

# Setting milestones. Creating prospects.

Aareal Bank Group – Interim Financial Information  
1 January to 30 September 2019



**Aareal Bank  
Group**

## Key Indicators

	1 Jan - 30 Sep 2019	1 Jan - 30 Sep 2018
<b>Results</b>		
Operating profit (€ mn)	186	199
Consolidated net income (€ mn)	121	131
Consolidated net income allocated to ordinary shareholders (€ mn) <sup>1)</sup>	107	117
Cost/income ratio (%) <sup>2)</sup>	42.2	41.8
Earnings per ordinary share (€) <sup>1)</sup>	1.80	1.97
RoE before taxes (%) <sup>1) 3)</sup>	8.7	9.7
RoE after taxes (%) <sup>1) 3)</sup>	5.6	6.3

	30 Sep 2019	31 Dec 2018
<b>Statement of Financial Position</b>		
Property finance (€ mn) <sup>4)</sup>	27,139	26,395
Equity (€ mn)	2,817	2,928
Total assets (€ mn)	43,155	42,687
<b>Regulatory Indicators<sup>5)</sup></b>		
Risk-weighted assets (€ mn)	12,656	13,039
Common Equity Tier 1 ratio (CET1 ratio) (%)	17.1	17.2
Tier 1 ratio (T1 ratio) (%)	19.5	19.5
Total capital ratio (TC ratio) (%)	26.7	26.2
Common Equity Tier 1 ratio (CET1 ratio) (%) – Basel IV (estimated) <sup>6)</sup>	12.6	13.2
<b>Employees</b>	2,816	2,748

	30 Sep 2019	31 Dec 2018
<b>Moody's</b>		
Issuer rating	A3	A3
Senior Preferred <sup>7)</sup>	A3	A3
Senior Non Preferred <sup>8)</sup>	Baa1	Baa1
Bank deposit rating	A3	A3
Mortgage Pfandbrief Rating	Aaa	Aaa
<b>Fitch Ratings<sup>9)</sup></b>		
Issuer default rating	A-	A-
Senior Preferred	A	A
Senior Non Preferred	A-	A-
Deposit ratings	A	A
<b>Sustainability Ratings<sup>10)</sup></b>		
MSCI	AA	AA
ISS-oekom	prime (C)	prime (C)
Sustainalytics	69	70

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

<sup>2)</sup> Structured Property Financing segment only

<sup>3)</sup> On an annualised basis

<sup>4)</sup> 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)

<sup>5)</sup> When calculating own funds as at 30 September 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.

<sup>6)</sup> 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.).

<sup>7)</sup> Moody's terminology: "Senior Unsecured"

<sup>8)</sup> Moody's terminology: "Junior Senior Unsecured"

<sup>9)</sup> Published on 21 January 2019

<sup>10)</sup> Please refer to our website ([www.aareal-bank.com/en/responsibility/reporting-on-our-progress/](http://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

---

<b>Key Indicators</b>	<b>2</b>
<b>Business Development</b>	<b>4</b>
Key Events and Transactions	4
Report on the Economic Position	4
Financial Performance	4
Financial Position – Assets	6
Liquidity Position – Equity and Liabilities	7
Report on Changed Forecasts	7
Events after the Reporting Date	7
Segment Results	8
<b>Financial Calendar</b>	<b>9</b>
<b>Imprint</b>	<b>9</b>

## Business Development

### Key Events and Transactions

There have been no other material events during the period under review that need to be disclosed at this point.

### Report on the Economic Position

#### Financial Performance

	1 Jan - 30 Sep 2019	1 Jan - 30 Sep 2018	Change
	€ mn	€ mn	%
Net interest income	403	400	1
Loss allowance	55	33	67
Net commission income	164	152	8
Net derecognition gain or loss	42	16	163
Net gain or loss from financial instruments (fvpl)	5	-1	-600
Net gain or loss from hedge accounting	-4	-2	100
Net gain or loss from investments accounted for using the equity method	0	-	
Administrative expenses	370	344	8
Net other operating income/expenses	1	11	-91
Negative goodwill from acquisitions	-	-	
<b>Operating profit</b>	<b>186</b>	<b>199</b>	<b>-7</b>
Income taxes	65	68	-4
<b>Consolidated net income</b>	<b>121</b>	<b>131</b>	<b>-8</b>
Consolidated net income attributable to non-controlling interests	2	2	0
Consolidated net income attributable to shareholders of Aareal Bank AG	119	129	-8
<b>Earnings per share (EpS)</b>			
Consolidated net income attributable to shareholders of Aareal Bank AG <sup>1)</sup>	119	129	-8
of which: allocated to ordinary shareholders	107	117	-9
of which: allocated to AT1 investors	12	12	
Earnings per ordinary share (in €) <sup>2)</sup>	1.80	1.97	-9
Earnings per AT1 unit (in €) <sup>3)</sup>	0.12	0.12	

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

<sup>2)</sup> 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.

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

---

Consolidated operating profit for the first nine months of 2019 amounted to € 186 million (9m 2018: € 199 million) and was thus in line with our expectations. The increase in administrative expenses and loss allowance expected to result from the accelerated de-risking were compensated for by higher commission income and an increase in net derecognition gain.

At € 403 million, net interest income stabilised as planned and was in line with the comparative figure for the previous year (9m 2018: € 400 million).

Loss allowance amounted to € 55 million (9m 2018: € 33 million), exceeding our original expectations due to the accelerated de-risking; we have raised our forecast accordingly.

Net commission income increased to € 164 million (9m 2018: € 152 million), as expected – this was mainly due to higher sales revenue at Aareon.

The net derecognition gain of € 42 million (9m 2018: € 16 million) exceeded our original expectations; it was mainly driven by adjustments to our securities portfolio; we have raised our forecast accordingly.

The aggregate of net gain or loss from financial instruments (fvpl) and from hedge accounting of € 1 million (9m 2018: €-3 million) resulted largely from the measurement changes of other derivatives (fvpl) used to hedge interest rate and currency risks.

Administrative expenses increased as expected, to € 370 million (9m 2018: € 344 million), in particular due to running costs, integration expenses incurred in conjunction with the integration of former Düsseldorf Hypothekenbank AG (Düsselhyp), and Aareon's business expansion.

Aareal Bank Group's consolidated operating profit for the first nine months of the financial year totalled € 186 million (9m 2018: € 199 million). Taking into consideration tax expenses of € 65 million and non-controlling interest income of € 2 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 119 million (9m 2018: € 129 million). Assuming the pro rata temporis accrual of net interest payments on the ATI bond, consolidated net income allocated to ordinary shareholders stood at € 107 million (9m 2018: € 117 million). Earnings per ordinary share amounted to € 1.80 (9m 2018: € 1.97) and return on equity (RoE) before taxes stood at 8.7% (9m 2018: 9.7%).

## Financial Position – Assets

	30 Sep 2019	31 Dec 2018
€ mn		
<b>Assets</b>		
<b>Financial assets (ac)</b>	<b>34,748</b>	<b>34,702</b>
Cash funds	1,024	1,265
Loan receivables	26,736	26,795
Money market and capital market receivables	6,911	6,578
Receivables from other transactions	77	64
Loss allowance (ac)	-541	-577
<b>Financial assets (fvoci)</b>	<b>4,096</b>	<b>4,450</b>
Money market and capital market receivables	4,091	4,443
Equity instruments	5	7
<b>Financial assets (fvpl)</b>	<b>3,809</b>	<b>3,183</b>
Loan receivables	1,498	711
Money market and capital market receivables	133	538
Positive market value of designated hedging derivatives	1,682	1,277
Positive market value of other derivatives	496	657
Non-current assets held for sale	16	–
Investments accounted for using the equity method	8	7
Intangible assets	170	158
Property and equipment	312	260
Income tax assets	9	30
Deferred tax assets	176	141
Other assets	352	333
<b>Total</b>	<b>43,155</b>	<b>42,687</b>

Aareal Bank Group's consolidated total assets of € 43.2 billion were up slightly from the previous year-end, resulting from an increase in the property financing portfolio to € 27.1 billion (31 December 2018: € 26.4 billion). The Group originated € 6.0 billion in new business during the first nine months of the year (9m 2018: € 6.1 billion).

Capital market receivables declined due to sales of securities, particularly from the portfolio of former Düsseldorf.

Aareal Bank Group's consolidated equity and liabilities of € 43.2 billion were up slightly from the previous year-end. Money market and capital market liabilities were down slightly, whilst negative market values of derivatives increased.

Aareal Bank Group successfully raised € 2.9 billion on the capital markets during the first nine months of 2019. This figure included two euro-denominated benchmark Mortgage Pfandbrief transactions sized at € 0.75 billion and € 0.5 billion, and one USD 0.6 billion benchmark Mortgage Pfandbrief issue. We also placed a senior preferred € 0.5 billion benchmark issue with national and international investors. The Liquidity Coverage Ratio (LCR) exceeded 150% on the reporting days during the period under review.

## Financial Position – Equity and Liabilities

	30 Sep 2019	31 Dec 2018
€ mn		
<b>Equity and liabilities</b>		
<b>Financial liabilities (ac)</b>	<b>36,988</b>	<b>37,215</b>
Money market and capital market liabilities	26,197	26,371
Deposits from the housing industry	9,637	9,679
Liabilities from other transactions	155	121
Subordinated liabilities	999	1,044
<b>Financial liabilities (fvpl)</b>	<b>2,665</b>	<b>1,934</b>
Negative market value of designated hedging derivatives	1,861	1,461
Negative market value of other derivatives	804	473
Provisions	602	519
Income tax liabilities	25	40
Deferred tax liabilities	25	18
Other liabilities	33	33
<b>Equity</b>	<b>2,817</b>	<b>2,928</b>
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,771	1,797
AT1 bond	300	300
Other reserves	-157	-72
Non-controlling interests	2	2
<b>Total</b>	<b>43,155</b>	<b>42,687</b>

## Report on Changed Forecasts

We have further expedited the intended accelerated de-risking, recognising approximately € 30 million in loss allowance in this connection. Accordingly, the anticipated range for full-year loss allowance has been increased to between € 80 million and € 110 million. At the same time, we now anticipate net derecognition gain of between € 40 million and € 60 million for 2019, which is considerably higher than the original estimate.

Despite the burdens from accelerated de-risking and further deterioration in the interest rate environment, we continue to anticipate consolidated operating profit for the current year in the communicated range between € 240 million and € 280 million, albeit at the lower end of this range. Accordingly, RoE before taxes and earnings per share (EpS) are likely to be the lower end of the ranges of 8.5 % to 10 % and of around € 2.40 to € 2.80, respectively. We cannot exclude any further burdens in the event of any further opportunities arising for an accelerated de-risking.

From today's perspective, the volume of new business is likely to be at the upper end of the € 7 billion to € 8 billion communicated range.

We affirm the remaining Group targets without changes.

## Events after the Interim Reporting Period

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

## Segment Results

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 30 Sep 2019	1 Jan - 30 Sep 2018	1 Jan - 30 Sep 2019	1 Jan - 30 Sep 2018	1 Jan - 30 Sep 2019	1 Jan - 30 Sep 2018	1 Jan - 30 Sep 2019	1 Jan - 30 Sep 2018
€ mn								
Net interest income <sup>1)</sup>	414	409	-11	-9	0	0	403	400
Loss allowance	55	33	0	0			55	33
Net commission income <sup>1)</sup>	6	6	163	150	-5	-4	164	152
Net derecognition gain or loss	42	16					42	16
Net gain or loss from financial instruments (fvpl)	5	-1					5	-1
Net gain or loss from hedge accounting	-4	-2					-4	-2
Net gain or loss from investments accounted for using the equity method			0				0	
Administrative expenses	195	182	180	166	-5	-4	370	344
Net other operating income/expenses	0	9	1	2	0	0	1	11
Negative goodwill from acquisitions								
<b>Operating profit</b>	<b>213</b>	<b>222</b>	<b>-27</b>	<b>-23</b>	<b>0</b>	<b>0</b>	<b>186</b>	<b>199</b>
Income taxes	74	77	-9	-9			65	68
<b>Consolidated net income</b>	<b>139</b>	<b>145</b>	<b>-18</b>	<b>-14</b>	<b>0</b>	<b>0</b>	<b>121</b>	<b>131</b>
Consolidated net income attributable to non-controlling interests	0	0	2	2			2	2
Consolidated net income attributable to shareholders of Aareal Bank AG	139	145	-20	-16	0	0	119	129
Allocated equity <sup>2)</sup>	2,131	2,045	205	177	225	263	2,561	2,485
Cost/income ratio (%)	42.2	41.8	117.4	115.3			60.5	59.7
RoE before taxes (%) <sup>2)3)4)</sup>	12.2	13.3	-18.5	-18.2			8.7	9.7

<sup>1)</sup> 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.

<sup>2)</sup> Equity allocated to the Structured Property Financing segment for the same period of the previous year was adjusted to bring it into line with Basel IV; RoE before taxes was thus also changed accordingly.

<sup>3)</sup> On an annualised basis

<sup>4)</sup> The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

# Financial Calendar

---

26 February 2020	Preliminary results for the 2019 financial year
End of March 2020	Publication of annual report as at 31 December 2019
12 May 2020	Publication of results as at 31 March 2020
27 May 2020	Annual General Meeting – Kurhaus, Wiesbaden
13 August 2020	Publication of results as at 30 June 2020
12 November 2020	Publication of results as at 30 September 2020

---

## Imprint

### Contents:

Aareal Bank AG, Corporate Communications

### Design / Layout:

S/COMPANY · Die Markenagentur GmbH, Fulda, Germany



**Aareal Bank AG**  
Investor Relations  
Paulinenstrasse 15  
65189 Wiesbaden, Germany

Phone: +49 611 348 3009  
Fax: +49 611 348 2637

[www.aareal-bank.com](http://www.aareal-bank.com)



11/2019



**Aareal Bank  
Group**