

Roadshow Presentation

– Our plans beyond Aareal 2020 –

January 2020

Aareal

Agenda

- **Result 2019 / De-risking**
- Current environment
- Aareal 2020: Promised and delivered
- Aareal Next Level: Activate! Elevate! Accelerate!






Our priorities for Q4 2019 and what we have achieved – confirming FY 2019 operating profit guidance


Recap from the Q3 2019 result presentation:

Outlook 2019

Our priorities for the upcoming months

Highlights

- ➔ Finalising our Group-wide strategic review process, further developing our strategy beyond our successfully implemented and value creating program “Aareal 2020” 
- ➔ Execute on our growth strategy for Aareon as outlined in May 2019, including selectively assessing potential M&A opportunities 
- ➔ Internal pricing model and use of deposit base to be adjusted with substantial effects on segment results from 2020 onwards 
- ➔ CREF: Execute planned origination and syndications 
- ➔ Further NPL reduction to be expected in Q4/2019
➔ Opportunities for further accelerated de-risking will be assessed if they emerge, additional burdens cannot be excluded 

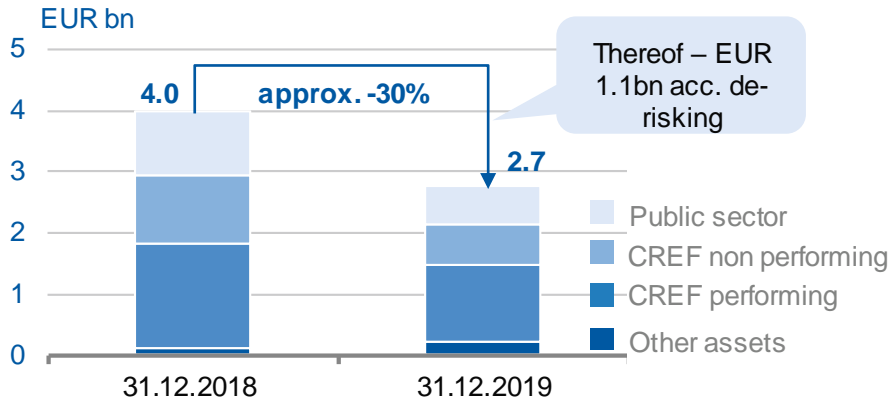
Confirming operating profit (EBT) guidance for 2019 of ≥ EUR 240m 

27

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40% NPL reduction achieved since 30.6.2019, supported by successful execution of accelerated de-risking program in Q4 2019

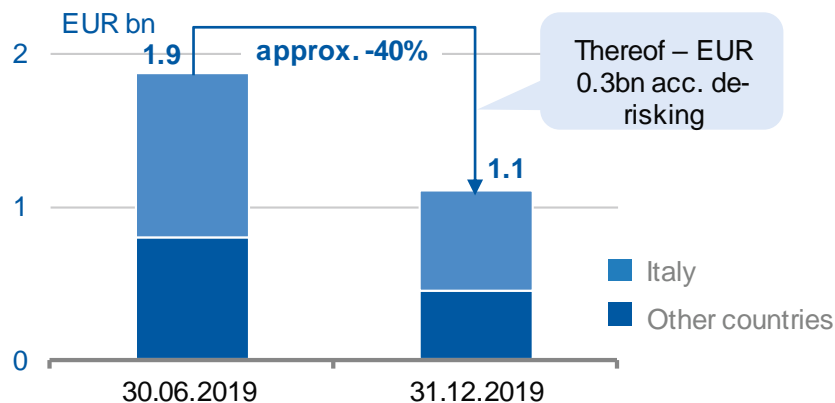
Italian exposure, FY2018-2019



Accelerated de-risking

- Program with focus on Italian portfolio, continued in Q4 with Italian credit risk further down by approx. EUR 0.6bn (thereof EUR 0.3bn NPL, EUR 0.3bn single borrower risk)
- Total effect from accelerated de-risking of approx. EUR 1.2bn* Italian credit risk in 2019
- P&L burden 2019 of approx. EUR 50m (EUR ~15m in Q4)

Non performing loans, H1 2019 – H2 2019



NPL reduction
















- In H2 2019 total NPL volume down by approx. 40%
- Italian NPL also down by approx. 40% in 2019 (includes a foreclosed Italian asset of approx. EUR 90m taken on own book for future development, not part of acc. de-risking)

* thereof EUR 350m NPL (in FY 2019, of which EUR 310 in H2 2019), EUR 350m single borrower risk, EUR 410m BTPs, EUR 80m NPL provisioned for future reduction

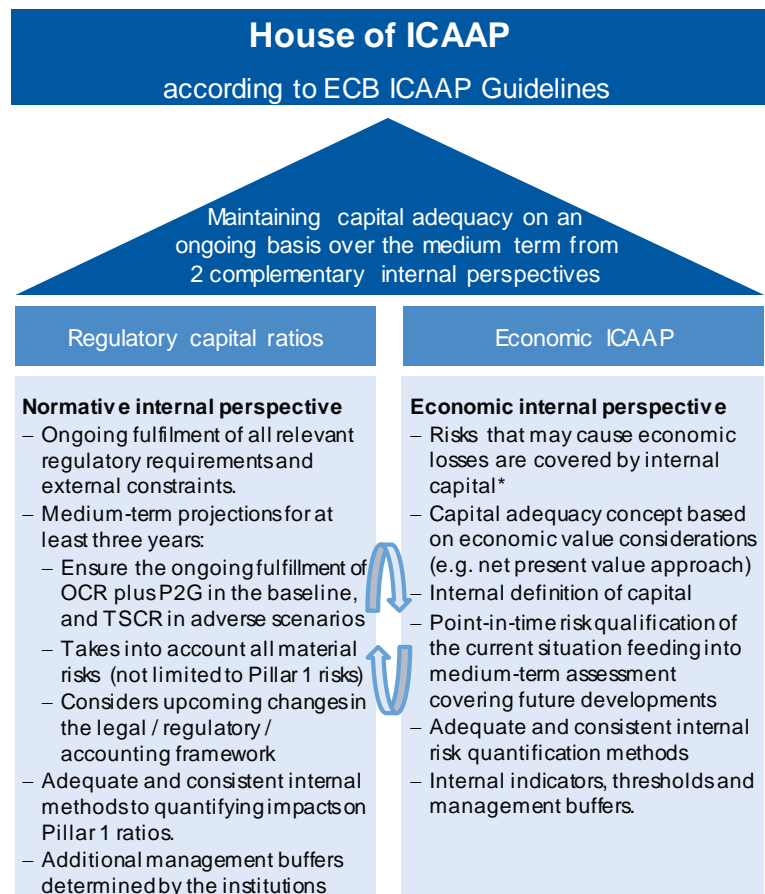
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Environment: New uncertainties, continued low interest rates and increasing volatility

	Outlook 2018 (February 2018)	Outlook 2019 (February 2019)	Current environment (January 2020)
GDP dynamics		 Slowdown of growth in key regions	 Continued slowdown of growth in key regions
Interest rates		 Rather stable interest rate environment	 Lower for longer interest rate environment
Funding costs		 Secondary trading on higher credit spreads	 Credit spread tightening on secondary trading
Brexit	“One year ahead”	 “Hard Brexit” as relevant option	 “Brexit”, what does that mean
Italy		 High political and fiscal uncertainty	 High political and fiscal uncertainty
Regulatory requirements (Aareal Bank)	Basel IV anticipated	TRIM, NPL guidelines anticipated	 ICAAP to become new constraint for European banks EBA guideline on internal models
Tech-/Software Sector	Catch up of the European real estate industry compared to the US to be continued Still pockets of share of wallet growth by penetration and process optimization Valuations on record highs (growth dynamic and low interest rate environment as drivers)		

Economic ICAAP the next focus on the regulatory agenda – our reading and take away



1 Economic ICAAP on SSM priority list 2020

- Ongoing discussions regarding interpretation of requirements
- Different methods currently used throughout Europe to estimate future volatility (scenario based vs. VAR models)
- ICAAP Guidelines published end of 2018 are very conservative regarding holding period and confidential interval
- ECB aims for future harmonization (equal to TRIM?) and potential tightening

2 AT1 with normative triggers will no longer be eligible under Economic ICAAP:

Regulatory capital ratios: Future treatment appears to be more generous, although decisions will be taken on a case by case basis

- P2R could be partly covered by AT1 (and/or T2)

Economic ICAAP: Future requirements will be tightened

- AT1 with normative triggers not accountable any more (see ECB feedback statement; question 208)
- Interim grandfathering of existing AT1 (issued, cut off date?) not decided yet, but unlikely from our point of view

– **AT1 in the economic ICAAP, currently and presumably in future no alternative instruments (beside CET1) available to fulfil ECB requirements (economic triggers instead of normative)**

– **Economic ICAAP to become the new capital constraint for European banks?**

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Promised. Delivered. What we have achieved so far with “Aareal 2020” (1/2)



Adjust:
Setup optimised

- Sustained cost reduction achieved; Bank cost structure significantly down from around EUR 360m (excl. WestImmo integration costs) in 2016 to around EUR 320m in 2019
- Structures and processes successfully streamlined, IT transformation in plan; reached major milestone with S/4 Hana implementation in 2019
- Funding structure optimised (with housing deposits permanently above EUR 10bn)
- Capital ratios well above Basel III and IV requirements



Advance SPF:
Business protected in adverse environment

- Increased flexibility by adding further countries, products and asset classes
- Extended placement and syndication capabilities
- Expansion along the value chain continued, e.g. servicing with Mount Street



Advance C/S:
Good starting position to grow

- Accelerate Aareon (see next page)
- Development of business with adjacent sectors (e.g. utilities) started
- Technical Base for growing fee business of C/S Bank (Aareal Portal) implemented



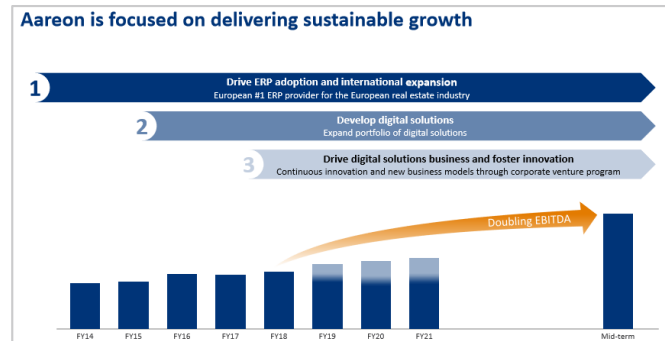
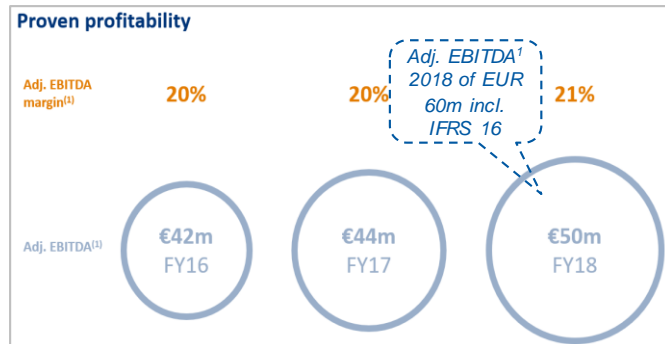
Achieve:
All major financial goals achieved

- Loan portfolio within target range
- Aareon’s annual operational EBIT targets achieved – additional growth investments started in 2019
- RoE close to target within the period of “Aareal 2020”
- Attractive dividend policy* implemented, despite further regulatory burdens
- Successful management of regulatory changes; however some elements of the ICAAP guidelines came as a surprise → effect on optimal capital structure to be further assessed

“Aareal 2020” successfully implemented

Promised. Delivered. What we have achieved so far with “Aareal 2020” (2/2)

Spotlight Aareon



Key points to consider

- Digitisation of European industry and real estate industry has been lagging behind the US
- Stable cashflow-model established as a base for funding further growth. At the same time second fast growing pillar digital solutions developed, started and ramped up for future growth
- Foundation for future success created within “Aareal 2020”:
 - 1 – Prepared the housing industry for digital transformation, by updating the ERP system for most of the German customers (~1,200) from GES (classical mainframe-system) to a new digital-ready system (Wodis Sigma); achieved with only 3% churn within five years
 - Increase ERP customer base to become # 1 in Europe; revenue CAGR of 4% between 2016 and 2018
 - 2 – Developed the digital roadmap and deliver digital solutions; revenue CAGR target of >20% already achieved (9M 2019) and planned to remain at this level (Revenue FY 2018: EUR 42m)
 - 3 – We kicked-off Phase 3 of the Aareon plan presented at our Investor Seminar in May 2019 with the clear goal to double EBITDA mid term

- Positive cash conversion rate allows self-funded organic as well as inorganic growth
- Management has created value and laid the foundation for future optionality in the group

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Aareal Next Level: What our plans are beyond Aareal 2020

**Structured Property
Financing**



ACTIVATE!

**Housing and adjacent
industries**



ELEVATE!

Aareon



ACCELERATE!

Structured Property Financing

ACTIVATE! How we want to further develop our SPF business

Current positioning



Balance Sheet Lender with an “Originate to Distribute” approach



Balance Sheet as the central source of Net Interest Income

Roadmap for the next years

1

Syndication



- Expansion of syndication business (e.g. by onboarding additional international investors and / or different exit structures)

2

Asset Light



- Expansion of sourcing and deal structuring (e.g. club deals)

3

Product Offering



- Further expansion of structure types, asset classes, and geographic mix (e.g. A/B structure, car parks, etc.)
- Digest other asset classes

4

Cost Base



- Cost base for SPF to be further managed down by around 10% to EUR 230m over the planning period, as a potential to offset other macro environment headwinds

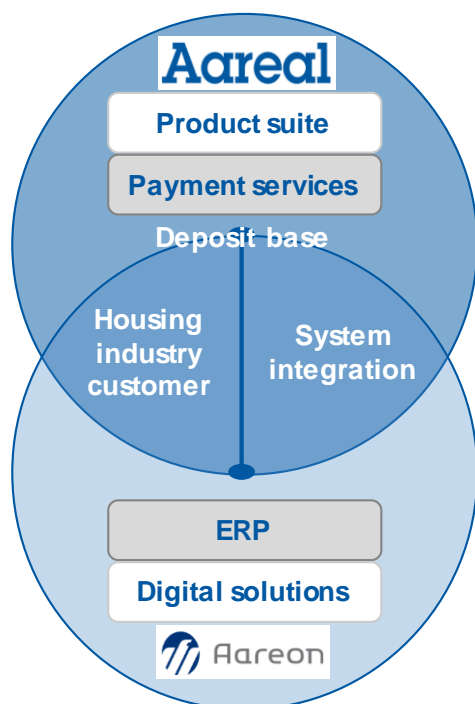
Consulting / Services

Pillars for achieving mid-term success

Roadmap for the mid-term clear positioning for each division and develop Aareon as an integral part of our strategy from a subsidiary within a strong group to a software company in the European real estate industry with a strong independent value proposition

Current situation

C/S Bank for the housing industry and Aareon are overlapping
(German market view)



1 Growth

- Grow both areas (C/S housing business, Aareon) significantly and reduce Aareal group support over time

2 Workstreams

Several projects to be started in Q1 2020

- Dual brands: Establish independent and equally strong brands
- Unbundling: i) Strengthen independent value propositions, but protect synergies (e.g. funding base, product offerings and origination) and limit potential dis-synergies; ii) Analyse internal service levels / agreements and modify technically and contractually if needed; iii) identify solutions for the gap between IFRS equity and regulatory capital usage, if possible
- Critical IT infrastructure provider/ nature of B2B (to C) business modell: i) respect and protect position as clients' critical infrastructure provider and ii) continue to develop data-driven business models only together with the housing industry (e.g. for tenants/ cross industry)

3 Partners

- Add external knowhow to accelerate growth and improve operations further including potential M&A – if and when opportunities arise
- Potential minority shareholder / cornerstone investor in Aareon supporting and promoting the roadmap

4 Regulatory treatment

- Aareon is now treated as an industrial holding
- This allows for a further increased return on regulatory capital hand in hand with a potential optimisation of Aareon's funding structure which should be value accretive

Consulting / Services – Housing and adjacent industries

ELEVATE! How we are going to unlock our potential

Current positioning



The leading payment solutions provider for the institutional housing industry in Germany



Superior understanding of client processes – products and solutions deeply embedded therein



Repositioning from „deposit taker“ to „solutions provider“ ongoing

Roadmap for the next years

1 **Grow commission income**

- Leverage portal / platform solutions
- Continue developing “Die Kautionsbank” position

2 **Enter new markets**

- Develop products in related sub-segments, thereby leveraging skills – e.g. E-mobility, connected payments, IoT solutions

3 **Funding Base**

- Reporting and transfer pricing will be changed according to Q3 2019 announcement
- Retain option on increasing interest rates environment
- Improved composition allowing us to optimize deposit usage = increasing funding advantage

4 **Cost Base**

- Keeping Consulting / Services (ex. Aareon) cost base flat over the planning period at approx. EUR 70m* (which are to the vast majority covered by funding advantages vs. other funding sources)

Consulting / Services – Aareon

ACCELERATE! How we are going to achieve our objectives

Current positioning



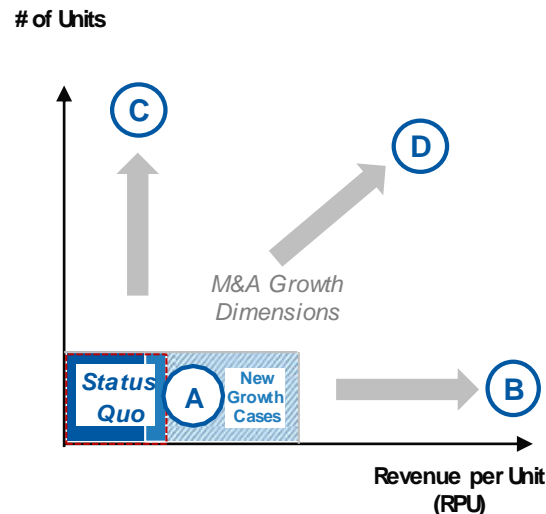
#1 ERP provider for the European real estate industry



Digitization enabler for the European real estate industry

Roadmap for the next years

- In addition to the organic growth program we are now looking into the next level to build up the platform business in the real estate industry; develop Aareon as an integral part of the group from a subsidiary within a strong group to a software company in the European real estate industry with a strong independent value proposition



Mainly self-funded

- (A)** **RPU driven:** Execute organic growth cases (e.g. predictive maintenance and virtual assistant as first success stories)

Mainly through M&A

- (B)** **RPU driven:** Leverage existing customers with expanded product offering
- (C)** **Unit driven:** Target newly identified customers beyond professional housing companies with existing product set
- (D)** Expand along **both dimensions** (new customers and new products in the adjacent areas)

Summary: What our plans beyond Aareal 2020 are

1 Keep Structured Property Financing on track

Structured
Property
Financing



ACTIVATE!

- Leverage on expanded origination, structuring and exit opportunities – flexibly „play the matrix“ (countries, asset classes, structures)
- Expand servicing and digitisation opportunities
- Protect the group’s backbone and retain “best-in-class-position”

2 Leverage and grow our Housing and adjacent industries business

Housing and
adjacent
industries



ELEVATE!

- Elevate product range by utilising deep understanding of customer processes and infrastructure...
- ...by further expanding product suite with a focus on fee income
- Take opportunities of joint business model developments with customers and other market players

3 As an integral part of our strategy strengthen Aareon’s position as the leading software company for the European real estate industry over time and become a company with a strong independent value proposition

Aareon



ACCELERATE!

- Continue execution of already announced organic growth strategy to double EBITDA in the mid-term...
- ...particularly by expanding our digital solutions portfolio organically
- On top: Accelerate through additional M&A activities - if and when opportunities arise

By doing so create value for Aareal and hence our shareholders...

Aareal