Aareal Bank AG

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BBB+
Short-Term IDR	F2
Viability Rating	bbb+
Support Rating	5
Support Rating Floor	NF
Derivative Counterparty Rating	A-(dcr)
Long-Term Deposit Rating	A-
Short-Term Deposit Rating	F2

Sovereign Risk

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency Rating	AAA

Outlooks

Long-Term Foreign-Currency Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Financial Data

Aareal Bank AG

	30 Sep 17	31 Dec 16
Total assets (USDbn)	51,081	50,288
Total assets (EURbn)	43,267	47,708
Total equity (EURbn)	2,584	2,829
Net interest margin (%)	1.5	1.5
Cost/income ratio (%)	55.2	57.6
Operating ROAE (%)	13.3	11.0
Operating profit/risk-weighted assets (%)	2.8	2.1
LICs/gross loans (%)	0.2	0.3
Non-performing loan ratio (%)	4.9	4.8
Fitch Core Capital ratio (%)	19.3	16.9
Common equity Tier 1 ratio (phased-in) (%)	17.7	16.2
Loans/deposits (%)	214	228

Related Research

Aareal Bank AG - Ratings Navigator (February 2018)

Fitch Affirms Aareal Bank at 'BBB+' (February 2018)

Global Housing and Mortgage Outlook – 2018 (January 2018)

Fitch 2018 Outlook: Western European Banks (December 2017)

Basel IV Agreement is Positive for Bank Creditors (December 2017)

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Key Rating Drivers

Business Model Constrains Ratings: Aareal Bank AG's Issuer Default Ratings (IDRs) and Viability Rating (VR) primarily reflect the bank's business model as a specialised commercial real estate (CRE) lender, which exposes its operations to the cyclical CRE sector. Aareal's resilient performance and solid capitalisation adequately mitigate this concentration.

Strong Capitalisation: We view Aareal's public commitment to maintaining comfortable capital buffers as realistic in light of its robust record of capital generation and moderate asset growth targets, helped by increasing use of loan syndication and shrinking residual legacy assets. Its fully loaded common equity Tier 1 (CET1) ratio rose to a strong 17.3% at end-3Q17 (end-2016: 15.7%). Its fully loaded total capital ratio rose to 25.9%, comfortable above its 2017 transitional SREP (Supervisory Review and Evaluation Process) requirement of 11% including buffers.

No IDR Uplift Despite Debt Buffer: Aareal's Long-Term IDR is not notched up from its VR despite significant layers of qualifying junior debt (QJD) and management's public commitment to maintaining a QJD buffer of at least 8% of risk-weighted assets (RWAs) through the cycle. The absence of an IDR uplift reflects the fact that the Long-Term IDR would not exceed 'BBB+' even if the buffer was in the form of CET1 rather than junior debt. This is due to Aareal's business model being predominantly focused on CRE financing, which constrains its VR.

Fairly Stable Performance: Aareal's operating performance has been significantly more resilient than its domestic peers over the latest credit cycle as its regional diversification mitigates the margin erosion prevailing in the German CRE market, where strong competition results in aggressive loan pricing. We expect pressure on CRE lenders' profitability to continue to increase due to strong competition, the low-interest-rate environment, increasing margin pressure and upward normalisation of risk charges from (except for Italy) low levels.

Robust Asset Quality: A material weakening of the overall benign international CRE markets seems unlikely in the short term. Aareal is only moderately exposed to pockets of risks that are building up in the German CRE market due to intense competition and the low interest rates, which rapidly inflate valuation in large cities. Non-performing loans (NPLs) in the bank's weak Italian CRE loan book peaked in 2015. They have since dropped by 9% to EUR764 million at end-3Q17, but their ongoing restructuring should result in a major improvement only after 2018.

Basel III Output Floor Manageable: The output floor decided by global regulators in 4Q17 will significantly inflate Aareal's RWAs due to the bank's focus on secured property financing and intensive use of internal rating models, but its strong capitalisation should enable the bank to manage the floor's slow phasing-in until 2027 without disrupting its strategic objectives.

Solid Funding Mix: Aareal's large, growing, resilient and fairly price-inelastic housing deposit base results in moderate reliance on unsecured market funds. It should also create a material competitive advantage by limiting the impact of interest rate rises on the bank's funding costs.

Rating Sensitivities

VR Capped Within 'BBB' Category: Aareal's IDRs and senior unsecured debt ratings are sensitive to the same drivers as its VR. The VR will remain primarily vulnerable to potential asset-quality deterioration in the medium term. An upgrade could result from a material diversification of the bank's business model into lower-risk asset classes or uncorrelated sources of revenue, most probably further growth of its consulting and services division.

Operating Environment

Stable CRE Investment Volume in Continental Europe

CRE investments in Europe rose by 13% yoy to EUR130 billion in 1H17 (EUR274 billion in the 12 months to end-1H17). Similar to 2016, Germany has attracted the largest investment volume in Europe, well ahead of the UK, even though investors are increasingly returning to the UK despite uncertainty over Brexit. In continental Europe, Germany remains the driving force, with EUR61 billion of investments (22% of the European total) in the 12 months to end-1H17.

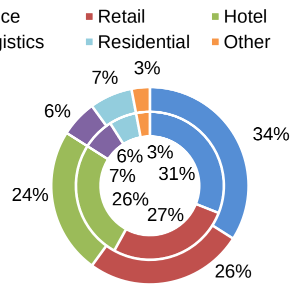
Demand for German CRE Remains High

Germany's attractiveness for international investors reflects the country's good fundamentals, robust economy, resilient real-estate market and perception as a haven for long-term investments amid geopolitical uncertainties. CRE investments in Germany increased by 18% yoy to EUR48 billion in 9M17, half of which came from foreign investors, which contribute to drive valuation up. Demand for office properties remains strong. Limited supply and strong competition among buyers continue to erode rental yields, especially in the premium segment.

Strong Loan Origination in the US

New lending to the US CRE sector was broadly stable in 2017 and very close to the record of USD508 billion achieved in 2007. Asset prices were broadly flat amid moderate rental yield volatility. As the cycle nears its peak, short-term price increases are likely to be moderate, supported by ample credit availability but also facing uncertain implications of the recently agreed corporate tax reform and expected interest rate increases. With about USD2 billion of new lending in North America in 9M17, Aareal's regional market share was well below 1%. This shows its ability to operate a profitable CRE franchise without relying on large market shares.

CRE Book by Asset Types
End-3Q17: EUR25.6bn (inner ring)
End-2016: EUR27.9bn (outer ring)



Source: Aareal

Company Profile

Listed German CRE Lender and Pfandbrief Issuer

Aareal is included in the German mid-cap stock index MDAX and operates two core segments, Structured Property Financing (SPF) and consulting/services (CS). SPF provides CRE loans in excess of EUR25 million and structuring in 26 countries in Europe, Asia and the US. The bank operates from 17 international offices on three continents. It plans to expand mostly in the North America and envisages entering the Australian market. Target clients include property companies, institutional investors and to a lesser extent owners of residential property portfolios.

Business Diversification Gradually Improving

CS provides the institutional housing sector with IT (through Aareal's subsidiary Aareon) and banking services. It also gives Aareal access to stable deposits from this sector, mostly in Germany. Aareon is the domestic market leader in integrated ERP systems for the housing industry, with 2,800 clients managing six to seven million housing units in Germany (60% market share). Aareon also operates in France, the Netherlands, the UK and Scandinavia.

Management intends to further diversify Aareal's revenue and reduce its reliance on the more cyclical CRE lending business by investing in Aareon's growth, notably through cross-border sales, additional products for ERP systems, digital offerings for the housing industry and by expanding Aareon's sales to the utility sector.

Solid Business Model and Margins

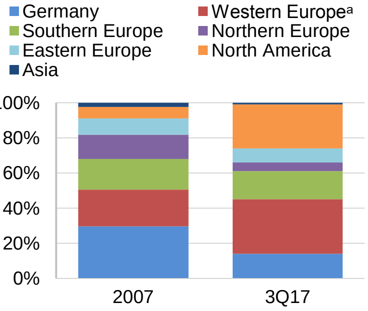
We expect Aareal to continue to originate loans with solid margin and loan/value (LTV) profiles despite the low potential for margin growth available in CRE lending across Europe. The bank has exploited the failure and subsequent restructuring, shrinkage or wind-down of several German CRE lenders to consolidate its market positions during the latest credit cycle. In the fragmented European CRE lending market, where pricing power is not defined by size, Aareal's modest market share of about 2% allows robust recurring operating margins.

Related Criteria

Global Bank Rating Criteria (November 2016)

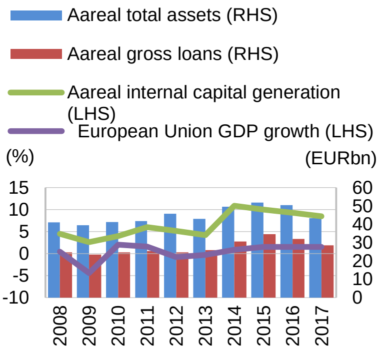
CRE Book by Region

End-3Q17: EUR25.6bn



[a]Excluding Germany
Source: Aareal

Asset Growth



Source: Aareal, OECD, Fitch

Geographically Diversified

Aareal's above-average geographic asset diversification and operating margins, conservative underwriting standards and solid risk management adequately mitigate its vulnerability to the CRE markets' cyclicality. Its moderate reliance on single jurisdictions enables flexible capital allocation to react to local market developments. This also notably mitigates the bank's weak Italian CRE exposure, which results in a higher overall NPL ratio than Germany-focused peers.

Key Competitive Strength Housing Deposits

Aareal's deposits from the institutional housing sector rose to an average of EUR10 billion in 9M17. This stable deposit base, which is largely inelastic to interest rate moves, is a key strength relative to peers as it diversifies the bank's funding, reduces its reliance on wholesale sources, protects against rising interest rates and benefits the net stable funding ratio.

Increased Focus on Loan Syndication

Aareal intends to syndicate a rising share of new lending to alleviate regulatory requirements (notably the RWA output floor foreseen by the revised Basel III) to third parties by optimising its RWAs, to increase its balance-sheet flexibility and to participate in larger tickets. In 1Q17, it started a strategic partnership with a UK-based specialist for CRE servicing and credit management that supports, among others, these syndication activities.

Management and Strategy

Sound Management, Strong Execution

Aareal is one of very few German monoline CRE banks that did not require extraordinary support or restructuring during the financial crisis. Its management's high degree of expertise and tested risk infrastructure have enabled resilient, above-average earnings ever since. In our view, operating an independent CRE lender without contingent support from the state or a large universal banking group will remain a permanent challenge in the re-regulated environment. Therefore, we view a strong management team as essential to ensure the bank's viability in reasonable stress scenarios. The addition of two management board members and a second management layer in 2016 addresses the increasingly demanding operating conditions.

Aareal has a solid record in consistently achieving and regularly exceeding its transparently communicated targets, which significantly exceed the sector's average ambitions. We take a positive view of the bank's reduction of its CRE portfolio to EUR25 billion-EUR28 billion within three years of the acquisitions of two smaller German peers, as targeted by management. This moderate target range indicates a cautious approach to growth, facilitates close risk monitoring and limits the bank's reliance on unsecured market funding. The smooth integration of both acquisitions demonstrates management's solid execution capabilities and ability to seize growth opportunities within a peer group that has focused on deleveraging until 2015.

Risk Appetite

CRE is a volatile, high-risk asset class particularly vulnerable to single-loan concentration as well as interest rate and credit spread risks. However, we view Aareal's prudent and crisis-tested underwriting standards as better than the industry's average practices. We expect Aareal (which reviews its lending policies at least annually) to maintain strict lending criteria.

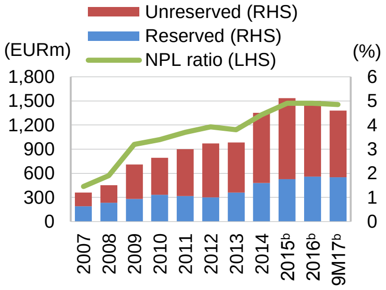
Adequate Credit Approval Process

Aareal's adequate risk selection mitigates the low granularity of its loan book. A regional approach introduced in 2015 for Europe and Asia adapts risk criteria to distinctive market features and adds buffers for riskier assets, notably in Russia, Turkey and China. CRE loans' average maturities of up to five years make regular prolongations necessary, especially under adverse market conditions when secondary-market transactions are scarce.

High Value at Risk Inflated by Conservative Calculation

Aareal is regulated as a trading institution but ceased active trading in 2009. It generally swaps fixed-rate loans and own debt into floating rates. Foreign-currency (FC) sensitivity is modest as FC loans (mostly in US dollars, sterling and Swedish kronor) are funded in the respective currencies. The banking book's value at risk (VaR, 95% confidence level, 250-day holding period) peaked at a moderate 9% of its CET1 in 9M17, although the bank overstates its VaR by ignoring equity as a mitigant for interest rate, foreign-exchange (FX) and credit spread risk.

Stabilising NPL Ratio[a]
Improved coverage



[a] 2007-2011: Excluding 90-day overdue
[b] Including WestImmo
Source: Aareal

Moderate Interest-Rate Sensitivity

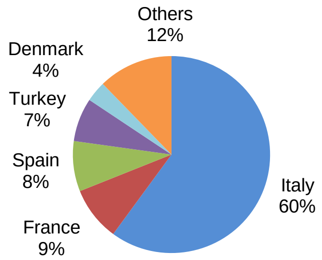
A 200bp upward shift of the term structure would have had a negative net present value impact of EUR219 million (a downward shift to a minimum of zero would have increased it by EUR110 million) at end-2016. This is higher than at peers as the large overnight deposits and money-market funding drive higher mismatches of its assets and liabilities' maturities. However, the sensitivity is fairly stable and manageable due to the housing deposits' inelasticity to market rates.

Asset Quality

Sound Asset Quality

Aareal's asset quality is solid and crisis-tested, as shown by its moderate and resilient NPL ratio during and since the financial crisis, helped by significantly better regional diversification than those of its direct peers, and prudent risk management. Its CRE portfolio has a sound history of relatively low credit losses, owing to its focus on prime locations and properties. Moderate reliance on the German market also allows higher pre-impairment margins.

NPLs[a] **by Country**
End-9M17



[a] Excludes 90-day overdue
Source: Aareal

Aareal's overall NPL ratio of 3%-5% since 2009 is reasonable for an international CRE lender. About 40% of NPLs are covered by loan loss reserves. Including collateral, the bank's overall NPL coverage amounted to 101% at end-9M17. About 60% of NPLs stem from Italian legacy exposures originated prior to the financial crisis.

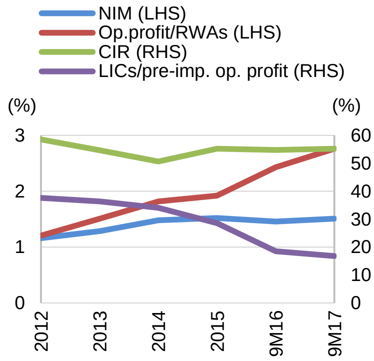
Collateralisation Mitigates Risk Concentration

Similar to other specialised CRE banks, the highly concentrated CRE assets constrain Aareal's VR despite the collateralisation, NPL reserves and granular tenant structure, which are important mitigating factors. The average LTV was 59% at end-3Q17, in line with management's target of about 60%. Unencumbered liquid assets (EUR8.6 billion at 3Q17) focus on highly rated public-sector issuers and, to a lesser extent, ECB-eligible covered bonds.

Italian NPLs Slowly Decreasing

Two-thirds of Aareal's NPLs are in southern Europe. In Italy, they declined to EUR764 million at end-9M17 from their peak of EUR836 million at end-2015. NPLs in Spain increased to EUR105 million from EUR88 million. The bank expects to resolve the vast majority of its Italian NPLs until 2020 through restructuring, which has been ongoing for several years. Excluding Italian NPLs that are already restructured but are still considered to be recovering, the bank's overall pro-forma NPL ratio was 3.4% instead of the 4.9% reported at end-9M17. All Italian NPLs are fully covered despite being in different workout stages.

Resilient Performance



Source: Aareal

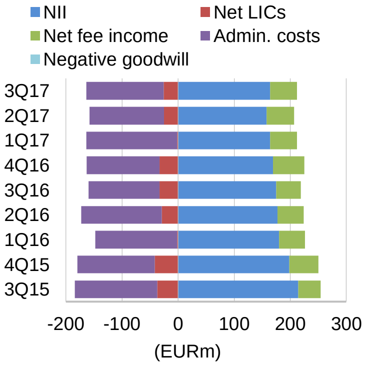
Earnings and Profitability

Resilient Performance

With an operating RoAE of 13.3%, Aareal's performance remained well above its German monoline CRE peers' in 9M17. It has been remarkably resilient during the financial crisis and the latest credit cycle. Higher-yielding foreign lending mitigates the low and eroding margins in Germany due to strong competition. Significant challenges remain the low interest rates and the bank's still limited income diversification beyond financing to the cyclical CRE sector.

The bank's operating profit declined by 7% to EUR262 million in 9M17 yoy. The drop in the net interest income driven by the run-off of non-core assets (NCAs) was only partly offset by lower loan impairment charges (LICs) and administrative costs as well as higher net fee income, mostly at Aareon. The operating return on RWAs rose to 2.8% in 9M17 from 1.9% in 9M16, mainly driven by a 18% decline in RWAs resulting from the NCAs' run-off.

Results at a Glance



Source: Aareal

Housing Deposits and Recent Acquisitions Temporarily Burden Efficiency

Running costs relating to both recent acquisitions are rapidly declining but will continue to weigh on Aareal's performance in 2018, mainly due to staff reduction. The prevailing low interest rates burden the bank's income from its housing deposit business. Consequently, the CS division reported an operating loss of EUR19 million in 9M17 despite Aareon's improving revenue and earnings before tax margin of 13%. However, the division's high strategic importance lies in its crisis-tested, stable and cheap access to funding via its housing deposits.

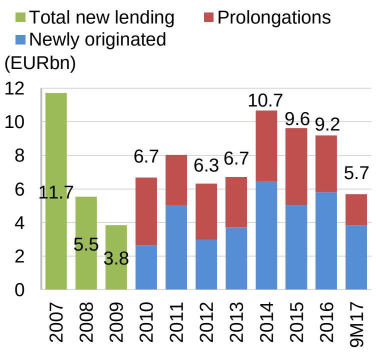
Low LICs Likely to Continue in 2018

LICs fell by 17% to EUR53 million in 9M17 yoy, slightly below the EUR75-100 million expected by management for 2017 and below the EUR120 million booked on average since 2011. Aareal expects LICs to decline further, driven by benign economic conditions.

Declining Core Portfolio

New business declined slightly to EUR5.7 billion (of which 68% was newly originated) in 9M17 from EUR6 billion in 9M16, but we expect the bank to achieve its target of EUR7 billion-EUR8 billion in 2017. However, the SPF portfolio declined by 10% yoy to EUR25.6 billion at end-3Q17, due to lower prolongations, large early repayments, FX effects and the NCA's run-off as well as higher syndications. Underwriting standards remained conservative, as evidenced by the stable LTVs on new business.

New Business Volume



Source: Aareal

CRE Loan Margin Likely to Flatten

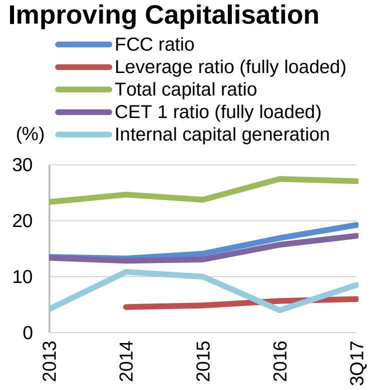
Gross loan margins have risen until 2012, driven by repricing of CRE assets since 2009, while LTVs in new business declined. The average margin decreased slightly from 2012, remained fairly stable in 2014/2015 at 230bp and increased to above 250bp in 9M17 (before foreign-exchange effects), mostly driven by the portfolio's geographical diversification. Aareal therefore earns attractive returns on risk-adjusted capital while risk selection is adequate. These benign effects are largely offset by the pressure on deposit margins and the low margins on its highly rated liquid assets. Rising competition and the low interest rates are likely to erode margins.

Capitalisation and Leverage

Strong Capitalisation Mitigates Concentration on Cyclical CRE Sector

The run-off of NCAs increases Aareal's financial flexibility. At end-9M17, its fully loaded CET1 ratio of 17.3% exceeded its 2017 SREP CET1 requirement (7.53% phased-in; 8.78% fully loaded) and its peers' average by a large margin. The increase in the CET1 ratio in 9M17 reflects the NCAs' shrinkage and lower RWA density resulting from smaller loss given defaults. Its fully loaded total capital ratio of 25.9% at end-3Q17 clearly exceeded the SREP requirement of 11% (phased-in, including buffers). The fully loaded regulatory leverage ratio of 6% at end-3Q17 significantly exceeds those of Aareal's generally highly leveraged German peers.

Improving Capitalisation



Source: Aareal

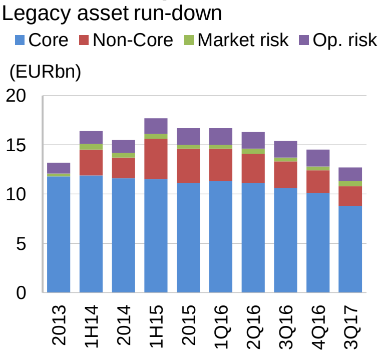
No IDR Uplift for Loss-Absorbing Junior Debt Buffer

The Long-Term IDR is not notched up from the VR despite Aareal's public commitment to maintaining a QJD buffer of at least 8% of RWAs. The absence of IDR uplift reflects the fact that the Long-Term IDR would not exceed 'BBB+', even if the buffer was in the form of CET1 rather than junior debt. This is due to the bank's focus on CRE financing, which constrains its VR. The regulator has yet to communicate to the bank its individual requirements for own funds and eligible liabilities (MREL).

Implementation of IFRS 9 Expected to Have Immaterial Effects

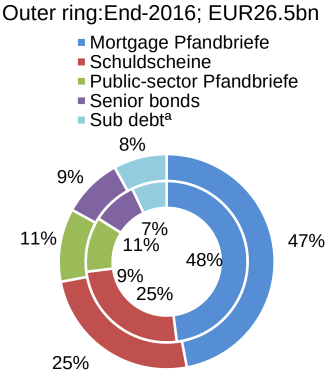
Aareal expects minimal effects from rising risk charges thanks to alterations the bank has made in recent years to smoothen the impact of the new impairment rules under IFRS 9. One such alteration is to the LIP factor, a correction factor to adjust the one-year probability of default to the estimated time between the date a loss is incurred and the identification of the actual loss.

RWA Development
Legacy asset run-down



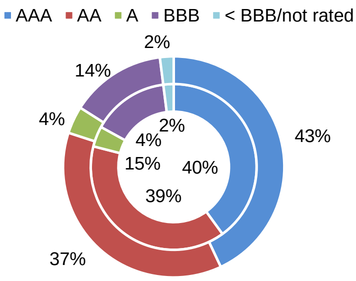
Source: Aareal

Funding Mix
Inner ring: End-3Q17; EUR23.5bn
Outer ring:End-2016; EUR26.5bn



[a] Including AT1
Source: Aareal

Treasury Portfolio Split
Inner ring: End-2016 (EUR9.3bn)
Outer ring: End-3Q17 (EUR8.6bn)



Source: Aareal

Basel III Outlook Floor Manageable

The output floor decided by global regulators in 4Q17 will significantly inflate Aareal's RWAs due to the bank's focus on secured property financing and intensive use of internal rating models, which result in low regulatory risk-weights (RWAs/total assets of 28% at end-9M17). However, the bank's strong capitalisation and flexibility to support its internal capital generation by marginally adjusting profit distribution, if needed, should enable it to accommodate the floor's slow phasing-in from 2022 to 2027 without disrupting its strategic objectives.

Funding and Liquidity

Large ECB-Eligible Assets Mitigate Use of Short-Term Funding

Aareal does not publish its liquidity coverage and net stable funding ratios, but we believe both ratios exceed the regulatory requirements. The liquid asset portfolio is funded by repos, money-market and institutional housing deposits with materially shorter nominal maturities. However, liquidity gaps and the risk of sudden outflows of short-term funds are covered by liquid high-quality assets within the security portfolio and high cash funds/position.

Competitive Strength Housing Deposits

Aareal's short-term funding includes institutional housing deposits, which increased to EUR10 billion on average in 3Q17. Cheap, stable, growing and highly resilient during the financial crisis, these lower the bank's reliance on unsecured market funding and should increase its funding cost advantage relative to peers when interest rates normalise in the long term.

Key Funding Sources Pfandbriefe, Schuldscheine

Aareal relies on market funding for nearly half of its funding needs, which we view as reasonable compared with peers. At end-3Q17, long-term debt (Pfandbriefe, senior unsecured and subordinated debt) totalled EUR23.5 billion, including the EUR2.1 billion raised in 9M17. The bank cut its use of central bank funding to nil in 2015 from EUR1.3 billion at end-2013. Aareal uses its direct access to investors in the eurozone to issue private placements, which fund a high share of its cover pools' overcollateralization and reduces its reliance on unsecured market funds. The resulting cost advantage is partly offset by the foreign-exchange swaps used for FC-denominated funding. In some cases, this can erode new business margins.

Deposit, Derivative Counterparty and Debt Ratings

The rating of Aareal's non-preferred senior unsecured debt is aligned with the IDRs. Its Long-Term Deposit Rating, Derivative Counterparty Rating (DCR) and Long-Term preferred (structured) senior debt rating are one notch above the Long-Term IDR. This reflects our view that the QJD and non-preferred senior unsecured debt buffers are sufficient to recapitalise the bank, restore its viability and prevent default on preferred senior liabilities upon resolution. The preferred senior debt contains features that make it rank senior to (and make it less vulnerable to default than) non-preferred senior unsecured debt in resolution and in insolvency.

The DCR, Deposit Ratings and preferred long-term senior debt rating are primarily sensitive to changes in the Long-Term IDR. They are also sensitive to the development of the eligible debt buffers relative to the recapitalisation amount likely to be needed to restore viability and prevent default on more senior derivative obligations, deposits and structured notes.

Aareal's Tier 2 subordinated debt is notched down once from the VR to reflect its higher loss severity relative to non-preferred senior unsecured debt. The legacy, non-Basel III-compliant hybrid securities issued by Capital Funding GmbH (DE0007070088) are notched down four times from the VR (twice each for high loss severity and non-performance risk relative to that captured in the VR) to reflect their distributable profit and regulatory capital ratio triggers.

The Basel III-compliant additional Tier 1 securities (DE000A1TNDK2) are rated five notches below the VR, ie twice for loss severity to reflect their write-down on breach of their 7% trigger, and three times for non-performance risk to reflect their discretionary coupon payment.

However, Aareal's large volume of available distributable items provides substantial protection. The non-senior debt ratings are all sensitive to changes to the VR or to their notching.

Aareal Bank AG
Income Statement

	30 Sep 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013
	9 Months - 3rd Quarter	Year End	Year End	Year End	Year End
	EURm	EURm	EURm	EURm	EURm
	Unaudited	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified
1. Interest Income on Loans	512	759	879	843	697
2. Other Interest Income	55	79	134	167	151
3. Dividend Income	0	0	n.a.	n.a.	0
4. Gross Interest and Dividend Income	**567**	**838**	**1,013**	**1,010**	**848**
5. Interest Expense on Customer Deposits	5	20	33	60	74
6. Other Interest Expense	76	117	199	262	247
7. Total Interest Expense	**81**	**137**	**232**	**322**	**321**
8. Net Interest Income	**486**	**701**	**781**	**688**	**527**
9. Net Gains (Losses) on Trading and Derivatives	8	19	21	7	12
10. Net Gains (Losses) on Other Securities	0	6	(17)	2	(8)
11. Net Gains (Losses) on Assets at FV through Income Statement	0	0	n.a.	0	n.a.
12. Net Insurance Income	n.a.	n.a.	n.a.	n.a.	n.a.
13. Net Fees and Commissions	145	193	175	164	165
14. Other Operating Income	64	30	41	6	(10)
15. Total Non-Interest Operating Income	**217**	**248**	**220**	**179**	**159**
16. Personnel Expenses	240	339	332	261	233
17. Other Operating Expenses	148	208	221	178	142
18. Total Non-Interest Expenses	**388**	**547**	**553**	**439**	**375**
19. Equity-accounted Profit/ Loss - Operating	0	n.a.	n.a.	n.a.	0
20. Pre-Impairment Operating Profit	**315**	**402**	**448**	**428**	**311**
21. Loan Impairment Charge	53	97	128	146	113
22. Securities and Other Credit Impairment Charges	n.a.	n.a.	n.a.	n.a.	n.a.
23. Operating Profit	**262**	**305**	**320**	**282**	**198**
24. Equity-accounted Profit/ Loss - Non-operating	n.a.	n.a.	n.a.	n.a.	n.a.
25. Non-recurring Income	0	61	150	154	n.a.
26. Non-recurring Expense	n.a.	n.a.	n.a.	n.a.	0
27. Change in Fair Value of Own Debt	n.a.	n.a.	n.a.	n.a.	n.a.
28. Other Non-operating Income and Expenses	n.a.	n.a.	n.a.	n.a.	n.a.
29. Pre-tax Profit	**262**	**366**	**470**	**436**	**198**
30. Tax expense	97	132	96	101	62
31. Profit/Loss from Discontinued Operations	n.a.	n.a.	n.a.	n.a.	n.a.
32. Net Income	**165**	**234**	**374**	**335**	**136**
33. Change in Value of AFS Investments	(2)	1	13	65	49
34. Revaluation of Fixed Assets	n.a.	n.a.	n.a.	n.a.	n.a.
35. Currency Translation Differences	(13)	(1)	3	2	(2)
36. Remaining OCI Gains/(losses)	(5)	(16)	29	(39)	(5)
37. Fitch Comprehensive Income	**145**	**218**	**419**	**363**	**178**
38. Memo: Profit Allocation to Non-controlling Interests	6	19	19	19	19
39. Memo: Net Income after Allocation to Non-controlling Interests	159	215	355	316	117
40. Memo: Common Dividends Relating to the Period	n.a.	120	99	72	45
41. Memo: Preferred Dividends Related to the Period	n.a.	n.a.	n.a.	n.a.	n.a.
Exchange rate	USD1 = EUR(	USD1 = EUR(	USD1 = EUR(	USD1 = EUR(	USD1 = EUR(

Aareal Bank AG
Balance Sheet

	30 Sep 2017 9 Months - 3rd Quarter EURm	31 Dec 2016 Year End EURm	31 Dec 2015 Year End EURm	31 Dec 2014 Year End EURm	31 Dec 2013 Year End EURm
Assets					
A. Loans					
1. Residential Mortgage Loans	n.a.	n.a.	n.a.	n.a.	n.a.
2. Other Mortgage Loans	25,539	26,833	29,344	27,856	23,848
3. Other Consumer/ Retail Loans	n.a.	n.a.	n.a.	n.a.	n.a.
4. Corporate & Commercial Loans	n.a.	n.a.	n.a.	n.a.	n.a.
5. Other Loans	2,942	4,370	5,222	2,693	2,076
6. Less: Reserves for Impaired Loans	552	554	528	480	361
7. Net Loans	**27,929**	**30,649**	**34,038**	**30,069**	**25,563**
8. Gross Loans	**28,481**	**31,203**	**34,566**	**30,549**	**25,924**
9. Memo: Impaired Loans included above	1,380	1,500	1,533	1,354	984
10. Memo: Loans at Fair Value included above	n.a.	n.a.	n.a.	n.a.	n.a.
B. Other Earning Assets					
1. Loans and Advances to Banks	884	1,583	1,743	1,894	2,531
2. Reverse Repos and Cash Collateral	0	0	150	1,284	n.a.
3. Trading Securities and at FV through Income	n.a.	n.a.	n.a.	n.a.	0
4. Derivatives	2,390	2,983	3,136	3,032	2,145
5. Available for Sale Securities	5,682	5,949	6,273	6,856	6,409
6. Held to Maturity Securities	402	522	604	833	n.a.
7. Equity Investments in Associates	7	0	1	1	1
8. Other Securities	2,815	3,259	3,630	4,313	4,259
9. Total Securities	**11,296**	**12,713**	**13,794**	**16,319**	**12,814**
10. Memo: Government Securities included Above	n.a.	n.a.	n.a.	n.a.	n.a.
11. Memo: Total Securities Pledged	n.a.	n.a.	n.a.	n.a.	n.a.
12. Investments in Property	202	234	263	444	413
13. Insurance Assets	n.a.	n.a.	n.a.	n.a.	n.a.
14. Other Earning Assets	n.a.	n.a.	n.a.	n.a.	n.a.
15. Total Earning Assets	**40,311**	**45,179**	**49,838**	**48,726**	**41,321**
C. Non-Earning Assets					
1. Cash and Due From Banks	2,209	1,786	1,282	184	1,222
2. Memo: Mandatory Reserves included above	n.a.	n.a.	n.a.	n.a.	n.a.
3. Foreclosed Real Estate	n.a.	n.a.	n.a.	n.a.	n.a.
4. Fixed Assets	251	252	267	96	98
5. Goodwill	80	76	75	66	66
6. Other Intangibles	54	50	51	44	41
7. Current Tax Assets	28	68	20	35	24
8. Deferred Tax Assets	172	134	239	240	110
9. Discontinued Operations	n.a.	n.a.	n.a.	n.a.	0
10. Other Assets	162	163	176	166	99
11. Total Assets	**43,267**	**47,708**	**51,948**	**49,557**	**42,981**
Liabilities and Equity					
D. Interest-Bearing Liabilities					
1. Customer Deposits - Current	13,285	7,092	6,646	6,072	4,891
2. Customer Deposits - Savings	n.a.	n.a.	n.a.	n.a.	n.a.
3. Customer Deposits - Term	n.a.	6,604	6,533	6,999	6,888
4. Total Customer Deposits	**13,285**	**13,696**	**13,179**	**13,071**	**11,779**
5. Deposits from Banks	1,890	1,703	1,898	1,807	1,589
6. Repos and Cash Collateral	n.a.	n.a.	n.a.	n.a.	0
7. Commercial Paper and Short-term Borrowings	n.a.	n.a.	n.a.	n.a.	n.a.
8. Total Money Market and Short-term Funding	**15,175**	**15,399**	**15,077**	**14,878**	**13,368**
9. Senior Unsecured Debt (original maturity > 1 year)	7,630	8,227	8,800	10,295	10,421
10. Subordinated Borrowing	1,059	1,122	1,164	1,222	524
11. Covered Bonds	13,457	15,500	19,200	15,600	13,400
12. Other Long-term Funding	n.a.	n.a.	n.a.	n.a.	n.a.
13. Total LT Funding (original maturity > 1 year)	**22,146**	**24,849**	**29,164**	**27,117**	**24,345**
14. Derivatives	2,027	3,181	3,383	3,587	1,889
15. Trading Liabilities	n.a.	n.a.	n.a.	n.a.	0
16. Total Funding	**39,348**	**43,429**	**47,624**	**45,582**	**39,602**
E. Non-Interest Bearing Liabilities					
1. Fair Value Portion of Debt	n.a.	n.a.	n.a.	n.a.	n.a.
2. Credit impairment reserves	n.a.	n.a.	n.a.	n.a.	n.a.
3. Reserves for Pensions and Other	580	680	783	713	289
4. Current Tax Liabilities	26	71	102	124	36
5. Deferred Tax Liabilities	28	28	34	21	9
6. Other Deferred Liabilities	n.a.	n.a.	14	n.a.	11
7. Discontinued Operations	n.a.	n.a.	n.a.	n.a.	n.a.
8. Insurance Liabilities	n.a.	n.a.	n.a.	n.a.	n.a.
9. Other Liabilities	197	127	100	127	192
10. Total Liabilities	**40,179**	**44,335**	**48,657**	**46,567**	**40,139**
F. Hybrid Capital					
1. Pref. Shares and Hybrid Capital accounted for as Debt	204	244	247	267	392
2. Pref. Shares and Hybrid Capital accounted for as Equity	300	300	300	300	300
G. Equity					
1. Common Equity	2,651	2,635	2,534	2,258	2,013
2. Non-controlling Interest	1	242	242	242	242
3. Securities Revaluation Reserves	27	29	28	15	(50)
4. Foreign Exchange Revaluation Reserves	(7)	6	7	4	2
5. Fixed Asset Revaluations and Other Accumulated OCI	(88)	(83)	(67)	(96)	(57)
6. Total Equity	**2,584**	**2,829**	**2,744**	**2,423**	**2,150**
7. Total Liabilities and Equity	**43,267**	**47,708**	**51,948**	**49,557**	**42,981**
8. Memo: Fitch Core Capital	2,447	2,459	2,357	2,055	1,785

Aareal Bank AG
Summary Analytics

	30 Sep 2017 9 Months - 3rd Quarter	31 Dec 2016 Year End	31 Dec 2015 Year End	31 Dec 2014 Year End	31 Dec 2013 Year End
A. Interest Ratios					
1. Interest Income on Loans/ Average Gross Loans	2.3	2.3	2.6	2.9	2.8
2. Interest Expense on Customer Deposits/ Average Customer Deposit	0.1	0.2	0.3	0.5	0.6
3. Interest Income/ Average Earning Assets	1.8	1.8	2.0	2.2	2.1
4. Interest Expense/ Average Interest-bearing Liabilities	0.3	0.3	0.5	0.7	0.8
5. Net Interest Income/ Average Earning Assets	1.5	1.5	1.5	1.5	1.3
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	1.3	1.3	1.3	1.2	1.0
7. Net Interest Inc Less Preferred Stock Dividend/ Av. Earning Assets	1.5	1.5	1.5	1.5	1.3
B. Other Operating Profitability Ratios					
1. Non-Interest Income/ Gross Revenues	30.9	26.1	22.0	20.7	23.2
2. Non-Interest Expense/ Gross Revenues	55.2	57.6	55.2	50.6	54.7
3. Non-Interest Expense/ Average Assets	1.2	1.1	1.1	0.9	0.9
4. Pre-impairment Op. Profit/ Average Equity	16.0	14.5	17.2	18.3	14.9
5. Pre-impairment Op. Profit/ Average Total Assets	0.9	0.8	0.9	0.9	0.7
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	16.8	24.1	28.6	34.1	36.3
7. Operating Profit/ Average Equity	13.3	11.0	12.3	12.1	9.5
8. Operating Profit/ Average Total Assets	0.8	0.6	0.6	0.6	0.5
9. Operating Profit / Risk Weighted Assets	2.8	2.1	1.9	1.8	1.5
C. Other Profitability Ratios					
1. Net Income/ Average Total Equity	8.4	8.5	14.4	14.3	6.5
2. Net Income/ Average Total Assets	0.5	0.5	0.7	0.7	0.3
3. Fitch Comprehensive Income/ Average Total Equity	7.4	7.9	16.1	15.5	8.5
4. Fitch Comprehensive Income/ Average Total Assets	0.4	0.4	0.8	0.8	0.4
5. Taxes/ Pre-tax Profit	37.0	36.1	20.4	23.2	31.3
6. Net Income/ Risk Weighted Assets	1.7	1.6	2.2	2.2	1.0
D. Capitalization					
1. FCC/FCC-Adjusted Risk Weighted Assets	19.3	16.9	14.1	13.3	13.6
2. Tangible Common Equity/ Tangible Assets	5.7	5.7	5.0	4.7	4.7
3. Tier 1 Regulatory Capital Ratio	19.9	19.9	17.2	17.7	18.5
4. Total Regulatory Capital Ratio	27.1	27.5	23.8	24.7	23.4
5. Common Equity Tier 1 Capital Ratio	17.7	16.2	13.8	13.6	n.a.
6. Equity/ Total Assets	6.0	5.9	5.3	4.9	5.0
7. Cash Dividends Paid & Declared/ Net Income	n.a.	51.2	26.4	21.4	33.0
8. Internal Capital Generation	8.5	4.0	10.0	10.9	4.2
E. Loan Quality					
1. Growth of Total Assets	(9.3)	(8.2)	4.8	15.3	(6.1)
2. Growth of Gross Loans	(8.7)	(9.7)	13.2	17.8	4.7
3. Impaired Loans/ Gross Loans	4.9	4.8	4.4	4.4	3.8
4. Reserves for Impaired Loans/ Gross Loans	1.9	1.8	1.5	1.6	1.4
5. Reserves for Impaired Loans/ Impaired Loans	40.0	36.9	34.4	35.5	36.7
6. Impaired loans less Reserves for Impaired Loans/ Fitch Core Capital	33.8	38.5	42.6	42.5	34.9
7. Impaired Loans less Reserves for Impaired Loans/ Equity	32.0	33.4	36.6	36.1	29.0
8. Loan Impairment Charges/ Average Gross Loans	0.2	0.3	0.4	0.5	0.5
9. Net Charge-offs/ Average Gross Loans	0.1	0.1	0.2	0.1	0.2
10. NPLs + Foreclosed Assets/ Gross Loans + Foreclosed Assets	4.9	4.8	4.4	4.4	3.8
F. Funding and Liquidity					
1. Loans/ Customer Deposits	214	228	262	234	220
2. Interbank Assets/ Interbank Liabilities	47	93	92	105	159
3. Customer Deposits/ Total Funding (excluding derivatives)	35	34	29	31	31
4. Liquidity Coverage Ratio	n.a.	n.a.	n.a.	n.a.	n.a.
5. Net Stable Funding Ratio	n.a.	n.a.	n.a.	n.a.	n.a.

Aareal Bank AG
Reference Data

	30 Sep 2017 9 Months - 3rd Quarter EURm	31 Dec 2016 Year End EURm	31 Dec 2015 Year End EURm	31 Dec 2014 Year End EURm	31 Dec 2013 Year End EURm
A. Off-Balance Sheet Items					
1. Managed Securitized Assets Reported Off-Balance Sheet	n.a.	n.a.	n.a.	n.a.	n.a.
2. Other off-balance sheet exposure to securitizations	n.a.	n.a.	n.a.	n.a.	n.a.
3. Guarantees	n.a.	n.a.	23	26	120
4. Acceptances and documentary credits reported off-balance sheet	n.a.	n.a.	n.a.	n.a.	n.a.
5. Committed Credit Lines	1,175	1,333	1,227	920	1,328
7. Other Off-Balance Sheet items	n.a.	114	139	546	524
8. Total Assets under Management	n.a.	n.a.	n.a.	n.a.	n.a.
B. Average Balance Sheet					
Average Loans	30,244	33,092	33,628	29,182	25,046
Average Earning Assets	43,088	48,020	51,235	46,637	40,736
Average Assets	45,306	50,580	52,351	48,147	44,310
Average Managed Securitized Assets (OBS)	n.a.	n.a.	n.a.	n.a.	n.a.
Average Interest-Bearing Liabilities	41,282	46,218	48,161	44,315	41,020
Average Common equity	2,639	2,581	2,397	2,167	1,942
Average Equity	2,638	2,768	2,602	2,337	2,087
Average Customer Deposits	13,159	13,591	13,124	12,676	11,761
C. Maturities					
Asset Maturities:					
Loans & Advances < 3 months	n.a.	n.a.	n.a.	n.a.	n.a.
Loans & Advances 3 - 12 Months	n.a.	n.a.	n.a.	n.a.	n.a.
Loans and Advances 1 - 5 Years	n.a.	n.a.	n.a.	n.a.	n.a.
Loans & Advances > 5 years	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Securities < 3 Months	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Securities 3 - 12 Months	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Securities 1 - 5 Years	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Securities > 5 Years	n.a.	n.a.	n.a.	n.a.	n.a.
Loans & Advances to Banks < 3 Months	n.a.	n.a.	n.a.	n.a.	n.a.
Loans & Advances to Banks 3 - 12 Months	n.a.	n.a.	n.a.	n.a.	n.a.
Loans & Advances to Banks 1 - 5 Years	n.a.	n.a.	n.a.	n.a.	n.a.
Loans & Advances to Banks > 5 Years	n.a.	n.a.	n.a.	n.a.	n.a.
Liability Maturities:					
Retail Deposits < 3 months	n.a.	n.a.	n.a.	n.a.	n.a.
Retail Deposits 3 - 12 Months	n.a.	n.a.	n.a.	n.a.	n.a.
Retail Deposits 1 - 5 Years	n.a.	n.a.	n.a.	n.a.	n.a.
Retail Deposits > 5 Years	n.a.	n.a.	n.a.	n.a.	n.a.
Other Deposits < 3 Months	n.a.	n.a.	n.a.	n.a.	n.a.
Other Deposits 3 - 12 Months	n.a.	n.a.	n.a.	n.a.	n.a.
Other Deposits 1 - 5 Years	n.a.	n.a.	n.a.	n.a.	n.a.
Other Deposits > 5 Years	n.a.	n.a.	n.a.	n.a.	n.a.
Deposits from Banks < 3 Months	n.a.	n.a.	n.a.	n.a.	n.a.
Deposits from Banks 3 - 12 Months	n.a.	n.a.	n.a.	n.a.	n.a.
Deposits from Banks 1 - 5 Years	n.a.	n.a.	n.a.	n.a.	n.a.
Deposits from Banks > 5 Years	n.a.	n.a.	n.a.	n.a.	n.a.
Senior Debt Maturing < 3 months	n.a.	n.a.	n.a.	n.a.	n.a.
Senior Debt Maturing 3-12 Months	n.a.	n.a.	n.a.	n.a.	n.a.
Senior Debt Maturing 1- 5 Years	n.a.	n.a.	n.a.	n.a.	n.a.
Senior Debt Maturing > 5 Years	n.a.	n.a.	n.a.	n.a.	n.a.
Total Senior Debt on Balance Sheet	n.a.	n.a.	n.a.	n.a.	n.a.
Fair Value Portion of Senior Debt	n.a.	n.a.	n.a.	n.a.	n.a.
Subordinated Debt Maturing < 3 months	n.a.	n.a.	n.a.	n.a.	n.a.
Subordinated Debt Maturing 3-12 Months	n.a.	n.a.	n.a.	n.a.	n.a.
Subordinated Debt Maturing 1- 5 Year	n.a.	n.a.	n.a.	n.a.	n.a.
Subordinated Debt Maturing > 5 Years	n.a.	n.a.	n.a.	n.a.	n.a.
Total Subordinated Debt on Balance Sheet	1,059	1,122	1,164	1,222	524
Fair Value Portion of Subordinated Debt	n.a.	n.a.	n.a.	n.a.	n.a.
D. Risk Weighted Assets					
1. Risk Weighted Assets	12,685	14,540	16,709	15,492	13,150
2. Fitch Core Capital Adjustments for Insurance and Securitisation RW	n.a.	n.a.	n.a.	n.a.	n.a.
3. Fitch Core Capital Adjusted Risk Weighted Assets	12,685	14,540	16,709	15,492	13,150
4. Other Fitch Adjustments to Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.	n.a.
5. Fitch Adjusted Risk Weighted Assets	12,685	14,540	16,709	15,492	13,150
E. Equity Reconciliation					
1. Equity	2,584	2,829	2,744	2,423	2,150
2. Add: Pref. Shares and Hybrid Capital accounted for as Equity	300	300	300	300	300
3. Add: Other Adjustments	n.a.	n.a.	n.a.	n.a.	n.a.
4. Published Equity	2,884	3,129	3,044	2,723	2,450
F. Fitch Core Capital Reconciliation					
1. Total Equity as reported (including non-controlling interests)	2,584	2,829	2,744	2,423	2,150
2. Fair value effect incl in own debt/borrowings at fv on the B/S- CC only	0	0	0	0	0
3. Non-loss-absorbing non-controlling interests	1	242	242	242	242
4. Goodwill	80	76	75	66	66
5. Other intangibles	54	50	51	44	41
6. Deferred tax assets deduction	2	2	19	16	16
7. Net asset value of insurance subsidiaries	0	0	0	0	0
8. First loss tranches of off-balance sheet securitizations	0	0	0	0	0
9. Fitch Core Capital	**2,447**	**2,459**	**2,357**	**2,055**	**1,785**

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.