

Setting milestones. Creating prospects.

Aareal Bank Group – Interim Financial Information
1 January to 31 March 2019



**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 Indicators⁵⁾		
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

	31 Mar 2019	31 Dec 2018
Moody's		
Issuer rating	A3	A3
Senior Preferred ⁷⁾	A3	A3
Senior Non Preferred ⁸⁾	Baa1	Baa1
Bank deposit rating	A3	A3
Mortgage Pfandbrief Rating	Aaa	Aaa
Fitch Ratings⁹⁾		
Issuer default rating	A-	A-
Senior Preferred	A	A
Senior Non Preferred	A-	A-
Deposit ratings	A	A
Sustainability Ratings¹⁰⁾		
MSCI	AA	AA
ISS-oekom	prime (C)	prime (C)
Sustainalytics	70	70

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.).

⁷⁾ Moody's terminology: "Senior Unsecured"

⁸⁾ Moody's terminology: "Junior Senior Unsecured"

⁹⁾ Published on 21 January 2019

¹⁰⁾ Please refer to our website (www.aareal-bank.com/en/responsibility/reporting-on-our-progress/) for more details.

This report contains rounded numbers, which may result in slight differences when aggregating figures and calculating percentages.

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Business Development

Key Events and Transactions

There have been no other material events during the period under review that need to be disclosed at this point.

Report on the Economic Position

Financial Performance

	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.

Consolidated operating profit for the first quarter of the financial year amounted to € 61 million (Q1 2018: € 67 million) and was thus in line with our expectations. The expected increase in administrative expenses was partially offset by higher operating income and the higher net derecognition gain.

At € 135 million, net interest income was slightly higher than in the previous year (Q1 2018: € 133 million), as expected and due to the higher volume of the loan portfolio.

Reflecting seasonal factors, loss allowance amounted to € 5 million (Q1 2018: € 0 million) and was thus also in line with our expectations.

Net commission income increased, as expected, to € 53 million (Q1 2018: € 50 million), which was mainly due to higher sales revenue at Aareon.

The net derecognition gain of € 16 million (Q1 2018: € 6 million), which significantly exceeded our expectations, mainly resulted from the capital markets business and market-related effects from early repayments.

The aggregate of net gain or loss from financial instruments (fvpl) and net gain or loss on hedge accounting of € 6 million (Q1 2018: € 1 million) resulted largely from measurement changes for other derivatives fvpl used to hedge interest rate and currency risks.

Administrative expenses increased as expected, to € 144 million (Q1 2018: € 128 million), in particular due to running costs and integration expenses incurred in conjunction with the integration of Düsseldorf. The previous year's figure included positive non-recurring effects from the reversal of provisions.

All in all, consolidated operating profit for the quarter under review totalled € 61 million (Q1 2018: € 67 million). Taking into consideration tax expenses of € 21 million and non-controlling interest income of € 1 million, 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). Earnings per ordinary share amounted to € 0.59 (Q1 2018: € 0.65) and return on equity (RoE) before taxes stood at 8.5 % (Q1 2018: 9.7 %).

Financial Position – Assets

	31 Mar 2019	31 Dec 2018
€ mn		
Assets		
Financial assets (ac)	35,634	34,702
Cash funds	1,786	1,265
Loan receivables	26,875	26,795
Money market and capital market receivables	6,911	6,578
Receivables from other transactions	62	64
Loss allowance (ac)	-577	-577
Financial assets (fvoci)	4,038	4,450
Money market and capital market receivables	4,030	4,443
Equity instruments	8	7
Financial assets (fvpl)	2,571	3,183
Loan receivables	568	711
Money market and capital market receivables	130	538
Positive market value of designated hedging derivatives	1,405	1,277
Positive market value of other derivatives	468	657
Investments accounted for using the equity method	7	7
Intangible assets	168	158
Property and equipment	313	260
Income tax assets	33	30
Deferred tax assets	158	141
Other assets	341	333
Total	42,686	42,687

At € 42.7 billion, Aareal Bank Group's total assets were virtually unchanged compared with the previous year-end. Disposals of securities – especially of Düsseldorf's holdings – reduced capital markets receivables, in favour of short-term investment.

The volume of Aareal Bank Group's property financing portfolio was virtually unchanged at € 26.3 billion (31 December 2018: € 26.4 billion). New business originated during the first quarter amounted to € 0.8 billion (Q1 2018: € 1.5 billion).

Financial Position – Equity and Liabilities

	31 Mar 2019	31 Dec 2018
€ mn		
Equity and liabilities		
Financial liabilities (ac)	36,943	37,215
Money market and capital market liabilities	26,056	26,371
Deposits from the housing industry	9,652	9,679
Liabilities from other transactions	205	121
Subordinated capital	1,030	1,044
Financial liabilities (fvpl)	2,148	1,934
Negative market value of designated hedging derivatives	1,559	1,461
Negative market value of other derivatives	589	473
Provisions	557	519
Income tax liabilities	45	40
Deferred tax liabilities	23	18
Other liabilities	39	33
Equity	2,931	2,928
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,832	1,797
AT1 bond	300	300
Other reserves	-104	-72
Non-controlling interests	2	2
Total	42,686	42,687

At € 42.7 billion, Aareal Bank Group's total equity and liabilities were virtually unchanged compared with the previous year-end. Money-market and capital market liabilities declined slightly, whilst negative market values of derivatives showed a slight increase.

Aareal Bank Group successfully raised € 1.1 billion on the capital markets during the first quarter of 2019, including a € 750 million benchmark Mortgage Pfandbrief issue. The Liquidity Coverage Ratio (LCR) exceeded 150 % on the reporting days during the period under review.

Report on Changed Forecasts

Aareal Bank confirms its Group targets for the 2019 financial year.

Events after the Interim Reporting Period

There have been no events subsequent to the end of the reporting period under review that need to be disclosed at this point.

Segment Results

	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
€ mn								
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.

Financial Calendar

22 May 2019	Annual General Meeting – Kurhaus, Wiesbaden
13 August 2019	Publication of results as at 30 June 2019
12 November 2019	Publication of results as at 30 September 2019

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