Annual Analyst Conference
Preliminary 2017 results

February 28, 2018
Hermann J. Merkens, CEO

Agenda

- **Results 2017:**
  What we achieved
- **Aareal 2020:**
  How we advance
- **Outlook:**
  What we target

Highlights 2017
Continued success in a challenging environment

Highlights

Another successful business year with good results in the middle of the targeted range despite a challenging and competitive market environment

Positive development in both segments:
- CRE new business target overachieved by volume and expected margins
- Growth in the consulting / services segment pushed NCI on group level

Final decision regarding future regulation („Basel IV“) in December 2017 reduces regulatory uncertainties, CET1 ratio under future Basel IV requirement - even fully phased - clearly above regulatory requirements and target ratio

Comfortable capitalisation allows to a significant increase in DpS for the business year 2017, final decision on the use of excess capital will be taken in 2018

Implementation of the program „Aareal 2020“ completely on track:
measures taken for the optimisation of structures and processes show first results as well as the further development of the operating business

Note: All 2017 figures preliminary and unaudited

Preliminary 2017
Group results at a glance

Preliminary 2017 group results at a glance

Fully in line with raised targets – dividend proposal: 2.50€ pS

Targets	Original guidance 2017	Latest guidance (Q4 / 2017)		Preliminary
Dividend proposal	70% - 80% payout ratio		➡	€ 2.50 pS (78%)
Net interest income	€ 620 mn - € 660 mn	€ 620 mn - € 660 mn	➡	€ 634 mn
Allowance for credit losses (LLP)	€ 75 - 100 mn	€ 75 - 100 mn	➡	€ 82 mn
Net commission income	€ 195 - 210 mn	€ 195 - 210 mn	➡	€ 206 mn
Admin expenses	€ 470 - 510 mn	€ 470 - 510 mn	➡	€ 511 mn
Operating profit	**€ 260 - 300 mn**	**€ 310 - 350 mn**	➡	**€ 328 mn**
Pre-tax RoE	9% - 10.5%	11% - 12.5% (9% - 10.5%)[1)]	➡	11.9% (10.0%)[1)]
EpS	€ 2.45 - € 2.90	€ 2.85 - € 3.30 (€ 2.45 - € 2.90)[1)]	➡	€ 3.20 (€ 2.80)[1)]
Target portfolio size	€ 25 bn - € 28 bn	€ 25 bn - € 28 bn	➡	€ 26.4 bn
New business origination[2)]	€ 7 bn - € 8 bn	€ 7 - € 8 bn	➡	€ 8.8 bn
Operating profit Aareon[3)]	€ 34 mn - € 35 mn	€ 34 mn - € 35 mn	➡	€ 34 mn

1) Excl. one-off from reversal of provisions related to CCB acquisition
2) Incl. renewals
3) After segment adjustments

Note: All 2017 figures preliminary and unaudited

Aareal

Preliminary 2017 group results at a glance
Good results in a challenging environment

€ mn	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17		FY'16	FY'17	Comments
Net interest income	169	164	158	164	148		701	634	Further portfolio reduction, FY-margins above plan
Allowance for credit losses	33	2	25	26	29		97	82	LLP below 2016's figure, conservative lending policies paying off
Net commission income	56	48	49	48	61		193	206	Aareon on track
Net result from trading / non-trading / hedge acc.	-5	-4	1	11	-1		86	7	2016 included € 61 mn from closing Aqvatrium / Fatburen
Admin expenses	130	139	129	120	123		547	511	Significant reduction despite ongoing transformation costs
Others	*28*	*4*	*55*	*5*	*10*		*30*	*74*	FY incl. reversal of CCB provisions
Operating profit	**85**	**71**	**109**	**82**	**66**		**366**	**328**	Ex one-off gains on good previous year's level
Income taxes	44	24	42	31	18		132	115	2017 tax rate of ~35%, incl. reversal of CCB provisions
Minorities / AT1	8	9	5	4	4		35	22	Savings from redemption of hybrid instrument from Q2 2017 onwards
Consolidated net income allocated to ord. shareholders	**33**	**38**	**62**	**47**	**44**		**199**	**191**	
Earnings per share [€]	0.55	0.63	1.05	0.78	0.74		3.33	3.20	

Note: All 2017 figures preliminary and unaudited

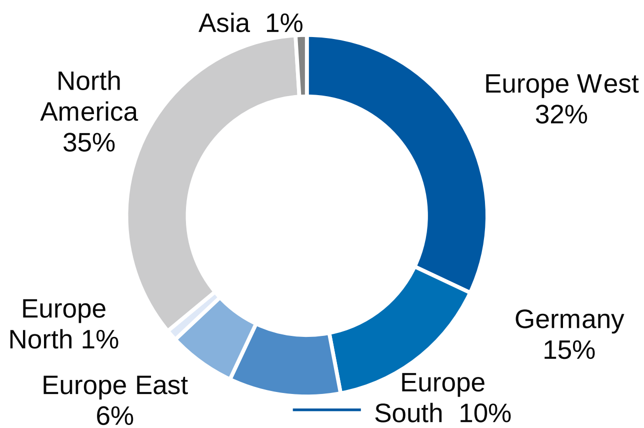
Segment performance

Note: All 2017 figures preliminary and unaudited

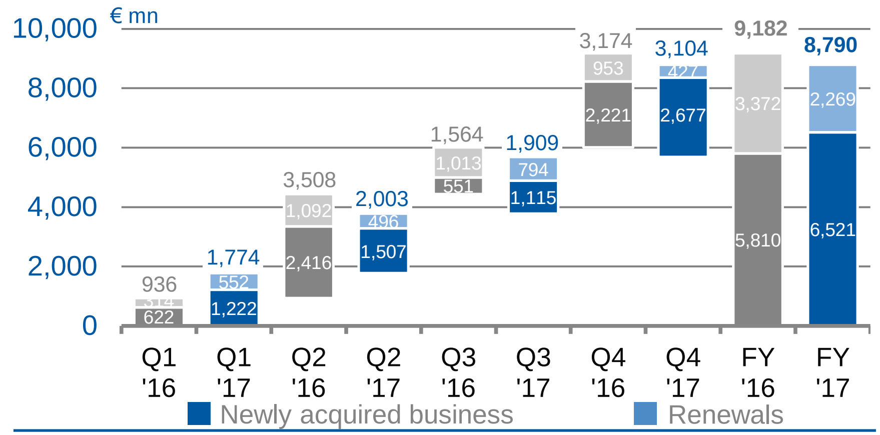
Structured property financing

Stable margins due to flexible new business allocation

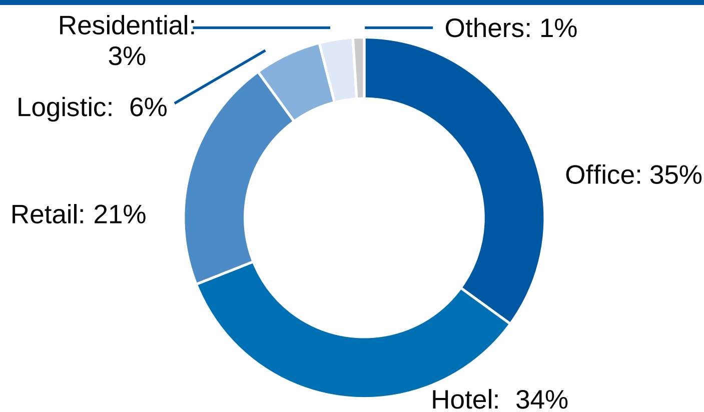
New business by region 2017[1)]



New business origination by quarter



New business by property type 2017[1)]



- Newly acquired business up by 12% YoY
  - Continued strong North American business
  - Gross margins in 2017 above 240 bps (> 220 bps after FX)
  - FY-margin expectations outperformed
- High early repayments
- € 26.4 bn RE finance portfolio (of which € 25.1 bn CRE) in line with FY- targeted size (€ 25-28 bn)

1) Incl. renewals

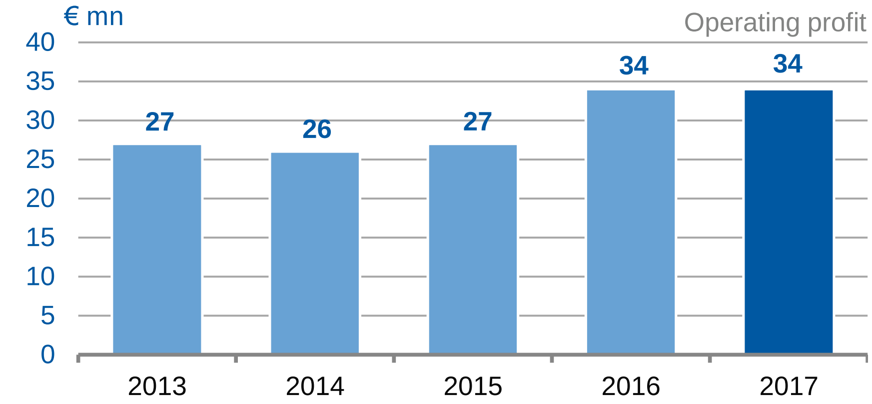
Note: All 2017 figures preliminary and unaudited

Consulting / Services
Aareon with good results but burdening deposit margins

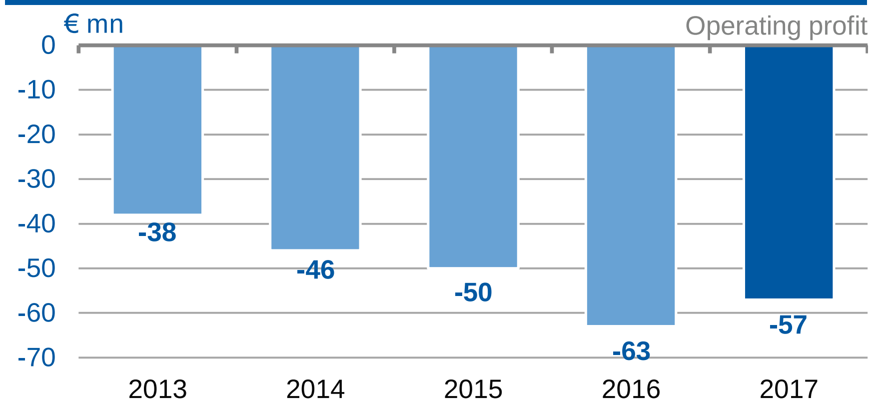
P&L C/S Segment	2016	2017	Change
€ mn			
Sales revenue	206	226	10%
Own work capitalised	6	4	-50%
Other operating income	7	7	-
Cost of materials purchased	35	35	-
Staff expenses	144	151	5%
D, A, impairment losses	11	12	9%
Other op. expenses	58	62	7%
Others	*0*	*0*	-
Operating profit	**-29**	**-23**	**21%**

- Aareon revenues of € 221 mn (FY 2016: € 211 €), EBT of € 34 mn, EBT margin ~15%
- Stronger Aareon revenues resulting from growth in all product lines, digital products with highest growth rates
- Deposit volume further increased acc. to Aareal 2020 to Ø of € 10.0 bn in 2017 (Ø of € 9.6 bn in 2016)
- Deposit margins further burdened segment result by interest rate environment
- Housing industry deposits generate a stable funding base, crisis-proven
- Focussing on further shift into sustainable deposits

Aareon Group



Deposit taking business / other activities



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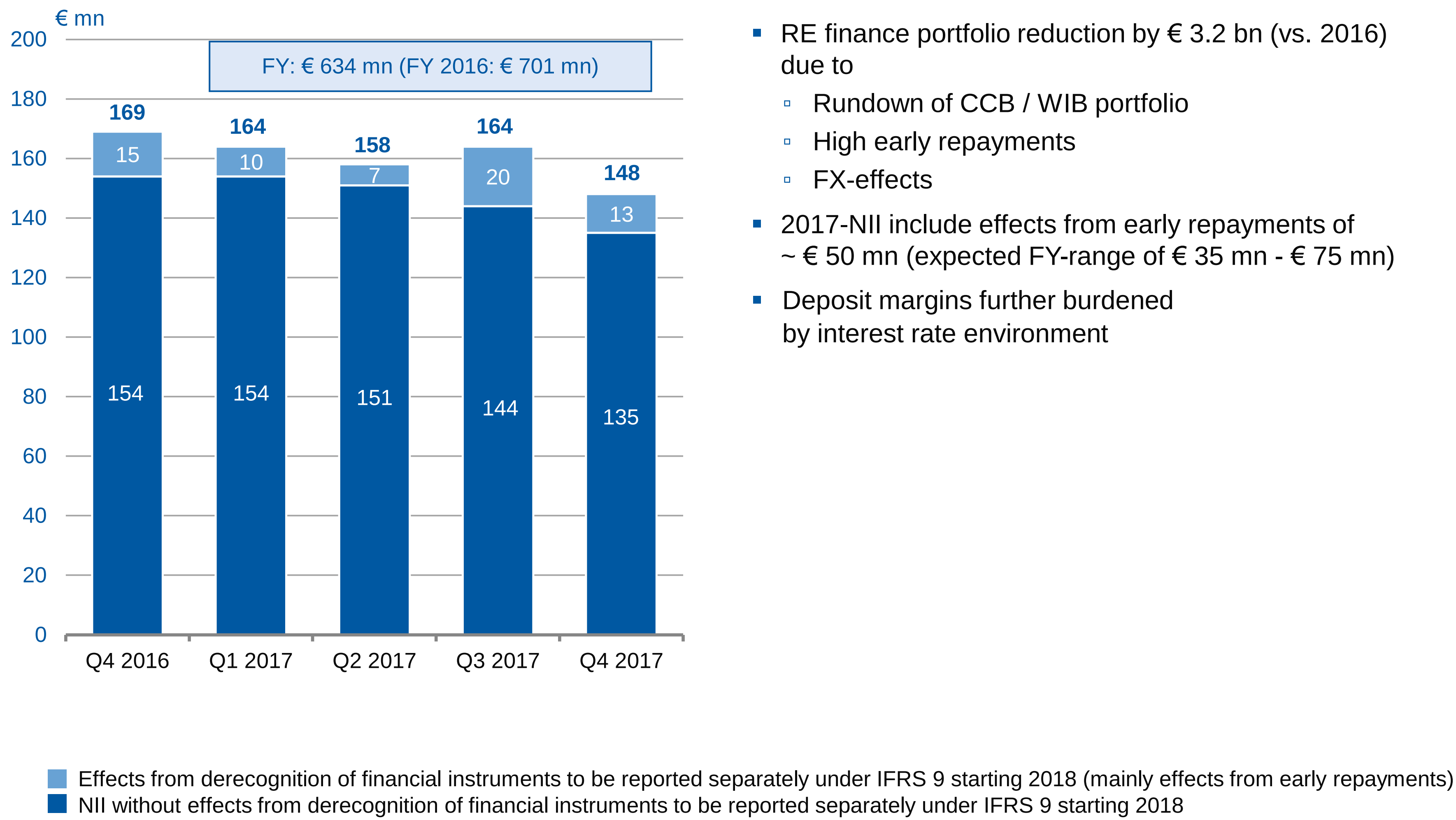
Note: All 2017 figures preliminary and unaudited

Preliminary group results 2017

Net interest income

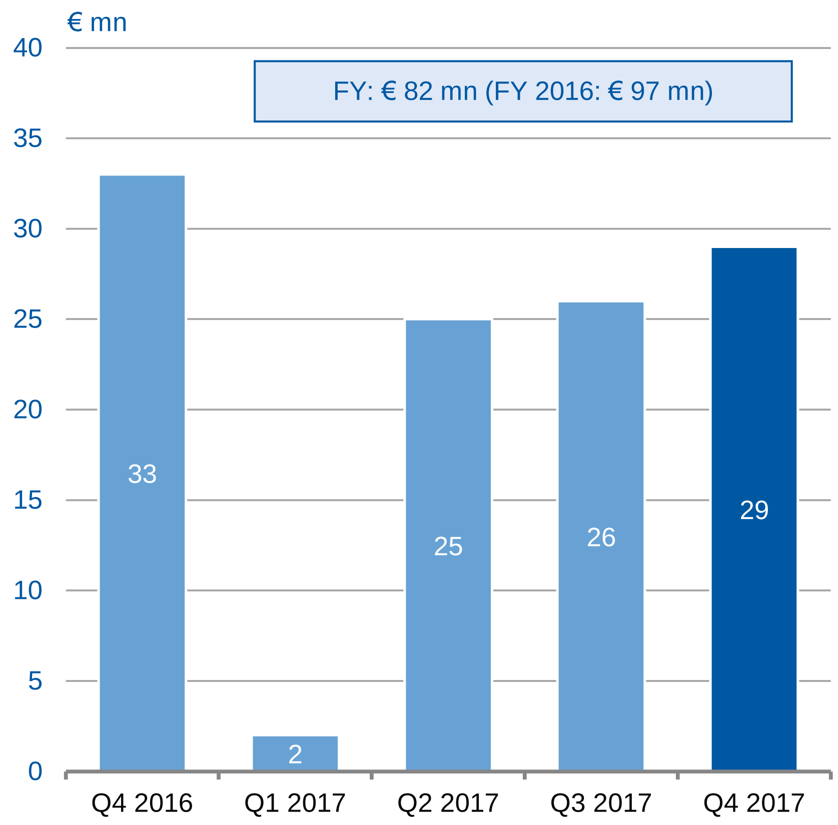
Further portfolio reduction, FY-margins above plan

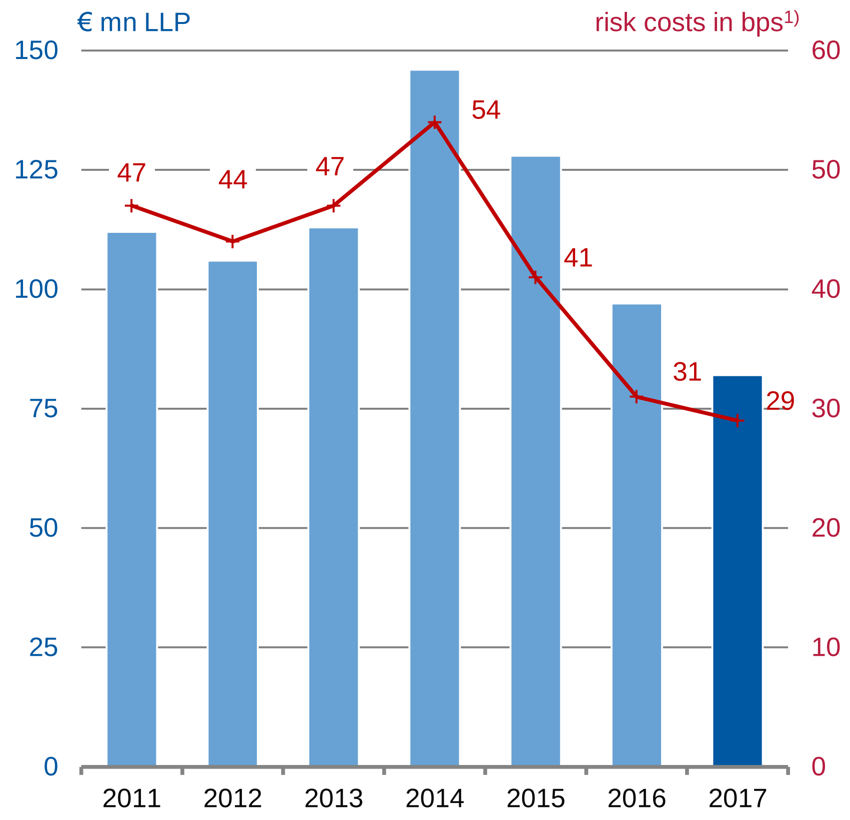


- RE finance portfolio reduction by € 3.2 bn (vs. 2016) due to
  - Rundown of CCB / WIB portfolio
  - High early repayments
  - FX-effects
- 2017-NII include effects from early repayments of ~ € 50 mn (expected FY-range of € 35 mn - € 75 mn)
- Deposit margins further burdened by interest rate environment

Note: All 2017 figures preliminary and unaudited

Allowance for credit losses (LLP)
LLP below last year's figure, conservative lending policies paying off





1) Risk costs on avg. RE finance portfolio

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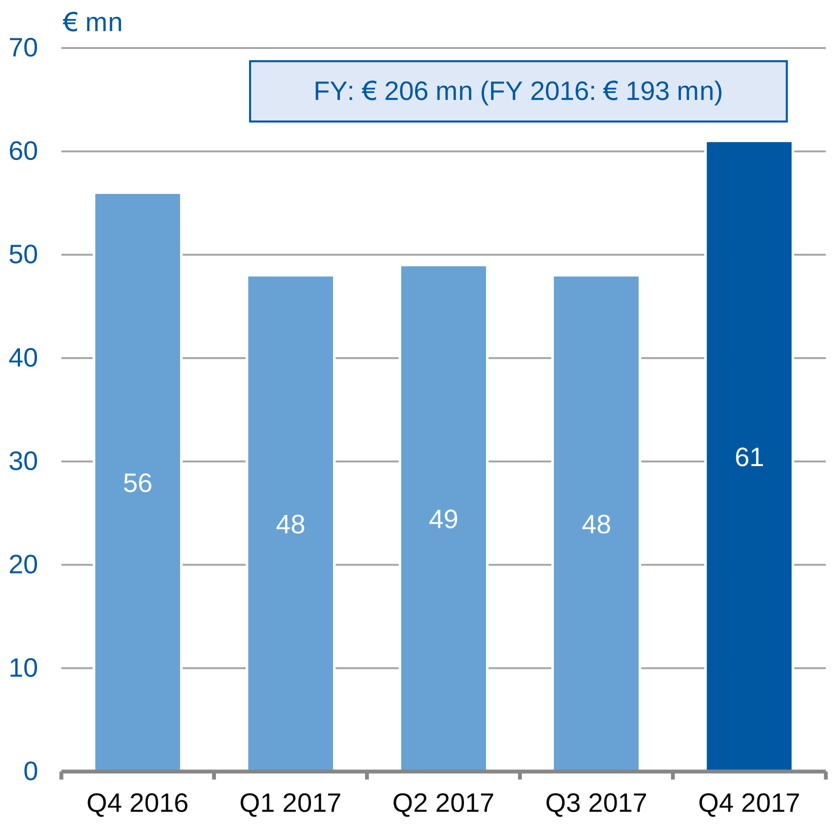
Note: All 2017 figures preliminary and unaudited

Net commission income
Aareon on track

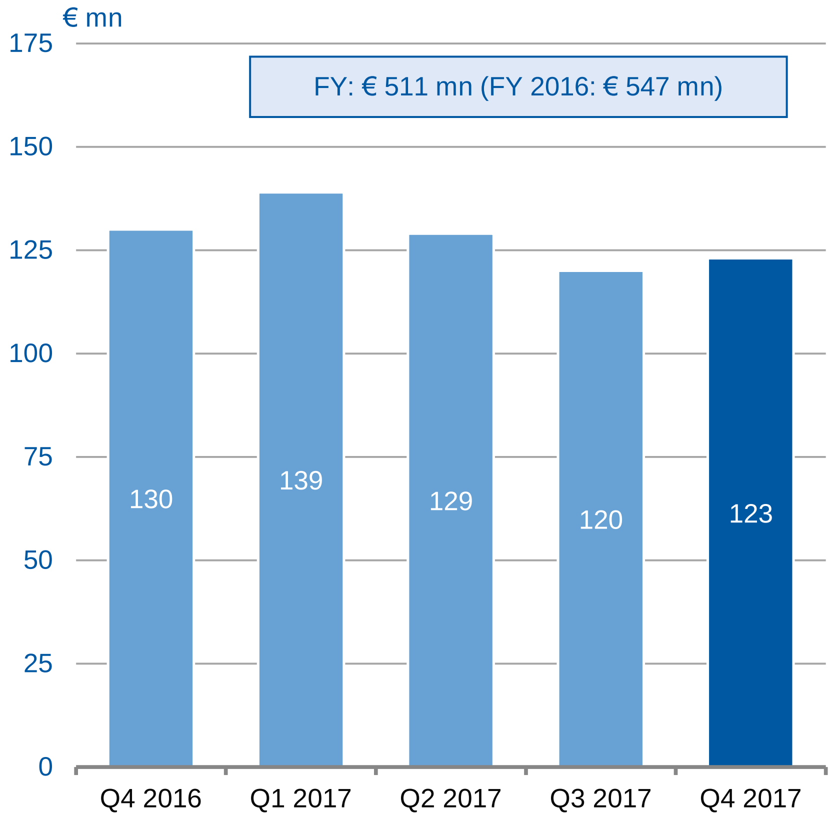


Aareon

- Revenues of € 221 mn (2016: € 211 mn) resulting from growth in all product lines
- Digital products with highest growth rates
- Q4 regularly includes positive seasonal effects
- 5 year avg. growth rate of ~5% in sales revenues and EBT

Note: All 2017 figures preliminary and unaudited

Admin expenses
Significant reduction despite ongoing transformation costs



FY admin expenses include

- € 24 mn for the European bank levy and for the Deposit Protection Guarantee Schemes
- Transformation costs
  - € 27 mn for optimisation of processes and structures
  - € 21 mn for projects and investments

Note: All 2017 figures preliminary and unaudited

Capital, B/S structure & funding position

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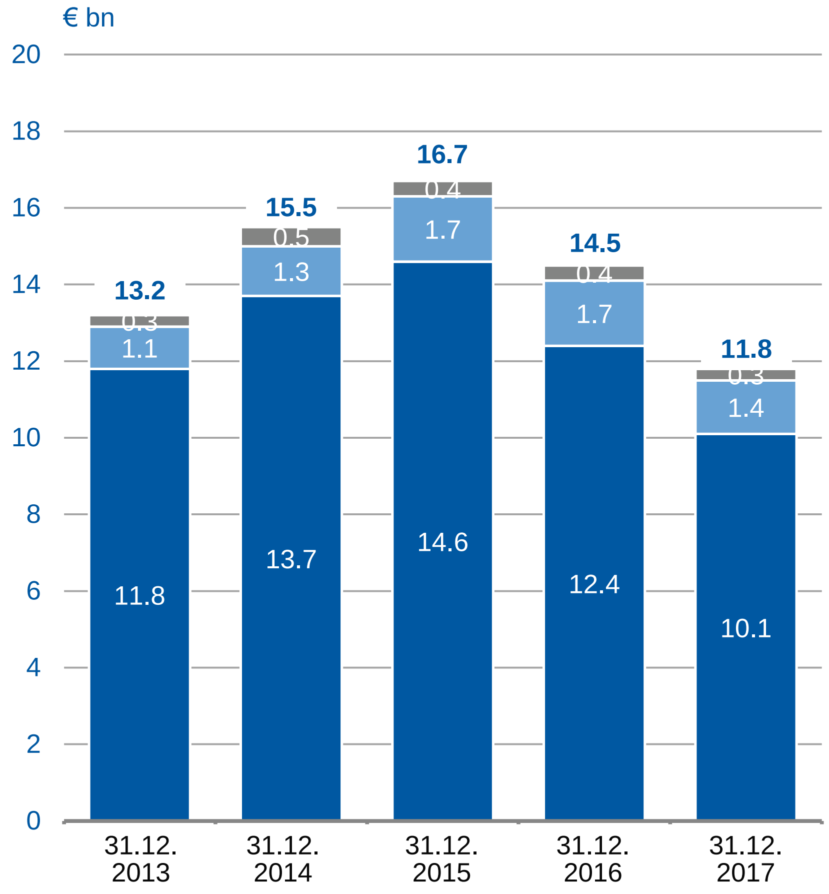
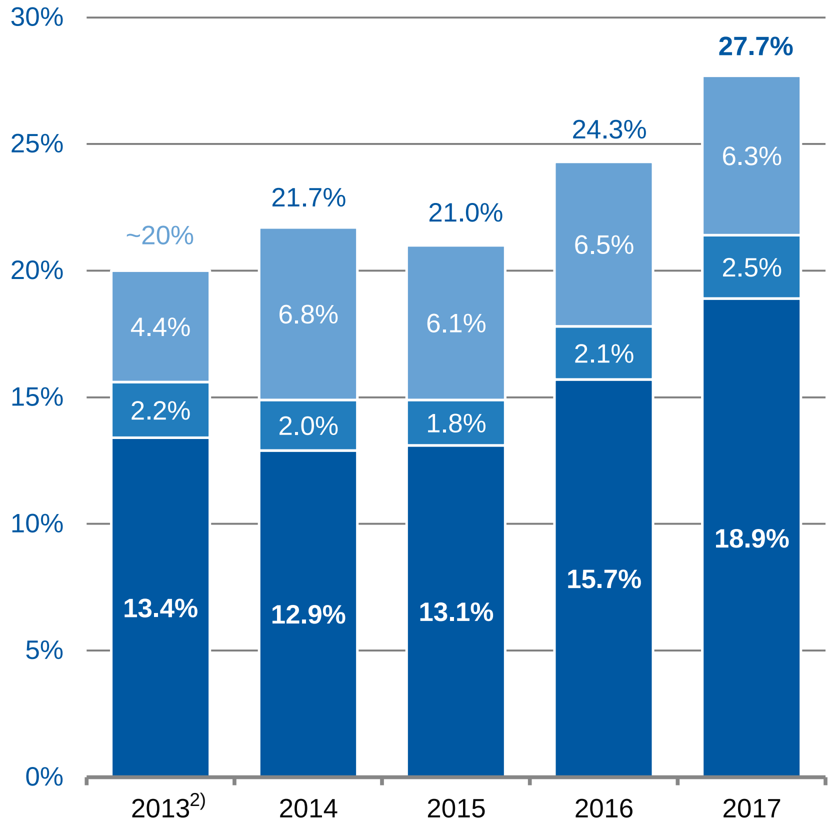
RWA development
Successful RWA run down



- Reduction from
  - Rundown of CCB / WIB portfolio
  - High early repayments
  - FX-effects
- Lower RWA density vs 12/2016

Note: All 2017 figures preliminary and unaudited

Capital ratios[1)]
Strong development



- Regulatory challenges buffered by strong capital ratios
- 2017 including effects from first-time adoption of IFRS 9 (~15 bps)
- Instruments assumed to mature until 2020 (planning period) are excluded from the fully phased ratios
- Bail-in capital ratio (acc. to our definition): above 8%
- T1-Leverage ratio as at 31.12.2017: 6.2% (fully phased)

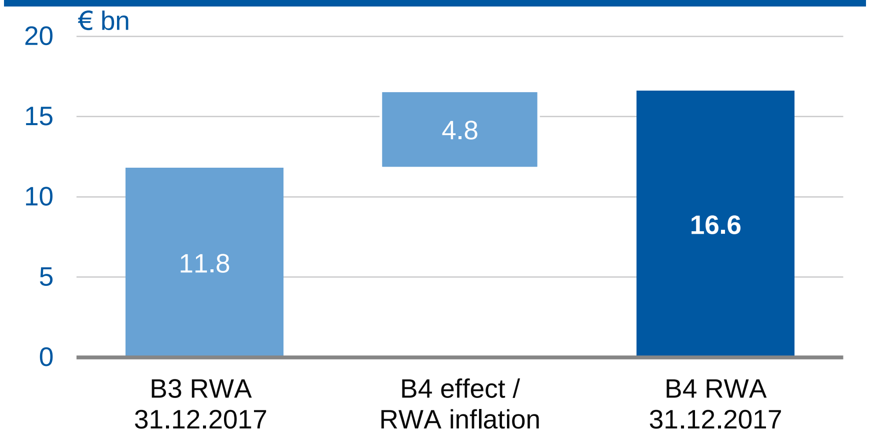
1) Fully phased
2) As at 01.01.2014, fully phased, published 20.02.2014

Note: All 2017 figures preliminary and unaudited

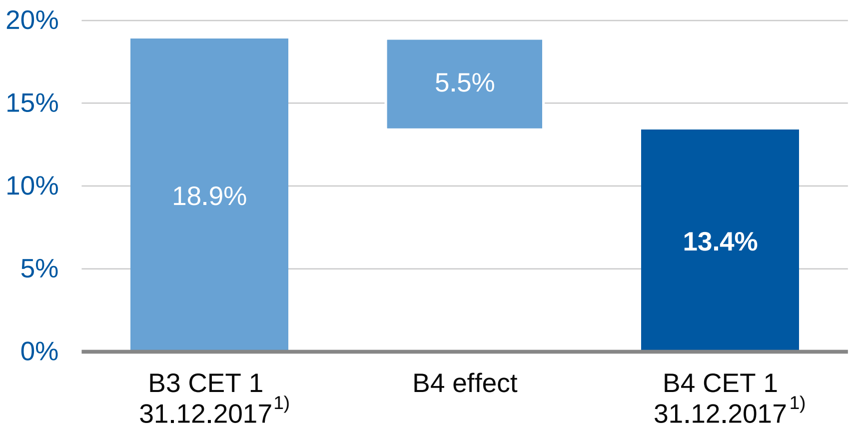
Basel IV effect

Already fulfilling future Basel IV capital requirements

RWA (CRSA Floor 72,5%)



CET 1 ratio (after dividend)



1) Incl. effects from first-time adoption of IFRS 9

B3 RWA of 11.8 bn with current risk density of 22% would be 13.2 bn (based on 31.12.2016's risk density of 28%)

Basel IV:

- New B4-regulation triggers significant RWA-inflation
- Low risk weighted CRE business excessively burdened
- Resulting capital needs precociously anticipated
- Remaining uncertainties:
  - EU implementation
  - Supervisors' decisions (e.g. on Hard test)

Others:

- 2018 stress test might result in new SREP guidance for 2019 onwards
- Combined efforts on internal models:
  - Final EBA requirements: Some parts delivered, QIS announced, some still open
  - TRIM exercise still ongoing
  - Internal models have to be adjusted / redesigned but approved until mid 2020 to meet EBA deadline

Note: All 2017 figures preliminary and unaudited

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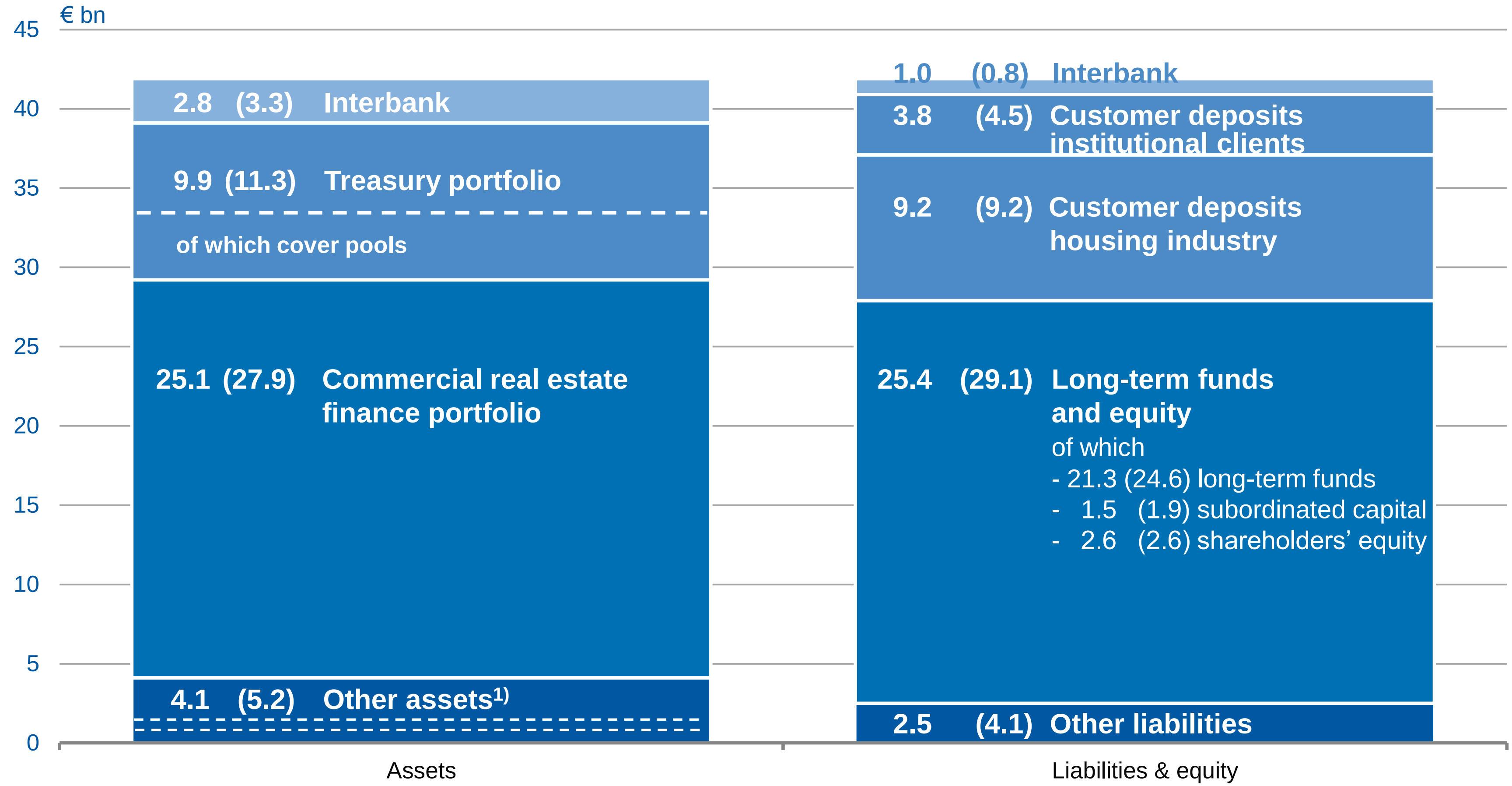
Asset- / Liability structure according to IFRS
As at 31.12.2017: € 41.9 bn (31.12.2016: € 47.7 bn)

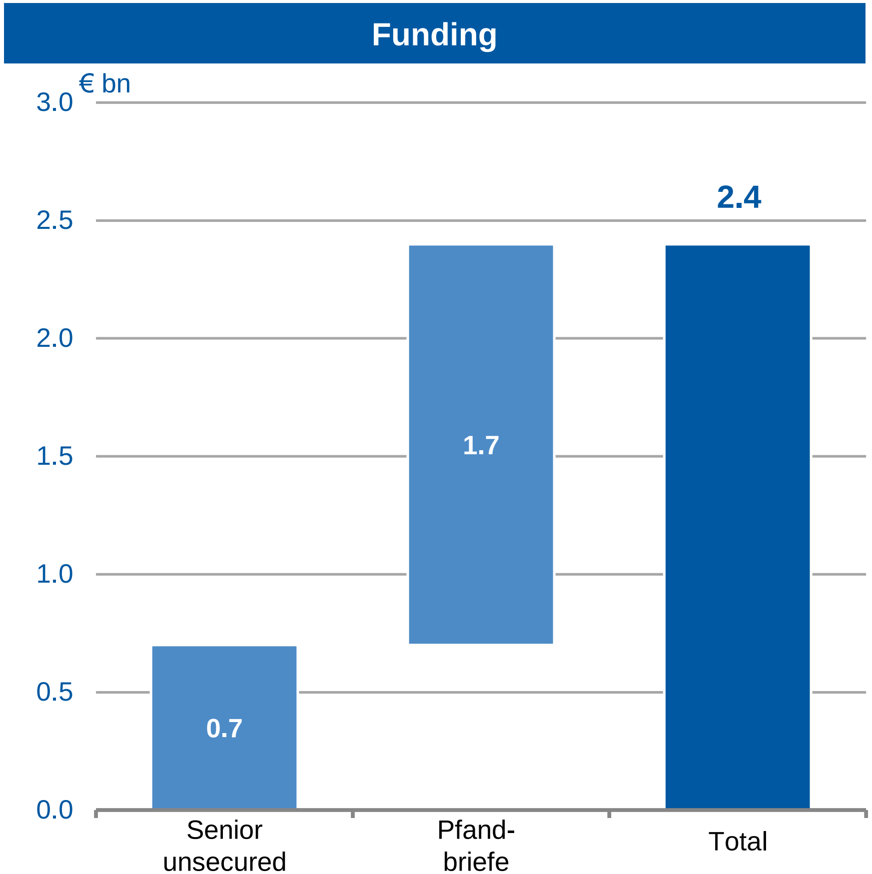
- Conservative balance sheet with structural over borrowed position
- Average maturity of long term funding > average maturity of RSF loans



1) Other assets includes € 0.8 bn private client portfolio and WIB's € 0.5 bn public sector loans

Note: All 2017 figures preliminary and unaudited

Capital market funding
Sound liquidity position



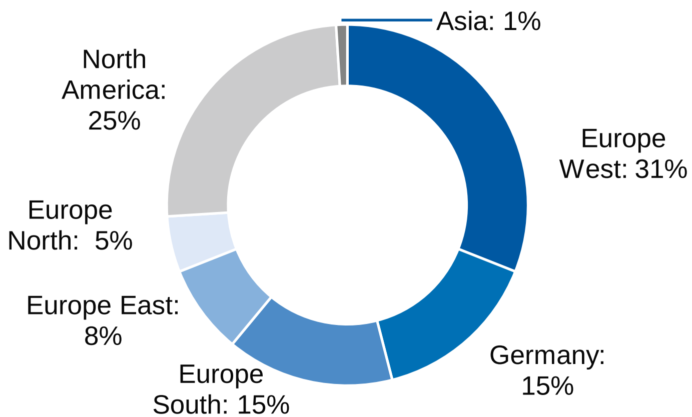
- Total funding raised in 2017: € 2.4 bn mainly driven by Pfandbriefe of € 1.7 bn
- Very successful placement of three Pfandbrief benchmark transactions in our major currencies:
  - EUR 500 mn 5Y
  - USD 625 mn 3Y
  - GBP 250 mn 3Y
- USD 250 mn 3Y senior unsecured public issuance
- Transactions show strong distribution power also in other currencies than Euro
- Fulfilling liquidity-KPIs
  - NSFR > 1
  - LCR >> 1

Note: All 2017 figures preliminary and unaudited

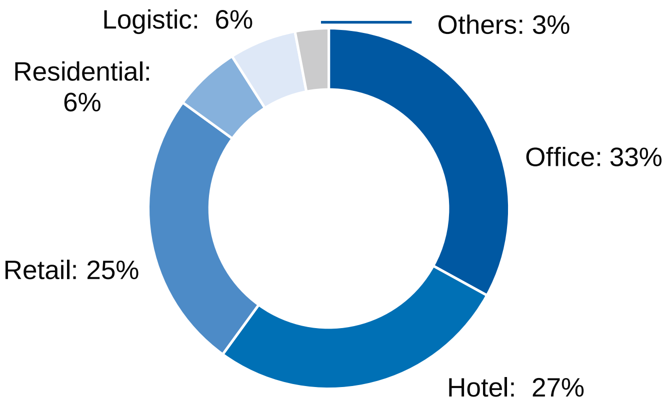
Asset quality

Commercial real estate finance portfolio[1)]
€ 25.1 bn highly diversified and sound

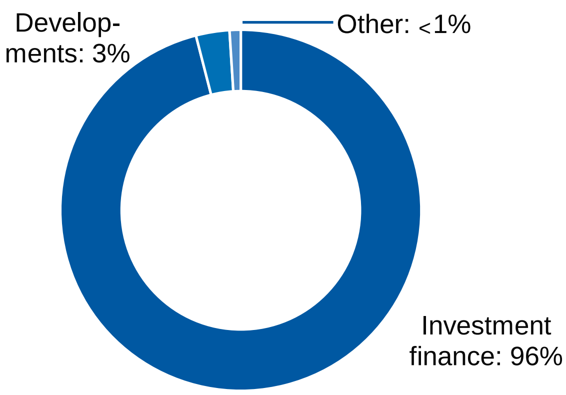
Portfolio by region



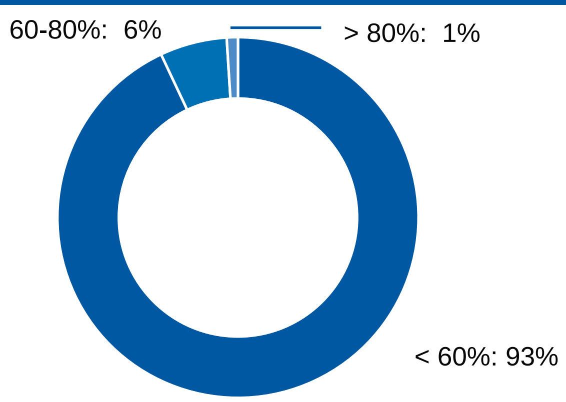
Portfolio by property type



Portfolio by product type



Portfolio by LTV ranges[2)]



1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included
2) Performing CRE-business only, exposure as at 31.12.2017

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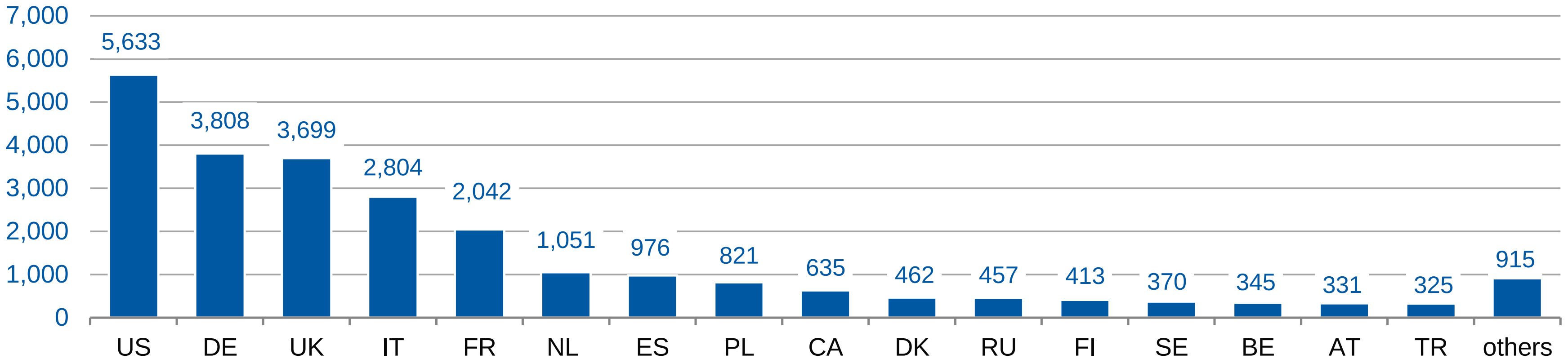
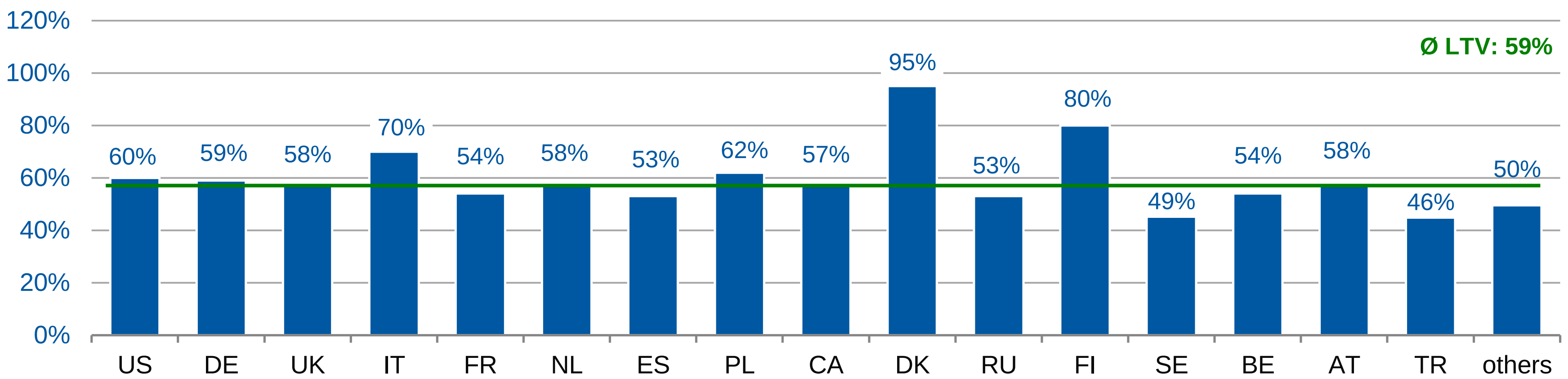
Note: All 2017 figures preliminary and unaudited

Commercial real estate finance portfolio[1)]
Portfolio details by country

Total commercial real estate finance portfolio (€ mn)



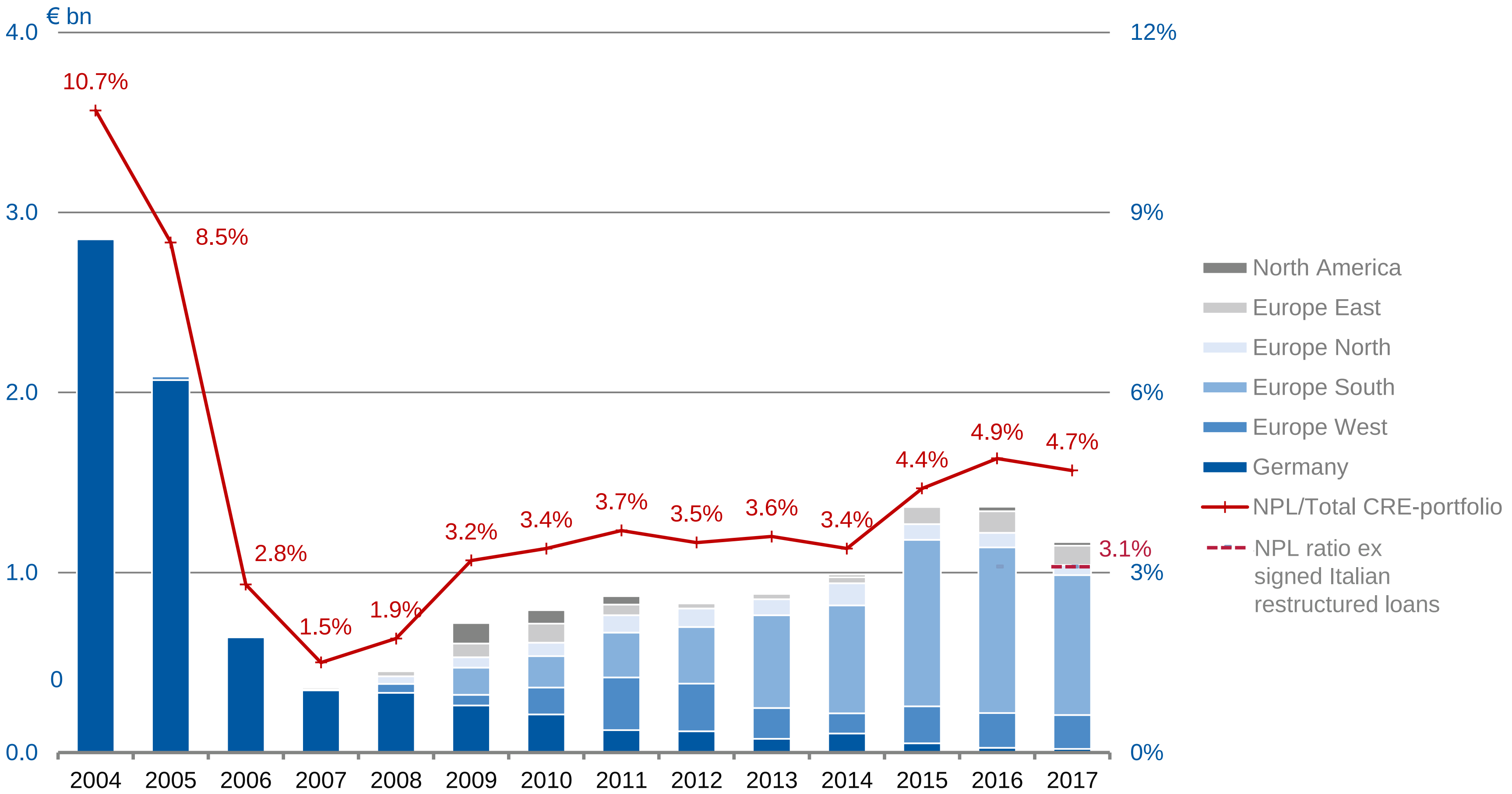
LTV[2)]



1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included
2) Performing CRE-business only, exposure as at 31.12.2017

Note: All 2017 figures preliminary and unaudited

Commercial real estate finance portfolio[1)]
Declining NPL volume

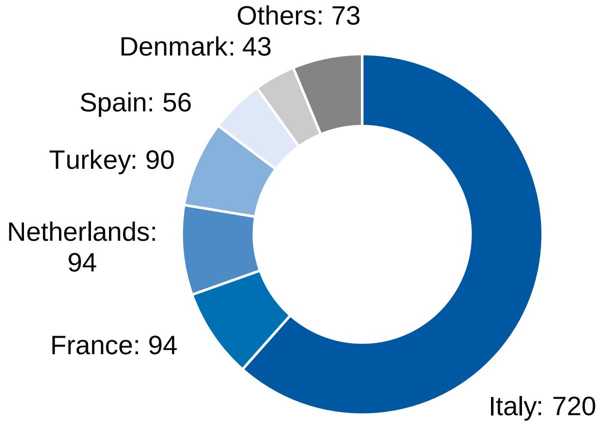


1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included

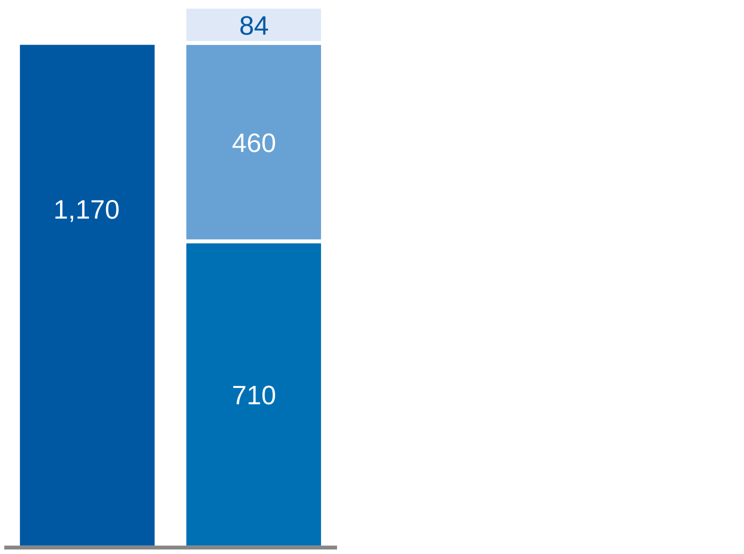
Note: All 2017 figures preliminary and unaudited

Commercial real estate finance portfolio[1)]
Including collaterals, NPL exposure fully covered

NPL-Split: Total of € 1,170 mn



NPL coverage (€ mn)



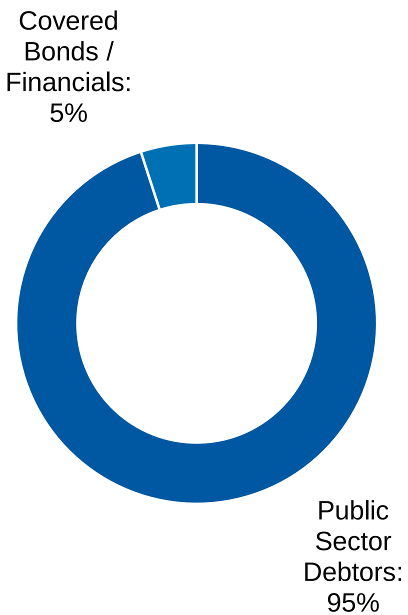
	31.12.2017
Coverage ratio specific allowance	39%
Coverage ratio including portfolio allowance	46%

1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included

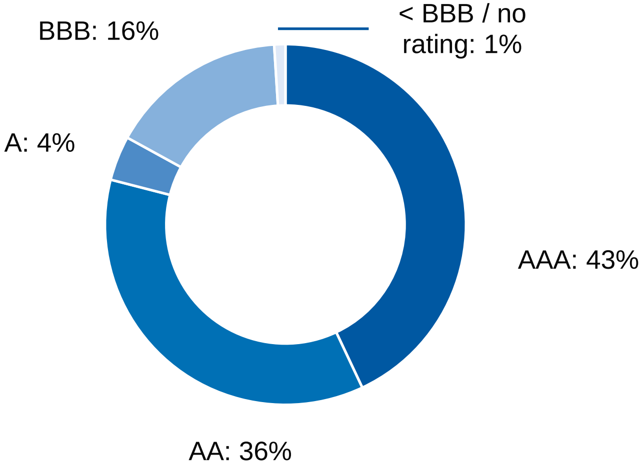
Note: All 2017 figures preliminary and unaudited

Treasury portfolio
€ 8.3 bn of high quality and highly liquid assets

by asset class



by rating[1)]



As at 31.12.2017 – all figures are nominal amounts

1) Composite Rating

Note: All 2017 figures preliminary and unaudited

Aareal 2020

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Aareal 2020 – *Adjust. Advance. Achieve.*
Our way ahead

Published Feb 2016

Adjust

Safeguard strong base in a changing environment

- Enhance efficiency
- Optimise funding
- Anticipate regulation

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Advance

Exploit our strengths, realise our potentials

- Further develop existing business
- Gain new customer groups, tap new markets
- Further enhance agility, innovation and willingness to adapt

Achieve

Create sustainable value for all stakeholders

- Realise strategic objectives for the Group and the segments
- Consistently implement required measures
- Achieve ambitious financial targets

Note: All 2017 figures preliminary and unaudited

Aareal 2020 – *Adjust. Advance. Achieve*

Our growth program is well on track – we have successfully adjusted our organisational structure…

	Achievements so far: (extract)	**Targets:** (extract)
Adjust	✓ Alignment of structures and processes successfully implemented to increase efficiency ✓ Further development of the future IT-infrastructure ✓ Balance sheet structure / funding optimised: new investor groups made accessible ✓ Housing industry deposits stabilised as a crisis proven refinancing source – volume on forecasted high level (~ € 10 bn) ✓ Fulfilment of Basel IV requirements from day 1, capital ratios significantly increased, IFRS 9 implemented	– Continued alignment of structures and processes, further digitisation and ongoing optimisation of the IT-infrastructure – Further increase of flexibility and efficiency, reduction of complexity – Retention of broadly diversified funding sources – Efficient use of capital – Continuous screening of the regulatory environment and early anticipation of possible changes

Note: All 2017 figures preliminary and unaudited

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Aareal 2020 – *Adjust. Advance. Achieve.*

…for the strengthening of our basis to ensure an accelerated and successful implementation in both segments

	Achievements so far: (extract)	**Targets:** (extract)
Advance: Structured property financing	✓ Attractive markets further enhanced (e.g. USA) ✓ Existing exit channels enlarged, additional opportunities identified and cooperations gained ✓ NCA portfolio significantly reduced ✓ Digitisation of internal credit processes as well as clients' interface on track ✓ Mount Street cooperation established, expansion of servicing business	– Continuation of successful business development despite challenging environment with a focus on flexible allocation in the most attractive markets – Expansion of existing and developing of new exit strategies – Ongoing reduction of NCA-portfolio – Tapping new (digital) business opportunities along the value added chain – Identification and making use of additional potentials of the Mount Street cooperation
Advance: Consulting/ Services	✓ Position within the environment of the housing industry further strengthened ✓ Utility market successfully tapped ✓ Successful CRE-growth strategy, e.g. two acquisitions in 2017 ✓ Cross-selling activities of digital products in Europe launched, e.g. via digital platform ✓ Cooperations with start-ups intensified	– Further development of digital solutions portfolio – Ongoing penetration of relevant eco systems and tapping into neighbouring markets – Developing of new markets in cooperation with the housing industry (B2B2C; B2C) – Intensifying cooperations focussing on start-ups, development of Aareon Ventures

Note: All 2017 figures preliminary and unaudited

Outlook

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Outlook

Main takeaways for upcoming years

CET1:

Currently, management sees Basel IV CET1 target ratio of ~12.5% adequate

Excess capital:

- Partial use in lending business to keep portfolio stable at ~ € 26.5 bn
- Further review in 2018

Performance:

- Plan to stabilise NII on current level
- Future growth of total income mainly driven by NCI
- Operating profit will benefit from total income growth, successful transformation incl. efficiency improvements

RoE:

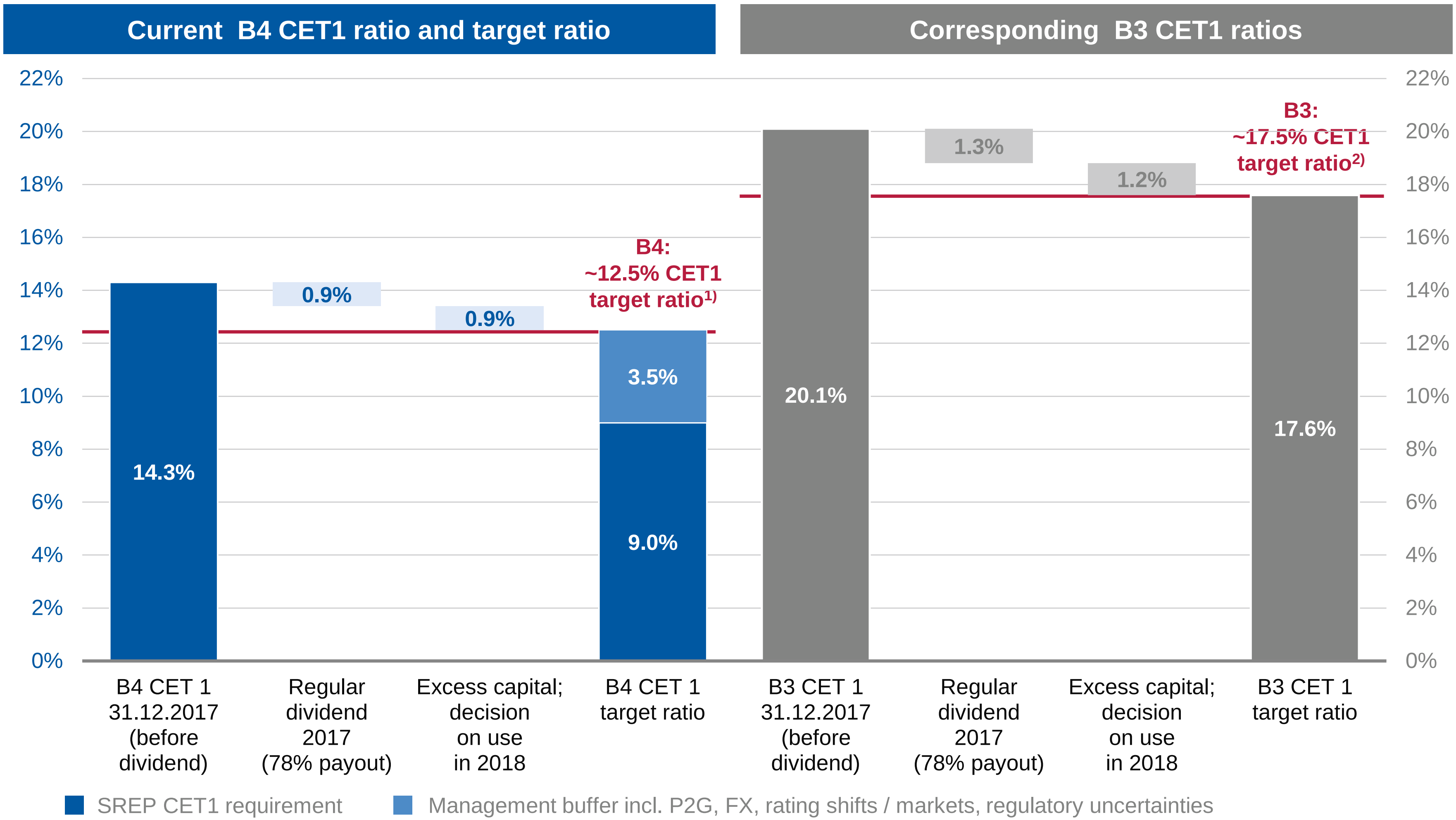
Accordingly RoE minimum target level structure lifted from 10% to 11% pre-tax, well on track to achieve our sustainable ~12% pre-tax RoE target

Dividend:

Confirming dividend policy

Note: All 2017 figures preliminary and unaudited

Use of excess capital (as of 31.12.2017)
Currently, management sees Basel IV CET1 ratio of 12.5% adequate

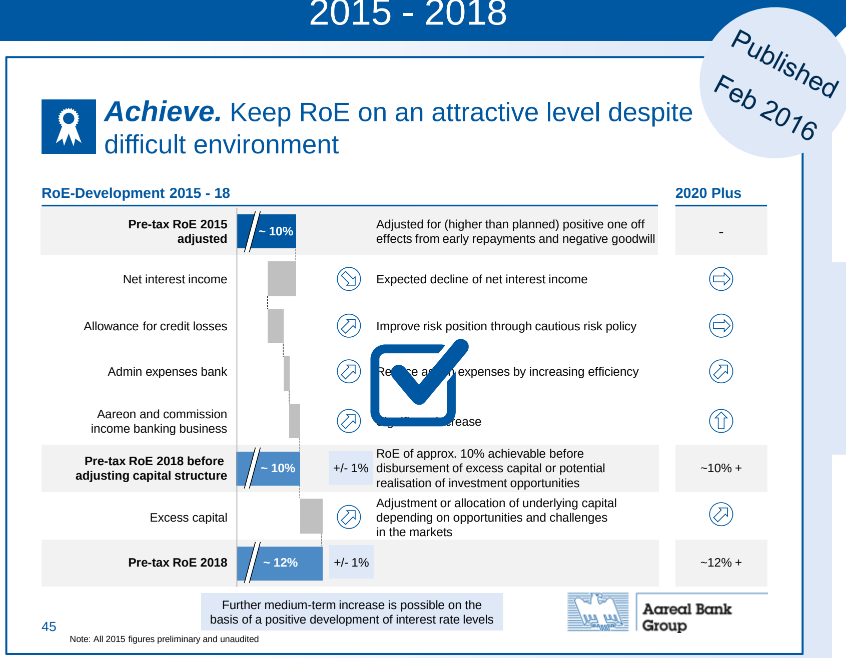


1) Target ratio and resulting excess capital may be adjusted in case of further regulatory changes
2) Future volatility in B3 target ratio depending on risk density

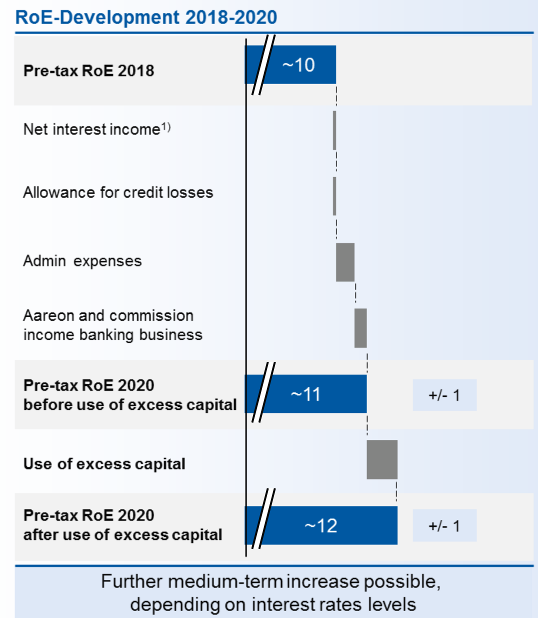
Note: All 2017 figures preliminary and unaudited

Achieve.
RoE development: Our way ahead

2015 - 2018



2018 - 2020



Achievements:

- Portfolio reduced: lowered NII and freed up equity
- LLP significantly reduced
- Admin expenses reduced
- NCI increased

Way ahead:

- Stabilising NII (but 'quality over quantity' still valid) and risk costs at 25-30 bps
- Continued reduction of admin expenses (lower transformational one-offs from 2020 onwards)
- Further growth of net commission income
- Future excess capital from NCA-run down to be invested in CRE portfolio (depending on market conditions)

1) incl. effects from derecognition of financial instruments

Note: All 2017 figures preliminary and unaudited

Aareal

Dividend policy
Confirmed

Base dividend

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

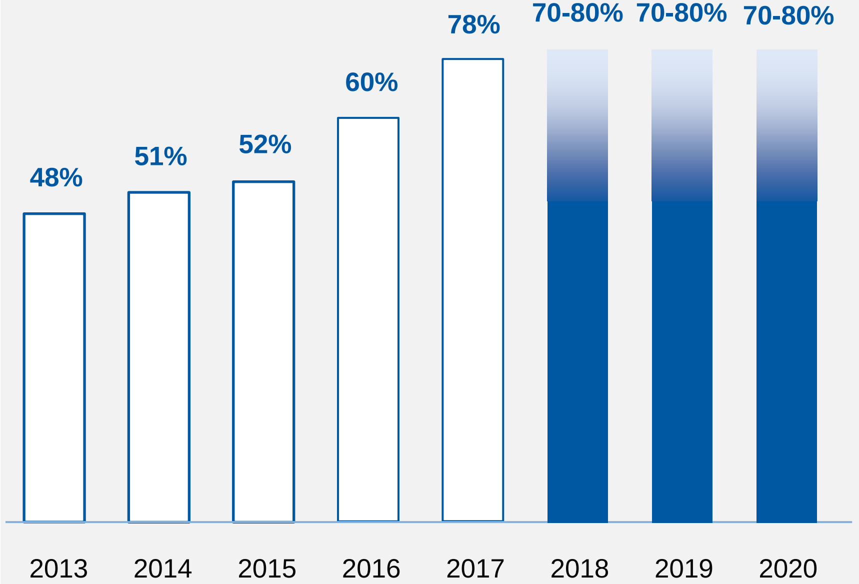
Supplementary dividend

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 - 2020



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.

Note: All 2017 figures preliminary and unaudited

Outlook 2018

Net interest income incl. effects from derecognition of financial instruments	▪ € 570 mn - € 610 mn
Allowance for credit losses[1)]	▪ € 50 mn - € 80 mn
Net commission income	▪ € 215 mn - € 235 mn
Admin expenses	▪ € 470 mn - € 500 mn
Operating profit	▪ **€ 260 mn - € 300 mn**
Pre-tax RoE	▪ 9.5% - 11.0%
EpS	▪ € 2.60 - € 3.00
Target portfolio size	▪ € 25 bn - € 28 bn
New business origination[2)]	▪ € 7 bn - € 8 bn
Operating profit Aareon[3)]	▪ ~ € 40 mn

1) As in 2017, the bank cannot rule out additional allowances for credit losses
2) Incl. renewals
3) After segment adjustments

Note: All 2017 figures preliminary and unaudited

Aareal

Conclusion
Well positioned to continue successful development in 2018

Key takeaways

- Aareal Bank Group posted another set of good results for the 2017 financial year and delivered on its promises – once again demonstrating that it knows how to handle challenging conditions
- With yet another marked dividend increase the bank wants to let its shareholders participate in the company's sustainably positive development. A decision on the appropriation of excess capital will be taken during the course of 2018, guided by how to maximise value for the shareholders.
- With its proven business policy and its coherent strategy Aareal Bank Group is in perfect shape to continue the positive business performance not only in the actual year but beyond.

Note: All 2017 figures preliminary and unaudited

Appendix
Group results

Aareal Bank Group
Results 2017

	01.01.-31.12.2017 € mn	01.01.-31.12.2016 € mn	Change
Profit and loss account			
Net interest income	634	701	-10%
Allowance for credit losses	82	97	-15%
Net interest income after allowance for credit losses	**552**	**604**	**-9%**
Net commission income	206	193	7%
Net result on hedge accounting	-7	0	
Net trading income / expenses	14	19	-26%
Results from non-trading assets	0	67	
Results from investments accounted for at equity	-	0	
Administrative expenses	511	547	-7%
Net other operating income / expenses	74	30	147%
Operating Profit	**328**	**366**	**-10%**
Income taxes	115	132	-13%
Consolidated net income	**213**	**234**	**-9%**
Consolidated net income attributable to non-controlling interests	6	19	-68%
Consolidated net income attributable to shareholders of Aareal Bank AG	207	215	-4%
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG[1)]	207	215	-4%
of which: allocated to ordinary shareholders	191	199	-4%
of which: allocated to AT1 investors	16	16	0%
Earnings per ordinary share (in €)[2)]	3.20	3.33	-4%
Earnings per ordinary AT1 unit (in €)[3)]	0.16	0.16	0%

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.

Note: All 2017 figures preliminary and unaudited

Aareal

Aareal Bank Group
Results Q4 2017

	01.10.-31.12.2017 € mn	01.10.-31.12.2016 € mn	Change
Profit and loss account			
Net interest income	148	169	-12%
Allowance for credit losses	29	33	-12%
Net interest income after allowance for credit losses	**119**	**136**	**-13%**
Net commission income	61	56	9%
Net result on hedge accounting	-2	-4	
Net trading income / expenses	1	-2	
Results from non-trading assets	0	1	
Results from investments accounted for at equity	-	0	
Administrative expenses	123	130	-5%
Net other operating income / expenses	10	28	-64%
Operating Profit	**66**	**85**	**-22%**
Income taxes	18	44	-59%
Consolidated net income	**48**	**41**	**17%**
Consolidated net income attributable to non-controlling interests	0	4	-100%
Consolidated net income attributable to shareholders of Aareal Bank AG	48	37	30%
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG[1)]	48	37	30%
of which: allocated to ordinary shareholders	44	33	33%
of which: allocated to AT1 investors	4	4	0%
Earnings per ordinary share (in €)[2)]	0.74	0.55	35%
Earnings per ordinary AT1 unit (in €)[3)]	0.04	0.04	0%

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.

Note: All 2017 figures preliminary and unaudited

Aareal

Aareal Bank Group
Results Q4 2017 by segments

€ mn	Structured Property Financing 01.10.-31.12.2017	Structured Property Financing 01.10.-31.12.2016	Consulting / Services 01.10.-31.12.2017	Consulting / Services 01.10.-31.12.2016	Consolidation/ Reconciliation 01.10.-31.12.2017	Consolidation/ Reconciliation 01.10.-31.12.2016	Aareal Bank Group 01.10.-31.12.2017	Aareal Bank Group 01.10.-31.12.2016
Net interest income	152	174	0	0	-4	-5	148	169
Allowance for credit losses	29	33					29	33
Net interest income after allowance for credit losses	**123**	**141**	**0**	**0**	**-4**	**-5**	**119**	**136**
Net commission income	3	5	55	47	3	4	61	56
Net result on hedge accounting	-2	-4					-2	-4
Net trading income / expenses	1	-2					1	-2
Results from non-trading assets	0	0		1			0	1
Results from investments accounted for at equity				0				0
Administrative expenses	62	80	63	51	-2	-1	123	130
Net other operating income / expenses	7	26	4	2	-1	0	10	28
Operating profit	**70**	**86**	**-4**	**-1**	**0**	**0**	**66**	**85**
Income taxes	19	45	-1	-1			18	44
Consolidated net income	**51**	**41**	**-3**	**0**	**0**	**0**	**48**	**41**
Allocation of results								
Cons. net income attributable to non-controlling interests	0	3	0	1			0	4
Cons. net income attributable to shareholders of Aareal Bank AG	51	38	-3	-1	0	0	48	37

Note: All 2017 figures preliminary and unaudited

Aareal Bank Group
Results 2017 by segments

€ mn	Structured Property Financing 01.01.-31.12. 2017	Structured Property Financing 01.01.-31.12. 2016	Consulting / Services 01.01.-31.12. 2017	Consulting / Services 01.01.-31.12. 2016	Consolidation/ Reconciliation 01.01.-31.12. 2017	Consolidation/ Reconciliation 01.01.-31.12. 2016	Aareal Bank Group 01.01.-31.12. 2017	Aareal Bank Group 01.01.-31.12. 2016
Net interest income	646	716	0	0	-12	-15	634	701
Allowance for credit losses	82	97					82	97
Net interest income after allowance for credit losses	**564**	**619**	**0**	**0**	**-12**	**-15**	**552**	**604**
Net commission income	7	10	191	171	8	12	206	193
Net result on hedge accounting	-7	0					-7	0
Net trading income / expenses	14	19		0			14	19
Results from non-trading assets	0	66		1			0	67
Results from investments accounted for at equity				0				0
Administrative expenses[1)]	296	346	220	204	-5	-3	511	547
Net other operating income / expenses	69	27	6	3	-1	0	74	30
Operating profit	**351**	**395**	**-23**	**-29**	**0**	**0**	**328**	**366**
Income taxes	123	143	-8	-11			115	132
Consolidated net income	**228**	**252**	**-15**	**-18**	**0**	**0**	**213**	**234**
Allocation of results								
Cons. net income attributable to non-controlling interests	4	16	2	3			6	19
Cons. net income attributable to shareholders of Aareal Bank AG	224	236	-17	-21	0	0	207	215

1) € 27 million in provisions for staff-related measures, resulting from the optimisation of processes and structures within the scope of the ”Aareal 2020“ programme for the future, was allocated to the Structured Property Financing segment in full.

Note: All 2017 figures preliminary and unaudited

Aareal

Aareal Bank Group
Results – quarter by quarter

	Structured Property Financing					Consulting / Services					Consolidation / Reconciliation					Aareal Bank Group				
	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
€ mn																				
Net interest income	152	167	160	167	174	0	0	0	0	0	-4	-3	-2	-3	-5	148	164	158	164	169
Allowance for credit losses	29	26	25	2	33											29	26	25	2	33
Net interest income after allowance for credit losses	**123**	**141**	**135**	**165**	**141**	**0**	**0**	**0**	**0**	**0**	**-4**	**-3**	**-2**	**-3**	**-5**	**119**	**138**	**133**	**162**	**136**
Net commission income	3	1	2	1	5	55	45	46	45	47	3	2	1	2	4	61	48	49	48	56
Net result on hedge accounting	-2	1	-3	-3	-4											-2	1	-3	-3	-4
Net trading income / expenses	1	10	4	-1	-2											1	10	4	-1	-2
Results from non-trading assets	0	0	0		0					1						0	0	0		1
Results from results accounted for at equity										0										0
Administrative expenses	62	68	77	89	80	63	53	53	51	51	-2	-1	-1	-1	-1	123	120	129	139	130
Net other operating income / expenses	7	4	54	4	26	4	1	1	0	2	-1	0	0	0	0	10	5	55	4	28
Operating profit	**70**	**89**	**115**	**77**	**86**	**-4**	**-7**	**-6**	**-6**	**-1**	**0**	**0**	**0**	**0**	**0**	**66**	**82**	**109**	**71**	**85**
Income taxes	19	34	44	26	45	-1	-3	-2	-2	-1						18	31	42	24	44
Consolidated net income	**51**	**55**	**71**	**51**	**41**	**-3**	**-4**	**-4**	**-4**	**0**	**0**	**0**	**0**	**0**	**0**	**48**	**51**	**67**	**47**	**41**
Cons. net income attributable to non-controlling interests	0	0	0	4	3	0	0	1	1	1						0	0	1	5	4
Cons. net income attributable to shareholders of Aareal Bank AG	51	55	71	47	38	-3	-4	-5	-5	-1	0	0	0	0	0	48	51	66	42	37

Note: All 2017 figures preliminary and unaudited

Appendix
IFRS 9 / Defaulted exposure

IFRS 9
Remarks

First Time Application

- 1 January 2018
- Transition effects are recognised in equity

Classification and Measurement

- New model for the classification and measurement of financial assets (ac, fvoci or fvpl) based on business models and cash flow characteristics
- Aareal Bank will change B/S structure to measurement categories

Impairment

- Expected loss model:
  - Stage 1: LLP based on 12-Month expected credit losses on recognition
  - Stage 2: LLP based on lifetime expected credit losses on financial assets with significant increase in credit risk and
  - Stage 3: LLP based on lifetime expected credit losses on impaired financial assets
- No LLP for financial assets fvpl, as it is part of gains/losses on the corresponding line item

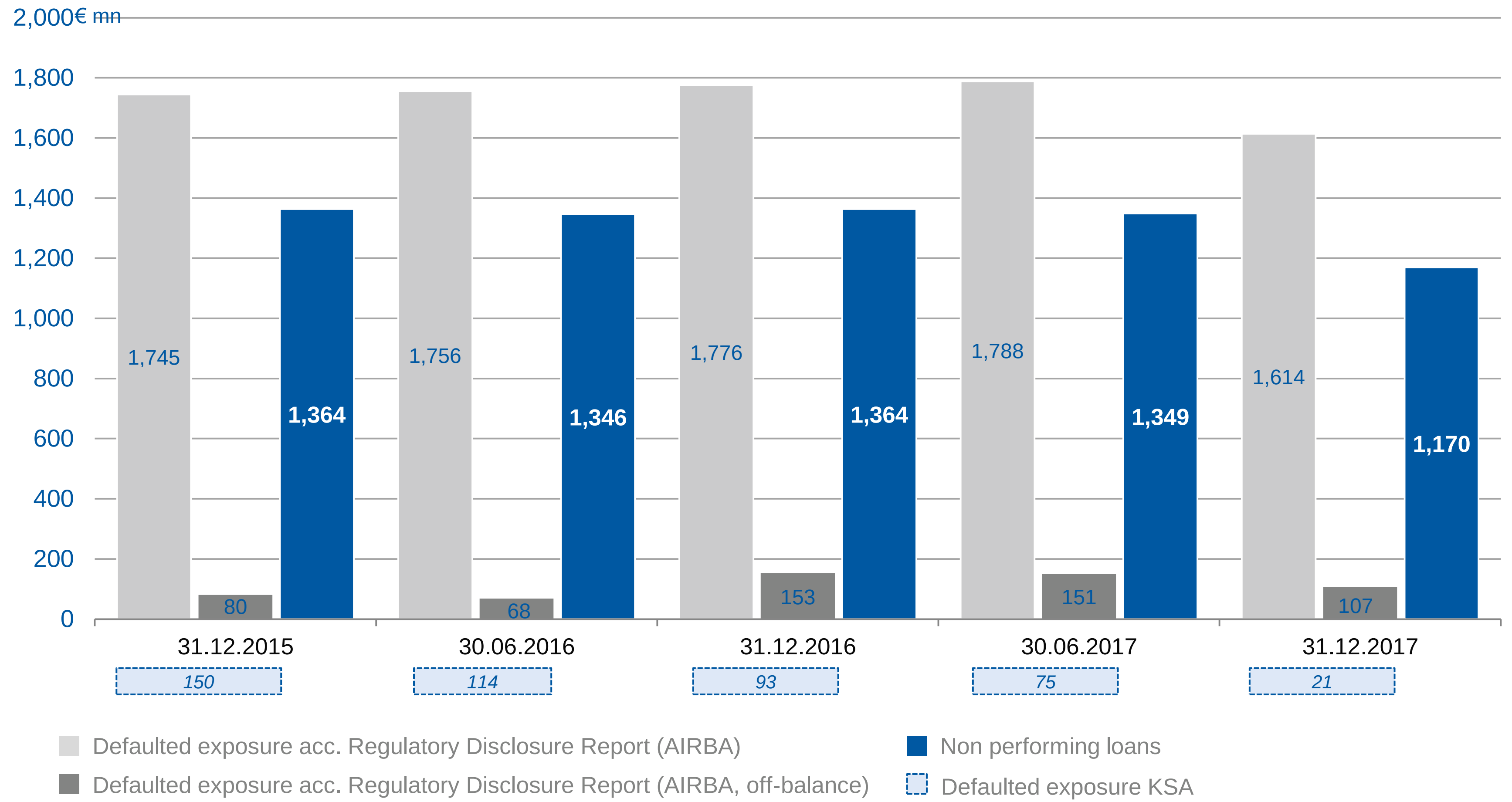
Financial Statements

- B/S and P/L structure will change, eg. derecognition and modification gains / losses are added
- Extended Notes Disclosures for impairment and hedge accounting

Note: All 2017 figures preliminary and unaudited

Defaulted exposure

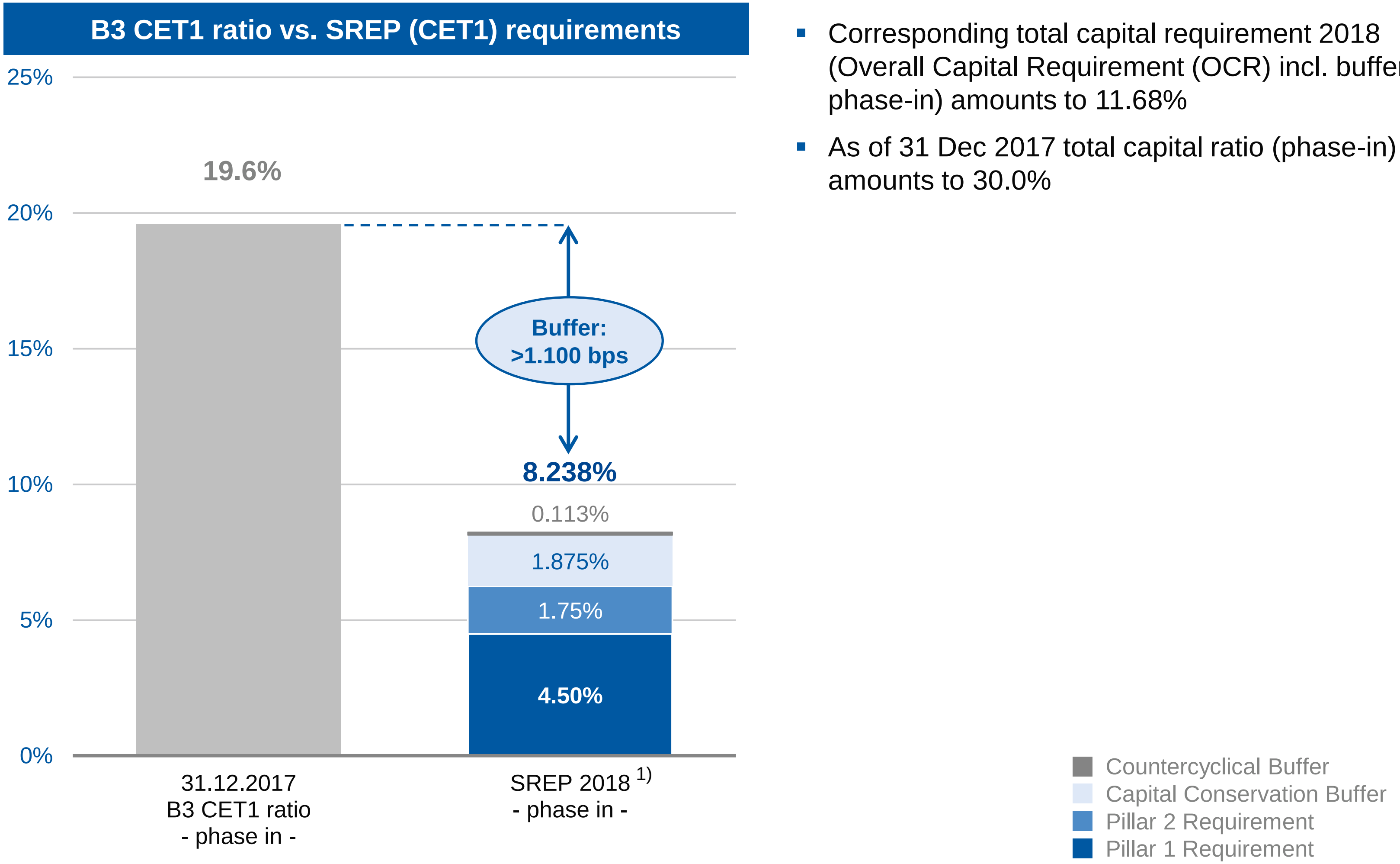
NPL development vs. defaulted exposure acc. Reg. Disc. Report



Note: All 2017 figures preliminary and unaudited

Appendix
SREP

SREP (CET 1) requirements
Demonstrating conservative and sustainable business model



- Corresponding total capital requirement 2018 (Overall Capital Requirement (OCR) incl. buffers, phase-in) amounts to 11.68%
- As of 31 Dec 2017 total capital ratio (phase-in) amounts to 30.0%

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

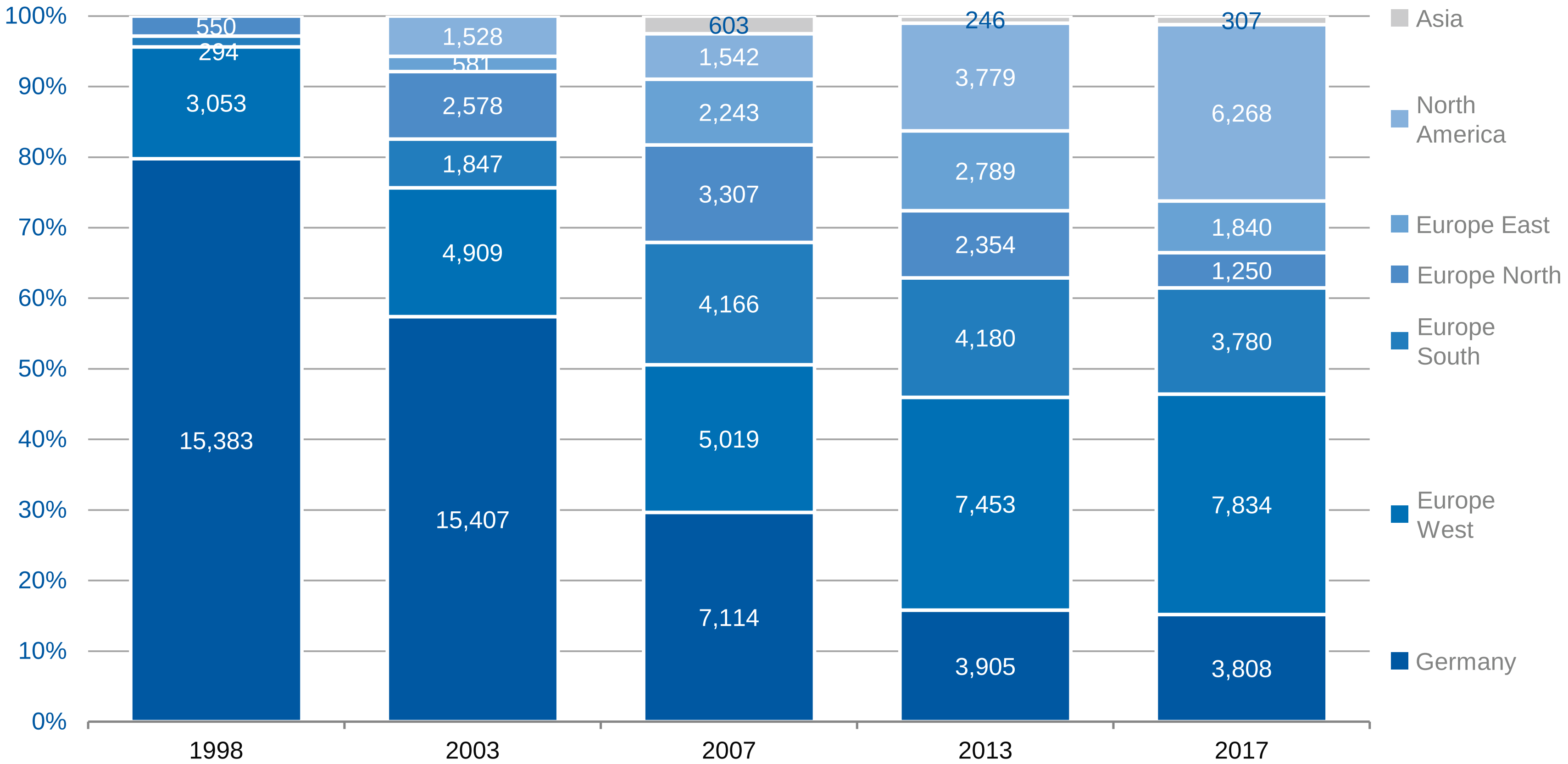
Note: All 2017 figures preliminary and unaudited

Appendix

Development commercial real estate finance portfolio

Development commercial real estate finance portfolio[1)]

Diversification continuously strengthened (in € mn)

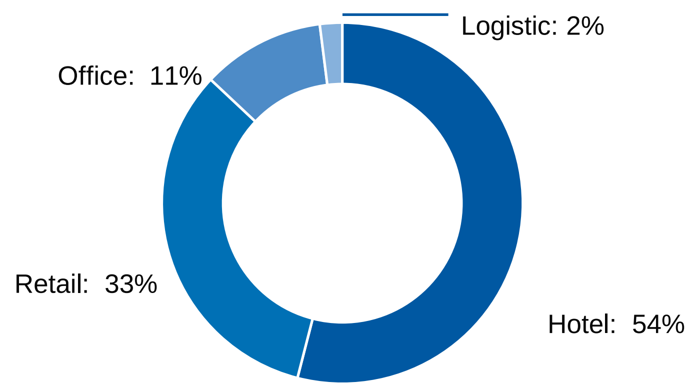


1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included

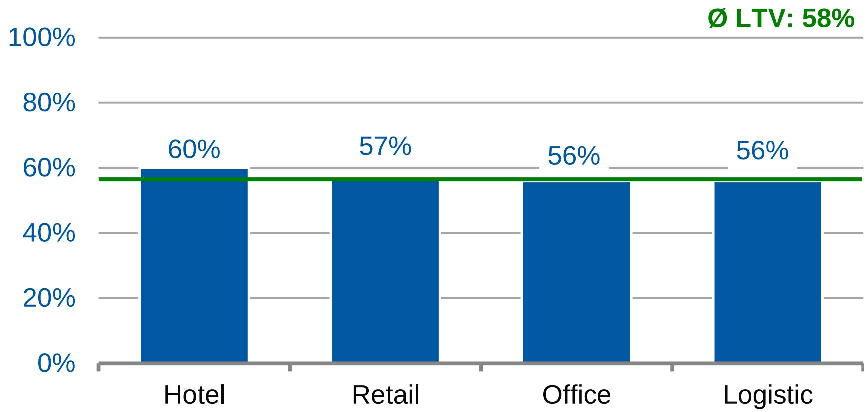
Note: All 2017 figures preliminary and unaudited

Spotlight: UK CRE finance portfolio[1)]
€ 3.7 bn (~15% of total portfolio)

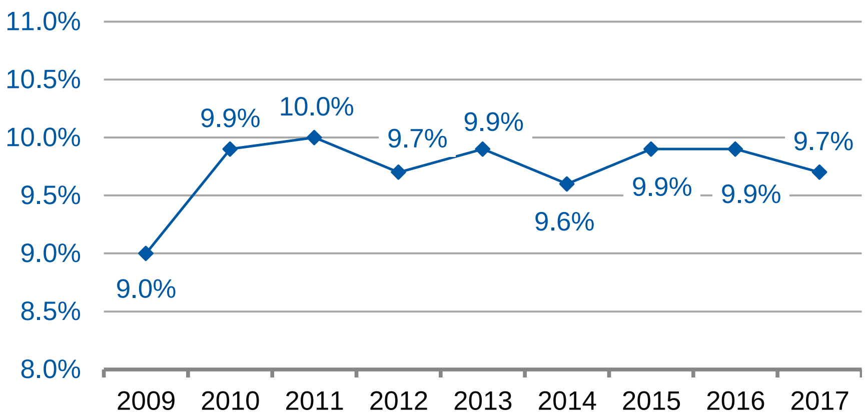
Total portfolio by property type



Average LTV by property type[2)]



Yield on debt[2)]



Comments

- Performing:
  - ~ 100 properties financed, no developments
  - ~ 60% of total portfolio in Greater London area, emphasising on hotels
  - € 190 mn with LTV > 60%
  - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 72%
- No NPL

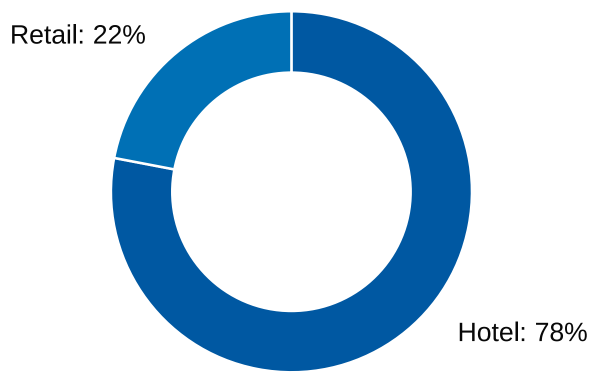
1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included
2) Performing CRE-business only, exposure as at 31.12.2017

Note: All 2017 figures preliminary and unaudited

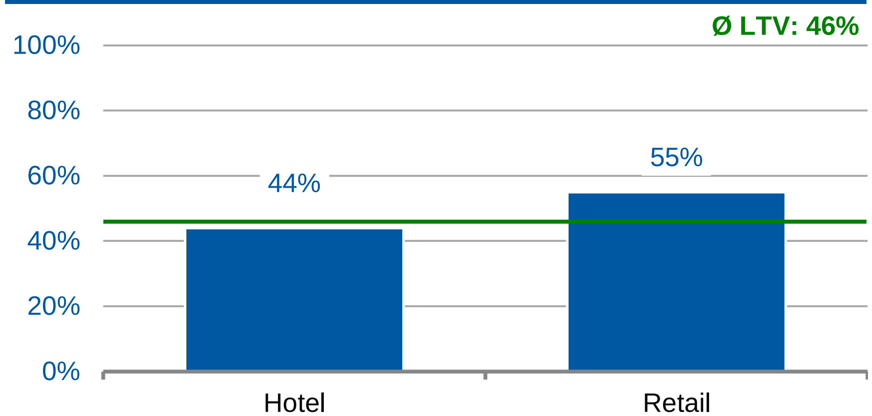
Spotlight: Turkey CRE finance portfolio[1)]

€ 0.3 bn (~1% of total portfolio)

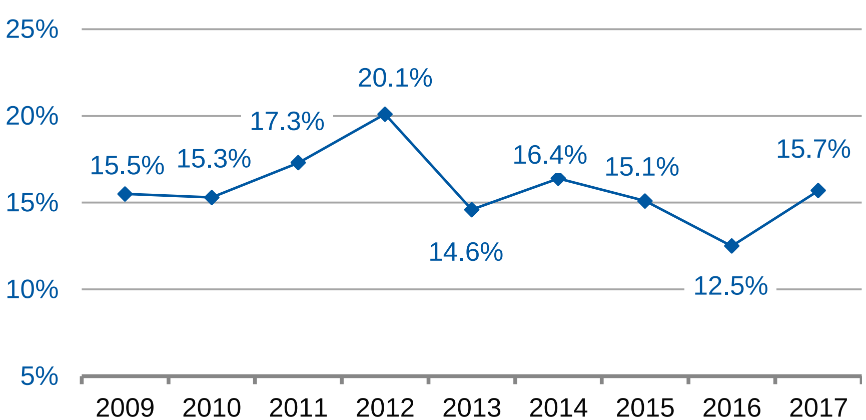
Total portfolio by property type



Average LTV by property type[2)]



Yield on debt[2)]



Comments

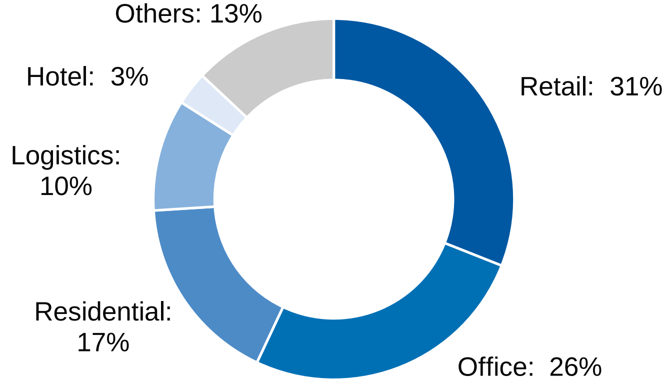
- Performing:
  - 3 properties financed:
    2 hotels, 1 retail, no logistics, no developments
  - ~ 85% of total portfolio in Istanbul / Antalya
  - No Deals with LTV > 60%
  - Theoretical stress on property values (-20%):
    would lead to portfolio LTV of approx. 53%
- NPL: € 90 mn, 2 deals (hotel, retail)

1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included
2) Performing CRE-business only, exposure as at 31.12.2017

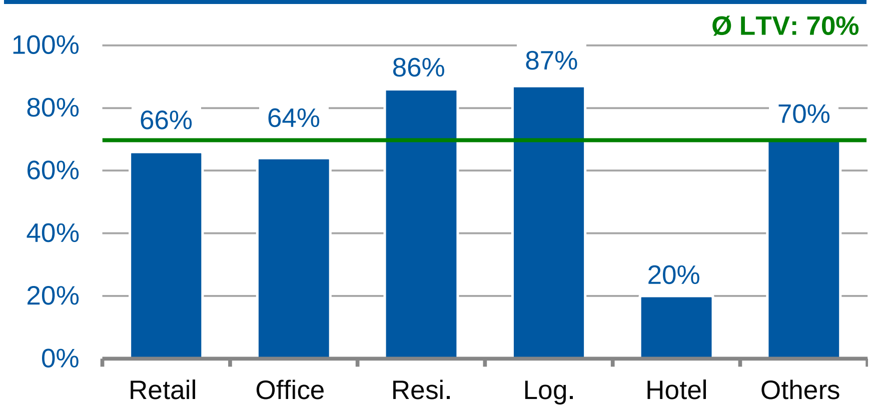
Note: All 2017 figures preliminary and unaudited

Spotlight: Italian CRE finance portfolio[1)]
€ 2.8 bn (~11% of total portfolio)

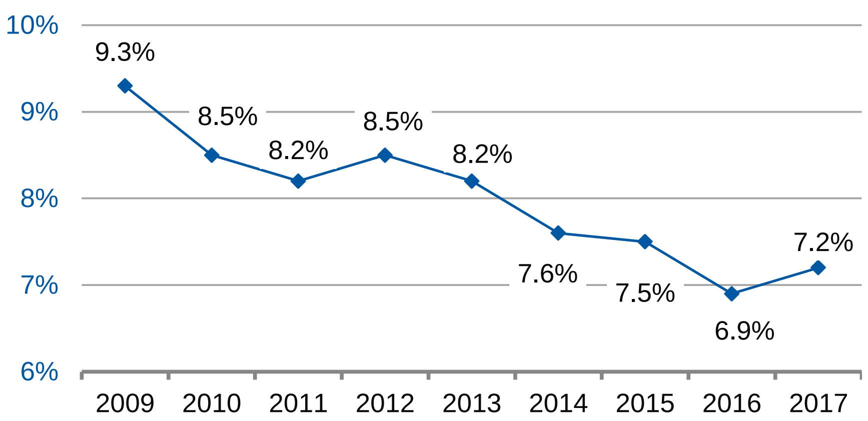
Total portfolio by property type



Average LTV by property type[2)]



Yield on debt[2)]



Comments

- Performing:
  - ~ 180 properties financed, < 10% developments
  - ~ 60% of total portfolio in Greater Rome or Milan area
  - € 333 mn with LTV > 60%
  - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 89%
- NPL: € 720 mn

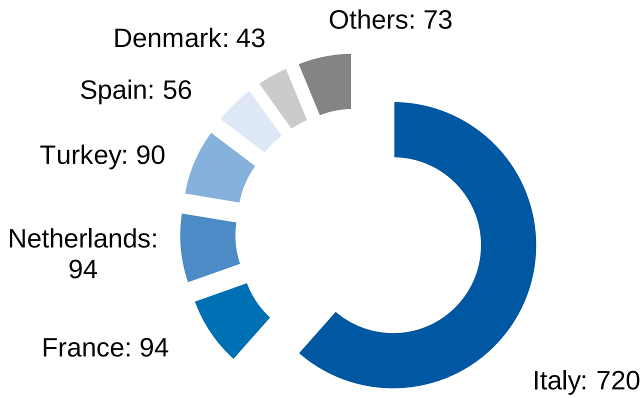
1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included
2) Performing CRE-business only, exposure as at 31.12.2017

Note: All 2017 figures preliminary and unaudited

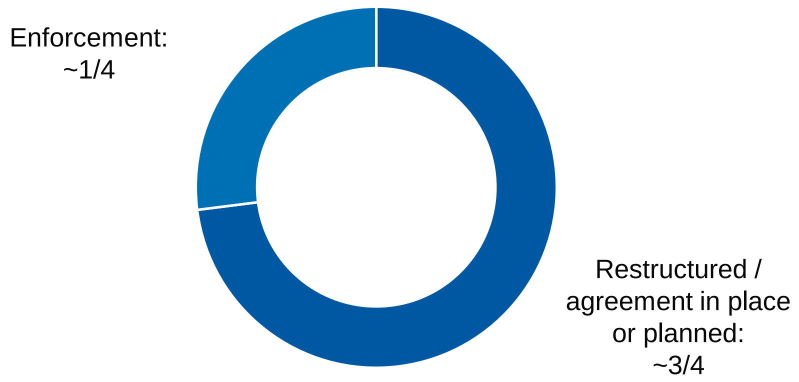
Spotlight Italy

Italian NPL: clear going forward strategy

Total NPL portfolio: € 1,170 mn



Italian NPL by status



Italian NPL

- Restructuring period: vast majority to be solved till 2020
- Current enforcement period 3-4 years, but improving due to new legislation

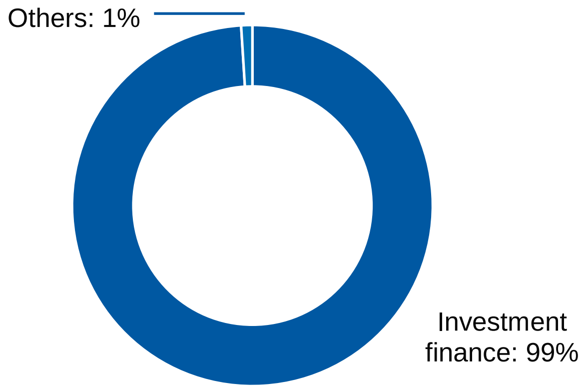
All Italian NPL are fully covered despite being in different workout-stages

Note: All 2017 figures preliminary and unaudited

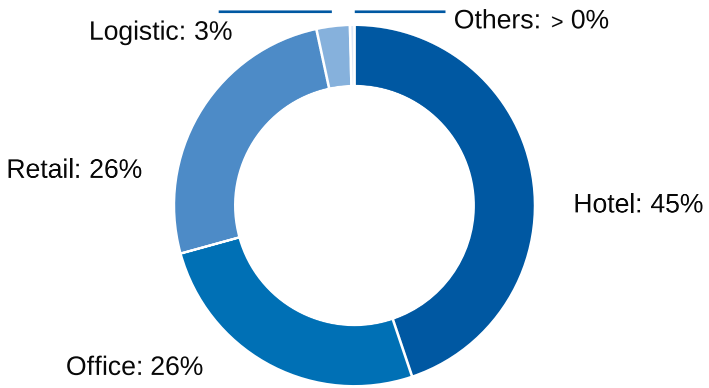
Western Europe (ex Germany) CRE finance portfolio[1)]

Total volume outstanding as at 31.12.2017: € 7.8 bn

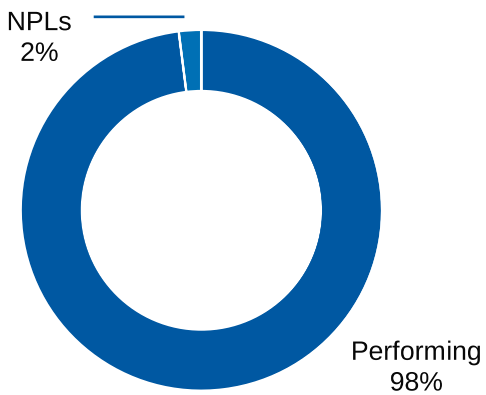
by product type



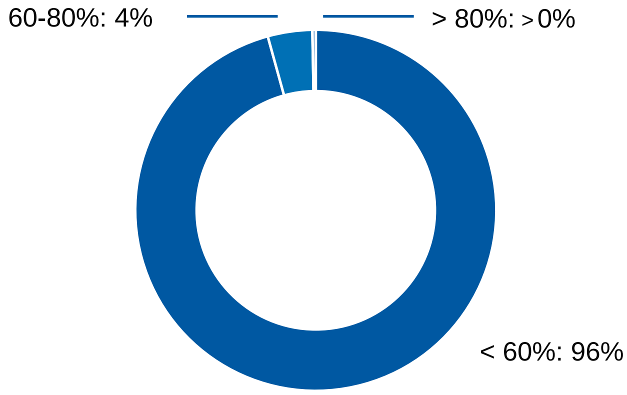
by property type



by performance



by LTV ranges[2)]



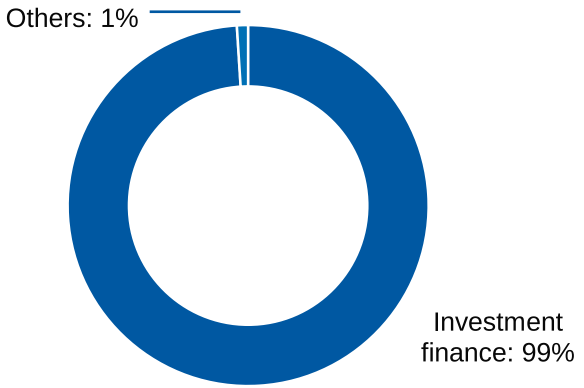
1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included
2) Performing CRE-business only, exposure as at 31.12.2017

Note: All 2017 figures preliminary and unaudited

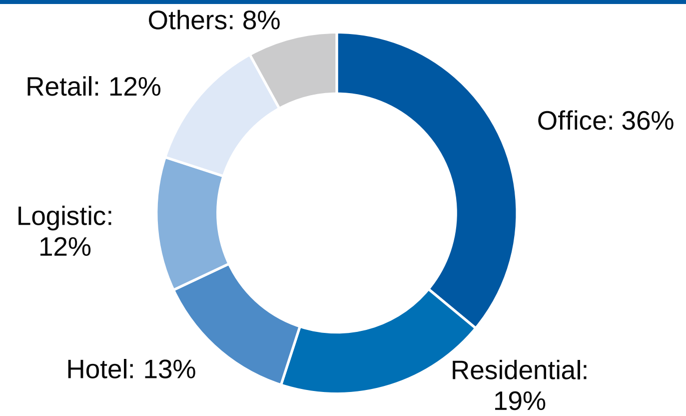
German CRE finance portfolio[1)]

Total volume outstanding as at 31.12.2017: € 3.8 bn

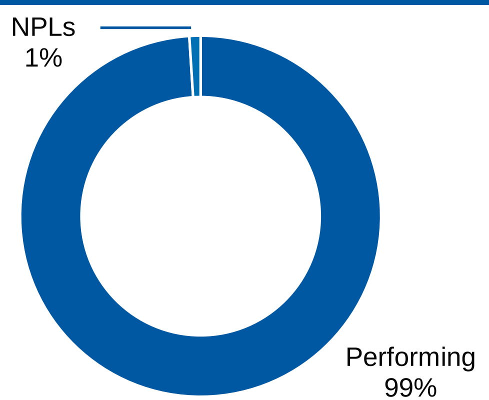
by product type



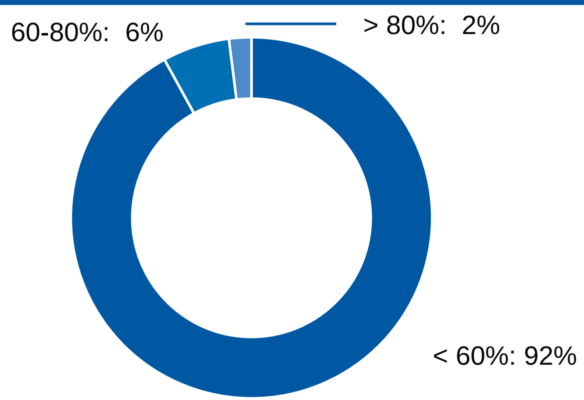
by property type



by performance



by LTV ranges[2)]

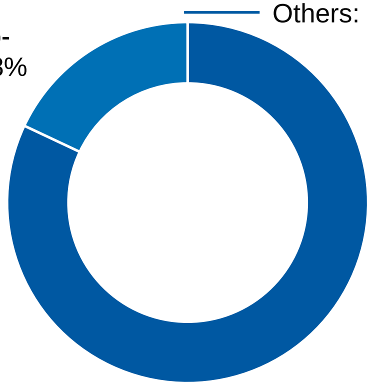


1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included
2) Performing CRE-business only, exposure as at 31.12.2017

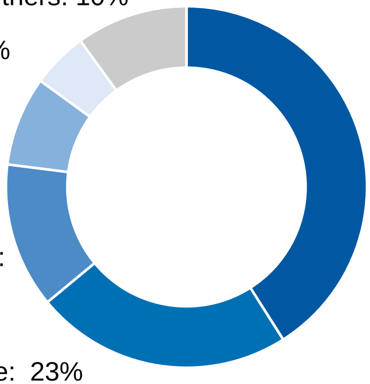
Note: All 2017 figures preliminary and unaudited

Southern Europe CRE finance portfolio[1)]
Total volume outstanding as at 31.12.2017: € 3.8 bn

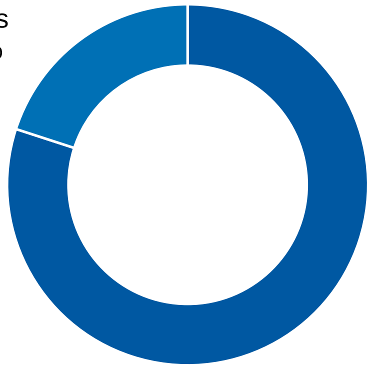
by product type



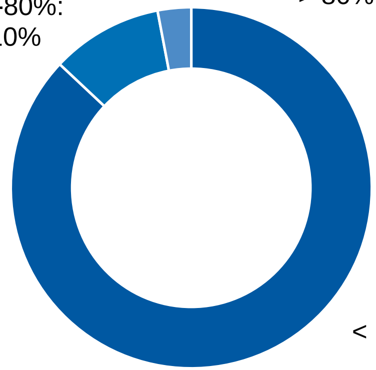
by property type



by performance



by LTV ranges[2)]



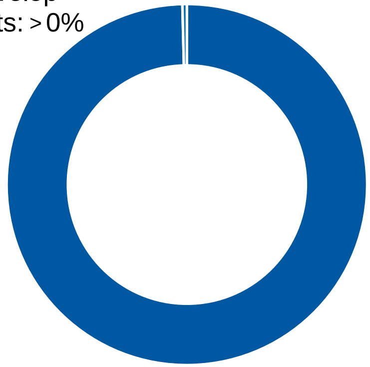
1) CRE-business only, private client business (€ 0.8 bn) and WIB’s public sector loans (€ 0.5 bn) not included
2) Performing CRE-business only, exposure as at 31.12.2017

Note: All 2017 figures preliminary and unaudited

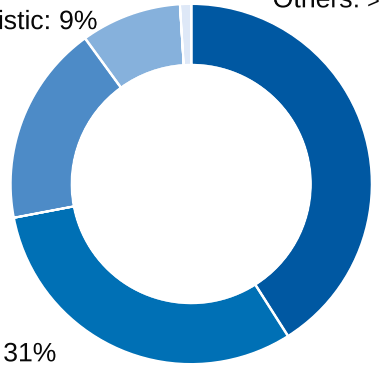
Eastern Europe CRE finance portfolio[1)]

Total volume outstanding as at 31.12.2017: € 1.8 bn

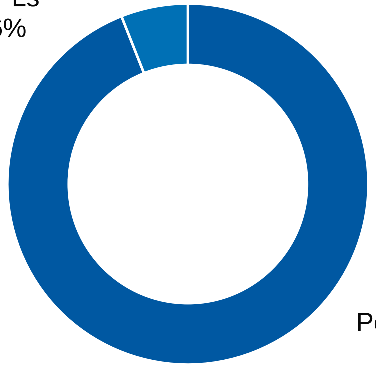
by product type



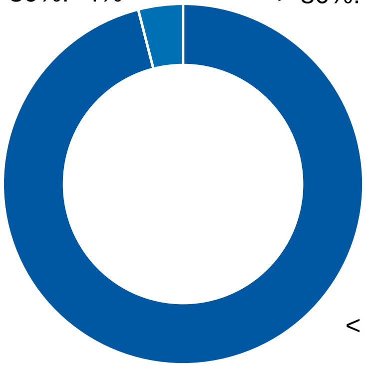
by property type



by performance



by LTV ranges[2)]



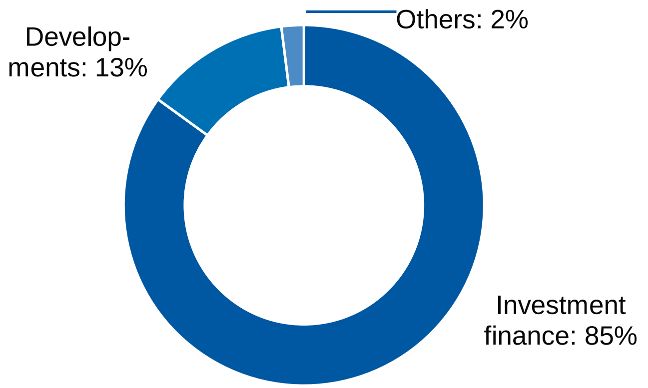
1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included
2) Performing CRE-business only, exposure as at 31.12.2017

Note: All 2017 figures preliminary and unaudited

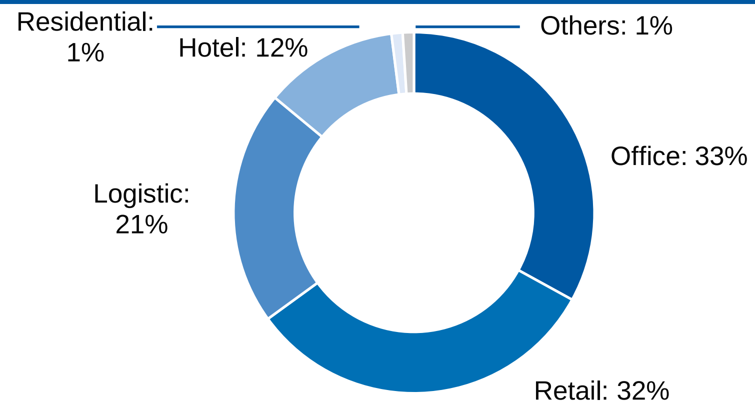
Northern Europe CRE finance portfolio[1)]

Total volume outstanding as at 31.12.2017: € 1.3 bn

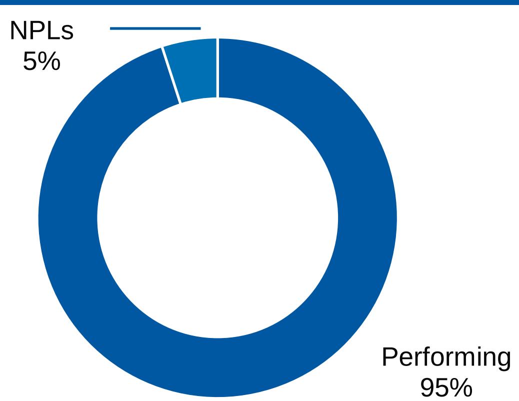
by product type



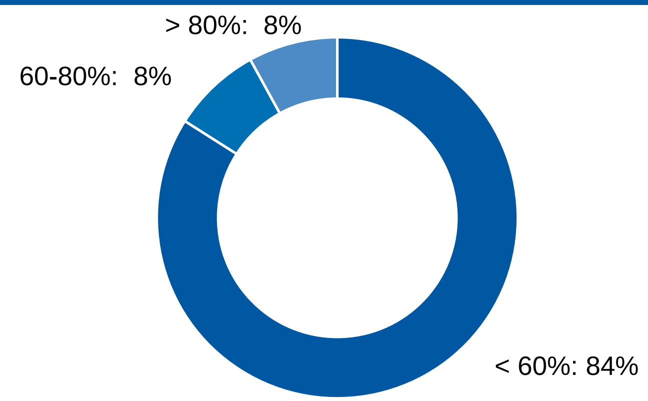
by property type



by performance



by LTV ranges[2)]



1) CRE-business only, private client business (€ 0.8 bn) and WIB’s public sector loans (€ 0.5 bn) not included
2) Performing CRE-business only, exposure as at 31.12.2017

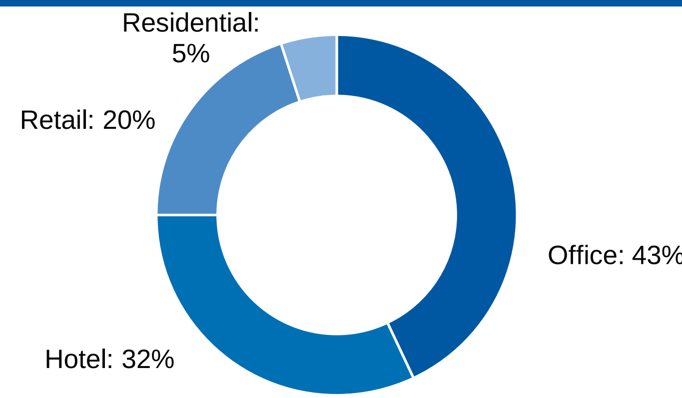
Note: All 2017 figures preliminary and unaudited

North America CRE finance portfolio[1)]

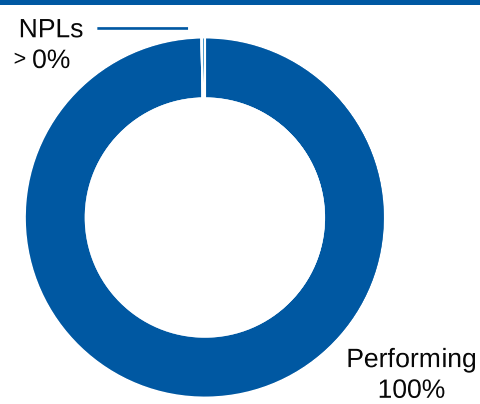
Total volume outstanding as at 31.12.2017: € 6.3 bn

by product type

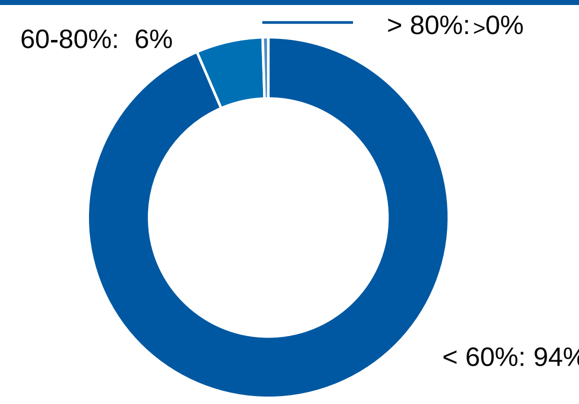
by property type



by performance



by LTV ranges[2)]



1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included
2) Performing CRE-business only, exposure as at 31.12.2017

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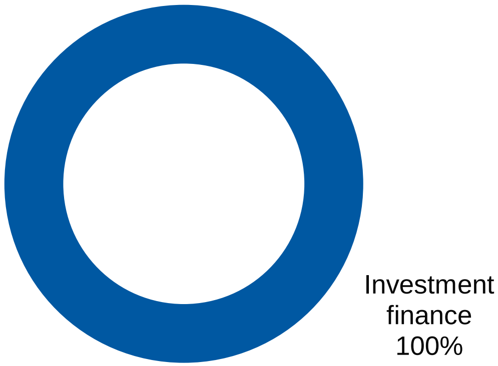
Note: All 2017 figures preliminary and unaudited

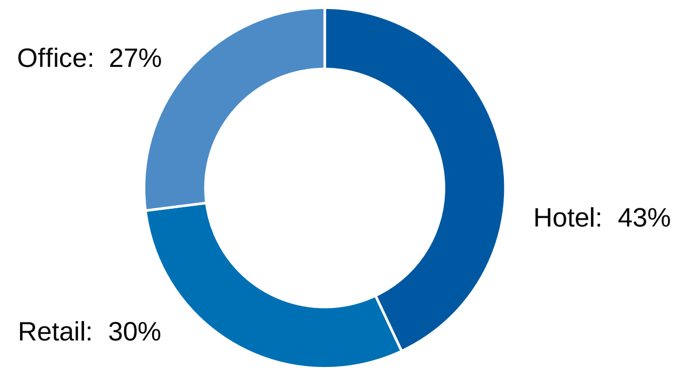
Asia CRE finance portfolio[1)]

Total volume outstanding as at 31.12.2017: € 0.3 bn

by product type

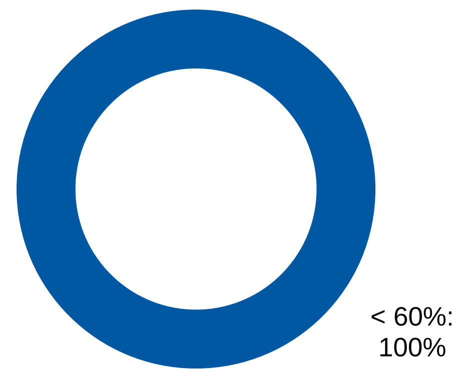


by property type



by performance

by LTV ranges[2)]



1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included
2) Performing CRE-business only, exposure as at 31.12.2017

Note: All 2017 figures preliminary and unaudited

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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)

€ mn	31.12. 2014	31.12. 2015	31.12. 2016	31.12. 2017
Net Retained Profit	77	99	122	147
▪ *Net income*	*77*	*99*	*122*	*147*
▪ *Profit carried forward from previous year*	-	-	-	-
▪ *Net income attribution to revenue reserves*	-	-	-	-
+ Other revenue reserves after net income attribution	715	720	720	720
= Total dividend potential before amount blocked[1)]	792	819	842	870
./. Dividend amount blocked under section 268 (8) of the German Commercial Code	240	287	235	283
./. Dividend amount blocked under section 253 (6) of the German Commercial Code	-	-	28	35
= Available Distributable Items[1)]	552	532	579	552
+ Increase by aggregated amount of interest expenses relating to Distributions on Tier 1 Instruments[1)]	57	46	46	32
= 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[1)]	609	578	625	584

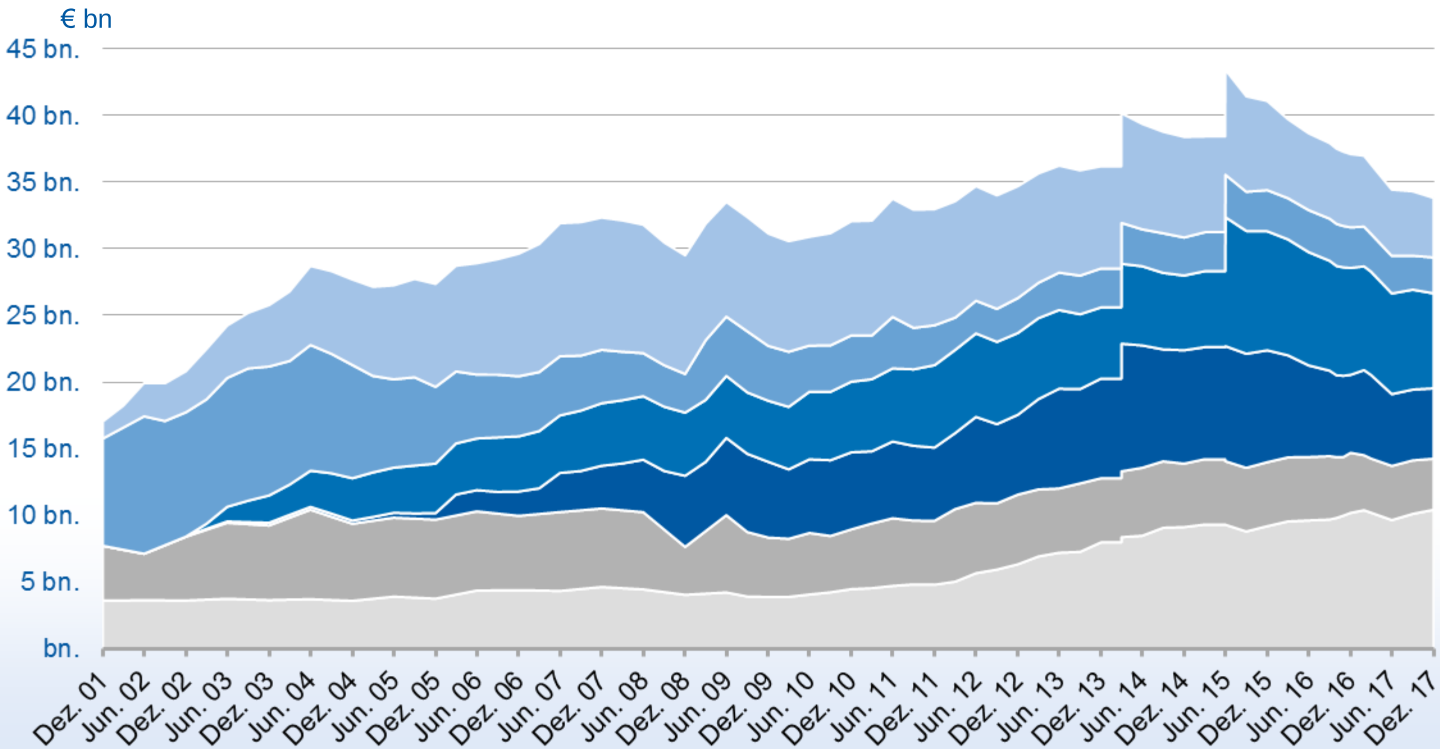
1) Unaudited figures for information purposes only

Note: All 2017 figures preliminary and unaudited

Appendix
Refinancing situation

Note: All 2017 figures preliminary and unaudited

Refinancing situation
Diversified funding sources and distribution channels



- Aareal Bank has clearly reduced its dependency on wholesale funding
- 2002 long term wholesale funding accounted for 47% of overall funding volumes – by 31.12.2017, this share has fallen below 25% (or even below 10% without Pfandbriefe)

As at 31.12.2017

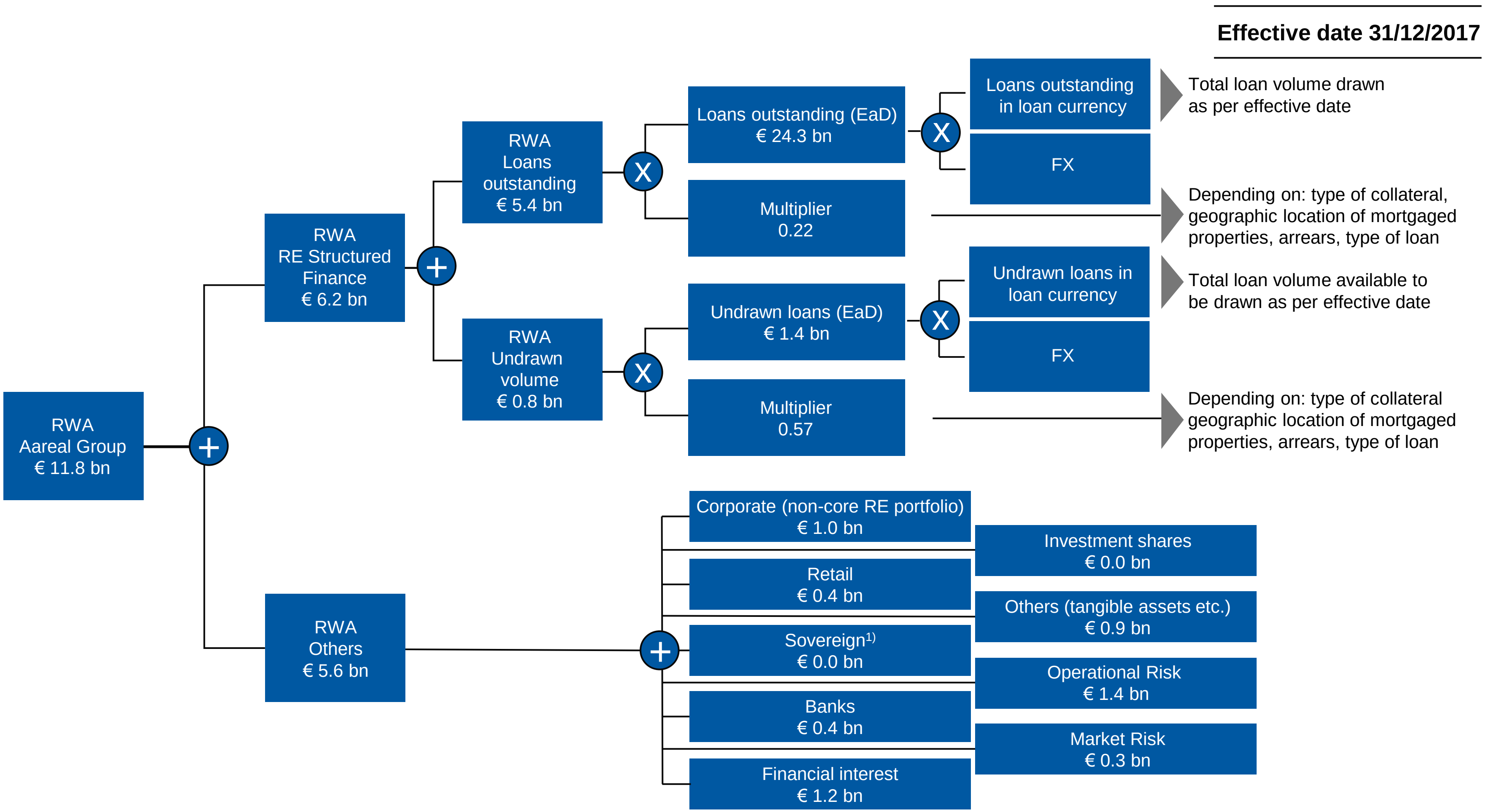
Note: All 2017 figures preliminary and unaudited

Appendix

RWA-split

From asset to risk weighted asset (RWA)

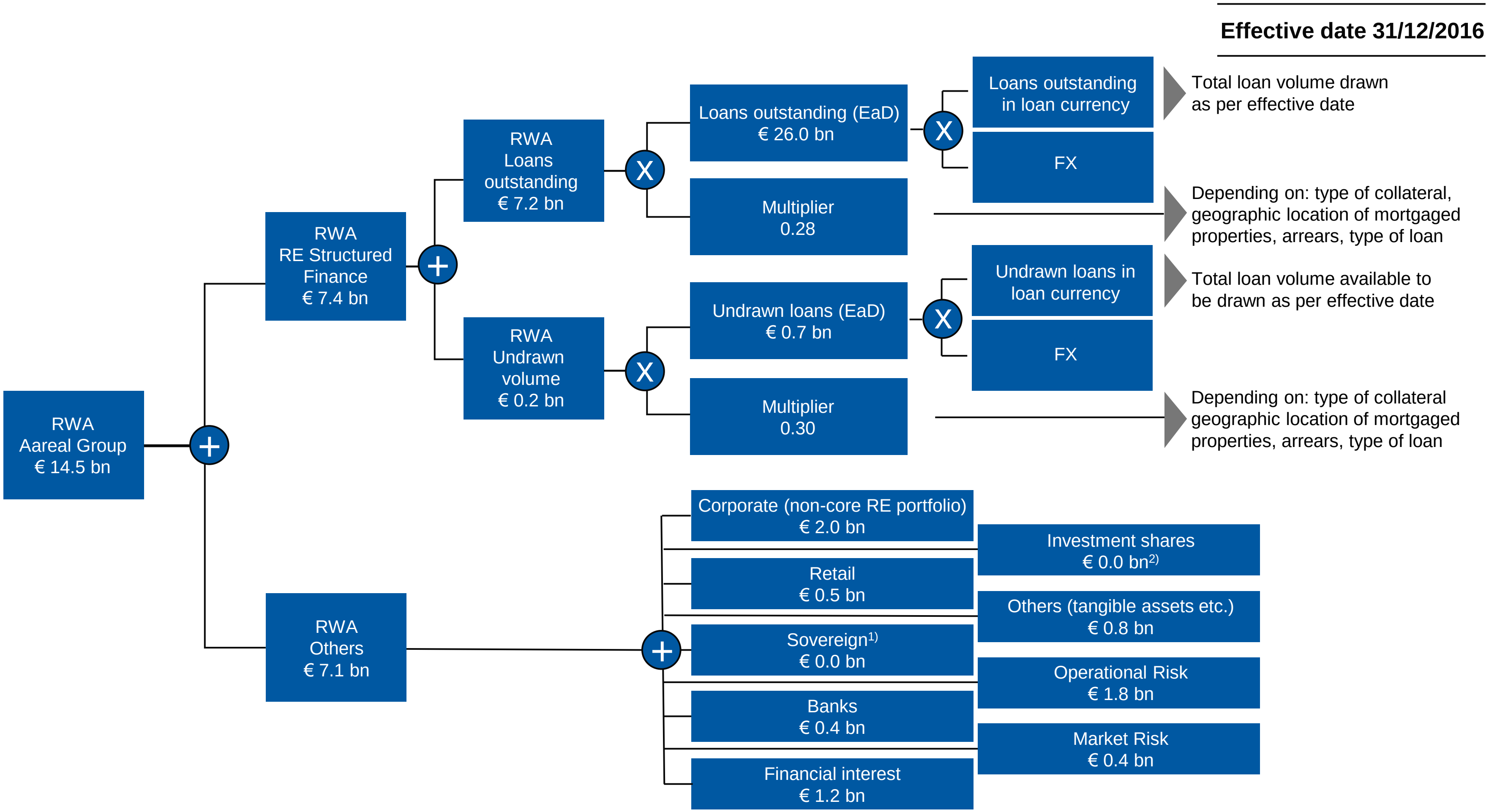
Essential factors affecting volume of RWA



1) Amounts to € 35 mn

Note: All 2017 figures preliminary and unaudited

From asset to risk weighted asset (RWA)
Essential factors affecting volume of RWA



1) Amounts to € 36 mn
2) Amounts to € 1 mn

Note: All 2017 figures preliminary and unaudited

Sustainability Performance

Aareal Bank Group
Stands for solidity, reliability and predictability

Doing business sustainably

19.4% Common Equity Tier 1 ratio[1)], exceeds the statutory requirements

€ 25.1 bn Valuable Property Finance Portfolio[2)]

Aareon's products & services boost our client's sustainability records

Aareon

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

top EMPLOYER GERMANY 2018
CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

Systematic approach: Code of Conduct for employees & suppliers

Solid refinancing base: Covered Bonds[3)] with best possible ratings

FitchRatings
Moody's INVESTORS SERVICE

Aareal Bank & Aareon: Certified Ecoprofit companies, by using

100%
green electricity[4)]

Above-average results in sustainability ratings

MSCI imug oekom research SUSTAINALYTICS GRESB REAL ESTATE DEBT

1) Basel 3, fully phased, as at 31.12.2017
2) CRE business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included, as at 31.12.2017
3) Mortgage Pfandbriefe and Public-sector Pfandbriefe rated AAA by Fitch; Mortgage Pfandbriefe rated Aaa by Moody's
4) At our main locations in Wiesbaden and Mainz, selected other German and international sites
Note: All 2017 figures preliminary and unaudited

Aareal

Sustainability data
Extends the financial depiction of the Group

Key takeaways at a glance

Transparent Reporting – facilitating informed investment decisions

- SUSTAINABILITY DISCLOSURES 2016[1], structured according to requirements of EU Directive 2014/95/EU "Disclosure of non-financial and diversity information", is based on Global Reporting Initiative (GRI) G4 guidelines, in compliance with "in accordance - core" option
- PricewaterhouseCoopers AG prepared a limited assurance engagement on materiality analysis / selected data

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 [as per 02/2017]
oekom	Aareal Bank Group holds "prime status", ranking among the leaders in its industry [since 2012]
Sustainalytics	Aareal Bank Group was classified as "outperformer", ranking among the best 14% of its industry [as per 03/2017]
GRESB	Aareal Bank Group scores 56 out of 100 in GRESB Debt Assessment [as per 08/2017]
imug	Aareal Bank was rated "positive BBB" in the category "Uncovered Bonds"; the second best result of all 109 rated Financial Institutions [as per 03/2017]

1) https://www.aareal-bank.com/en/responsibility/reporting-on-our-progress/sustainability-reporting/

Aareal

Note: All 2017 figures preliminary and unaudited

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 =** $\frac{\text{Operating profit ./. income/loss attributable to non-controlling interests ./. AT1 cupon}}{\text{Average IFRS equity excl. non-controlling interests, other reserves, AT1 and dividends}}$
- **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 =** $\frac{\text{Total stock of high quality liquid assets}}{\text{Net cash outflows under stress}}$
- **Bail-in capital ratio =** $\frac{\text{Equity + subordinated capital}}{\text{(Long + short term funding) – (Equity + subordinated capital)}}$
- **Earnings per share =** $\frac{\text{operating profit ./. income taxes ./. income/loss attributable to non controlling interests ./. net AT1 cupon}}{\text{Number of ordinary shares}}$
- **Yield on Debt =** $\frac{\text{Net operating income (NOI) x 100}}{\text{Current commitment incl. prior / pari-passu loans}}$

Note: All 2017 figures preliminary and unaudited

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Note: All 2017 figures preliminary and unaudited

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