

**QUALITY**®  
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# Goldman Sachs

## 23. European Financials Conference

Paris, June 06, 2019

**Marc Hess, CFO**

**Jürgen Junginger, Head of IR**

**Aareal**

# Agenda

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- Highlights
- Segment performance
- Group results Q1 2019
- Capital, Funding & B/S structure
- Asset quality
- Outlook 2019
- Extraction from: Aareon Investor Seminar
  
- Appendix

# Highlights

## Good start in 2019

### Highlights

- ➔ Q1 operating profit of € 61 mn (Q1/2018: € 67 mn) in line with expectations
  
- ➔
  - Strong new business margins in the structured property financing segment
  - Aareon's sales revenues further increased
  
- ➔ Integration of DHB as planned; ~2/3 of the expected integration costs already booked in Q1
  
- ➔ Targets 2019 confirmed

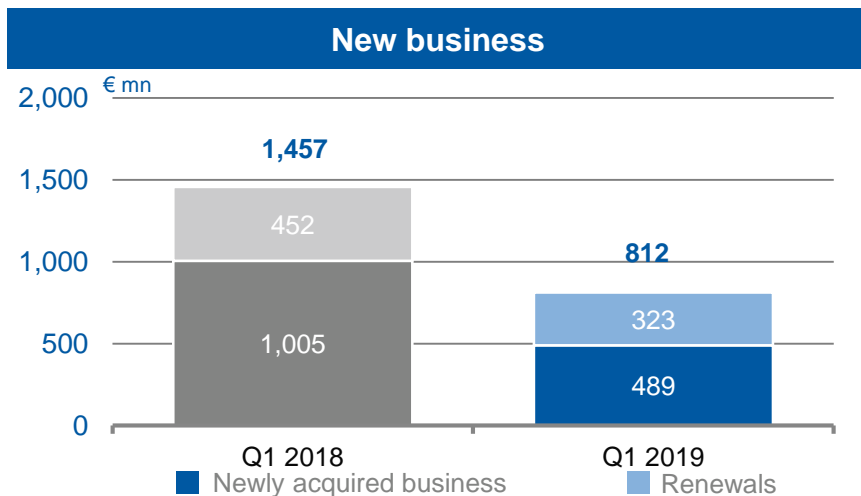


# Segment performance

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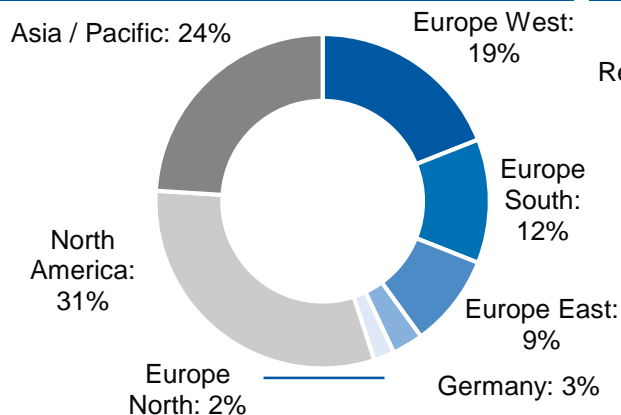
# Structured Property Financing

## New business focused on very attractive risk-return

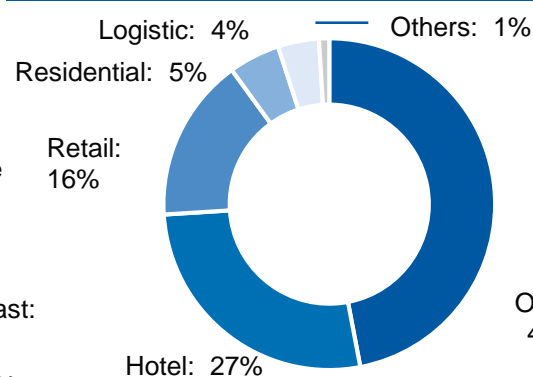


- New business focused on very attractive risk-return while maintaining portfolio size stable
- Newly acquired business:
  - Pre-FX margins above 250 bps (Q1 2018: ~250 bps)
  - Margins pushed by high US and Asia/Pacific share
  - Confirming FY-margins target of 180-190 bps and FY-new business target of € 7 bn - € 8 bn
- REF portfolio<sup>1)</sup> stable at € 27.3 bn in line with FY- targeted level of € 26-28 bn

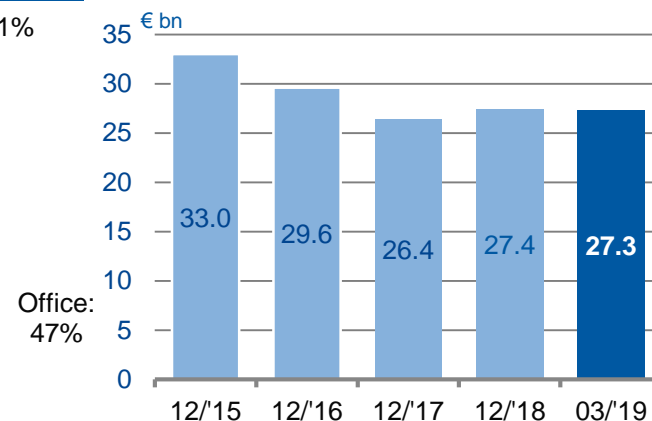
### New business by region Q1 2019



### New business by property type Q1 2019



### REF<sup>1)</sup> portfolio development



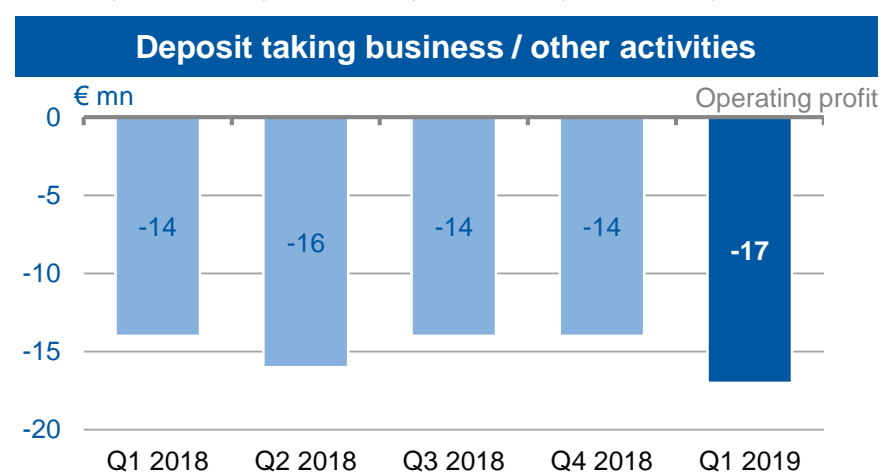
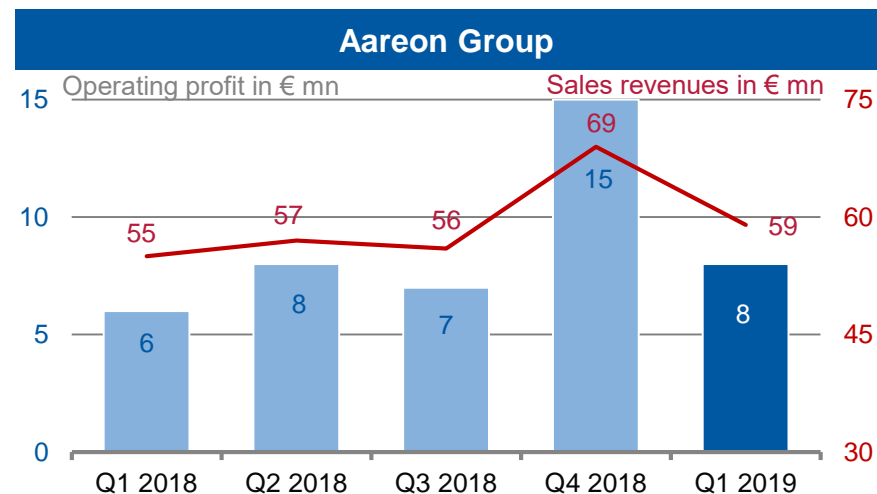
1) incl. private client business (€ 0.5 bn) and WIB's public sector loans (€ 0.4 bn)



# Consulting / Services

## Aareon's sales revenues further increased

P&L C/S Segment	Q1 '18	Q2 '18	Q3 '18	Q4 '18	Q1 '19
<b>€ mn</b>					
Net interest income	-3	-3	-3	-3	-3
Loss allowance	0	0	0	-1	0
▪ <i>Thereof Aareon</i>	0	0	0	-1	0
Net commission income	50	49	51	62	52
▪ <i>Thereof Aareon</i>	46	47	47	57	49
– Sales revenues	55	57	56	69	59
– Material costs	9	10	9	12	10
Admin expenses	55	55	56	61	58
▪ <i>Thereof Aareon</i>	40	41	41	43	41
Net other op. income	0	1	1	2	0
▪ <i>Thereof Aareon</i>	1	1	1	0	0
<b>Operating profit</b>	-8	-8	-7	1	-9
▪ <i>Thereof Aareon</i>	6	8	7	15	8



- **Aareon**
  - Sales revenue 7% up to € 59 mn (Q1 2018: € 55 mn)
  - Stronger sales revenue resulting from growth in all product lines, digital with highest rates (~ 25% yoy)
  - € 8 mn EBT within targeted range, EBT margin ~14%
- **Deposits**
  - Volume remains on high level of Ø € 10.6 bn
  - Focusing on further shift into sustainable deposits
  - Deposit Protection Guarantee Schemes (ESF) fully booked in Q1 while accrued in 2018 (segment view)



# Group results Q1 2019

**Aareal**

# Group results Q1 2019

## Good start in 2019: results in line with expectations

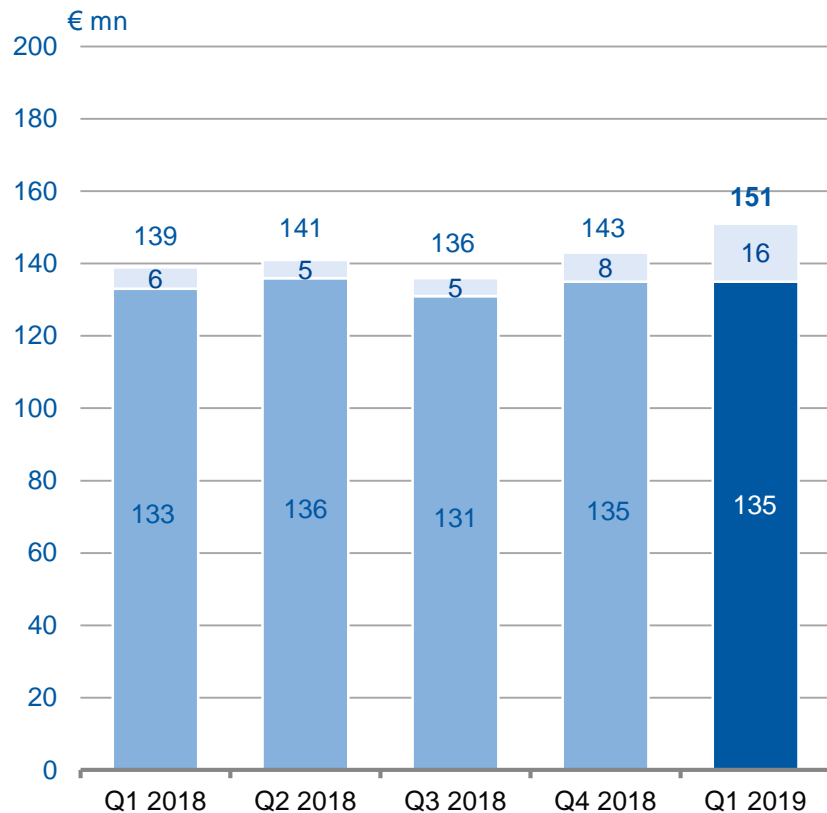
€ mn	Q1 '18	Q2 '18	Q3 '18	Q4 '18	Q1 '19	Comments
Net interest income	133	136	131	135	135	Reflecting stable portfolio, slightly up y-o-y
Derecognition result	6	5	5	8	16	€ 12 mn effect from treasury portfolio adjustments
Loss allowance	0	19	14	39	5	Within expected range, Q1 regularly below average due to seasonal effects
Net commission income	50	51	51	63	53	Aareon's sales revenues further increased
FV- / hedge-result	1	-5	1	-1	6	
Admin expenses	128	109	107	118	144	Incl. DHB integration, ESF, European banking levy
Negative goodwill				55		
<i>Others</i>	5	3	3	14	0	
<b>Operating profit</b>	<b>67</b>	<b>62</b>	<b>70</b>	<b>117</b>	<b>61</b>	In line with expectations
Income taxes	23	21	24	22	21	FY 2019 tax ratio of ~34% assumed
Minorities / AT1	5	4	5	4	5	
<b>Consolidated net income allocated to ord. shareholders</b>	<b>39</b>	<b>37</b>	<b>41</b>	<b>91</b>	<b>35</b>	
Earnings per share [€]	0.65	0.62	0.70	1.51	0.59	



## Net interest income / Derecognition result (DR)

NII reflecting stable portfolio size, slightly up y-o-y

DR significantly pushed by treasury portfolio adjustments

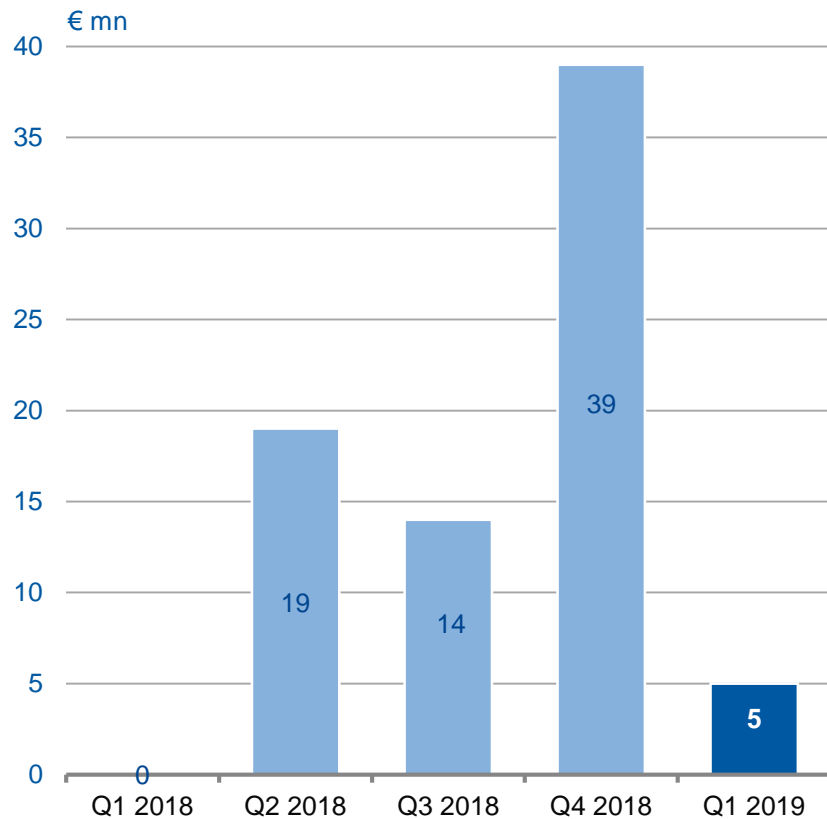


- Newly acquired business margins of > 250 bps in Q1 2019 pushed by high US and Asia / Pacific share
- Derecognition result:
  - € 4 mn effects from early repayments
  - € 12 mn from treasury portfolio adjustments

■ Net interest income  
■ Derecognition result

# Loss allowance (LLP)

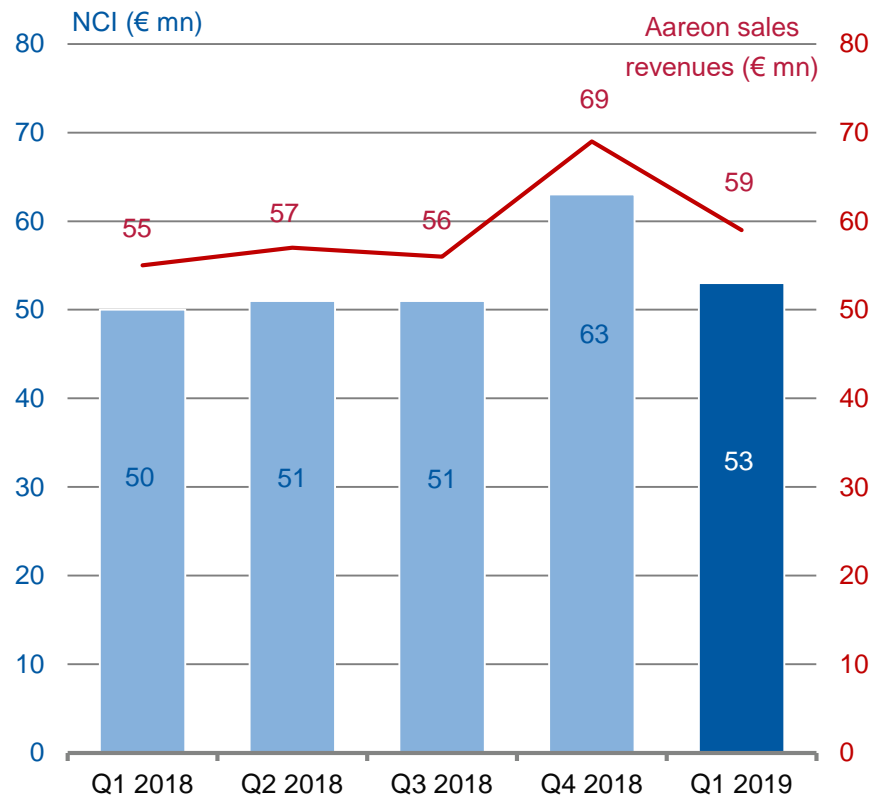
## Within expected range



- Q1 regularly below average due to seasonal effects
- In line with FY guidance, however remaining volatile throughout the year

# Net commission income

## Aareon's sales revenues further increased

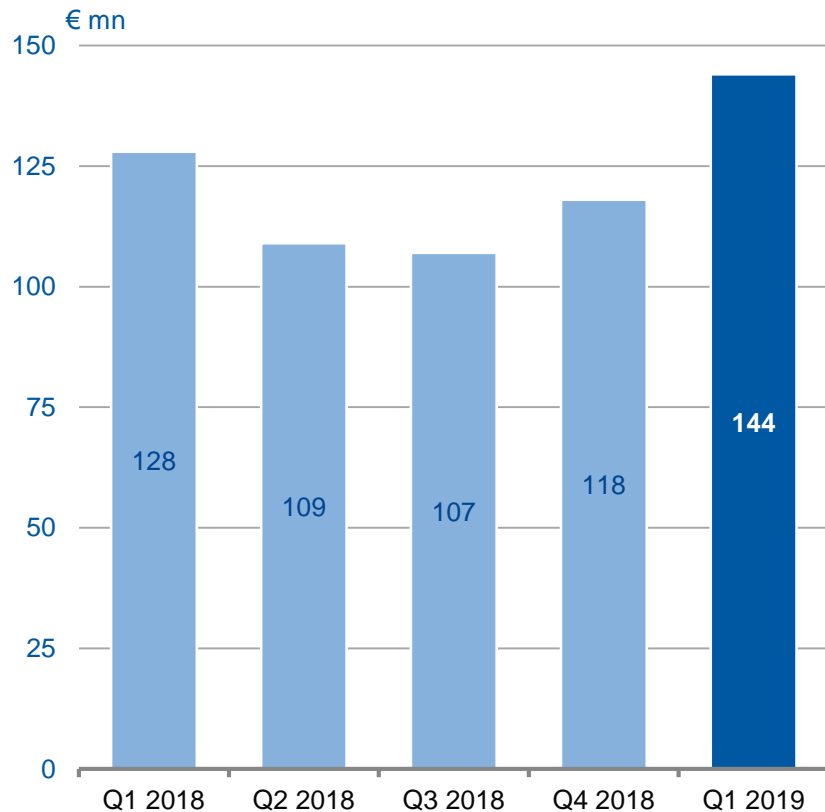


### Aareon

- Sales revenues of € 59 mn (Q1 2018: € 55 mn)
- Digital products with highest growth rates
- Q4 regularly includes positive seasonal effects

## Admin expenses

Approx. 2/3 of expected DHB integration costs already booked in Q1



- € 9 mn costs from DHB integration (incl. European bank levy and ESF)
- € 21 mn for the European bank levy and ESF (fully expensed in Q1, Q1/18: € 20 mn)
- € 4 mn transformation costs (FY 2019 plan: € 20 mn)
- Q1/18 incl. reversals of provisions (€ 3 mn)

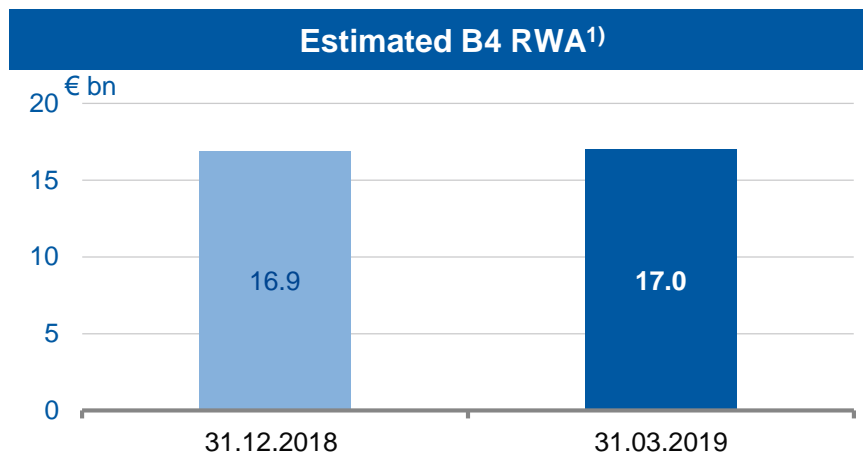


# Capital, Funding & B/S structure

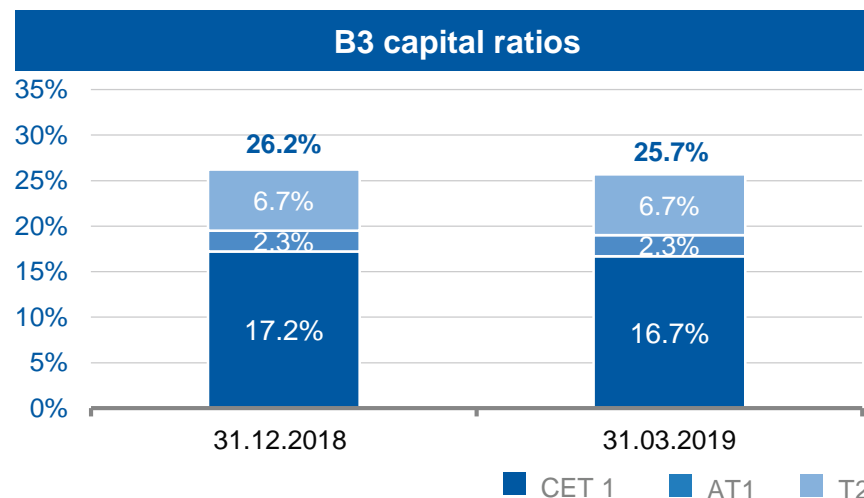
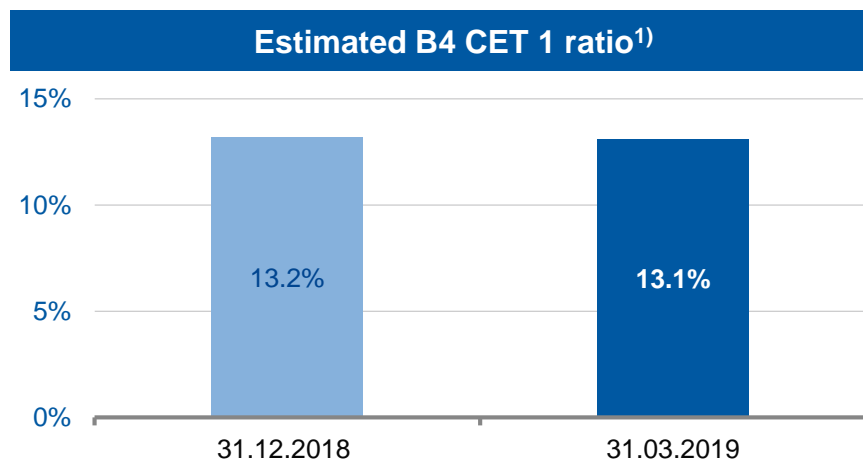


# Capital

## Strong capital ratios already incl. TRIM effects



- Fulfilling Basel IV from day 1
- Capital ratios since 12/2018 incl. relevant TRIM effects and prudential provisioning<sup>2)</sup>
- Remaining regulatory uncertainties well buffered (e.g. Hard test, CRR II, further implementation of countercyclical buffer)
- B4 target ratio of 12.5%
- B3 capital ratios significantly above SREP requirements
- T1-Leverage ratio: 6.0%



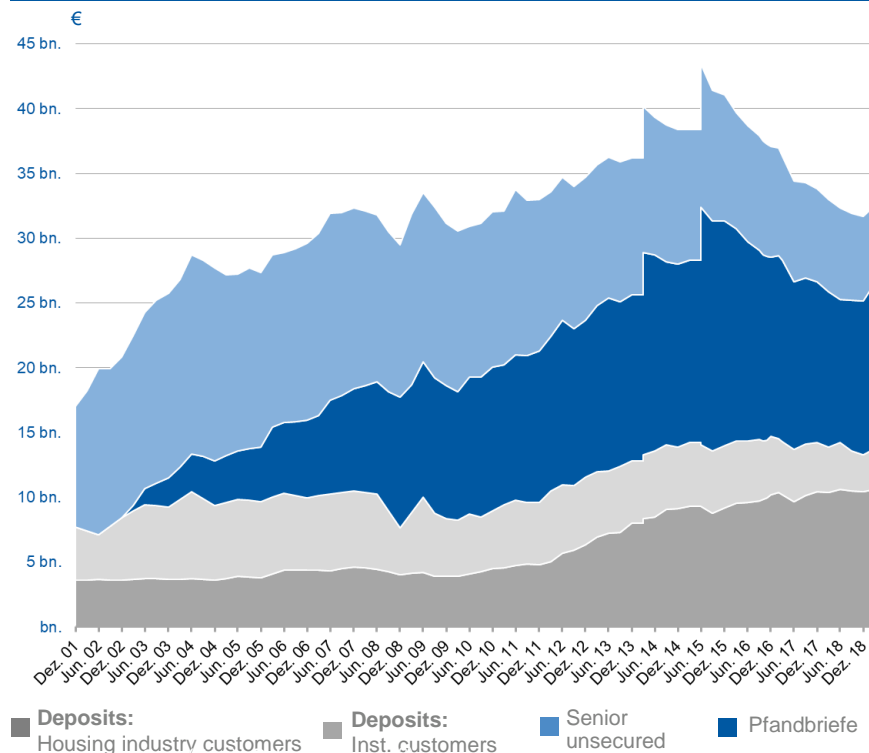
1) Underlying RWA estimate, given a 72.5 % output floor based on the final Basel Committee framework dated 7 December 2017, calculation subject to outstanding EU implementation as well as the implementation of further regulatory requirements  
 2) Expected relevant TRIM effects on CREF portfolio and SREP recommendations with respect to NPL guidelines (NPL stock) from ECB

■ CET 1 ■ AT1 ■ T2

# Funding

## Diversified funding position

### Diversified funding sources and distribution channels



### Actual positioning Q1 2019

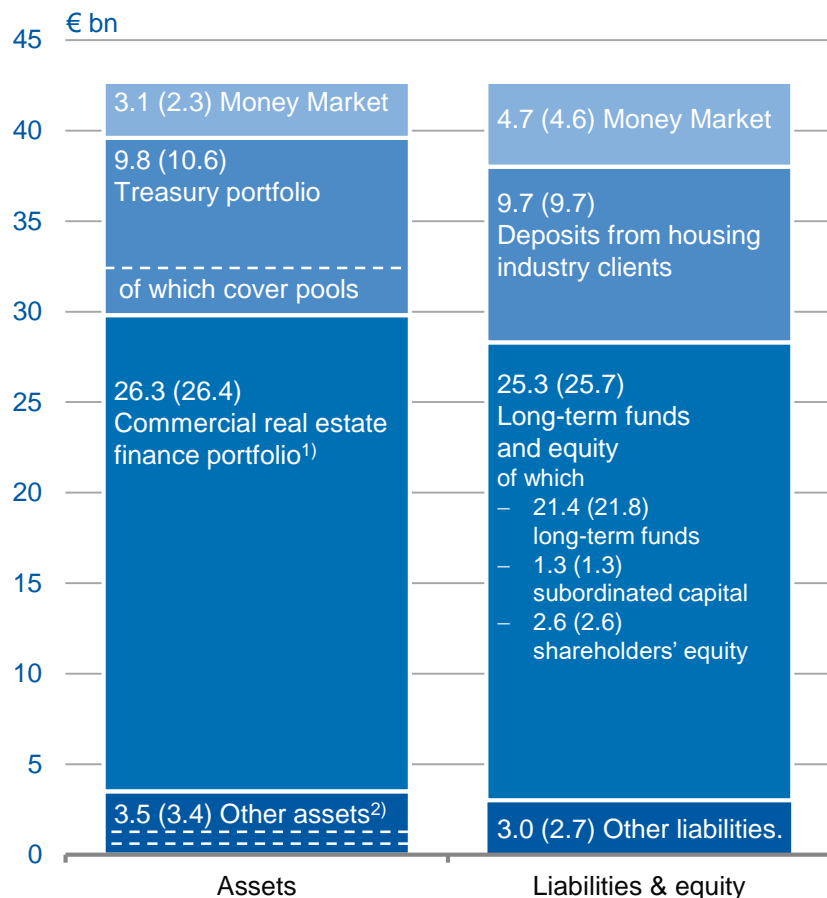
- Sustainable and strong deposit base counts for more than 40% of the well diversified funding mix
- Successful Pfandbrief issuances in Q1:
  - EUR 750 mn Pfandbrief, 5 years
  - EUR 250 mn Pfandbrief Tap, 4 years
- Senior unsecured funding based on well established private placement business:
  - EUR 100 mn Senior Unsecured
- MREL is not a limiting factor due to large amount of outstanding long term senior funding
- NSFR/ LCR well above 100% due to comfortable liquidity position



Strong investor demand for fixed income products result in high issuance activities and decreasing funding spreads for Pfandbriefe and senior unsecured transactions

# B/S structure according to IFRS

As at 31.03.2019: € 42.7 bn (31.12.2018: € 42.7 bn)



- Stable CREF-portfolio
- Treasury portfolio reduction by active de-risking

1) CREF-portfolio only, private client business (€ 0.5 bn) and WIB's public sector loans (€ 0.4 bn) not included

2) Other assets includes € 0.5 bn private client portfolio and WIB's € 0.4 bn public sector loans



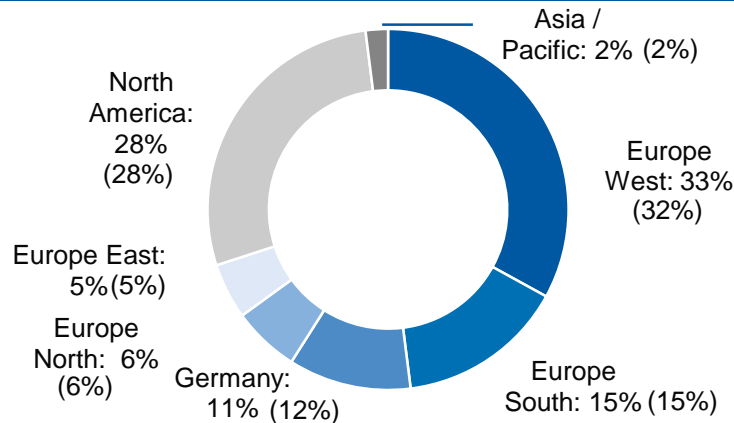
Asset quality

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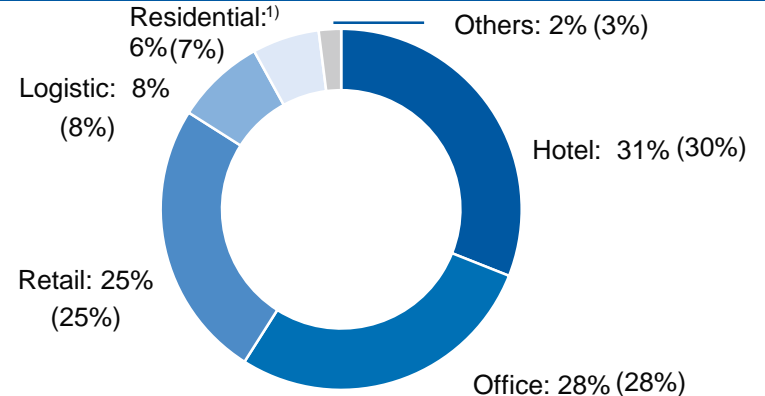
# Commercial real estate finance portfolio (CREF)

€ 26.3 bn highly diversified and sound

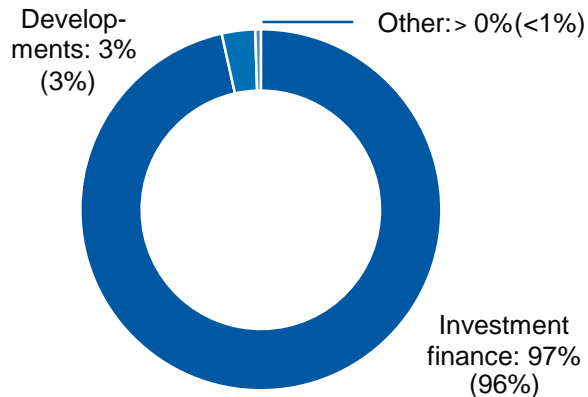
Portfolio by region Q1 2019 (vs. Q4 2018)



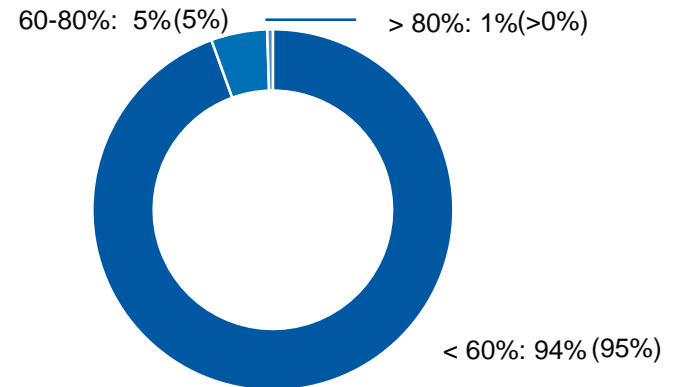
Portfolio by property type Q1 2019 (vs. Q4 2018)



Portfolio by product type Q1 2019 (vs. Q4 2018)



Portfolio by LTV ranges<sup>2)</sup> Q1 2019 (vs. Q4 2018)



1) Incl. Student housing (UK & Australia only)

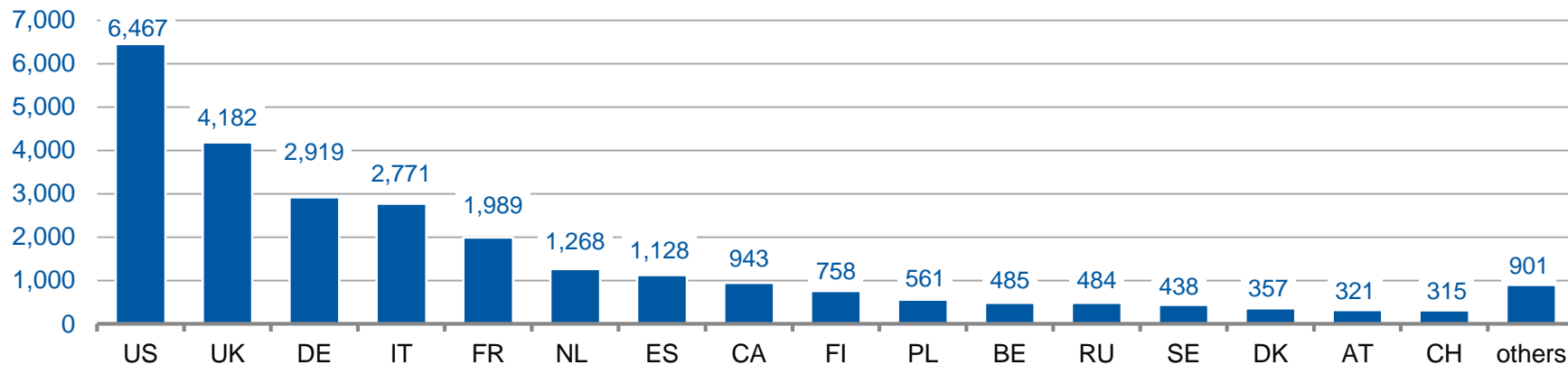
2) Performing CREF-portfolio only, exposure as at 31.03.2019



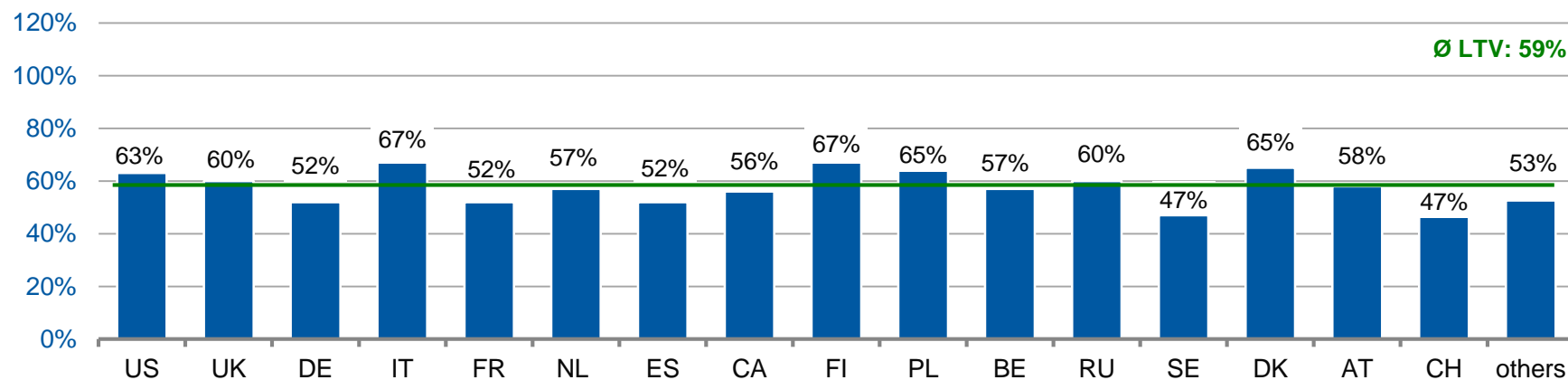
# Commercial real estate finance portfolio (CREF)

## Portfolio details by country

Total commercial real estate finance portfolio (€ mn)



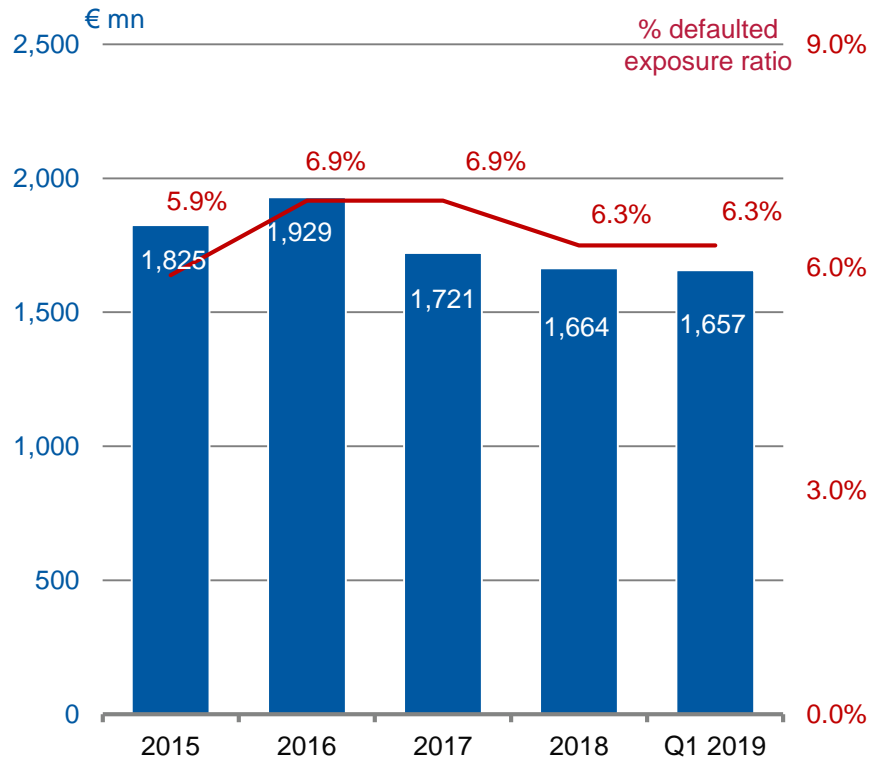
LTV<sup>1)</sup>



1) Performing CREF-portfolio only, exposure as at 31.03.2019

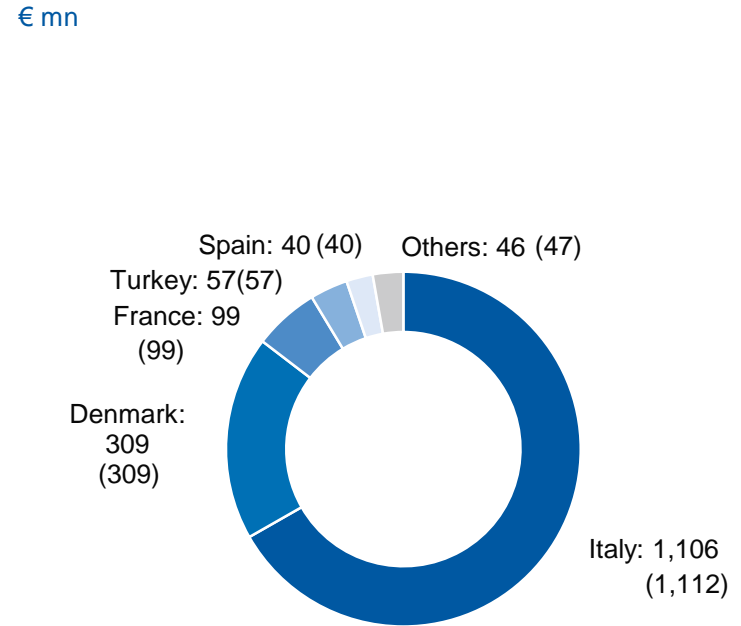
# Defaulted exposure

Development of defaulted exposure



— Defaulted exposure / Total CREF portfolio  
 ■ Defaulted exposure

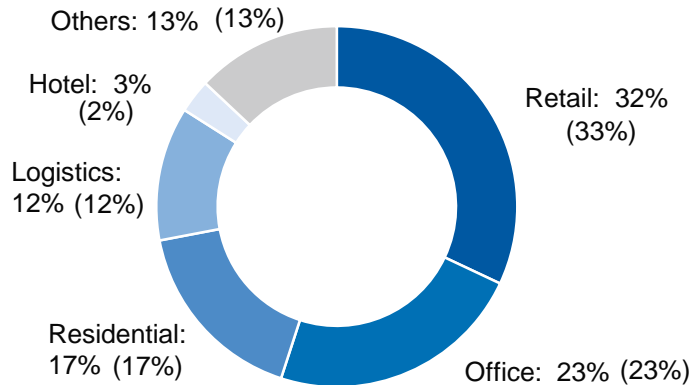
Defaulted exposure by country Q1 2019 (vs. Q4 2018)



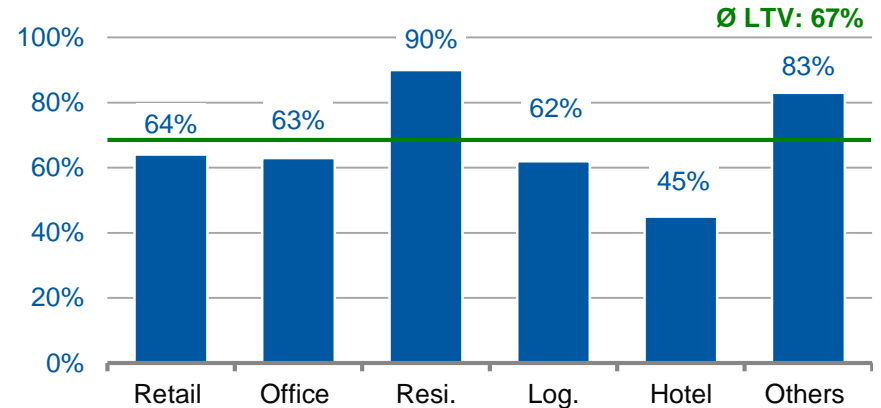
# Spotlight: Italian CREF portfolio

€ 2.8 bn (~11% of total portfolio)

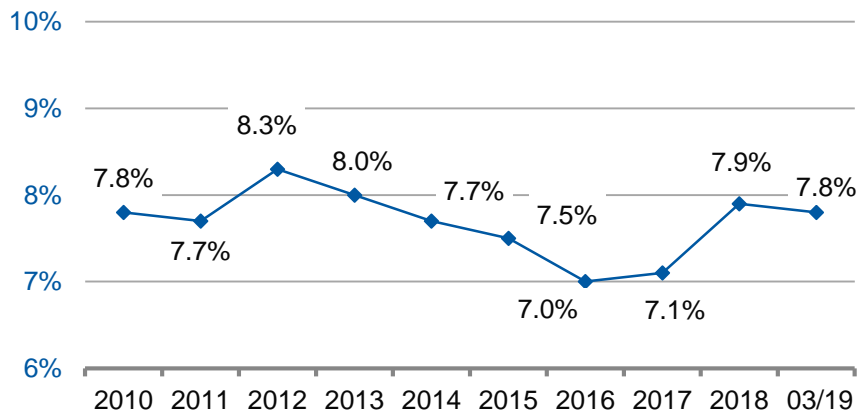
## Total portfolio by property type (vs. Q4 2018)



## Average LTV by property type<sup>1)</sup>



## Yield on debt<sup>1)</sup>



1) Performing CREF-portfolio only, exposure as at 31.03.2019

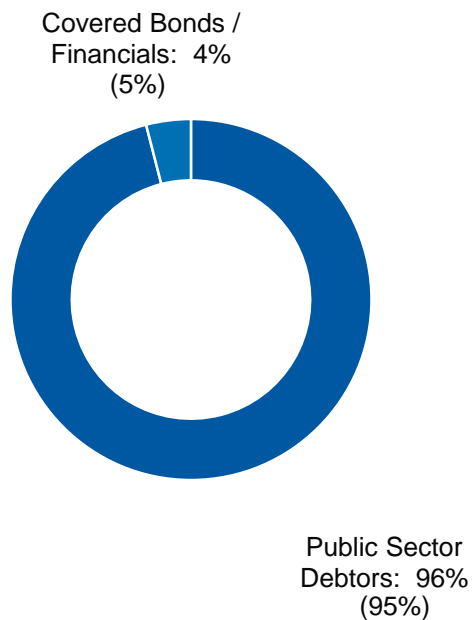
## Comments

- Performing:
  - Share of developments financed ~ 5%
  - ~ 50% of total portfolio in Greater Rome or Milan area
  - € 227 mn with LTV > 60%
  - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 86%
- Defaulted exposure: € 1,106 mn

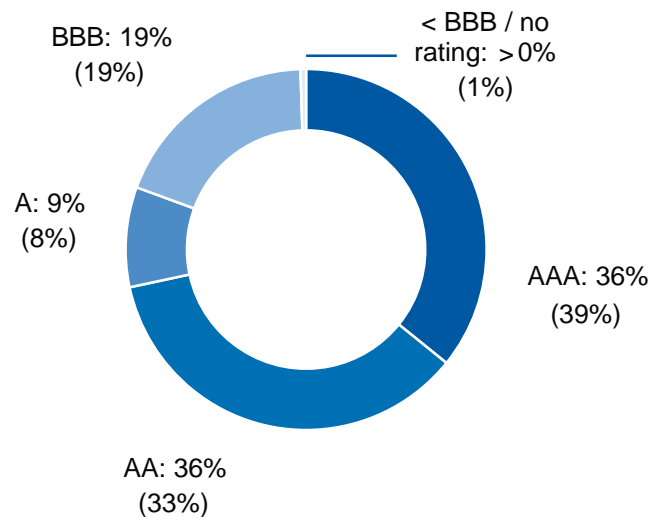
# Treasury portfolio

€ 8.0 bn of high quality and highly liquid assets

by asset class Q1 2019 (vs. Q4 2018)



by rating<sup>1)</sup> Q1 2019 (vs. Q4 2018)



As at 31.03.2019 – all figures are nominal amounts

1) Composite Rating



# Outlook 2019

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# Outlook 2019

## Confirmed

<b>Net interest income</b>	▪ € 530 mn - € 560 mn
<b>Derecognition result</b>	▪ € 20 mn - € 40 mn
<b>Allowance for credit losses<sup>1)</sup></b>	▪ € 50 mn - € 80 mn
<b>Net commission income</b>	▪ € 225 mn - € 245 mn
<b>Admin expenses</b>	▪ € 470 mn - € 510 mn
<b>Operating profit</b>	▪ € 240 mn - € 280 mn
<b>Pre-tax RoE</b>	▪ 8.5% - 10%
<b>EpS</b>	▪ ~ € 2.40 - € 2.80
<b>Target portfolio size</b>	▪ € 26 bn - € 28 bn
<b>New business origination<sup>2)</sup></b>	▪ € 7 bn - € 8 bn
<b>Operating profit Aareon<sup>3)</sup></b>	▪ ~ € 35 mn (~ € 41 mn before strategic investments)



**Expected 2019 results on good 2018 (clean) level despite strategic investments, DHB integration costs and the lack of positive 2018 effects from reversal of provisions**

1) As in 2018, the bank cannot rule out additional allowances for credit losses

2) Incl. renewals

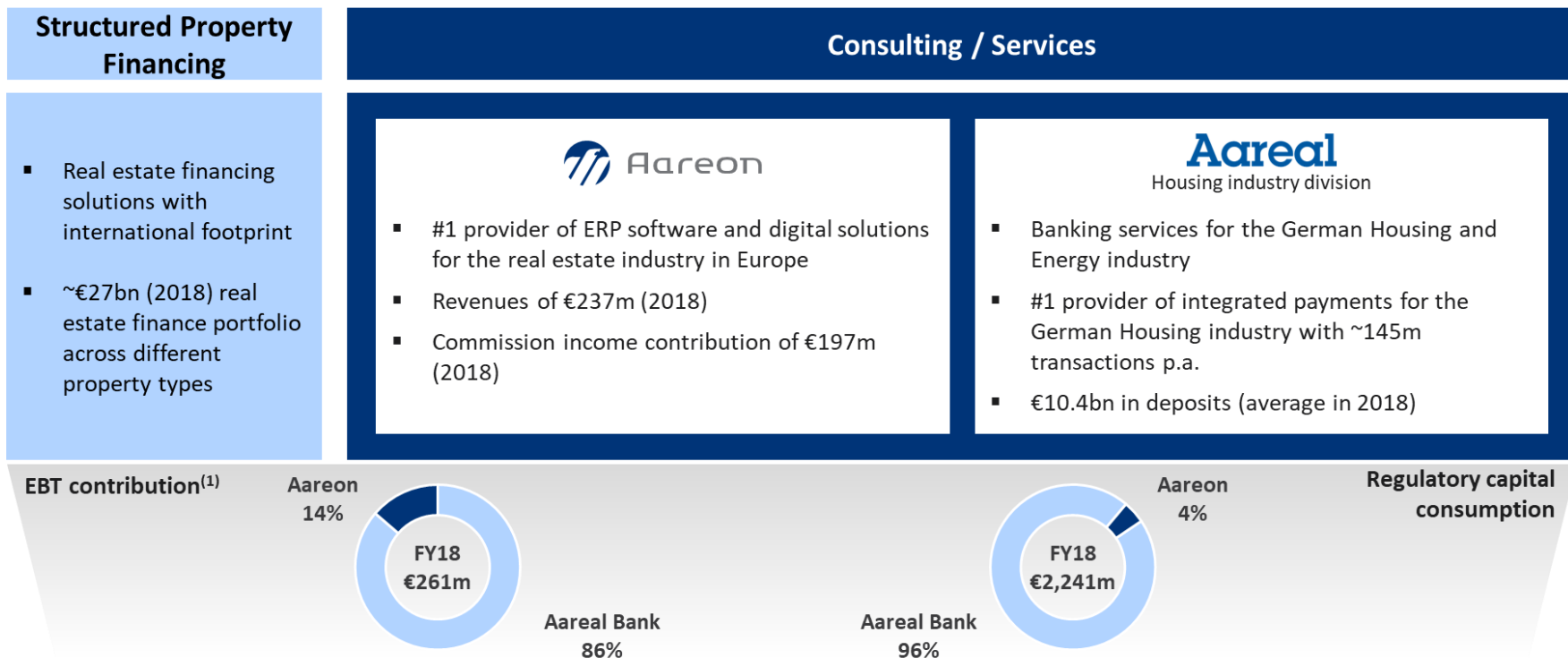
3) After segment adjustments



Extraction from:  
Aareon Investor Seminar

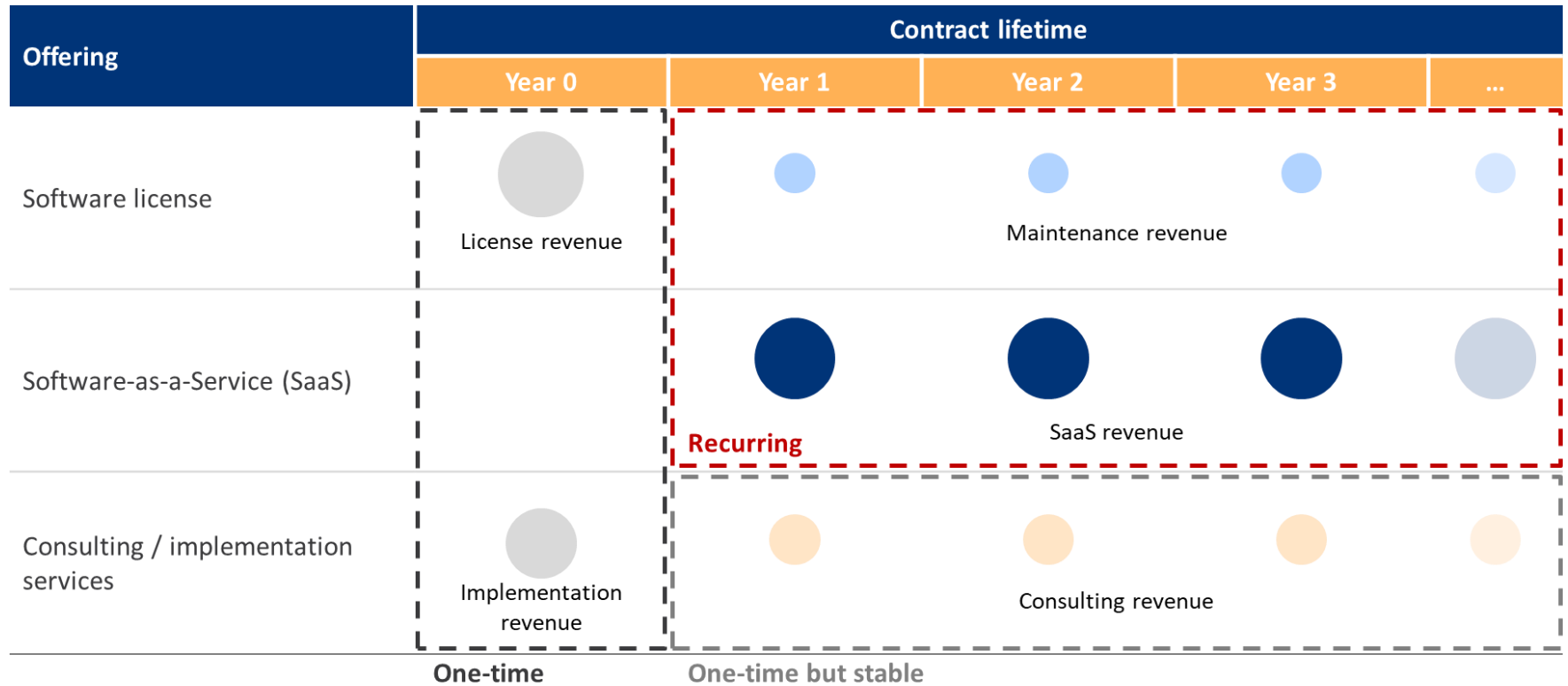
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# Aareon is Europe's #1 provider of ERP software and digital solutions driving digital transformation of the European Real Estate industry



1) Normalised (adjusted for negative goodwill)

# Simplified commercial model – stable and mature



# Germany

The largest European market as launch pad for international expansion



1957

Market entry



~60%

Market share



€149m

Revenue

## Market trends

- 1 Increasing demand for rental units
- 2 Demographic changes / sustainability
- 3 Increasing demand for digital solutions



Note: Market share based on Aareon's estimates of total units



# Market leading across Europe

## United Kingdom

-  **2001** Market entry
-  **~15%** Market share
-  **€14m** Revenue

## France

-  **2001** Market entry
-  **~45%** Market share
-  **€28m** Revenue



## Nordics

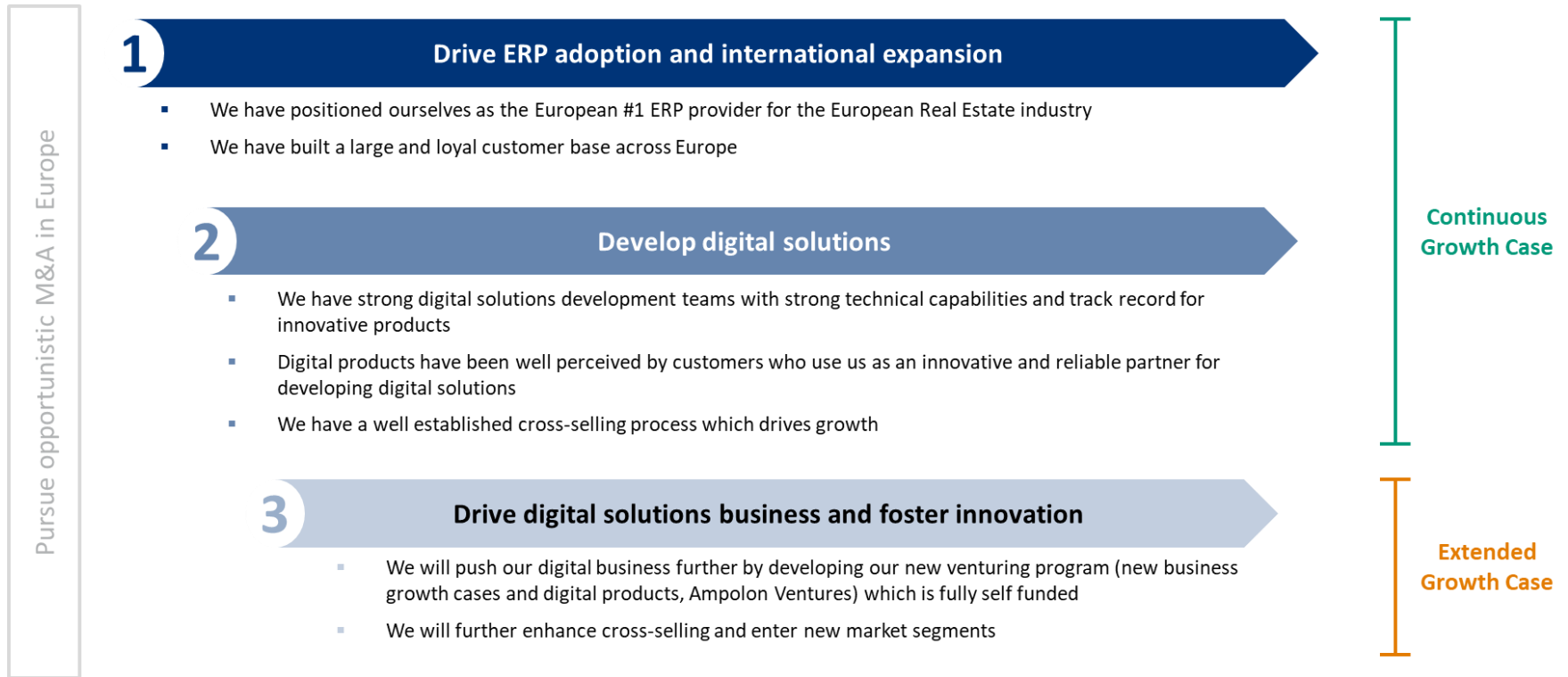
-  **2013** Market entry
-  **~20%** Market share
-  **€9m** Revenue

## Netherlands

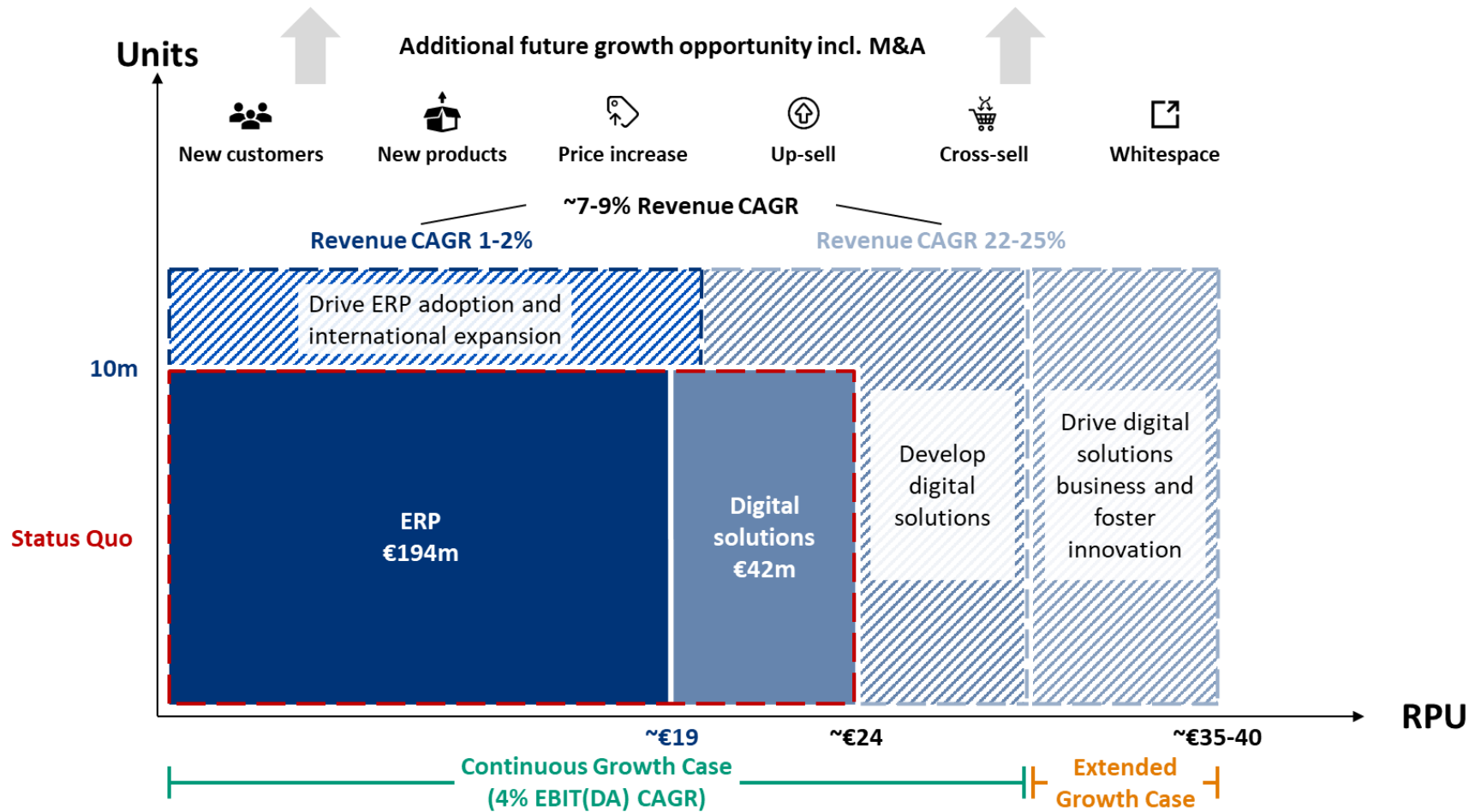
-  **2010** Market entry
-  **~35%** Market share
-  **€37m** Revenue

Note: Market shares based on Aareon's estimates of total units in respective geographies

# Optimal time to enter the next phase of the growth strategy and continue the successful path

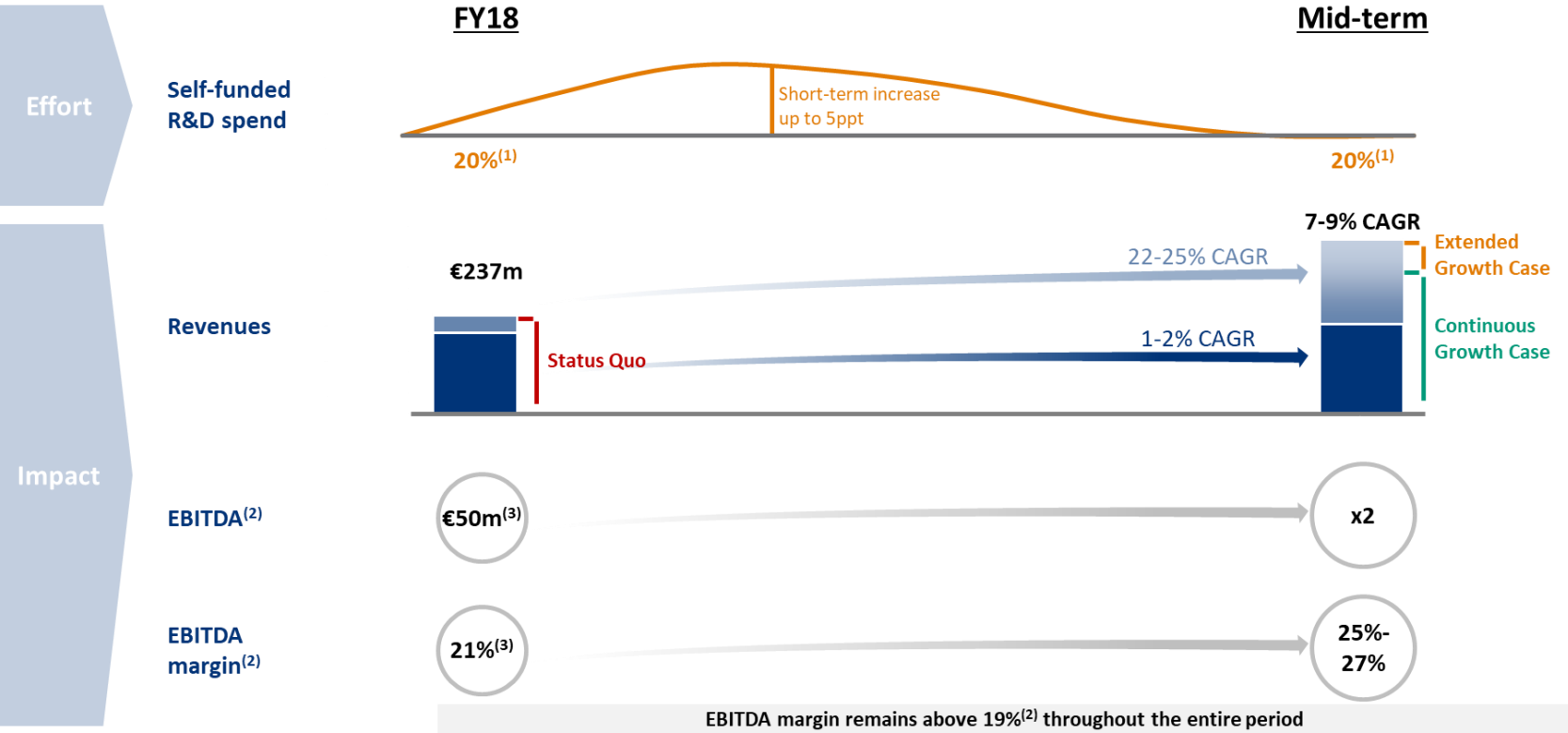


# Significant market opportunity for continuous growth



Illustrative sizing only

# Path from present to future – we aim at doubling EBITDA in mid-term



Illustrative sizing only  
 1) As % of software revenues; software revenues = SaaS, maintenance and license revenue  
 2) Excluding IFRS 16  
 3) Adjusted for one-offs and other non-recurring items



Conclusion

**Aareal**

# Conclusion

Robust business, confirmed targets, successful strategy

## Key takeaways



In a challenging environment, Aareal Bank Group started well into the financial year 2019. This shows that our operating business continues to be very robust and our strategy works well.



After a successful start into 2019, Aareal Bank Group confirms its FY targets. We remain confident that we will achieve an operating result on the previous year's level (adjusted for one-off effects).



Aareal Bank Group consistently continues implementing its "Aareal 2020" strategy by focussing on particularly attractive opportunities in the CRE lending business and starting a major digital initiative at its subsidiary Aareon.

Aareon  
Investor Seminar  
in 2019



Appendix  
Group results



# Aareal Bank Group

## Results Q1 2019

	01.01.- 31.03.2019 € mn	01.01.- 31.03.2018 € mn	Change
<b>Profit and loss account</b>			
Net interest income	135	133	2%
Loss allowance	5	0	
Net commission income	53	50	6%
Net derecognition gain or loss	16	6	167%
Net gain or loss from financial instruments (fvpl)	6	3	100%
Net gain or loss on hedge accounting	0	-2	-100%
Net gain or loss from investments accounted for using the equity method	0		
Administrative expenses	144	128	13%
Net other operating income / expenses	0	5	-100%
Negative goodwill from acquisitions			
<b>Operating Profit</b>	<b>61</b>	<b>67</b>	<b>-9%</b>
Income taxes	21	23	-9%
<b>Consolidated net income</b>	<b>40</b>	<b>44</b>	<b>-9%</b>
Consolidated net income attributable to non-controlling interests	1	1	
Consolidated net income attributable to shareholders of Aareal Bank AG	39	43	-9%
<b>Earnings per share (EpS)</b>			
Consolidated net income attributable to shareholders of Aareal Bank AG <sup>1)</sup>	39	43	-9%
of which: allocated to ordinary shareholders	35	39	-10%
of which: allocated to AT1 investors	4	4	
Earnings per ordinary share (in €) <sup>2)</sup>	0.59	0.65	-9%
Earnings per ordinary AT1 unit (in €) <sup>3)</sup>	0.04	0.04	

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

2) Earnings per ordinary share are determined by dividing the earnings allocated to ordinary shareholders of Aareal Bank AG by the weighted average of ordinary shares outstanding during the financial year (59,857,221 shares). Basic earnings per ordinary share correspond to diluted earnings per ordinary share.

3) Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of 3 € each) are determined by dividing the earnings allocated to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Earnings per AT1 unit (basic) correspond to (diluted) earnings per AT1 unit.

# Aareal Bank Group

## Results Q1 2019 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.01.- 31.03. 2019	01.01.- 31.03. 2018	01.01.- 31.03. 2019	01.01.- 31.03. 2018	01.01.- 31.03. 2019	01.01.- 31.03. 2018	01.01.- 31.03. 2019	01.01.- 31.03. 2018
€ mn								
Net interest income <sup>1)</sup>	138	136	-3	-3	0	0	135	133
Loss allowance	5	0	0	0			5	0
Net commission income <sup>1)</sup>	2	1	52	50	-1	-1	53	50
Net derecognition gain or loss	16	6					16	6
Net gain or loss from financial instruments (fvpl)	6	3					6	3
Net gain or loss on hedge accounting	0	-2					0	-2
Net gain or loss from investments accounted for using the equity method			0				0	
Administrative expenses	87	74	58	55	-1	-1	144	128
Net other operating income / expenses	0	5	0	0	0	0	0	5
Negative goodwill from acquisitions								
<b>Operating profit</b>	<b>70</b>	<b>75</b>	<b>-9</b>	<b>-8</b>	<b>0</b>	<b>0</b>	<b>61</b>	<b>67</b>
Income taxes	24	26	-3	-3			21	23
<b>Consolidated net income</b>	<b>46</b>	<b>49</b>	<b>-6</b>	<b>-5</b>	<b>0</b>	<b>0</b>	<b>40</b>	<b>44</b>
<b>Allocation of results</b>								
Cons. net income attributable to non-controlling interests	0	0	1	1			1	1
Cons. net income attributable to shareholders of Aareal Bank AG	46	49	-7	-6	0	0	39	43

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

# Aareal Bank Group

## Results – quarter by quarter

	Structured Property Financing					Consulting / Services					Consolidation / Reconciliation					Aareal Bank Group					
	Q1 2019	Q4	Q3	Q2	Q1	Q1 2019	Q4	Q3	Q2	Q1	Q1 2019	Q4	Q3	Q2	Q1	Q1 2019	Q4	Q3	Q2	Q1	
	2018					2018					2018					2018					
€ mn																					
Net interest income <sup>1)</sup>	138	138	134	139	136	-3	-3	-3	-3	-3	0	0	0	0	0	135	135	131	136	133	
Loss allowance	5	40	14	19	0	0	-1	0	0	0						5	39	14	19	0	
Net commission income <sup>1)</sup>	2	3	2	3	1	52	62	51	49	50	-1	-2	-2	-1	-1	53	63	51	51	50	
Net derecognition gain or loss	16	8	5	5	6											16	8	5	5	6	
Net gain or loss from financial instruments (fvp)	6	-1	0	-4	3	0										6	-1	0	-4	3	
Net gain or loss on hedge accounting	0	0	1	-1	-2											0	0	1	-1	-2	
Net gain or loss from investments accounted for using the equity method		0				0										0	0				
Administrative expenses	87	59	53	55	74	58	61	56	55	55	-1	-2	-2	-1	-1	144	118	107	109	128	
Net other operating income / expenses	0	12	2	2	5	0	2	1	1	0	0	0	0	0	0	0	14	3	3	5	
Negative goodwill from acquisitions		55															55				
<b>Operating profit</b>	<b>70</b>	<b>116</b>	<b>77</b>	<b>70</b>	<b>75</b>	<b>-9</b>	<b>1</b>	<b>-7</b>	<b>-8</b>	<b>-8</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>61</b>	<b>117</b>	<b>70</b>	<b>62</b>	<b>67</b>	
Income taxes	24	22	27	24	26	-3	0	-3	-3	-3						21	22	24	21	23	
<b>Consolidated net income</b>	<b>46</b>	<b>94</b>	<b>50</b>	<b>46</b>	<b>49</b>	<b>-6</b>	<b>1</b>	<b>-4</b>	<b>-5</b>	<b>-5</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>40</b>	<b>95</b>	<b>46</b>	<b>41</b>	<b>44</b>	
Cons. net income attributable to non-controlling interests	0	0	0	0	0	1	0	1	0	1						1	0	1	0	1	
Cons. net income attributable to shareholders of Aareal Bank AG	46	94	50	46	49	-7	1	-5	-5	-6	0	0	0	0	0	39	95	45	41	43	

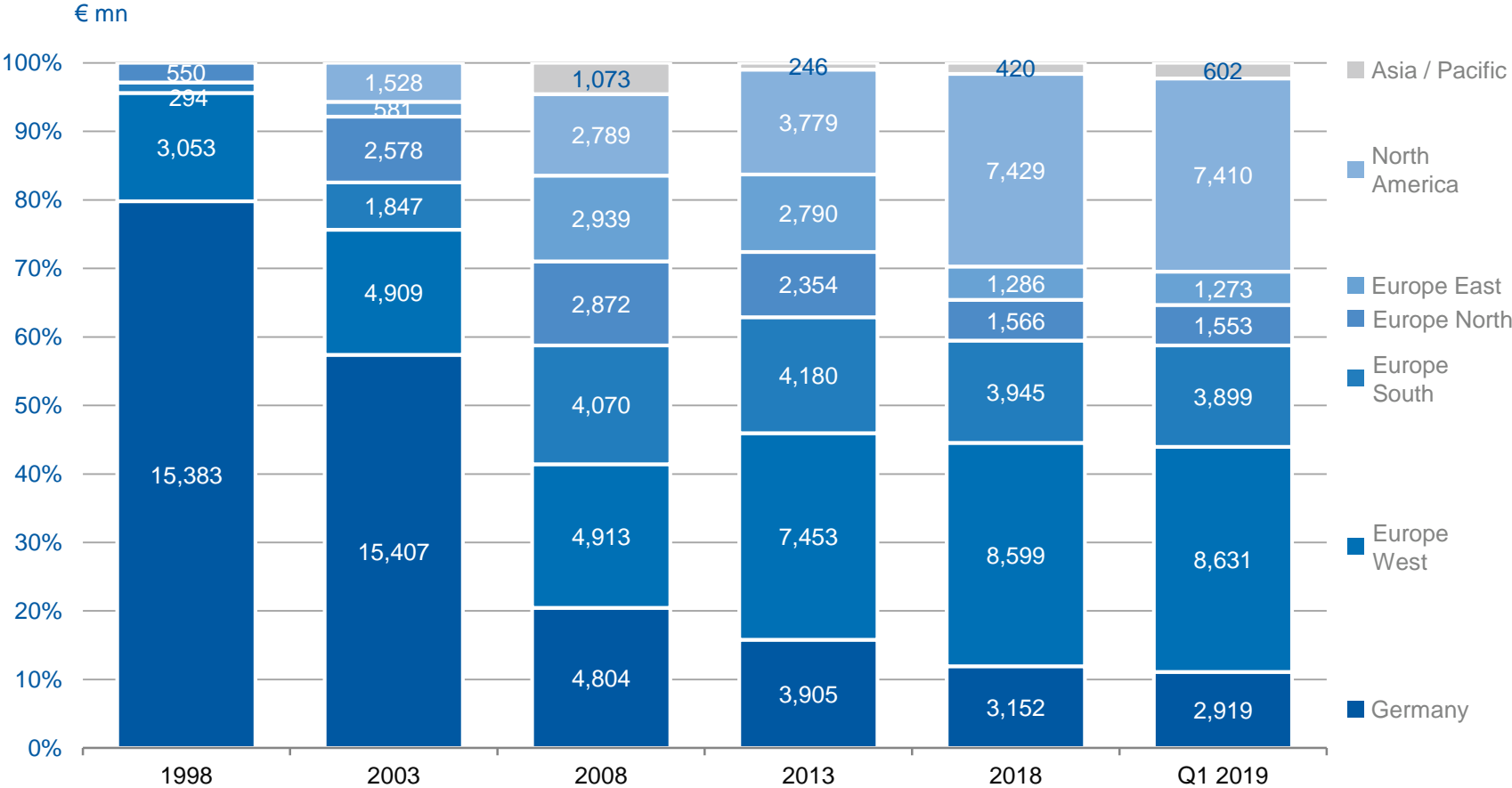
1) As of this reporting year, interest on deposits from the housing industry is shown under the net interest income of the Consulting/Services segment (previously included in net commission income). The previous year's figures were adjusted accordingly



# Appendix

## Commercial real estate finance portfolio

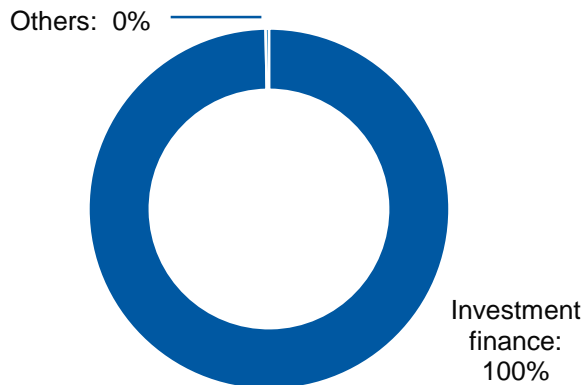
# Development commercial real estate finance portfolio



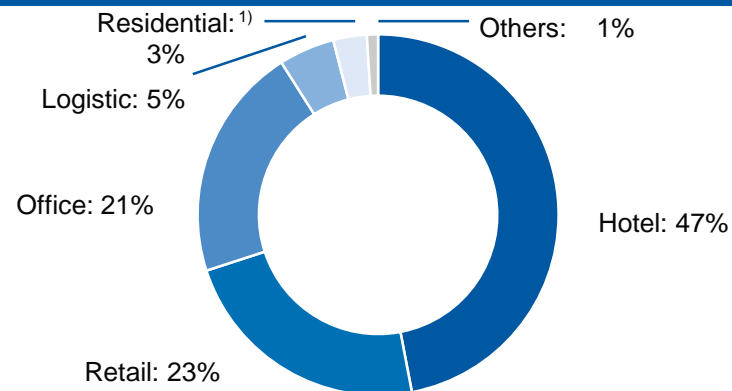
# Western Europe (ex Germany) CREF portfolio

Total volume outstanding as at 31.03.2019: € 8.6 bn

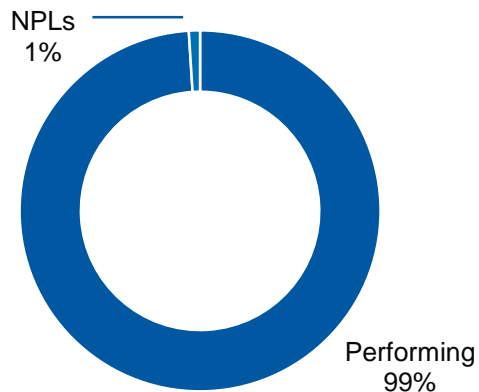
## by product type



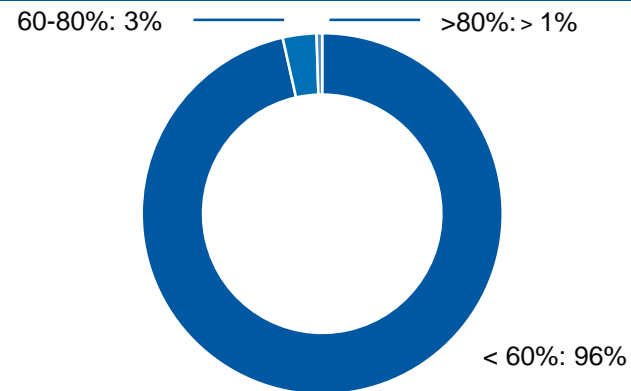
## by property type



## by performance



## by LTV ranges<sup>2)</sup>



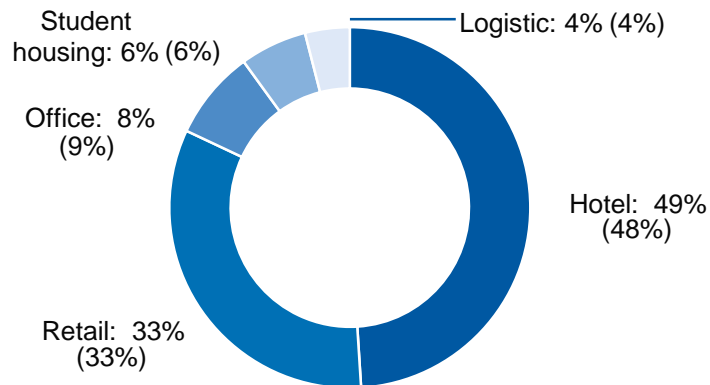
1) Incl. Student housing (UK only)

2) Performing CREF-portfolio only, exposure as at 31.03.2019

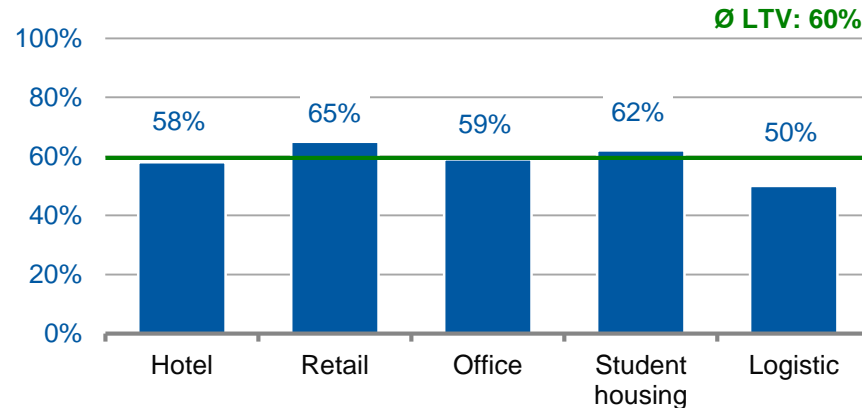
# Spotlight: UK CREF portfolio

€ 4.2 bn (~16% of total CREF-portfolio)

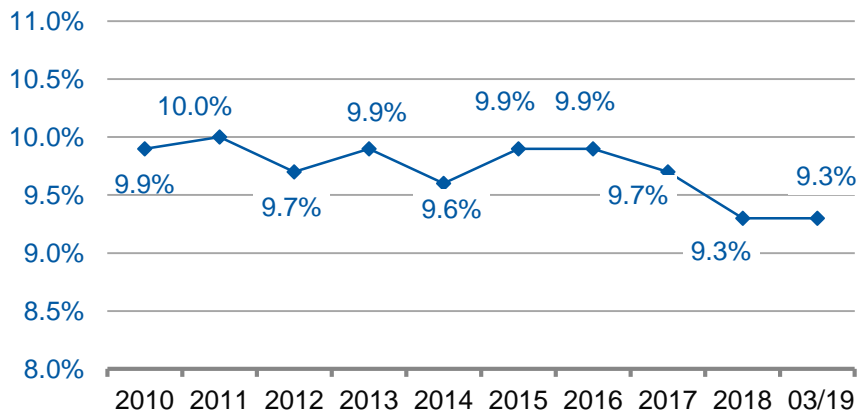
## Total portfolio by property type (vs. Q4 2018)



## Average LTV by property type<sup>1)</sup>



## Yield on debt



1) Performing CREF-portfolio only, exposure as at 31.03.2019

## Comments

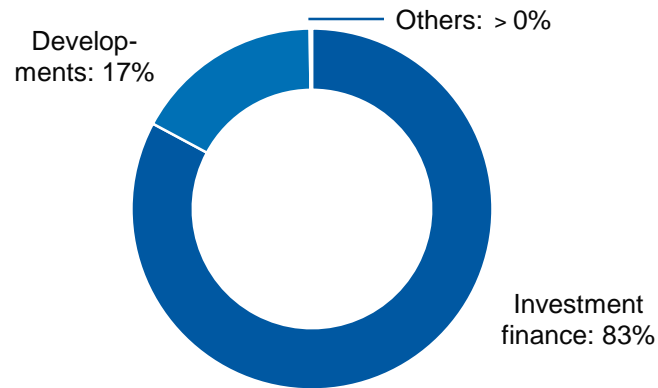
- Performing:
  - Investment finance only, no developments
  - ~ 60% of total portfolio in Greater London area, emphasising on hotels
  - € 254 mn with LTV > 60%
  - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 75%
- No defaulted exposure



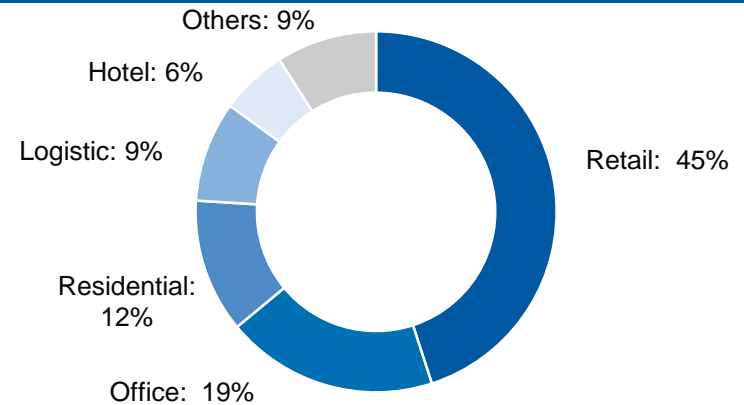
# Southern Europe CREF portfolio

Total volume outstanding as at 31.03.2019: € 3.9 bn

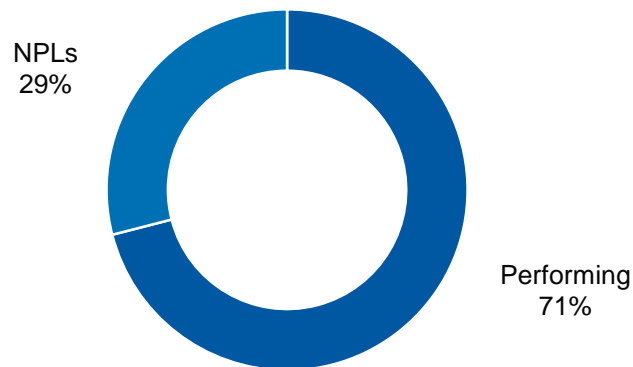
## by product type



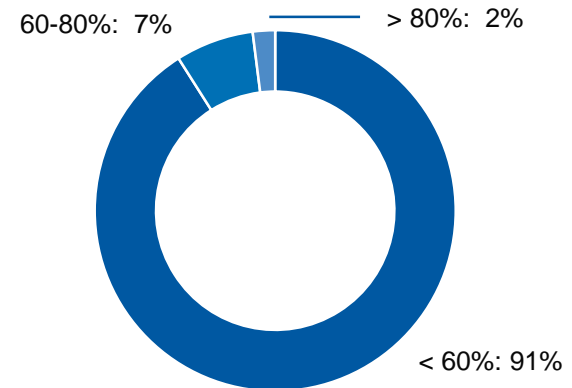
## by property type



## by performance



## by LTV ranges<sup>1)</sup>

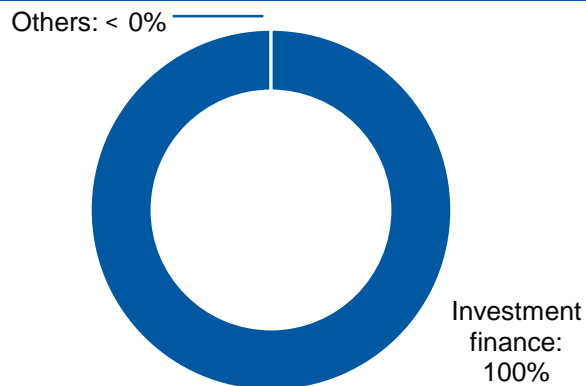


1) Performing CREF-portfolio only, exposure as at 31.03.2019

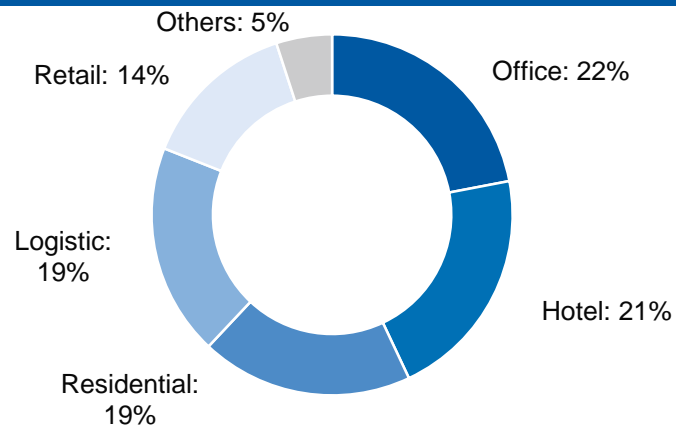
# German CREF portfolio

Total volume outstanding as at 31.03.2019: € 2.9 bn

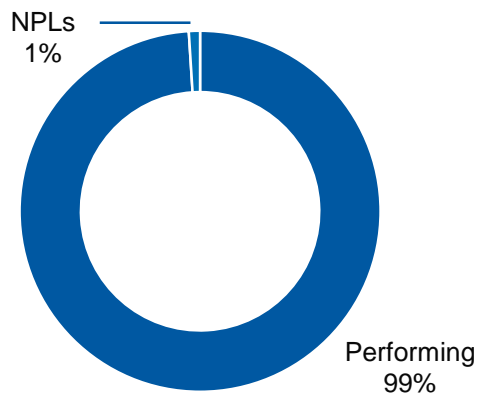
## by product type



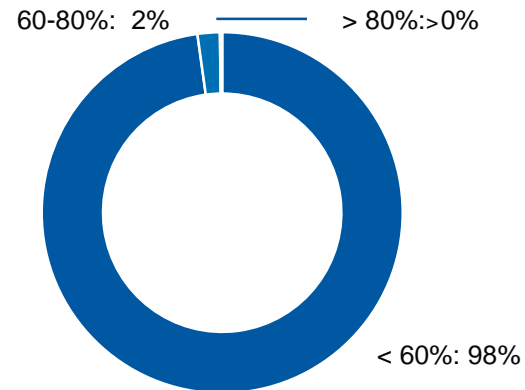
## by property type



## by performance



## by LTV ranges<sup>1)</sup>

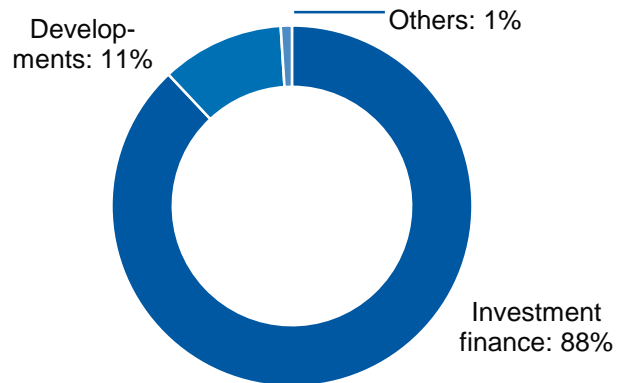


1) Performing CREF-portfolio only, exposure as at 31.03.2019

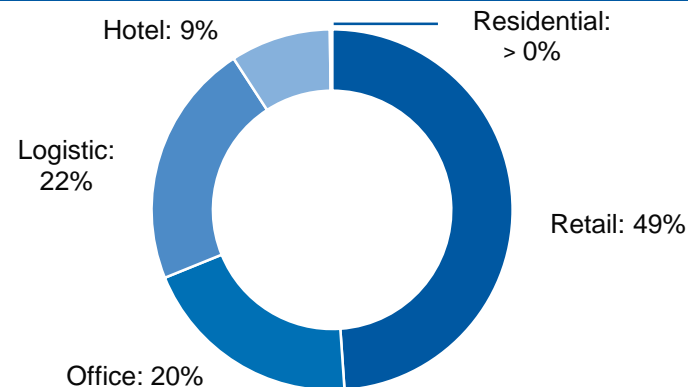
# Northern Europe CREF portfolio

Total volume outstanding as at 31.03.2019: € 1.6 bn

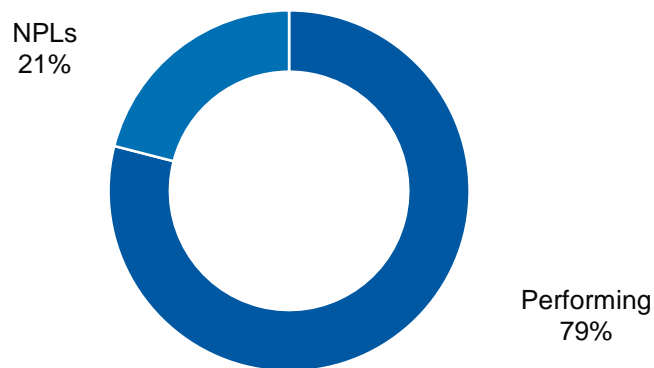
## by product type



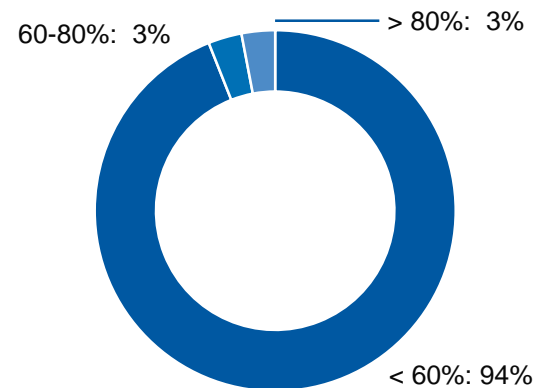
## by property type



## by performance



## by LTV ranges<sup>1)</sup>



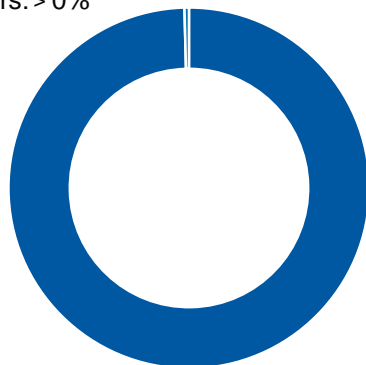
1) Performing CREF-portfolio only, exposure as at 31.03.2019

# Eastern Europe CREF portfolio

Total volume outstanding as at 31.03.2019: € 1.3 bn

## by product type

Others: > 0%

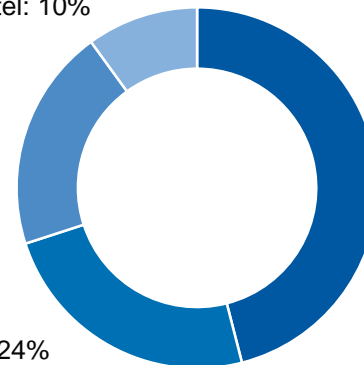


Investment  
finance:  
100%

## by property type

Hotel: 10%

Logistic:  
20%

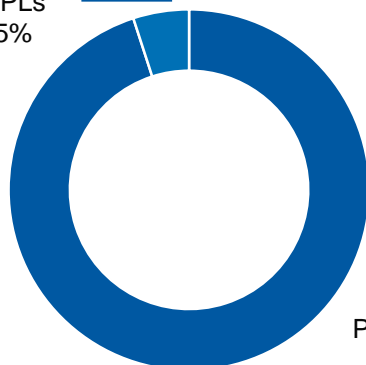


Office: 46%

Retail: 24%

## by performance

NPLs  
5%

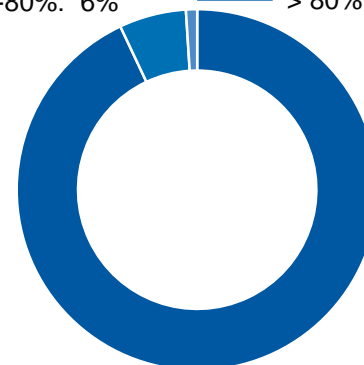


Performing  
95%

## by LTV ranges<sup>1)</sup>

60-80%: 6%

> 80%: >1%



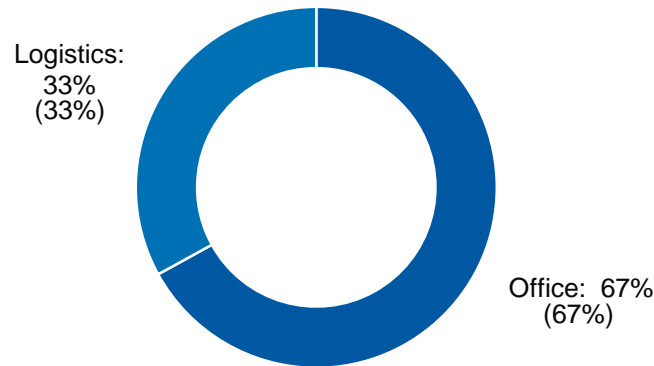
< 60%: 93%

1) Performing CREF-portfolio only, exposure as at 31.03.2019

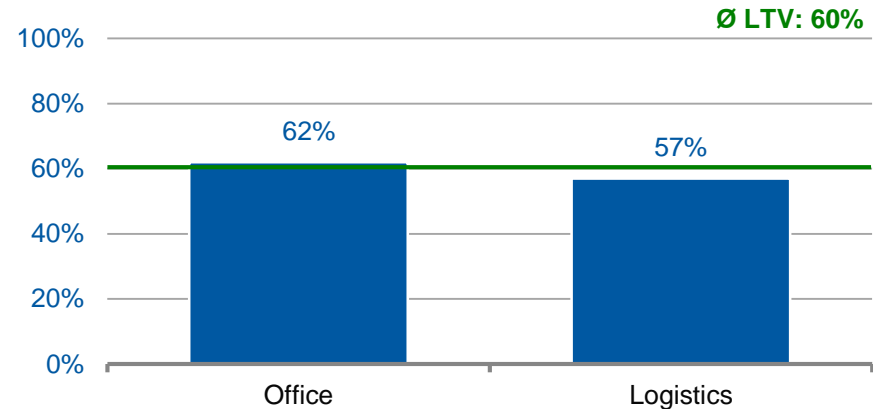
# Spotlight: Russian CREF portfolio

€ 0.5 bn (~2% of total CREF portfolio)

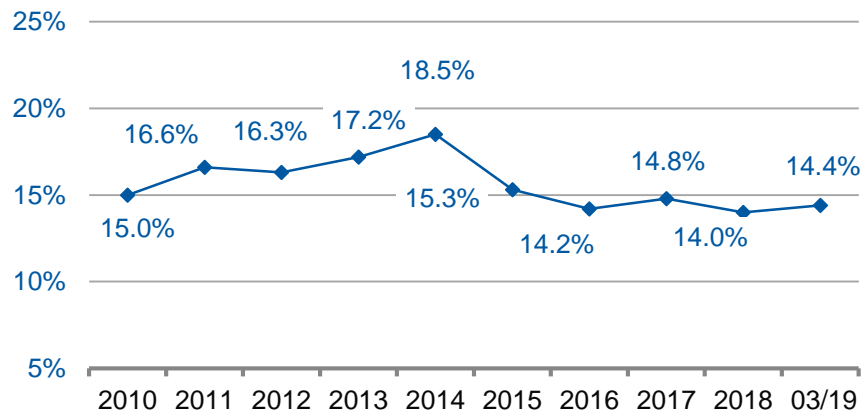
## Total portfolio by property type (vs. Q4 2018)



## Average LTV by property type<sup>1)</sup>



## Yield on debt



1) Performing CREF-portfolio only, exposure as at 31.03.2019

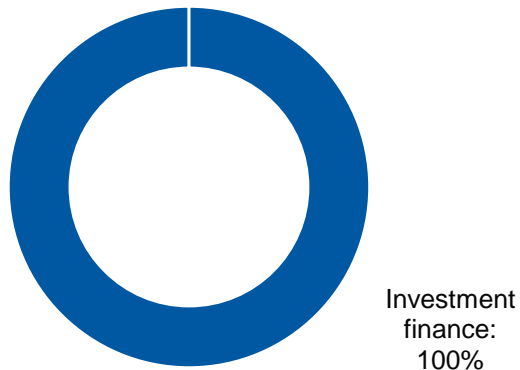
## Comments

- Performing:
  - Investment finance only: 2 logistics and 1 office in Moscow
  - € 8 mn with LTV > 60%
  - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 75%
- Defaulted exposure: € 11 mn, 1 office in St. Petersburg

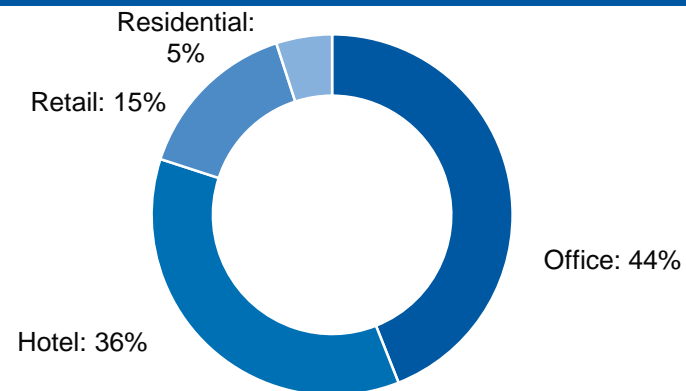
# North America CREF portfolio

Total volume outstanding as at 31.03.2019: € 7.4 bn

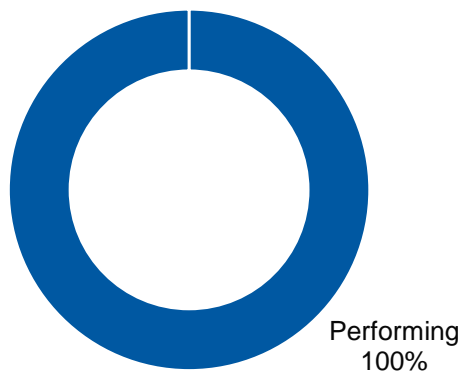
## by product type



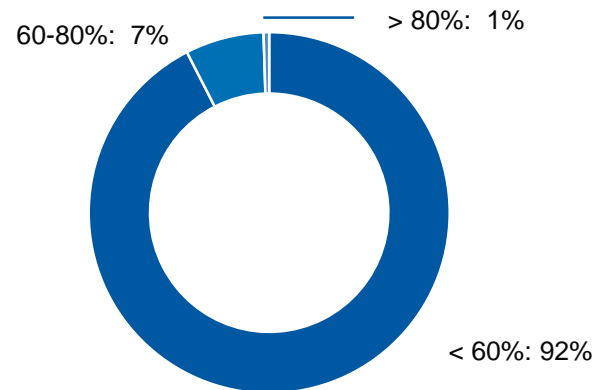
## by property type



## by performance



## by LTV ranges<sup>1)</sup>

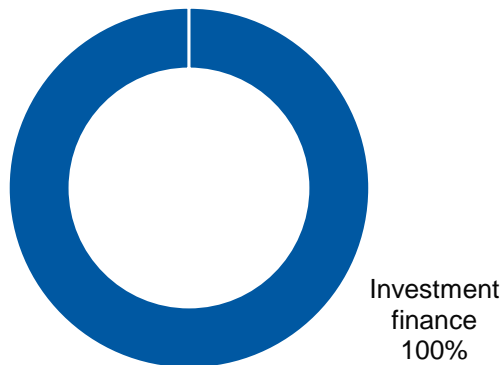


1) Performing CREF-portfolio only, exposure as at 31.03.2019

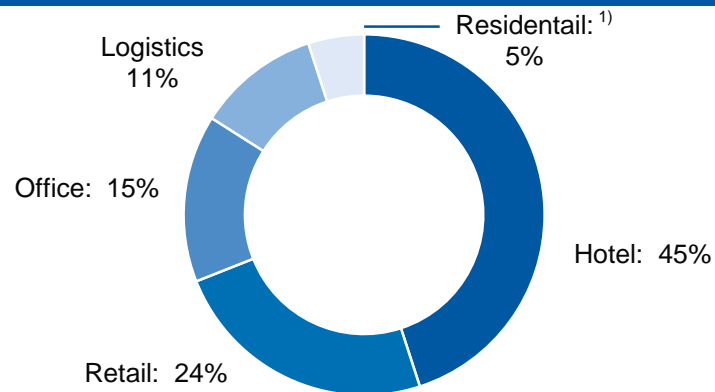
# Asia / Pacific CREF portfolio

Total volume outstanding as at 31.03.2019: € 0.6 bn

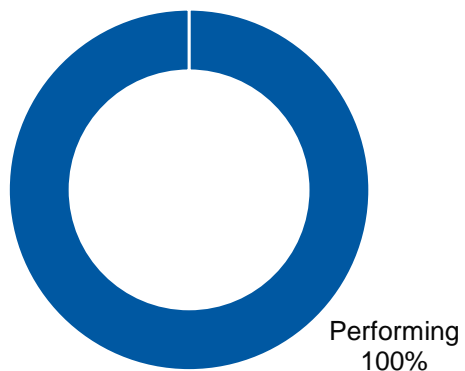
by product type



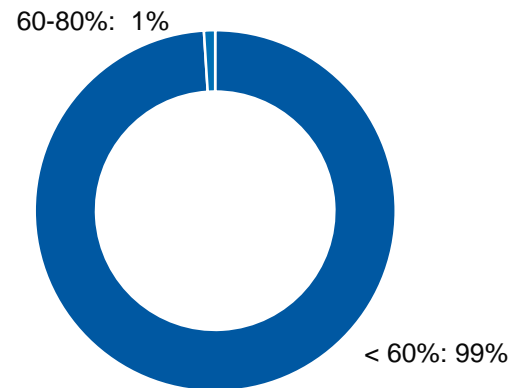
by property type



by performance



by LTV ranges<sup>2)</sup>



1) Incl. Student housing (Australia only)

2) Performing CREF-portfolio only, exposure as at 31.03.2019



Appendix  
Strategic outlook

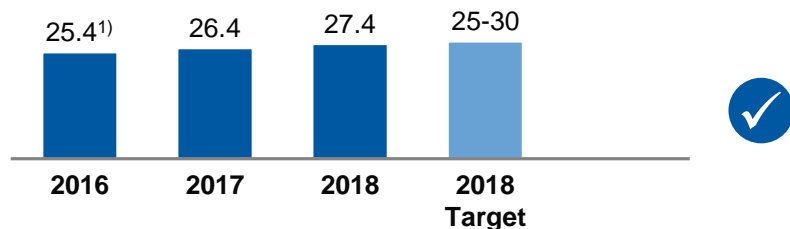


# Aareal 2020

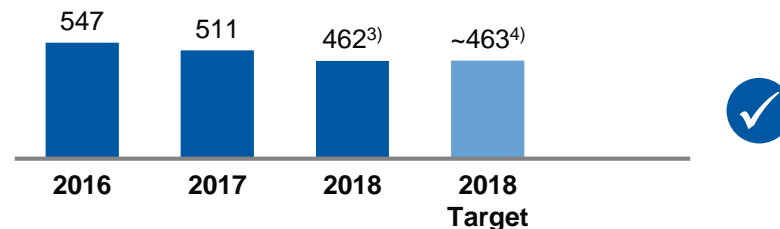
## Well on track

■ Actuals ■ Targets

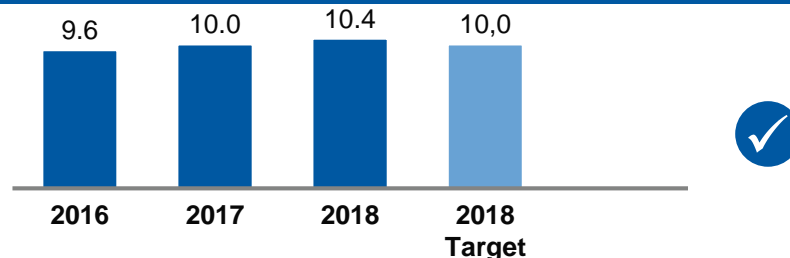
### REF Portfolio (€ bn)



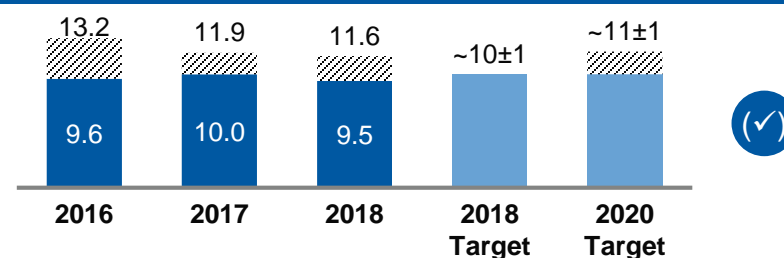
### Administrative Expenses (€ mn)



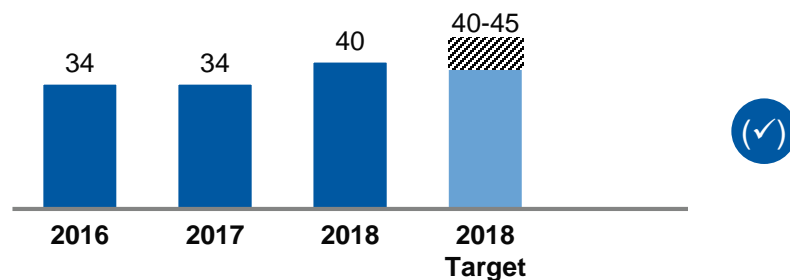
### Housing Industry Deposits (€ bn)



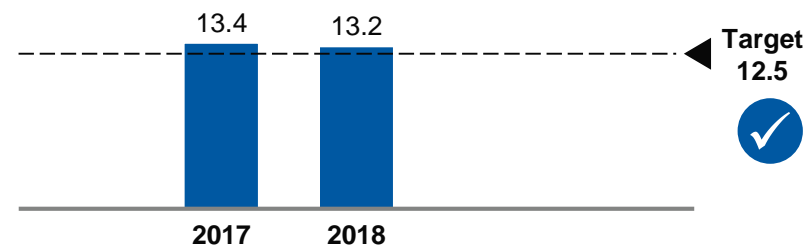
### Pre-Tax RoE<sup>5)</sup> (%)



### Aareon EBIT<sup>2)</sup> (€ mn)



### CET 1 Ratio Basel IV expected (%)



1) Core portfolio excl. Coreal and WestImmo  
 2) 2018 EBIT excl. one offs (reported EBIT € 36 mn)  
 3) Incl. € 13 mn additional expenses after Aareon M&A, € 19 mn transformation costs and € 19 mn reversal of provisions

4) Incl. € 13 mn additional expenses after Aareon M&A  
 5) Reported and excl. one-offs / negative goodwill, targets before employment of excess capital

# Aareal 2020

## Three areas of particular focus 2019 and going forward

### Aareal 2020 as of today

- Aareal 2020 was designed already in 2016 to provide for **higher stability, efficiency and flexibility** in an increasingly changing environment
- **We have executed** – hence our business model today has **inherent optionalities** enabling us to **act adequately**

### Three areas of particular focus:

#### A CRE

**Fine-tuning of our strategic positioning** as a result of (i) sluggish growth and transaction volumes, as well as (ii) regulatory changes

#### B Regulatory capital

**Anticipation and implementation of regulatory changes** – coming from a strong basis  
– Flashlight on future ECB NPL guidelines and IFRS 9 stage 2 sensitivity

#### C Aareon

Where we are today

Where we will go

How we will achieve

#### Strengthening of capital-light / commission income business:










- European No 1 ERP provider<sup>1)</sup>; sustainable client base; digital products successfully established
- Accelerate growth by pushing the digital business further
- Increased R&D spend for iterative organic development; supported by selective M&A

Aareon  
Investor Seminar  
in 2019

1) For the institutional housing industry

## Preface: Outlook 2019

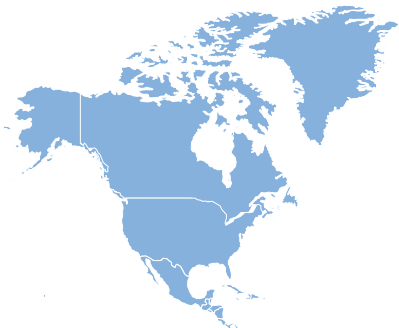
### Environmental change due to new uncertainties and increasing volatility

	Outlook 2018 (last year)	Outlook 2019 (today)
<b>GDP dynamics</b>		 Slowdown of growth in key regions
<b>Interest rates</b>		 Rather stable interest environment
<b>Funding costs</b>		 Secondary trading on higher credit spreads
<b>Brexit</b>	“One year ahead”	 “Hard Brexit” as relevant option
<b>Italy</b>		 High political and fiscal uncertainty
<b>Regulatory requirements (Aareal)</b>	Basel IV anticipated	TRIM, EBA, NPL-Guidelines anticipated

# A CRE: Continuing selective new business focus

Strong transaction volumes losing momentum in 2019 – slowing business cycle

## North America



### Economy still supportive – CRE cycle plateauing on high level

- Economic growth moderating
- CRE cycle plateauing
- Transaction volumes strong in 2018, expecting decrease in 2019

## Europe



### Peaking CRE cycle amid economic slowdown

- Economic growth slows down
- CRE cycle start to peak
- Downward trend in transaction volumes after four exceptional years
- Cross-border investment high

## Asia Pacific



### Economic and CRE slowdown – cross-border investment strong

- Economic growth slows down
- Rental growth stagnating
- Transaction volumes down in 2019
- Cross-border upward trend, especially US

### Aareal positioning

- Having capabilities to rotate the portfolio composition to geographies and asset classes considered most attractive; managing the new business volumes reflecting regulatory capital and NPL environment.

## B Regulatory capital

What is known today: Future implications on capital anticipated...

Regulation on capital...	...in regulatory figures reflected	...considered in strategic planning
<b>Basel IV (estimated)</b> <ul style="list-style-type: none"> <li>AIRBA</li> <li>CRSA</li> </ul>	✓	✓
<b>TRIM-effects (estimated)</b> <ul style="list-style-type: none"> <li>Basel III</li> <li>Basel IV</li> </ul>	✓	✓
<b>Prudential provisioning (NPL-Guideline)</b> <ul style="list-style-type: none"> <li>Stock</li> <li>Future NPL</li> </ul>	✓ (pro rata) (not effective in 2018)	✓
<b>IFRS 9</b>	✓	✓

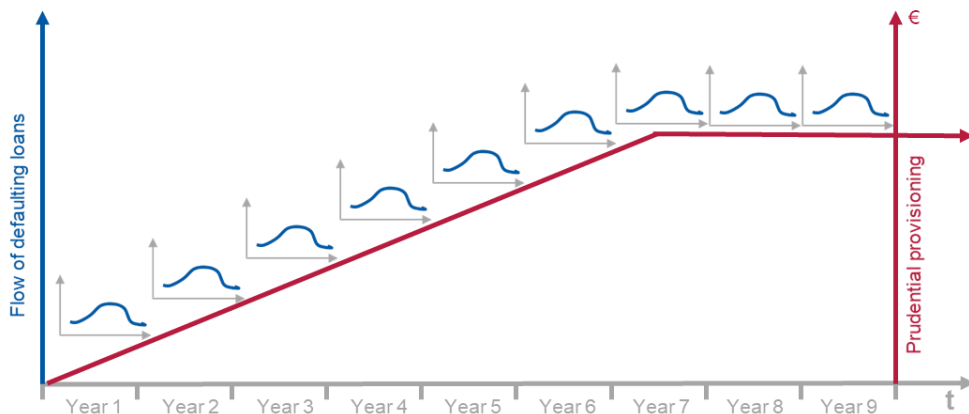
Strong capital position

Strong capital position  
but  
slower (excess) capital growth

## B Regulatory capital

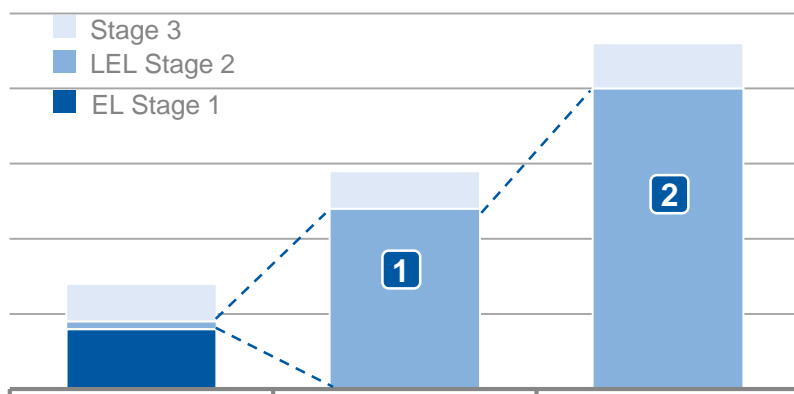
### What may come: future NPL regulatory provisioning

#### Buffersize for regulatory provisioning of future NPL's may vary



- What:** Anticipating impact of ECB guidelines of risk provisioning for future NPL
- How:** 6 years pro rata build-up of buffer for regulatory required prudential provisioning depending on PD/LGD/fc period
- Impact:** Recognition in regulatory capital; slower growth of (excess) capital but already fully reflected in capital planning
- Dimension:** € 200 mn - € 300 mn

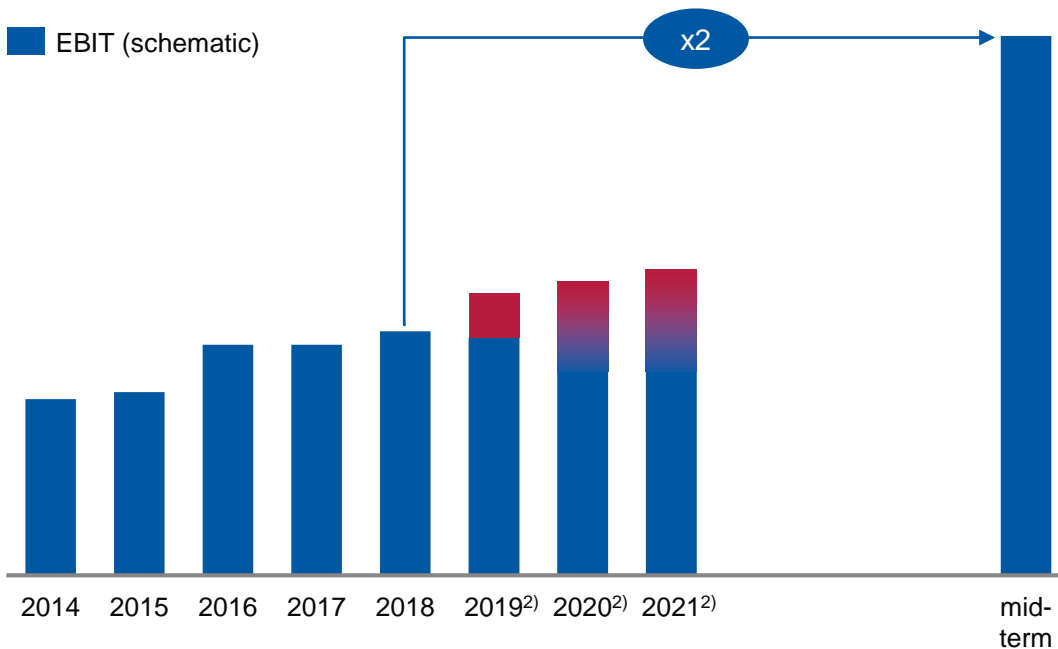
#### Modelling theoretical maximum of IFRS 9 Stage 2 sensitivity (CREF business)



- What:** IFRS 9 Stage 2 maximum shift, LLP dimension depending on rating development
- How:**
- 1** : Modelling an (unrealistic) theoretical case of 100% loan volume migrating to stage 2
  - 2** : Additional shift of 1-2 rating classes
- Impact:** Recognition in P/L
- Dimension:** Even in the absolute extreme scenario "only" € 150 – 200 mn additional LLPs would be required, hence all potential macro downturn scenarios digestible by Aareal's strong profit generation capacity

# C Aareon

## Pushing digital business to accelerate growth – self-funded from underlying operational growth



1) For the institutional housing industry  
2) EBIT pre and after impact from new Digital Business

### Phase 1

- European No. 1 ERP provider building on a stable client base, migration from GES to Wodis Sigma completed

### Phase 2




- Implementing ERP-near digital solutions to support the housing industry in their digitization strategy

### Phase 3

- Push digital business by increased R&D budget and opportunistic M&A
- Keep ERP as a stable anchor
- Increase consulting efficiency

# C Aareon

## Pushing digital business to accelerate growth

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



## **C** Aareon Pushing digital business to accelerate growth

### Key parameters

- Aareon will build on:
  - **Home Market** – Digital business with our current ERP client base
  - **Corresponding Markets** – Digital services for clients from industries with potential beyond housing / with similar processes
  - **Start-ups and Ventures** – Creating new digital solutions
- **R&D spend up** temporarily from 16% to ~25% of Aareon revenues (excl. Consulting) to support Phase 3
- **Digital initiative will be self-funded** from Aareon's underlying operational growth
- **EBIT** expected to remain above **levels higher than € 30 mn** throughout investment period
- First digital initiatives already started, leveraging the ERP client base
- Parallel to digital initiatives **Aareon will maintain its underlying growth plan**

## Conclusion

Strategy 2020 remains valid; business model provides for inherent optionalities to achieve mid-term  $\geq 12\%$  RoE target



### We have prepared ourselves well and built up numerous optionalities

- ✓ Strong market position in our business segments
- ✓ Strong capital and funding base...
- ✓ ...and P&L power to support growth in relevant areas



### We react adequately on environmental changes – hence focus in 2019 will be on

- Safeguarding our backbone SPF
- ↻ Self-funded growth of digital business...
- ↗ ...thereby increasing share of equity-light commission income...



... preparing to achieve our mid-term („2020 plus“)  $\geq 12\%$  RoE target even in a continuously low interest rate environment

We will continue reviewing our strategy and optionalities – and react if and when we deem appropriate



# Appendix

Extraction from: Aareon Investor Seminar

# Outlook

We aim at doubling EBITDA in mid-term

	FY16	FY17	FY18	Mid-term
Revenue growth	5% <sup>(1)</sup>	7% <sup>(1)</sup>		7% - 9% CAGR
Digital revenue growth	12%	16%		22% - 25% CAGR
% R&D spend (of software revenue <sup>(2)</sup> )	18%	19%	20%	20% Short-term up to 25%
Adj. EBITDA margin	20%	20%	21%	25% - 27% <sup>(3)</sup>

All % delta figures calculated on exact figures in €

1) Revenue grew inorganically by 4% from FY16 to FY17 and by 3% from FY17 to FY18

2) Software revenues = SaaS, maintenance and license revenue

3) Excluding IFRS 16

# KPIs as milestones for developing Aareon in line with three phase model

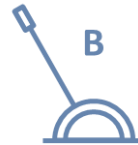
## Drive ERP adoption and international expansion



**KPIs: Revenue growth and RPU**

- Retain / expand current customer base
- Deliver on customer requirements
- Provide ongoing support

## Develop digital solutions



**KPIs: Digital revenues growth and RPU**

- Grow share of wallet
- Develop new features / products
- Provide training and support

## Drive digital solutions business and foster innovation



**KPIs: Digital revenue growth and new products**

- Win new customers
- Enter new markets
- Develop new products / channels



Appendix  
Dividend policy

# Dividend policy<sup>1)</sup>

## Confirmed

### Base dividend

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

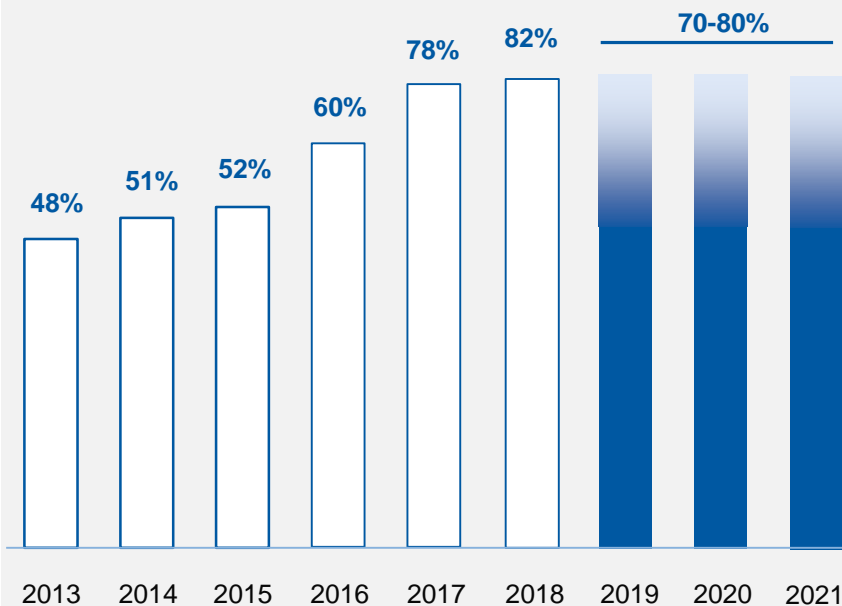
### Supplementary dividend

In addition, we plan to distribute **supplementary dividends, started in 2016 with 10% increasing up to 20-30% of the EpS**

#### Prerequisites:

- No material deterioration of the environment (with longer-term and sustainably negative effects)
- Neither attractive investment opportunities nor positive growth environment

### Payout ratio 2013 - 2021



1) The future dividend policy applies provided that the dividend payments resulting from it are consistent with a long-term and sustained business development of Aareal Bank AG. In addition, the dividend payments are subject to the proviso that corresponding dividend proposals have been made by the Management Board and the Supervisory Board for the respective year.





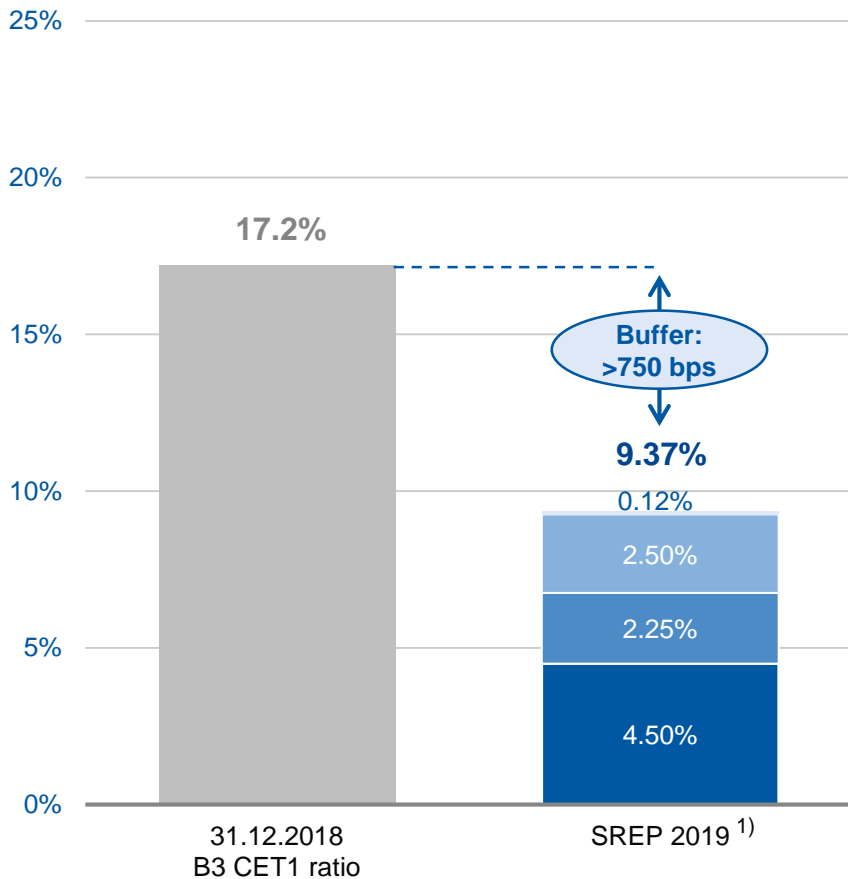
Appendix  
SREP



# SREP (CET 1) requirements

## Demonstrating conservative and sustainable business model

### B3 CET1 ratio vs. SREP (CET1) requirements



- Corresponding total capital requirement 2019 (Overall Capital Requirement (OCR) incl. buffers) amounts to 12.87%
- As of 31. December 2018 total capital ratio amounts to 26.2% and includes TRIM effects and prudential provisioning

- Countercyclical Buffer
- Capital Conservation Buffer
- Pillar 2 Requirement
- Pillar 1 Requirement

1) SREP-CET1 Requirements incl. buffers (Capital Conservation and Countercyclical)



# Appendix

AT1: ADI of Aareal Bank AG

# Interest payments and ADI of Aareal Bank AG

## Available Distributable Items (as of end of the relevant year)

	31.12. 2014	31.12. 2015	31.12. 2016	31.12. 2017	31.12. 2018
€ mn					
Net Retained Profit	77	99	122	147	126
▪ Net income	77	99	122	147	126
▪ Profit carried forward from previous year	-	-	-	-	-
▪ Net income attribution to revenue reserves	-	-	-	-	-
+ Other revenue reserves after net income attribution	715	720	720	720	720
= Total dividend potential before amount blocked <sup>1)</sup>	792	819	842	870	846
./. Dividend amount blocked under section 268 (8) of the German Commercial Code	240	287	235	283	268
./. Dividend amount blocked under section 253 (6) of the German Commercial Code	-	-	28	35	42
= Available Distributable Items <sup>1)</sup>	552	532	579	552	536
+ Increase by aggregated amount of interest expenses relating to Distributions on Tier 1 Instruments <sup>1)</sup>	57	46	46	32	24
= Amount referred to in the relevant paragraphs of the terms and conditions of the respective Notes as being available to cover Interest Payments on the Notes and Distributions on other Tier 1 Instruments <sup>1)</sup>	609	578	625	584	560

1) Unaudited figures for information purposes only



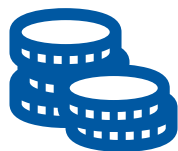
Appendix  
Sustainability Performance

# Aareal Bank Group

## Stands for solidity, reliability and predictability

### Doing business sustainably

Development of Return on Equity<sup>1)</sup> demonstrates financial strength



16.7% Common Equity Tier 1 ratio<sup>2)</sup>, significantly exceeding the statutory requirements



€ 27.3 bn Valuable Real Estate Finance Portfolio<sup>3)</sup>



Digital solutions boost our client's sustainability records



Above average results in sustainability ratings



Covered Bonds<sup>4)</sup> with best possible ratings – also attractive from an ESG point of view<sup>5)</sup>

MOODY'S INVESTORS SERVICE



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



Preparations for future disclosure requirements (EU Action Plan)



1) Pre-tax RoE of 11.6% as at 31.12.2018

2) Basel 3, as at 31.03.2019

3) REF-portfolio includes private client business (€ 0.5 bn) and WIB's public sector loans (€ 0.4 bn), as at 31.03.2019

4) Mortgage Pfandbriefe rated Aaa by Moody's

5) imug classified mortgage Pfandbriefe as recommendable investments with regard to ESG aspects (BBB), without DHB

# Sustainability data

## Extends the financial depiction of the Group

### Key takeaways at a glance



#### Transparent Reporting – facilitating informed investment decisions

- “COMBINED SEPARATE NON-FINANCIAL REPORT 2018 FOR AAREAL BANK AG” and SUSTAINABILITY REPORT 2018 “SETTING MILESTONES. CREATING PROSPECTS.” has been published on March 28, 2019
- PwC performed a limited assurance review



#### Sustainability Ratings – confirming the company’s sustainability performance

MSCI	Aareal Bank Group with “AA Rating” in highest scoring range for all companies assessed relative to global peers reg. Corporate Governance practices <a href="#">[as per 01/2018]</a>
ISS-oekom	Aareal Bank Group holds “prime status”, ranking among the leaders in its industry <a href="#">[since 2012]</a>
Sustainalytics	Aareal Bank Group was classified as “outperformer”, ranking among the best 17% of its industry <a href="#">[as per 02/2017]</a>
CDP	Aareal Bank AG has received a score of B- which is within the Management band. This is equal to the General average of B- and equal to the Europe regional average of B-. <a href="#">[Report 2018]</a>
imug	Aareal Bank was rated “positive BB” in the category “Issuer Performance”; the second best result of all 60 rated Banks <a href="#">[as per 05/2018]</a>





Appendix  
Introduction Aareal Bank

**Aareal**

# Aareal Bank Group

## Key messages

- Aareal is a leading finance and service provider to international property markets offering tailor-made products to a stable customer base within its two pillar business model focusing on
  - Structured Property Financing (SPF):  
Aareal provides low-risk commercial real estate financing solutions focusing on different property types in Europe, North-America and Asia/Pacific
  - Consulting/Services (C/S):  
Within the C/S segment Aareal is #1 provider of ERP solutions to the German and European institutional housing industry and additionally offering transaction banking services to the German housing market and related industries
- Aareal's balance sheet has a sound structure with a high quality and a well diversified credit portfolio, a stable deposit base and a sustainable long-term refinancing mix as well as a solid capital base
- Aareal is an independent publicly listed (MDAX) mid-sized company with high flexibility and adaptability
- The Aareal business model provides stable revenues and a risk management with a positive track record even under in an adverse market environment



# Aareal Bank Group

## One Bank – two segments

**QUALITY<sup>®</sup>**  
made by **AAREAL**

### Structured Property Financing

International presence and business activities on three continents: Europe, North America, Asia / Pacific

Providing commercial real estate financing solutions in more than 20 countries and different property types (hotel, logistic, office, retail, residential, student housing)

Additional industry experts in hotels, logistics and retail properties

Total real estate finance portfolio<sup>1)</sup>: ~ € 27 bn

### Consulting / Services for the property industry

Market-leading IT systems for the management of residential and commercial properties in Europe

Integrated payment transaction system for the housing industry (market-leading) and the utility sector

More than 10 mn units under management in Europe, thereof ~ 6 mn in the key market Germany

International presence:  
France, the Netherlands, the UK and Scandinavia

1) REF-portfolio incl. private client business (€ 0.5 bn) and WIB's public sector loans (€ 0.4 bn)

# Aareal Bank Group

One Bank – two segments – three continents



International property financing in more than 20 countries –  
Europe, North America and Asia / Pacific

# Structured Property Finance

## Specialist for specialists

### Aareal Bank Group Structured Property Finance

- Cash-flow driven collateralised business
  - Focus on senior lending
  - Based on first-ranking mortgage loans
- Typical products, e.g.:
  - Single asset investment finance
  - Portfolio finance (local or cross-border /-currency)
  - Value add-finance
- In-depth know-how in local markets and special properties
  - Local expertise at our locations
  - Additional industry expertise (head offices)
- International experience with employees from more than 30 nations



# Consulting / Services

High customer overlap with substantial cross-selling effects

## Aareal Bank Group Consulting / Services

### Aareon Group: IT Services

- Market-leading European IT-system house for the (ERP based) management of residential and commercial property portfolios
- ~ 60% market share in German key market with ~6 mn units under management
- Comprehensive range of integrated services and consulting

### Aareal Bank: Transaction banking

- Market-leading integrated payment transaction systems for the housing industry
- Key clients: large size property owners / managers and utility companies
- ~100 mn transactions p.a. (volume: ~€ 50 bn)
- Ø deposit volume of € 10.6 bn in Q1 2019

### Strategic Management of residential portfolios

- Planning, Controlling, Steering
- Portfolio Management

### Administrative Management of residential portfolios

- Tenant Management
- Flat Management
- Maintenance
- Accounting



- Refurbishments
- New Developments

### Construction Management of residential portfolios

- Mass payments
- Cash Management
- Creditor and Debtor Management

### Financial Management of residential portfolios



# Definitions and contacts

# Definitions

- **New Business** = Newly acquired business + renewals
- **Common Equity Tier 1 ratio** = 
$$\frac{\text{CET1}}{\text{Risk weighted assets}}$$
- **Pre tax RoE** = 
$$\frac{\text{Operating profit ./. income/loss attributable to non-controlling interests ./. AT1 coupon}}{\text{Average IFRS equity excl. non-controlling interests, other reserves, AT1 and dividends}}$$
- **CIR** = 
$$\frac{\text{Admin expenses}}{\text{Net income}}$$
- **Net income** = net interest income + net commission income + net result on hedge accounting + net trading income + results from non-trading assets + results from investments accounted for at equity + results from investment properties + net other operating income
- **Net stable funding ratio** = 
$$\frac{\text{Available stable funding}}{\text{Required stable funding}}$$
- **Liquidity coverage ratio** = 
$$\frac{\text{Total stock of high quality liquid assets}}{\text{Net cash outflows under stress}}$$
- **Earnings per share** = 
$$\frac{\text{operating profit ./. income taxes ./. income/loss attributable to non controlling interests ./. net AT1 coupon}}{\text{Number of ordinary shares}}$$
- **Yield on Debt** = 
$$\frac{\text{Net operating income (NOI) x 100}}{\text{Current commitment incl. prior / pari-passu loans}}$$
- **CREF-portfolio** = Commercial real estate finance portfolio excl. private client business and WIB's public sector loans
- **REF-portfolio** = Real estate finance portfolio incl. private client business and WIB's public sector loans

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