



# To our Shareholders

Setting milestones. Creating prospects.

**35 To our Shareholders**

36 Letter from the Management Board

40 The Aareal Bank Share

**45 Group Management Report**

**127 Consolidated Financial Statements**

**243 Transparency**



from left:

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**Marc Hess**  
Member of the Management Board

**Dagmar Knopek**  
Member of the Management Board

**Hermann J. Merkens**  
Chairman of the Management Board

**Thomas Ortmanns**  
Member of the Management Board

**Christof Winkelmann**  
Member of the Management Board

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

# Letter from the Management Board

*Dear shareholders,  
Business associates and staff members,*

The 2018 financial year, which we will give an account of in this report, presented Aareal Bank Group – and our entire sector – with major challenges once again: whilst the economy has proved relatively robust to date, albeit less dynamic than in the previous year, the outlook became more clouded towards the year-end. The low interest rate environment persisted, a wide range of political uncertainties increasingly overshadowed global economic affairs, and competition intensified further in our most important markets. The conditions under which we operate turned even more difficult – not least due to persistently high regulatory requirements.

In this challenging environment, Aareal Bank Group remained on its positive trajectory during 2018, thus following on seamlessly from the previous successful years. And that was not all: we have taken further important steps to cement our way to a sustainable and successful future. Our Company remains in a good shape today, and we are prepared to meet the challenges that lie ahead: robustly and soundly capitalised, even taking into account (or in anticipation of) all current and foreseeable regulatory projects, profitable in the operating business, regardless of all uncertainties and adversities, and strategically well positioned in all of this.

The good figures of the previous financial year are once again an impressive testimony to this. At € 316 million, consolidated operating profit, which is our central operating indicator, was within the previously communicated target corridor of € 312 million to € 352 million that had already been increased. As previously announced, this result includes a positive non-recurring item (negative goodwill) in the amount of € 55 million from the acquisition of Düsseldorf Hypothekenbank AG (Düsselhyp), a transaction that was closed at the end of 2018, with all material financial indicators being in line with our forecasts. The return on equity before taxes, including the Düsselhyp effect, exceeded the original target range. We were able to increase the earnings allocated to ordinary shareholders by 9 per cent over the previous year.

Aareal Bank wants its shareholders to once again participate adequately in a good result. The Management Board and the Supervisory Board will therefore propose at the Annual General Meeting – to be held on 22 May 2019 – to pay a dividend of € 2.10 per share. Based on the earnings per ordinary share (excluding the non-recurring Düsseldorf effect), this distribution equates to a payout ratio of 82 per cent; the ratio is thus at the upper end of the spread of 70 to 80 per cent that had been announced. Furthermore, our proposal generates a dividend yield of around 7.8 per cent, based on the 2018 year-end price. In our view, the payout is therefore attractive.

Our dividend proposal for 2018 strikes a balance between our shareholders' interests on the one hand – and the increasingly uncertain market environment on the other hand. At the same time, it allows us to take advantage of the potential and opportunities that present themselves to our Company. Even though we cannot be satisfied with the share price performance in 2019, this has predominantly been influenced by the general business environment in which we – and other European banks – operate.

In our operative business, we seized opportunities which arose for the Company in 2018, in both segments. This included the value-creating acquisition of Düsseldorf, for example. In the Structured Property Financing segment, we not only expanded our credit exposure in North America. We also enlarged our geographical footprint with first steps such as our market entry in Australia, and explored new asset classes such as student housing. At the same time, we maintained our syndication activities at a high level. Likewise, we continued to advance our digitalisation campaign, positioning ourselves with our investment in BrickVest, a leading European online platform for commercial property investments.

We also reported strong new business in our established financing business, which significantly exceeded the target corridor we had announced. As a result, we were able to moderately expand our loan portfolio. Last year's controlled portfolio growth also represented an efficient use of surplus capital, with targeted margins that remained good, yet without compromising quality.

In the Consulting/Services segment, our IT subsidiary Aareon further consolidated its market leadership in the area of ERP products, whilst successfully marketing its growing portfolio of digital solutions. Aareal Bank also recently acquired plusForta GmbH, a market-leading broker of tenant deposit guarantees in Germany, thereby strengthening its digital solutions offering for the housing industry and the housing industry's clients.

All in all, we can claim to have set the right course with our "Aareal 2020" programme for the future, and to have made significant progress again last year in the implementation process. We thus considerably improved our starting point for future growth in line with our strategy.

What are the focal points we are setting now for the current year – both operative and strategic?

Having built a strong foundation in 2018, with strong new business origination, we can operate selectively in structured property financing in an increasingly difficult market environment. Our main focus will be on maintaining our property lending volumes 2019, in line with the level at the 2018 year-end. Our broad-based position allows us to allocate new business to the markets and asset classes offering the most attractive risk/return profile, while adhering to our conservative risk policy at the same time. Nonetheless, Aareal Bank is – and remains – ready to provide financing solutions on all of its key markets.

Our focus in the Consulting/Services segment in 2019 will be on significantly accelerating Aareon's growth in digital products and solutions. We already generated double-digit growth rates in digital products in previous years, having firmly established ourselves as a high-profile point of contact beyond the traditional ERP business – with our existing client base as well as with new clients. On this basis, we are now expanding with a dedicated investment programme, whereby significant additional investment resources will be made available, primarily for internally-developed digital products, in order to accelerate growth. Thanks to the performance levels achieved, together with the underlying growth, Aareon will be in a position to finance these additional initiatives internally. As in the past, growth will be supported by targeted acquisitions. These measures aim at considerably helping to double Aareon's earnings contribution over the medium term – that is, until 2025.

As was outlined in "Aareal 2020", our earnings mix at Group level will continue to shift increasingly in favour of net commission income. Accordingly, Aareon's contribution will grow noticeably, as will the contribution of non-interest business in the Consulting/Services segment.

The continued expansion of initiatives launched with "Aareal 2020" is our response today to a business framework which we believe will not change favourably for Aareal Bank Group and the banking sector over the medium-term. Higher capital requirements and the persistent low-interest rate environment are key aspects in this connection. Thanks to these initiatives, we will be in a position to maintain our medium-term target return on equity of at least 12 per cent before taxes – despite burdens on income from said factors and additional investment.

We anticipate various special effects to materialise in 2019. Besides the integration costs associated with Düsseldorf, Aareal Bank's investment programme will have a burdening effect. Moreover, the prevailing low-interest rate environment – as well as the fact that Düsseldorf's portfolio is slightly smaller than originally anticipated – will impact net interest income. Nonetheless, we are confident that we will once again achieve a good consolidated operating profit, in a range between € 240 million to € 280 million. This would mean that we maintain the earnings level of the past financial year, adjusted for negative goodwill – which would represent a great success in a deteriorating environment.

Our interim conclusion is that overall, we can look back at the previous year with satisfaction: we can look ahead to the current year with cautious optimism and undiminished confidence as regards our medium- and long-term prospects, as set out in our strategic programme. 2019 will continue to challenge us on the way to our strategic target, namely of being the leading provider of smart financing, software products and digital solutions for the property sector and related industries.

We would like to express our heartfelt gratitude for the confidence you have placed in us, and our chosen path, so far. I hope you will stay with us in the future too!

*Yours sincerely,* 

**Hermann J. Merkens**  
Chairman of the Management Board

# The Aareal Bank Share

## Investor Relations activities

As a listed public limited company included in the MDAX® index, Aareal Bank is subject to numerous disclosure obligations. Aareal Bank sees these as an opportunity to enter into open and constructive dialogue with analysts, investors and clients, as well as with the media.

This dialogue, greatly valued by Aareal Bank, is pursued diligently and intensively, regardless of the economic environment, and is considered a prerequisite for the long-term success as a publicly listed company. Only when company developments are discussed in a timely, open and transparent manner can market participants evaluate potential opportunities and risks that may result from market developments as well as from regulatory changes, and discuss them with Aareal Bank.

To this end, two conferences are held, among other things, in Frankfurt each year for analysts and the media, at which the Management Board presents the results of the financial year under review in great detail, and also provides a strategic outlook for the future, comprising the current financial year as well as the medium-term horizon ("Aareal 2020"). Aareal Bank also uses the quarterly publications conference calls as an opportunity to inform analysts, investors and the media about current Group developments.

In the course of the financial year under review, the Investor Relations team took part in ten international capital markets conferences and conducted 15 roadshows in Europe and the US and maintained market communication at a high level overall in 2018 too. Investors greatly appreciate the fact that Management Board members also regularly attend conferences and roadshows in order to be available for personal meetings.

In order to ensure access to timely, open and transparent information of relevance to the capital markets, Aareal Bank provides shareholders and analysts with detailed information on Aareal Bank Group and its two segments Structured Property Financing and Consulting/Services on its website at [www.aareal-bank.com](http://www.aareal-bank.com). Furthermore, published ad-hoc disclosures and press releases, financial reports, as well as current Investor Relations presentations, are available for download from our Investor Relations portal. The financial calendar offers an overview of the most important dates in the company calendar.

In the 2019 financial year, we will maintain our proactive communication with capital markets in order to further strengthen shareholders' confidence in the sustainable success of Aareal Bank Group's business model.

## Key data and indicators of the Aareal Bank share

	2018	2017
Share price (€) <sup>1)</sup>		
Year-end price	26.990	37.730
High	42.800	38.400
Low	26.010	33.710
Book value per ordinary share (€)	43.88	43.80
Dividends per ordinary share (€) <sup>3)</sup>	2.10	2.50
Earnings per ordinary share (€)	3.48	3.20
Price/earnings ratio <sup>2)</sup>	7.76	11.79
Dividend yield (%) <sup>2)</sup>	7.8	6.6
Market capitalisation (€ mn) <sup>2)</sup>	1,616	2,258

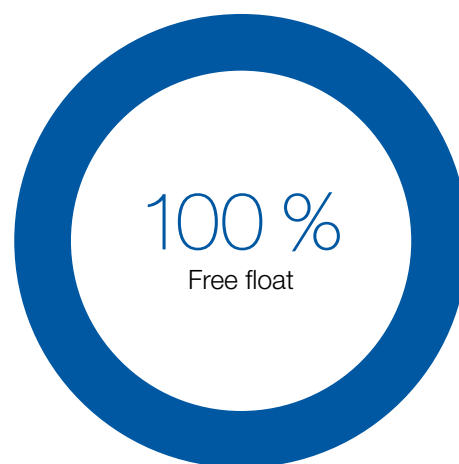
ISIN	DE 000 540 811 6
German Securities ID (WKN)	540 811
Mnemonic	
Deutsche Börse	ARL
Bloomberg (Xetra)	ARL GY
Reuters (Xetra)	ARL.DE
Issued share capital (number of bearer unit shares)	59,857,221

<sup>1)</sup> XETRA® closing prices <sup>2)</sup> Based on Xetra® year-end closing prices

<sup>3)</sup> 2018: Proposal to be submitted to the Annual General Meeting

## Shareholder structure

since 3 February 2015



## Analysts' opinions

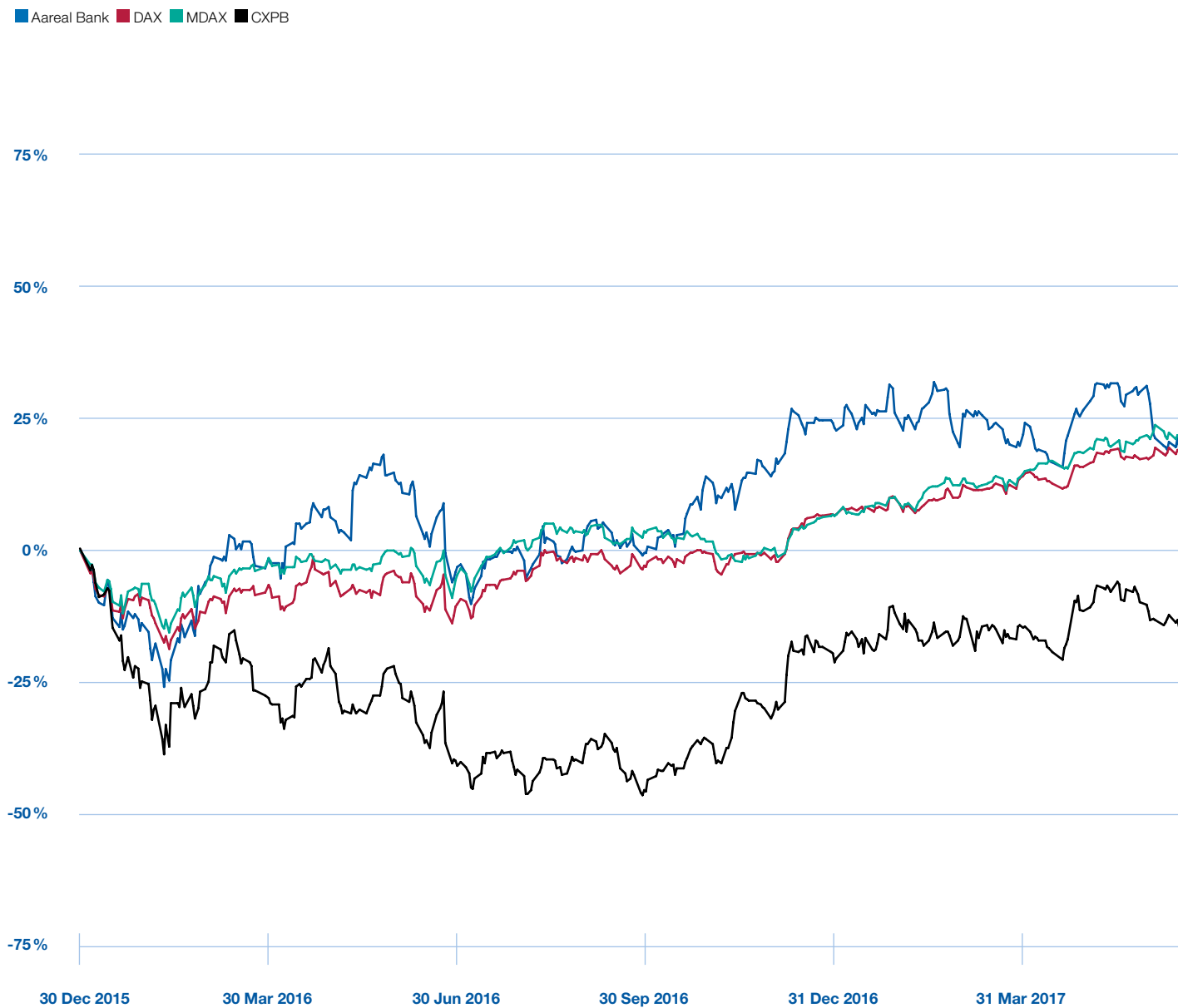
On top of the 14 brokerages and analyst firms that regularly covered Aareal Bank at the start of the financial year, another firm initiated coverage of Aareal Bank, so that at the end of 2018 the number of brokerages and analyst firms publishing independent studies and comments about developments at Aareal Bank Group rose to 15.

Having finished the 2017 financial year on a positive note, Aareal Bank also needed to meet expectations by market participants and analysts in 2018. Aareal Bank fulfilled these high expectations – currently six "buy" recommendations, compared with nine "neutral" recommendations, and no "sell" recommendations at the end of 2018.

We regularly update and publish the analysts' recommendations on our website [www.aareal-bank.com](http://www.aareal-bank.com) on the Investor Relations page.



# Relative performance of the Aareal Bank share price 2016 - 2018



**(1) 28 February 2018**

Aareal Bank Group proposes a marked increase in the dividend, from € 2.00 to € 2.50 per share, reflecting a strong financial year 2017

**(2) 28 March 2018**

Aareal Bank Group publishes its Annual Report 2017

**(3) 9 May 2018**

Aareal Bank Group posts a solid start to the 2018 financial year

**(4) 23 May 2018**

Annual General Meeting of Aareal Bank AG resolves to pay a dividend of € 2.50 per share for the 2017 financial year

**(5) 14 August 2018**

Aareal Bank Group maintains positive business development during the second quarter, affirms earnings forecast for the full year 2018

**(6) 10 September 2018**

Aareal Bank Group reaches agreement on the acquisition of Düsseldorfer Hypothekenbank AG (Düsselhyp) and raises the earnings forecast

**(7) 13 November 2018**

Aareal Bank Group affirms its raised full-year profit forecast, after successful third-quarter results

