

QUALITY®
made by **AAREAL**

Annual Analyst Conference

Preliminary 2017 results

February 28, 2018
Hermann J. Merkens, CEO

Aareal

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



Preliminary 2017
Group results at a glance

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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

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
<i>Others</i>	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	



Segment performance

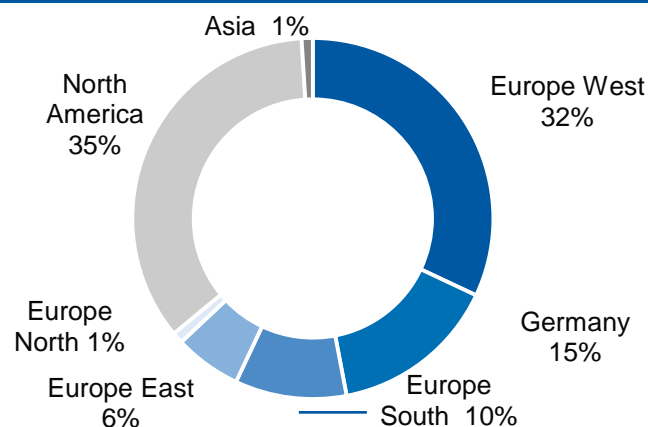
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Note: All 2017 figures preliminary and unaudited

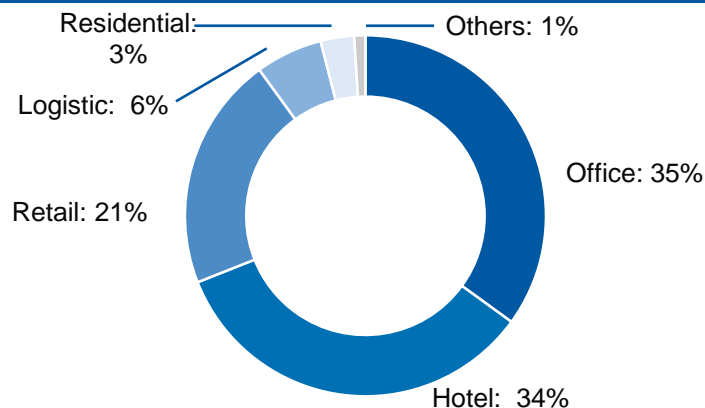
Structured property financing

Stable margins due to flexible new business allocation

New business by region 2017¹⁾

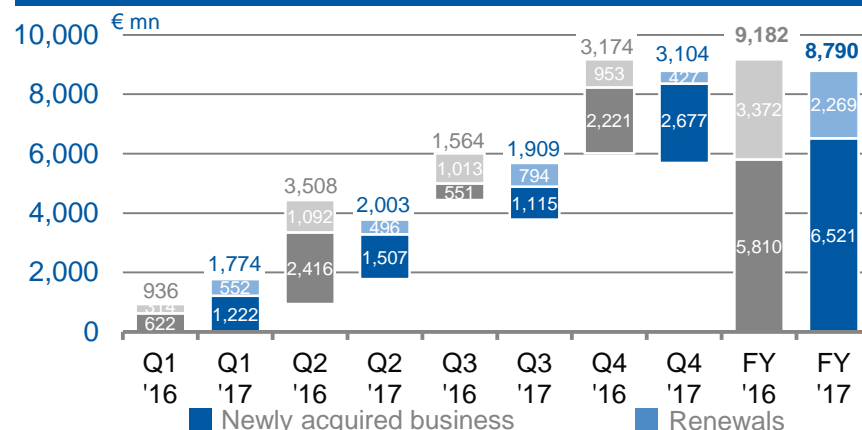


New business by property type 2017¹⁾



1) Incl. renewals

New business origination by quarter

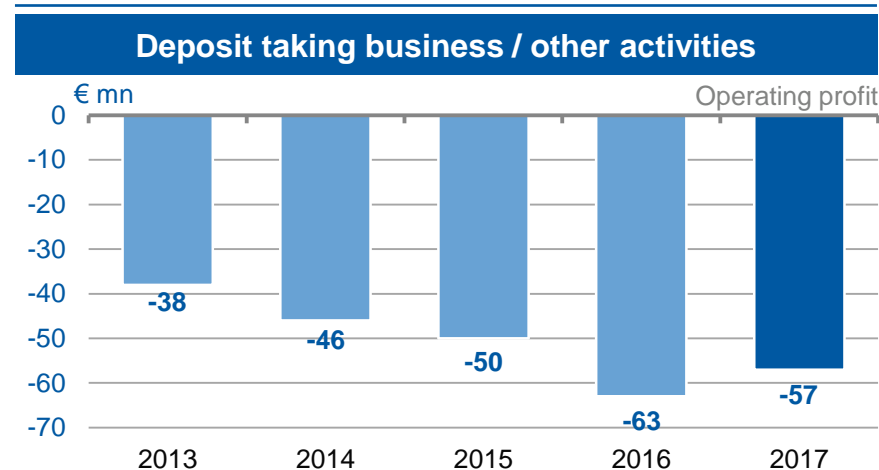
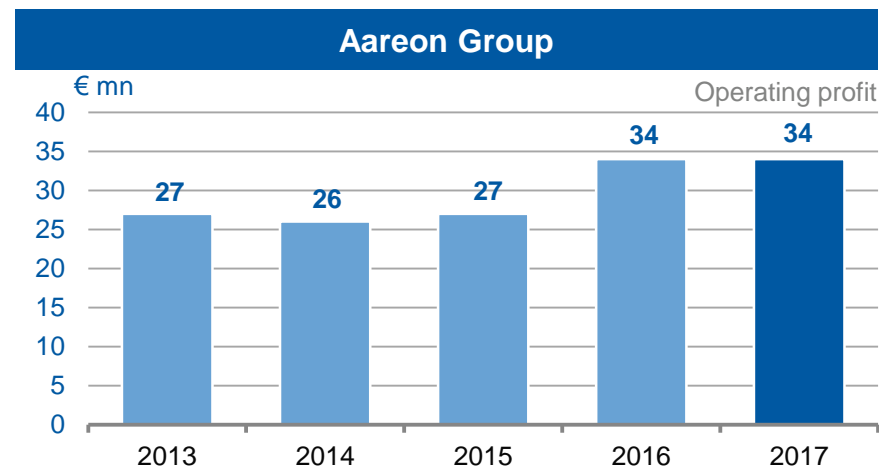


- Newly acquired business up by 12% YoY
 - Continued strong North American business
 - Gross margins in 2017 above 240 bps (> 220 bps after FX)
 - FY-margin expectations outperformed
- High early repayments
- € 26.4 bn RE finance portfolio (of which € 25.1 bn CRE) in line with FY- targeted size (€ 25-28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

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

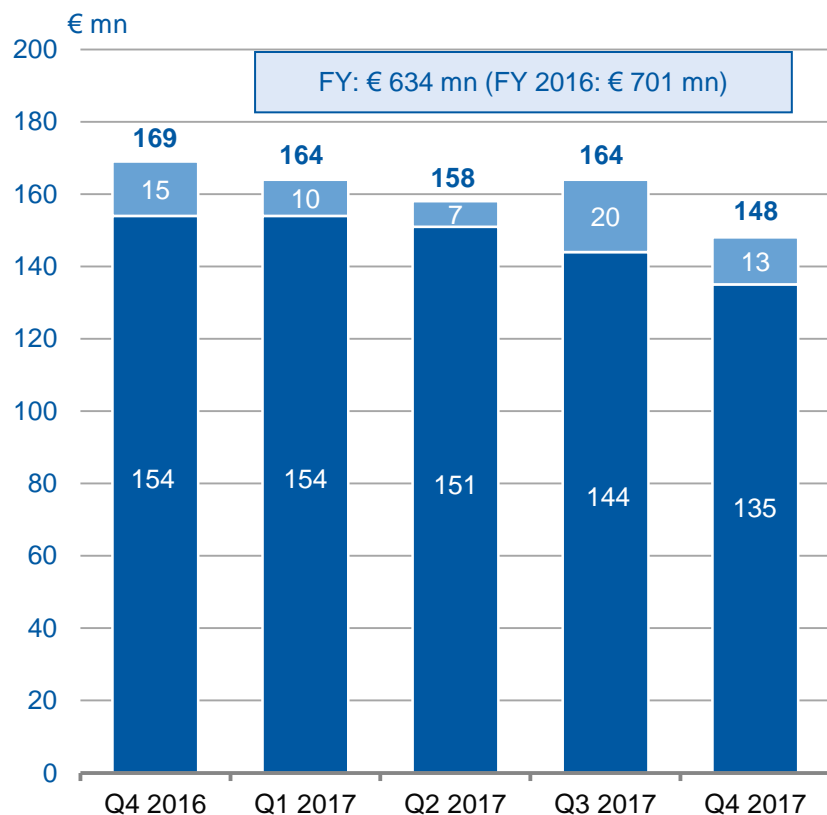


Preliminary group results 2017

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Net interest income

Further portfolio reduction, FY-margins above plan

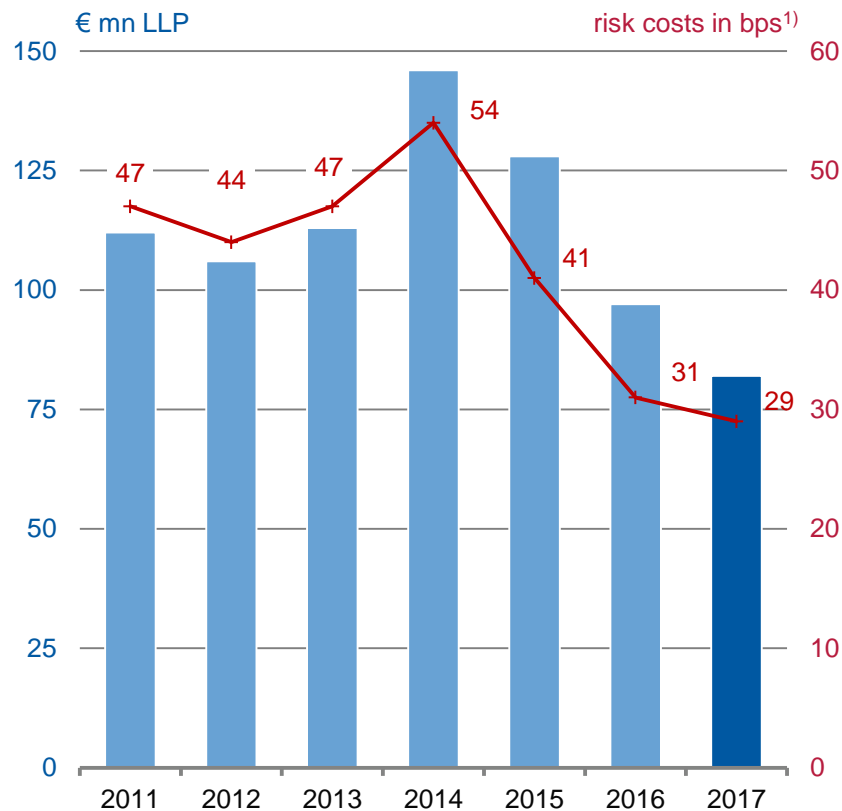
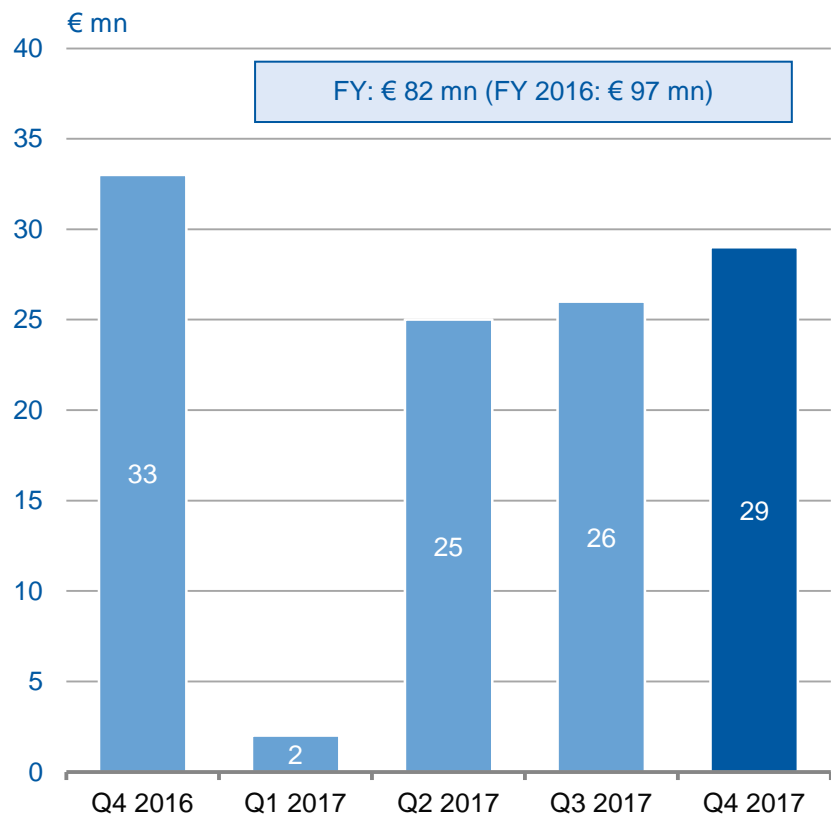


- RE finance portfolio reduction by € 3.2 bn (vs. 2016) due to
 - Rundown of CCB / WIB portfolio
 - High early repayments
 - FX-effects
- 2017-NII include effects from early repayments of ~ € 50 mn (expected FY-range of € 35 mn - € 75 mn)
- Deposit margins further burdened by interest rate environment

- Effects from derecognition of financial instruments to be reported separately under IFRS 9 starting 2018 (mainly effects from early repayments)
- NII without effects from derecognition of financial instruments to be reported separately under IFRS 9 starting 2018

Allowance for credit losses (LLP)

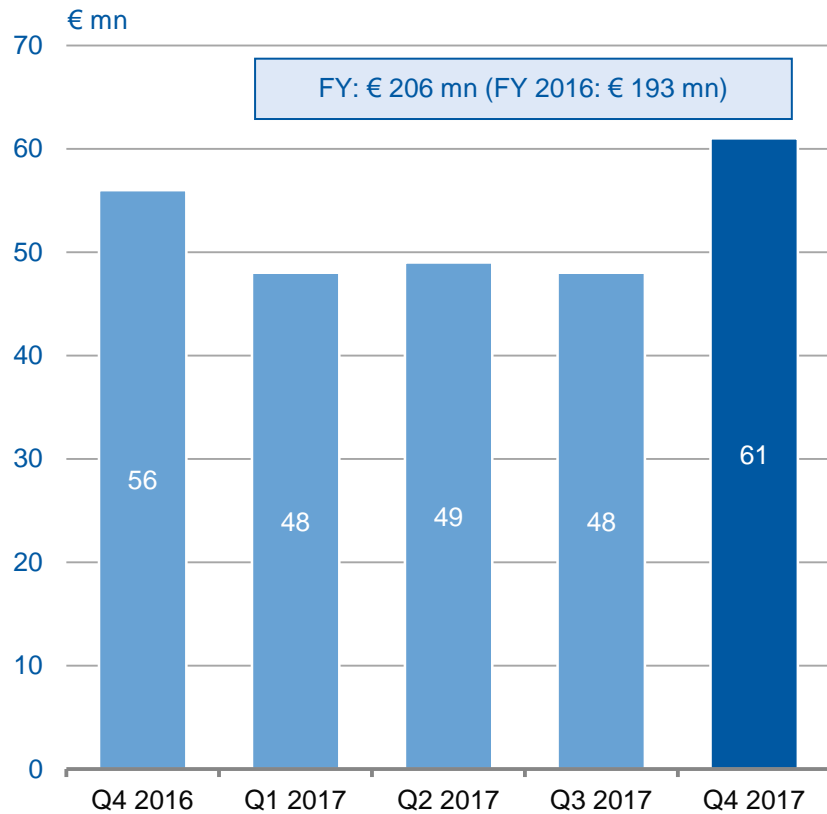
LLP below last year's figure, conservative lending policies paying off



1) Risk costs on avg. RE finance portfolio

Net commission income

Aareon on track

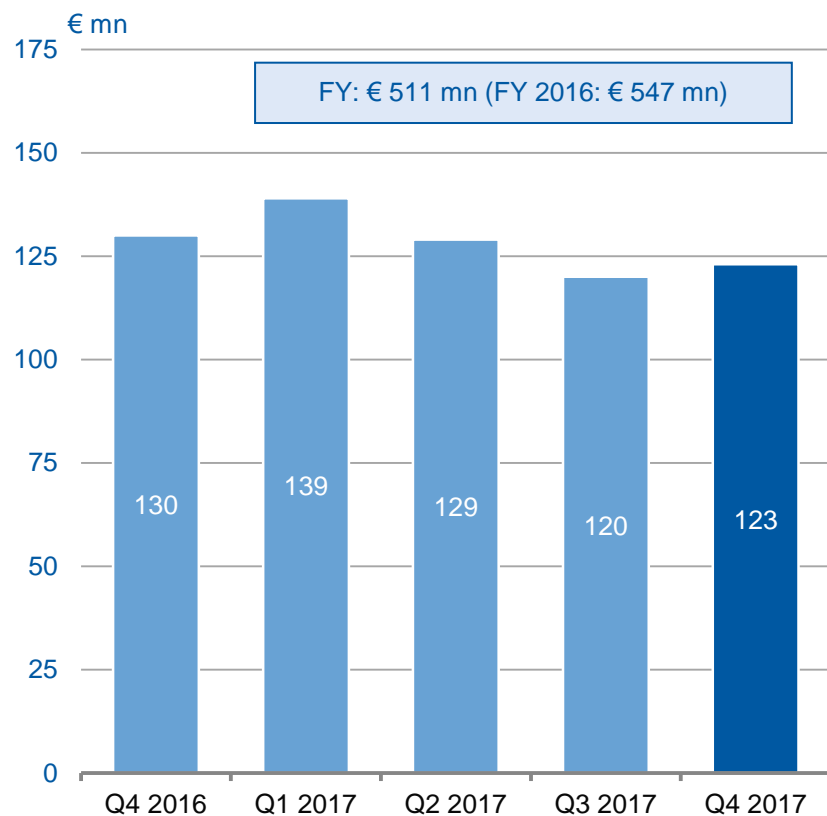


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- Revenues of € 221 mn (2016: € 211 mn) resulting from growth in all product lines
- Digital products with highest growth rates
- Q4 regularly includes positive seasonal effects
- 5 year avg. growth rate of ~5% in sales revenues and EBT

Admin expenses

Significant reduction despite ongoing transformation costs



FY admin expenses include

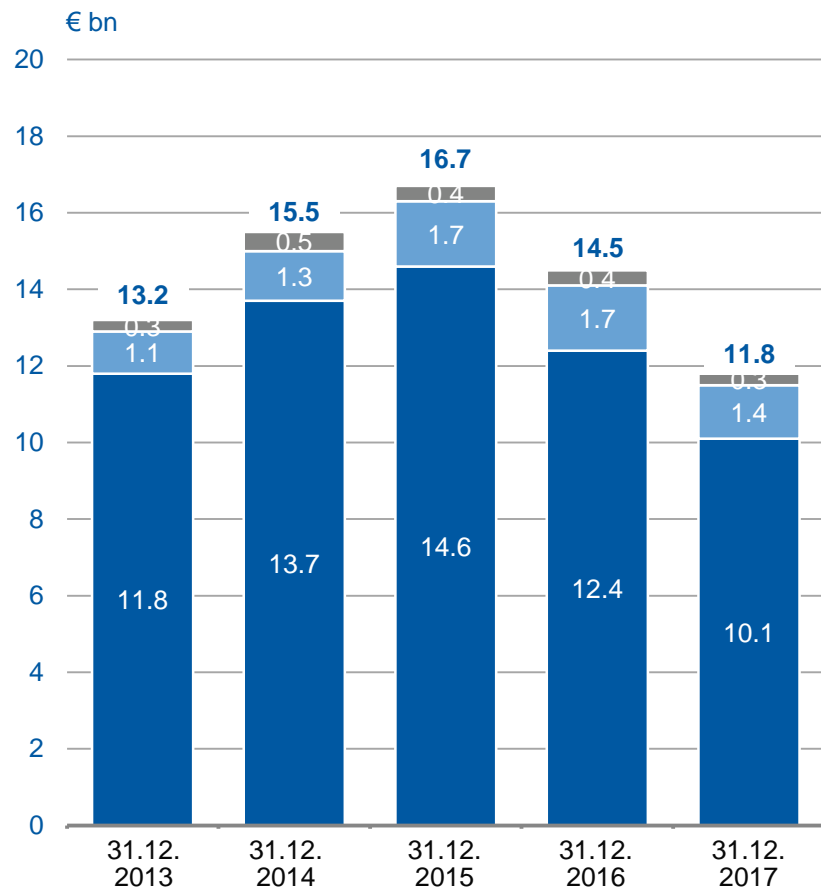
- € 24 mn for the European bank levy and for the Deposit Protection Guarantee Schemes
- Transformation costs
 - € 27 mn for optimisation of processes and structures
 - € 21 mn for projects and investments



Capital, B/S structure & funding position

RWA development

Successful RWA run down

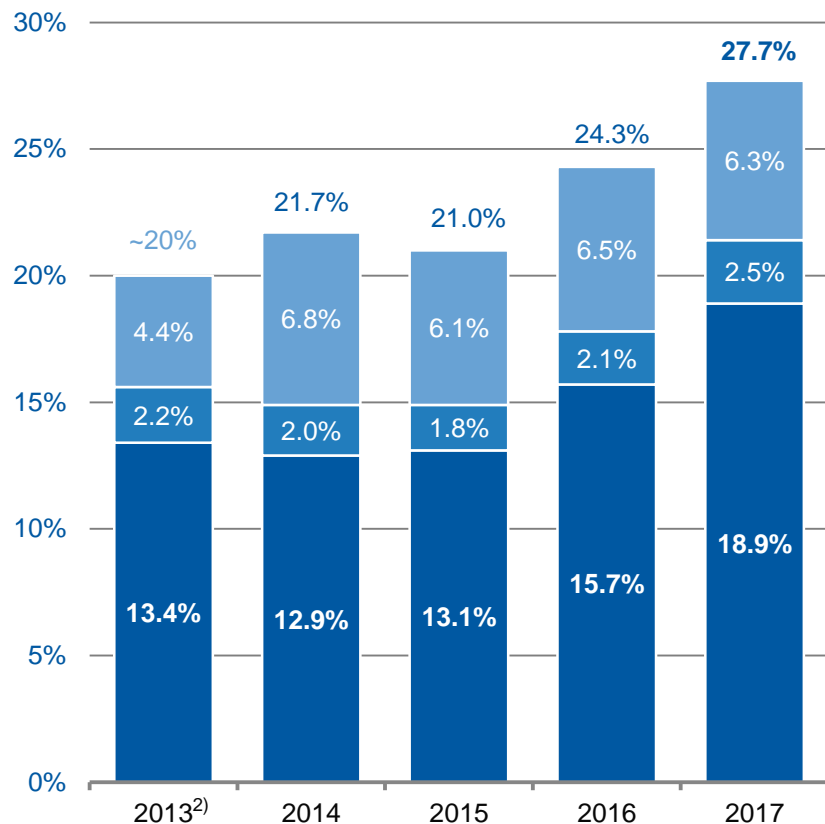


- Reduction from
 - Rundown of CCB / WIB portfolio
 - High early repayments
 - FX-effects
- Lower RWA density vs 12/2016

■ Market risk
 ■ Operational risk
 ■ Credit risk

Capital ratios¹⁾

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)

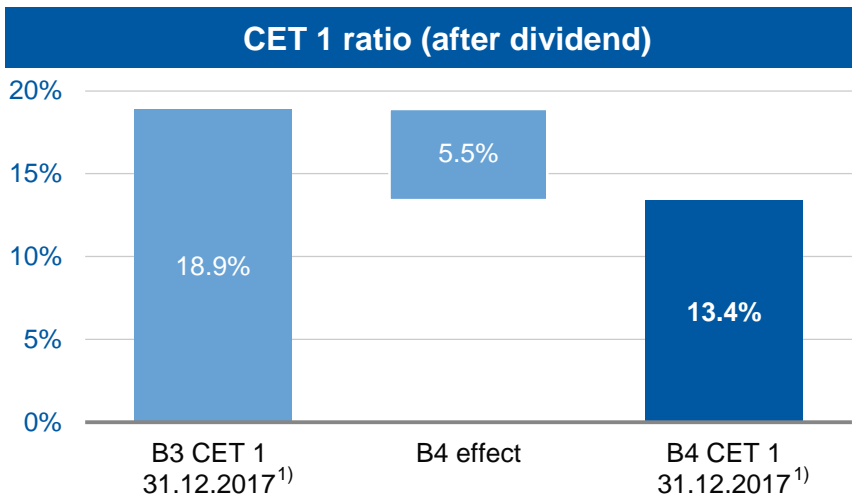
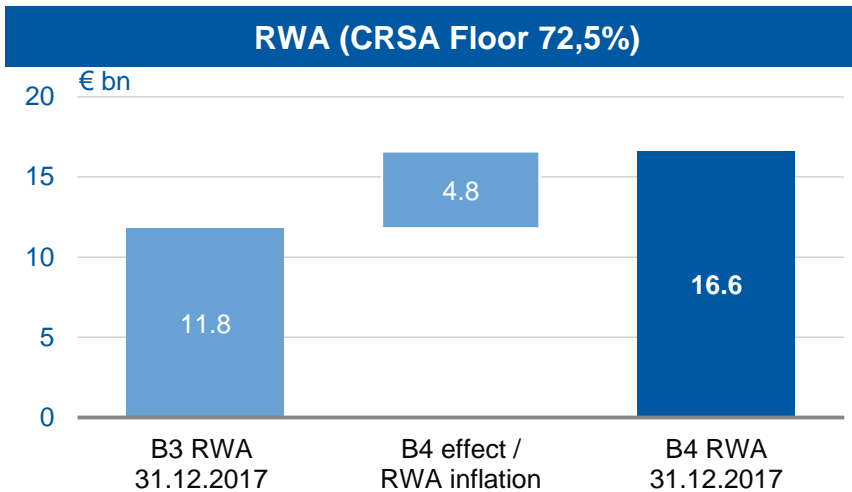
■ Tier 2 (T2)
■ Additional Tier 1 (AT1)
■ Common Equity Tier 1 (CET1)

1) Fully phased

2) As at 01.01.2014, fully phased, published 20.02.2014

Basel IV effect

Already fulfilling future Basel IV capital requirements



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)

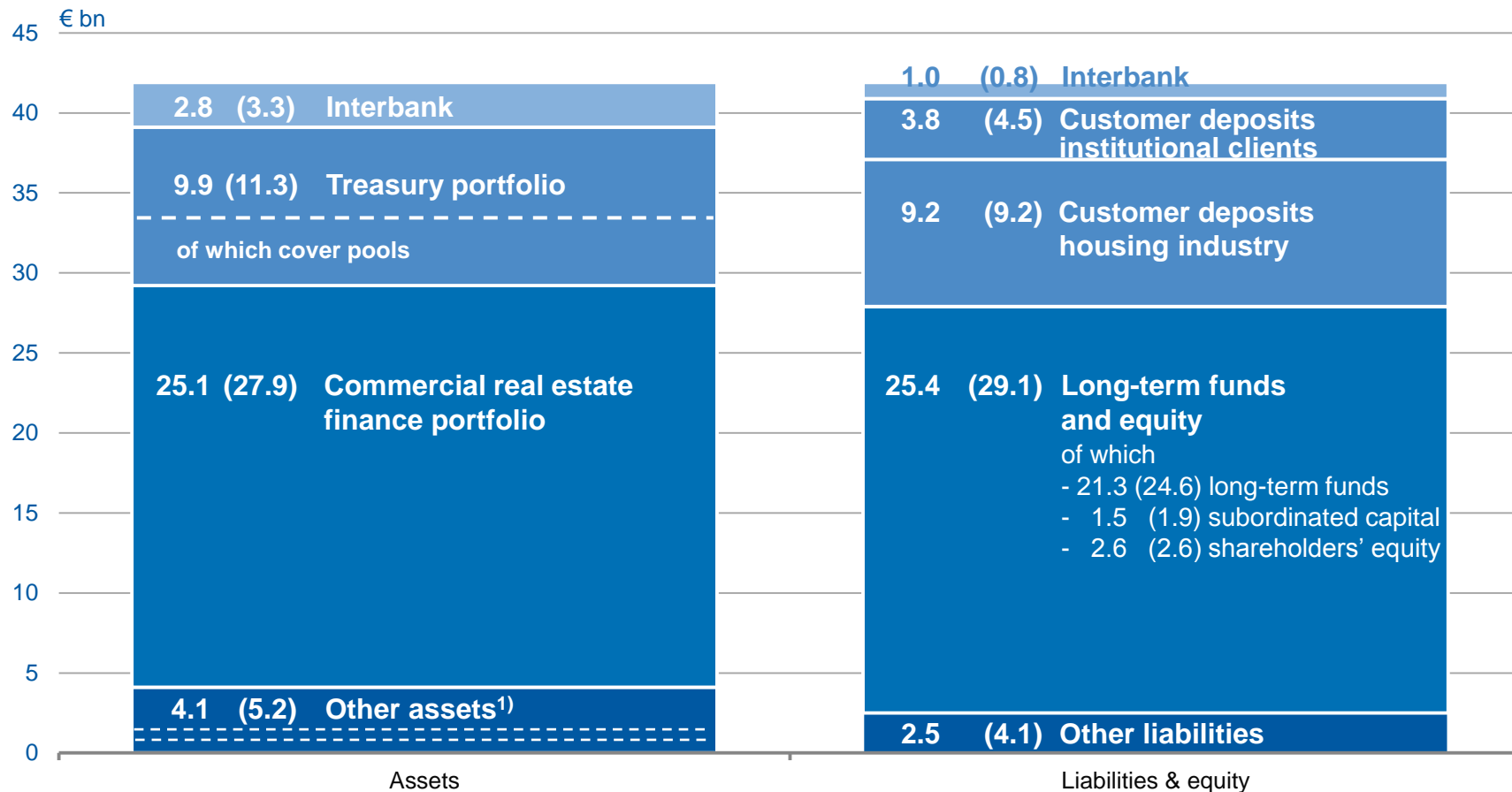
Others:

- 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

Asset- / Liability structure according to IFRS

As at 31.12.2017: € 41.9 bn (31.12.2016: € 47.7 bn)

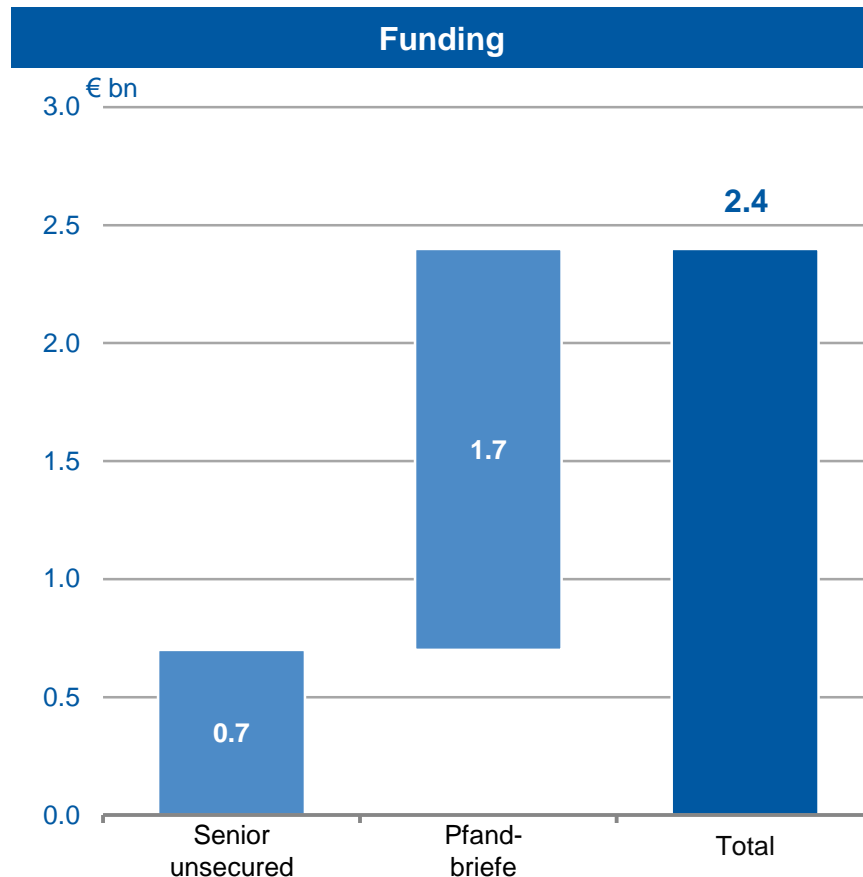
- Conservative balance sheet with structural over borrowed position
- Average maturity of long term funding > average maturity of RSF loans



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

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



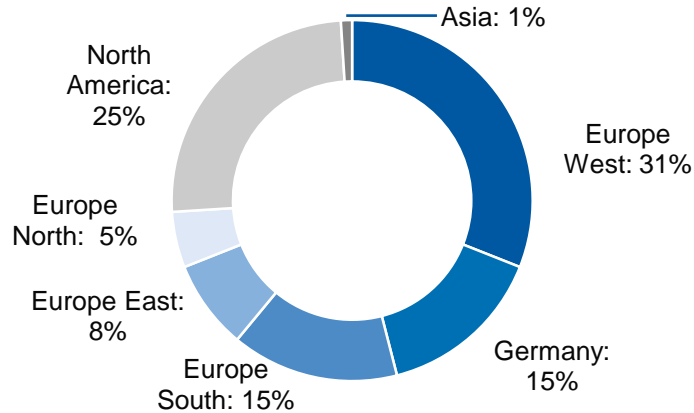
Asset quality

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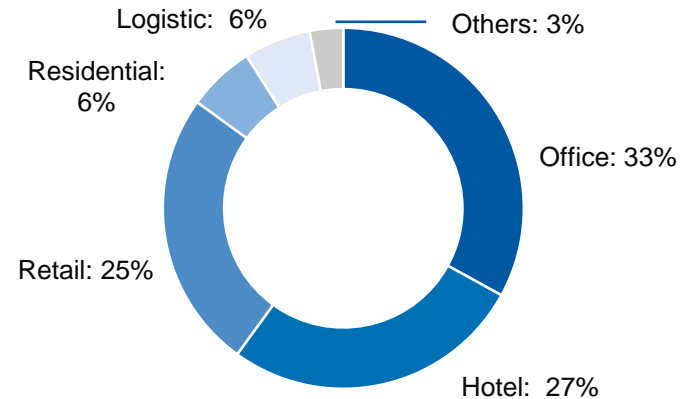
Commercial real estate finance portfolio¹⁾

€ 25.1 bn highly diversified and sound

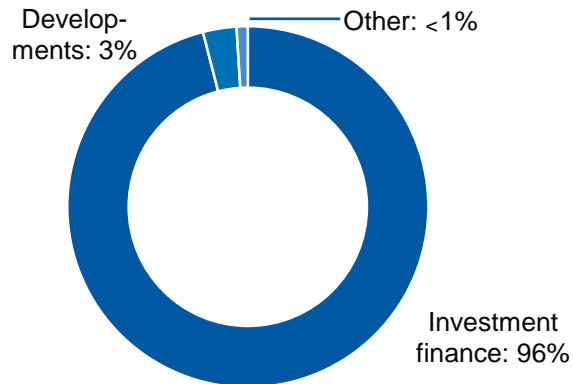
Portfolio by region



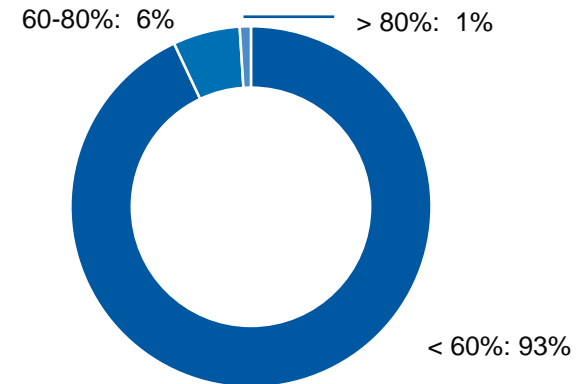
Portfolio by property type



Portfolio by product type



Portfolio by LTV ranges²⁾



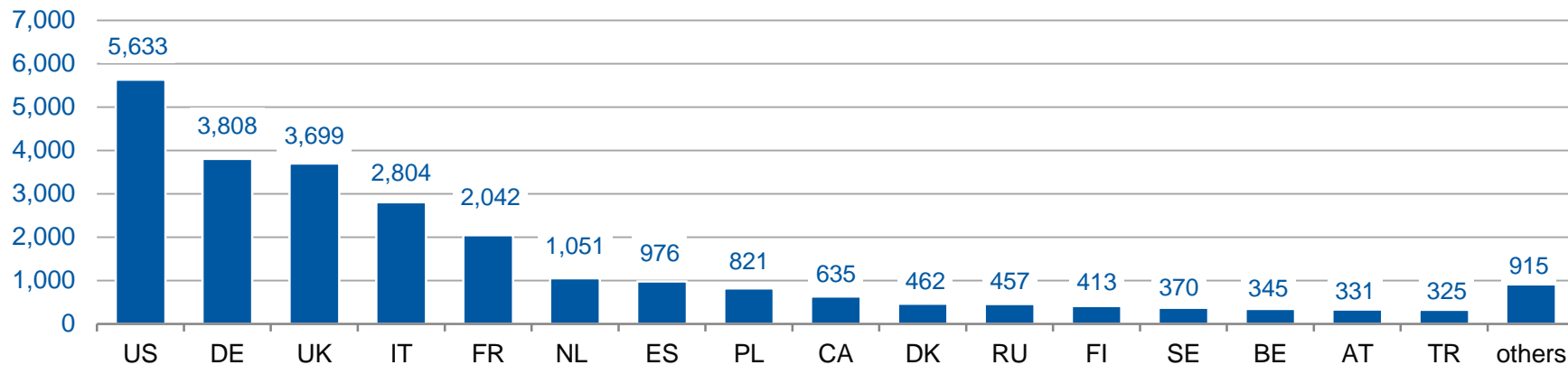
1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included

2) Performing CRE-business only, exposure as at 31.12.2017

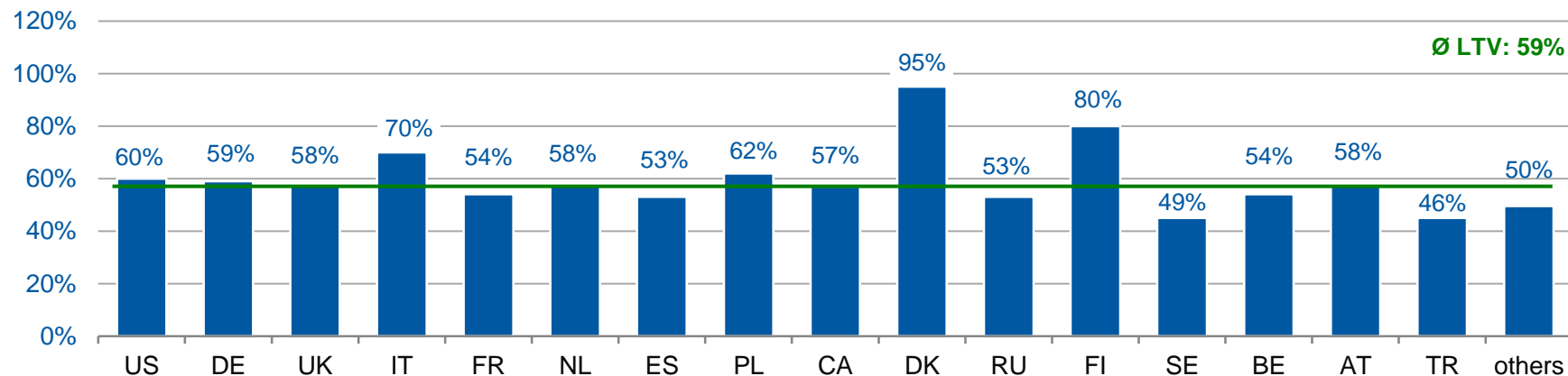
Commercial real estate finance portfolio¹⁾

Portfolio details by country

Total commercial real estate finance portfolio (€ mn)



LTV²⁾

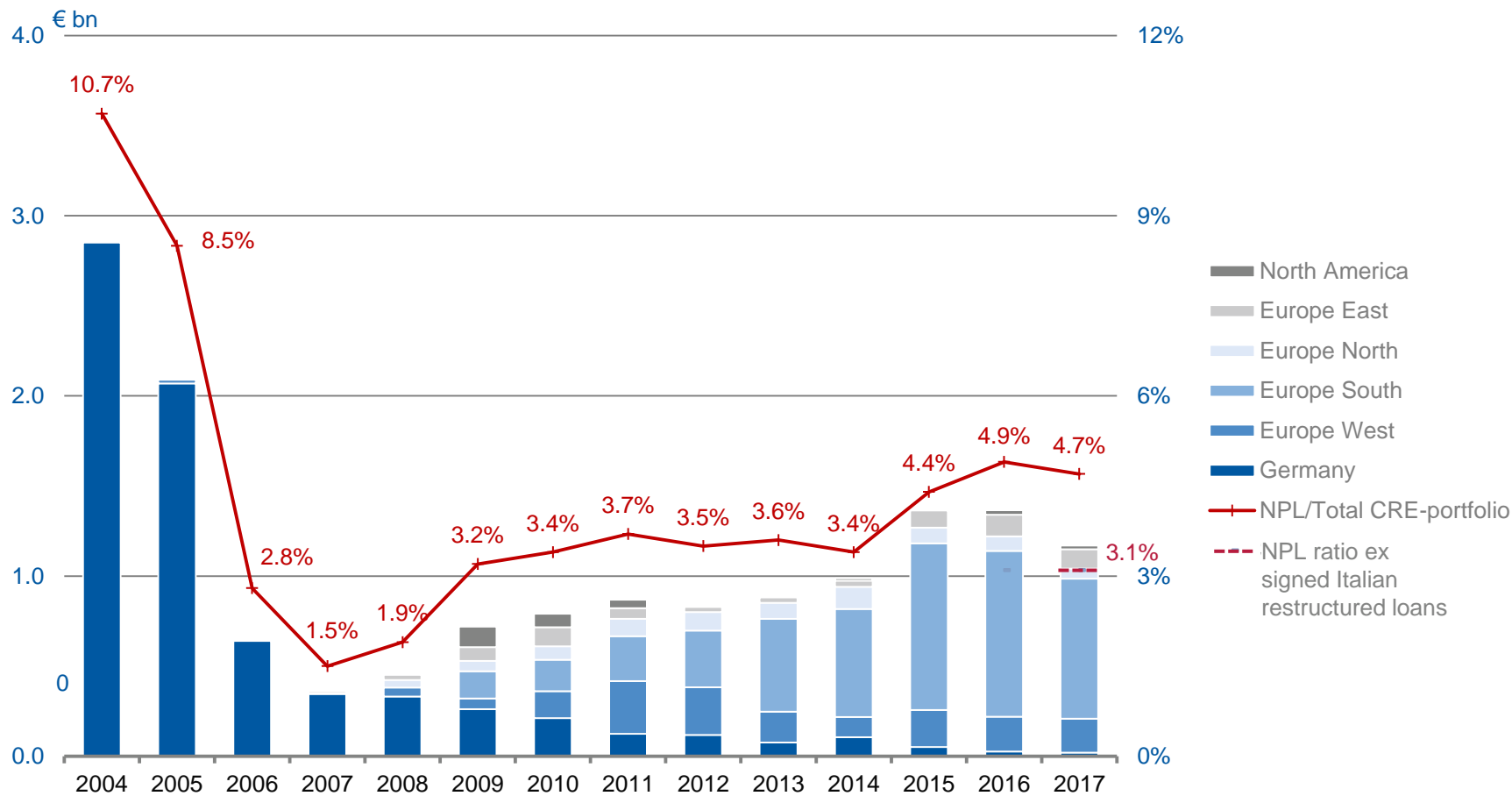


1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included

2) Performing CRE-business only, exposure as at 31.12.2017

Commercial real estate finance portfolio¹⁾

Declining NPL volume



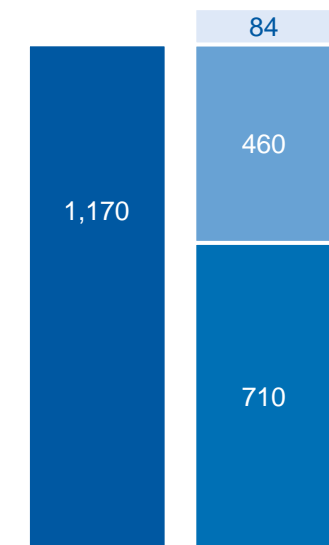
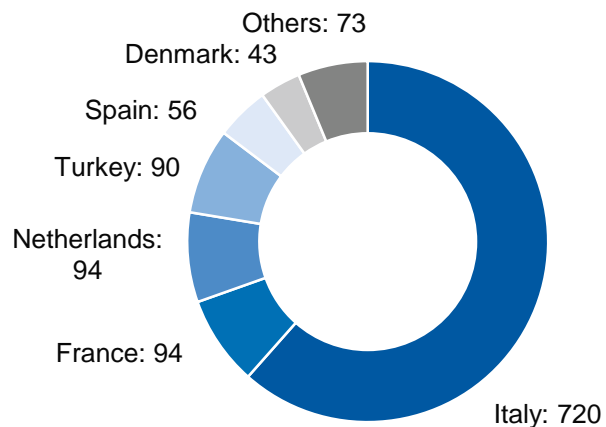
1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included

Commercial real estate finance portfolio¹⁾

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%

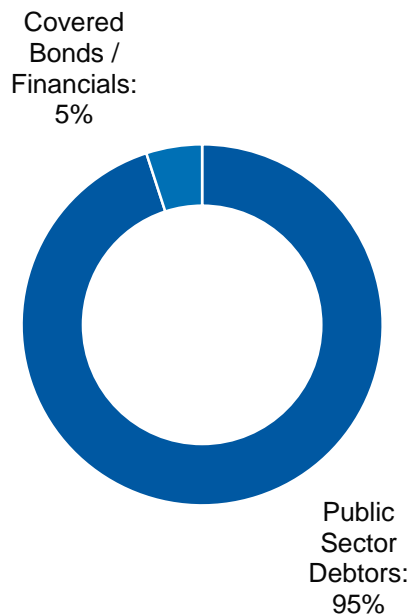
- NPL exposure
- Portfolio allowance
- Specific allowance
- Collaterals

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

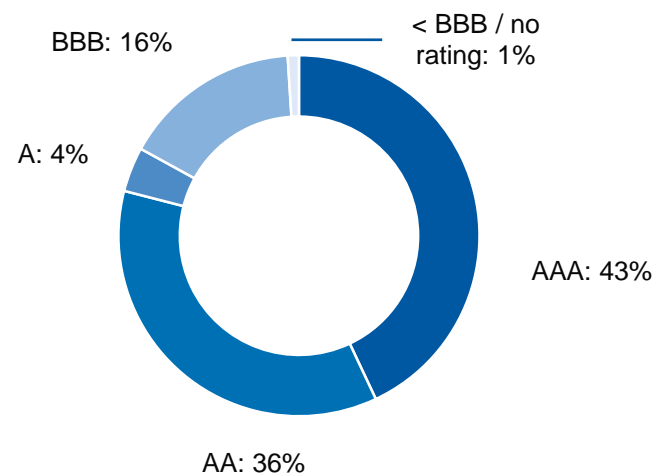
Treasury portfolio

€ 8.3 bn of high quality and highly liquid assets

by asset class



by rating¹⁾



As at 31.12.2017 – all figures are nominal amounts

1) Composite Rating



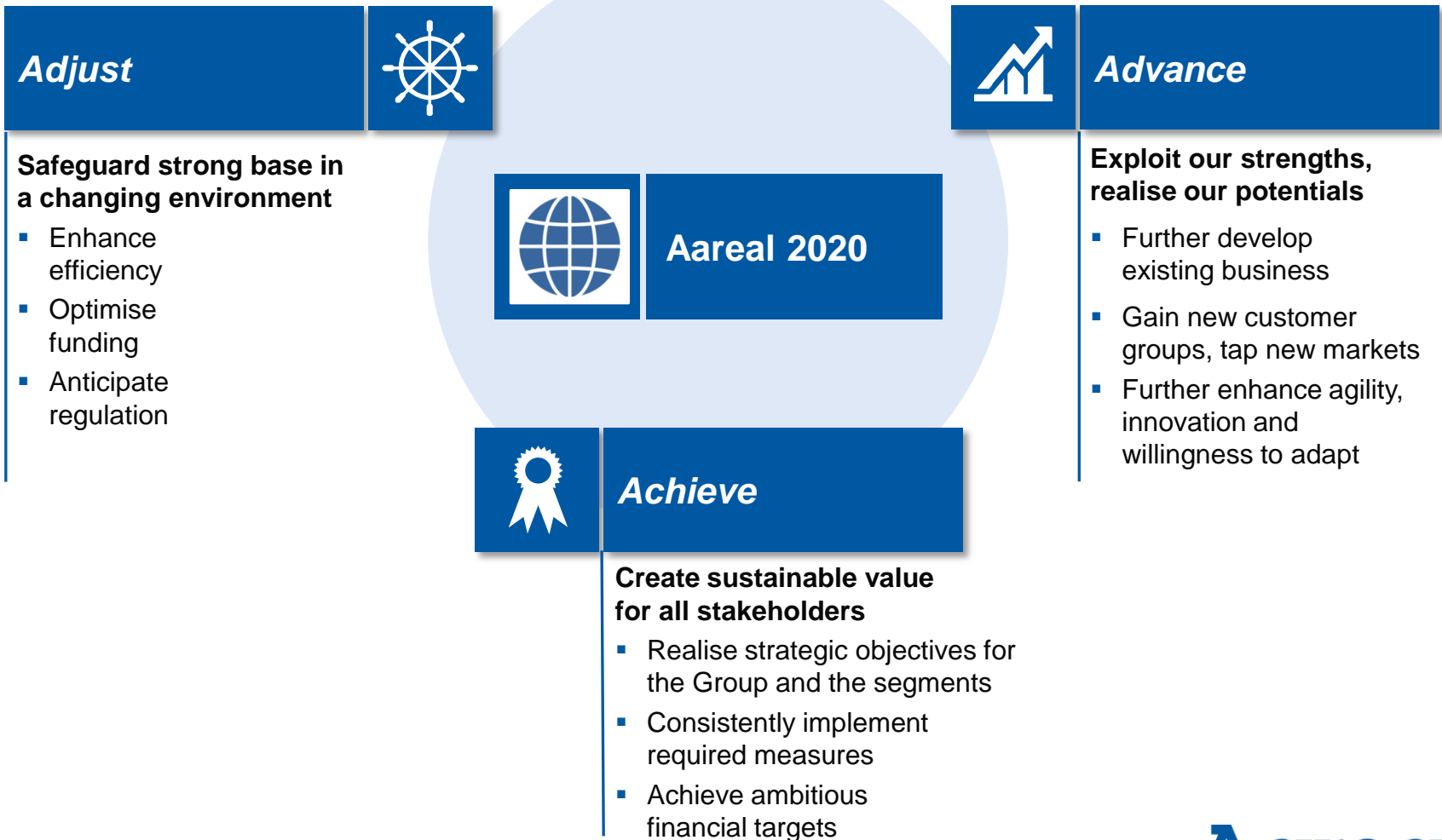
Aareal 2020

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Aareal 2020 – *Adjust. Advance. Achieve.*

Our way ahead

Published
Feb 2016



Aareal 2020 – *Adjust. Advance. Achieve*

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

Adjust



Achievements so far: (extract)



- ✓ 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

Targets: (extract)



- 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

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



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

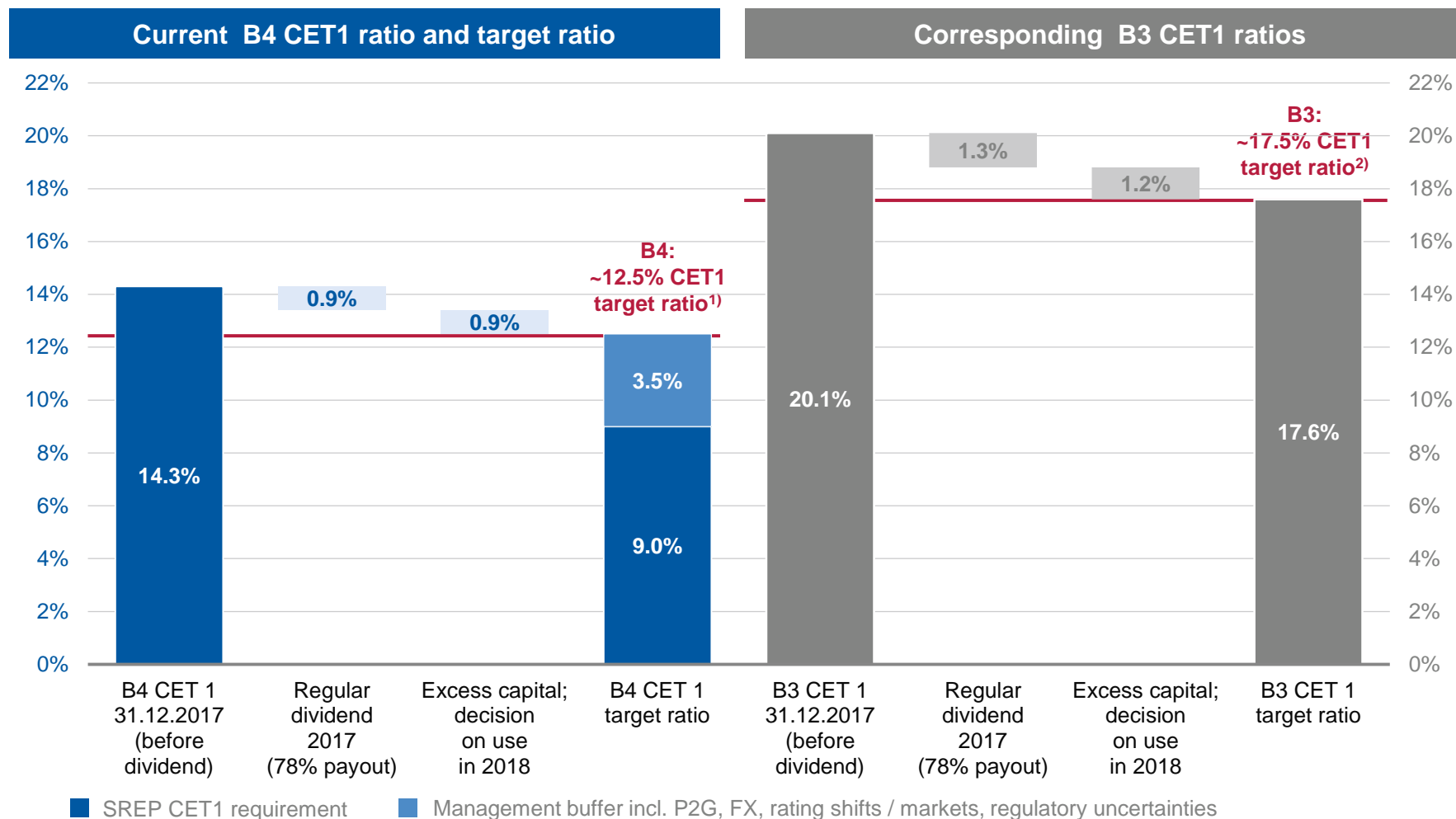


Dividend:

Confirming dividend policy

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



Achieve.

RoE development: Our way ahead

2015 - 2018

2018 - 2020

Published Feb 2016

Achieve. Keep RoE on an attractive level despite difficult environment

RoE-Development 2015 - 18		2020 Plus
Pre-tax RoE 2015 adjusted	-10%	-
Adjusted for (higher than planned) positive one off effects from early repayments and negative goodwill		
Net interest income	⬇️	➡️
Expected decline of net interest income		
Allowance for credit losses	⬇️	➡️
Improve risk position through cautious risk policy		
Admin expenses bank	⬇️	⬇️
Reduce admin expenses by increasing efficiency		
Aareon and commission income banking business	⬆️	⬆️
Increase		
Pre-tax RoE 2018 before adjusting capital structure	-10%	+/- 1%
RoE of approx. 10% achievable before disbursement of excess capital or potential realisation of investment opportunities		
Excess capital	⬇️	⬇️
Adjustment or allocation of underlying capital depending on opportunities and challenges in the markets		
Pre-tax RoE 2018	-12%	+/- 1%

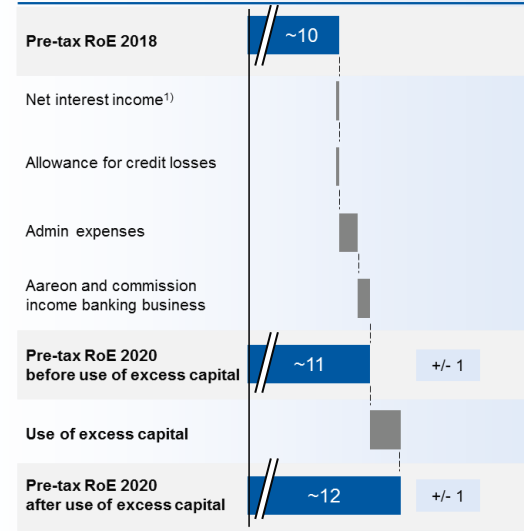
Further medium-term increase is possible on the basis of a positive development of interest rate levels



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Note: All 2015 figures preliminary and unaudited

RoE-Development 2018-2020



Further medium-term increase possible, depending on interest rates levels

Achievements:

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

1) incl. effects from derecognition of financial instruments

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)

Dividend policy

Confirmed

Base dividend

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

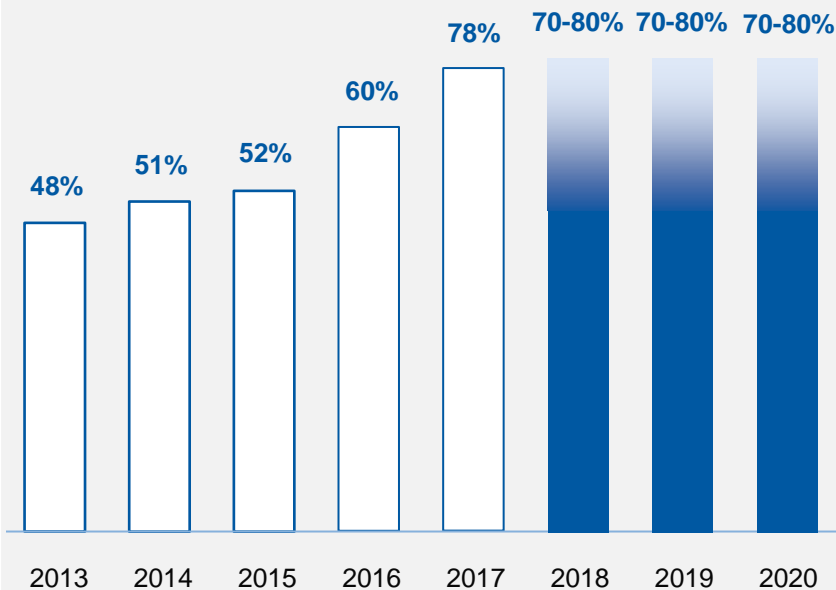
Supplementary dividend

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.

Outlook 2018

Net interest income incl. effects from derecognition of financial instruments	▪ € 570 mn - € 610 mn
Allowance for credit losses¹⁾	▪ € 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 origination²⁾	▪ € 7 bn - € 8 bn
Operating profit Aareon³⁾	▪ ~ € 40 mn

1) As in 2017, the bank cannot rule out additional allowances for credit losses

2) Incl. renewals

3) After segment adjustments

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.



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.

Aareal Bank Group

Results Q4 2017

	01.10.- 31.12.2017	01.10.- 31.12.2016	Change
	€ mn	€ mn	
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.

Aareal Bank Group

Results Q4 2017 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.10.- 31.12. 2017	01.10.- 31.12. 2016	01.10.- 31.12. 2017	01.10.- 31.12. 2016	01.10.- 31.12. 2017	01.10.- 31.12. 2016	01.10.- 31.12. 2017	01.10.- 31.12. 2016
€ mn								
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

Aareal Bank Group

Results 2017 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.01.- 31.12. 2017	01.01.- 31.12. 2016	01.01.- 31.12. 2017	01.01.- 31.12. 2016	01.01.- 31.12. 2017	01.01.- 31.12. 2016	01.01.- 31.12. 2017	01.01.- 31.12. 2016
€ mn								
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.

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	0					1						0	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



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

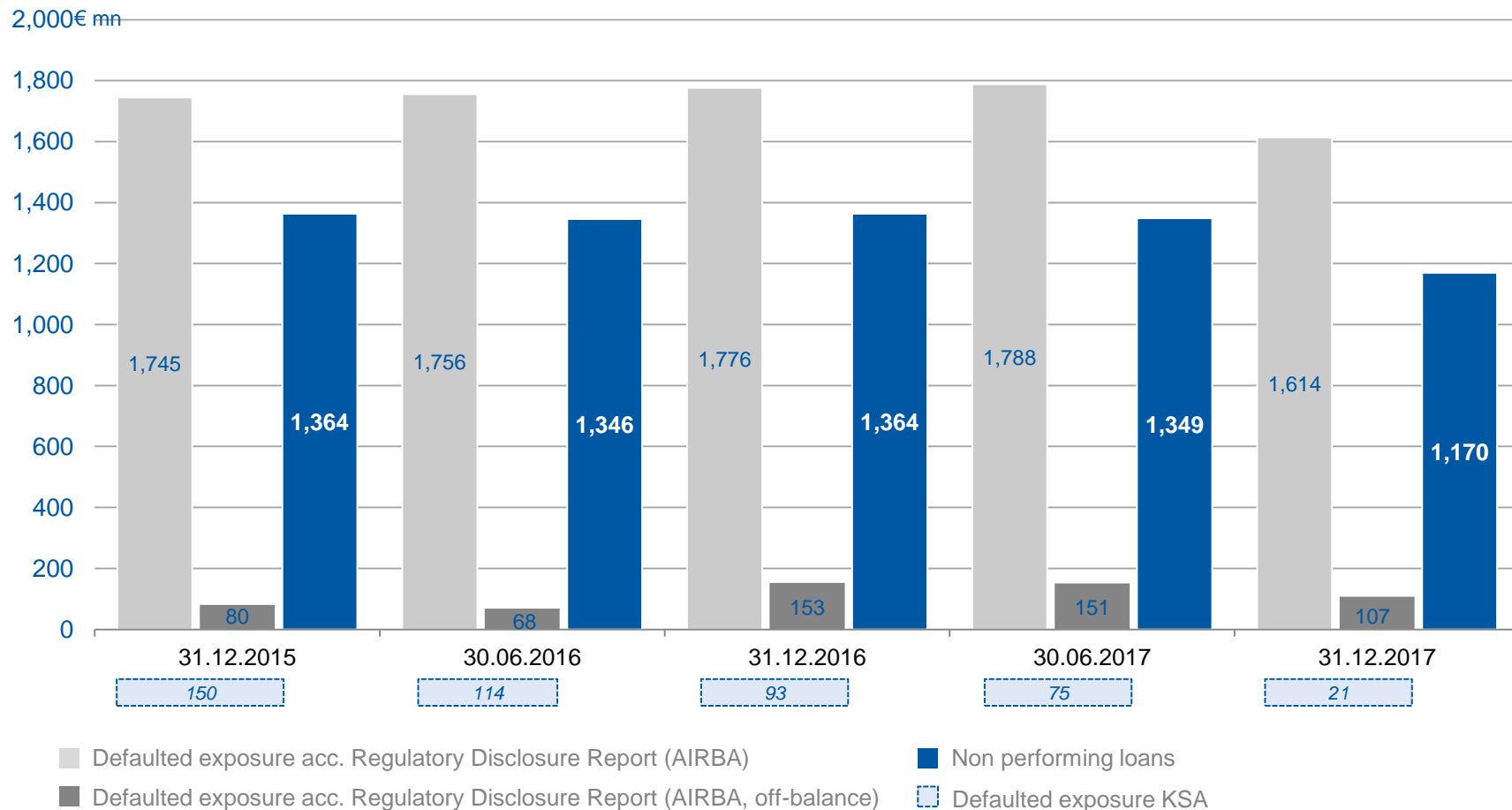
- Expected loss model:
 - Stage 1: LLP based on 12-Month expected credit losses on recognition
 - Stage 2: LLP based on lifetime expected credit losses on financial assets with significant increase in credit risk and
 - Stage 3: LLP based on lifetime expected credit losses on impaired financial assets
- 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

Defaulted exposure

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



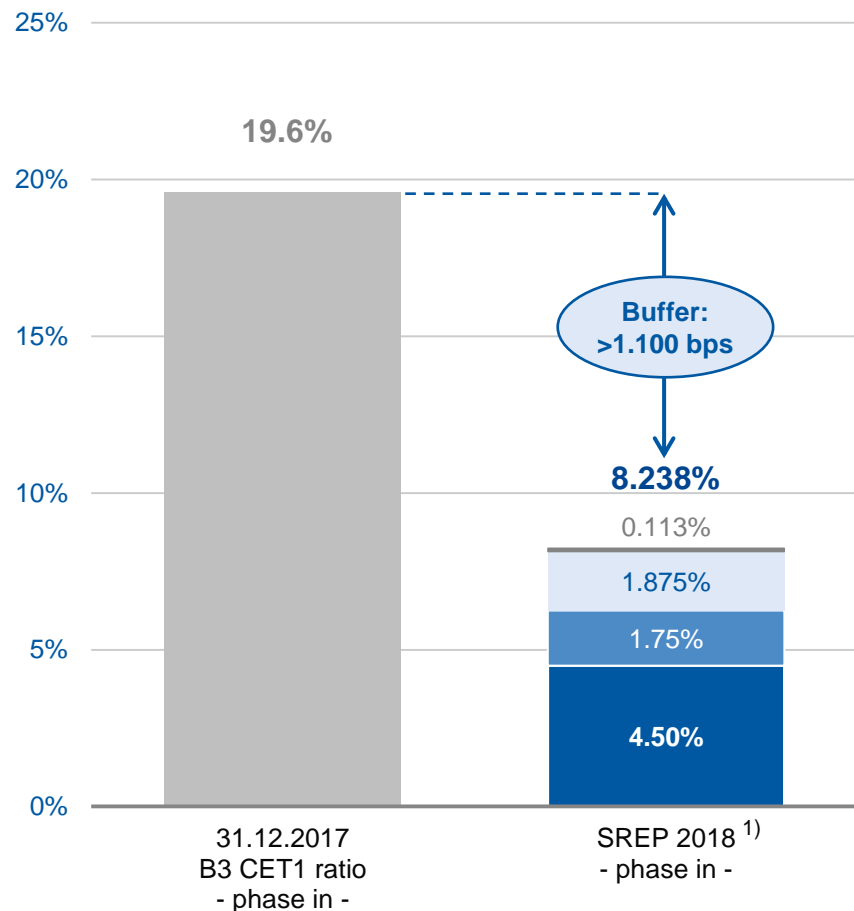


Appendix
SREP

SREP (CET 1) requirements

Demonstrating conservative and sustainable business model

B3 CET1 ratio vs. SREP (CET1) requirements



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

- 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%

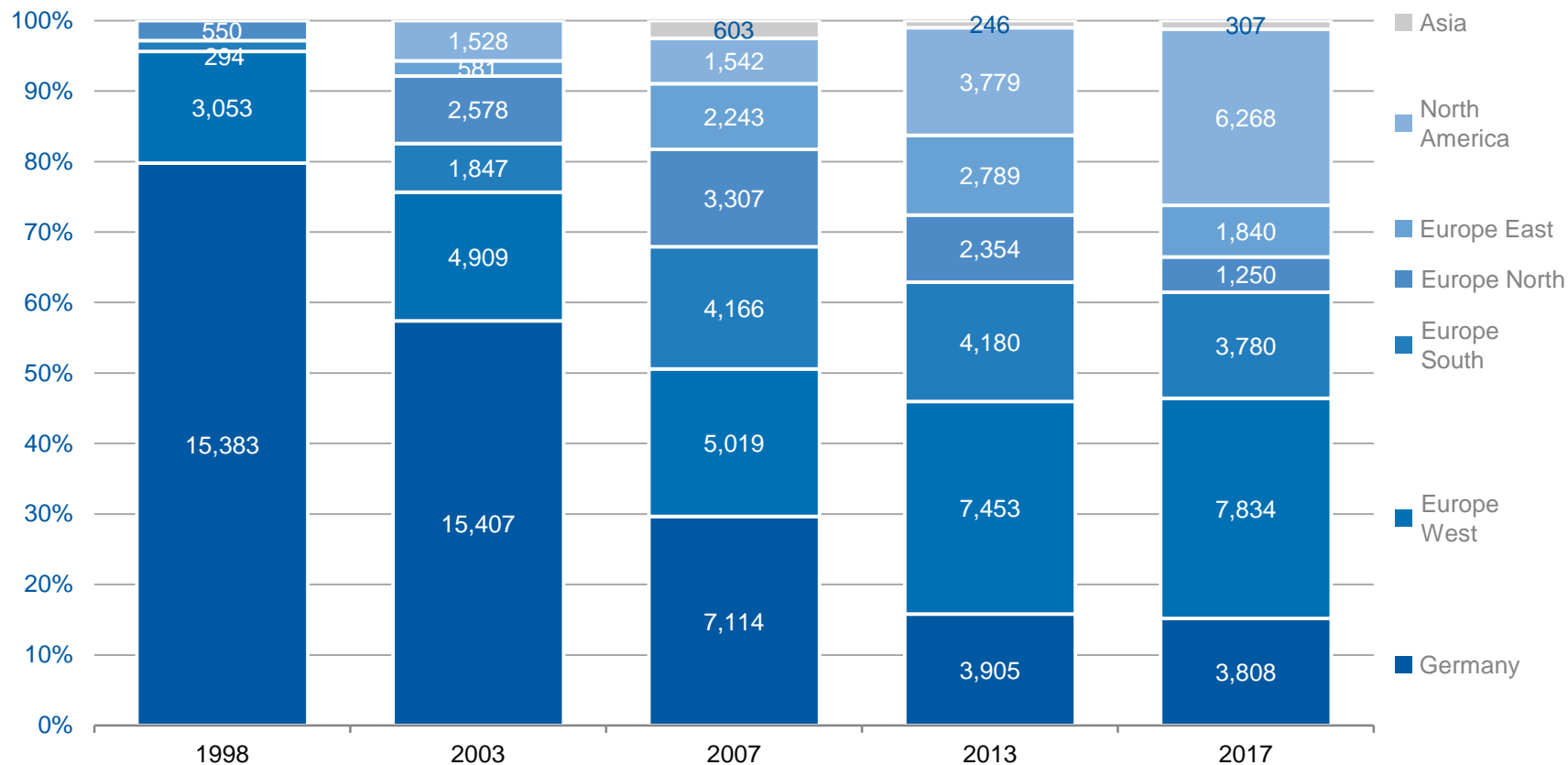
- Countercyclical Buffer
- Capital Conservation Buffer
- Pillar 2 Requirement
- Pillar 1 Requirement



Appendix
Development commercial
real estate finance portfolio

Development commercial real estate finance portfolio¹⁾

Diversification continuously strengthened (in € mn)

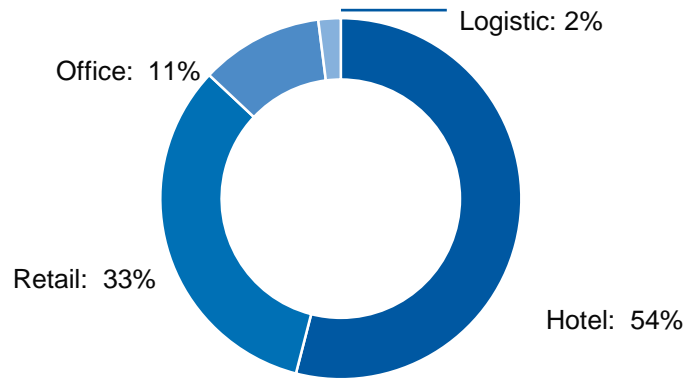


1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included

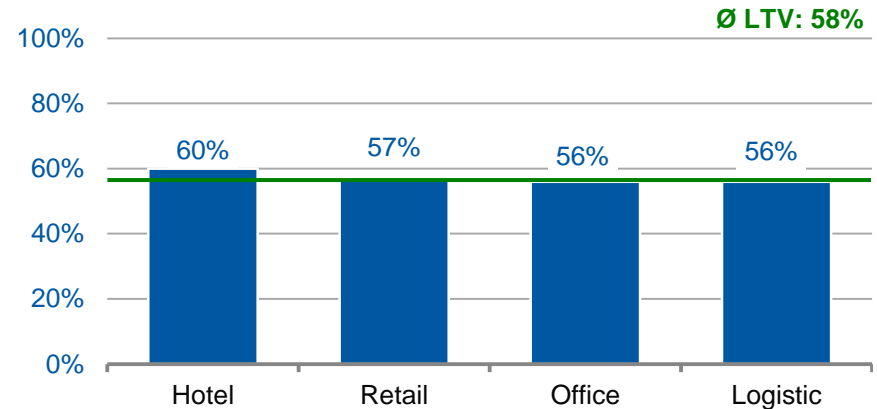
Spotlight: UK CRE finance portfolio¹⁾

€ 3.7 bn (~15% of total portfolio)

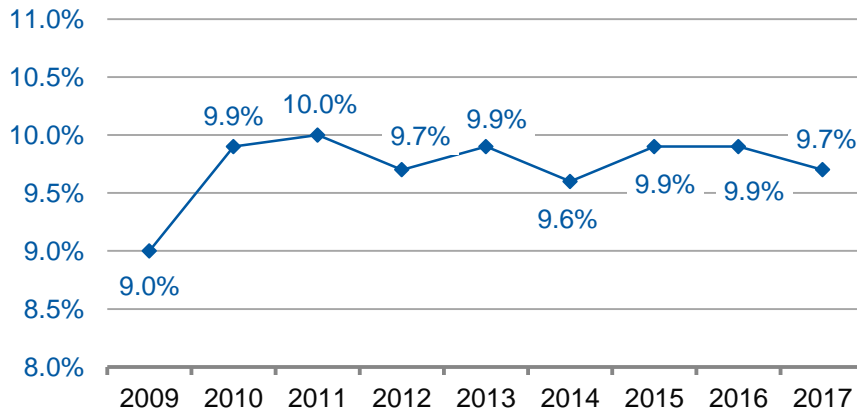
Total portfolio by property type



Average LTV by property type²⁾



Yield on debt²⁾



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

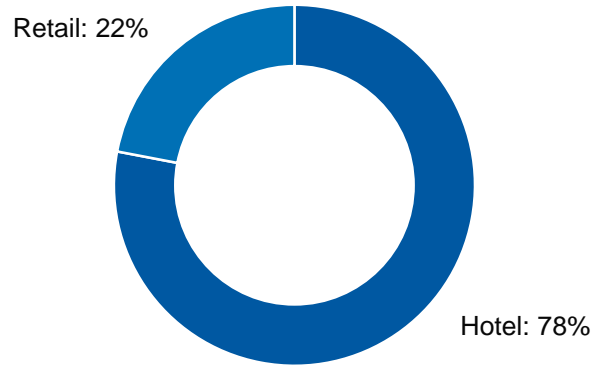
1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included

2) Performing CRE-business only, exposure as at 31.12.2017

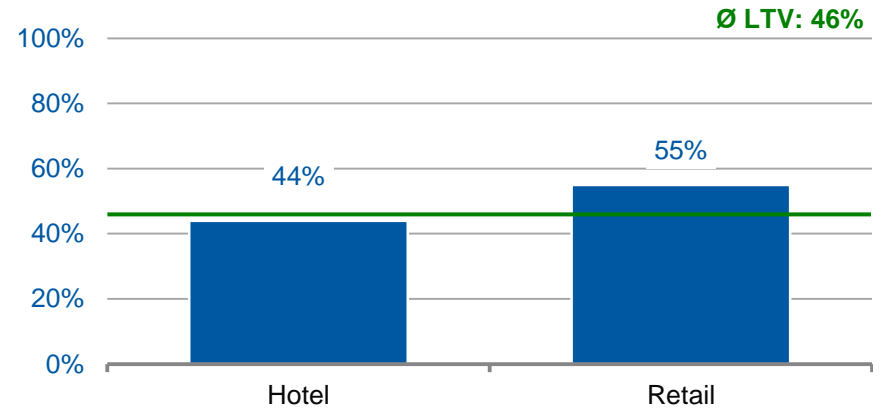
Spotlight: Turkey CRE finance portfolio¹⁾

€ 0.3 bn (~1% of total portfolio)

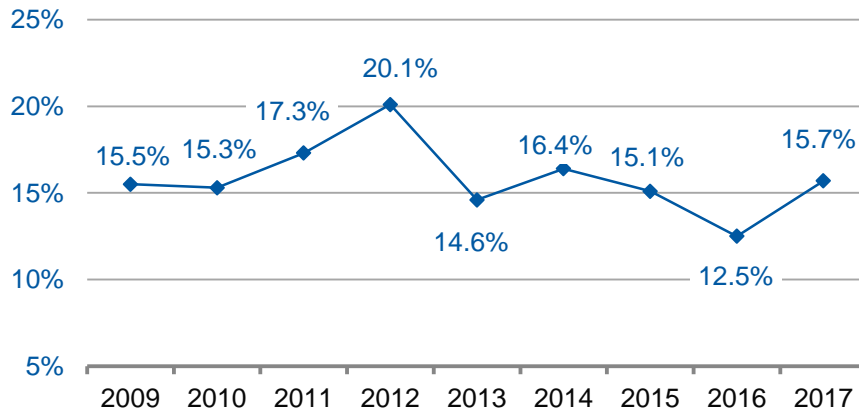
Total portfolio by property type



Average LTV by property type²⁾



Yield on debt²⁾



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)

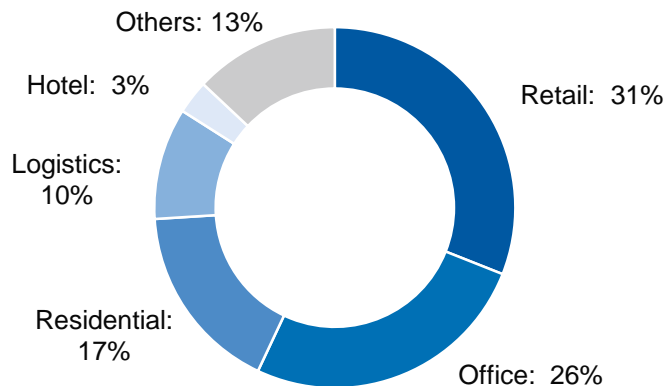
1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included

2) Performing CRE-business only, exposure as at 31.12.2017

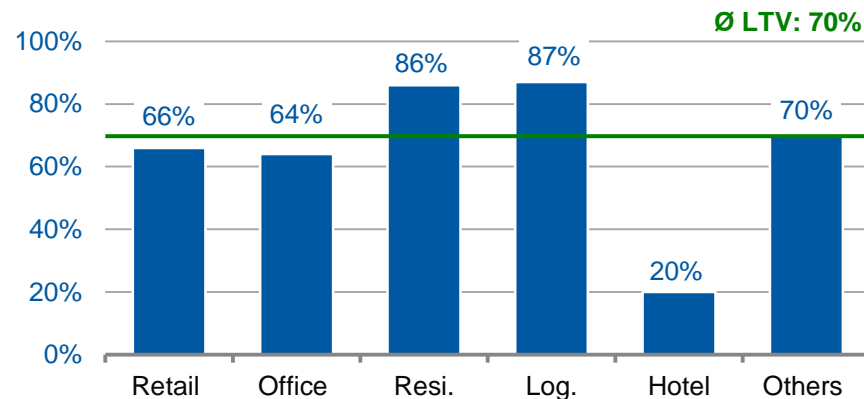
Spotlight: Italian CRE finance portfolio¹⁾

€ 2.8 bn (~11% of total portfolio)

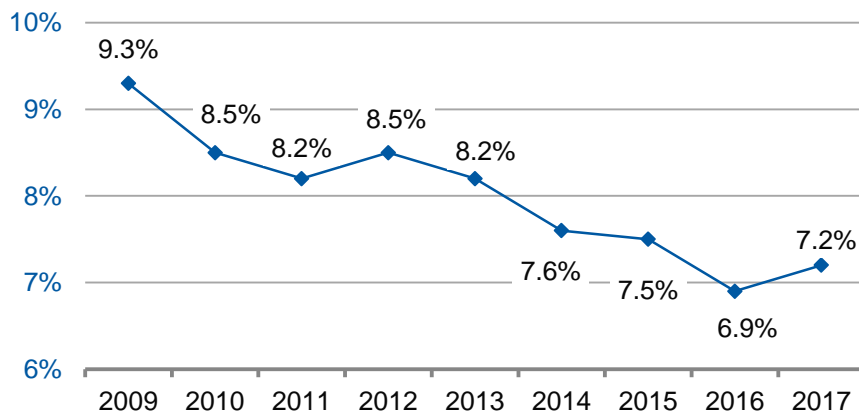
Total portfolio by property type



Average LTV by property type²⁾



Yield on debt²⁾



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

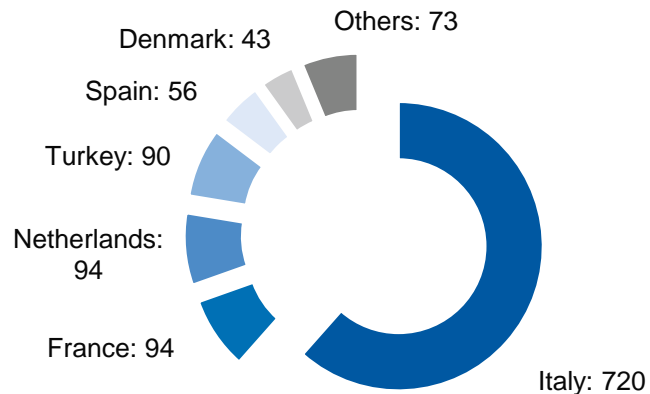
1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included

2) Performing CRE-business only, exposure as at 31.12.2017

Spotlight Italy

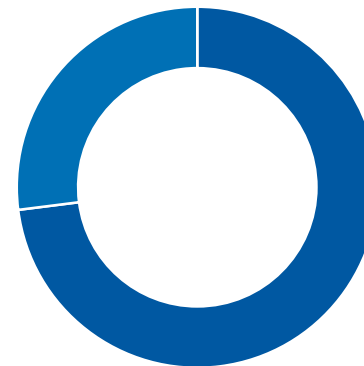
Italian NPL: clear going forward strategy

Total NPL portfolio: € 1,170 mn



Italian NPL by status

Enforcement:
~1/4



Restructured /
agreement in place
or planned:
~3/4

Italian NPL

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

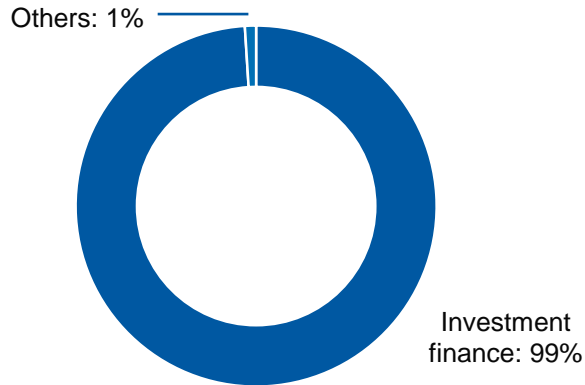


All Italian NPL are fully covered despite being in different workout-stages

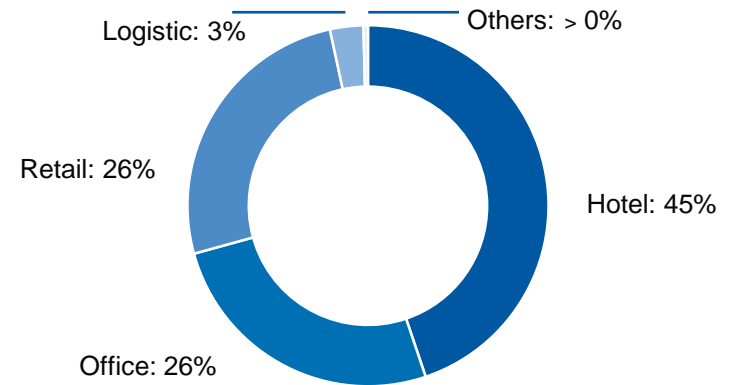
Western Europe (ex Germany) CRE finance portfolio¹⁾

Total volume outstanding as at 31.12.2017: € 7.8 bn

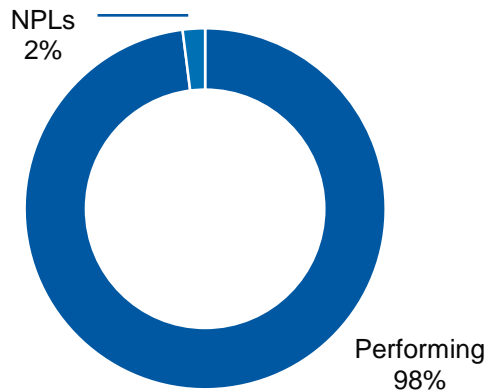
by product type



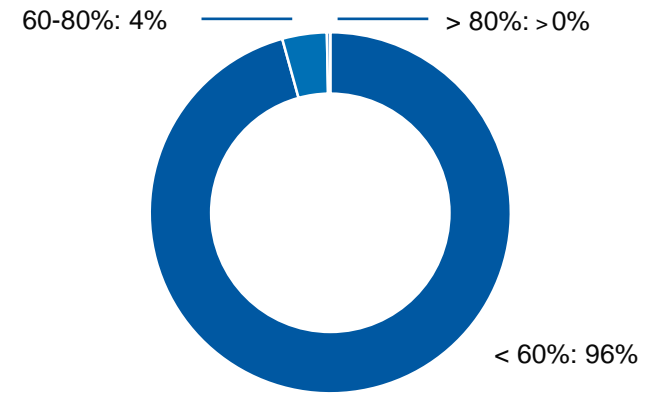
by property type



by performance



by LTV ranges²⁾



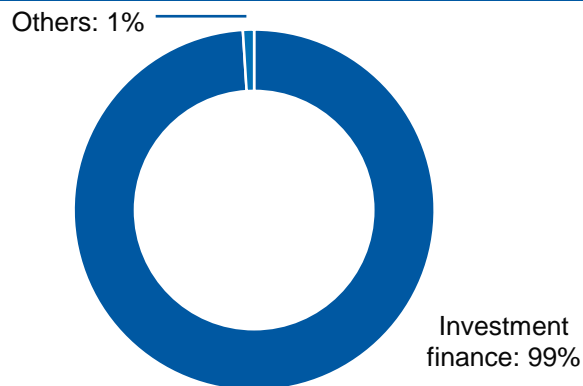
1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included

2) Performing CRE-business only, exposure as at 31.12.2017

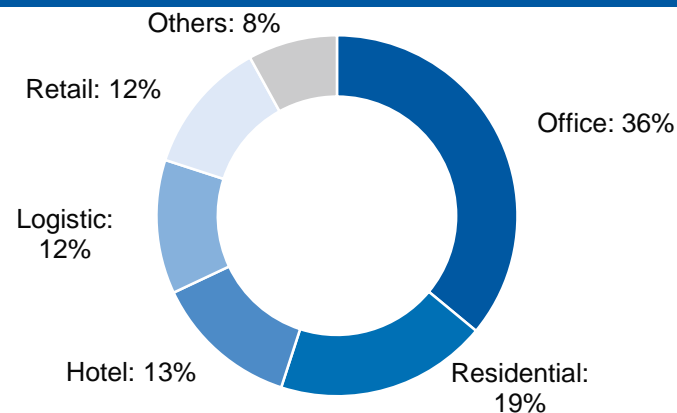
German CRE finance portfolio¹⁾

Total volume outstanding as at 31.12.2017: € 3.8 bn

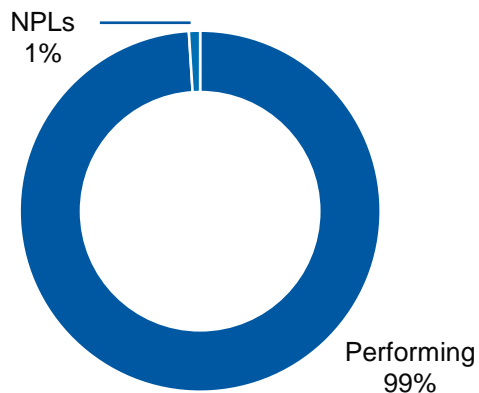
by product type



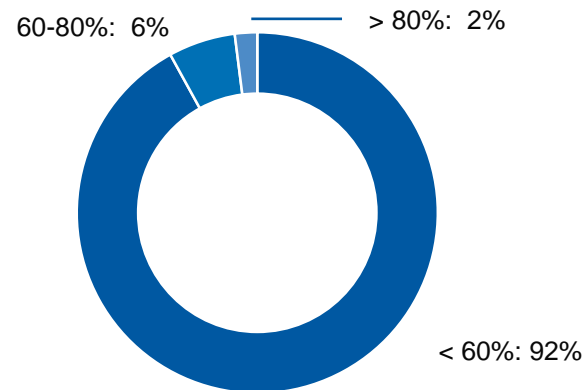
by property type



by performance



by LTV ranges²⁾



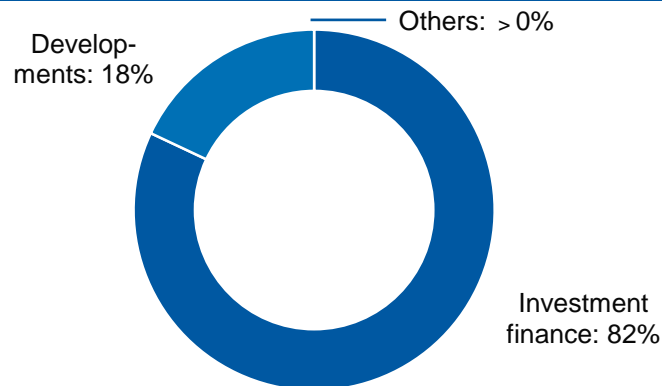
1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included

2) Performing CRE-business only, exposure as at 31.12.2017

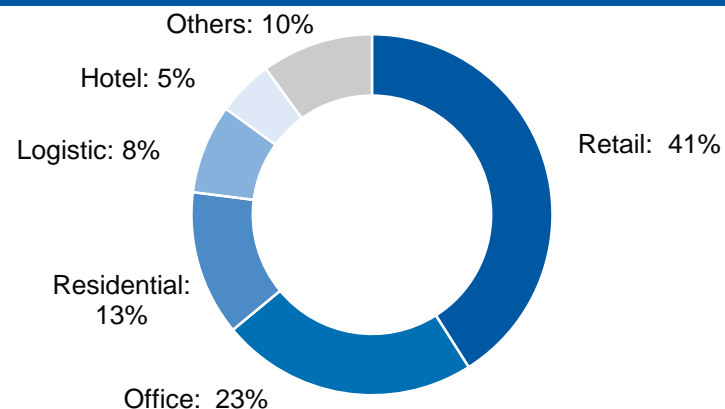
Southern Europe CRE finance portfolio¹⁾

Total volume outstanding as at 31.12.2017: € 3.8 bn

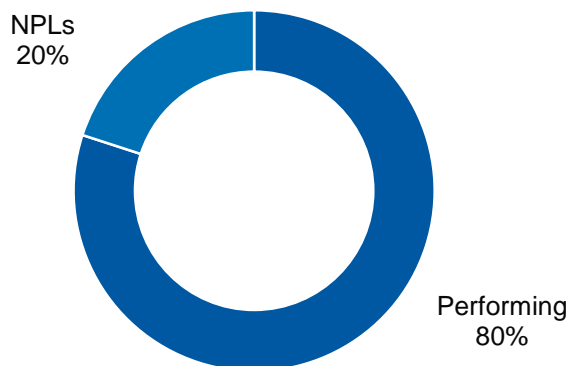
by product type



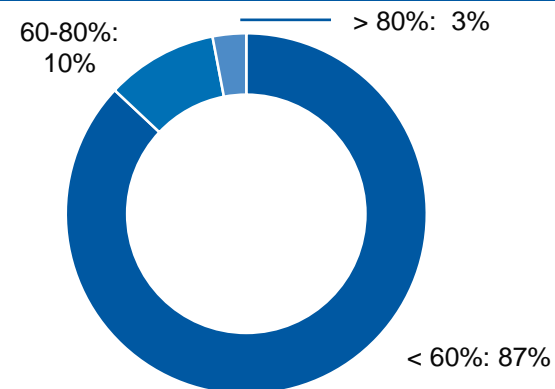
by property type



by performance



by LTV ranges²⁾



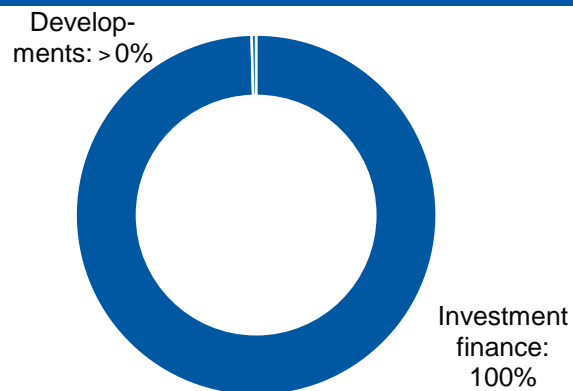
1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included

2) Performing CRE-business only, exposure as at 31.12.2017

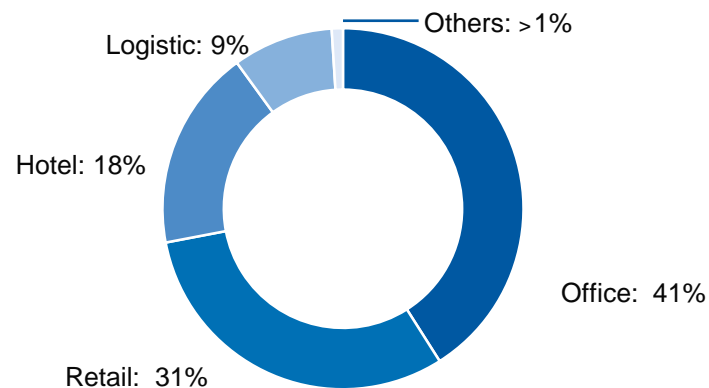
Eastern Europe CRE finance portfolio¹⁾

Total volume outstanding as at 31.12.2017: € 1.8 bn

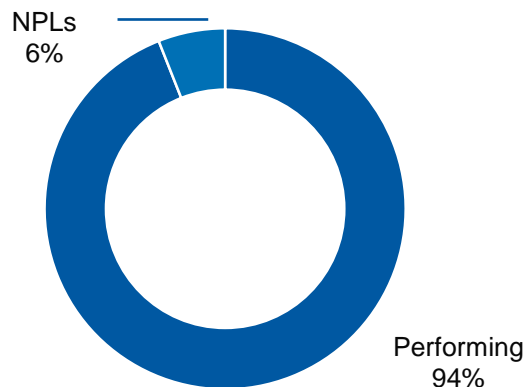
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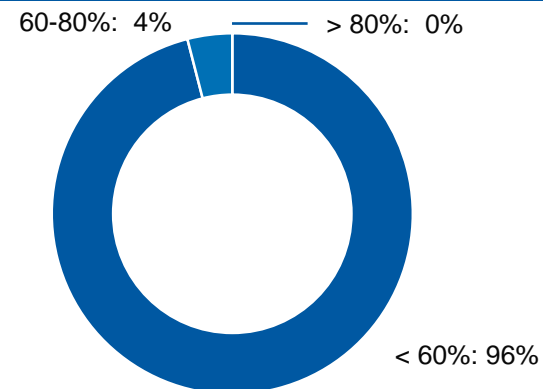
by property type



by performance



by LTV ranges²⁾



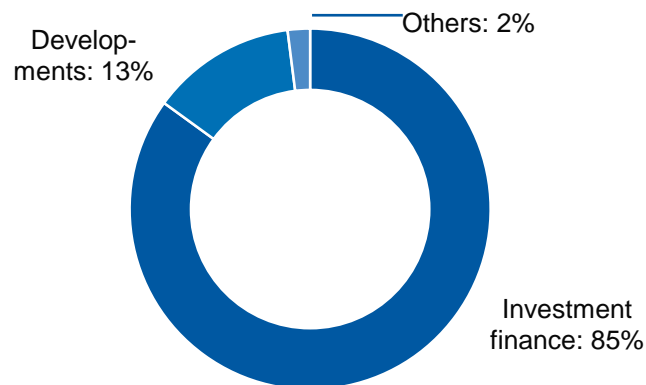
1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included

2) Performing CRE-business only, exposure as at 31.12.2017

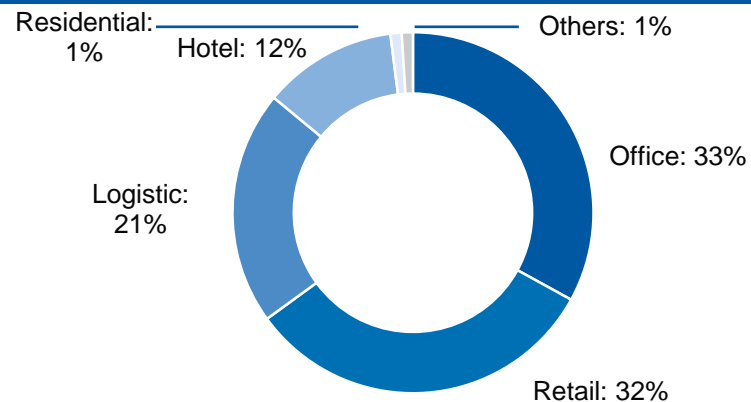
Northern Europe CRE finance portfolio¹⁾

Total volume outstanding as at 31.12.2017: € 1.3 bn

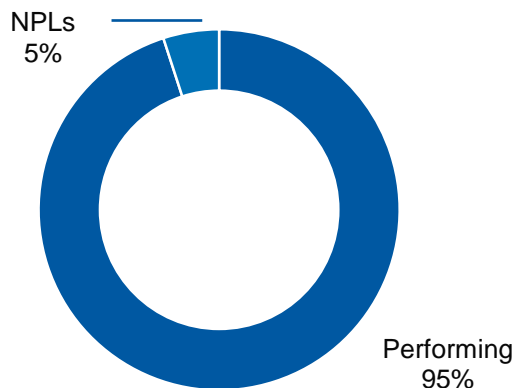
by product type



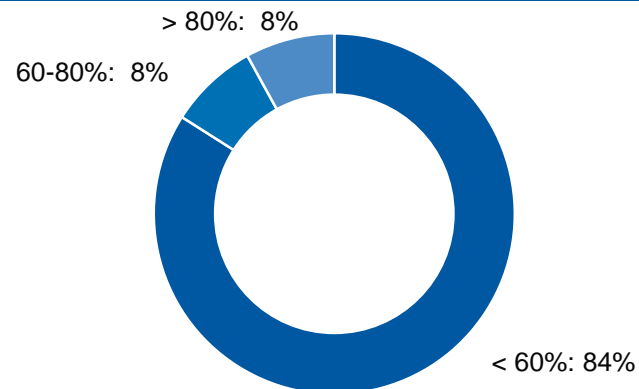
by property type



by performance



by LTV ranges²⁾



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

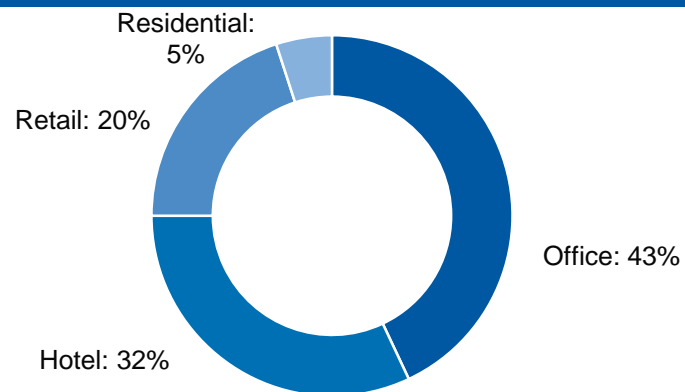
North America CRE finance portfolio¹⁾

Total volume outstanding as at 31.12.2017: € 6.3 bn

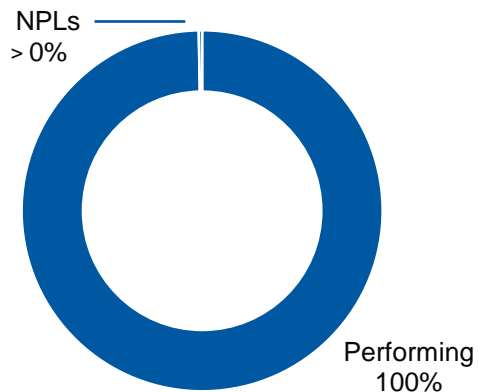
by product type



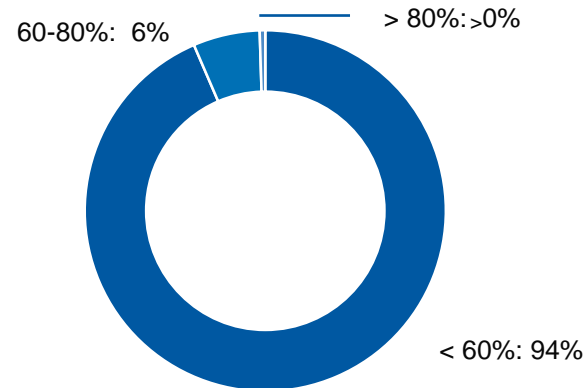
by property type



by performance



by LTV ranges²⁾



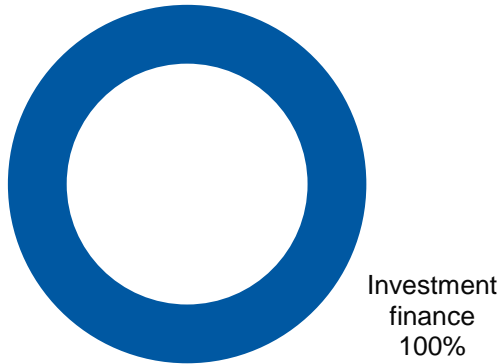
1) CRE-business only, private client business (€ 0.8 bn) and WIB's public sector loans (€ 0.5 bn) not included

2) Performing CRE-business only, exposure as at 31.12.2017

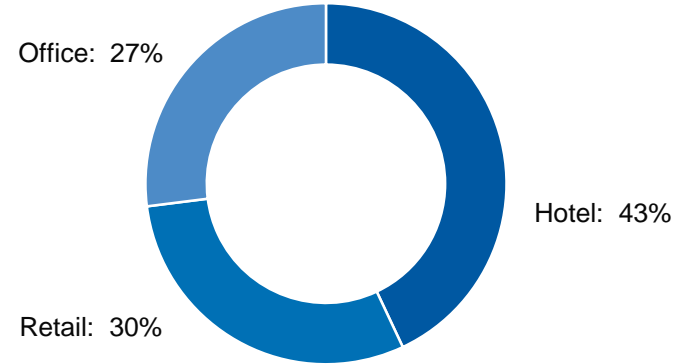
Asia CRE finance portfolio¹⁾

Total volume outstanding as at 31.12.2017: € 0.3 bn

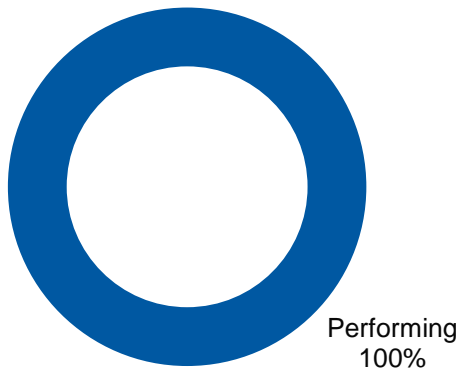
by product type



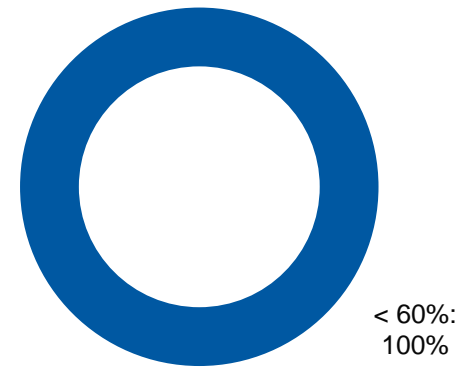
by property type



by performance



by LTV ranges²⁾



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



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)

	31.12. 2014	31.12. 2015	31.12. 2016	31.12. 2017
€ mn				
Net Retained Profit	77	99	122	147
▪ <i>Net income</i>	77	99	122	147
▪ <i>Profit carried forward from previous year</i>	-	-	-	-
▪ <i>Net income attribution to revenue reserves</i>	-	-	-	-
+ 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



Appendix

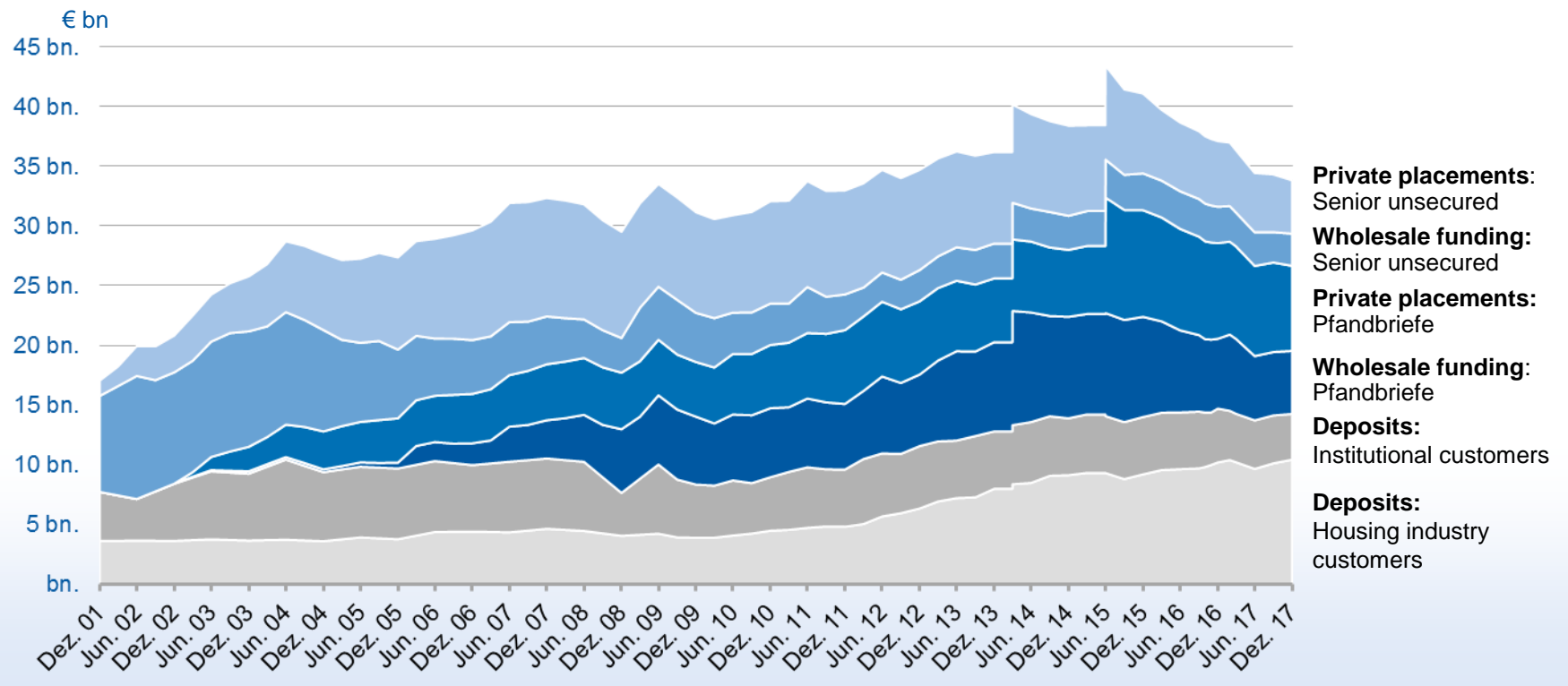
Refinancing situation

Aareal

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



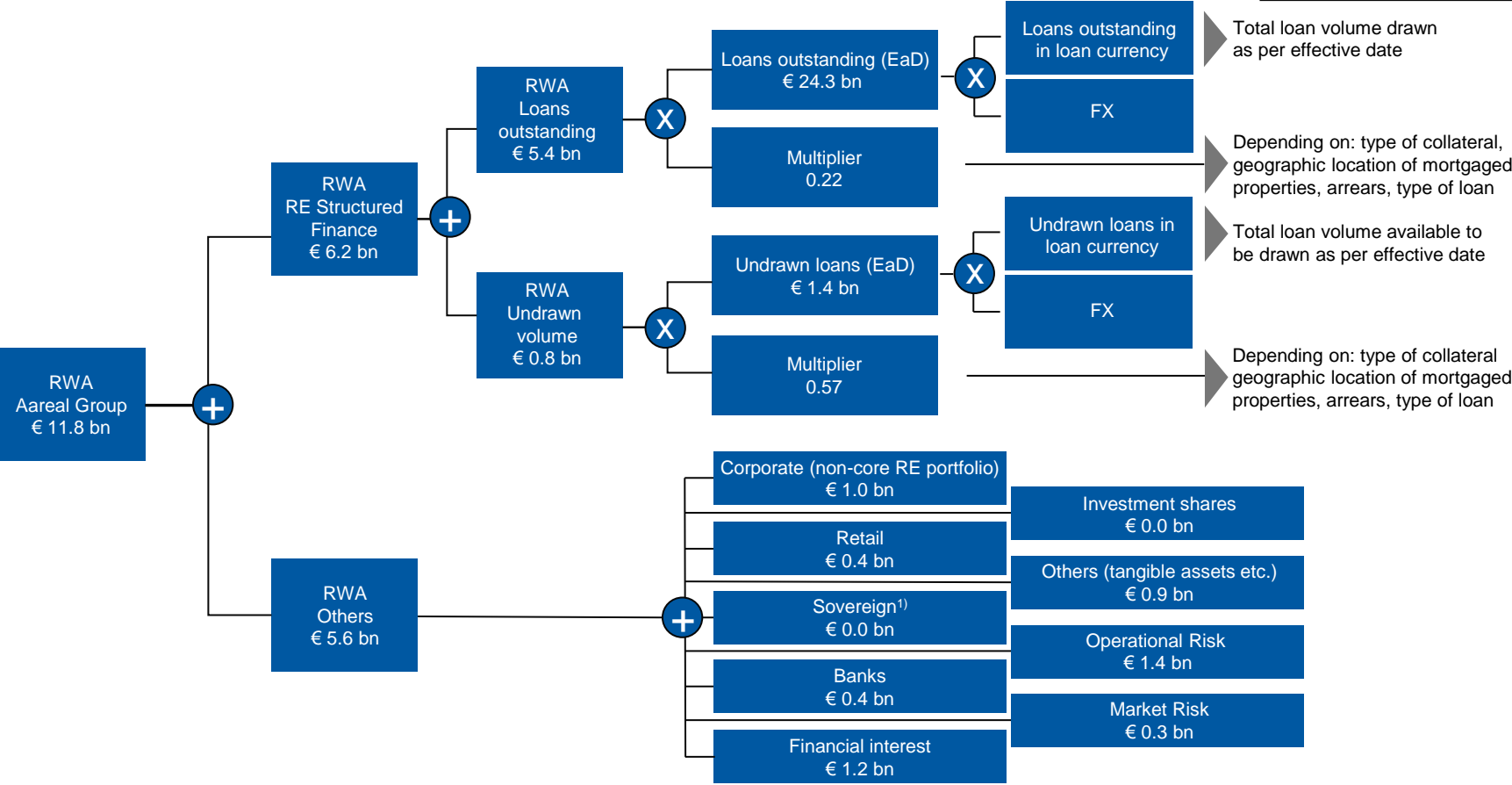
Appendix

RWA-split

From asset to risk weighted asset (RWA)

Essential factors affecting volume of RWA

Effective date 31/12/2017

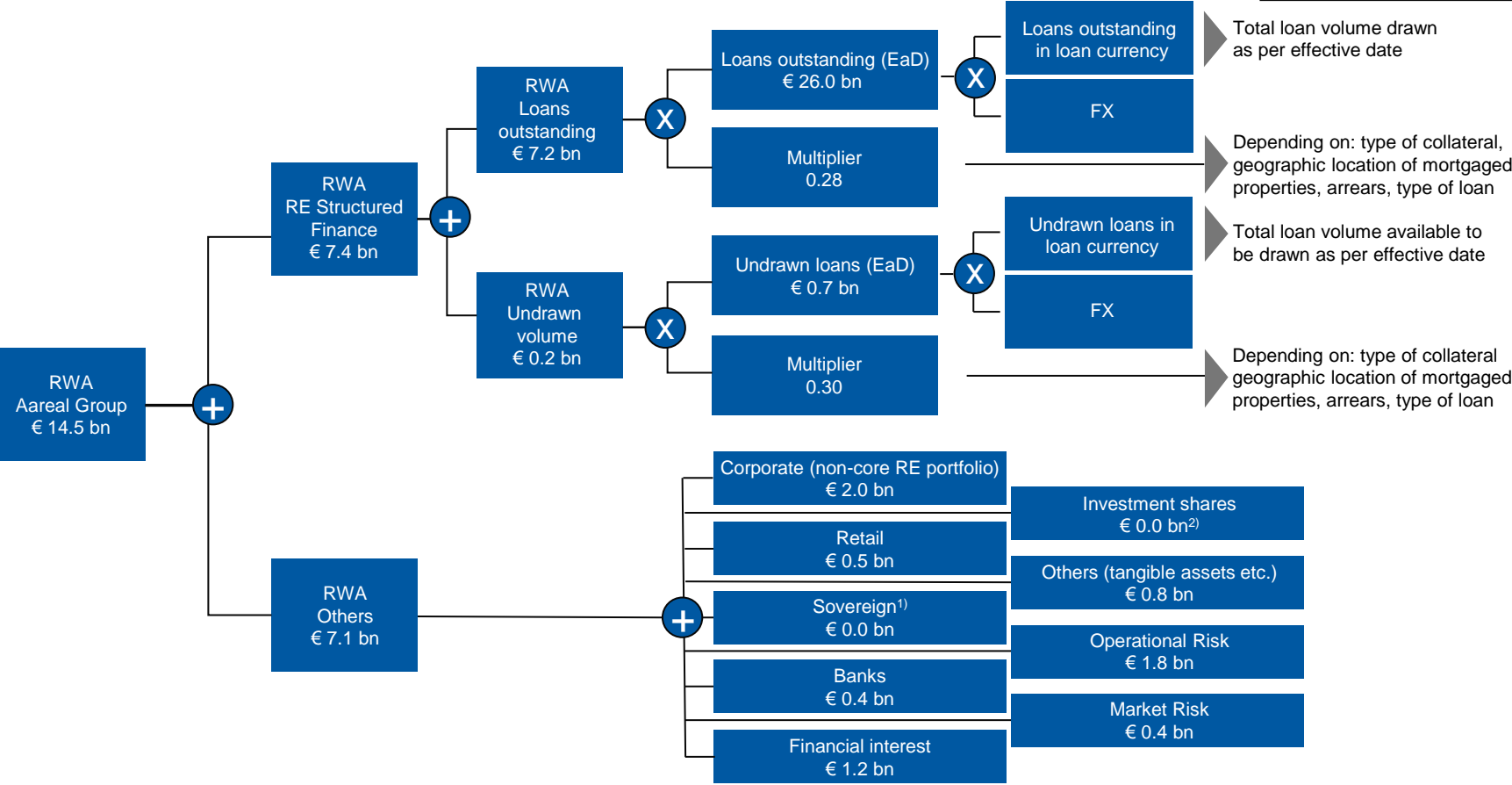


1) Amounts to € 35 mn

From asset to risk weighted asset (RWA)

Essential factors affecting volume of RWA

Effective date 31/12/2016



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



Sustainability Performance

Aareal

Aareal Bank Group

Stands for solidity, reliability and predictability

Doing business sustainably

19.4% Common Equity Tier 1 ratio¹⁾, exceeds the statutory requirements



€ 25.1 bn Valuable Property Finance Portfolio²⁾



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



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



Systematic approach: Code of Conduct for employees & suppliers



Solid refinancing base: Covered Bonds³⁾ with best possible ratings



Aareal Bank & Aareon: Certified Ecoprofit companies, by using

100%
green electricity⁴⁾

Above-average results in sustainability ratings



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

Sustainability data

Extends the financial depiction of the Group

Key takeaways at a glance



Transparent Reporting – facilitating informed investment decisions

- SUSTAINABILITY DISCLOSURES 2016¹, 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/>



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

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