



Press release

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Aareal Bank Group remains on track in the second quarter: net interest income remains stable while net commission income increased significantly thanks to Aareon's performance

- **Consolidated operating profit for the second quarter remains solid at € 61 million (Q2 2018: € 62 million); full-year earnings outlook affirmed**
- **Net interest income of € 134 million maintained at the level of the preceding quarters, despite a challenging market and competitive environment**
- **Double-digit revenue growth at IT subsidiary Aareon pushes net commission income up to € 57 million (Q2 2018: € 51 million)**
- **New business in the Structured Property Financing segment picks up significantly in the second quarter, while margins remain at good levels**
- **Integration of Düsseldorfer Hypothekenbank completed as planned**

Wiesbaden, 13 August 2019 – During the second quarter of 2019, Aareal Bank Group maintained the momentum seen at the start of the year and continued its positive development. Consolidated operating profit reached € 61 million (Q2 2018: € 62 million) in what continues to be a challenging market and competitive environment and remained fully in line with the Bank's projections. Aareal Bank Group's consolidated operating profit for the first six months of the current financial year totalled € 122 million (H1 2018: € 129 million). The Group affirmed its forecast for the full year in view of its robust business performance over the first six months of the year: Aareal Bank Group continues to anticipate consolidated operating profit of between € 240 million and € 280 million for 2019.

Consolidated net income allocated to ordinary shareholders for the second quarter was unchanged from the same period of the previous year at € 37 million; it totalled € 72 million for the first six months of the financial year (H1 2018: € 76 million). Earnings per share amounted to € 0.61 for the second quarter and € 1.20 for the first half of 2019 (Q2 2018: € 0.62; H1 2018: € 1.27).

On the income side, key trends continued: net interest income remained stable at € 134 million in the second quarter, despite even tougher competition in key markets and the persistently low level of interest rates (Q2 2018: € 136 million; Q1 2019: €

135 million). The net derecognition gain, which must be reported separately, amounted to € 11 million in the second quarter (Q2 2018: € 5 million). Loss allowance of € 23 million (Q2 2018: € 19 million) was in line with the usual range of fluctuation.

Net commission income maintained its momentum, thanks to the encouraging positive development of the Bank's IT subsidiary Aareon AG. In the second quarter, Aareon achieved double-digit revenue growth and was thus the key driver for the significant increase in net commission income to € 57 million (Q2 2018: € 51 million). This demonstrates all the more clearly how Aareal Bank Group's strategy of broadening the scope of its Consulting/Services segment – with Aareon as the cornerstone – is paying off and turning it into the Group's principal growth driver. As previously announced, Aareon has launched a comprehensive growth and investment programme for this purpose, aimed in particular at expanding the already rapidly growing digital business on a massive scale while doubling its contribution to the Group's earnings in the medium term.

Consolidated administrative expenses totalled € 112 million for the second quarter (Q2 2018: € 109 million) and € 256 million for the first half of the year (H1 2018: € 237 million). As expected, these figures reflect, in particular, expenses (H1 2019: € 11 million) in connection with the integration of former Düsseldorfer Hypothekenbank (DHB, acquired on 31 December 2018), which was completed as planned in mid-2019, as well as Aareon's business growth.

“Once again, our year-to-date figures demonstrate that Aareal Bank Group is ideally positioned to meet the challenges that lie ahead. We are maintaining our position in the Structured Property Financing segment, even in this more challenging environment – in the Consulting/Services segment, we are gradually unlocking the great potential we see with our subsidiary Aareon. Not only are we on track to achieve our ambitious goals for 2019, but we are also committed to building on Aareal Bank Group's continued success over the medium to long term”, explained CEO Hermann J. Merkens.

Structured Property Financing segment: Strong new business and good margins, portfolio volume in line with projections

New business in the Structured Property Financing segment rose markedly in the second quarter compared with the start of the year. It totalled € 2.4 billion from April to June (Q2 2018: € 2.7 billion), compared with € 0.8 billion in the first quarter. The focus remained on North America. New business volume for the first six months of the year totalled € 3.2 billion, compared with € 4.2 billion in the same period of the previous year. Portfolio volume, the key benchmark for new business volume, remained – at € 26.6 billion – within the target range of € 26 to € 28 billion for the full year 2019. Aareal Bank continues to maintain its annual target for new business volume of € 7 to € 8 billion.

At 205 basis points (H1 2019: 225 basis points), the average gross margin in new business (before currency effects) for the second quarter again exceeded the projected full-year range of 180 to 190 basis points.

Consulting/Services segment: Aareon increases sales revenues and earnings – deposit volumes remain at a high level

Operating profit in the Consulting/Services segment totalled € –8 million in the second quarter of 2019, on a par with the same period of the previous year. Subsidiary Aareon AG increased its contribution to Group operating profit to € 9 million in the second quarter (Q2 2018: € 8 million). The total figure for the first half-year was € 17 million (H1 2018: € 14 million). Aareon's sales revenues rose by 11 per cent to € 63 million (Q2 2018: € 57 million). Digital products performed particularly well, with sales revenues up 23 per cent year-on-year.

Averaging € 10.7 billion, the volume of deposits from the housing industry remained at a high level during the second quarter of 2019 (2018 average: € 10.4 billion). The persistently low interest rate environment continued to burden 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.

Comfortable funding situation and a solid capital base

Aareal Bank continued to be very well-funded during the second quarter of 2019, maintaining its long-term funding inventory at a high level. In the second quarter, it raised around € 1.7 billion on the capital market, primarily through the placement of two Mortgage Pfandbriefe with an issue volume of € 500 million and USD 600 million, respectively, and a € 500 million senior preferred benchmark bond.

Aareal Bank continues to have a very solid capital base. As at 30 June 2019, the Bank's Common Equity Tier 1 (CET 1) ratio was 17.3 %, which is comfortable also on an international level, and the Total Capital Ratio was 26.9 %. The CET1 ratio determined on the basis of the Basel Committee's final framework – the estimated so-called 'Basel IV' ratio, which is relevant for capital planning – was 13.1 %.

Notes to Group financial performance

Net interest income for the second quarter of 2019 was € 134 million. It totalled € 269 million (H1 2018: € 269 million) for the first six months of the financial year.

Loss allowance amounted to € 23 million for the second quarter (Q2 2018: € 19 million) and € 28 million for the first half of the year (H1 2018: € 19 million).

Net commission income increased to € 57 million (Q2 2018: € 51 million), driven by Aareon's strong performance. Net commission income totalled € 110 million for the first half of the year, a significant increase on the same period last year (H1 2018: € 101 million).

Net derecognition gain amounted to € 11 million for the second quarter (Q2 2018: € 5 million) and € 27 million for the first half of the year (H1 2018: € 11 million). This was due both to adjustments to the Treasury portfolio and market-driven effects from early loan repayments.

The net gain or loss from financial instruments (fvpl) and from hedge accounting totalled € –7 million (Q2 2018: € –5 million), due to the mark-to-market measurement of loans. The total figure for the first half-year was € –1 million (H1 2018: € –4 million).

Consolidated administrative expenses totalled € 112 million for the second quarter (Q2 2018: € 109 million) and € 256 million for the first half of the year (H1 2018: € 237 million).

Consolidated operating profit totalled € 61 million for the quarter under review (Q2 2018: € 62 million). Taking tax deductions of € 20 million into account, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 41 million (Q2 2018: € 41 million). Assuming the pro-rata temporis accrual of net interest payable on the AT1 bond, consolidated net income allocated to ordinary shareholders amounted to € 37 million (Q2 2018: € 37 million).

Aareal Bank Group's consolidated operating profit for the first six months of the financial year totalled € 122 million (H1 2018: € 129 million). Taking tax deductions of € 41 million into account and after deducting € 1 million in non-controlling interest income, and assumed pro-rata net interest payable on the AT1 bond of € 8 million, consolidated net income allocated to ordinary shareholders of Aareal Bank AG amounted to € 72 million (H1 2018: € 76 million).

Outlook for 2019 affirmed

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

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

The reduction of non-strategic portfolios in the Structured Property Financing segment will continue during 2019, whilst the core credit portfolio is expected to continue to grow, market conditions permitting. Overall, subject to exchange rate fluctuations, Aareal Bank Group's property financing portfolio is expected to range between € 26 billion and € 28 billion. New business volume of between € 7 billion and € 8 billion is projected for the current year. Aareal Bank expects its IT subsidiary Aareon to contribute approximately € 35 million to consolidated operating profit,

taking strategic investments for accelerated growth into account. Excluding strategic investments, the contribution is anticipated at around € 41 million.

Note to editors: the full interim report as at 30 June 2019 is available at <http://www.aareal-bank.com/en/financialreports>.

Aareal Bank Group

Aareal Bank Group, headquartered in Wiesbaden, is a leading international property specialist. It provides smart financings, software products, and digital solutions for the property sector and related industries, and is present across three continents: Europe, North America and Asia/Pacific. Aareal Bank AG, whose shares are included in Deutsche Börse's MDAX index, is the Group's parent entity. It manages the various entities organised in the Group's two business segments: Structured Property Financing and Consulting /Services. The Structured Property Financing segment encompasses all of Aareal Bank Group's property financing and funding activities. In this segment, the Bank facilitates property investment projects for its domestic and international clients, within the framework of a three-continent strategy covering Europe, North America and the Asia/Pacific region. In its Consulting/Services segment Aareal Bank Group offers its European clients from the property and energy sectors a unique combination of specialised banking services as well as innovative digital products and services, designed to help clients optimise and enhance the efficiency of their business processes.

Aareal Bank Group – Key Indicators

	1 Jan-30 Jun 2019	1 Jan-30 Jun 2018
Results		
Operating profit (€ mn)	122	129
Consolidated net income (€ mn)	81	85
Consolidated net income allocated to ordinary shareholders (€ mn) ¹⁾	72	76
Cost/income ratio (%) ²⁾	45.5	44.2
Earnings per ordinary share (€) ¹⁾	1.20	1.27
RoE before taxes (%) ^{1) 3)}	8.6	9.4
RoE after taxes (%) ^{1) 3)}	5.6	6.1

	30 Jun 2019	31 Dec 2018
Statement of Financial Position		
Property finance (€ mn) ⁴⁾	25,699	26,395
Equity (€ mn)	2,821	2,928
Total assets (€ mn)	43,264	42,687
Regulatory Indicators ⁵⁾		
Risk-weighted assets (€ mn)	12,791	13,039
Common Equity Tier 1 ratio (CET1 ratio) (%)	17.3	17.2
Tier 1 ratio (T1 ratio) (%)	19.6	19.5
Total capital ratio (TC ratio) (%)	26.9	26.2
Common Equity Tier 1 ratio (CET1 ratio) (%) – Basel IV (estimate) – ⁶⁾	13.1	13.2
Employees	2,827	2,748

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

²⁾ Structured Property Financing segment only

³⁾ On an annualised basis

⁴⁾ Excluding € 0.5 billion in private client business (31 December 2018: € 0.6 billion) and € 0.4 billion in local authority lending business by the former Westdeutsche ImmobilienBank AG (WestImmo) (31 December 2018: € 0.5 billion)

⁵⁾ When calculating own funds as at 30 June 2019, interim profits were taken into account, deducting the pro-rata dividend in line with the dividend policy, and incorporating the pro-rata accrual of net interest payable on the AT1 bond. Moreover, the expected relevant impact of the TRIM exercise on commercial property financings, and of the SREP recommendations concerning the NPL inventory as well as the ECB's NPL guidelines for exposures newly classified as NPLs, were taken into account for determining regulatory indicators.

⁶⁾ Underlying estimate, given a 72.5 % output floor based on the final Basel Committee framework dated 7 December 2017. The calculation of the material impact upon Aareal Bank is subject to the outstanding EU implementation as well as the implementation of additional regulatory requirements (CRR II, EBA requirements etc.).

Consolidated Income Statement for the first half-year (according to IFRSs)

	1 Jan-30 Jun 2019	1 Jan-30 Jun 2018	Change
	€ mn	€ mn	%
Net interest income	269	269	0
Loss allowance	28	19	47
Net commission income	110	101	9
Net derecognition gain or loss	27	11	145
Net gain or loss from financial instruments (fvpl)	0	-1	-100
Net gain or loss from hedge accounting	-1	-3	-67
Net gain or loss from investments accounted for using the equity method	0	-	
Administrative expenses	256	237	8
Net other operating income/expenses	1	8	-88
Negative goodwill from acquisitions	-	-	
Operating profit	122	129	-5
Income taxes	41	44	-7
Consolidated net income	81	85	-5
Consolidated net income attributable to non-controlling interests	1	1	0
Consolidated net income attributable to shareholders of Aareal Bank AG	80	84	-5
Earnings per share (Eps)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	80	84	-5
of which: allocated to ordinary shareholders	72	76	-5
of which: allocated to AT1 investors	8	8	
Earnings per ordinary share (in €) ²⁾	1.20	1.27	-6
Earnings per AT1 unit (in €) ³⁾	0.08	0.08	

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 attributable to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Earnings per AT1 unit (basic) correspond to (diluted) earnings per AT1 unit.

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

	Q2 2019	Q2 2018	Change
	€ mn	€ mn	%
Net interest income	134	136	-1
Loss allowance	23	19	21
Net fee and commission income	57	51	12
Net derecognition gain or loss	11	5	120
Net gain or loss from financial instruments (fvpl)	-6	-4	50
Net gain or loss from hedge accounting	-1	-1	0
Net gain or loss from investments accounted for using the equity method	-	-	
Administrative expenses	112	109	3
Net other operating income/expenses	1	3	-67
Negative goodwill from acquisitions	-	-	
Operating profit	61	62	-2
Income taxes	20	21	-5
Consolidated net income	41	41	0
Consolidated net income attributable to non-controlling interests	0	0	0
Consolidated net income attributable to shareholders of Aareal Bank AG	41	41	0
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	41	41	0
of which: allocated to ordinary shareholders	37	37	0
of which: allocated to AT1 investors	4	4	
Earnings per ordinary share (in €) ²⁾	0.61	0.62	-2
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 attributable to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Earnings per AT1 unit (basic) correspond to (diluted) earnings per AT1 unit.

Segment results for the first half-year (according to IFRSs)

	Structured Property Financing		Consulting/Services		Consolidation/Reconciliation		Aareal Bank Group	
	1 Jan - 30 Jun 2019	1 Jan - 30 Jun 2018	1 Jan - 30 Jun 2019	1 Jan - 30 Jun 2018	1 Jan - 30 Jun 2019	1 Jan - 30 Jun 2018	1 Jan - 30 Jun 2019	1 Jan - 30 Jun 2018
€ mn								
Net interest income ¹⁾	276	275	-7	-6	0	0	269	269
Loss allowance	28	19	0	0			28	19
Net commission income ¹⁾	4	4	109	99	-3	-2	110	101
Net derecognition gain or loss	27	11					27	11
Net gain or loss from financial instruments (fvpl)	0	-1					0	-1
Net gain or loss from hedge accounting	-1	-3					-1	-3
Net gain or loss from investments accounted for using the equity method			0				0	
Administrative expenses	140	129	119	110	-3	-2	256	237
Net other operating income/expenses	1	7	0	1	0	0	1	8
Negative goodwill from acquisitions								
Operating profit	139	145	-17	-16	0	0	122	129
Income taxes	47	50	-6	-6			41	44
Consolidated net income	92	95	-11	-10	0	0	81	85
Consolidated net income attributable to non-controlling interests	0	0	1	1			1	1
Consolidated net income attributable to shareholders of Aareal Bank AG	92	95	-12	-11	0	0	80	84
Allocated equity ²⁾	2,116	2,048	200	172	243	260	2,559	2,480
Cost/income ratio (%)	45.5	44.2	116.1	116.4			62.9	61.6
RoE before taxes (%) ^{2) 3) 4)}	12.1	13.0	-18.0	-19.9			8.6	9.4

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.

²⁾ The Structured Property Financing segment's allocated equity of the comparative period was adjusted to Basel IV. This also led to a change in RoE before taxes.

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.

Segment results from the second quarter (in accordance with IFRSs)

	Structured Property Financing		Consulting/Services		Consolidation/Reconciliation		Aareal Bank Group	
	Q2	Q2	Q2	Q2	Q2	Q2	Q2	Q2
	2019	2018	2019	2018	2019	2018	2019	2018
€ mn								
Net interest income ¹⁾	138	139	-4	-3	0	0	134	136
Loss allowance	23	19	0	0			23	19
Net commission income ¹⁾	2	3	57	49	-2	-1	57	51
Net derecognition gain or loss	11	5					11	5
Net gain or loss from financial instruments (fvpl)	-6	-4					-6	-4
Net gain or loss from hedge accounting	-1	-1					-1	-1
Net gain or loss from investments accounted for using the equity method								
Administrative expenses	53	55	61	55	-2	-1	112	109
Net other operating income/expenses	1	2	0	1	0	0	1	3
Negative goodwill from acquisitions								
Operating profit	69	70	-8	-8	0	0	61	62
Income taxes	23	24	-3	-3			20	21
Consolidated net income	46	46	-5	-5	0	0	41	41
Consolidated net income attributable to non-controlling interests	0	0	0	0			0	0
Consolidated net income attributable to shareholders of Aareal Bank AG	46	46	-5	-5	0	0	41	41

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.