cloudy, as is expected to be the case in the further course of the year.

Aareal Bank continues to have a very solid capital base. As at 31 December 2018, the Bank's Common Equity Tier 1 (CET1) ratio was 17.2 per cent, which is comfortable on an international level (31 Dec 2017: 19.6 per cent). The total capital ratio stood at 26.2 per cent (31/12/2017: 30.0 per cent). 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 13.2 per cent, after 13.4 per cent as per 31 December 2017. This decrease is mainly the result of an increase in the credit portfolio, combined with the acquisition of DHB. Regulatory indicators as at 31 December 2018 already incorporate the expected impact of TRIM on the Bank's commercial property finance portfolio, as well as the SREP recommendations regarding the ECB's NPL guidelines. The inclusion of profits into CET1 capital is subject to approval by the ECB.

Notes on the preliminary Income Statement for the fourth quarter of 2018

According to preliminary, unaudited figures, net interest income in the final quarter of 2018 stood at € 135 million (Q4/2017: € 135 million), following € 131 million in the previous quarter. The increase reflects the notable portfolio growth initiated during the fourth quarter of 2018. The net derecognition gain was € 8 million, up from € 5 million in the previous quarter, but below the € 13 million registered in the same quarter of the previous year.

Loss allowance amounted to € 39 million (Q4 2017: € 29 million) during the fourth quarter, and was thus in line with expectations. Net commission income of € 63 million exceeded the previous year's figure (Q4 2017: € 61 million).

Consolidated administrative expenses amounted to € 118 million during the fourth quarter (Q4 2017: € 123 million).

Net other operating income/expenses benefitted from income generated by subsidiaries, amounting to € 14 million during the fourth quarter (Q4 2017: € 10 million).

Including the non-recurring effect of € 55 million from the acquisition of Düsseldorfer Hypothekenbank, consolidated operating profit for Aareal Bank Group during the fourth quarter totalled € 117 million, after € 66 million in the same quarter of 2017. Taking tax deductions of € 22 million into account, consolidated net income was € 95 million. Accounting for € 0 million in non-controlling interest income, and 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 € 91 million (Q4 2017: € 44 million).

Outlook for 2019: consolidated operating profit expected to reach previous year's adjusted level

Aareal Bank Group anticipates a challenging business environment during the current financial year – with low interest rates in Europe, and strong competitive and margin pressure on key target markets, as well as an increasingly insecure market environment and continuously high regulatory demands. Against this background, Aareal Bank will continue to adhere to its business policy with a strict focus on risks and returns. The Bank will continue to accelerate its strategic development within the “Aareal 2020” programme for the future, with a particular focus on the expedited digital initiative in the Consulting/Services segment.

Aareal Bank expects Group net interest income (excluding net derecognition gain) to be in a range of € 530 million to € 560 million for the full year 2019. The market-driven net derecognition gain is forecast 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, 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 range is in line with the previous year's level, 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 approximately between € 2.40 and € 2.80.

The reduction of non-strategic portfolios in the Structured Property Financing segment will continue during 2019. At the same time, the core credit portfolio is planned to grow: overall, subject to exchange rate fluctuations, Aareal Bank Group’s property financing portfolio is expected to range between € 26 billion and

€ 28 billion. The Bank is targeting new business between € 7 billion and € 8 billion for the current year, with a focus on the high-margin US market. Aareal Bank expects its IT subsidiary Aareon to contribute approximately € 35 million to consolidated operating profit, taking strategic investments into accelerated growth into account (excluding strategic investments, the contribution is anticipated at around € 41 million).

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 Asia. In its Consulting/Services segment Aareal Bank Group offers its European clients from the property and energy sectors a unique combination of specialised banking services as well as innovative digital products and services, designed to help clients optimise and enhance the efficiency of their business processes.

Preliminary results of the financial year 2018 (unaudited, in accordance with IFRSs)

	1 Jan-31 Dec 2018	1 Jan - 31 Dec 2017[1)]	Change
	€ mn	€ mn	%
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
Result from financial instruments (fvpl)	-2	14	
Net result on hedge accounting	-2	-7	
Results 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	-	
Operating profit	**316**	**328**	**-4**
Income taxes	90	115	-22
Consolidated net income	**226**	**213**	**6**
Consolidated net income attributable to non-controlling interests	2	6	-67
Consolidated net income attributable to shareholders of Aareal Bank AG	224	207	8
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG [2)]	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 €) [3)]	3.48	3.20	9
Earnings per AT1 unit (€) [4)]	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 attributable to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Earnings per AT1 unit (basic) correspond to (diluted) earnings per AT1 unit.

Segment Results of Aareal Bank Group
Preliminary results for the 2018 financial year
(unaudited, in accordance with IFRSs)

€ mn	Structured Property Financing		Consulting/Services		Consolidation/Reconciliation		Aareal Bank Group	
	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017[1]	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2017[1]
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
Result from financial instruments (fvpl)	-2	14	0				-2	14
Net gain or loss from hedge accounting	-2	-7					-2	-7
Results from investments accounted for using the equity method	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	
Operating profit	**338**	**351**	**-22**	**-23**	**0**	**0**	**316**	**328**
Income taxes	99	123	-9	-8			90	115
Consolidated net income	**239**	**228**	**-13**	**-15**	**0**	**0**	**226**	**213**
Consolidated net income attributable to non-controlling interests	0	4	2	2			2	6
Consolidated 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.

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the fourth quarter of 2018
(unaudited, in accordance with IFRSs)

	Q4 2018	Q4 2017[1)]	Change
	€ mn	€ mn	%
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
Result from financial instruments (fvpl)	-1	1	
Net result on hedge accounting	0	-2	-100
Results 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		
Operating profit	**117**	**66**	**77**
Income taxes	22	18	22
Consolidated net income	**95**	**48**	**98**
Consolidated net income attributable to non-controlling interests	0	0	
Consolidated net income attributable to shareholders of Aareal Bank AG	95	48	98
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG 2)	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 €) [3)]	1.51	0.74	104
Earnings per AT1 unit (€) [4)]	0.04	0.04	0

1) Comparative amounts reclassified according to the new classification format.
2) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.
3) Earnings per ordinary share are determined by dividing the earnings allocated to ordinary shareholders of Aareal Bank AG by the weighted average of ordinary shares outstanding during the financial year (59,857,221 shares). (Basic) earnings per ordinary share correspond to (diluted) earnings per ordinary share.
4) Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of € 3 each) are determined by dividing the earnings attributable to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Earnings per AT1 unit (basic) correspond to (diluted) earnings per AT1 unit.

Segment Results of Aareal Bank Group
Preliminary results for the fourth quarter 2018 (unaudited, in accordance with IFRSs)

	Structured Property Financing		Consulting/Services		Consolidation/Reconciliation		Aareal Bank Group	
	Q4 2018	Q4 2017[1]	Q4 2018	Q4 2017	Q4 2018	Q4 2017	Q4 2018	Q4 2017[1]
€ 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
Result from financial instruments (fvpl)	-1	1	0				-1	1
Net gain or loss from hedge accounting	0	-2					0	-2
Results 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	
Operating profit	**116**	**70**	**1**	**-4**	**0**	**0**	**117**	**66**
Income taxes	22	19	0	-1			22	18
Consolidated net income	**94**	**51**	**1**	**-3**	**0**	**0**	**95**	**48**
Consolidated net income attributable to non-controlling interests	0	0	0	0			0	0
Consolidated 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.