

QUALITY®
made by **AAREAL**

Annual Analyst Conference

Preliminary 2018 results

February 27, 2019

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Aareal

Agenda

- Highlights 2018
- Preliminary 2018 at a glance
- Preliminary group results 2018
- Funding, B/S structure, regulation & capital
- Asset quality
- Strategic outlook
- Outlook 2019

- Appendix



Highlights 2018

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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 ¹⁾ + 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

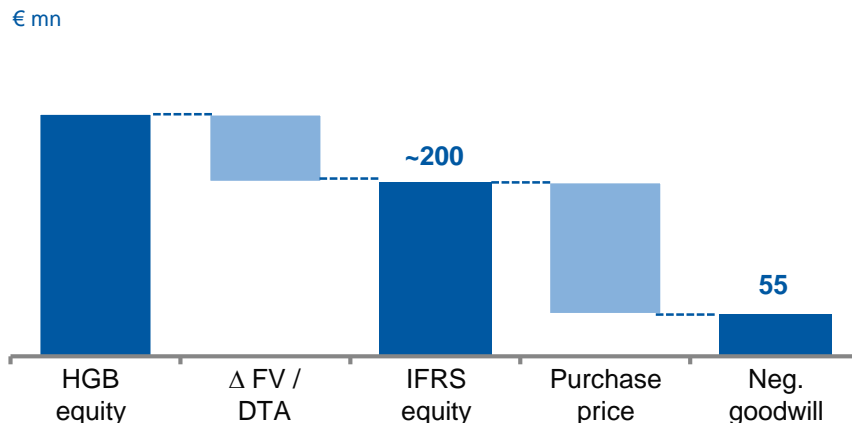
Strategic achievements 2018 in line with Aareal 2020

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

Highlights 2018: Acquisition of Düsseldorfer Hypothekenbank AG

Value enhancing transaction in line with business strategy

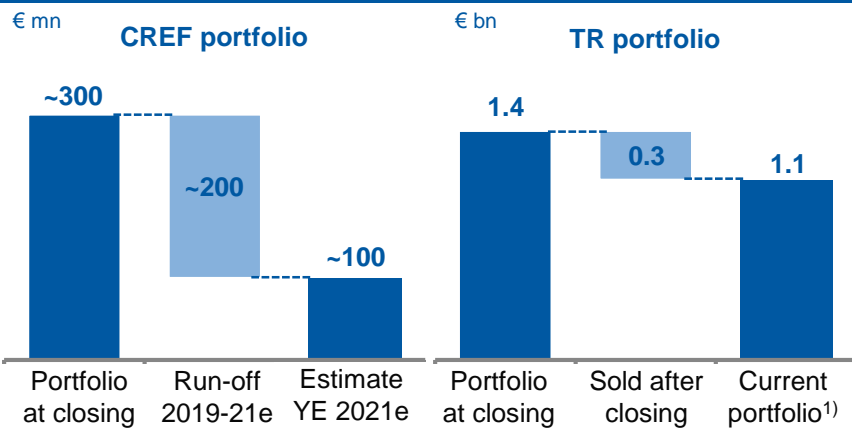
Purchase price illustration



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



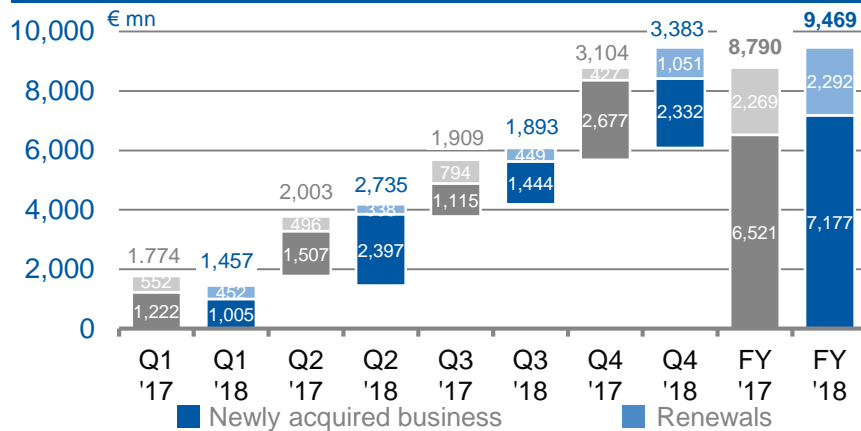
Preliminary 2018 at a glance

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Structured Property Financing

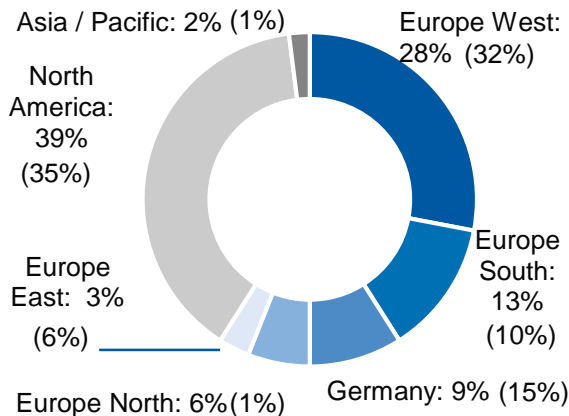
Strong new business origination - conservative risk policy

New business origination by quarter¹⁾

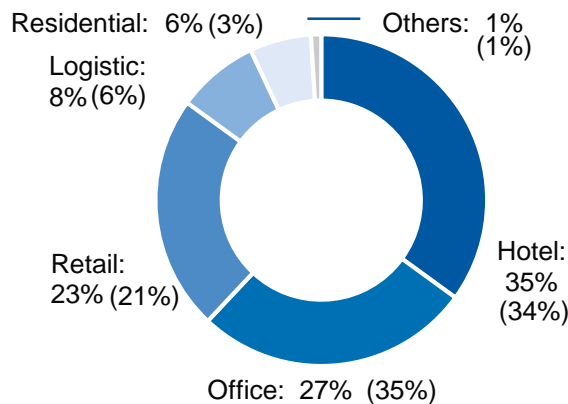


- Strong new business volume while retaining conservative risk policy: “Quality over Quantity”
- Newly acquired business (margin & volume) above plan:
 - FY ~210 bps (~190 bps after FX)
 - Q4 ~225 bps (~210 bps after FX)
 - Margin pushed by strong US share
- 12/2018: REF portfolio²⁾ successfully increased 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 bn³⁾)

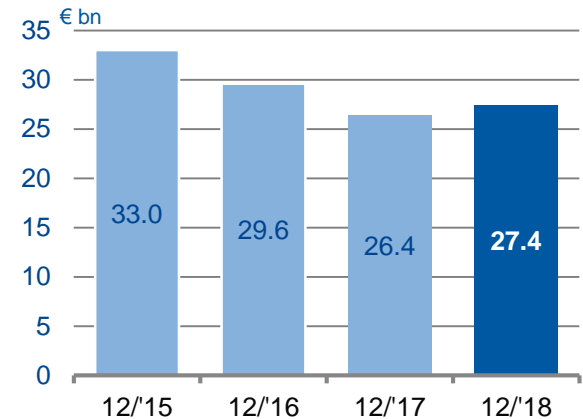
FY-new business by region¹⁾ (2017)



FY-new business by property type¹⁾ (2017)



REF²⁾ 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)

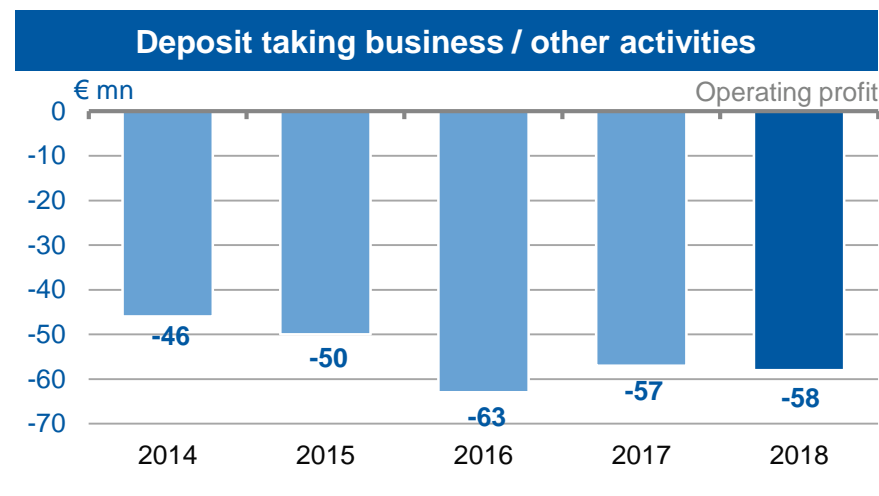
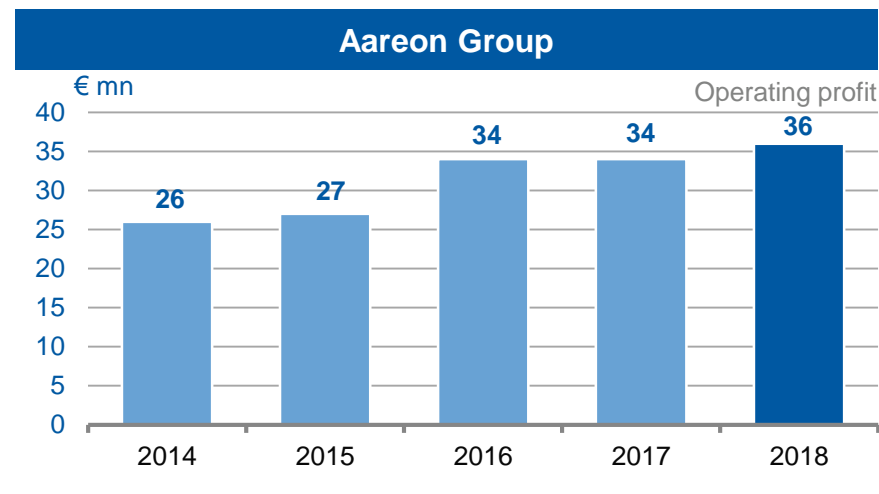
Consulting / Services

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	
Operating profit	-23	-22	4%

- Aareon revenues 7% up to € 237 mn (FY 2017: € 221 mn), EBT¹⁾ 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

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Preliminary results 2018

Good results in a challenging environment

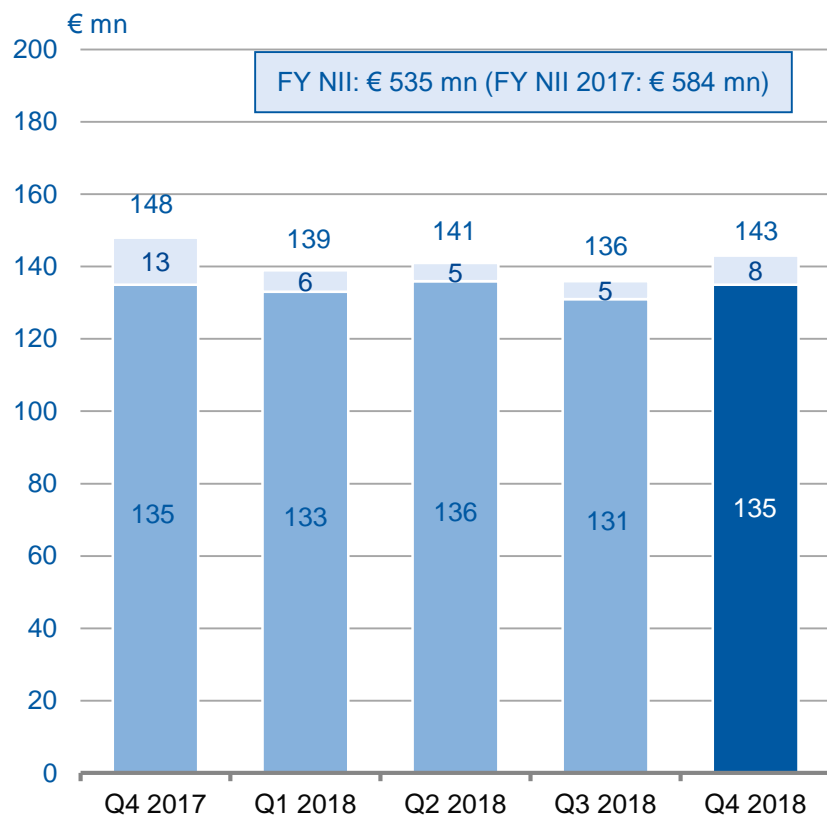
€ mn	Q4 '17	Q1 '18	Q2 '18	Q3 '18	Q4 '18	FY'17	FY'18	Comments
Net interest income	135	133	136	131	135	584	535	Strong new business activities stabilising NII
Derecognition result ¹⁾	13	6	5	5	8	50	24	Significantly below PY level / estimate
Loss allowance	29	0	19	14	39	82	72	Risk costs further declined
Net 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	
Operating profit	66	67	62	70	117	328	316	
Income taxes	18	23	21	24	22	115	90	
Minorities / AT1	4	5	4	5	4	22	18	
Consolidated net income allocated to ord. shareholders	44	39	37	41	91	191	208	
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



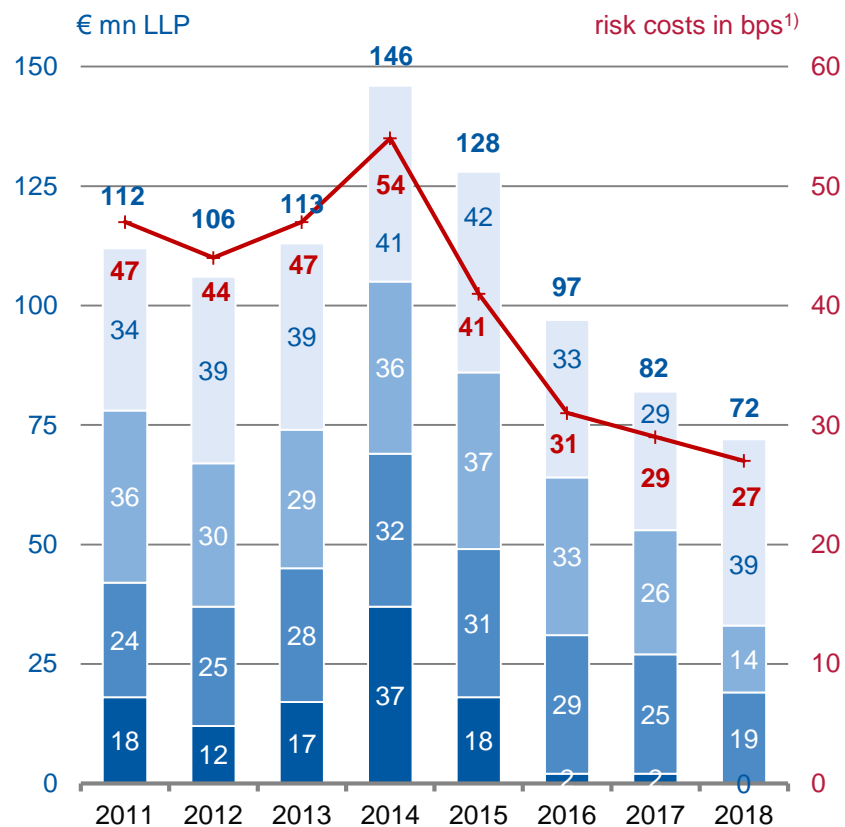
- NII increase vs. Q3 due to larger REF portfolio
- NII yoy -8% due to lower Ø-portfolio, 2018 FY-Ø of € 26.3 bn (2017: € 28.8 bn): -9%
- Newly acquired business:
 - FY: ~210 bps (~190 bps after FX)
 - Q4: ~225 bps (~210 bps after FX)
- Volatile derecognition result significantly below PY level and estimate

■ 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



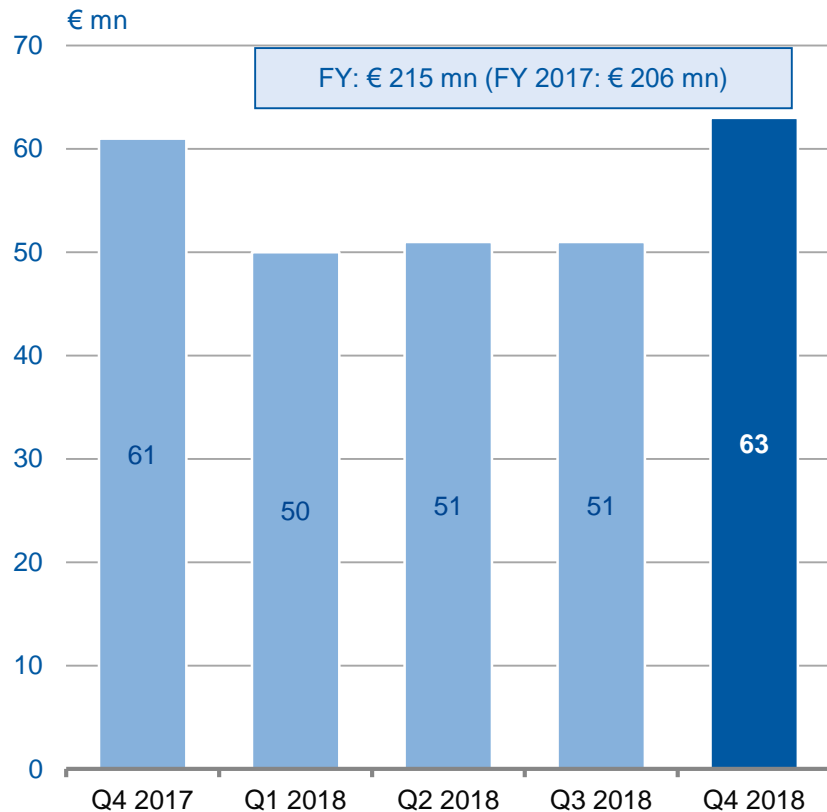
Q4
Q3
Q2
Q1

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

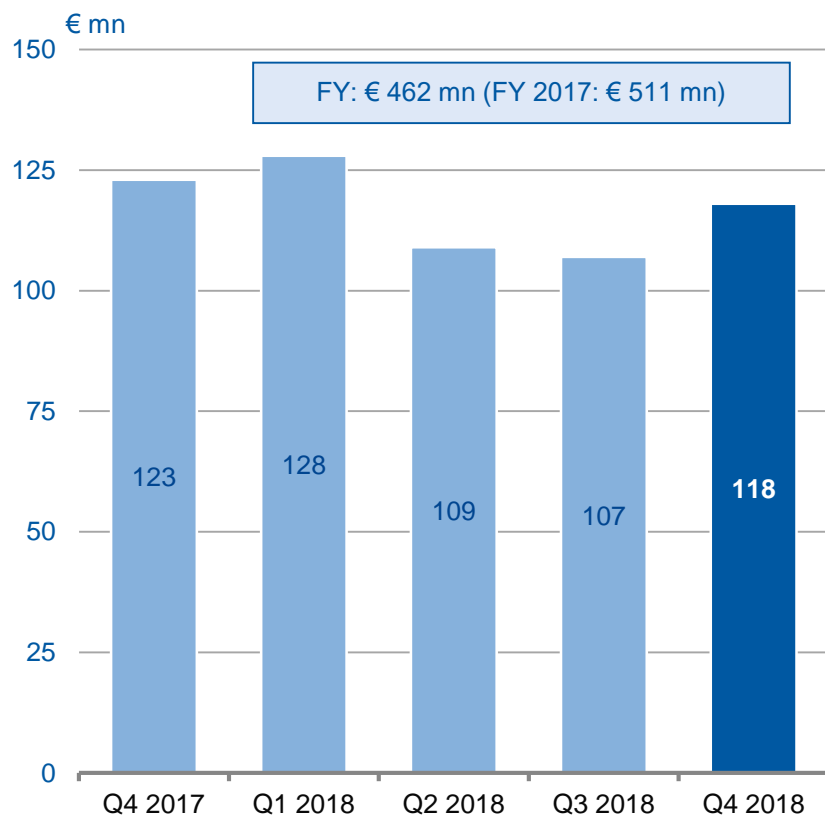
Aareon with positive development



- 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



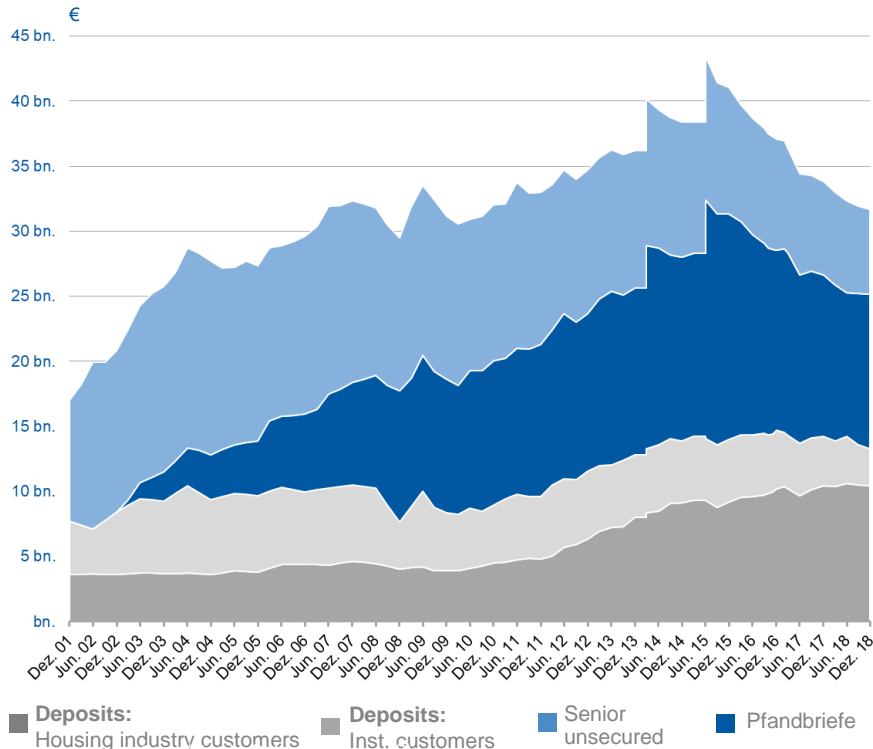
Funding, B/S structure, regulation & capital

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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
- Rating¹⁾ 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

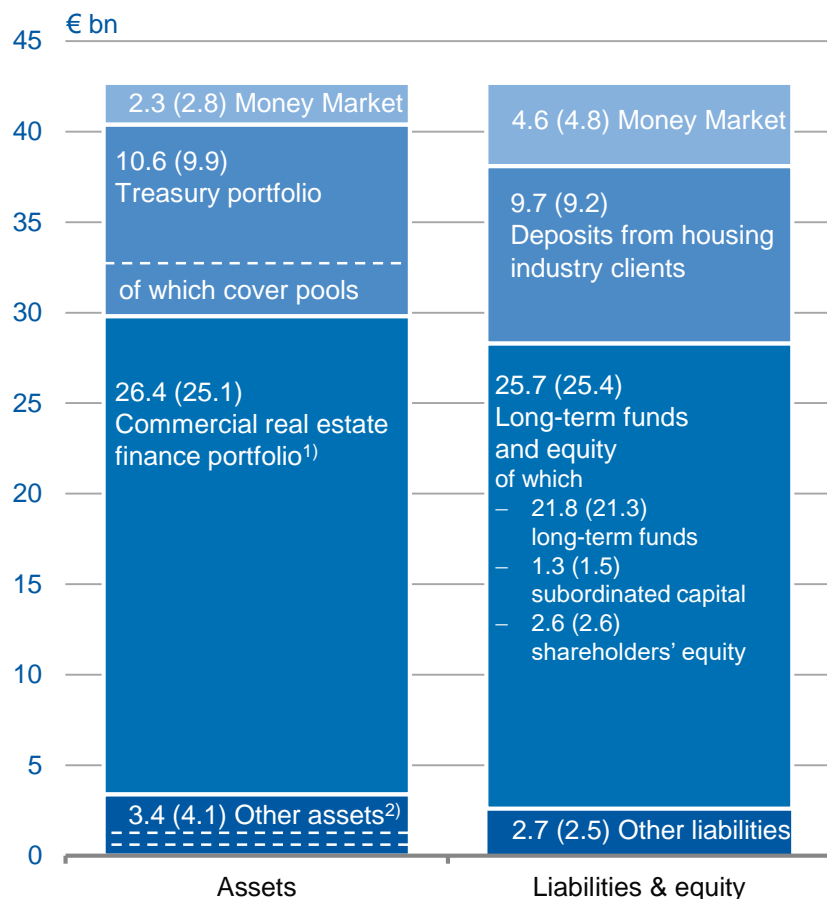


Despite volatile market conditions and widening credit spreads our overall funding costs are only marginally effected

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

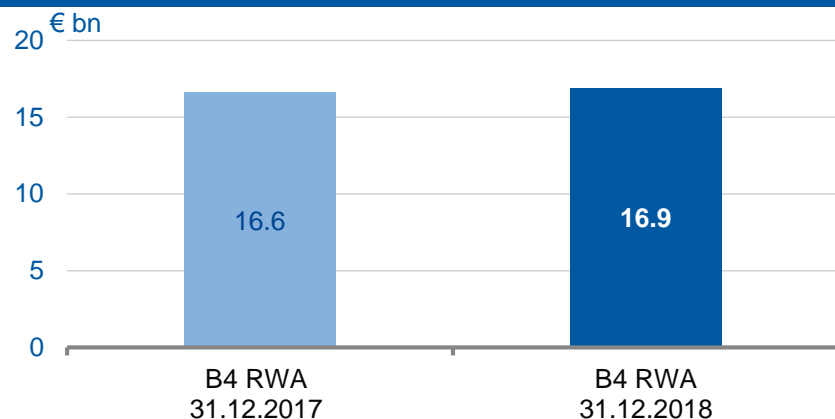
Regulation on capital...	...in regulatory figures reflected
Basel IV (estimated) <ul style="list-style-type: none">AIRBACRSA	✓
TRIM-effects (estimated) <ul style="list-style-type: none">Basel IIIBasel IVLeverage ratio	✓
Prudential provisioning (NPL-Guideline) <ul style="list-style-type: none">StockFuture NPL	✓ (pro rata) (not effective in 2018)
IFRS 9	✓

Strong capital position

Capital

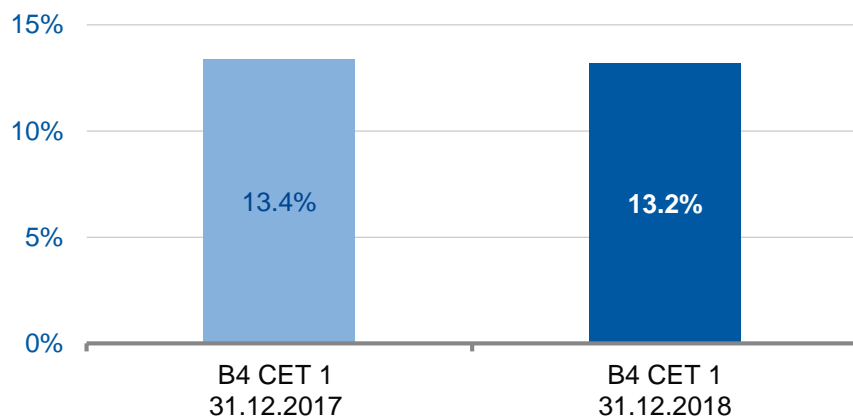
Strong capital ratios already incl. TRIM effects & prudential provisioning

Estimated B4 RWA¹⁾

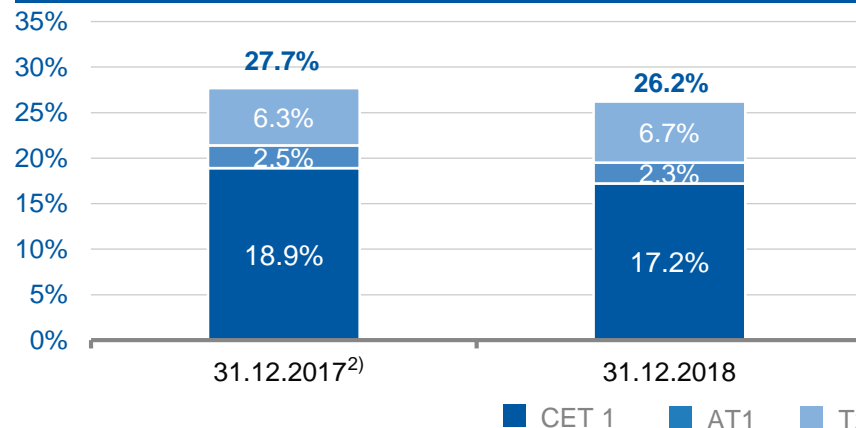


- Fulfilling Basel IV from day 1
- RWA up due to portfolio growth and DHB
- Capital ratios 2018 incl. relevant TRIM effects and prudential provisioning³⁾
- Remaining regulatory uncertainties well buffered (e.g. Hard test, CRR II, further implementation of countercyclical buffer)
- B4 target ratio of 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



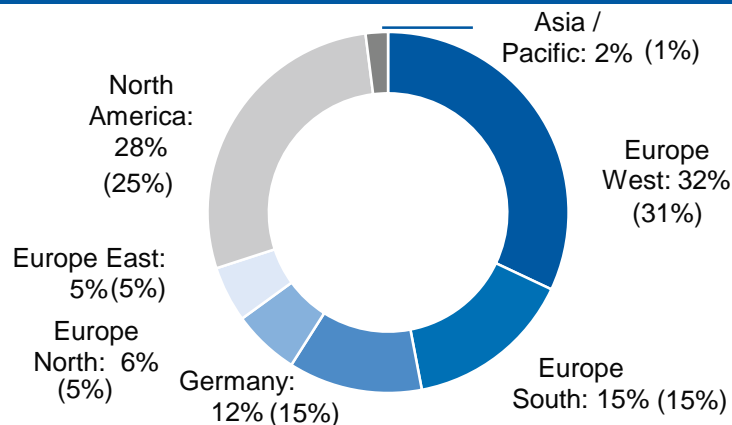
Asset quality

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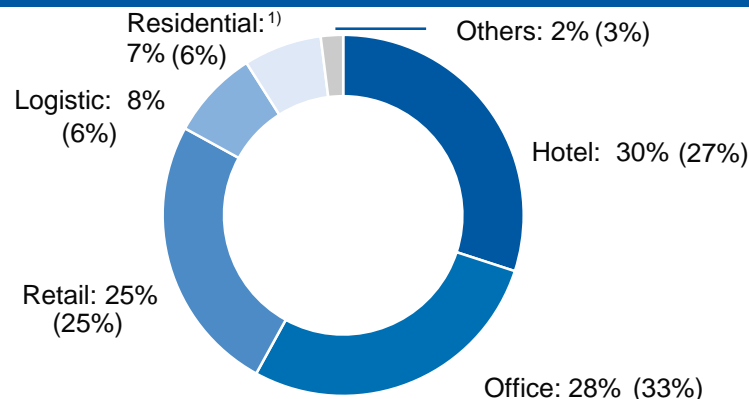
Commercial real estate finance portfolio

€ 26.4 bn highly diversified and sound

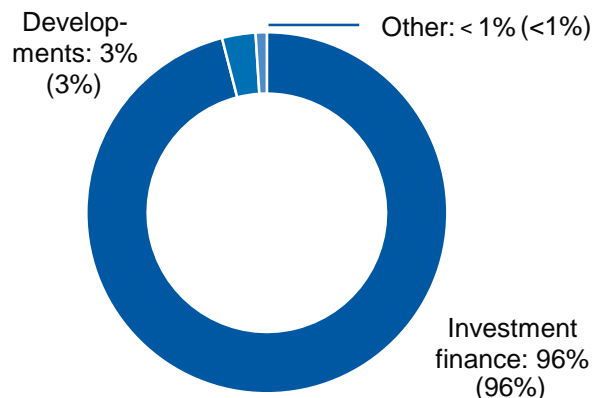
Portfolio by region (2017)



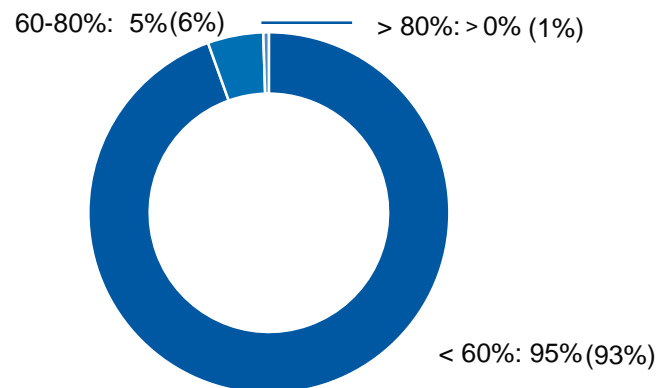
Portfolio by property type (2017)



Portfolio by product type (2017)



Portfolio by LTV ranges²⁾ (2017)



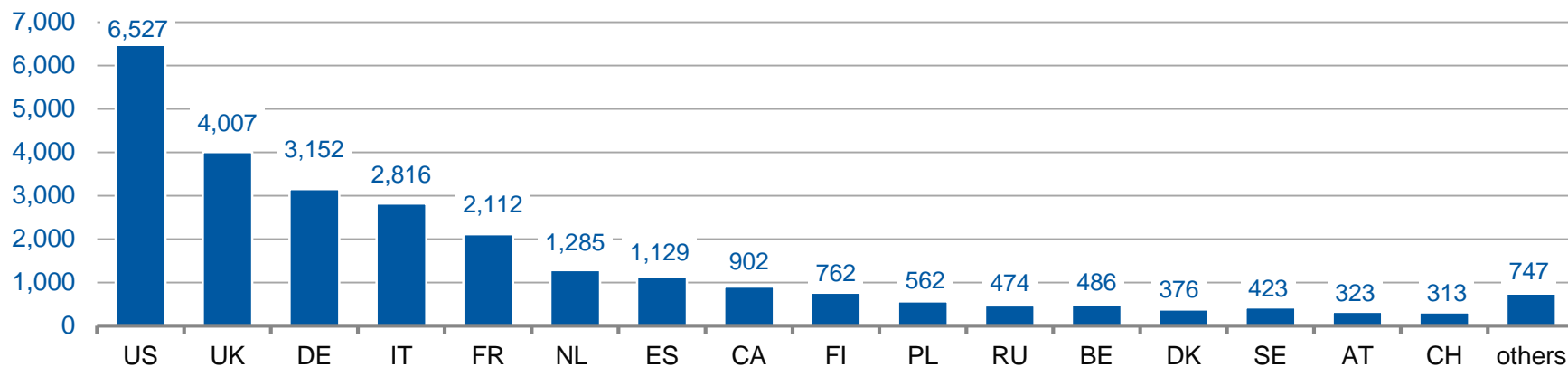
1) Incl. Student housing (UK only)

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

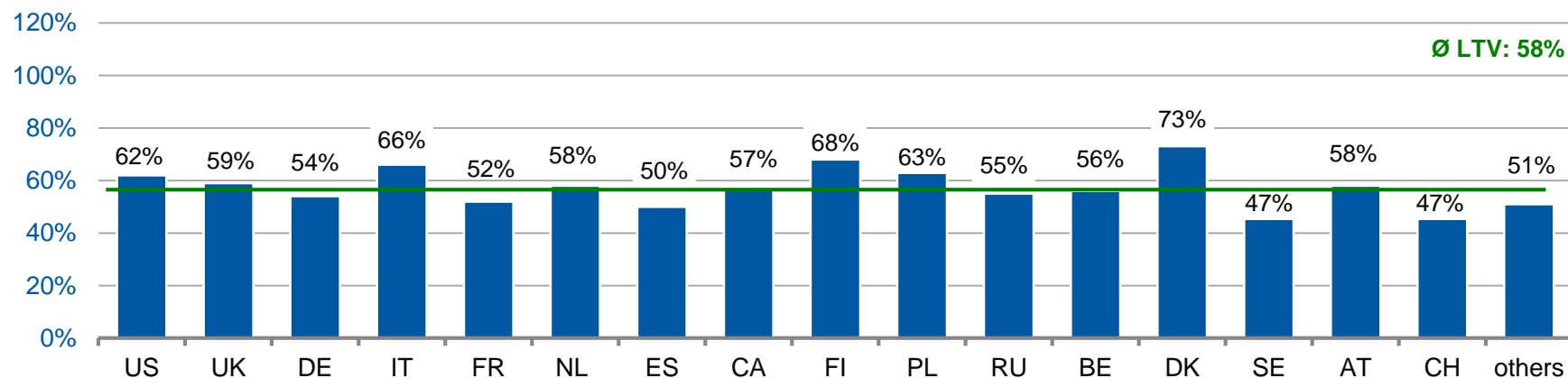
Commercial real estate finance portfolio

Portfolio details by country

Total commercial real estate finance portfolio (€ mn)



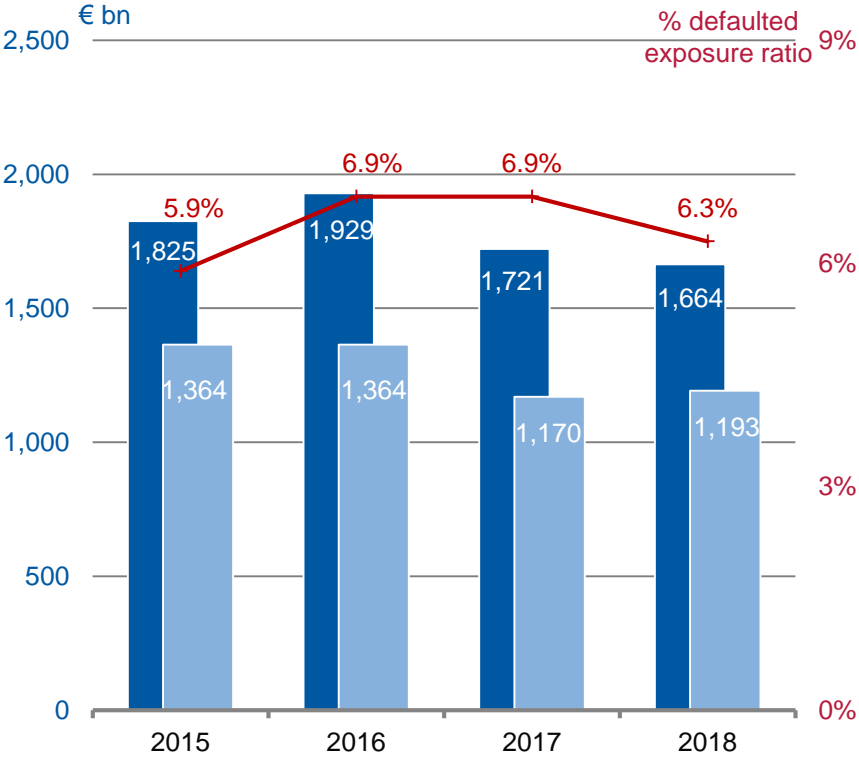
LTV¹⁾



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

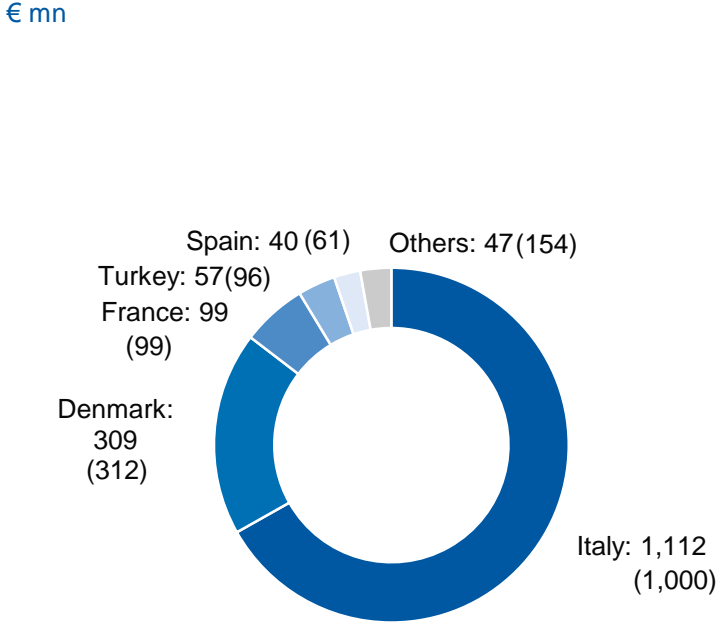
Defaulted exposure

Development of defaulted exposure



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

Defaulted exposure by country (2017)

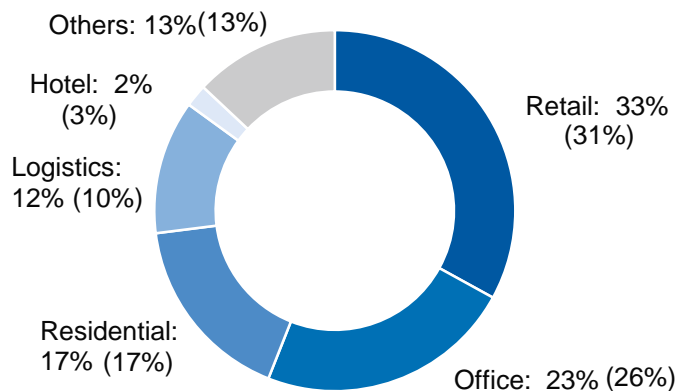


Note: All 2018 figures preliminary and unaudited; subject to approval of inclusion of profit in CET1 by ECB

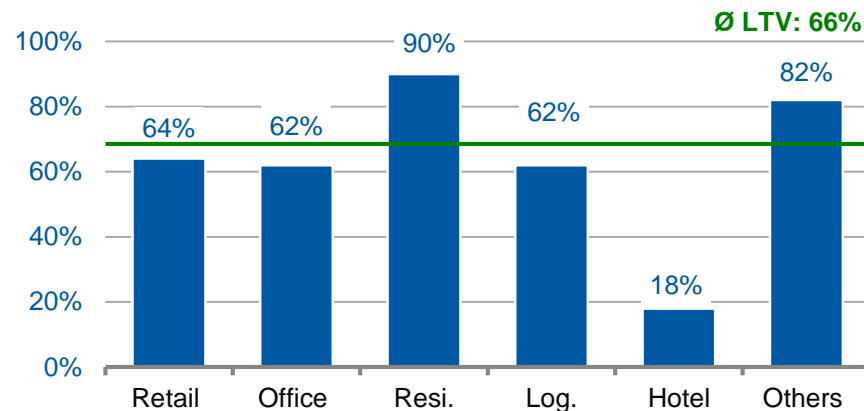
Spotlight: Italian CRE finance portfolio

€ 2.8 bn (~11% of total portfolio)

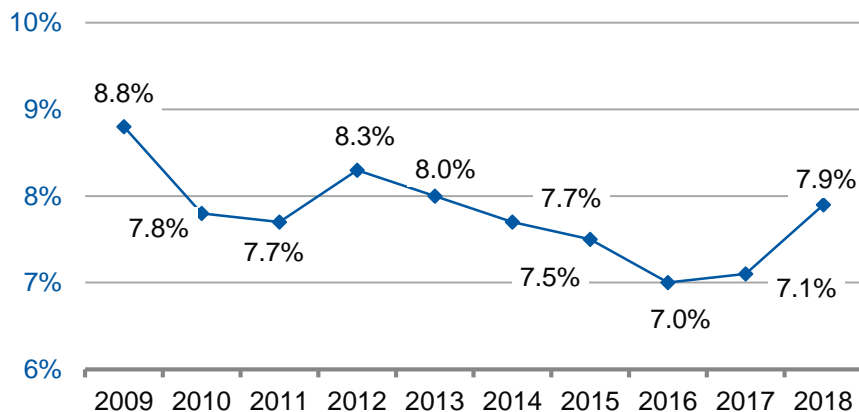
Total portfolio by property type (2017)



Average LTV by property type¹⁾



Yield on debt¹⁾



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

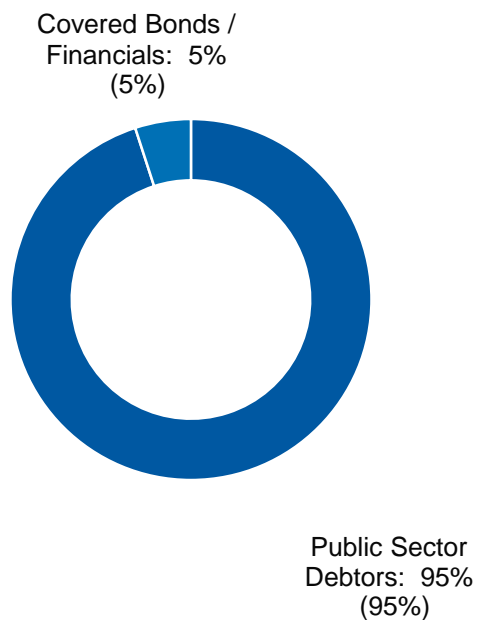
Comments

- 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)

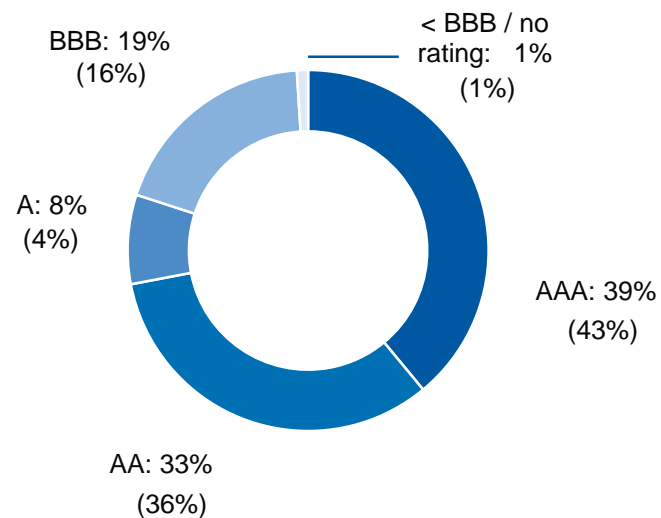
Treasury portfolio

€ 8.7 bn of high quality and highly liquid assets

by asset class (2017)



by rating¹⁾ (2017)



As at 31.12.2018 – all figures are nominal amounts

1) Composite Rating



Strategic outlook

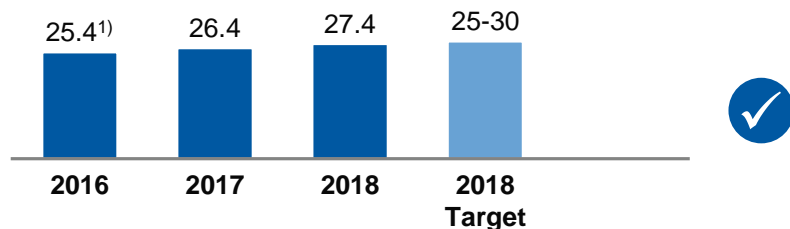
Aareal

Aareal 2020

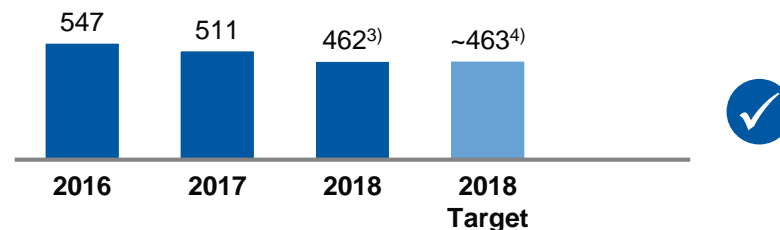
Well on track

■ Actuals ■ Targets

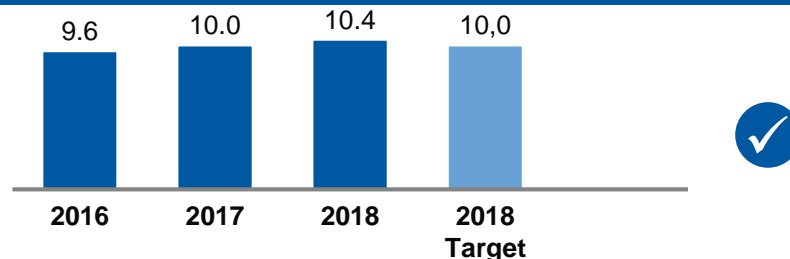
REF Portfolio (€ bn)



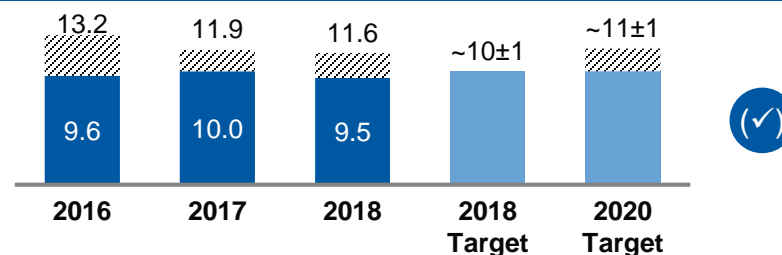
Administrative Expenses (€ mn)



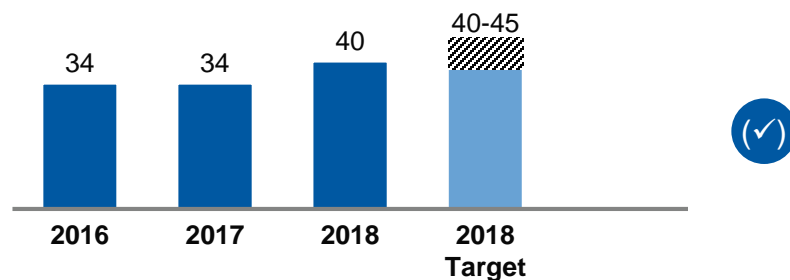
Housing Industry Deposits (€ bn)



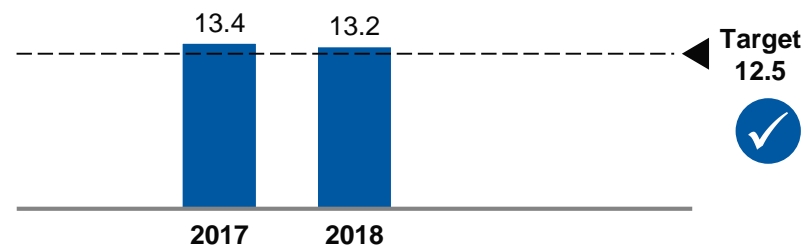
Pre-Tax RoE⁵⁾ (%)



Aareon EBIT²⁾ (€ 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 provider¹⁾; 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

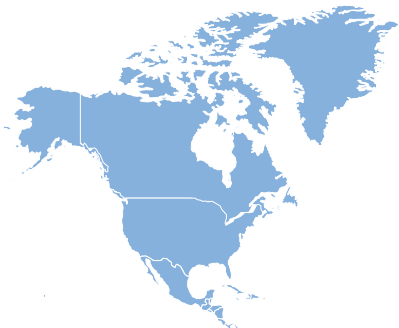
Environmental change due to new uncertainties and increasing volatility

	Outlook 2018 (last year)	Outlook 2019 (today)
GDP dynamics		 Slowdown of growth in key regions
Interest rates		 Rather stable interest environment
Funding costs		 Secondary trading on higher credit spreads
Brexit	“One year ahead”	 “Hard Brexit” as relevant option
Italy		 High political and fiscal uncertainty
Regulatory requirements (Aareal)	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
Basel IV (estimated) <ul style="list-style-type: none"> AIRBA CRSA 	✓	✓
TRIM-effects (estimated) <ul style="list-style-type: none"> Basel III Basel IV 	✓	✓
Prudential provisioning (NPL-Guideline) <ul style="list-style-type: none"> Stock Future NPL 	✓ (pro rata) (not effective in 2018)	✓
IFRS 9	✓	✓

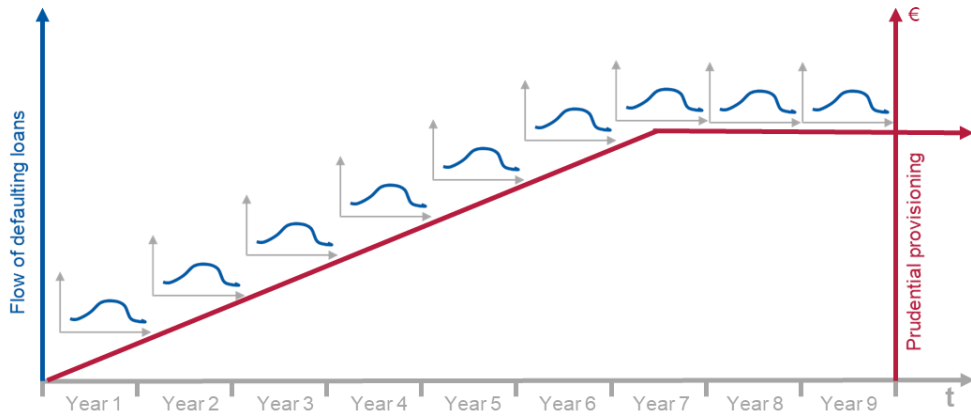
Strong capital position

Strong capital position
but
slower (excess) capital growth

B Regulatory capital

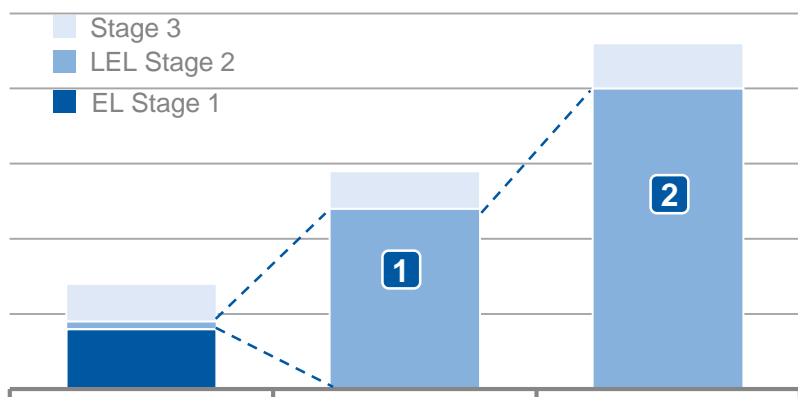
What may come: future NPL regulatory provisioning

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

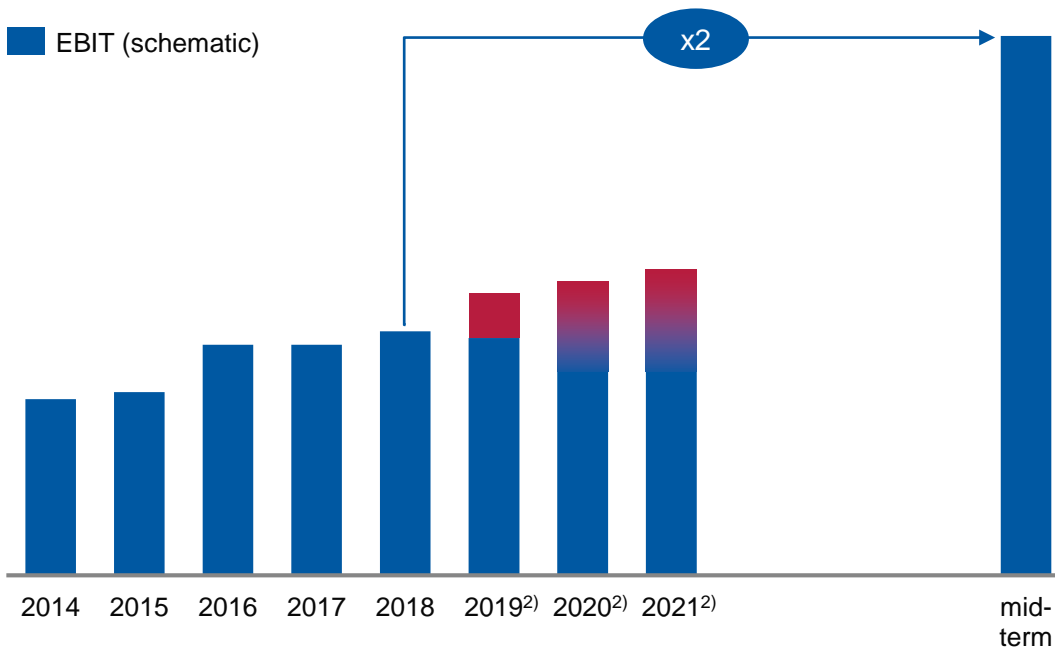
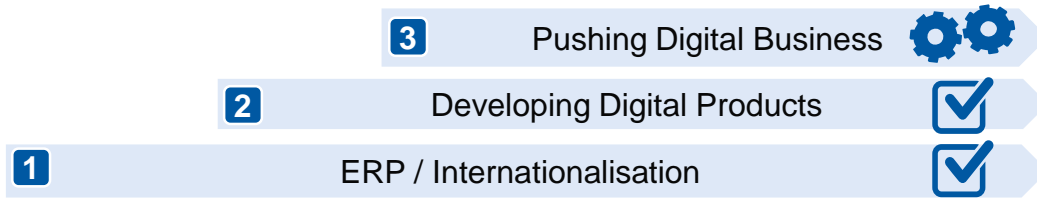
Modelling theoretical maximum of IFRS 9 Stage 2 sensitivity (CREF business)



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

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



Outlook 2019

Aareal

Outlook 2019

Net interest income	▪ € 530 mn - € 560 mn
Derecognition result	▪ € 20 mn - € 40 mn (depending on client behaviour)
Allowance for credit losses¹⁾	▪ € 50 mn - € 80 mn
Net commission income	▪ € 225 mn - € 245 mn
Admin expenses	▪ € 470 mn - € 510 mn
Operating profit	▪ € 240 mn - € 280 mn
Pre-tax RoE	▪ 8.5% - 10%
EpS	▪ ~ € 2.40 - € 2.80
Target portfolio size	▪ € 26 bn - € 28 bn
New business origination²⁾	▪ € 7 bn - € 8 bn
Operating profit Aareon³⁾	▪ ~ € 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
Group results

Aareal Bank Group

Results 2018

	01.01.- 31.12.2018 € mn	01.01.- 31.12.2017 ¹⁾ € mn	Change
Profit and loss account			
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	-	
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 ordinary AT1 unit (in €) 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 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 ¹⁾ € mn	Change
Profit and loss account			
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		
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	
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 ordinary AT1 unit (in €) 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 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 ¹⁾	01.01.- 31.12. 2018	01.01.- 31.12. 2017 ¹⁾	01.01.- 31.12. 2018	01.01.- 31.12. 2017 ¹⁾	01.01.- 31.12. 2018	01.01.- 31.12. 2017 ¹⁾
	€ 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	
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
Allocation of results								
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 ¹⁾	01.10.- 31.12. 2018	01.10.- 31.12. 2017 ¹⁾	01.10.- 31.12. 2018	01.10.- 31.12. 2017 ¹⁾	01.10.- 31.12. 2018	01.10.- 31.12. 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
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	
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
Allocation of results								
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 ¹⁾					2017 ¹⁾					2017 ¹⁾					2017 ¹⁾				
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				
Operating profit	116	77	70	75	70	1	-7	-8	-8	-4	0	0	0	0	0	117	70	62	67	66
Income taxes	22	27	24	26	19	0	-3	-3	-3	-1						22	24	21	23	18
Consolidated net income	94	50	46	49	51	1	-4	-5	-5	-3	0	0	0	0	0	95	46	41	44	48
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	0	95	45	41	43	48

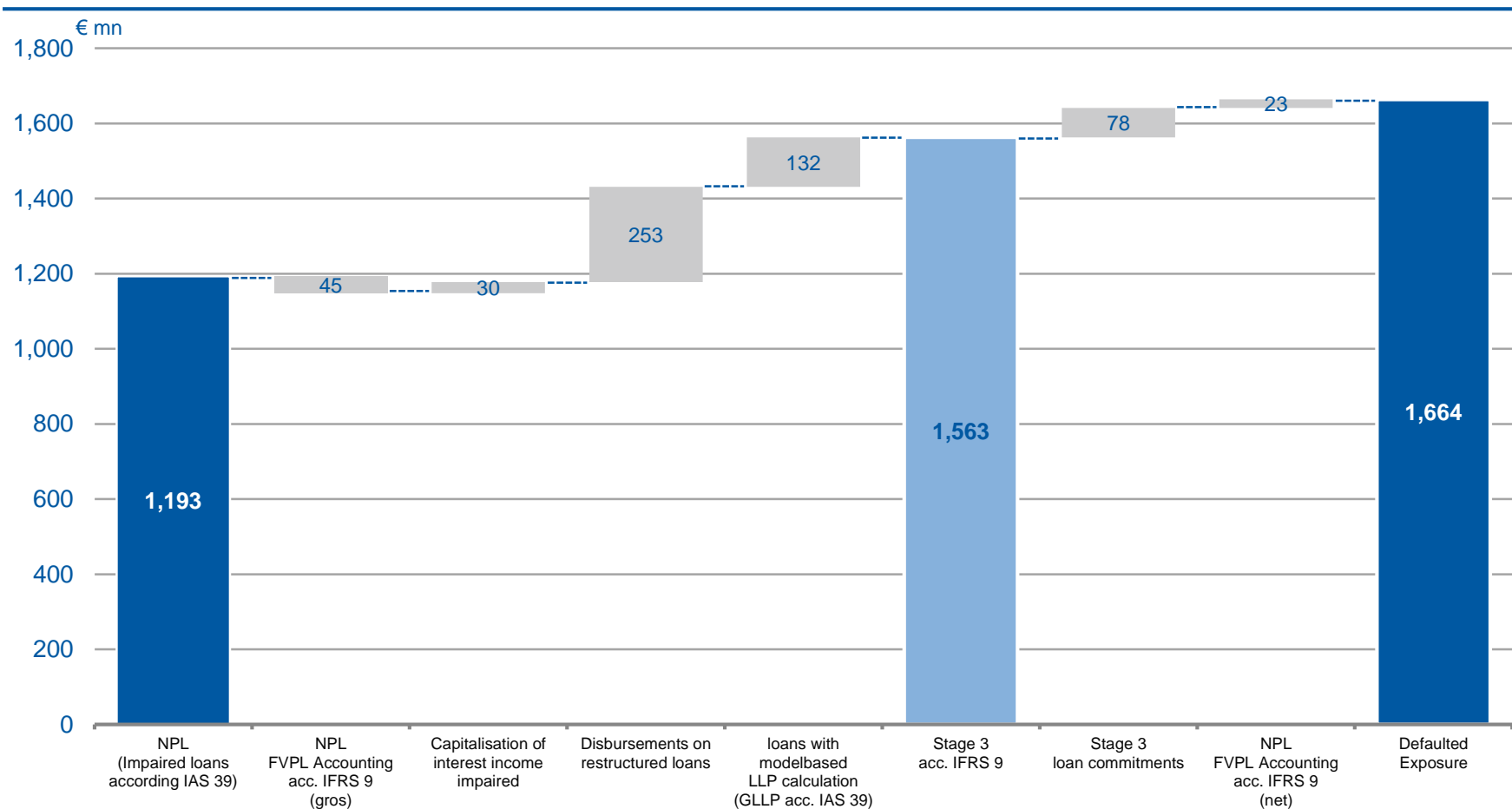
1) Comparative amounts reclassified according to the new classification format



Appendix
Defaulted exposure

Defaulted Exposure

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





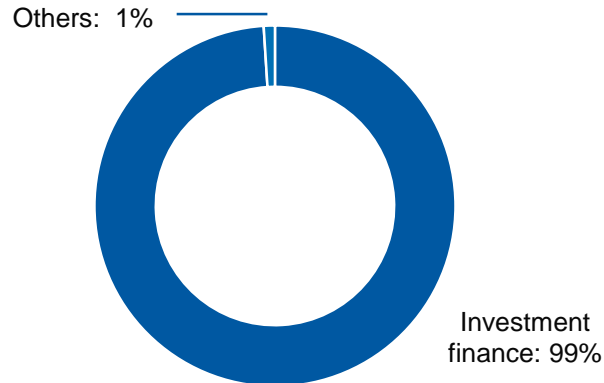
Appendix

Development commercial
real estate finance portfolio

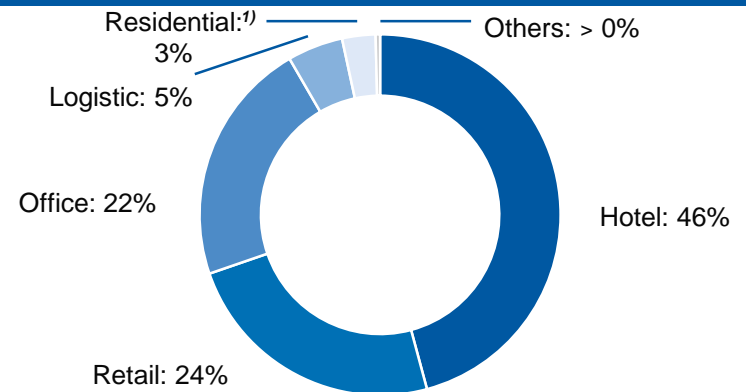
Western Europe (ex Germany) CRE finance portfolio

Total volume outstanding as at 31.12.2018: € 8.6 bn

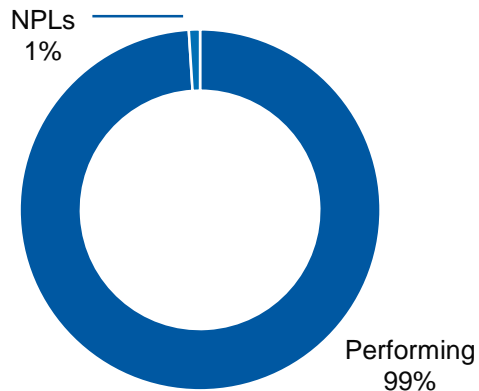
by product type



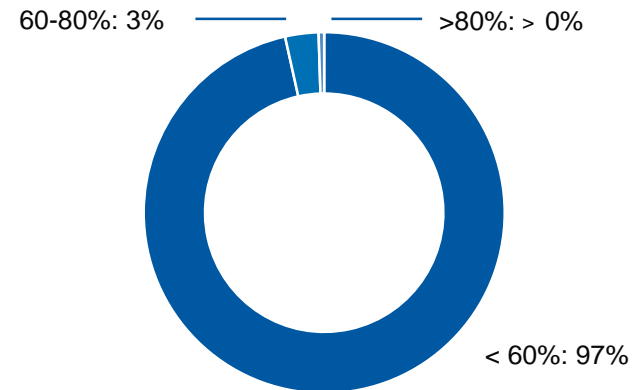
by property type



by performance



by LTV ranges²⁾



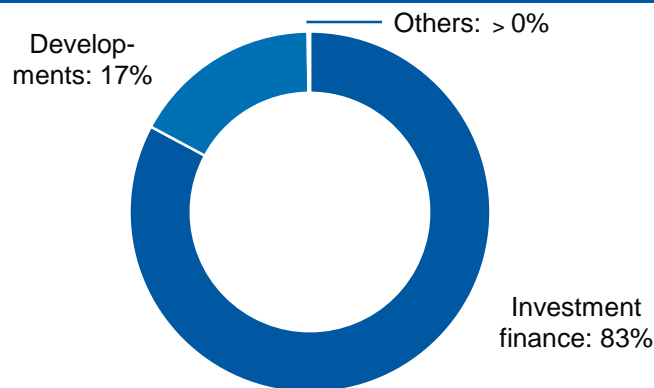
1) Incl. Student housing (UK only)

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

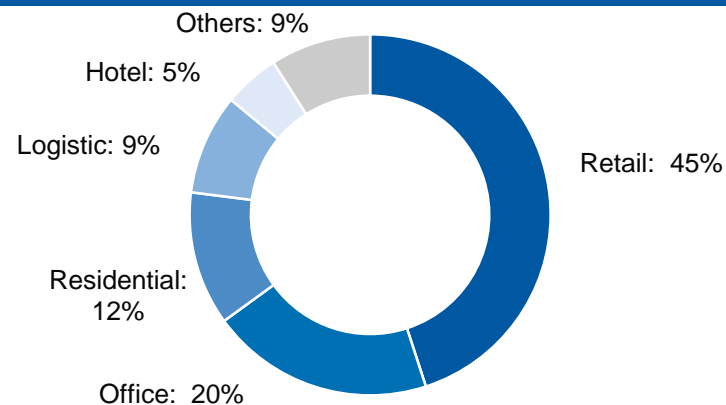
Southern Europe CRE finance portfolio

Total volume outstanding as at 31.12.2018: € 3.9 bn

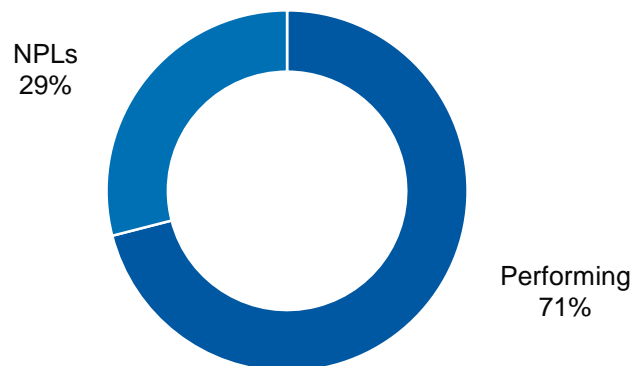
by product type



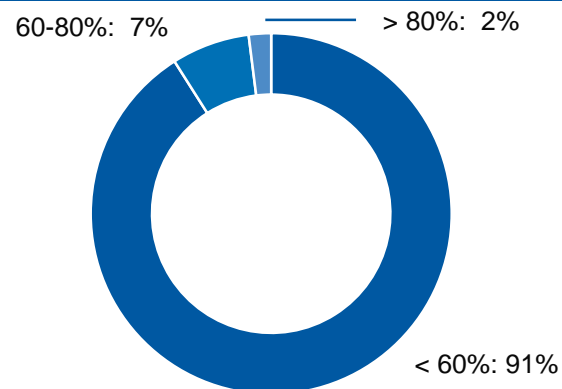
by property type



by performance



by LTV ranges¹⁾

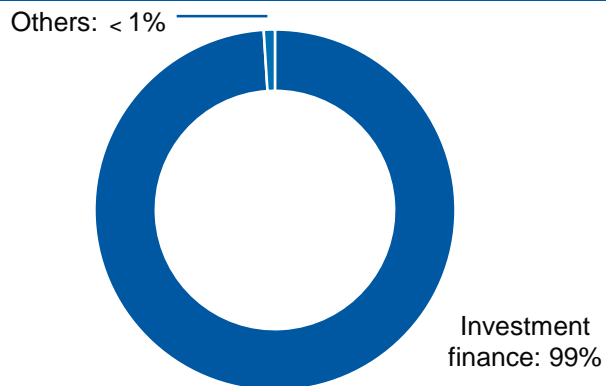


1) Performing CREF-portfolio only, exposure as at 31.12.2018

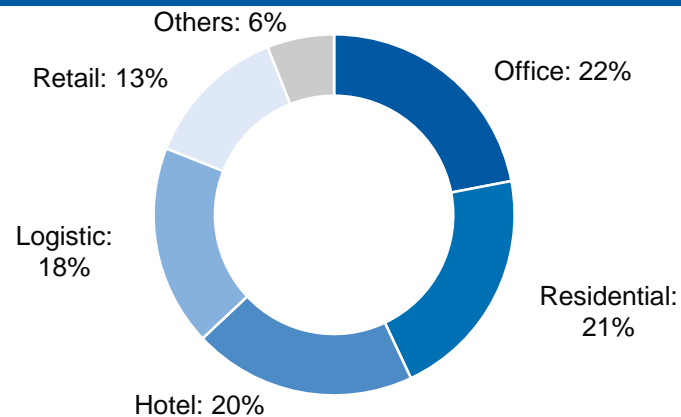
German CRE finance portfolio

Total volume outstanding as at 31.12.2018: € 3.2 bn

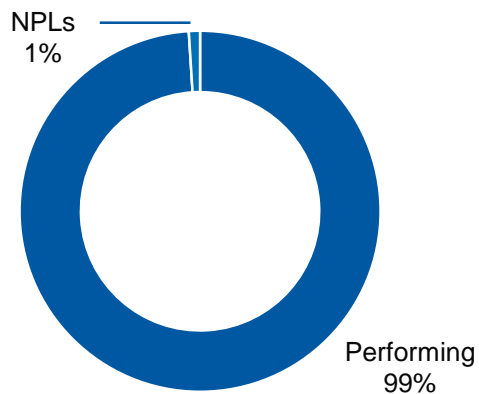
by product type



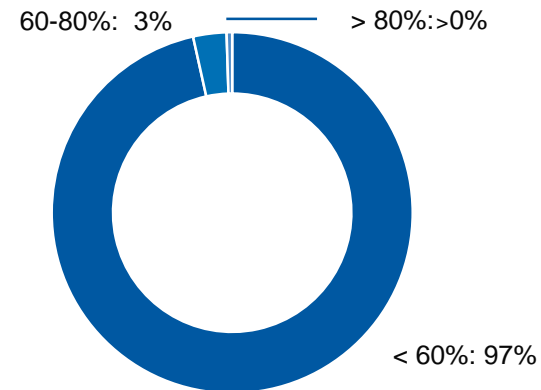
by property type



by performance



by LTV ranges¹⁾

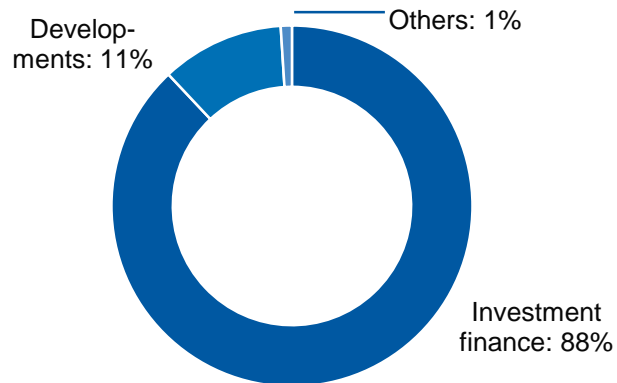


1) Performing CREFF-portfolio only, exposure as at 31.12.2018

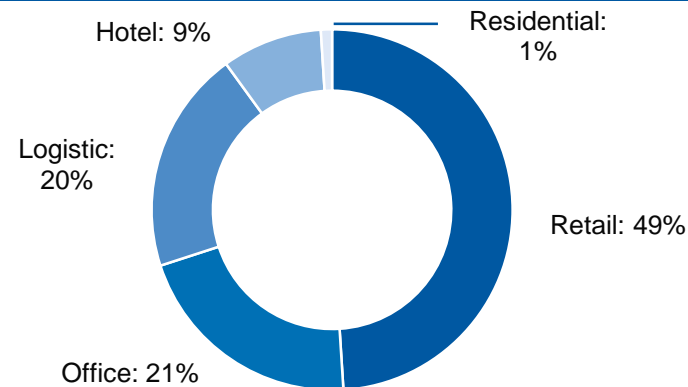
Northern Europe CRE finance portfolio

Total volume outstanding as at 31.12.2018: € 1.6 bn

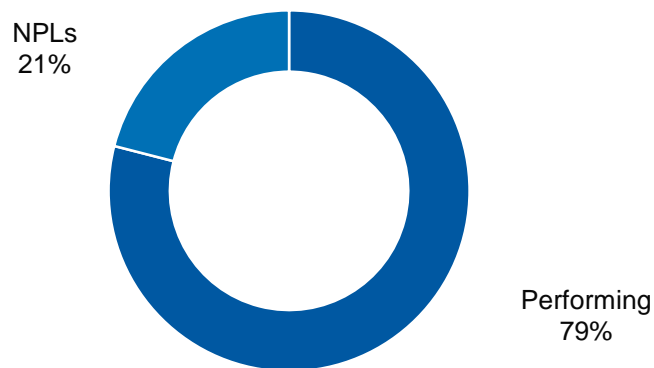
by product type



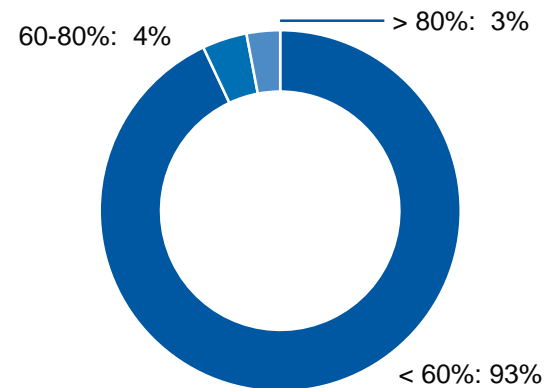
by property type



by performance



by LTV ranges¹⁾

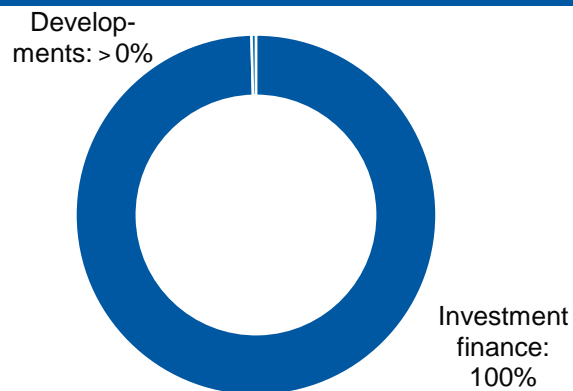


1) Performing CREFF-portfolio only, exposure as at 31.12.2018

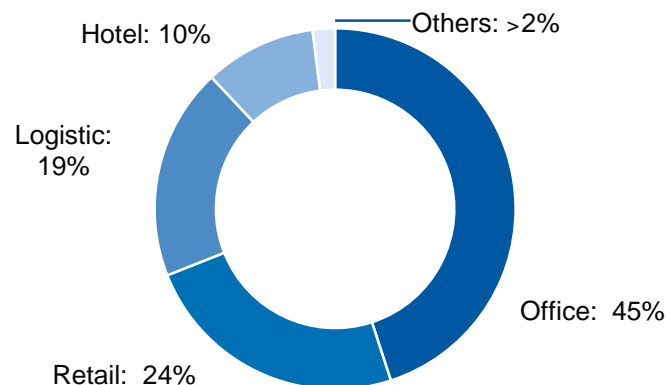
Eastern Europe CRE finance portfolio

Total volume outstanding as at 31.12.2018: € 1.3 bn

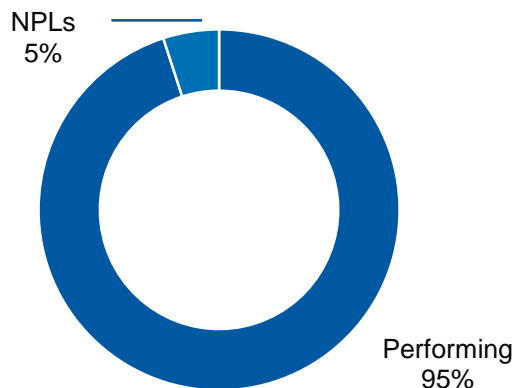
by product type



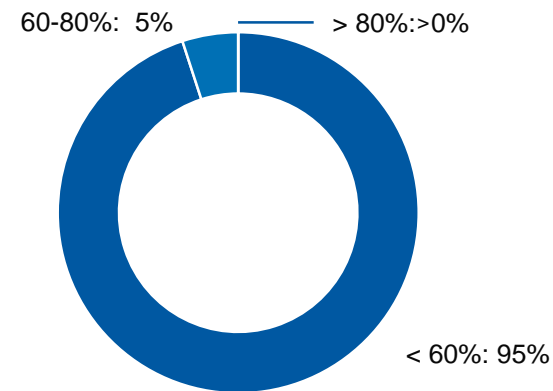
by property type



by performance



by LTV ranges¹⁾

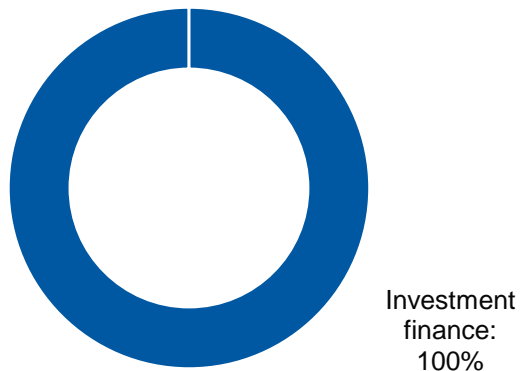


1) Performing CREFF-portfolio only, exposure as at 31.12.2018

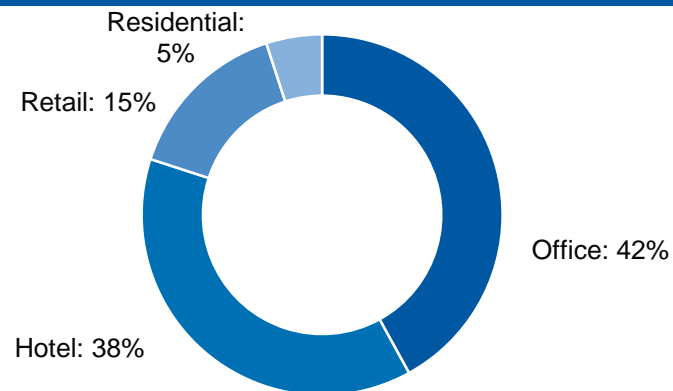
North America CRE finance portfolio

Total volume outstanding as at 31.12.2018: € 7.4 bn

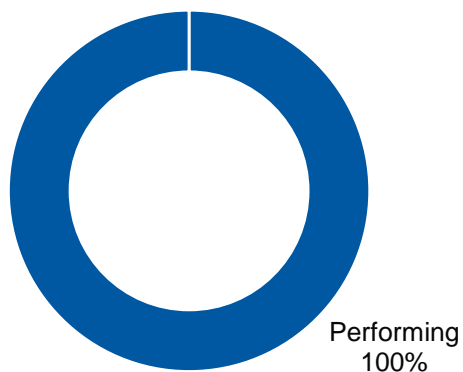
by product type



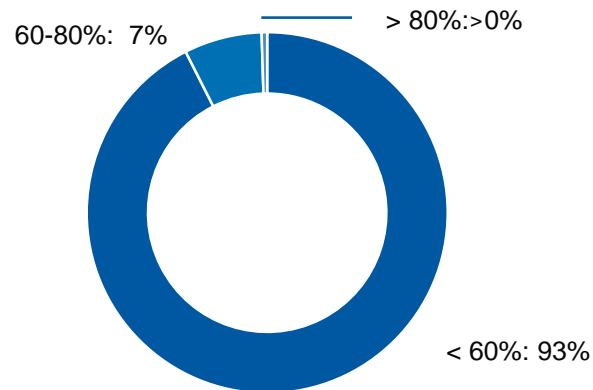
by property type



by performance



by LTV ranges¹⁾

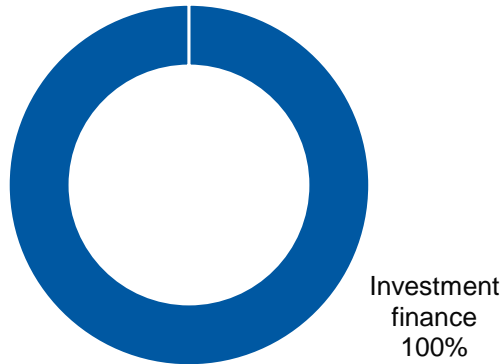


1) Performing CREFF-portfolio only, exposure as at 31.12.2018

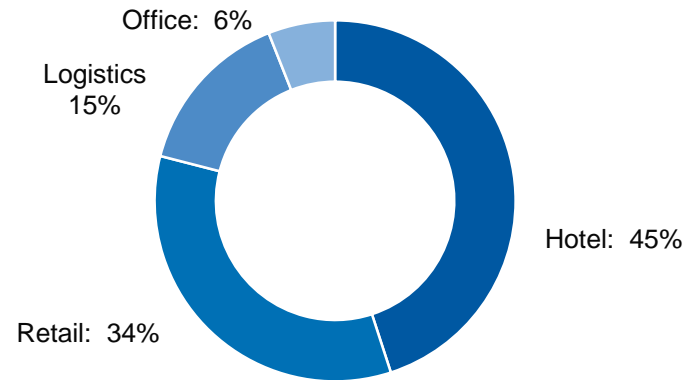
Asia / Pacific CRE finance portfolio

Total volume outstanding as at 31.12.2018: € 0.4 bn

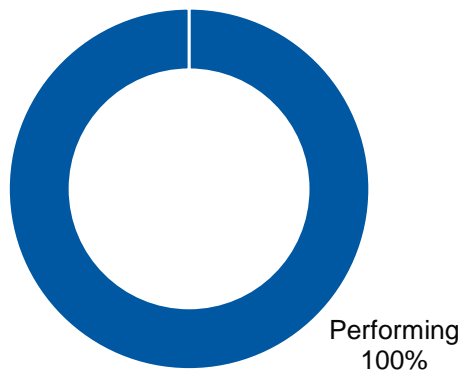
by product type



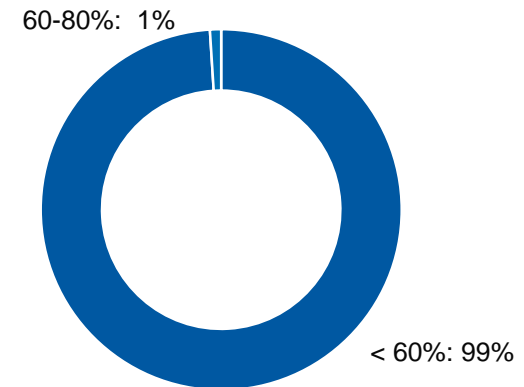
by property type



by performance



by LTV ranges¹⁾

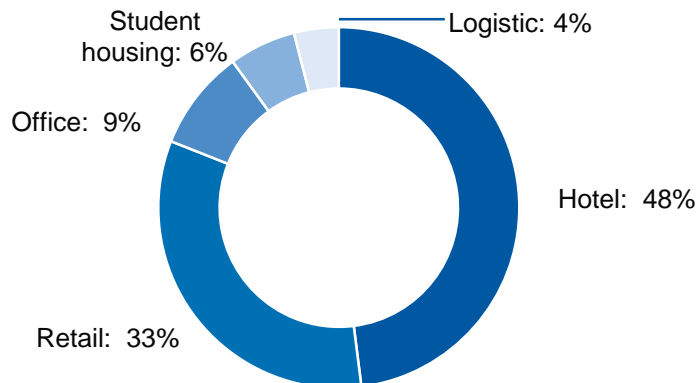


1) Performing CREF-portfolio only, exposure as at 31.12.2018

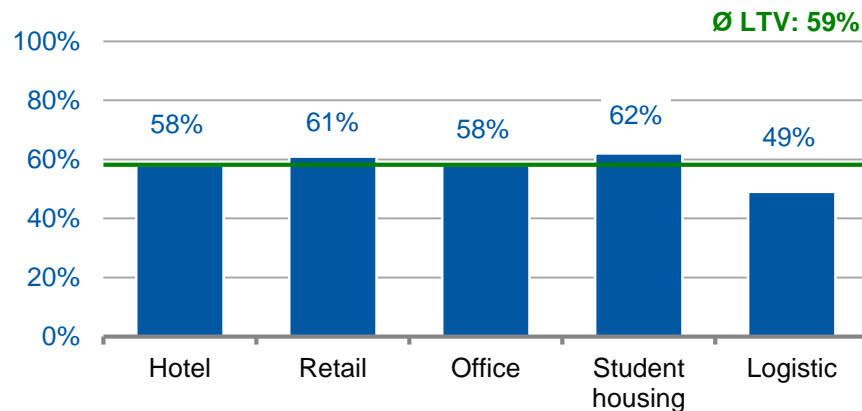
Spotlight: UK CRE finance portfolio

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

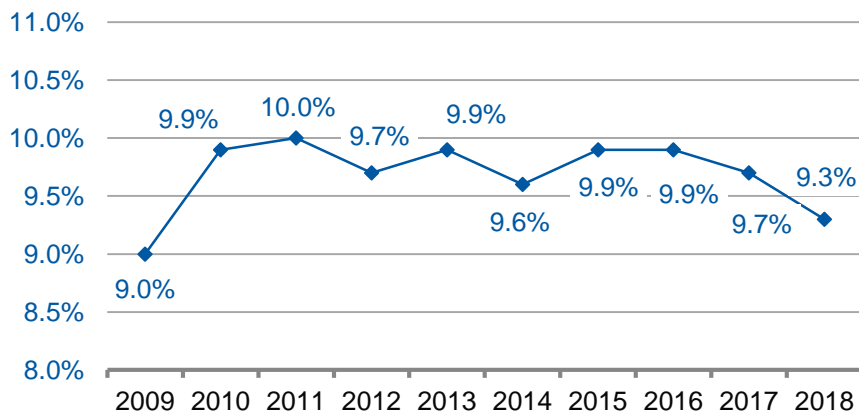
Total portfolio by property type



Average LTV by property type¹⁾



Yield on debt



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

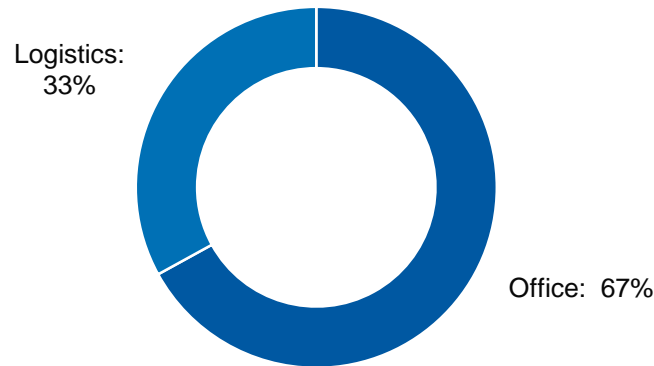
Comments

- 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

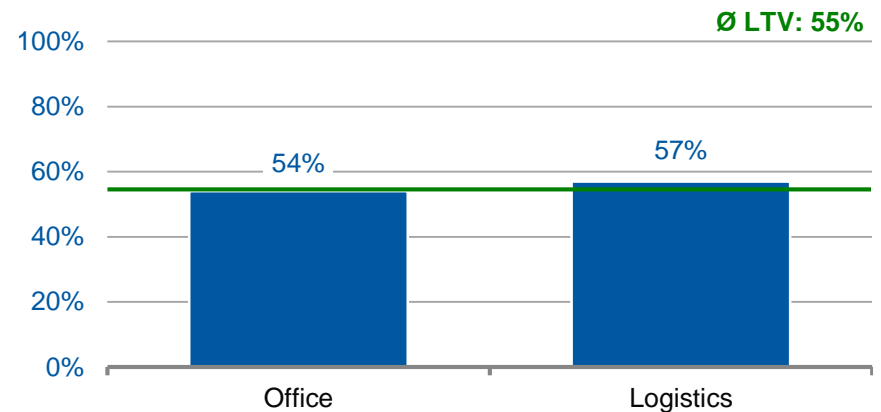
Spotlight: Russian CRE finance portfolio

€ 0.5 bn (~2% of total portfolio)

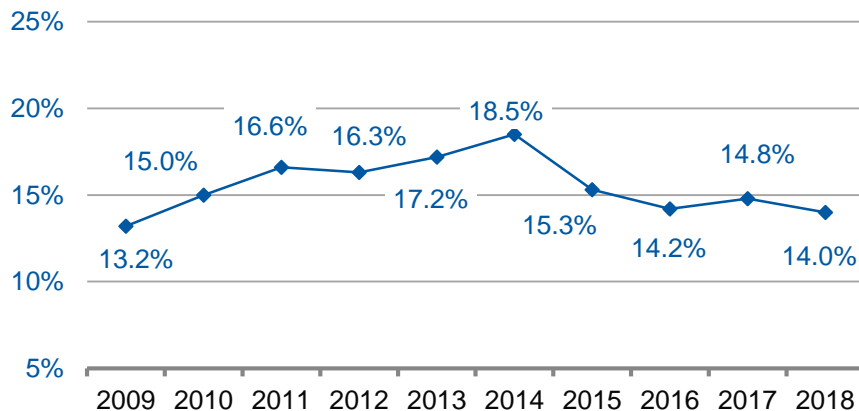
Total portfolio by property type



Average LTV by property type¹⁾



Yield on debt

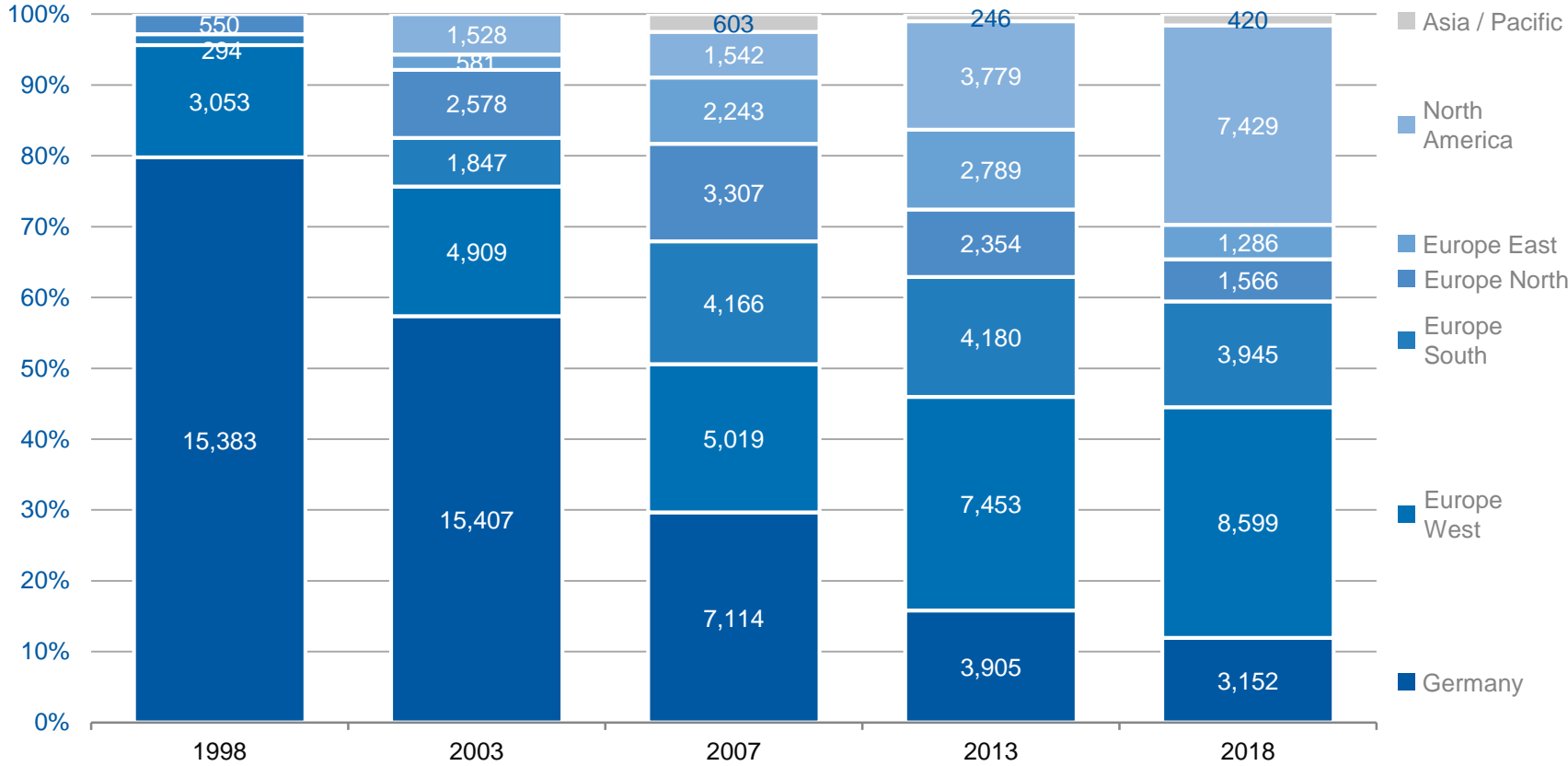


1) Performing CREF-portfolio only, exposure as at 31.12.2018

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

Development commercial real estate finance portfolio



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

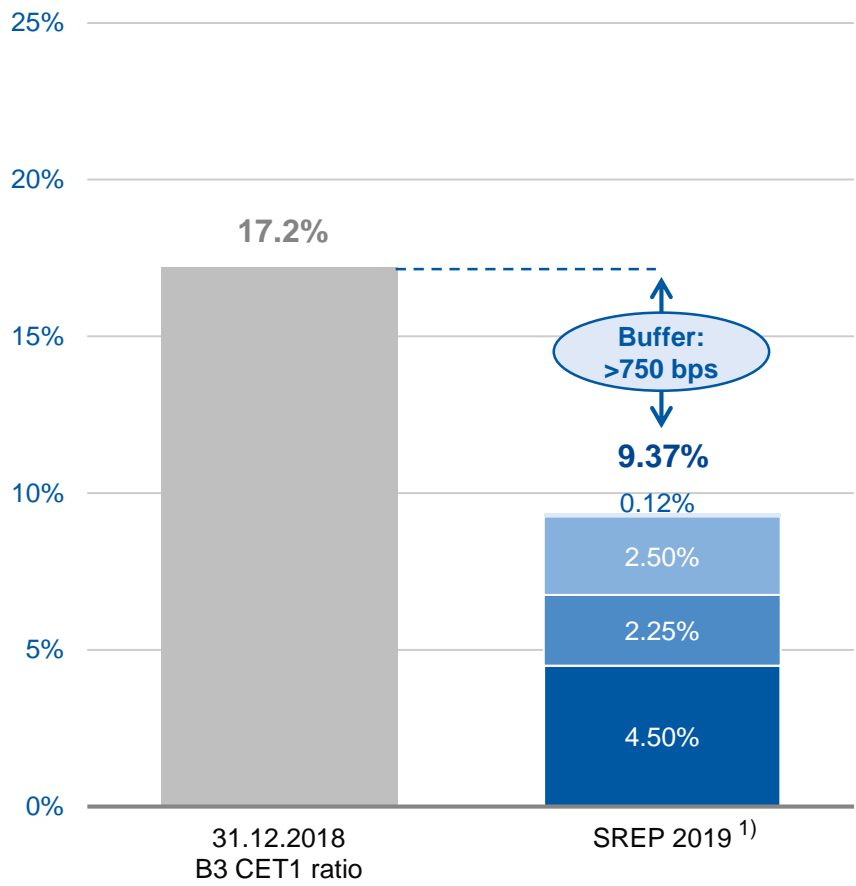


Appendix
SREP

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

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 ¹⁾	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 ¹⁾	552	532	579	552	536
+ Increase by aggregated amount of interest expenses relating to Distributions on Tier 1 Instruments ¹⁾	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 ¹⁾	609	578	625	584	560

1) Unaudited figures for information purposes only



Appendix
Dividend policy

Dividend policy¹⁾

Confirmed

Base dividend

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

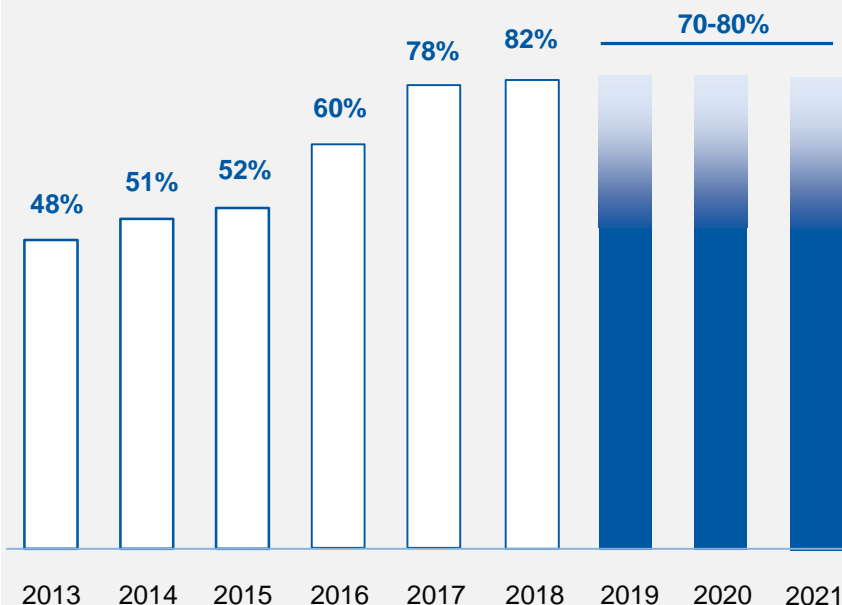
Supplementary dividend

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.



Sustainability Performance

Aareal

Aareal Bank Group

Stands for solidity, reliability and predictability

Doing business sustainably

17.2% Common Equity Tier 1 ratio¹⁾, exceeds the statutory requirements



€ 27.4 bn Valuable Real Estate Finance Portfolio²⁾



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



Aareal Bank awarded as top employer for the 11th time in succession



Systematic approach: Code of Conduct for employees & suppliers



Solid refinancing base: Covered Bonds³⁾ with best possible ratings



Aareal Bank & Aareon: Certified Ecoprofit companies, by using

100%
green electricity⁴⁾

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 [as per 01/2018]
ISS-oekom	Aareal Bank Group holds “prime status”, ranking among the leaders in its industry [since 2012]
Sustainalytics	Aareal Bank Group was classified as “outperformer”, ranking among the best 17% of its industry [as per 02/2017]
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-. [Report 2018]
imug	Aareal Bank was rated “positive BB” in the category “Issuer Performance”; the second best result of all 60 rated Banks [as per 05/2018]



Introduction 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[®]
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 portfolio¹⁾: ~ € 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



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

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