Aareal
YOUR COMPETITIVE ADVANTAGE.

PRESS RELEASE

Following a strong performance in the 2019 financial year, Aareal Bank Group expects stable 2020 consolidated net income

- **Dividend of € 2.00 per share proposed**
- **Operating profit 2019 of € 248 million within the anticipated range, despite additional expenses for accelerated de-risking – consolidated net income allocated to ordinary shareholders at € 145 million**
- **At € 7.7 billion, new business in the Structured Property Financing segment within the target range – margins above projections**
- **IT subsidiary Aareon once again on a growth trajectory: marked increase in sales revenues**
- **Consolidated net income allocated to ordinary shareholders for 2020 expected to be in line with the previous year's level**
- **"Aareal Next Level": strategic priorities defined, and mid-term financial targets specified**
- **CEO Hermann J. Merkens: "We have further strengthened our robust base, and are exploiting new potential."**

Wiesbaden, 26 February 2020 – Aareal Bank Group achieved all its targets in the past financial year, whilst further improving the foundations for sustainable continuation of the Company's positive performance over the past years.

On a preliminary, unaudited basis, operating profit of € 248 million in 2019 was down only slightly on the adjusted figure for the previous year (€ 261 million), in spite of integration costs incurred for Düsseldorfer Hypothekenbank (DHB), in what continued to be a very challenging market and competitive environment. Including the positive non-recurring effect of € 55 million from the acquisition of DHB, the previous year's figure was € 316 million. Operating profit was thus within the projected target range, despite expenses of approximately € 50 million being incurred on a full-year basis for the accelerated reduction of risk exposures. The other operating indicators were also in line with the forecasts: net interest income, which was stable despite the persistently low level of interest rates, remained within the projected range. This was also the case for loss allowance – higher than in the previous year as a result of accelerated de-risking – as well as for the further marked improvement in net commission income and moderately higher administrative expenses.

All in all, Aareal Bank Group achieved a return on equity before taxes of 8.7 per cent in the financial year under review. It therefore remained within the forecast range of 8.5 to 10.0 per cent, despite the burdens from de-risking. For 2018, the indicator had been at 11.6 per cent, benefiting from the positive non-recurring effect related to the acquisition of DHB. After taxes, Aareal Bank Group generated consolidated net income allocated to ordinary shareholders of € 145 million in the year under review (previous year adjusted: € 153 million; previous year's figure including the non-recurring effect related to DHB: € 208 million). Of this amount, € 38 million was generated in the fourth quarter of 2019, up € 2 million year-on-year with (adjusted) operating profit remaining.

Earnings per share for the full year 2019 amounted to € 2.42 (2018: € 2.55 (adjusted)). The Management Board and the Supervisory Board will propose to the Annual General Meeting of Aareal Bank AG – to be held on 27 May 2020 – to pay a dividend of € 2.00 per share. This represents a pay-out ratio of 83 per cent – virtually unchanged year-on-year, which will once again correspond to the upper end of the 70 to 80 per cent range announced within the scope of the dividend policy. The proposed dividend reflects the Bank's continued very sound capital base, whilst providing scope to realise potential and exploit opportunities.

CEO Hermann J. Merkens commented on the results for 2019: "In view of the challenging environment, we are very satisfied with our results. Aareal Bank Group once again further strengthened its robust operating base and created value for its stakeholders in the year under review."

Risk exposures reduced significantly, strategic decisions taken

Aareal Bank not only developed its operating business further in line with projections during the financial year under review. It also continued to systematically improve its starting position for the years ahead.

The accelerated de-risking that was announced in mid-2019 was implemented very successfully. As announced on 13 January 2020, Aareal Bank reduced its exposure to Italy (in particular securities and loans) by around one-third (or € 1.3 billion) to € 2.7 billion in 2019. The volume of non-performing loans (NPLs) was reduced overall by around 40 per cent (or € 0.8 billion) from mid-year 2019 to € 1.1 billion as at 31 December 2019. Moreover, the de-risking exercise had a positive impact on the Bank's capitalisation, as well as improving average loan-to-value ratios (LTVs).

Aareal Bank countered the decline in the portfolio related to de-risking through continued dynamic new business origination, totalling € 7.7 billion for the year as a whole. Hence, the portfolio volume of € 26.7 billion as at year-end remained within the target corridor of € 26 billion to € 28 billion.

In addition to accelerated de-risking, strategic decisions taken for the period following the end of the current "Aareal 2020" programme for the future characterised the past few months. In the years ahead, the Group will develop its individual business activities in a targeted manner under the motto of "Aareal Next Level" – with an unchanged general strategic orientation – and strengthen their respective independent profiles, in order to accelerate the Group's growth overall and also create value for the shareholders and other stakeholders in a market, competitive and regulatory environment holding ever-growing challenges.

Whilst the emphasis in property financing is on securing the market position in an adverse environment, the Group is targeting the development of new potential in both the Bank's business with the housing industry and related industries, and at Aareon. Aareon, in particular, is expected to significantly increase its growth momentum, developing a strong independent value proposition as a software company with a standalone market position. For this purpose, Aareon will consistently implement its growth programme, presented in 2019, which is designed to double results over the medium term – predominantly through an expansion of digital businesses. Targeted M&A activities are expected to generate additional growth.

In line with the strategic orientation of sharpening the independent profiles of the individual business activities, segment reporting will be adjusted, starting with the report for the first quarter of 2020, to comprise three segments (instead of two previously): Structured Property Financing, the Bank's business with the housing sector and neighbouring industries, and Aareon. The strategic cornerstones defined with "Aareal Next Level" will gradually be backed by further measures and initiatives to be taken across the Group in the months ahead. Under the proviso that the environment becomes more positive, the initiatives undertaken in the context of 'Aareal Next Level' will permit to achieve return on equity before taxes of around 12 per cent over the medium term.

Hermann J. Merkens, Chairman of the Management Board, commented on this: "Following the successful implementation of "Aareal 2020", we will raise our Company to a new development level – hence "Aareal Next Level" – over the medium term. In doing so, we will not only exploit new strategic options in the years ahead, but also develop considerable potential for operating growth. This will allow us to make even better use of the competitive advantages we have over pure financial institutions thanks to our diversified business activities."

2019 financial year: stable results in a challenging environment

In the 2019 financial year, net interest income of € 533 million was stable at the previous year's level (€ 535 million) and within the forecast range of € 530 to 560 million, despite the low interest rate environment. The net derecognition gain amounted to € 64 million (2018: € 24 million), primarily reflecting structural adjustments to the Treasury portfolio following the integration of DHB.

Loss allowance in the year under review amounted to € 90 million (2018: € 72 million), including of around € 50 million for accelerated de-risking. Net commission income increased once again, to € 229 million (2018: € 215 million), thanks in particular to Aareon's positive development.

The net loss from financial instruments (fvpl) and on hedge accounting totalled € -3 million (2018: € -4 million).

Consolidated administrative expenses totalled € 488 million (2018: € 462 million). The increase – which was in line with expectations – was attributable in particular to one-off costs and expenses incurred in conjunction with the integration of DHB, as well as to Aareon's business expansion and the reversal of provisions in the previous year.

All in all, Aareal Bank Group achieved operating profit of € 248 million in the 2019 financial year (2018: € 316 million; adjusted for the DHB non-recurring effect: € 261 million). Taking tax deductions of € 85 million into account, consolidated net income was € 163 million. After deduction of € 2 million in non-controlling interest income, and assuming 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 € 145 million (2018: € 208 million; adjusted for the DHB non-recurring effect: € 153 million).

In its **Structured Property Financing segment**, Aareal Bank Group originated new business of € 7.7 billion (2018: € 9.5 billion) during the 2019 financial year. The volume of new business was thus at the upper end of the target corridor of € 7 billion to € 8 billion.
Averaging around 195 basis points in 2019, the target margin of 180 to 190 basis points (before currency effects) was exceeded. This underlines Aareal Bank's ability to allocate new business flexibly to attractive markets, whilst meeting high quality standards at the same time. The average LTV of the lending portfolio improved from 58 to 57 per cent.

The portfolio volume declined slightly to € 26.7 billion (2018: € 27.4 billion), particularly due to successful de-risking and syndication measures, and to exchange rate fluctuations. Nonetheless, it remained within the target corridor of € 26 billion to € 28 billion. Operating profit in the Structured Property Financing segment amounted to € 276 million (2018: € 338 million).

In the **Consulting/Services segment**, Aareon reported a marked increase in sales revenues, which rose to € 252 million in the 2019 financial year (2018: € 237 million). Sales revenue from digital products rose by 20 per cent (2018: plus 16 per cent). Aareon's contribution to Aareal Bank Group's operating profit amounted to € 37 million (2018: € 36 million), despite growth investments.

Averaging € 10.7 billion, the volume of deposits from the housing industry was virtually stable in the 2019 financial year (2018: € 10.4 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 € –28 million (2018: € –22 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 successful during the 2019 financial year: it succeeded in raising a total of € 2.9 billion in medium- and long-term funds during the period under review. € 2.2 billion was raised through Pfandbriefe, € 0.7 billion by means of uncovered debt (€ 0.6 billion in senior preferred, and € 0.1 billion in senior non-preferred issues). The issuance volume includes two euro-denominated and one USD-denominated benchmark Mortgage Pfandbrief transactions and a senior preferred benchmark issue.

Aareal Bank continues to enjoy a solid capital base. The Common Equity Tier 1 (CET1) ratio posted a marked increase during the year under review, also reflecting the accelerated de-risking exercise: it stood at 19.6 per cent as at 31 December 2019 (31 December 2018: 17.2 per cent), which is also comfortable on an international level. The total capital ratio was 29.9 per cent (31 December 2018: 26.2 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 13.5 per cent, after 13.2 per cent as per 31 December 2018.

Notes on the preliminary income statement for the fourth quarter of 2019

According to preliminary, unaudited figures, net interest income in the final quarter of 2019 amounted to € 130 million (Q4 2018: € 135 million), after € 134 million in the previous quarter. It was therefore virtually stable, despite the low interest rate environment. At € 22 million, the net derecognition gain significantly exceeded the same quarter of the previous year (Q4 2018: € 8 million). This figure includes non-recurring income of around € 10 million from further adjustments made to the Treasury portfolio.

Loss allowance amounted to € 35 million during the fourth quarter (Q4 2018: € 39 million) and was thus in line with expectations. As already communicated in January 2020, Aareal Bank used an additional amount of approximately € 15 million in the fourth quarter of 2019 for accelerated de-risking. Net commission income of € 65 million exceeded the previous year's figure (Q4 2018: € 63 million). Consolidated administrative expenses amounted to € 118 million during the fourth quarter and were therefore in line with the previous year (Q4 2018: € 118 million).

On balance, operating profit for the fourth quarter amounted to € 62 million (Q4 2018: € 117 million; adjusted for the DHB non-recurring effect: € 62 million). Taking tax deductions of € 20 million into account, consolidated net income was € 42 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 € 38 million (Q4 2018: € 91 million; adjusted for the DHB non-recurring effect: € 36 million).

Outlook: Stable development expected for 2020

Aareal Bank Group believes the market and competitive environment will remain challenging in the current financial year. It also expects ongoing political and economic uncertainties. No relief is to be expected either from regulatory pressures or from the low interest rate environment.

Against this background, the Company will – as set out in the "Aareal Next Level" concept – introduce measures in the current year to stabilise and optimise the existing business, and drive investments in new products and in future growth.

Specifically, Aareal Bank Group anticipates the aggregate of net interest income and net commission income to be stable compared to 2019 (€ 762 million), with a higher contribution from Aareon. Loss allowance is expected to decline to a risk cost level of just under 30 basis points (in terms of the property financing portfolio), and thus below the figure for 2019 (€ 90 million). Administrative expenses are anticipated to slightly increase year-on-year (2019: € 488 million), whereby the effects from Aareon's business growth are likely to more than offset lower expenses incurred by the Bank.

The Management Board anticipates consolidated operating profit to be in line with the previous year's levels. The forecasts for loss allowance and operating profit do not include any effects from a potential, selective continuation of accelerated de-risking activities. Consolidated net income allocated to ordinary shareholders is projected to remain stable at the previous year's levels, even taking possible further accelerated de-risking measures into account.

The revised wording of the outlook (compared to previous years) takes account of the changed strategic thrusts, and is designed to provide enhanced transparency. The forecast for the Structured Property Financing segment is for new business volume to be in line with the previous year, between € 7 billion and € 8 billion, with portfolio volume in the communicated range of between € 26 billion and € 28 billion. Net commission income in the segment – to be established – comprising the Bank's business with the housing sector and neighbouring industries is projected to rise by around 15 per cent (2019: € 23 million), with deposit volumes expected between € 10 billion and € 11 billion. Aareon, which will henceforth be shown as a separate segment, is projected to increase sales revenues by almost double-digit growth rates, to between € 272 million and € 276 million, with adjusted EBITDA set to rise to between € 68 million and € 71 million (2019: € 64 million).

Your contact persons:

Sven Korndörffer
Phone: +49 611 348 2306
sven.korndoerffer@aareal-bank.com

Christian Feldbrügge
Phone: +49 611 348 2280
christian.feldbruegge@aareal-bank.com

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

	1 Jan-31 Dec 2019	1 Jan-31 Dec 2018	Change
	€ mn	€ mn	%
Net interest income	533	535	0
Loss allowance	90	72	25
Net commission income	229	215	7
Net derecognition gain or loss	64	24	167
Net gain or loss from financial instruments (fvpl)	1	-2	-150
Net gain or loss from hedge accounting	-4	-2	100
Net gain or loss from investments accounted for using the equity method	1	0	
Administrative expenses	488	462	6
Net other operating income/expenses	2	25	-92
Negative goodwill from acquisitions	-	55	
Operating profit	**248**	**316**	**-22**
Income taxes	85	90	-6
Consolidated net income	**163**	**226**	**-28**
Consolidated net income attributable to non-controlling interests	2	2	0
Consolidated net income attributable to shareholders of Aareal Bank AG	161	224	-28
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG [1]	161	224	-28
of which: allocated to ordinary shareholders	145	208	-30
of which: allocated to AT1 investors	16	16	
Earnings per ordinary share (€) [2]	2.42	3.48	-30
Earnings per AT1 unit (€) [3]	0.16	0.16	

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

	Q4 2019	Q4 2018	Change
	€ mn	€ mn	%
Net interest income	130	135	-4
Loss allowance	35	39	-10
Net commission income	65	63	3
Net derecognition gain or loss	22	8	175
Net gain or loss from financial instruments (fvpl)	-4	-1	
Net gain or loss from hedge accounting	0	0	0
Net gain or loss from investments accounted for using the equity method	1	0	
Administrative expenses	118	118	0
Net other operating income/expenses	1	14	-93
Negative goodwill from acquisitions	-	55	
Operating profit	**62**	**117**	**-47**
Income taxes	20	22	-9
Consolidated net income	**42**	**95**	**-56**
Consolidated net income attributable to non-controlling interests	0	0	0
Consolidated net income attributable to shareholders of Aareal Bank AG	42	95	-56
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG [1]	42	95	-56
of which: allocated to ordinary shareholders	38	91	-58
of which: allocated to AT1 investors	4	4	
Earnings per ordinary share (€) [2]	0.62	1.51	-58
Earnings per AT1 unit (€) [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 of Aareal Bank Group
Preliminary results for the financial year
(unaudited, in accordance with IFRSs)

€ mn	Structured Property Financing		Consulting/Services		Consolidation / Reconciliation		Aareal Bank Group	
	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018	1 Jan - 31 Dec 2019	1 Jan - 31 Dec 2018
Net interest income[1]	549	547	-16	-12	0	0	533	535
Loss allowance	90	73	0	-1			90	72
Net commission income[1]	10	9	227	212	-8	-6	229	215
Net derecognition gain or loss	64	24					64	24
Net gain or loss from financial instruments (fvpl)	1	-2	0	0			1	-2
Net gain or loss from hedge accounting	-4	-2					-4	-2
Net gain or loss from investments accounted for using the equity method	1	0	0				1	0
Administrative expenses	254	241	242	227	-8	-6	488	462
Net other operating income/expenses	-1	21	3	4	0	0	2	25
Negative goodwill from acquisitions		55						55
Operating profit	**276**	**338**	**-28**	**-22**	**0**	**0**	**248**	**316**
Income taxes	95	99	-10	-9			85	90
Consolidated net income	**181**	**239**	**-18**	**-13**	**0**	**0**	**163**	**226**
Consolidated net income attributable to non-controlling interests	0	0	2	2			2	2
Consolidated net income attributable to shareholders of Aareal Bank AG	181	239	-20	-15	0	0	161	224

[1] As of this reporting year, interest from housing industry deposits is shown in net interest income of the Consulting/Services segment (previously included in net commission income). The previous year's figures were adjusted accordingly.

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

	Structured Property Financing		Consulting/Services		Consolidation / Reconciliation		Aareal Bank Group	
	Q4 2019	Q4 2018	Q4 2019	Q4 2018	Q4 2019	Q4 2018	Q4 2019	Q4 2018
€ mn								
Net interest income[1)]	135	138	-5	-3	0	0	130	135
Loss allowance	35	40	0	-1			35	39
Net commission income[1)]	4	3	64	62	-3	-2	65	63
Net derecognition gain or loss	22	8					22	8
Net gain or loss from financial instruments (fvpl)	-4	-1	0	0			-4	-1
Net gain or loss from hedge accounting	0	0					0	0
Net gain or loss from investments accounted for using the equity method	1	0	0				1	0
Administrative expenses	59	59	62	61	-3	-2	118	118
Net other operating income/expenses	-1	12	2	2	0	0	1	14
Negative goodwill from acquisitions		55						55
Operating profit	**63**	**116**	**-1**	**1**	**0**	**0**	**62**	**117**
Income taxes	21	22	-1	0			20	22
Consolidated net income	**42**	**94**	**0**	**1**	**0**	**0**	**42**	**95**
Consolidated net income attributable to non-controlling interests	0	0	0	0			0	0
Consolidated net income attributable to shareholders of Aareal Bank AG	42	94	0	1	0	0	42	95

[1)] As of this reporting year, interest from housing industry deposits is shown in net interest income of the Consulting/Services segment (previously included in net commission income). The previous year's figures were adjusted accordingly.