QUALITY made by AAREAL

# Setting milestones.
## Creating prospects.

Aareal Bank Group – Interim Report
1 January to 30 June 2019

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 (estimated) –[6] | 13.1 | 13.2 |
| | | |
| **Employees** | 2,827 | 2,748 |

| | 30 Jun 2019 | 31 Dec 2018 |
|---|---|---|
| **Moody's** | | |
| Issuer rating | A3 | A3 |
| Senior Preferred[7] | A3 | A3 |
| Senior Non Preferred[8] | Baa1 | Baa1 |
| Bank deposit rating | A3 | A3 |
| Mortgage Pfandbrief Rating | Aaa | Aaa |
| | | |
| **Fitch Ratings**[9] | | |
| Issuer Default Rating | A- | A- |
| Senior Preferred | A | A |
| Senior Non Preferred | A- | A- |
| Deposit ratings | A | A |
| | | |
| **Sustainability Ratings** [10] | | |
| MSCI | AA | AA |
| ISS-oekom | prime (C) | prime (C) |
| Sustainalytics | 69 | 70 |

1) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.
2) Structured Property Financing segment only
3) On an annualised basis
4) Excluding € 0.5 billion in private client business (31 December 2018: € 0.6 billion) and € 0.4 billion in local authority lending business by the former Westdeutsche ImmobilienBank AG (WestImmo) (31 December 2018: € 0.5 billion)
5) When calculating own funds 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.).
7) Moody's terminology: "Senior Unsecured"
8) Moody's terminology: "Junior Senior Unsecured"
9) Published on 21 January 2019.
10) Please refer to our website (www.aareal-bank.com/en/responsibility/reporting-on-our-progress/) for more details.

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

# Contents

# Interim Group Management Report

## Report on the Economic Position

### Macro-economic environment

The economic environment in the first half of the year was defined by geopolitical uncertainty, concerns about a faltering economy, and changed interest rate expectations. It turned out that economic growth – measured in terms of gross domestic product – was significantly better than expected, despite the negative development of some sentiment indicators.

### Economy

Growth in the euro zone was robust in the first half year. The services sector was the driving force here, while the industrial sector suffered from waning global demand and internal shocks. While the Italian economy emerged from a technical recession thanks to marginal growth, the European Commission recommended initiating a deficit procedure against Italy in June. France was able to demonstrate stable growth, while growth rates in Germany were slightly lower than in the second half of the previous year.

All in all, growth in the EU was on par with that in the euro zone, whereby Poland continued to generate substantially higher growth rates. On the other hand, growth rates in Sweden fell to the European Union average.

The UK economy showed inconspicuous and solid growth during the first half of the year: this was partly due to a build-up of inventories ahead of the original deadline for the UK's exit from the EU. The deferral of Brexit to 31 October 2019 extended the period of uncertainty about the future status in relation to the most important trading partners. There are still quite a number of different options available today as to if and in what form Brexit will happen.

In the first half of 2019, economic growth and the increase in employment in the US varied from one quarter to the next. However, the trend was robust overall. Waning fiscal stimulus and a slowdown in global demand reduced economic momentum slightly in the second quarter, despite the fact that higher inventory build-up could be observed in the first quarter. Uncertainties about trade relations and the strong dollar drove the industry's sentiment indicators down to a two-year low. Growth in Canada decelerated, particularly due to the weaker domestic economy.

In China, growth was significantly weaker in the first half of 2019 – albeit within expectations – due to easing global demand and the trade dispute with the US. Private consumption was weak in Australia but was supported by investments and exports.

The employment situation remained encouraging in most markets. Unemployment rates stayed very low in many countries and fell again slightly in the euro zone, the UK and the US compared with year-end 2018.

### Financial and capital markets, monetary policy and inflation

The first half of the year on the financial and capital markets was defined by falling long-term and short-term interest rates in nearly all currency areas. While a basic expectation for further rate increases still prevailed last year, most market participants now increasingly expect interest rates to remain low or to fall further. The markets were open without limitation for new issues and refinancing.

In the first half of the year, the European Central Bank (ECB) announced the introduction of new long-term refinancing transactions (TLTRO) and its intention to leave the key interest rates at their current level until mid-2020 at least. The US Federal Reserve (Fed) kept interest rates unchanged in the first half-year. This was perceived by the market as the end to the cycle of interest rate increases. The Bank of England remained hesitant ahead of the forthcoming Brexit.

There were some significant and inconsistent changes in the currency areas that are relevant for Aareal Bank. The US dollar appreciated at first, but weakened towards the end of the first half of the year; at the half-year point it was only marginally stronger than at the end of 2018. The planned exit from the EU continued to impact on the pound sterling, with the currency burdened by the deferral of the exit date. The Canadian dollar appreciated compared with year-end 2018 in line with the higher price of oil. The Swedish krona, on the other hand, continued to shed value and the Australian dollar closed a little lower, too.

Short-term interest rates continued to fall in almost all the relevant currency areas since the start of the year. Measured in euros, they fell marginally and thus remained in slightly negative territory. They were close to the 3 % mark in US dollars at the start of year but then fell significantly in the first half of the year. They also fell significantly in Canadian dollars. In Swedish krona, however, they rose so that they were only slightly negative.

A continuous downward trend, whose magnitude was almost identical in all relevant currency areas, established itself for long-term interest rates in the first half of the year.

The picture for ten-year government bonds was similar to that of long-term interest rates, with the exception of Italy. Yields rose here at the end of the first half-year on the back of political discussions concerning the country's debt and fiscal policy.

Inflationary pressure eased noticeably in the first half of 2019 in almost all currency areas. Euro zone inflation fell to 1.4 %. Inflation in the US fell to 2.1 % while falling only slightly in the UK, to 2.2 %. In China, on the other hand, it rose slightly to just over 2 %.

## Regulatory environment

The environment in which banks are operating continues to be defined by highly dynamic regulatory requirements, as well as by changes in banking supervision. This includes, in particular, the implementation of the final draft of the Basel III framework into EU law (known as "Basel IV"), which was endorsed by the Basel Committee's Group of Governors and Heads of Supervision (GHOS). Furthermore, the EU Commission's proposals to revise supervisory regimes (CRR, CRD IV, BRRD and SRMR) as well as the EBA documents (Guidelines on PD and LGD estimation, treatment of defaulted exposures, and determination of downturn LGD), will all bring about further regulatory changes. In addition, the amendments proposed by the ECB, EBA and the EU Commission on the treatment of non-performing loans must also be taken into account. With regard to resolution, BaFin's Minimum Requirements for the Implementation of a Bail-in (MaBail), which is currently being consulted on, presents new challenges. Moreover, both national and European regulators are imposing various new requirements – including in connection with IT/information security risks, or regarding the prevention of money laundering, tax evasion, and terrorist financing.

The ECB's Supervisory Review and Evaluation Process (SREP) ensures a common approach on the supervisory review of banks, within the framework of Pillar 2. The SREP is built around a business model analysis, an assessment of governance, as well as of the capital and liquidity risks. The results of the individual areas are aggregated in a score value, from which the ECB derives supervisory measures on holding additional capital and/or additional liquidity buffers.

Following an amendment to the German Regulation Determining Critical Infrastructure (Verordnung zur Bestimmung Kritischer Infrastrukturen – "BSI-KritisV") in 2017, Aareal Bank AG is now additionally subject to reporting requirements vis-à-vis the German Federal IT Security Authority (BSI). Certification required by the BSI for areas and systems classified as 'critical infrastructure' was carried out accordingly.

## Sector-specific and business developments

### Structured Property Financing segment

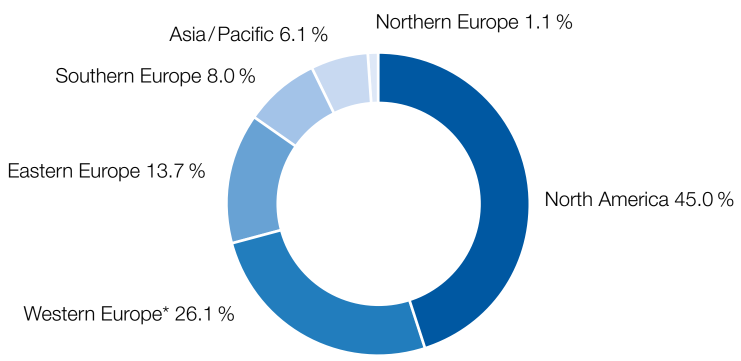
Global commercial property transaction volumes in the first half of 2019 were down markedly on the same period of the previous year. Whilst volume in North America was down slightly, it was noticeably lower in the Asia/Pacific region and in Europe. Besides the volume, the number of transferred properties also declined.

Very low prime yields were observed on numerous commercial property markets around the world. Whilst yields for secondary retail properties rose in many markets, they continued to decline for secondary office properties in numerous markets. Rents for first-class properties partly were in different phases of their business cycles. In Europe and the US, average rents in the office market continued to rise slightly, supported in particular by the high take-up volume. In contrast, rents for retail property stagnated in Europe and in the US.

The lower number of transactions met with great willingness among market participants to provide finance. Fierce competition for the financing of existing commercial properties thus persisted in many markets. Margins in the European and the US markets were under pressure in the first half-year, although they remained higher in the US than in Europe.

**New business [1] 1 January - 30 June 2019**

by region (%) Total volume: € 3.2 bn




* Including Germany

[1] New business, excluding private client business and local authority lending business of former WestImmo

In a highly competitive business environment, that is defined by numerous uncertainty factors, Aareal Bank succeeded in generating new business of € 3.2 billion in the first half of 2019 (H1 2018: € 4.2 billion). The portfolio size remained stable compared to 30 June 2018. Newly-originated loans amounted to € 2.0 billion (H1 2018: € 3.4 billion) during the first half-year.

At 48.9 % (2018: 46.2 %), the highest share of our new business was originated in Europe, followed by North America with 45.0 % (2018: 53.4 %). 6.1 % of new business was originated in the Asia/Pacific region (2018: 0.4 %). The high share of new business in North America is an element of the "Aareal 2020" programme for the future, whilst we are strengthening our geographical footprint with the higher share in the Asia/Pacific region.

#### Europe

Transaction volumes generated in Europe in the first half of the year were down significantly on the corresponding periods in previous years. The declines were attributable in particular to lower volumes in Germany, the Netherlands, Poland, Spain, and the UK. Transaction volumes in France were down only slightly; in Italy they rose slightly, with Finland and Sweden posting very marked increases.

Cross-border and institutional investors held their net investment positions on the buy side, while private investors and REIT structures were more on the sell side.

Rents for prime office premises predominantly showed a slightly positive development. Retail property rents were stable for the most part but fell slightly in some locations such as Amsterdam and Brussels. Political uncertainty in the UK – given impending Brexit – as well as rising costs pressured retailers' margins. This also exercised pressure on rents, especially for UK shopping centres in secondary locations.

The development of yields varied in Europe. Marginally higher yields were achieved for prime retail properties in many metropolitan areas, while yield levels increased slightly more for secondary properties. In the UK, they remained largely stable for prime retail properties, whilst rising for shopping centres in secondary locations. For office properties, however, yields were stable to slightly falling in, for example, Madrid, the bigger German locations, and in the Netherlands. Logistics properties enjoyed a similar scenario, where yields fell slightly in many places, such as in the important German, French, and Spanish locations.

All in all, the European hotel markets predominantly featured slightly rising occupancy ratios in the first half year and increasing revenues per available room. Occupancy ratios were slightly lower in Paris and Rome, whereas they rose markedly in Barcelona and Brussels. Looking at average revenues, Paris saw a slight decline, whilst Barcelona and Madrid showed a clearly positive development. Occupancy ratios rose slightly in London, at a very high level, with average revenues per available hotel room growing at an even slightly higher rate.

Aareal Bank originated new business of € 1.6 billion (H1 2018: € 2.0 billion) in Europe during the first half of 2019. The largest share by far was transacted in Western Europe, followed by Eastern and Southern Europe; Northern Europe's share was comparatively minor.

### North America

Transaction volumes in North America in the first half of the year were slightly lower compared to the same period of the previous year. Institutional and private investors were net buyers, whereas the majority of cross-border investors were on the sell side. REIT structures had slightly negative positions.

Rents for office properties in US metropolitan areas were stable or rose slightly. This development applied to grade A as well as grade B properties. Slightly higher rents were observed for example in Atlanta and Chicago, in the grade B segment in each case. Retail property rents, on the other hand, remained virtually stable in the first half of the year.

Office property yields remained stable in most US markets, such as in Atlanta, Chicago, Dallas, and New York, whilst rising marginally in Washington DC. In contrast, yields for retail properties rose marginally in Washington DC and New York during the first half of the year, whilst falling marginally in Atlanta.

The hotel markets in North America demonstrated slightly higher revenues per available hotel room with stable occupancy ratios. Diverging slightly from this trend, Orlando saw marginal declines in occupancy ratios and average revenue per available room, whereas the latter increased significantly in Los Angeles. Occupancy ratios in Canada were down slightly, with marginally higher average revenue per available room. Developments in individual markets showed a mixed picture: whilst in Calgary and Edmonton, occupancy ratios and average revenues per available room declined markedly, they increased significantly in Montreal and Vancouver.

Aareal Bank originated new business of € 1.4 billion in North America during the first half-year (H1 2018: € 2.2 billion). This business was originated in the US and in Canada.

### Asia/Pacific

Transaction volumes in the Asia/Pacific region in the first half of the year were noticeably lower year-on-year. Cross-border and institutional investors were on the buy side for the most part, while REIT structures and private investors were mostly on the sell side.

As regards office property rents, a stable to slightly rising trend predominated in the premium segment in the first half-year. Slight increases were observed in Melbourne and Sydney. This compared with stable rents in Shanghai and Beijing. By contrast, the development was largely negative for retail properties, particularly in Beijing.

There was little change in the yields for office and retail properties in the Asia/Pacific region in the first half of the year.

The relevant indicators for the hotel market in Asia were slightly negative in the first half-year; in particular, the average revenue per available room fell due to the slightly negative occupancy ratio year-on-year.

Aareal Bank originated new business of € 0.2 billion in the Asia/Pacific region in the first half of 2019 (H1 2018: marginal new business).

### Integration of for Düsseldorfer Hypothekenbank AG:

Aareal Bank Group concluded the integration of former Düsseldorfer Hypothekenbank AG (Düsselhyp) during the first half of 2019, with the split-off of former Düsselhyp's banking operations.

## Consulting/Services segment

### Bank division Housing Industry

The housing and commercial property industries continue to be stable market segments. Steady rental income generated from a high occupancy status thus guarantees a secure foundation. The increase in residential rents is no longer limited to the conurbations; the effect is meanwhile spreading to the regional centres and is even making itself felt in smaller cities, where new-build rents rose by 5.8 % and rents for existing properties by 3.7 %. The stable economic situation has also helped housing companies to increasingly reduce rental arrears; by 21.3 % in 2018 alone.

The German residential rental market continued to see stable development. Rents offered were approx. 3.2 % higher throughout Germany in the first quarter of 2019 compared with the first quarter of 2018.

The imbalance between housing supply and demand remains unchanged, especially in the growth regions. A-cities in particular reported further population growth. Although building activity has increased overall, and in most A-cities too, a major surplus demand continues to prevail.

The current 2019 financial year saw the Bank's Housing Industry division strengthening its market position again via the acquisition of new clients. We also consistently intensified the cross-sector collaboration with our clients from the energy and waste disposal industry. This is accomplished especially through interface products such as BK 01 eConnect and BK 01 immoconnect, which extend across sectors and can be linked to housing industry products, such as the BK 01 Invoice Data Processing, in order to facilitate for example accounting documentation and invoicing of energy supplies. This brought in more business partners from the housing industry – managing more than 85,000 residential units between them – for the payments and deposit-taking businesses.

We strengthened our range of property industry services in particular this year and at the same time extended the range of digital solutions for the housing industry and its clients. With the acquisition of plusForta, a provider of deposit guarantees, and the purchase of software from Deutsche Kautionspartner for managing rental deposits held with other banks, we are cementing our claim to become the leading provider of rental deposit products in Germany, complementing the range of services we offer. We have also extended the Aareal Portal for our corporate clients with a new release, including added functionality in the area of third-party management.

At present, around 4,000 clients throughout Germany are using our process-optimising products and banking services. In line with the "Aareal 2020" programme for the future, the average volume of deposits from housing industry clients amounted to around € 10.7 billion in the first half of 2019 (H1 2018: € 10.3 billion). All in all, this reflects the strong trust our clients continue to place in Aareal Bank.

### Aareon

Aareon is the leading consultancy and IT systems house for the property industry in Europe. It is pursuing a profitable growth strategy and continued to grow during the first half of 2019. Key factors to its success are client orientation, the growth in digital solutions, further strengthening of the ERP systems and exploration of new markets and related sectors associated with the property industry. In the course of the forward-looking orientation of Aareon and further intensification of research and development, a strategic investment programme was launched specifically for this purpose. The process of internal optimisation to enhance the organisational performance and profitability also continued, and the operative organisational structure with three cross-border divisions – market, operating and digital business – was organised to enhance proximity to the market and clients.

With € 17 million in the first half of 2019 (H1 2018: € 14 million), Aareon significantly exceeded its contribution to earnings compared to the previous year. This was essentially contributed to by recurring revenues and the consulting business in all product segments, as well as the significant growth in digital solutions revenue.

In Germany, numerous clients migrated successfully to Wodis Sigma. As expected, the favoured version is the one that uses Wodis Sigma as a service from the exclusive Aareon Cloud. The business volumes conducted with Wodis Sigma as well as with SAP solutions and Blue Eagle increased year-on-year. Additional commercial property clients were acquired for the RELion ERP solution. The marketing process for the Aareon Occupant Change Management solution continues to run on the utilities market: several clients have already decided in favour of it.

In the Netherlands, several key accounts opted for long-term contracts with the Tobias AX ERP solution – some products were rolled out, too. The market launch of the new Tobias 365 ERP product generation started in the second quarter. The ERP business in France is defined by mergers in the social housing industry. This development is based on the ELAN Law, which was passed in October 2018. Several clients have already been acquired to date. Some new clients were acquired in the UK, including one important key account. ERP demand also concentrated in individual software adjustments and additional modules. Aareon Sverige was able to win key tenders with the Incit Xpand ERP solution. Following the successes on the Finnish market, Aareon Sverige founded the subsidiary Aareon Finland OY at the start of the year.

The positive earnings development in the outsourcing business continued, as well as for BauSecura's insurance business.

Digitalisation is becoming increasingly important for the property industry. With its Aareon Smart World digital ecosystem, Aareon offers integrated solutions for automating the business processes and networking business partners and market participants. The digital transformation process for clients is therefore focused on creating added value. Aareon continues to steadily expand this offer, and benefits from the transfer of international knowhow in research and development, as well as from the exchange with the proptech and start-up scene. In the Netherlands, Aareon Nederland acquired a minority stake in the Dutch PropTech OSRE B.V. ORSE designed a digital solutions platform that makes property sales and rental transactions more efficient. The first venture activities of subsidiary AV Management GmbH, which operated under the Ampolon Ventures brand, were presented at the MIPIM in Cannes on the one hand and at the Aareon Congress in Garmisch-Partenkirchen on the other.

The business volume of the digital solutions has continued to grow strongly year-on-year, with a growing number of clients enhancing their ERP systems with the addition of integrated digital solutions, thus developing their own digital ecosystem.

## Financial Position and Financial Performance

### Financial performance

#### Group

Consolidated operating profit for the first half of 2019 amounted to € 122 million (H1 2018: € 129 million) and was thus in line with our expectations. The expected increase in administrative expenses was offset by higher commission income and a higher net derecognition gain.

At € 269 million, net interest income stabilised as planned and was in line with the comparative figure for the previous year (H1 2018: € 269 million).

Loss allowance amounted to € 28 million (H1 2018: € 19 million) and was thus in line with our expectations as well.

**Consolidated net income of Aareal Bank Group**

| | 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 |

Net commission income of € 110 million developed positively as planned, in particular due to the increase in Aareon's net commission income (H1 2018: € 101 million).

The net derecognition gain of € 27 million (H1 2018: € 11 million) exceeded our expectations, mainly resulting from adjustments to our securities portfolio.

The aggregate of net gain or loss from financial instruments (fvpl) and net gain or loss from hedge accounting of € -1 million (H1 2018: € -4 million) resulted largely from changes in the measurement of hedging derivatives (fvpl).

Administrative expenses increased as expected, to € 256 million (H1 2018: € 237 million), in particular due to running costs, integration expenses incurred in conjunction with the integration of former Düsselhyp, and Aareon's business expansion.

Overall, this resulted in consolidated operating profit of € 122 million (H1 2018: € 129 million).

Taking into consideration tax expenses of € 41 million and non-controlling interest income of € 1 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 80 million (H1 2018: € 84 million). Assuming the pro rata temporis accrual of net interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders stood at € 72 million (H1 2018: € 76 million). Earnings per ordinary share amounted to € 1.20 (H1 2018: € 1.27) and return on equity (RoE) before taxes stood at 8.6 % (H1 2018: 9.4 %).

### Structured Property Financing segment

Operating profit in the Structured Property Financing segment amounted to € 139 million in the first half of 2019 (H1 2018: € 145 million). The expected higher level of administrative expenses – especially due to running costs and integration expenses in-curred in conjunction with the integration of former Düsselhyp – was offset by a higher net derecognition gain.

**Structured Property Financing segment result**

| | 1 Jan-30 Jun 2019 | 1 Jan-30 Jun 2018 | Change |
|---|---|---|---|
| | € mn | € mn | % |
| Net interest income | 276 | 275 | 0 |
| Loss allowance | 28 | 19 | 47 |
| Net commission income | 4 | 4 | 0 |
| 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 | – | – | |
| Administrative expenses | 140 | 129 | 9 |
| Net other operating income/expenses | 1 | 7 | -86 |
| Negative goodwill from acquisitions | – | – | |
| **Operating profit** | **139** | **145** | **-4** |
| Income taxes | 47 | 50 | -6 |
| **Segment result** | **92** | **95** | **-3** |

At € 276 million, net interest income in the segment stabilised as planned and was in line with the comparative figure for the previous year (€ 275 million).

Loss allowance amounted to € 28 million (H1 2018: € 19 million) and was thus in line with our expectations as well.

The net derecognition gain of € 27 million (H1 2018: € 11 million) exceeded our expectations, mainly resulting from adjustments to our securities portfolio.

The aggregate of net gain or loss from financial instruments (fvpl) and net gain or loss from hedge accounting of € -1 million (H1 2018: € -4 million) resulted largely from changes in the measurement of hedging derivatives (fvpl).

Administrative expenses increased as expected, to € 140 million (H1 2018: € 129 million), in particular due to running costs and integration expenses incurred in conjunction with the integration of former Düsselhyp.

Overall, operating profit for the Structured Property Financing segment was € 139 million (H1 2018: € 145 million). Taking into consideration income taxes of € 47 million (H1 2018: € 50 million), the segment result amounted to € 92 million (H1 2018: € 95 million).

### Consulting/Services segment

Net interest income of € -7 million in the Consulting/Services segment (H1 2018: € -6 million) continues to be burdened by the negative margin from the deposit-taking business due to the persistently low level of interest rates.

Net commission income of € 109 million developed positively as planned, in particular due to the increase in Aareon's net commission income (H1 2018: € 99 million).

Administrative expenses increased, as expected, to € 119 million (H1 2018: € 110 million), due to business expansion, strategic projects and investments.

Overall, segment operating profit in the first half of 2019 was € -17 million (H1 2018: € -16 million). Aareon's contribution was € 17 million (H1 2018: € 14 million).

**Structured Property Financing segment result**

| | 1 Jan-30 Jun 2019 | 1 Jan-30 Jun 2018 | Change |
|---|---|---|---|
| | € mn | € mn | % |
| Net interest income[1] | -7 | -6 | 17 |
| Loss allowance | 0 | 0 | |
| Net commission income[1] | 109 | 99 | 10 |
| Net gain or loss from investments accounted for using the equity method | 0 | – | |
| Administrative expenses | 119 | 110 | 8 |
| Net other operating income/expenses | 0 | 1 | -100 |
| **Operating profit** | **-17** | **-16** | **6** |
| Income taxes | -6 | -6 | 0 |
| **Segment result** | **-11** | **-10** | **10** |

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

Taking income taxes into consideration, the segment result amounted to € -11 million (H1 2018: € -10 million).

## Financial position

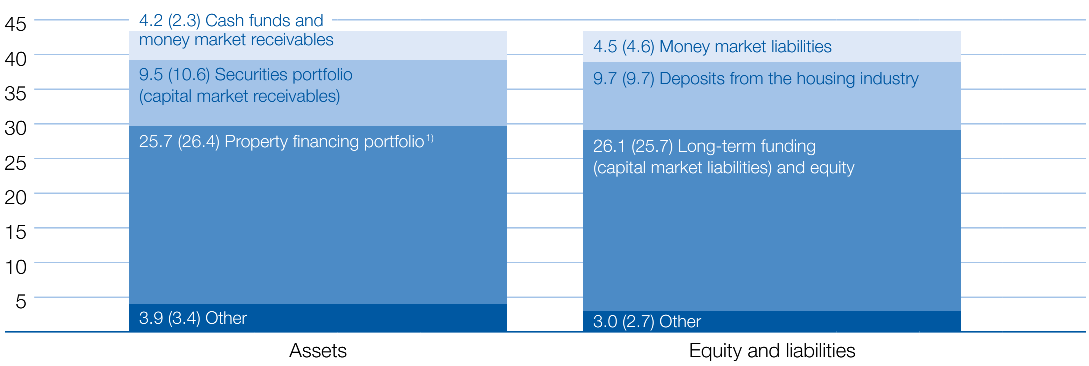
Consolidated total assets as at 30 June 2019 amounted to € 43.3 billion, after € 42.7 billion as at 31 December 2018.

### Cash reserve and money market receivables

The cash reserve and money market receivables position contains excess liquidity invested at short maturities. As at 30 June 2019, this comprised predominantly cash funds and deposits with central banks and money-market receivables from banks.

**Statement of financial position – structure as at 30 June 2019 (31 December 2018)**

€ mn




[1] 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), and excluding loss allowance

### Property financing portfolio

The volume of Aareal Bank Group's property financing portfolio stood at € 25.7 billion as at 30 June 2019, down by approximately 2.6 percentage points from the year-end level 2018 (€ 26.4 billion).

At the reporting date (30 June 2019), Aareal Bank Group's property financing portfolio was composed as shown beside, compared with year-end 2018.

Portfolio allocation by region and continent changed in line with the Bank's strategy, compared with the end of the previous year: Whilst the portfolio share of exposures in North America rose by around 2.5 percentage points, it declined in Germany by around 1.5 percentage points, remaining relatively stable for all other regions.

The breakdown of the portfolio by property type did not change significantly during the reporting period. The share of hotel property increased by 1.0 percentage points compared to year-end 2018, whilst the share of retail property was reduced by 1.2 percentage points. The share of financings for residential, logistics, and office property as well as other financings in the overall portfolio remained almost unchanged compared to the year-end 2018.

All in all, the high degree of diversification by region and property type within the property financing portfolio was maintained during the period under review.

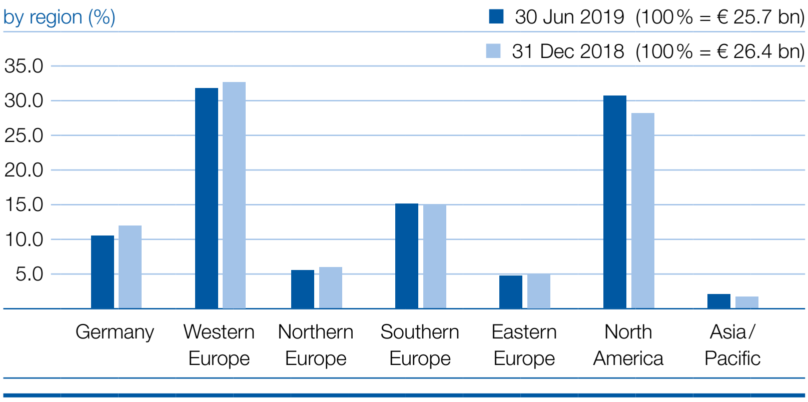
### Securities portfolio

Aareal Bank holds a portfolio of high-quality securities, used as economic and regulatory liquidity reserve as well as for the cover management of Pfandbriefe.

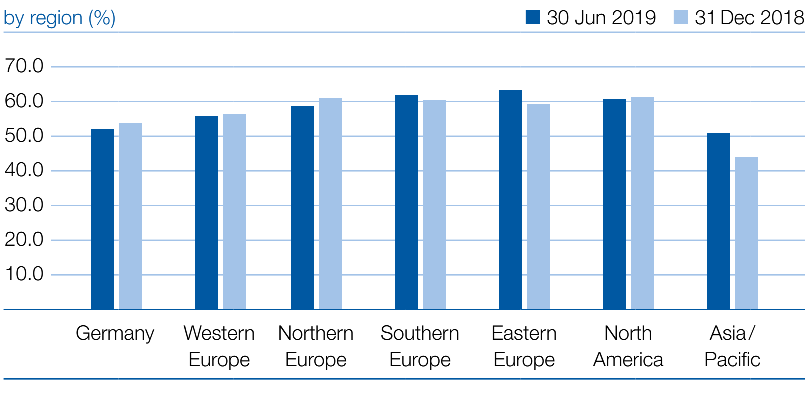
The securities portfolio[1] in the Group as at 30 June 2019 comprised a nominal volume of € 7.7 billion (31 December 2018: € 8.7 billion);

[1] As at 30 June 2019, the securities portfolio was carried at € 9.5 billion (31 December 2018: € 10.6 billion).

**Property financing volume[1] (amounts drawn)**

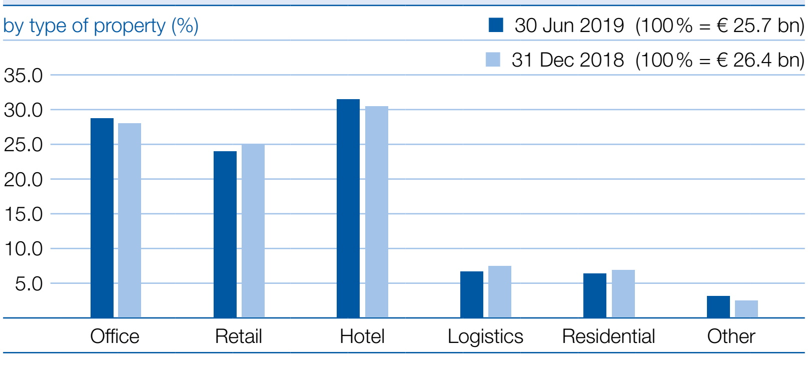



**Average LTV of property financing[1]**




Note that the loan-to-value ratios are calculated on the basis of drawdowns and market values, including supplementary collateral with sustainable value, excluding defaulted property financings.

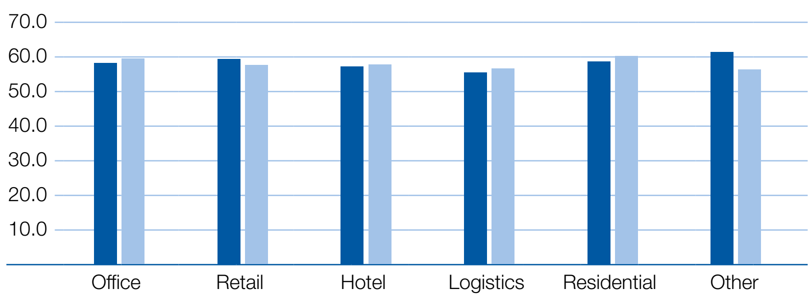
**Property financing volume[1] (amounts drawn)**




[1] Excluding private client business and local authority lending business of former WestImmo

**Average LTV of property financing** [1)]

by type of property (%)



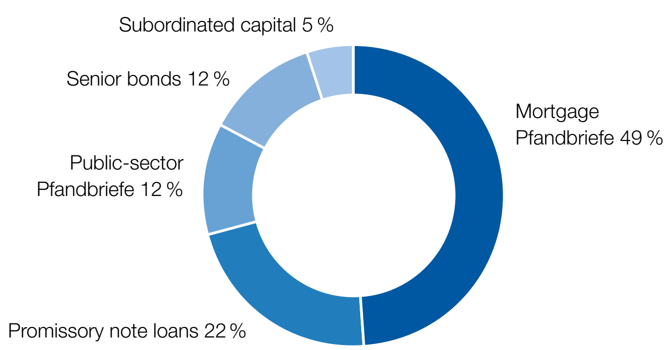

Note that the loan-to-value ratios are calculated on the basis of drawdowns and market values, including supplementary collateral with sustainable value, excluding defaulted property financings.
[1)] Excluding private client business and local authority lending business of former WestImmo

the decline was due in particular to sales of securities from the acquired portfolio of former Düsselhyp, as well as to maturities.

Key aspects taken into account for portfolio management are good credit quality and the related value stability, as well as a high degree of liquidity. The securities portfolio comprises three asset classes: public-sector borrowers, covered bonds and Pfandbriefe, as well as bank bonds.

**Capital market funding mix as at 30 June 2019**

% Total volume: € 23.5 bn




99 % of the overall portfolio is denominated in euro. 99 % of the portfolio has an investment grade rating.[1)] More than 75 % of the portfolio fulfils the requirements for "High Quality Liquid Assets" (as defined in the Liquidity Coverage Ratio (LCR)).

Public-sector borrowers are the largest asset class held, accounting for a share of approx. 95 %. These include securities and promissory note loans that qualify as ordinary cover for Public-Sector Pfandbriefe. 99 % of these issuers are headquartered in the EU. Approximately 75 % are rated AAA or AA, and a further 7 % are rated single-A.

The share of Pfandbriefe and covered bonds was around 2 % as at 30 June 2019, exclusively comprising European covered bonds and Pfandbriefe, all of which are rated AAA.

## Financial position

### Funding and equity

#### Funding

Aareal Bank Group has remained very solidly funded throughout the first half of the 2019 financial year. Total long-term refinancing as at 30 June 2019 amounted to € 23.5 billion (31 December 2018: € 23.1 billion), comprising Pfandbrief issues as well as senior unsecured and subordinated issues. As at the reporting date, Aareal Bank also had € 9.7 billion at its disposal in deposits generated from the business with the housing industry (31 December 2018: € 9.7 billion). Money-market liabilities amounted to € 4.5 billion (31 December 2018: € 4.6 billion).

The Liquidity Coverage Ratio (LCR) exceeded 150 % on the reporting days during the period under review.

Aareal Bank Group successfully raised € 2.8 billion on the capital market during the first half of 2019. This figure included two euro-denominated benchmark Mortgage Pfandbrief transactions sized

[1)] The rating details are based on the composite ratings.

at € 0.75 billion and € 0.5 billion, and one USD 0.6 billion benchmark Mortgage Pfandbrief issue. We also enjoyed great success in placing a € 0.5 billion Senior Preferred Benchmark issue with national and international investors.

Since we conduct our business activities in a range of foreign currencies, we have secured our foreign currency liquidity over the longer term by means of appropriate measures.

**Equity**

Aareal Bank Group's total equity as disclosed in the statement of financial position amounted to € 2,821 million as at 30 June 2019 (31 December 2018: € 2,928 million), comprising € 300 million for the Additional Tier 1 (AT 1) bond. Equity declined due to the distribution of dividends, and a distribution on the AT 1 bond. Please also refer to the statement of changes in equity, and to our explanations in Note 20.

**Regulatory indicators**[1) 2)]

| | 30 Jun 2019 | 31 Dec 2018 |
|---|---|---|
| € mn | | |
| Common Equity Tier 1 (CET1) | 2,209 | 2,241 |
| Tier 1 (T1) | 2,509 | 2,541 |
| Total capital (TC) | 3,435 | 3,419 |
| % | | |
| 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) – [3)] | 13.1 | 13.2 |

1) Aareal Bank AG utilises the rules set out in section 2a of the KWG in conjunction with Article 7 of the CRR, pursuant to which regulatory indicators of own funds may only be determined at Group level. In this respect, the following disclosures relate to Aareal Bank Group.
2) 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 (which has been included in the regulatory report since 31 March 2019), 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.
3) 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.).

The regulatory measurement of risk-weighted assets (RWAs) in the area of credit risks is based on both the Advanced Internal Ratings-Based Approach (AIRBA), and on the standardised approach (CRSA). RWA data incorporates the expected relevant impact of the TRIM (Target Review of Internal Models) exercise on commercial property financings. RWAs as at 30 June 2019 are shown in the following tables (p. 16).

**Analysis of risk-weighted assets (RWA)**

**30 June 2019**

| € mn | EAD | Risk-weighted assets (RWA) AIRBA | CRSA | Total | Regulatory capital requirements |
|---|---|---|---|---|---|
| **Credit risks** | **45,365** | **10,083** | **921** | **11,004** | **880** |
| Companies | 28,461 | 8,360 | 292 | 8,652 | 692 |
| Institutions | 2,977 | 308 | 70 | 378 | 30 |
| Public-sector entities | 12,625 | 0 | 369 | 369 | 30 |
| Other | 1,302 | 1,415 | 190 | 1,605 | 128 |
| **Market price risks** | | | | **92** | **7** |
| **Operational risks** | | | | **1,489** | **119** |
| **Credit Valuation Adjustment** | | | | **206** | **17** |
| **Total** | **45,365** | **10,083** | **921** | **12,791** | **1,023** |

**31 December 2018**

| € mn | EAD | Risk-weighted assets (RWA) AIRBA | CRSA | Total | Regulatory capital requirements |
|---|---|---|---|---|---|
| **Credit risks** | **44,722** | **10,347** | **925** | **11,272** | **902** |
| Companies | 28,674 | 8,546 | 314 | 8,860 | 709 |
| Institutions | 2,711 | 301 | 80 | 381 | 30 |
| Public-sector entities | 11,915 | 0 | 312 | 312 | 25 |
| Other | 1,422 | 1,500 | 219 | 1,719 | 138 |
| **Market price risks** | | | | **97** | **8** |
| **Operational risks** | | | | **1,455** | **116** |
| **Credit Valuation Adjustment** | | | | **215** | **17** |
| **Total** | **44,722** | **10,347** | **925** | **13,039** | **1,043** |

## Risk Report

### Aareal Bank Group Risk Management

The Annual Report 2018 contains a comprehensive description of Aareal Bank Group's risk management approach, including the corresponding organisational structure and workflows in the lending and trading businesses, as well as the methods and procedures used for measuring and monitoring risk exposure. Within the scope of the present Interim Report, we briefly reiterate the key elements of our risk management, also outlining material developments during the period under review – such as the implementation of the new ECB Guidelines on the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). The business policy set by the Management Board, and duly acknowledged by the Supervisory Board, provides the conceptual framework for Aareal Bank Group's risk management. Taking this as a basis, and strictly considering the Bank's risk-bearing capacity, we have formulated detailed strategies for managing the various types of risk. These risk strategies, as well as the Bank's business strategy, are adapted to the changed environment at least once a year, adopted by the Management Board, and duly acknowledged by the Supervisory Board. Suitable risk management and risk control processes are deployed to implement the risk strategies, and to ascertain the Bank's ability to bear risk. A monthly internal risk report is prepared for all material types of risk, and submitted to the Bank's Management Board and Supervisory Board.

### Risk-bearing capacity and risk limits

The Bank's ability to carry and sustain risk (as determined within the ICAAP framework) is a core determining factor governing the structure of its risk management system. To ensure its uninterrupted risk-bearing capacity, Aareal Bank Group has adopted a dual management approach comprising two complementary perspectives: the normative and the economic perspective. These perspectives replace the two previous management approaches for risk-bearing capacity – namely, the going-concern approach and the gone-concern approach.

The normative perspective aims to ensure Aareal Bank Group's ability to fulfil all of its regulatory requirements over a multi-year period. This perspective thus accounts for all material risks which may impact upon relevant regulatory indicators over the multi-year planning period.

The normative ICAAP perspective is embedded into Aareal Bank Group's planning process, which – in particular – also includes capital planning. Group planning covers three planning years, it comprises both baseline and adverse scenarios. Results of Group planning are shown as a projected consolidated income statement for Aareal Bank Group. Planning also encompasses the balance sheet structure, as well as key regulatory indicators, plus additional internal management indicators.

Besides the planning process itself, intra-year computation adjustments to Aareal Bank Group's planning process also include the ongoing monitoring of management indicators as well as checking whether limits in the normative perspective are being complied with. Management indicators in the normative perspective (which are being monitored, and for which limits have been set) comprise various regulatory ratios.

We are using the ICAAP economic perspective, whose purpose is to safeguard Aareal Bank Group's economic substance and thus, in particular, to protect creditors against economic losses. We predominantly employ proprietary procedures and methods (agreed upon with regulators) in order to identify and quantify potential economic losses, and to determine the required capital backing.

The purpose of internal capital is to serve as a risk-bearing component under the economic perspective. Within Aareal Bank Group, the current regulatory Tier I capital serves as the basis for determining economic aggregate risk cover. Accordingly, available internal capital comprises Common Equity Tier I (CET1) capital, supplemented by Additional Tier I (AT1) capital. Tier 2 capital, as well as projected results to be incurred during the risk analysis horizon, are not taken into account.

Moreover, the value-oriented approach adopted under the economic perspective requires suitable adjustments to be made to regulatory Tier I capital, in order to bring aggregate risk cover into line with the economic assessment. Specifically, this may entail adjustments regarding conservative valuation, or a management buffer.

The taxonomy of potential risks under the economic perspective is largely oriented upon the established classification under the previous going-concern/gone-concern approaches. A change was made for credit spread and migration risk in the banking book (CSRBB), which no longer constitutes a separate type of risk but is included in loan loss and market risks, as part of the economic perspective. As a result, the number of risk types for which separate limits are determined has been reduced from eight to seven.

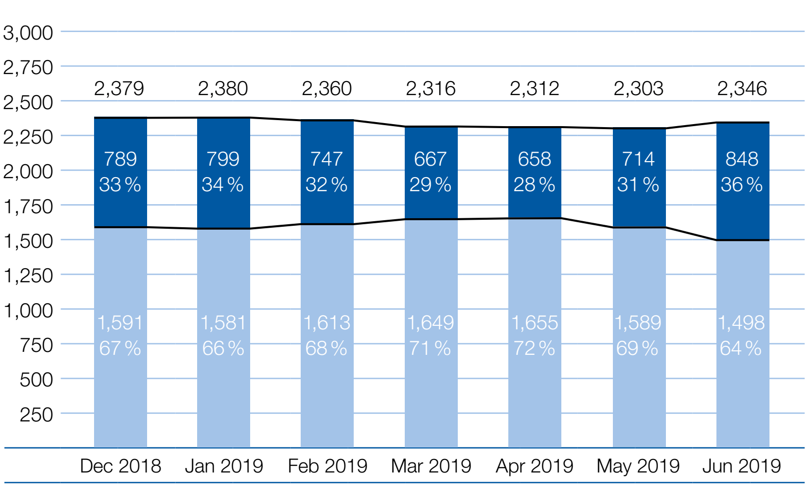
| € mn | 30 Jun 2019 | 1 Jan 2019[1] |
|---|---|---|
| Tier 1 (T1) capital | 2,509 | 2,541 |
| CVA/hidden encumbrances/management buffer | -163 | -162 |
| **Aggregate risk cover** | **2,346** | **2,379** |
| **Utilisation of freely available funds** | | |
| Loan loss risks | 653 | 685 |
| Interest rate risk in the banking book (IRRBB) | 163 | 101 |
| Market risks | 404 | 530 |
| Operational risks | 123 | 116 |
| Investment risks | 30 | 29 |
| Property risks | 44 | 49 |
| Business and strategic risks | 81 | 81 |
| **Total utilisation** | **1,498** | **1,591** |
| **Utilisation (% of aggregate risk cover)** | **64 %** | **67 %** |

[1] adjusted for the new confidence interval of 99.9 %

Aareal Bank Group consistently applies a period of 250 trading days as a risk analysis horizon, as well as for the holding period as part of risk models under the economic perspective. To the extent that risks are measured on the basis of quantitative risk models, a uniform observation period of at least 250 trading days (or at least one year) is applied to the risk parameters used. The appropriateness of model assumptions is verified within the scope of validating the corresponding risk models and parameters.

**Development of risk limit utilisation**

during the course of 2019, € mn




Looking at correlation effects between material types of risk within the framework of the economic ICAAP perspective, Aareal Bank Group has prudently opted for aggregation of risk levels; accordingly, no risk-mitigating correlation effects are being taken into account. Where, for the purposes of calculating risk-bearing capacity, risks are measured on the basis of quantitative risk models, these have been based on a uniform confidence interval of 99.9 % since 1 January 2019 (up from 95 % until 31 December 2018).

Limits for specific risk types are determined in such a manner that aggregate limits do not exceed economic aggregate risk cover, less a risk buffer designed to cover risks not explicitly covered by limits (e.g. those risks which cannot be sensibly quantified), and to also absorb other fluctuations of internal capital over time. Individual limits are set on the basis of existing risk exposures and historical levels of potential risks, and to an extent that is in line with the Bank's business and risk strategy. Specific limits have been set in a way that each limit is sufficient for utilisation in line with planned business development, as well as for common market fluctuations.

A detailed monthly report provides information regarding the utilisation of individual limits for the material types of risk, as well as on the overall limit utilisation. These are being monitored as part of daily reporting. No limit breaches were detected during the period under review.

Since risk cover potential is an inadequate measure to assess the risk-bearing capacity for liquidity risk, we have defined special tools for managing this type of risk.

## Loan loss risks

### Definition

Aareal Bank defines loan loss risk as the risk of losses being incurred due to (i) a deterioration in a business partner's credit quality (migration risk); (ii) a business partner defaulting on contractual obligations; (iii) collateral being impaired; or (iv) a risk arising upon realisation of collateral. Both credit business and trading activities may be subject to counterparty credit risk. Counterparty credit risk exposure from trading activities may refer to risk exposure vis-à-vis counterparties or issuers. Country risk is also defined as a form of counterparty credit risk.

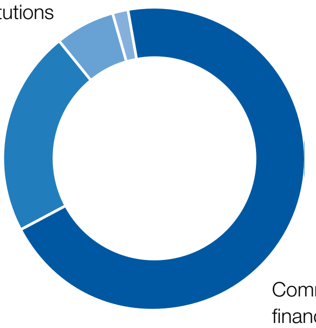
### Risk measurement and monitoring

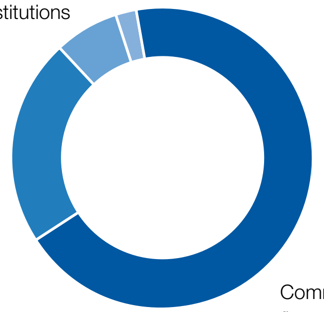
Aareal Bank's structural organisation and business processes are consistently geared towards effective and efficient risk management. Regulatory requirements are fully taken into account for the organisation of operations and workflows in the credit and trading businesses.

Processes in the credit and trading businesses are designed to consistently respect the clear functional division of Sales units ("Markt") and Credit Management ("Marktfolge"), up to and including senior management level. The independent Risk Controlling division is responsible for identifying, quantifying and monitoring all material risks at portfolio level, and for maintaining a targeted risk reporting system.

**Breakdown of on-balance sheet and off-balance sheet business by rating procedure (gross carrying amounts)**

€ bn | 30 Jun 2019 | 31 Dec 2018




[1] Including the private client business of former WestImmo

Aareal Bank employs different risk classification procedures tailored to the requirements of the respective type of business for the initial, regular, or event-driven assessment of counterparty credit risk. Forward-looking as well as macro-economic information is taken into consideration for risk classification procedures, and in the valuation of collateral. The respective procedures and parameters are subject to permanent review and adjustment. Responsibility for development, quality assurance, and monitoring implementation of procedures, is outside the Sales units.

Methods used to measure, control and monitor concentration and diversification effects on a portfolio level include two different credit risk models. Based on these models, the Bank's decision-makers are regularly informed of the performance and risk content of property financing exposures, and of business with financial institutions. The models in question allow the Bank to include in particular, rating changes and correlation effects in the assessment of the risk concentrations.

Within the process-oriented monitoring of individual exposures, the Bank uses various tools to monitor exposures on an ongoing basis: besides the tools already described, this includes rating reviews, the monitoring of payment arrears, and the regular, individual analysis of the largest exposures. The intensity of loan coverage is oriented upon the credit risk exposure. Intensified handling triggers recognition of loss allowance, in the amount of lifetime expected credit loss for the financial instrument concerned (Stage 2).

The tables on the pages 21/22 provide a breakdown of gross carrying amounts of on-balance sheet as well as off-balance sheet credit business, money-market business, and capital markets business, by rating class and loss allowance stages, in line with credit risk management at Group level. Figures are based on Aareal Bank Group's internal default risk rating classes. The default definition follows the definition pursuant to Article 178 of the CRR, which is decisive for management purposes.

Monthly reporting covers the material aspects of credit risk; it is supplemented by detailed information – which also fully covers specific credit portfolio developments (broken down by country, property and product type, risk classes, and collateral categories, for example), in line with regulatory requirements – at least on a quarterly basis. Risk concentrations are being taken into account in particular.

Trading activities are restricted to counterparties for whom the requisite limits are in place. All trades are immediately taken into account for the purposes of borrower-related limits. Compliance with limits is monitored in real time by Risk Controlling. Persons holding position responsibility are informed about relevant limits and their current usage, regularly and without delay.

In principle, Aareal Bank pursues a "buy and manage" strategy in managing its credit portfolio – with the primary objective of holding the majority of loans extended on its balance sheet until maturity; at the same time, targeted exit measures are deployed for actively managing the portfolio and the risks involved.

In summary, during the period under review, the existing set of tools and methods continued to enable the Bank to adopt suitable risk management or risk mitigation measures, where required, at an early stage.

**On-balance sheet commercial property finance business with mandatory rating**

| | 30 Jun 2019 | | | | | 31 Dec 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | fvpl | Total | Stage 1 | Stage 2 | Stage 3 | fvpl | Total |
| € mn | | | | | | | | | | |
| Class 1 | | | | | | | | | | |
| Class 2 | 119 | | | | **119** | 117 | | | | **117** |
| Class 3 | 349 | | | 2 | **351** | 255 | | | | **255** |
| Class 4 | 1,440 | | | 5 | **1,445** | 1,486 | | | | **1,486** |
| Class 5 | 3,395 | | | 19 | **3,414** | 3,566 | | | 94 | **3,660** |
| Class 6 | 3,954 | 20 | | 125 | **4,099** | 3,966 | 21 | | 256 | **4,243** |
| Class 7 | 3,399 | | | | **3,399** | 3,420 | | | | **3,420** |
| Class 8 | 5,429 | 55 | | 360 | **5,844** | 5,166 | 112 | | 181 | **5,459** |
| Class 9 | 3,432 | 32 | | 53 | **3,517** | 3,463 | 42 | | 116 | **3,621** |
| Class 10 | 938 | 28 | | | **966** | 1,510 | 28 | | | **1,538** |
| Class 11 | 279 | 11 | | 84 | **374** | 285 | 91 | | 39 | **415** |
| Class 12 | 431 | 32 | | | **463** | 531 | 62 | | | **593** |
| Class 13 | | 141 | | | **141** | | 66 | | | **66** |
| Class 14 | | | | | | | | | | |
| Class 15 | | | | | | | | | 3 | **3** |
| Defaulted | | | 1,746 | 73 | **1,819** | | | 1,564 | 22 | **1,586** |
| **Total** | **23,165** | **319** | **1,746** | **721** | **25,951** | **23,765** | **422** | **1,564** | **711** | **26,462** |

**Off-balance sheet commercial property finance business with mandatory rating**

| | 30 Jun 2019 | | | | | 31 Dec 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | fvpl[1] | Total | Stage 1 | Stage 2 | Stage 3 | fvpl[1] | Total |
| € mn | | | | | | | | | | |
| Classes 1-2 | | | | | | | | | | |
| Class 3 | 25 | | | | **25** | | | | | |
| Class 4 | 235 | | | 214 | **449** | 39 | | | | **39** |
| Class 5 | 39 | | | 1 | **40** | 32 | | | 6 | **38** |
| Class 6 | 155 | | | | **155** | 190 | | | 25 | **215** |
| Class 7 | 141 | | | | **141** | 175 | | | | **175** |
| Class 8 | 341 | 5 | | | **346** | 312 | 5 | | | **317** |
| Class 9 | 117 | | | | **117** | 120 | | | | **120** |
| Class 10 | 41 | | | | **41** | 75 | | | | **75** |
| Class 11 | 3 | | | | **3** | 5 | | | | **5** |
| Class 12 | | | | | | 29 | | | | **29** |
| Classes 13-15 | | | | | | | | | | |
| Defaulted | | | 53 | | **53** | | | 78 | | **78** |
| **Total** | **1,097** | **5** | **53** | **215** | **1,370** | **977** | **5** | **78** | **31** | **1,091** |

[1] Commitments for parts of loans intended for syndication

On-balance sheet loans and advances to financial institutions

| € mn | 30 Jun 2019 Stage 1 | Stage 2 | Stage 3 | fvpl | Total | 31 Dec 2018 Stage 1 | Stage 2 | Stage 3 | fvpl | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Class 1 | 807 | | | | **807** | 1,242 | | | | **1,242** |
| Class 2 | 84 | | | | **84** | 32 | | | | **32** |
| Class 3 | 26 | | | | **26** | 15 | | | | **15** |
| Class 4 | 86 | | | | **86** | 85 | | | | **85** |
| Class 5 | 65 | | | | **65** | 514 | | | | **514** |
| Class 6 | 84 | | | | **84** | 100 | | | | **100** |
| Class 7 | 923 | | | | **923** | 387 | | | 35 | **422** |
| Class 8 | 386 | | | | **386** | 284 | | | | **284** |
| Class 9 | 16 | | | 0 | **16** | 16 | | | 43 | **59** |
| Class 10 | 26 | | | | **26** | 25 | | | 26 | **51** |
| Classes 11-18 | | | | | | | | | | |
| Defaulted | | | | | | | | | | |
| **Total** | **2,503** | **–** | **–** | **0** | **2,503** | **2,700** | **–** | **–** | **104** | **2,804** |

On-balance sheet loans and advances to sovereign states and local authorities

| € mn | 30 Jun 2019 Stage 1 | Stage 2 | Stage 3 | fvpl | Total | 31 Dec 2018 Stage 1 | Stage 2 | Stage 3 | fvpl | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Class 1 | 2,498 | | | | **2,498** | 2,621 | | | | **2,621** |
| Class 2 | 2,670 | | | 66 | **2,736** | 2,666 | | | 76 | **2,742** |
| Class 3 | 895 | | | 33 | **928** | 797 | | | 70 | **867** |
| Class 4 | 144 | | | 34 | **178** | 145 | | | 32 | **177** |
| Class 5 | 231 | | | | **231** | 239 | | | 62 | **301** |
| Class 6 | 438 | | | | **438** | 436 | | | | **436** |
| Class 7 | 165 | | | | **165** | 163 | | | 105 | **268** |
| Class 8 | | | | | | | | | | |
| Class 9 | 1,154 | 126 | | | **1,280** | 711 | 805 | | 89 | **1,605** |
| Classes 10-20 | | | | | | | | | | |
| Defaulted | | | | | | | | | | |
| **Total** | **8,195** | **126** | **–** | **133** | **8,454** | **7,778** | **805** | **–** | **434** | **9,017** |

## Country risks

Our comprehensive approach to risk management also includes measuring and monitoring country risk exposure. When defining country risk, in addition to the risk of sovereign default or default of state entities, Aareal Bank also considers the risk that a counterparty could become unable to meet its payment obligations as a result of government action, despite being willing and able to pay, due to restrictions being imposed on making payments to creditors (transfer risk). Country risk exposure is managed using a cross-divisional process. The respective country limits are determined on the basis of a country risk assessment by the Bank's senior management. The Risk Controlling division is responsible for the continuous monitoring of country limits and limit utilisation, and for periodical reporting.

### Interest rate risk in the banking book

#### Definition

Interest rate risk in the banking book (IRRBB) is defined as the risk exposure of instruments held in the banking book which are sensitive to changes in interest rates, caused by yield curve shifts.

Specifically, for Aareal Bank this includes:

- risks arising from maturity transformation in the event of yield curve shifts (so-called gap risk), which, in turn, are broken down into:
  - risks from cash flows which are sensitive to interest rates, relative to the general yield curve (interest rate risk or repricing risk);
  - risks arising from the valuation of future cash flows, relative to the general yield curve (yield curve risk);
- risks from cash flows which are sensitive to interest rates, in terms of spreads to the general yield curve (basis risk);
- risks from explicit and implied options (option risk);
- risks arising from changing valuation of pension liabilities (pension risk);
- risks from fluctuations in the value of fund assets (fund risk); and
- risks from changes in Aareal Bank's specific funding spreads (funding risk).

#### Risk measurement and monitoring

Risk Controlling informs the members of the Management Board responsible for Treasury and risk monitoring about the risk position and the exposure to interest rate risk in the banking book on a daily basis.

The VaR concept has been broadly accepted as the predominant method for measuring economic interest rate risk in the banking book. VaR quantifies risk as the maximum loss that will occur within a certain period of time, and given a defined probability.

A variance-covariance approach (delta-normal method) is used throughout the Group to determine the VaR indicator. Determined on a daily basis for the Group and all its operating units, the VaR figure takes into account the correlation between individual risk types. Statistical parameters used in the VaR model are calculated directly from a 250-day historical data pool maintained within the Bank. The loss potential is determined applying a 99.9 % confidence interval under the economic perspective.

By their very nature, VaR calculations are based on numerous assumptions regarding the future development of the business, and the related cash flows. Key assumptions used include current account balances and deposits at notice which are factored into calculations for a period of up to 'five years, using the average residual amount of deposits observed in the past. Loans are taken into account using their fixed-interest period (for fixed-rate exposures) or using their expected maturity (variable-rate exposures). Aareal Bank Group's consolidated equity is not taken into account as a risk-mitigating item. This tends to overstate VaR, demonstrating the conservative approach adopted in our risk measurement processes.

### Market risks

#### Definition

Market risks are broadly defined as the threat of losses due to changes in market parameters; this refers to market risks which are not assigned to the IRRBB. In particular, this also encompasses any type of spread risk exposure of instruments held in the banking book which are sensitive to changes in interest rates, and which are neither included in IRRBB nor in counterparty credit risk.
Specifically, for Aareal Bank this includes:

- risks resulting from fluctuations of spot foreign exchange (FX) rates (spot FX risk);
- risks resulting from fluctuations of forward foreign exchange rates (forward FX risk); and

- risks from the regulatory review of the trading book (Financial Risk in the Trading Book – FRTB).

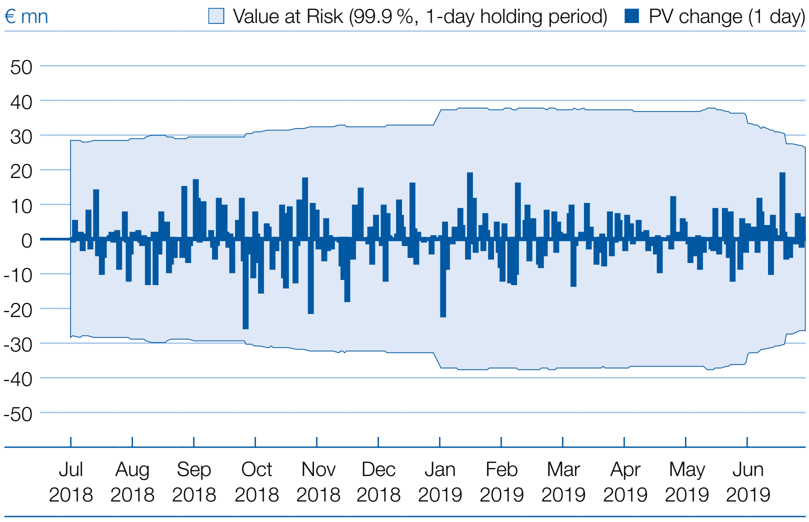
Being authorised to maintain a trading book, Aareal Bank AG is the Group entity that is in a position to assign transactions to the trading portfolio as defined by the CRR. Given that no such trades were concluded during the financial year under review, trading book risks played a negligible role in the overall risk scenario during the period.

Commodities are irrelevant for the Bank's business. Exchange rate risks are largely eliminated through hedges.

Various risks previously shown under CSRBB have been included under market risks upon introduction of the economic perspective for risk-bearing capacity under the ICAAP. Specifically, for Aareal Bank this includes:

- valuation risks due to changes in credit spreads (credit spread risk);
- specific price risks from the bond portfolio, wherein the bonds are mainly sovereign bonds (sovereign risk);
- risks from adjustments to the credit valuation of OTC derivatives (CVA risk).

**Present values and 1-day VaR during the course of 2018/2019**




Risks from the rating migration of loans (migration risk), previously also included in CSRBB, are now part of credit risks. To differentiate spread risks (credit spread risk and sovereign risk) in terms of their credit risk exposure, reported market risk is adjusted accordingly.

### Risk measurement and monitoring

Risk Controlling informs the members of the Management Board responsible for Treasury and risk monitoring about the risk position and market risk exposure on a daily basis.

The VaR concept has been broadly accepted as the predominant method for measuring economic market risk. VaR quantifies risk as the maximum loss that will occur within a certain period of time and given a defined probability.

A variance-covariance approach (delta-normal method) is used throughout the Group to determine the VaR indicator. Determined on a daily basis for the Group and all its operating units, the VaR figure takes into account the correlation between individual risk types. Statistical parameters used in the VaR model are calculated directly from a 250-day historical data pool maintained within the Bank. The loss potential is determined applying a 99.9 % confidence interval.

Furthermore, in addition to the risk category limit, a separate trading limit has been determined for Aareal Bank AG, as an institution authorised to maintain a trading book. The CVA buffer amount is taken from the amount determined in accordance with CRR requirements.

#### Backtesting

The quality of forecasts made using statistical models is checked through a monthly backtesting process. The quality of the statistical procedure used to measure risk is checked using a binomial test, whereby daily profits and losses from market fluctuations are compared with the upper projected loss limit (VaR) forecast on the previous day (known as "clean backtesting"). In line with the selected confidence level of 99.9 %, only a small number of events are expected to break out of the VaR projection (≤ 1 for a 250-day period).

The backtesting exercise shown below comprises all risk positions subject to daily changes from the ”Market risks” category.

No negative outliers were observed at Group level during the past 250 trading days, affirming the high forecasting quality of the VaR model we use.

### Operational risks

The Bank defines operational risk as the threat of losses caused by inappropriate internal procedures, human resources and systems (or their failure), or through external events. This definition also includes legal risks. To the extent that they are caused by operational risks, model and reputational risks are also taken into consideration within this type of risk. Systemic risks (or their impact on operational risks) are not affected by this.

Aareal Bank's legal department deals with any litigation the Bank is involved in, as well as with any legal issues of fundamental importance.

An analysis on the basis of instruments used has not indicated any disproportionate operational risk exposure for the Bank, nor were any material risk concentrations evident.

Tools to control operational risk are supplemented by a system to manage and monitor outsourced activities and processes (outsourcing).

### Investment risks

Aareal Bank defines investment risk as the threat of unexpected losses incurred due to an impairment of the investment's carrying amount, or a default of loans extended to investees. The concept of investment risk also encompasses additional risks arising from contingencies vis-à-vis the relevant Group entities.

All relevant Group entities are subject to regular audits, including a review and assessment of their risk situation within the framework of risk measurement and monitoring.

### Property risks

We define property risk as the threat of unexpected losses arising from changes in the value of property held by the Bank, or by fully-consolidated subsidiaries.

Due to the special character of property risk (involving marketing risks, for example), special methods and procedures are employed to deal with investment risk. All relevant property holdings are subject to regular audits, including a review and assessment of their risk situation. There were no significant changes in property risk during the period under review.

### Business and strategic risks

Business and strategic risk is defined as the risk of unexpected losses, usually brought about by a decline in profits due to income falling short of expectations, whereby the shortfall cannot be compensated for by cost reductions. Strategic risk may emerge from changes in the competitive or regulatory environment, or due to unsuitable positioning in the macroeconomic environment.

In this context, we distinguish between investment risk and allocation risk, whereby allocation risk is already covered by various planning scenarios, and is thus incorporated in aggregate risk cover.

### Liquidity risks

Liquidity risk in the narrower sense is defined as the risk that current or future payment obligations cannot be met in full or on time. Aareal Bank Group's liquidity risk management system is designed to ensure that the Bank has sufficient cash and cash equivalents to honour its payment obligations at any future point in time. The risk management and monitoring processes have been designed to cover refinancing and market liquidity risks in addition to liquidity risk in the narrower sense.

Treasury is responsible for managing liquidity risks, whilst Risk Controlling ensures the continuous monitoring, including a daily liquidity report submitted to Treasury, and a contribution to the monthly risk report to the entire Management Board.

Further details are provided in the comments on the Bank's liquidity in the section on the "Financial position".

## Report on Expected Developments and Opportunities

### Macro-economic environment

Developments for the economy, as well as for financial and capital markets, are exposed to diverse major risks and threats – which also have an impact on the commercial property markets. The economic forecast is defined by significant uncertainty. The key factors in this regard relate to geopolitical risks, protectionist economic policy and implications for a weakening economy.

Sudden or excessive changes in interest rates may trigger revaluations and changes in investor behaviour, potentially leading to a collapse in asset prices arising from a change in asset allocation. Emerging economies in particular will have to face capital outflows and may have to raise their own interest rates. The economies were rendered vulnerable due to the protracted period of low interest rates caused by a lack of effort to reform and consolidate and increased levels of private debt. A longer-lasting period of low interest rates complicates an exit from such an environment, heightening the risks for the financial and capital markets. In this context, traditional central bank policy may lose its impact.

Protectionist measures adopted by the US pose a threat to both macro-economic performance and the financial markets. An open trade war cannot currently be ruled out (it has already started in part), which, in addition to the reduction in trade in goods and services, could also cause turbulence on the financial markets.

The political shift away from European cohesion not only represents the greatest threat for the EU but for Europe too. This is substantiated by Brexit, regional pro-secession efforts for example in Catalonia, and in particular by nationally focused governments in Central and Eastern Europe, and in Italy. This could also have a negative impact on the economy.

Higher – and in some instances continuing high – levels of indebtedness pose another risk in many countries and regions. In this context, changes in monetary policy may have a negative impact upon market confidence, triggering crises. Furthermore, private debt has risen considerably, especially in the emerging markets, and could lead to market corrections and systemic crises.

#### Economy

A multitude of risks, fiscal measures and muted global trading are expected to slow down the pace of global economic growth in 2019. The uncertainty about US trade relations that re-emerged at the end of the first half of the year is a decisive factor in determining the outlook. This could generate more pronounced regional differences overall than the year before. Moreover, risks and uncertainty factors, were they to materialise to a substantial extent, could mute the economic development, or even cause recessive tendencies in certain regions.

Although the euro zone is expected to continue showing slightly weaker growth in 2019, the threat of a recession is rated as low. The weaker growth is explained above all by a lower trade balance and fewer investments. We expect growth rates to be significantly lower for the most part in the euro zone markets that are relevant for Aareal Bank, while the Italian economy is likely to stagnate due to weak domestic demand.

Economic growth in the EU this year is expected to exceed the euro area slightly. Expectations for the UK will be influenced significantly by the planned exit from the EU; the high degree of uncertainty surrounding the planned Brexit at the moment makes any forecast difficult. At present, it is fair to expect economic development to be stable at first – unless a hard Brexit (without an agreement with the EU) were to occur, in which case growth would likely be significantly weaker, possibly even tilting into recession in the UK.

Various indicators in the US suggest that the economic cycle has peaked there. Although slightly weaker growth is expected in 2019, it should nonetheless remain higher than in Europe. Growth in Canada is expected to be considerably weaker than in the previous year.

Owing to easing investment in the energy sector, we see slightly weaker growth in Australia in 2019, which should however be better supported by investment in other areas.

In China, we expect the trend of slowing real GDP growth rates to continue. Factors influencing economic development in China are the targeted reduction of over-capacity in heavy industry and the transition to an overall lower investment ratio. We are still witnessing uncertainty with regard to the increase of macro-economic debt. Moreover, protectionist measures are also likely to have a negative impact on trade, so that further government support measures can be expected again this year.

Against a backdrop of slightly positive economic growth, we expect most labour markets across the euro zone as well as in other European countries to register slowly decreasing to virtually stagnating unemployment rates for 2019. The US unemployment rate is also likely to continue to fall moderately.

### Financial and capital markets, monetary policy and inflation

The risks and uncertainty factors listed above are also impacting on financial markets in the current year. Were they to materialise to a significant extent, they might cause turbulence on capital markets as well. Under these conditions, volatility is expected to be higher overall than the year before. We continue to believe that the financial markets will remain receptive towards refinancing and new securities issues.

The ECB is unlikely to raise the deposit and refinancing rates this year – in fact, it might lower the deposit rate slightly. The Fed decided to cut its key interest rate by 25 basis points at the end of July, resolving to stop its balance-sheet reduction early. Looking at international trade tension and the fact that the stimulating effects of tax reform are petering out, we believe that another interest rate cut is likely this year, in spite of the Fed's reluctant communications. In the UK, the Bank of England has tied its monetary policy orientation to the effects of Brexit. It will likely raise the base rate further in the event of an orderly Brexit.

Long-term interest rates in the US are expected to remain stable or decline slightly in the second half of the year. Stable long-term interest rates can be anticipated in Europe, with an increase expected especially in Italy.

In the outlook for 2019, falling energy prices and lower inflationary pressure from the real economy point towards stable to slightly lower inflation in the euro zone, the UK and the US compared with the first half of the year.

### Regulatory environment

The trend towards a tighter regulatory framework in the banking business is set to persist during the coming years. For instance, the finalisation of the Basel III framework, adopted by the Basel Committee's Group of Governors and Heads of Supervision (GHOS), will bring about extensive changes to the approaches used for determining risk-weighted capital requirements (a concept known as "Basel IV").

Furthermore, the TRIM review of ECB-supervised institutions within Pillar I has not yet been completed. The new requirements under CRR II, CRD V and BRRD II have meanwhile been published in the EU Official Journal. In addition, EBA has published guidelines on PD and LGD estimates, the treatment of risk exposures, and the determination of downturn LGDs – which will need to be implemented.

To facilitate the timely implementation, we have already continued to pursue the individual issues in numerous projects, devoting considerable resources to this task.

The volatility of requirements presents an additional challenge for institutions: besides the new requirements mentioned by way of example, this volatility is particularly a function of the concrete specifications for instruments implemented by the ECB and/or the national supervisory authorities. For instance, the capital buffers to be set on a national level (the anticyclical buffer and the buffer for systemic risks), or the annual results of the Supervisory Review and Evaluation Process (SREP) for individual banks, can only be planned to a certain extent. Moreover, these instruments may lead to changes in a bank's individual capital requirements, at short notice.

## Sector-specific and business developments

### Structured Property Financing segment

Demand for commercial properties will vary in the second half of 2019, depending on the region and property type. A shortage of sought-after top-class properties, along with reticence among different investors to invest in specific markets (such as the UK) or in specific property types (such as retail), will make itself felt in global transaction volumes. These are likely to be markedly lower this year than in 2018.

Commercial property markets, as well as the economy, are exposed to major risks and threats. An excessively sharp interest rate hike could have a negative effect on performance. Moreover, other uncertainty factors and risks in the macro-economic environment are also relevant for commercial property markets.

Several factors will influence the market value of commercial property over the course of the year. Whilst the economy, which is expected to remain slightly positive, and historically low interest rates will support property values, political uncertainty, economic downturns or investor reticence might have an adverse effect on values. Despite the sustained economic cycle, the market cycle is still intact, therefore also potentially leading to cyclical downturns in the commercial property market.

Based on the conditions described above, we therefore anticipate a largely stable development in the market values of commercial property in many markets this year.

We expect a stable development of market values in 2019 in various European countries, such as Germany, Italy, Poland, and Sweden. For Finland, France, the Netherlands and Spain on the other hand, we consider slightly positive growth to be possible. Brexit is creating uncertainty in the UK, whereby a hard Brexit may lead to declining values. Political uncertainty in Italy poses a risk to performance. Despite the stable development overall, we could see declining values in some European markets or for some property types.

We assume property values in the US will remain stable on the whole. A stable performance also looks likely for Canada.

In Australia and China, stable market values for commercial property are expected.

The trends described above are expected to apply to office, retail and logistics properties.

As was the case last year, the European hotel markets are for the most part expected to report slight growth in average revenues per available room. Occupancy rates remain very high in most markets. Relocations on the back of Brexit could lead to higher occupancies in individual continental European markets. Stable indicators are expected in the UK hotel market. Although the weak pound is boosting tourism, Brexit is likely to have a negative effect.

A less dynamic economy in the US is expected to lead to stagnating growth in occupancy rates in the hotel market there in 2019. However, higher average disposable income among consumers is likely to lead to a further increase in average room rates, so that average revenue per available room is expected to increase slightly in 2019. In Canada, the positive development of average revenue per available room is likely to continue. However, the slowdown in the pace of economic growth should lead to a somewhat smaller increase than in previous years. The occupancy ratio could also fall slightly.

For the Asia/Pacific region, we anticipate occupancy ratios and average revenues per available room to remain stable throughout the full year 2019 in the hotel markets of many metropolitan areas.

The intense competition in commercial property financing is also likely to persist in many markets during the current year, whereby we consider the readiness of lenders to reduce their margins as a given, even though a plateau might be about to emerge. We anticipate a slightly stronger development in loan-to-value ratios across the various regions. Banks are expected to continue adhering to their preference for financing first-class properties in prime locations.

We have incorporated various market aspects and our "Aareal 2020" programme for the future, amongst other factors, in our assessment of anticipated new business volumes for the current year. For the Structured Property Financing segment, we are targeting new business of between € 7 billion and € 8 billion for the 2019 financial year, whereby the focus is set to remain on the high-margin US market. Aareal Bank Group's property financing portfolio should amount to between € 26 billion and € 28 billion at the end of 2019, subject to currency fluctuations. To manage our portfolio and risk exposure, we also use syndications which facilitate larger-sized financing solutions.

The forecasts are based on the assumption that the macro-economic risks and uncertainty factors described above will not materialise to a significant extent, or only in a manageable manner: otherwise, they might influence business development, for example, in terms of new business.

## Consulting/Services segment

### Bank division Housing Industry

We expect the development for the German housing and commercial property industries to be characterised by a high degree of stability in the current year, thanks mainly to largely constant rental returns and long-term financing structures.

The current shortage of housing in conurbations will persist due to the high demand and insufficient new-build projects in what is a strained market. This development is extending increasingly to the surrounding areas of the corresponding big cities, while too much building work is being carried out in rural regions, compared with the lack of demand there.

Against the background of the current climate debate, advanced energy retrofitting of the existing housing stock is becoming an increasingly relevant issue. The organised housing industry has reduced energy consumption in its buildings by roughly one third since 1990 and the corresponding $CO_2$ emissions by close to two-thirds. However, the objective of climate-neutral building stock remains a challenge in the years ahead.

We see good opportunities during 2019 to acquire new clients and to intensify the business relationships with our existing client base. This also applies to utilities and the waste disposal industry. In line with the "Aareal 2020" programme for the future, we are also investing in the development of the Housing Industry Ecosystem, the cross-sector advancement of interface products and in the expansion into related ecosystems. We pay particular attention here to developing the corresponding digital products, such as the Aareal Exchange and Payment Platform for systems-integrated linking of alternative payment procedures. We will also examine cooperations with fintech and proptech companies. Another strategic focus is the observation of neighbouring regional markets to realise possible opportunities there for our core services.

We expect the volume of deposits taken to remain on a high level. The persistent low interest rate environment, which is relevant for the results from our deposit-taking business, will continue to burden segment results. However, the importance of this business goes way beyond the interest margin generated from the deposits, which is under pressure in the current market environment. This is because the deposits from the housing industry represent a strategically important additional source of funding for Aareal Bank.

#### Aareon

Aareon will continue in 2019 to pursue the growth strategy based on its strategy programme integrated in the "Aareal 2020" programme for the future. Sales revenue is expected to rise significantly, especially driven by higher market penetration with digital solutions, a strengthening of the ERP business, and by an expansion of activities in the energy utility and commercial property markets. Furthermore, Aareon plans to make significant investments in expanding its range of digital products, solutions related to new technologies, and to participate in the start-up scene, to accelerate organic growth.

We anticipate a slight increase in sales revenue in the ERP business. The focus in this context will be on the migration of GES clients to Wodis Sigma in Germany, which in 2019 will continue to account for a significant part of the consultancy business. There is potential for several complex major projects to be concluded in Germany and on international markets, which would lead to markedly higher sales revenue in 2019. Projects are also expected to be completed in the energy utility and commercial property markets, which will lead to a higher volume of advisory business. Overall, a shift from licence revenues to recurring revenues is expected, due to the increased conclusion of maintenance and SaaS contracts. The business volume from the insurance management with BauSecura and the outsourcing services will exceed the previous year slightly.

The digital solutions will help realise growth potential, as they are poised to become increasingly more important in the property industry and to attract greater client interest. Further product roll-outs are expected to lead to a marked increase in sales revenue, particularly for the digital solution Aareon CRM and mobile services. New CRM product generations will be introduced in the UK and the Netherlands, which will drive up demand. Brexit is not expected to have any direct impact on business volume. Further revenue growth will be realised in Sweden, as digital products will be marketed there in the future independent of the ERP products.

Based on the explanations outlined above, Aareon envisages a marked overall increase in sales revenue. Excluding strategic investments into accelerated growth, Aareon plans for a contribution to consolidated operating profit of around € 41 million; including these investments, the contribution to consolidated operating profit is expected to amount to around € 35 million.

### Business strategy

Aareal Bank Group's strategy focuses on sustainable business success. With its Group-wide "Aareal 2020", the Bank is addressing the challenges of the future. In an environment characterised by technological change, further growing regulatory requirements, altered client needs and fiercer competition, this programme allows us to secure our strong foundation while also leveraging new revenue potential. Aareal Bank developed an extensive strategic roadmap for the implementation of "Aareal 2020", including various initiatives and projects for the further development of the Group. The measures introduced within the scope of the programme to increase efficiency and optimise structures and processes were implemented successfully, and most of the organisational and personnel changes they entail are applied.

We are also on the right track with our strategic initiatives to further develop the business models in both segments. This included expanding the business of the Structured Property Financing segment in attractive markets such as the US, exploring additional options along the value creation chain through the partnership with Mount Street or the investment in BrickVest, and winning new syndication partners. In the Consulting/Services segment, Aareal Bank Group has grown its business beyond the core housing industry business, moving into related industries such as energy utilities or the commercial property sector. Moreover, with the acquisition of plusForta as one of the leading providers of deposit guarantees and the purchase of software from Deutsche Kautionspartner for managing rental deposits held with other banks, the Group has strengthened its range of property industry services. Having established digital platforms, the Bank has built a good foundation and sees opportunities for further growth with digital solutions. Moreover, to boost the segment's innovative strength and to supplement the product portfolio, partnerships with start-ups were agreed upon.

## Group targets

We anticipate the challenging business environment to prevail during the current financial year – with continued low interest rates in Europe, strong competitive and margin pressure on key target markets, combined with an increasingly uncertain market environment and persistently strict regulatory requirements. Against this background, we will continue to adhere to our business policy with a strict focus on risks and returns. We will further accelerate our strategic development, within the framework of the "Aareal 2020" programme for the future – especially through our enhanced digital offensive in the Consulting/Services segment.

We expect net interest income (excluding net derecognition gain or loss) for the full year 2019 in a range between € 530 million and € 560 million. We estimate the volatile, market-driven net derecognition gain to be between € 20 million and € 40 million. Loss allowance is expected to remain in a range between € 50 million and € 80 million. Net commission income, whose importance for the Group is continuously rising due to the expansion of business activities in the Consulting/Services segment, in line with the strategy, is anticipated to rise further, to between € 225 million and € 245 million. Administrative expenses, including Aareon's additional investments to accelerate growth as well as integration costs for former Düsselhyp, are expected between € 470 million and € 510 million.

Against this background, we expect 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 non-recurring effect related to the acquisition of former Düsselhyp. We envisage RoE before taxes of between 8.5 % and 10 % for the current financial year, with earnings per share at around € 2.40 to € 2.80. We affirm our medium-term target RoE of at least 12 % before taxes.

We will continue the reduction of non-strategic portfolios in the Structured Property Financing segment during 2019. At the same time, our core credit portfolio is planned to grow in line with respective market conditions. Overall, subject to exchange rate fluctuations, Aareal Bank Group's property financing portfolio is expected to range between € 26 billion and € 28 billion. We are targeting new business of between € 7 billion and € 8 billion for the current year, with a continued focus on the high-margin US market. Our IT subsidiary Aareon is expected to contribute approximately € 35 million to consolidated operating profit, taking strategic investments into accelerated growth into account (excluding strategic investments: approximately € 41 million).

Subject to further regulatory changes, Aareal Bank considers a target CET1 ratio (post-finalisation of Basel III – so-called "Basel IV") of around 12.5 % to be appropriate. The Liquidity Coverage Ratio (LCR) is expected to be at least 150 %.

# Consolidated Interim Financial Statements
# Statement of Comprehensive Income

## Income Statement

| € mn | Note | 1 Jan-30 Jun 2019 | 1 Jan-30 Jun 2018 |
|---|---|---|---|
| Interest income from financial instruments (ac and fvoci) | | 457 | 412 |
| Interest income from financial instruments (fvpl) | | 19 | 17 |
| Market-driven modification gains | | 0 | 2 |
| Interest expenses for financial instruments (ac) | | 60 | 58 |
| Interest expenses for financial instruments (fvpl) | | 147 | 102 |
| Market-driven modification losses | | 0 | 2 |
| **Net interest income** | 1 | **269** | **269** |
| Loss allowance excluding credit-driven net modification gain or loss | | 23 | 19 |
| Credit-driven net modification gain or loss | | 5 | – |
| **Loss allowance** | 2 | **28** | **19** |
| Commission income | | 134 | 122 |
| Commission expenses | | 24 | 21 |
| **Net commission income** | 3 | **110** | **101** |
| Net gain or loss on the derecognition of financial assets (ac) | | 15 | 11 |
| Net gain or loss on the derecognition of financial liabilities (ac) | | 3 | 0 |
| Net gain or loss on the derecognition of financial assets (fvoci) | | 9 | – |
| **Net derecognition gain or loss** | 4 | **27** | **11** |
| Net gain or loss from financial instruments (fvpl) | 5 | 0 | -1 |
| Net gain or loss from hedge accounting | 6 | -1 | -3 |
| Net gain or loss from investments accounted for using the equity method | | 0 | – |
| Administrative expenses | 7 | 256 | 237 |
| Net other operating income/expenses | 8 | 1 | 8 |
| Negative goodwill from acquisitions | | – | – |
| **Operating profit** | | **122** | **129** |
| Income taxes | | 41 | 44 |
| **Consolidated net income** | | **81** | **85** |
| Consolidated net income attributable to non-controlling interests | | 1 | 1 |
| Consolidated net income attributable to shareholders of Aareal Bank AG | | 80 | 84 |
| **Earnings per share (EpS)** | | | |
| Consolidated net income attributable to shareholders of Aareal Bank AG [1] | | 80 | 84 |
| of which: allocated to ordinary shareholders | | 72 | 76 |
| of which: allocated to AT1 investors | | 8 | 8 |
| Earnings per ordinary share (in €) [2] | | 1.20 | 1.27 |
| 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.

# Statement of Comprehensive Income

## Reconciliation from Consolidated Net Income to Total Comprehensive Income

| € mn | 1 Jan - 30 Jun 2019 | 1 Jan - 30 Jun 2018 |
|---|---|---|
| **Consolidated net income** | **81** | **85** |
| Items that will not be reclassified subsequently to profit or loss | | |
| **Changes in the reserve from remeasurements of defined benefit plans** | **-36** | **-2** |
| Remeasurements | -53 | -3 |
| Taxes | 17 | 1 |
| **Changes in the reserve from the measurement of equity instruments (fvoci)** | **0** | **–** |
| Gains and losses from equity instruments (fvoci) | 0 | – |
| Transfers to retained earnings | – | – |
| Taxes | 0 | – |
| Items that are reclassified subsequently to profit or loss | | |
| **Changes in the reserve from the measurement of debt instruments (fvoci)** | **-7** | **-4** |
| Gains and losses from debt instruments (fvoci) | 0 | -6 |
| Reclassifications to the income statement | -10 | – |
| Taxes | 3 | 2 |
| **Changes in the reserve from foreign currency basis spreads** | **3** | **-14** |
| Gains and losses from foreign currency basis spreads | 4 | -21 |
| Reclassifications to the income statement | – | – |
| Taxes | -1 | 7 |
| **Changes in currency translation reserves** | **-1** | **3** |
| Gains and losses from translating foreign operations' financial statements | -1 | 1 |
| Reclassifications to the income statement | – | – |
| Taxes | 0 | 2 |
| **Other comprehensive income** | **-41** | **-17** |
| **Total comprehensive income** | **40** | **68** |
| Total comprehensive income attributable to non-controlling interests | 1 | 1 |
| Total comprehensive income attributable to shareholders of Aareal Bank AG | 39 | 67 |

# Statement of Financial Position

| € mn | Note | 30 Jun 2019 | 31 Dec 2018 |
|---|---|---|---|
| **Assets** | | | |
| **Financial assets (ac)** | 9 | **35,861** | **34,702** |
| Cash funds | | 2,939 | 1,265 |
| Loan receivables | | 26,180 | 26,795 |
| Money market and capital market receivables | | 6,670 | 6,578 |
| Receivables from other transactions | | 72 | 64 |
| Loss allowance (ac) | 10 | -596 | -577 |
| **Financial assets (fvoci)** | 11 | **4,005** | **4,450** |
| Money market and capital market receivables | | 3,996 | 4,443 |
| Equity instruments | | 9 | 7 |
| **Financial assets (fvpl)** | 12 | **2,981** | **3,183** |
| Loan receivables | | 721 | 711 |
| Money market and capital market receivables | | 134 | 538 |
| Positive market value of designated hedging derivatives | | 1,565 | 1,277 |
| Positive market value of other derivatives | | 561 | 657 |
| Investments accounted for using the equity method | | 7 | 7 |
| Intangible assets | 13 | 168 | 158 |
| Property and equipment | 14 | 315 | 260 |
| Income tax assets | | 28 | 30 |
| Deferred tax assets | | 151 | 141 |
| Other assets | 15 | 344 | 333 |
| **Total** | | **43,264** | **42,687** |
| **Equity and liabilities** | | | |
| **Financial liabilities (ac)** | 16 | **37,603** | **37,215** |
| Money market and capital market liabilities | | 26,766 | 26,371 |
| Deposits from the housing industry | | 9,682 | 9,679 |
| Liabilities from other transactions | | 165 | 121 |
| Subordinated capital | | 990 | 1,044 |
| **Financial liabilities (fvpl)** | 17 | **2,209** | **1,934** |
| Negative market value of designated hedging derivatives | | 1,734 | 1,461 |
| Negative market value of other derivatives | | 475 | 473 |
| Provisions | 18 | 548 | 519 |
| Income tax liabilities | | 22 | 40 |
| Deferred tax liabilities | | 24 | 18 |
| Other liabilities | 19 | 37 | 33 |
| **Equity** | 20 | **2,821** | **2,928** |
| Subscribed capital | | 180 | 180 |
| Capital reserves | | 721 | 721 |
| Retained earnings | | 1,731 | 1,797 |
| AT1 bond | | 300 | 300 |
| Other reserves | | -113 | -72 |
| Non-controlling interests | | 2 | 2 |
| **Total** | | **43,264** | **42,687** |

# Statement of Changes in Equity

| € mn | Equity as at 1 Jan 2019 | Adjustment due to first-time application of IFRS 16 | Adjusted equity as at 1 Jan 2019 | Total comprehensive income for the period | Payments to non-controlling interests | Dividends | AT1 coupon | Other changes | Equity as at 30 Jun 2019 |
|---|---|---|---|---|---|---|---|---|---|
| **Subscribed capital** | **180** | | **180** | | | | | | **180** |
| **Capital reserves** | **721** | | **721** | | | | | | **721** |
| **Retained earnings** | **1,797** | -4 | **1,793** | 80 | | -126 | -16 | | **1,731** |
| **AT1 bond** | **300** | | **300** | | | | | | **300** |
| **Other reserves** | **-72** | | **-72** | **-41** | | | | | **-113** |
| Reserve from remeasurements of defined benefit plans | -98 | | -98 | -36 | | | | | -134 |
| Reserve from the measurement of equity instruments (fvoci) | 0 | | 0 | 0 | | | | | 0 |
| Reserve from the measurement of debt instruments (fvoci) | 39 | | 39 | -7 | | | | | 32 |
| Reserve from changes in the value of foreign currency basis spreads | -9 | | -9 | 3 | | | | | -6 |
| Currency translation reserves | -4 | | -4 | -1 | | | | | -5 |
| **Total** | **2,926** | **-4** | **2,922** | **39** | | **-126** | **-16** | | **2,819** |
| **Non-controlling interests** | **2** | | **2** | 1 | -1 | | | | **2** |
| **Equity** | **2,928** | **-4** | **2,924** | **40** | **-1** | **-126** | **-16** | **0** | **2,821** |

| € mn | Equity as at 1 Jan 2018 | Total comprehensive income for the period | Payments to non-controlling interests | Dividends | AT1 coupon | Other changes | Equity as at 30 Jun 2018 |
|---|---|---|---|---|---|---|---|
| **Subscribed capital** | **180** | | | | | | **180** |
| **Capital reserves** | **721** | | | | | | **721** |
| **Retained earnings** | **1,738** | 84 | | -150 | -16 | 1 | **1,657** |
| **AT1 bond** | **300** | | | | | | **300** |
| **Other reserves** | **-44** | **-17** | | | | | **-61** |
| Reserve from remeasurements of defined benefit plans | -91 | -2 | | | | | -93 |
| Reserve from the measurement of equity instruments (fvoci) | 0 | | | | | | 0 |
| Reserve from the measurement of debt instruments (fvoci) | 53 | -4 | | | | | 49 |
| Reserve from changes in the value of foreign currency basis spreads | 3 | -14 | | | | | -11 |
| Currency translation reserves | -9 | 3 | | | | | -6 |
| **Total** | **2,895** | **67** | | **-150** | **-16** | **1** | **2,797** |
| **Non-controlling interests** | **2** | 1 | -2 | | | | **1** |
| **Equity** | **2,897** | **68** | **-2** | **-150** | **-16** | **1** | **2,798** |

# Statement of Cash Flows (condensed)

| € mn | 2019 | 2018 |
|---|---|---|
| **Cash and cash equivalents as at 1 January** | **1,265** | **2,081** |
| Cash flow from operating activities | 1,877 | -560 |
| Cash flow from investing activities | 8 | 2 |
| Cash flow from financing activities | -211 | -384 |
| **Total cash flow** | **1,674** | **-942** |
| Effect of changes in exchange rates | 0 | 0 |
| **Cash and cash equivalents as at 30 June** | **2,939** | **1,139** |

# Notes (condensed)

## Basis of Accounting

### Legal framework

Aareal Bank AG is a listed public limited company incorporated under German law, with its registered office in Wiesbaden, Germany. It is the parent company of an international property finance and services group.

This half-yearly financial report for the period ended 30 June 2019 was prepared pursuant to the provisions of section 115 of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG") in conjunction with section 117 no. 2 of the WpHG and was approved for publication by the Management Board on 5 August 2019. It comprises the present interim condensed consolidated financial statements, as well as an interim group management report.

Aareal Bank AG prepares its condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) applicable within the European Union (EU) as at the reporting date, in connection with the provisions pursuant to section 315e (1) of the German Commercial Code (Handelsgesetzbuch – "HGB"). In particular, the interim consolidated financial statements comply with the requirements for interim financial reporting set out in IAS 34. The reporting currency is the euro (€).

### Reporting entity structure

Subsidiaries of Aareal Bank AG are included in the consolidated financial statements by way of full consolidation. Companies over which Aareal Bank AG may exercise a significant influence ("associates") are included in the consolidated financial statements, using the equity method. The present interim report is based on the same consolidation methods as were applied in the consolidated financial statements 2018.

In the reporting period, Aareal Bank Group acquired plusForta GmbH, a market-leading broker of tenant deposit guarantees in Germany. There were no other material changes to the reporting entity structure.

### Accounting policies

Unless specifically indicated otherwise, the accounting policies applied in preparation of the consolidated financial statements 2018 were also applied in preparation of these condensed interim consolidated financial statements, including the calculation of comparative figures.

The following financial reporting standards (IASs/IFRSs) and interpretations (SICs and IFRICs) were required to be applied for the first time in the reporting period:

- **IFRS 16: Leases**
  The new financial reporting standard IFRS 16, regarding lease accounting, replaced IAS 17 as well as the related interpretations IFRIC 4, SIC 15 and SIC 7. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise (in the statement of financial position) any leases and the related contractual rights and obligations with a term of more than twelve months, unless the under-

lying asset is of low value. The lessee recognises a right-of-use asset (representing its right to use the underlying leased asset) and also a lease liability (representing its obligation to make lease payments). Similar to the rules set out in IAS 17, the lessor continues to classify its leases as finance or operating leases. The criteria for classification under IFRS 16 equal those of IAS 17. In addition, IFRS 16 sets outs a number of further rules for presentation, disclosures in the Notes and sale-and-lease-back transactions. The transition to the new standard was made on the basis of the modified retrospective approach. After the recognition of € 70 million in right-of-use assets and the corresponding lease liabilities of € 76 million, the transition effect, which was reported directly in equity in retained earnings, amounted to € -6 million before taxes. The practical relief provided for by the IFRS 16 as regards short-term lease agreements and low-value leased assets are made use of. Within the context of first-time application, the lease agreements were not reassessed in accordance with the standard, and right-of-use assets from leases representing onerous contracts were reduced by the amount that has already been recorded as a liability.

- **IFRIC 23: Uncertainty over Income Tax Treatments**
  This interpretation clarified the accounting for uncertainty in relation to income taxes.

- **IAS 19 Plan Amendment Curtailment or Settlement**
  As a result of the amendments, entities are required to re-determine the current service cost and the net interest for the remainder of the financial year in case of an amendment, curtailment or settlement of a defined benefit plan using current actuarial assumptions used to remeasure the net defined benefit liability (asset).

- **Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures**
  The amendments clarify that a company is obliged to apply IFRS 9 Financial Instruments, including its impairment rules, to long-term interest in associates or joint ventures that, in substance, form part of the company's net investment in the associate or joint venture, rather than using the equity method. Accordingly, the application of IFRS 9 has priority over the application of IAS 28.

- **Amendments to IFRS 9: Prepayment Features with Negative Compensation**
  Minor changes to IFRS 9 Financial Instruments for financial assets with so-called symmetrical termination rights to facilitate their measurement at amortised cost or at fair value through other comprehensive income. In addition, the accounting for a modification of a financial liability that does not result in derecognition was clarified.

- **Annual Improvements Cycle 2015 – 2017**
  Within the scope of the Annual Improvements Cycle, clarifications made by the IASB and minor changes to the existing standards IFRS 3, IFRS 11, IAS 12 and IAS 23 were introduced.

Except for IFRS 16, new or revised standards or interpretations did not have any material consequences for the consolidated financial statements of Aareal Bank Group.

## Notes to the Statement of Comprehensive Income

### (1) Net interest income

| € mn | 1 Jan-30 Jun 2019 | 1 Jan-30 Jun 2018 |
|---|---|---|
| Interest income from financial assets (ac and fvoci) | 451 | 408 |
| Loan receivables | 443 | 399 |
| Money market and capital market receivables | 8 | 9 |
| Interest income from financial liabilities (ac) | 6 | 4 |
| Money market and capital market liabilities | 2 | 3 |
| Deposits from the housing industry | 4 | 1 |
| Current dividend income | – | 0 |
| Interest income from financial instruments (fvpl) | 19 | 17 |
| Loan receivables | 11 | 10 |
| Money market and capital market receivables | 3 | 3 |
| Other derivatives | 5 | 4 |
| Market-driven modification gains | 0 | 2 |
| **Total interest and similar income** | **476** | **431** |
| Interest expenses from financial liabilities (ac) | 53 | 52 |
| Money market and capital market liabilities | 40 | 38 |
| Deposits from the housing industry | 1 | 1 |
| Liabilities from other transactions | 0 | 0 |
| Subordinated capital | 12 | 13 |
| Interest expenses from financial assets (ac) | 7 | 6 |
| Cash funds | 6 | 6 |
| Money market and capital market receivables | 1 | 0 |
| Interest expenses for financial instruments (fvpl) | 147 | 102 |
| Other derivatives | 147 | 102 |
| Market-driven modification losses | 0 | 2 |
| **Total interest and similar expenses** | **207** | **162** |
| **Total** | **269** | **269** |

At € 269 million, net interest income stabilised as planned and was in line with the comparative figure for the previous year (H1 2018: € 269 million).

### (2) Loss allowance

| € mn | 1 Jan-30 Jun 2019 | 1 Jan-30 Jun 2018 |
|---|---|---|
| Additions | 96 | 59 |
| Reversals | 71 | 38 |
| Recoveries on loans and advances previously written off | 2 | 2 |
| Loss allowance – other items | 0 | 0 |
| Credit-driven net modification gain or loss | 5 | – |
| **Total** | **28** | **19** |

Loss allowance amounted to € 28 million (H1 2018: € 19 million) and was thus in line with our expectations. Please also refer to our explanations in Note (10).

### (3) Net commission income

| € mn | 1 Jan-30 Jun 2019 | 1 Jan-30 Jun 2018 |
|---|---|---|
| Commission income from | | |
| ERP products (incl. add-on products) | 91 | 85 |
| Digital solutions | 23 | 19 |
| Banking business and other activities | 20 | 18 |
| **Total commission income** | **134** | **122** |
| Commission expenses for | | |
| Purchased services | 21 | 18 |
| Banking business and other activities | 3 | 3 |
| **Total commission expenses** | **24** | **21** |
| **Total** | **110** | **101** |

Net commission income of € 110 million developed positively as planned, in particular due to the increase in Aareon's net commission income (H1 2018: € 101 million).

### (4) Net derecognition gain or loss

| € mn | 1 Jan-30 Jun 2019 | 1 Jan-30 Jun 2018 |
|---|---|---|
| **Net gain or loss on the derecognition of financial assets (ac)** | | |
| Loan receivables | 14 | 11 |
| Money market and capital market receivables | 1 | – |
| **Net gain or loss on the derecognition of financial liabilities (ac)** | | |
| Money market and capital market liabilities | 3 | 0 |
| **Net gain or loss on the derecognition of financial assets (fvoci)** | | |
| Money market and capital market receivables | 9 | – |
| **Total** | **27** | **11** |

The net derecognition gain of € 27 million (H1 2018: € 11 million) exceeded our expectations, mainly resulting from adjustments to our securities portfolio.

### (5) Net gain or loss from financial instruments (fvpl)

| € mn | 1 Jan-30 Jun 2019 | 1 Jan-30 Jun 2018 |
|---|---|---|
| Net gain or loss from loan receivables | -6 | -1 |
| Net gain or loss from money market and capital market receivables | 7 | 1 |
| Net gain or loss from other derivatives | -1 | 1 |
| Currency translation | 0 | -2 |
| **Total** | **0** | **-1** |

### (6) Net gain or loss from hedge accounting

| € mn | 1 Jan-30 Jun 2019 | 1 Jan-30 Jun 2018 |
|---|---|---|
| Ineffective portion of fair value hedges | -1 | -3 |
| Ineffective portion of net investment hedges | 0 | 0 |
| **Total** | **-1** | **-3** |

### (7) Administrative expenses

| € mn | 1 Jan-30 Jun 2019 | 1 Jan-30 Jun 2018 |
|---|---|---|
| Staff expenses | 143 | 130 |
| Wages and salaries | 113 | 101 |
| Social security contributions | 18 | 18 |
| Pensions | 12 | 11 |
| Other administrative expenses | 94 | 95 |
| Depreciation, amortisation and impairment of property and equipment and intangible assets | 19 | 12 |
| **Total** | **256** | **237** |

Administrative expenses increased as expected, to € 256 million (H1 2018: € 237 million), in particular due to running costs, integration expenses incurred in conjunction with the integration of former Düsselhyp, and Aareon's business expansion.

### (8) Net other operating income/expenses

| € mn | 1 Jan-30 Jun 2019 | 1 Jan-30 Jun 2018 |
|---|---:|---:|
| Income from properties | 23 | 32 |
| Income from the reversal of provisions | 1 | 1 |
| Income from goods and services | 0 | 0 |
| Miscellaneous other operating income | 9 | 15 |
| **Total other operating income** | **33** | **48** |
| Expenses for properties | 20 | 35 |
| Expenses for other taxes | 2 | 1 |
| Miscellaneous other operating expenses | 10 | 4 |
| **Total other operating expenses** | **32** | **40** |
| **Total** | **1** | **8** |

## Notes to the Statement of Financial Position

### (9) Financial assets (ac)

| € mn | 30 Jun 2019 | 31 Dec 2018 |
|---|---:|---:|
| **Cash funds (ac)** | **2,939** | **1,265** |
| Cash on hand | 0 | 0 |
| Balances with central banks | 2,939 | 1,265 |
| **Loan receivables (ac)** | **26,180** | **26,795** |
| Property loans | 25,706 | 26,309 |
| Public-sector loans | 431 | 448 |
| Other loan receivables | 43 | 38 |
| **Money market and capital market receivables (ac)** | **6,670** | **6,578** |
| Money market receivables | 1,290 | 1,000 |
| Promissory note loans | 1,812 | 1,751 |
| Bonds | 3,568 | 3,827 |
| **Receivables from other transactions (ac)** | **72** | **64** |
| Trade receivables | 32 | 35 |
| Other financial receivables | 40 | 29 |
| **Total** | **35,861** | **34,702** |

Property loans with a carrying amount of € 78 million held by the Structured Property Financing segment fulfilled the criteria for being classified as "held for sale" after the end of the interim reporting period. Their sale is envisaged for the second half of 2019.

## (10) Loss allowance (ac)

### 30 June 2019

| € mn | Stage 1 | Stage 2 | Stage 3 | Receivables from other transactions (ac) | Total loss allowance (ac) |
|---|---|---|---|---|---|
| **Balance as at 1 January** | **34** | **22** | **519** | **2** | **577** |
| Additions | 10 | 5 | 79 | 1 | **95** |
| Utilisation | – | – | 26 | 1 | **27** |
| Reversals | 12 | 13 | 42 | 0 | **67** |
| Transfer to Stage 1 | 0 | 0 | – | – | **–** |
| Transfer to Stage 2 | 0 | 0 | – | – | **–** |
| Transfer to Stage 3 | – | 0 | 0 | – | **–** |
| Interest rate effect | – | – | 18 | – | **18** |
| Currency adjustments | 0 | 0 | 0 | 0 | **0** |
| Transfers | – | – | – | – | **–** |
| **Balance as at 30 June** | **32** | **14** | **548** | **2** | **596** |

The loss allowance for financial assets measured at amortised cost refers to loan receivables, money and capital market receivables as well as receivables from other transactions (largely trade receivables) that are measured at amortised cost.

### 30 June 2018

| € mn | Stage 1 | Stage 2 | Stage 3 | Receivables from other transactions (ac) | Total loss allowance (ac) |
|---|---|---|---|---|---|
| **Balance as at 1 January** | **32** | **42** | **517** | **2** | **593** |
| Additions | 13 | 10 | 32 | 0 | **55** |
| Utilisation | – | – | 73 | 0 | **73** |
| Reversals | 12 | 6 | 17 | – | **35** |
| Transfer to Stage 1 | 0 | 0 | – | – | **–** |
| Transfer to Stage 2 | 0 | 0 | 0 | – | **–** |
| Transfer to Stage 3 | 0 | 0 | 0 | – | **–** |
| Interest rate effect | – | – | 3 | – | **3** |
| Currency adjustments | 0 | 0 | -1 | 0 | **-1** |
| Transfers | – | – | – | 1 | **1** |
| **Balance as at 30 June** | **33** | **46** | **461** | **3** | **543** |

## (11) Financial assets (fvoci)

| € mn | 30 Jun 2019 | 31 Dec 2018 |
|---|---|---|
| **Money market and capital market receivables (fvoci)** | **3,996** | **4,443** |
| Bonds | 3,996 | 4,443 |
| **Equity instruments (fvoci)** | **9** | **7** |
| Equities and other non-fixed income securities | 0 | 0 |
| Other investments | 9 | 7 |
| **Total** | **4,005** | **4,450** |

## (12) Financial assets (fvpl)

| € mn | 30 Jun 2019 | 31 Dec 2018 |
|---|---|---|
| **Loan receivables (fvpl)** | **721** | **711** |
| Property loans | 721 | 711 |
| **Money market and capital market receivables (fvpl)** | **134** | **538** |
| Promissory note loans | 94 | 90 |
| Bonds | 38 | 448 |
| Investment fund units/shares | 2 | – |
| **Positive market value of designated hedging derivatives (fvpl)** | **1,565** | **1,277** |
| Positive market value of fair value hedges | 1,559 | 1,277 |
| Positive market value of net investment hedges | 6 | – |
| **Positive market value of other derivatives (fvpl)** | **561** | **657** |
| Positive market value of economic hedging derivatives | 365 | 466 |
| Positive market value of miscellaneous other derivatives | 196 | 191 |
| **Total** | **2,981** | **3,183** |

## (13) Intangible assets

| € mn | 30 Jun 2019 | 31 Dec 2018 |
|---|---|---|
| Goodwill | 89 | 85 |
| Proprietary software | 35 | 32 |
| Other intangible assets | 44 | 41 |
| **Total** | **168** | **158** |

## (14) Property and equipment

| € mn | 30 Jun 2019 | 31 Dec 2018 |
|---|---|---|
| Land and buildings and construction in progress | 281 | 230 |
| Office furniture and equipment | 34 | 30 |
| **Total** | **315** | **260** |

The increase in property and equipment was mainly due to the first-time recognition of rights of use from leases (due to first-time ap-plication of IFRS 16).

## (15) Other assets

| € mn | 30 Jun 2019 | 31 Dec 2018 |
|---|---|---|
| Properties | 216 | 209 |
| Contract assets | 31 | 24 |
| Miscellaneous | 97 | 100 |
| **Total** | **344** | **333** |

## (16) Financial liabilities (ac)

| € mn | 30 Jun 2019 | 31 Dec 2018 |
|---|---|---|
| **Money market and capital market liabilities (ac)** | **26,766** | **26,371** |
| Money market liabilities | 4,515 | 4,600 |
| Promissory note loans | 5,125 | 5,200 |
| Mortgage Pfandbriefe | 11,518 | 10,934 |
| Public-sector Pfandbriefe | 2,840 | 2,989 |
| Other debt securities | 2,767 | 2,648 |
| Other financial liabilities | 1 | 0 |
| **Deposits from the housing industry (ac)** | **9,682** | **9,679** |
| Payable on demand | 7,786 | 7,719 |
| Term deposits | 1,896 | 1,960 |
| **Liabilities from other transactions (ac)** | **165** | **121** |
| Trade payables | 11 | 24 |
| Other liabilities | 154 | 97 |
| **Subordinated capital (ac)** | **990** | **1,044** |
| Subordinated liabilities | 990 | 1,044 |
| **Total** | **37,603** | **37,215** |

### (17) Financial liabilities (fvpl)

| € mn | 30 Jun 2019 | 31 Dec 2018 |
|---|---|---|
| **Negative market value of designated hedging derivatives (fvpl)** | **1,734** | **1,461** |
| Negative market value of fair value hedges | 1,724 | 1,443 |
| Negative market value of net investment hedges | 10 | 18 |
| **Negative market value of other derivatives (fvpl)** | **475** | **473** |
| Negative market value of economic hedging derivatives | 265 | 322 |
| Negative market value of miscellaneous other derivatives | 210 | 151 |
| **Total** | **2,209** | **1,934** |

### (18) Provisions

| € mn | 30 Jun 2019 | 31 Dec 2018 |
|---|---|---|
| Provisions for pensions and similar obligations | 421 | 362 |
| Provisions for unrecognised lending business | 2 | 5 |
| Other provisions and contingent liabilities | 125 | 152 |
| **Total** | **548** | **519** |

Changes in the discount rate applicable to pensions require a revaluation of the amount of obligations. This is recognised directly in other comprehensive income, under changes in the reserve from defined benefit plans.

### (19) Other liabilities

| € mn | 30 Jun 2019 | 31 Dec 2018 |
|---|---|---|
| Deferred income | 4 | 1 |
| Liabilities from other taxes | 14 | 17 |
| Contract liabilities | 18 | 14 |
| Miscellaneous | 1 | 1 |
| **Total** | **37** | **33** |

### (20) Equity

| € mn | 30 Jun 2019 | 31 Dec 2018 |
|---|---|---|
| Subscribed capital | 180 | 180 |
| Capital reserves | 721 | 721 |
| Retained earnings | 1,731 | 1,797 |
| AT1 bond | 300 | 300 |
| Other reserves | | |
| Reserve from remeasurements of defined benefit plans | -134 | -98 |
| Reserve from the measurement of equity instruments (fvoci) | 0 | 0 |
| Reserve from the measurement of debt instruments (fvoci) | 32 | 39 |
| Reserve from foreign currency basis spreads | -6 | -9 |
| Currency translation reserves | -5 | -4 |
| Non-controlling interests | 2 | 2 |
| **Total** | **2,821** | **2,928** |

The item "Reserve from the measurement of debt instruments (fvoci)" includes loss allowance of € 0 million (H1 2018: € 0 million).

#### Treasury shares

No treasury shares were held during the period under review.

#### Distributions

The Annual General Meeting of Aareal Bank AG held on 22 May 2019 resolved that Aareal Bank AG's net retained profit of € 125,700,164.10 for the financial year 2018, as reported under the German Commercial Code (HGB), be used to distribute a dividend of € 2.10 per notional no-par value share.

In addition, on 30 April 2019, the Management Board resolved on a distribution in relation to the AT1 instruments, in accordance with the terms and conditions of the notes.

Within Aareal Bank Group's consolidated statement of financial position, a dividend payment and a distribution on the AT1 bond reduce the retained earnings item within consolidated equity.

## Notes to Financial Instruments

A detailed description of the system in place at Aareal Bank Group to measure, limit, and manage risks throughout the Group is presented in the Risk Report as part of the Interim Group Management Report. The disclosures on the description and the extent of the risks arising from financial instruments in accordance with IFRS 7 are included (in part) in the Risk Report.

### (21) Determination of fair value

The determination of fair value is governed by IFRS 13 and applies to financial instruments and non-financial assets or liabilities. In accordance with IFRS 13.9, the fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The determination of the fair value is based on the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. Another factor to be taken into account is whether Aareal Bank can enter into a transaction for the relevant asset or liability at the price in that market at the measurement date. The principal market is the market with the greatest volume and the highest level of activity for the asset or liability to which Aareal Bank has access. The most advantageous market is the market that maximises the amount that would be received to sell the asset, or minimises the amount that would be paid to transfer the liability.

#### Fair value hierarchy

In accordance with IFRS 13.72 et seqq., the fair value determination is based on the fair value hierarchy pursuant to which the inputs used are classified into various hierarchy levels on the basis of their respective market proximity and objectivity. The fair value of assets and liabilities is allocated to Level 1 of the fair value hierarchy if it is determined on the basis of unadjusted qualifying prices in active markets for identical assets or liabilities. Fair values determined using inputs other than qualifying prices included within Level 1 that are observable for the financial instrument, either directly or indirectly, are included in Level 2 of the fair value hierarchy. Fair values determined using valuation techniques where one or more material inputs are not based on observable market data are assigned to Level 3 of the fair value hierarchy. The estimation uncertainties as regards fair value measurement increase the higher the level is.

#### Measurement methods

The property and public-sector loans included in loan receivables are measured using the discounted cash flow method for the purpose of the determination of fair value. Discounting of future cash flows of a transaction is based on transaction-specific risk-adjusted interest rates. These are derived on the basis of a virtually risk-free market interest rate for each currency depending on the relevant term, taking into account add-ons for risks specific to the counterparty as well as credit costs. In the case of loans subject to fixed interest rates, the contractually agreed payments are used as future cash flows. The future cash flows for floating-rate loans are derived using the future forward interest rates, taking into account the relevant spread for customer-specific terms and conditions.

Debt securities and promissory note loans for which no current market price is available are measured through an analysis of future payments using the fully-capitalised earnings value approach, where the inputs are based on observable market data. These approaches include the discounted cash flow (DCF) method which is used to determine the present value of contractual cash flows until the expected end of the term. The present value is determined based on the benchmark curve applicable for the relevant market, taking into account mark-ups based on credit quality and liquidity. The valuation model used for options included in the transaction is the commonly used Black-Scholes model or appropriate numerical procedures.

In the case of unquoted financial investments in equity instruments, the costs of acquisition may also be the best estimate of fair value.

The fair value of OTC derivatives as well as of OTC hedging derivatives is determined on the basis of sector-specific standardised measurement models, such as the present value method or option pricing models. These techniques are based on inputs of active markets, such as interest rates, yield curves and credit spreads. The fair value of foreign exchange forwards is generally based on current forward exchange rates quoted on active markets. Since the derivatives are part of highly effective collateral agreements (Credit Support Annex to the ISDA Master Agreement and Collateral Annex to the German Master Agreement on Financial Derivatives Transactions) which are each subject to a master collateralisation agreement, measurement adjustments to reflect any potential counterparty credit risk or own credit risk (CVA and DVA) are not required as they are deemed immaterial. The Bank uses the overnight interest rate swap curve (OIS curve) for the measurement of derivatives secured by cash collateral.

Amortised cost is an adequate estimate of fair value for cash funds, other loan receivables as well as short-term money market receivables and liabilities.

### (22) Fair value hierarchy in accordance with IFRS 13

The carrying amounts of financial instruments held by Aareal Bank Group which are reported at fair value in the statement of financial position are presented in the following table according to the three-tier fair value hierarchy pursuant to IFRS 13.72 et seq. The presentation is made for each class of financial instrument:

**30 June 2019**

| € mn | Fair value total | Fair value Level 1 | Fair value Level 2 | Fair value Level 3 |
|---|---|---|---|---|
| **Financial assets (fvoci)** | **4,005** | **3,996** | **0** | **9** |
| Money market and capital market receivables | 3,996 | 3,996 | – | – |
| Equity instruments | 9 | – | 0 | 9 |
| **Financial assets (fvpl)** | **2,981** | **0** | **2,258** | **723** |
| Loan receivables | 721 | – | – | 721 |
| Money market and capital market receivables | 134 | 0 | 132 | 2 |
| Equity instruments | – | – | – | – |
| Positive market value of designated hedging derivatives | 1,565 | – | 1,565 | – |
| Positive market value of other derivatives | 561 | – | 561 | – |
| **Financial liabilities (fvpl)** | **2,209** | **–** | **2,209** | **–** |
| Negative market value of designated hedging derivatives | 1,734 | – | 1,734 | – |
| Negative market value of other derivatives | 475 | – | 475 | – |

**31 December 2018**

| € mn | Fair value total | Fair value Level 1 | Fair value Level 2 | Fair value Level 3 |
|---|---|---|---|---|
| **Financial assets (fvoci)** | **4,450** | **4,443** | **1** | **6** |
| Money market and capital market receivables | 4,443 | 4,443 | – | – |
| Equity instruments | 7 | – | 1 | 6 |
| **Financial assets (fvpl)** | **3,183** | **308** | **2,164** | **711** |
| Loan receivables | 711 | – | – | 711 |
| Money market and capital market receivables | 538 | 308 | 230 | – |
| Equity instruments | 0 | 0 | – | – |
| Positive market value of designated hedging derivatives | 1,277 | – | 1,277 | – |
| Positive market value of other derivatives | 657 | – | 657 | – |
| **Financial liabilities (fvpl)** | **1,934** | **–** | **1,934** | **–** |
| Negative market value of designated hedging derivatives | 1,461 | – | 1,461 | – |
| Negative market value of other derivatives | 473 | – | 473 | – |

In the first six months of 2019, there were no material transfers between the hierarchy levels for the various financial instruments.

The fair values of loan receivables recognised at fair value in the statement of financial position that are assigned to Level 3 of the fair value hierarchy developed as follows during the period under review:

| € mn | 2019 | 2018 |
|---|---|---|
| **Fair value as at 1 January** | **711** | **604** |
| **Change in measurement** | **-7** | **-2** |
| **Portfolio changes** | | |
| Additions | 442 | 466 |
| Derecognition | 425 | 463 |
| Deferred interest | 0 | 1 |
| **Fair value as at 30 June** | **721** | **606** |

Financial instruments held in the Bank's portfolio contributed € -6 million to the net gain or loss from financial instruments (H1 2018: € -1 million).

Regarding loan receivables (fvpl), the add-ons for risks specific to the counterparty represent the material input parameter not observable in the market. Regarding the non-defaulted loans, an increase/decrease by 1 % would lead to a decrease/increase of the fair value by approximately € 16 million (H1 2018: approximately € 18 million).

### (23) Comparison of carrying amounts and fair values of the financial instruments

The fair values of financial instruments are compared with their carrying amounts (including loss allowance) in the following table. The presentation is made for each class of financial instrument:

| € mn | Carrying amount 30 Jun 2019 | Fair value 30 Jun 2019 | Carrying amount 31 Dec 2018 | Fair value 31 Dec 2018 |
|---|---|---|---|---|
| **Financial assets (ac)** | **35,264** | **35,419** | **34,125** | **34,556** |
| Cash funds | 2,939 | 2,939 | 1,265 | 1,265 |
| Loan receivables | 25,590 | 25,948 | 26,232 | 26,858 |
| Money market and capital market receivables | 6,666 | 6,464 | 6,567 | 6,372 |
| Receivables from other transactions | 69 | 68 | 61 | 61 |
| **Financial assets (fvoci)** | **4,005** | **4,005** | **4,450** | **4,450** |
| Money market and capital market receivables | 3,996 | 3,996 | 4,443 | 4,443 |
| Equity instruments | 9 | 9 | 7 | 7 |
| **Financial assets (fvpl)** | **2,981** | **2,981** | **3,183** | **3,183** |
| Loan receivables | 721 | 721 | 711 | 711 |
| Money market and capital market receivables | 134 | 134 | 538 | 538 |
| Equity instruments | – | – | 0 | 0 |
| Positive market value of designated hedging derivatives | 1,565 | 1,565 | 1,277 | 1,277 |
| Positive market value of other derivatives | 561 | 561 | 657 | 657 |
| **Financial liabilities (ac)** | **37,603** | **37,794** | **37,215** | **37,168** |
| Money market and capital market liabilities | 26,766 | 26,893 | 26,371 | 26,278 |
| Deposits from the housing industry | 9,682 | 9,682 | 9,679 | 9,679 |
| Liabilities from other transactions | 165 | 165 | 121 | 121 |
| Subordinated capital | 990 | 1,054 | 1,044 | 1,090 |
| **Financial liabilities (fvpl)** | **2,209** | **2,209** | **1,934** | **1,934** |
| Negative market value of designated hedging derivatives | 1,734 | 1,734 | 1,461 | 1,461 |
| Negative market value of other derivatives | 475 | 475 | 473 | 473 |

## Segment Reporting

### (24) Segment results

| | 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 |
| | | | | | | | | |
| **Employees (average)** | **813** | **812** | **1,979** | **1,956** | | | **2,792** | **2,768** |
| | | | | | | | | |
| **Segment assets** | **32,172** | **29,530** | **11,092** | **10,632** | | | **43,264** | **40,162** |

[1] From this reporting year onwards, interest from housing industry deposits is reported in net interest income of the Consulting/Services segment (previously: 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.

Commission income from contracts with customers is allocated to the segments as follows:

| € mn | 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 |
| ERP products (incl. add-on products) | | | 97 | 93 | -6 | -8 | 91 | 85 |
| Digital solutions | | | 23 | 19 | | | 23 | 19 |
| Banking business and other activities | 6 | 4 | 14 | 14 | | | 20 | 18 |
| **Total** | **6** | **4** | **134** | **126** | **-6** | **-8** | **134** | **122** |

## Other Notes

### (25) Contingent liabilities and loan commitments

| € mn | 30 Jun 2019 | 31 Dec 2018 |
|---|---|---|
| Contingent liabilities | 152 | 158 |
| Loan commitments | 1,746 | 1,480 |
| of which: irrevocable | 1,417 | 1,035 |

### (26) Employees

The number of Aareal Bank Group employees is shown below:

| | 30 Jun 2019[1)] | Average 1 Jan-30 Jun 2019[2)] | 31 Dec 2018[1)] | Average 1 Jan-31 Dec 2018[2)] |
|---|---|---|---|---|
| Salaried employees | 2,653 | 2,620 | 2,593 | 2,612 |
| Executives | 174 | 172 | 155 | 152 |
| **Total** | **2,827** | **2,792** | **2,748** | **2,764** |
| of which: Part-time employees | 578 | 562 | 569 | 548 |

[1)] This number does not include 279 employees of the hotel business (31 December 2018: 47 employees).
[2)] This number does not include 167 employees of the hotel business (1 January to 31 December 2018: 191 employees).

### (27) Related party disclosures in accordance with IAS 24

In the first six months of the 2019 financial year, there were no material transactions with related parties that would have to be reported here.

### (28) Events after the interim reporting period

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

## Executive bodies of Aareal Bank AG

### Supervisory Board

**Marija Korsch** [1) 2) 3) 4) 5)]
Chairman of the Supervisory Board
Former partner of Bankhaus Metzler seel.
Sohn & Co. Holding AG

**Prof. Dr Stephan Schüller** [1) 2) 3)]
Deputy Chairman of the Supervisory Board
Former spokesman of the General Partners of
Bankhaus Lampe KG

**Klaus Novatius** [1) 2) 6)]
Deputy Chairman of the Supervisory Board
Aareal Bank AG

**Thomas Hawel** [5) 6)]
Aareon Deutschland GmbH

**Petra Heinemann-Specht** [4) 6)]
Aareal Bank AG

**Richard Peters** [1) 3) 5)]
President and Chairman of the Management Board
of Versorgungsanstalt des Bundes und der Länder

**Dr Hans-Werner Rhein** [1) 4)]
German Lawyer (Rechtsanwalt)

**Sylvia Seignette** [4)]
Former CEO for Germany and Austria,
Crédit Agricole CIB (formerly Calyon)

**Elisabeth Stheeman** [4) 5)]
External Member of the Bank of England's
Financial Policy Committee (FPC)

**Hans-Dietrich Voigtländer** [2) 3) 5)]
Senior Partner at BDG Innovation +
Transformation GmbH & Co. KG

**Prof. Dr Hermann Wagner** [3) 4)]
Chairman of the Audit Committee
German Chartered Accountant, tax consultant

**Beate Wollmann** [3) 6)]
Aareon Deutschland GmbH

### Management Board

**Hermann Josef Merkens**
Chairman of the Management Board

**Marc Hess**
Member of the Management Board

**Dagmar Knopek**
Member of the Management Board

**Christiane Kunisch-Wolff**
Member of the Management Board

**Thomas Ortmanns**
Member of the Management Board

**Christof Winkelmann**
Member of the Management Board

[1)] Member of the Executive and Nomination Committee; [2)] Member of the Remuneration Control Committee; [3)] Member of the Audit Committee;
[4)] Member of the Risk Committee; [5)] Member of the Technology and Innovation Committee; [6)] Employee representative

## Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

**Wiesbaden, 5 August 2019**

**The Management Board**

| | | |
|---|---|---|
| **Hermann J. Merkens** | **Marc Hess** | **Dagmar Knopek** |
| **Christiane Kunisch-Wolff** | **Thomas Ortmanns** | **Christof Winkelmann** |

# Review Report

## To Aareal Bank AG, Wiesbaden

We have reviewed the condensed consolidated interim financial statements – comprising the statement of financial position, statement of comprehensive income, condensed statement of cash flows, statement of changes in equity and selected explanatory notes – and the interim group management report of Aareal Bank AG, Wiesbaden for the period from 1 January 2019 to 30 June 2019 which are part of the half-year financial report pursuant to § (Article) 115 WpHG (”Wertpapierhandelsgesetz”: German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standard on Review Engagements ”Review of Interim Financial Information Performed by the Independent Auditor of the Entity” (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

**Frankfurt/Main, 5 August 2019**

**PricewaterhouseCoopers GmbH**
**Wirtschaftsprüfungsgesellschaft**

| | |
|---|---|
| **Ralf Schmitz**<br>**Wirtschaftsprüfer**<br>**(German Public Auditor)** | **Christian F. Rabeling**<br>**Wirtschaftsprüfer**<br>**(German Public Auditor)** |

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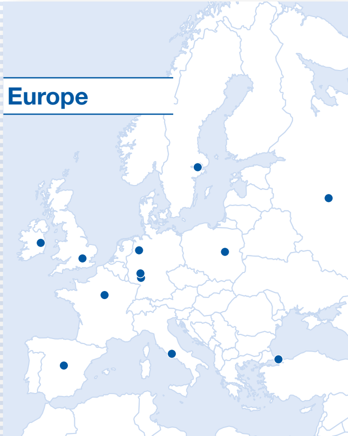
# Financial Calendar

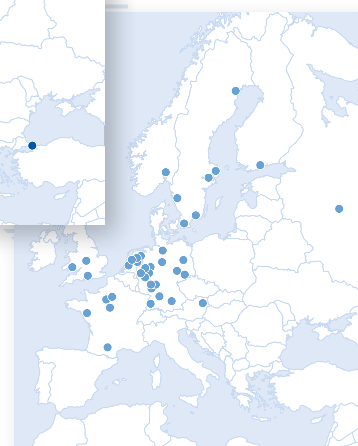
| | |
|---|---|
| 12 November 2019 | Publication of results as at 30 September 2019 |
| 27 May 2020 | Annual General Meeting – Kurhaus, Wiesbaden |

# Locations

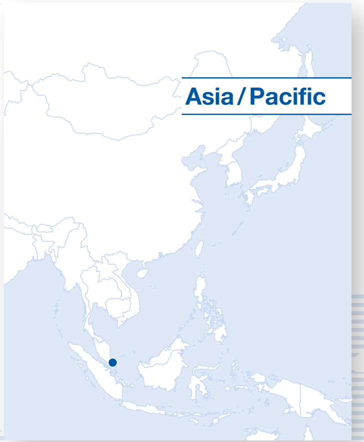

Structured Property Financing




Structured Property Financing



Consulting/Services




Structured Property Financing

**Aareal Bank, Real Estate Structured Finance:** Dublin, Istanbul, London, Madrid, Moscow, New York, Paris, Rome, Singapore, Stockholm, Warsaw, Wiesbaden | **Aareal Estate AG:** Wiesbaden | **Westdeutsche Immobilien Servicing AG:** Mainz, Münster

**Aareal Bank, Group Business Consulting & Services:** Berlin, Essen, Leipzig, Wiesbaden | **Aareon AG:** Berlin, Bochum, Coventry, Dortmund, Emmen, Enschede, Gorinchem, Grathem, Hamburg, Helsinki, Hilversum, Hückelhoven, Karlskrona, Leipzig, Lund, Mainz, Meudon-la-Forêt, Mölndal, Munich, Nantes, Norrtalje, Orléans, Oslo, Paris, Piteå, Southampton, Stockholm, Stuttgart, Swansea, Toulouse, Wiener Neudorf | **Aareal First Financial Solutions AG:** Mainz | **Deutsche Bau- und Grundstücks-AG:** Berlin, Bonn, Dresden, Düsseldorf, Essen, Frankfurt/Main, Freiburg, Hanover, Leipzig, Moscow, Munich, Wuppertal

as at 30 June 2019

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08/2019

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