

QUALITY®
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Fixed Income Presentation

Q1 2018 Results

Aareal Bank AG, Wiesbaden
March 31, 2018

Aareal

Agenda

- Aareal Bank Group Overview
- Highlights
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- Asset quality
- Outlook
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 - Sustainability
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Aareal Bank Group Overview

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Business segments

Aareal Bank Group

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Structured Property Financing

International presence and business activities on three continents – in Europe, North America and Asia

Industry experts for hotel, logistics and office properties as well as shopping centers

International real estate financing in more than 20 countries

Total CRE Portfolio: € 25,9 billion

Consulting / Services for the property industry

Market-leading integrated payment transaction system for the housing, commercial property and energy sector

Market-leading IT systems for the management of residential and commercial property in Europe

Around 7 million units under management in the key market Germany

International presence: France, the Netherlands, UK and Scandinavia

Structured Property Financing

Aareal Bank AG

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Focus on senior lending

Cash-flow driven collateralised business with focus on first-ranking mortgage loans

Typical products, for example:

- Single asset investment finance
- Portfolio finance (local or cross-border)

In-depth know-how in local markets and special properties

- Local expertise at our locations
- Additional industry expertise at the head offices

International experience with employees from over 25 nations



Aareal Bank Group

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Aareon Group IT Services

Market-leading European IT-system house for the management of residential and commercial property portfolios

Highly automated ERP systems : license and SaaS solutions

Comprehensive range of integrated services and consulting

Key client base: large size property owners / managers

~ 60 % market share in German key market: >2,500 customers with ~7 mn units under management in Germany

International presence: F, NL, UK, SWE and NOR

Aareal Bank Transaction banking

Market-leading integrated payment transaction systems for the institutional housing industry in Germany

Key client base: large size property owners / managers and utility companies

Key market: Germany

~ 100 mn transactions p.a.

Deposit volume in Q1/2018: Ø € 10.2 bn, strategically important as an additional source of funding

Transaction volume: ~ € 50 bn p.a.



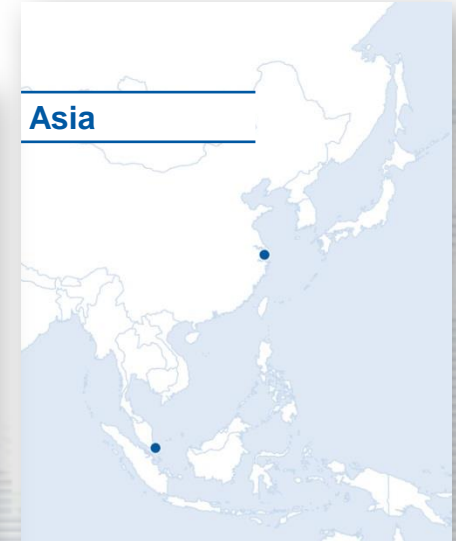
Structured Property Financing



Structured Property Financing



Consulting / Services



Structured Property Financing

Aareal Bank, Real Estate Structured Finance: Brussels, Copenhagen, Dublin, Istanbul, London, Madrid, Moscow, New York, Paris, Rome, Shanghai, Singapore, Stockholm, Warsaw, Wiesbaden | **Aareal Valuation GmbH:** Wiesbaden | **Aareal Estate AG:** Wiesbaden

Aareal Bank, Institutional Housing Unit: Berlin, Essen, Hamburg, Leipzig, Munich, Stuttgart, Wiesbaden | **Aareon AG:** Berlin, Coventry, Dortmund, Emmen, Enschede, Erfurt, Gorinchem, Gothenburg, Hamburg, Hilversum, Hückelhoven, Karlskrona, Leipzig, Lund, Mainz, Meudon-la-Forêt, Munich, Nantes, Norrtälje, Orléans, Oslo, Piteå, Southampton, Stockholm, Stuttgart, Swansea, Toulouse | **Deutsche Bau- und Grundstücks-AG:** Berlin, Bonn, Moscow, Munich | **Aareal First Financial Solutions AG:** Mainz

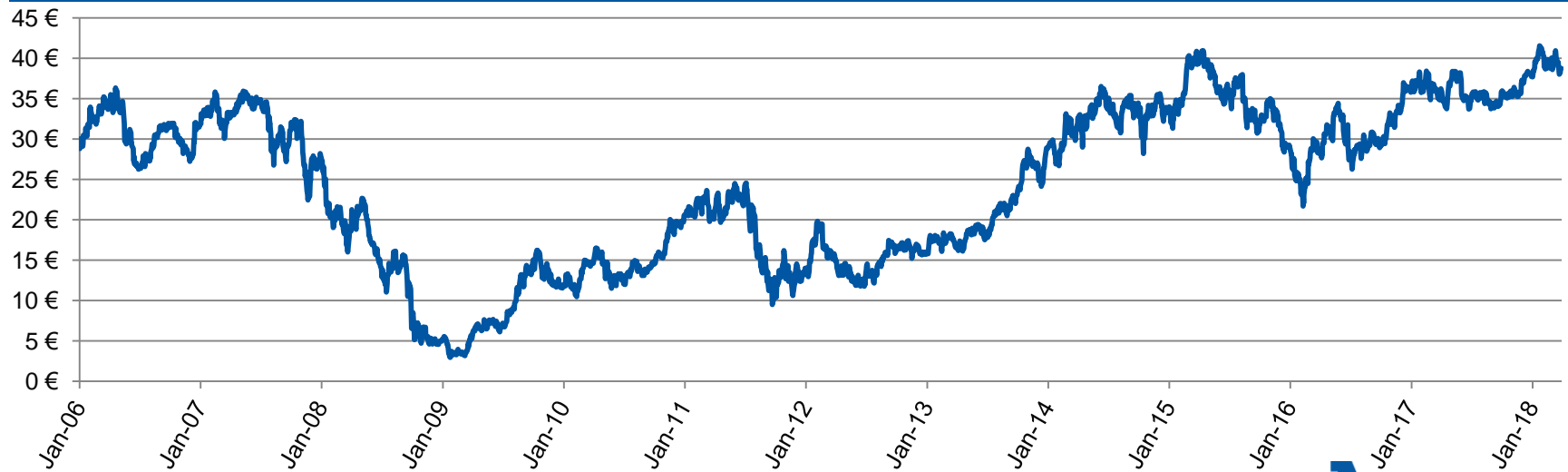
Aareal's ownership structure

100% Free Float

Aareal Bank AG

- Listed in the German MDAX
- 59,857,221 outstanding shares
- 100% free float
- Approximately 2,800 employees
- Balance Sheet: 41.3 bn €
- Flat hierarchies

Stock performance since 01. Jan 2006



Aareal Bank Ratings

FitchRatings

Long-term	BBB+ <i>stable</i>
Short-term	F2
Long termn Deposit Rating	A-
Viability Rating	bbb+
Subordinated Debt	BBB
Additional Tier 1	BB-
Mortgage Pfandbriefe	AAA <i>stable</i>
Public sector Pfandbriefe	AAA <i>stable</i>

MOODY'S

Long-term Issuer Rating	Baa1 <i>stable</i>
Short-term Issuer Rating	P-2
Long-term Bank Deposits	A3 <i>stable</i>
Baseline Credit Assessment	baa3
Mortgage Pfandbriefe	Aaa <i>stable</i>

Aareal Bank Group

Stands for solidity, reliability and predictability

Doing business sustainably

19.2% Common Equity Tier 1 ratio¹⁾, exceeds the statutory requirements



€ 24.6 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, as at 31.03.2018

2) CRE business only, private client business (€ 0.7 bn) and WIB's public sector loans (€ 0.5 bn) not included, as at 31.03.2018

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



Highlights

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Highlights

Solid start into 2018



Robust economic development.

Financial markets with increased volatility due to political uncertainties and raised interest rates in the USA.
Ongoing or even tougher competition in the CRE lending markets.



Operating profit of € 67 mn (Q1/2017: € 71 mn) within expectations.

EpS of 0,65 € (Q1/2017: 0,63 €)



Solid new business origination with good margins in the structured property financing segment,
no burden from risk provisioning



NCI up, mainly due to positive development of Aareon



FY-outlook confirmed



Group results at a glance

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Group results at a glance

Solid quarter, in line with full year targets

€ mn	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1'18	Comments
Net interest income (incl. derecognition result)	164	158	164	148	139	New business margins above plan Lower effects from derecognition Portfolio size slightly below plan
Allowance for credit losses	2	25	26	29	0	No burden from risk provisioning Confirming FY-target
Net commission income	48	49	48	61	50	Aareon on track, confirming FY-targets
FV- / hedge-result	-4	1	11	-1	1	
Admin expenses	139	129	120	123	128	Incl. European banking levy and costs for Deposit Protection Guarantee Schemes
<i>Others</i>	4	55	5	10	5	
Operating profit	71	109	82	66	67	Solid quarter, in line with full year targets
Income taxes	24	42	31	18	23	FY 2018 tax ratio of ~34% assumed
Minorities / AT1	9	5	4	4	5	Savings from redemption of hybrid instrument from Q2 2017 onwards
Consolidated net income allocated to ord. shareholders	38	62	47	44	39	
Earnings per share [€]	0.63	1.05	0.78	0.74	0.65	



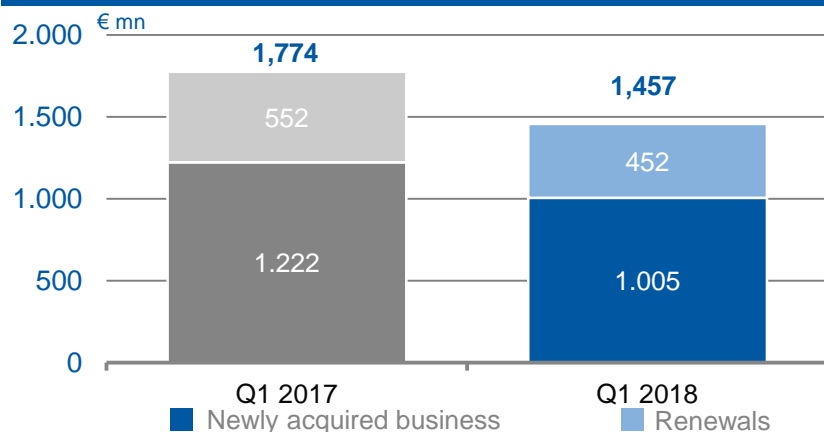
Segment performance

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Structured property financing

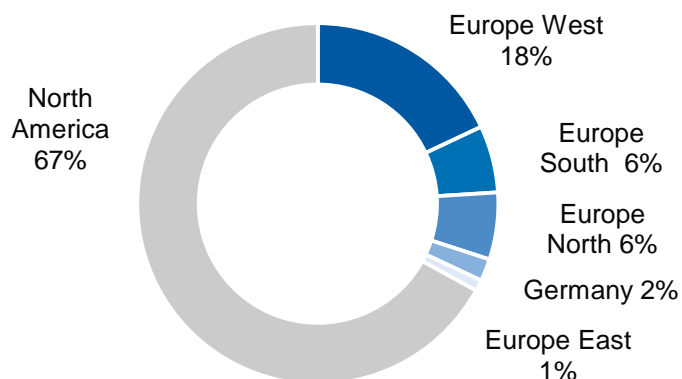
Despite challenging markets good new business origination in Q1

New business origination by quarter¹⁾

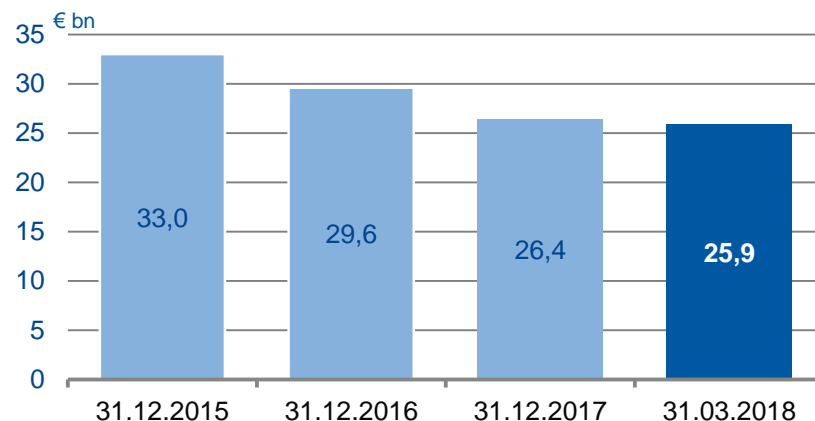


- Despite lower transaction volumes new business volume as planned, high US share
- Newly acquired business:
 - Gross margins in Q1 2018 of around 250 bps (~ 220 bps after FX) due to high US share
 - Sticking to FY margin target of 190-200 bps
- Slight RE portfolio²⁾ reduction q-on-q to € 25.9 bn (31.12.2017: € 26.4 bn)

New business in Q1 2018 by region¹⁾



RE portfolio development



1) Incl. renewals

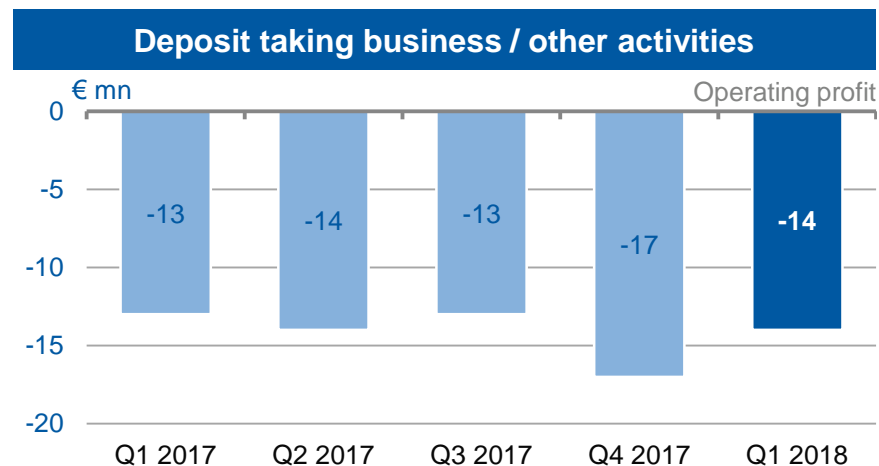
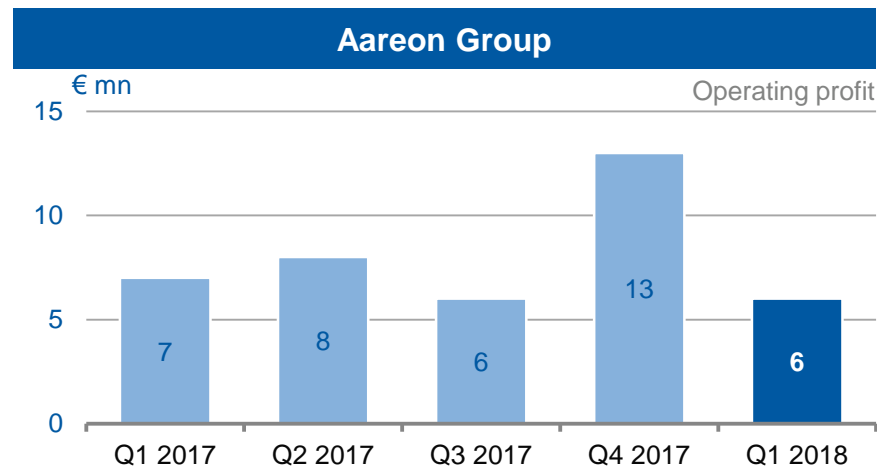
2) RE-business incl. private client business (€ 0.7 bn) and WIB's public sector loans (€ 0.5 bn)

Consulting / Services

Aareon sales revenues above previous year

P&L C/S Segment	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18
€ mn					
Sales revenue	54	55	53	64	56
Own work capitalised	1	1	1	2	1
Other operating income	1	1	1	4	1
Cost material purchased	9	9	8	9	9
Staff expenses	35	36	38	42	37
D, A, impairment losses	3	3	3	4	4
Other operat. expenses	15	15	13	18	16
Others	0	0	0	0	0
Operating profit	-6	-6	-7	-4	-8

- Aareon revenues of € 55 mn (Q1 2017: € 52 mn), EBT of € 6 mn, EBT margin ~11%
- Aareon EBT below last years' figure due to shift of projects, EBT in line with full year target
- Aareon revenues resulting from growth in all product lines, digital products with highest growth rates
- Deposit volume on a high level (Ø of € 10.2 bn in Q1)
- Focussing on further shift into sustainable deposits
- Deposit margins still burdening segment result by interest rate environment



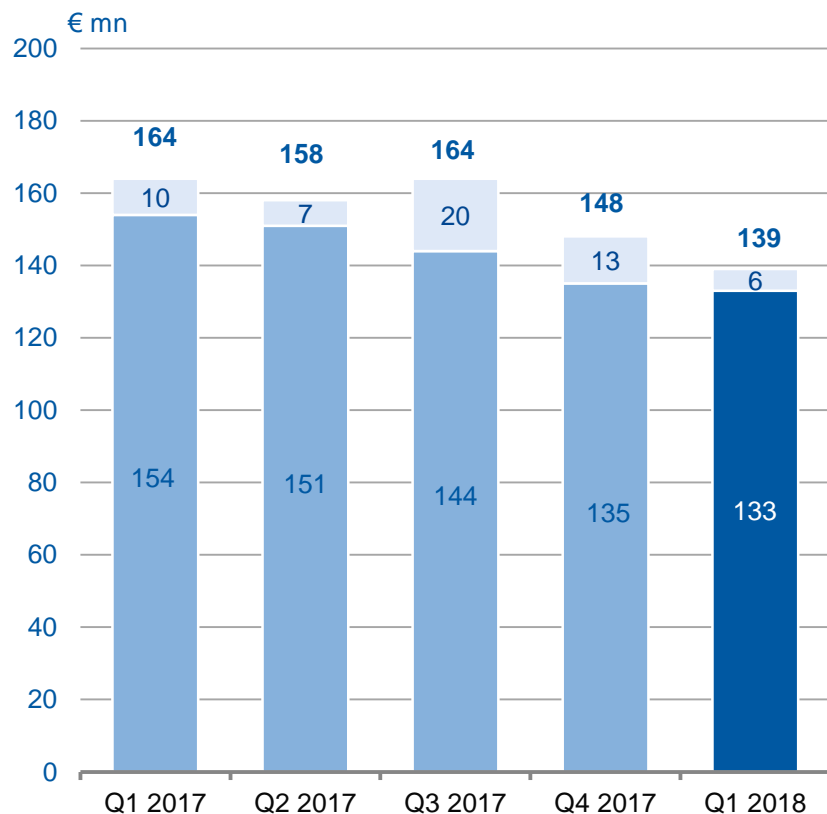


Group results Q1 2018

Aareal

Net interest income¹⁾

New business margins above plan, lower effects from early repayments



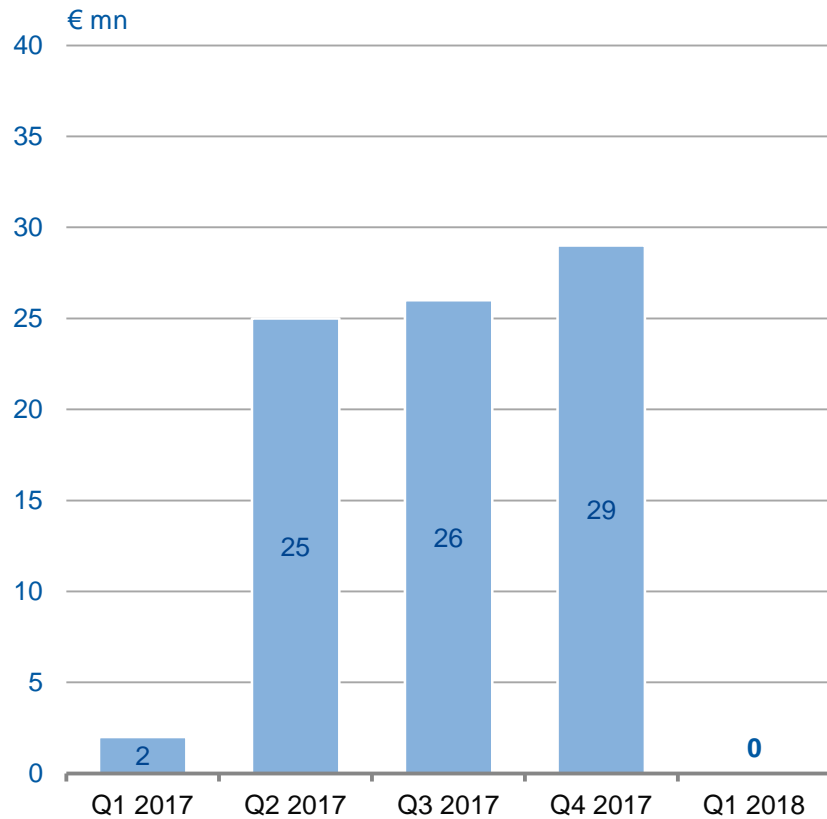
- Portfolio size slightly below plan
- Slight RE portfolio reduction q-on-q to € 25.9 bn (31.12.2017: € 26.4 bn)
- Lower effects from derecognition (€ 6 mn)
- Good new business margins of ~250 bps (~220 bps after FX): sticking to FY target of 190-200 bps
- Deposit margins still burdened by interest rate environment
- Confirming FY-target

■ Effects from derecognition of financial instruments to be reported separately under IFRS 9 starting 2018 (mainly effects from early repayments)

1) Incl. effects from derecognition of financial instruments

Allowance for credit losses (LLP)

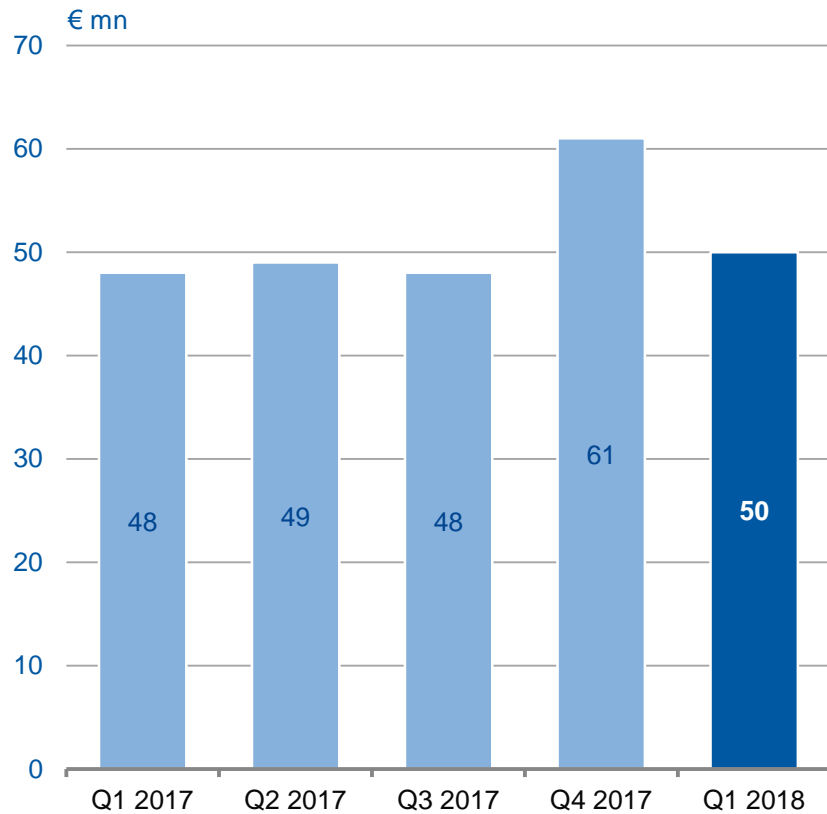
No burden from risk provisioning



■ Confirming FY-target

Net commission income

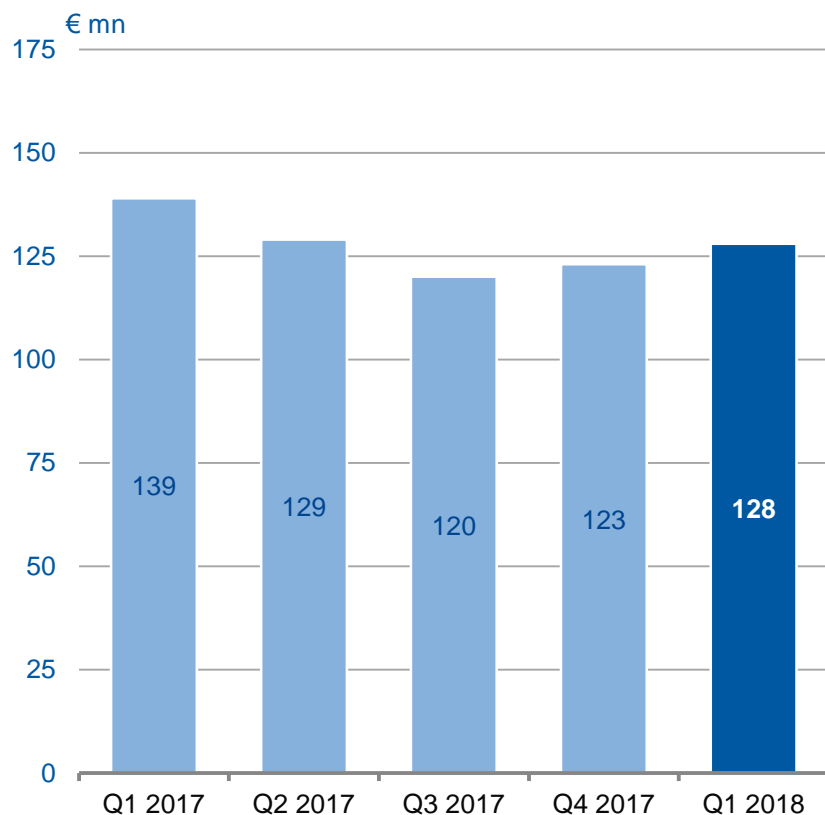
Aareon on track



- Aareon
 - Revenues of € 55 mn (Q1 2017: € 52 mn) resulting from growth in all product lines
 - Digital products with highest growth rates
 - Q4 regularly includes positive seasonal effects
- Confirming FY-targets

Admin expenses

Incl. European banking levy and Deposit Protection Guarantee Schemes



- Admin expenses in Q1 2018 include
 - € 20 mn for the European bank levy and for the Deposit Protection Guarantee Schemes (both fully booked in Q1)
 - € 4 mn transformation costs (FY 2018 plan: € 25 mn)
 - Reversal of restructuring provisions of € 3 mn (related to the acquisition of former CCB and WIB)
- Confirming FY-target



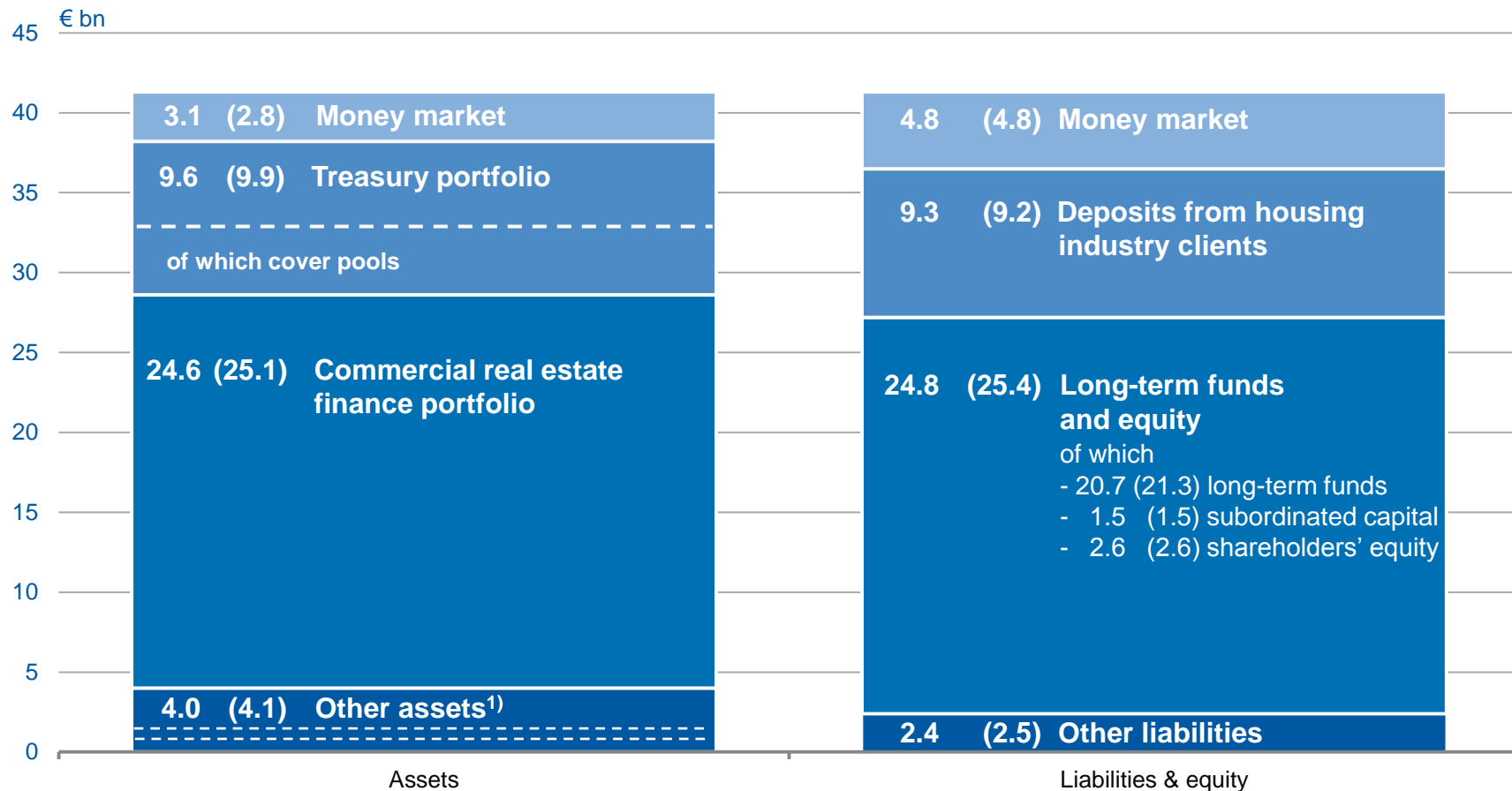
B/S structure, capital & funding position

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B/S structure according to IFRS

As at 31.03.2018: € 41.3 bn (31.12.2017: € 41.9 bn)

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

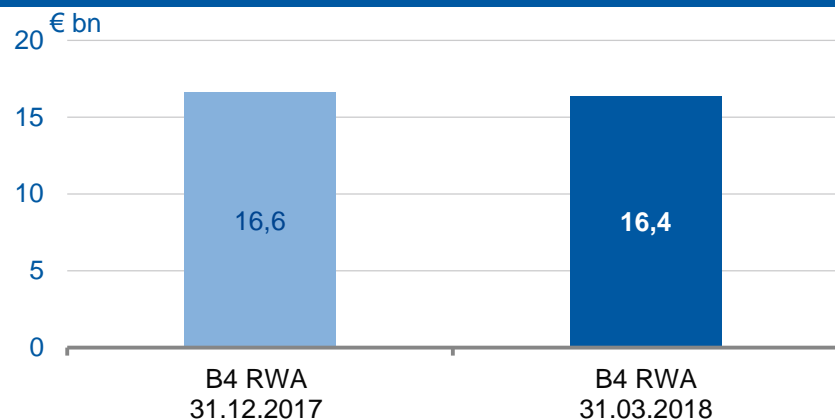


1) Other assets includes € 0.7 bn private client portfolio and WIB's € 0.5 bn public sector loans

Capital ratios

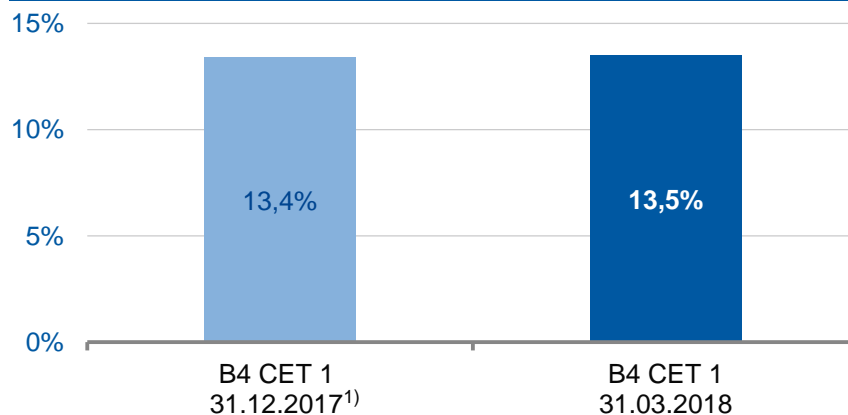
Strong capital ratios

Estimated B4 RWA¹⁾

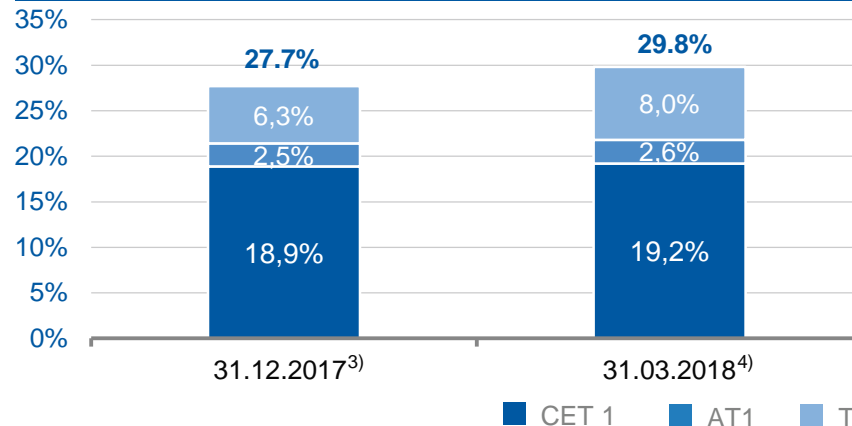


- Fulfilling Basel IV from day 1
- Remaining regulatory uncertainties well buffered (e.g. Hard test)
- Capital ratios significantly above SREP requirements
- T1-Leverage ratio : 6.2%

Estimated B4 CET 1 ratio^{1, 2)}



B3 capital ratios²⁾

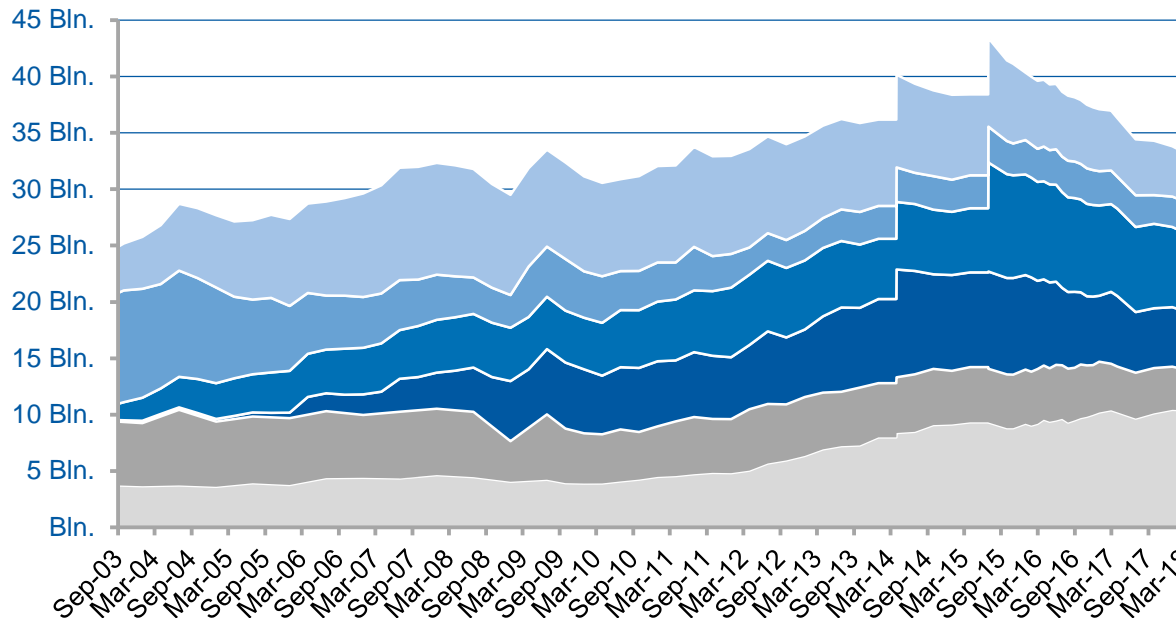


1) B4 RWA estimate based on 72.5% output floor according final Basel IV framework as of December 7, 2017; subject to EU implementation and further regulation issues (eg. EBA requirement / TRIM)
 2) After dividend 2017, no interim profit recognition in CET 1 capital in 2018
 3) Fully loaded
 4) Acc. COREP

Refinancing situation

Diversified funding sources and distribution channels

Funding structure development



- Very strong deposit base
- Q1 2018 funding activities
 - Successful placement of Pfandbrief benchmark transactions (EUR 500 mn 6.3Y)
 - Senior unsecured (~€ 200 mn)
- Fulfilling liquidity-KPIs
 - NSFR > 1
 - LCR >> 1

<ul style="list-style-type: none"> ■ Private placements: Senior unsecured ■ Wholesale funding: Pfandbriefe 	<ul style="list-style-type: none"> ■ Wholesale funding: Senior unsecured ■ Deposits: Institutional customers 	<ul style="list-style-type: none"> ■ Private placements: Pfandbriefe ■ Deposits: Housing industry customers
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Öffentliche und syndizierte Emissionen

 <p>Aareal Bank Group</p> <p>0.375% EUR 500.000.000 Hypothekendarlehen</p> <p>6 Years Maturity 30.07.2024 ISIN: DE000AAR0207</p> <p>Lead Manager BayernLB, BNP, DekaBank, Commerzbank, UniCredit</p> <p>2018</p>	 <p>Aareal Bank Group</p> <p>2.750% USD 250.000.000 Senior Unsecured</p> <p>3 Years FIXED Maturity 09.10.2020 ISIN: XS1698539753</p> <p>Lead Manager Credit Suisse, Deutsche Bank, Goldman Sachs</p> <p>2017</p>	 <p>Aareal Bank Group</p> <p>1.000% GBP 250.000.000 Hypothekendarlehen</p> <p>3 Years Maturity 04.06.2020 ISIN: XS1692489237</p> <p>Lead Manager Deutsche Bank, Goldman Sachs, HSBC</p> <p>2017</p>	 <p>Aareal Bank Group</p> <p>1.875% USD 625.000.000 Hypothekendarlehen</p> <p>3 Years Maturity 15.09.2020 ISIN: XS1681811243</p> <p>Lead Manager Citi, Credit Suisse, Goldman Sachs, HSBC, LBBW</p> <p>2017</p>	 <p>Aareal Bank Group</p> <p>0.010% EUR 500.000.000 Hypothekendarlehen</p> <p>5½ Years Maturity 04.07.2022 ISIN: DE000AAR0199</p> <p>Lead Manager Commerzbank, DekaBank, DZ Bank, LBBW, UniCredit</p> <p>2017</p>	 <p>Aareal Bank Group</p> <p>1.875% USD 500.000.000 Hypothekendarlehen</p> <p>4 Years Maturity 01.04.2019 ISIN: XS1204620915</p> <p>Lead Manager Citi, Credit Suisse, Goldman Sachs, LBBW</p> <p>2015</p>
 <p>Aareal Bank Group</p> <p>7.625% EUR 300.000.000 Additional Tier 1</p> <p>7,625% Perpetual First Call 30.04.2020 ISIN: DE000A1TNDK2</p> <p>Lead Manager BNP, Deutsche Bank, HSBC</p> <p>2014</p>	 <p>Aareal Bank Group</p> <p>0.125% EUR 500.000.000 Hypothekendarlehen</p> <p>3 Years Maturity 19.09.2017 ISIN: DE000AAR0181</p> <p>Lead Manager Commerzbank, LBBW, NordLB, SocGen, Unicredit</p> <p>2014</p>	 <p>Aareal Bank Group</p> <p>4.250% EUR 300.000.000 Tier 2</p> <p>4,25% 12nc7 Maturity 18.03.2021/26 ISIN: DE000A1TNC94</p> <p>Lead Manager BNP, Deutsche Bank, HSBC</p> <p>2014</p>	 <p>Aareal Bank Group</p> <p>1.625% EUR 500.000.000 Senior Unsecured</p> <p>5 Years FIXED Maturity 05.02.2019 ISIN: DE000A1TNC78</p> <p>Lead Manager Deka Bank, DZ Bank</p> <p>2014</p>	 <p>Aareal Bank Group</p> <p>1.125% EUR 500.000.000 Hypothekendarlehen</p> <p>5 Years Maturity 21.01.2019 ISIN: DE000AAR0173</p> <p>Lead Manager Deka Bank, DZ Bank, HSBC, LBBW, Unicredit</p> <p>2014</p>	



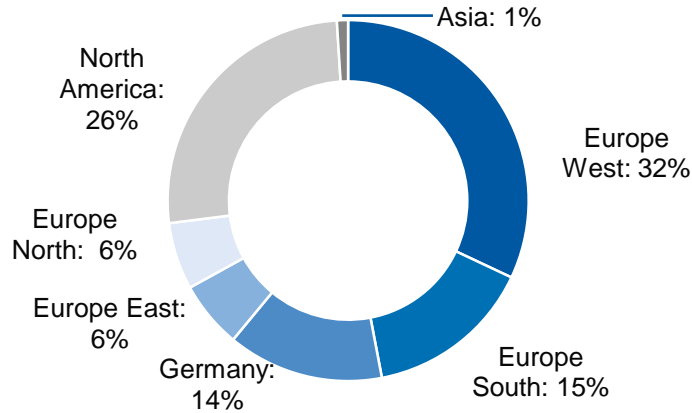
Asset quality

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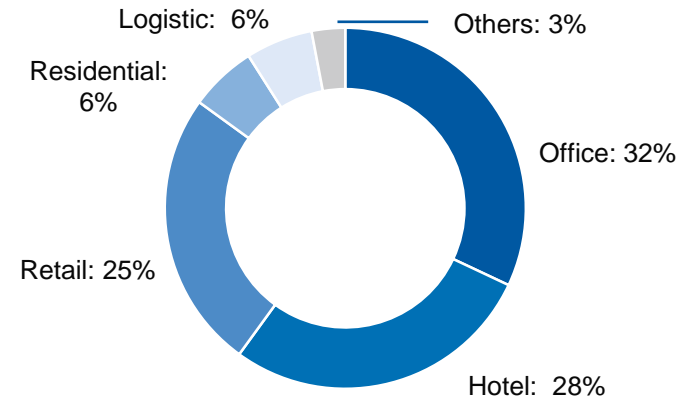
Commercial real estate finance portfolio¹⁾

€ 24.6 bn highly diversified and sound

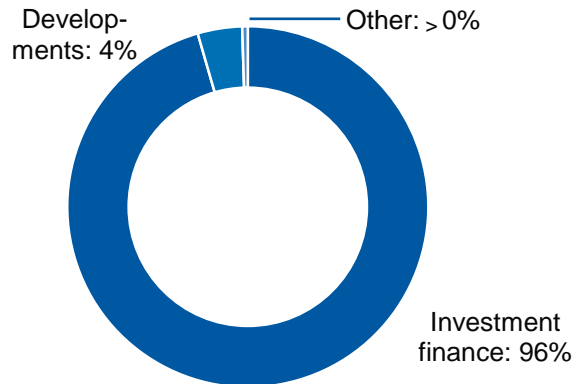
Portfolio by region



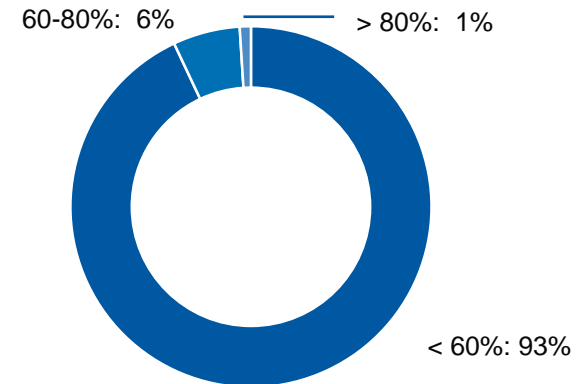
Portfolio by property type



Portfolio by product type



Portfolio by LTV ranges²⁾



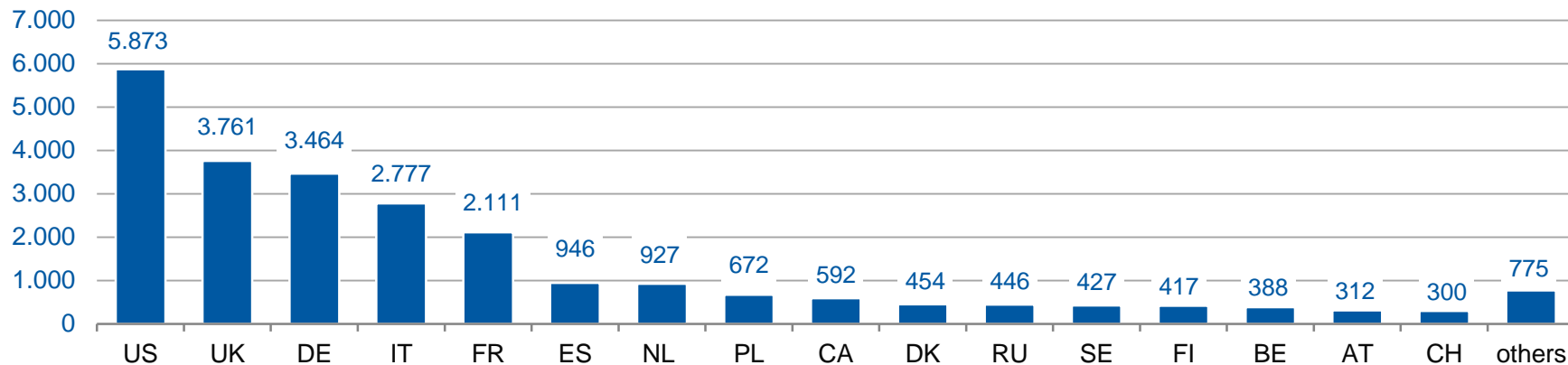
1) CRE-business only, private client business (€ 0.7 bn) and WIB's public sector loans (€ 0.5 bn) not included

2) Performing CRE-business only, exposure as at 31.03.2018

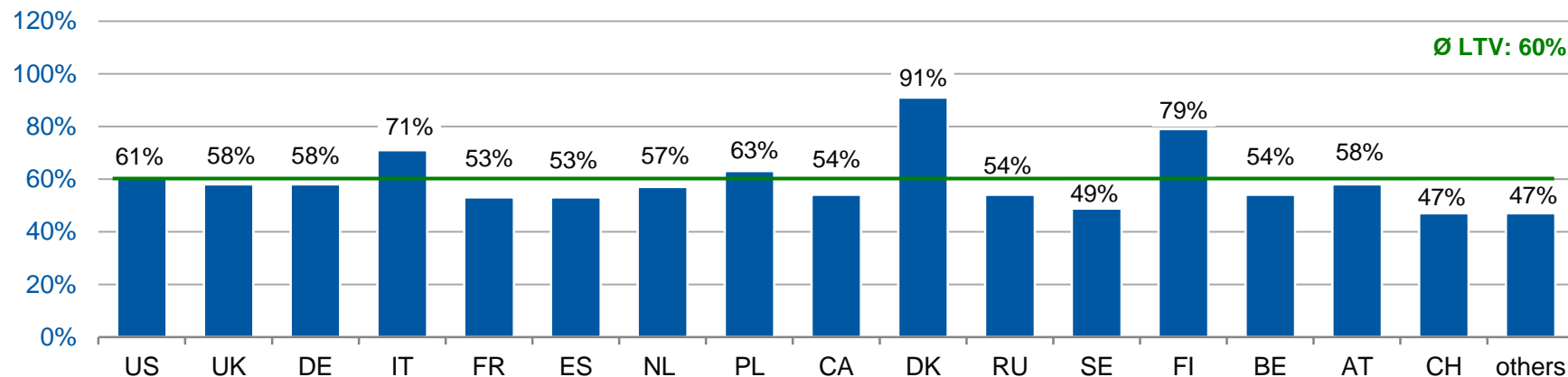
Commercial real estate finance portfolio¹⁾

Portfolio details by country

Total commercial real estate finance portfolio (€ mn)



LTV²⁾



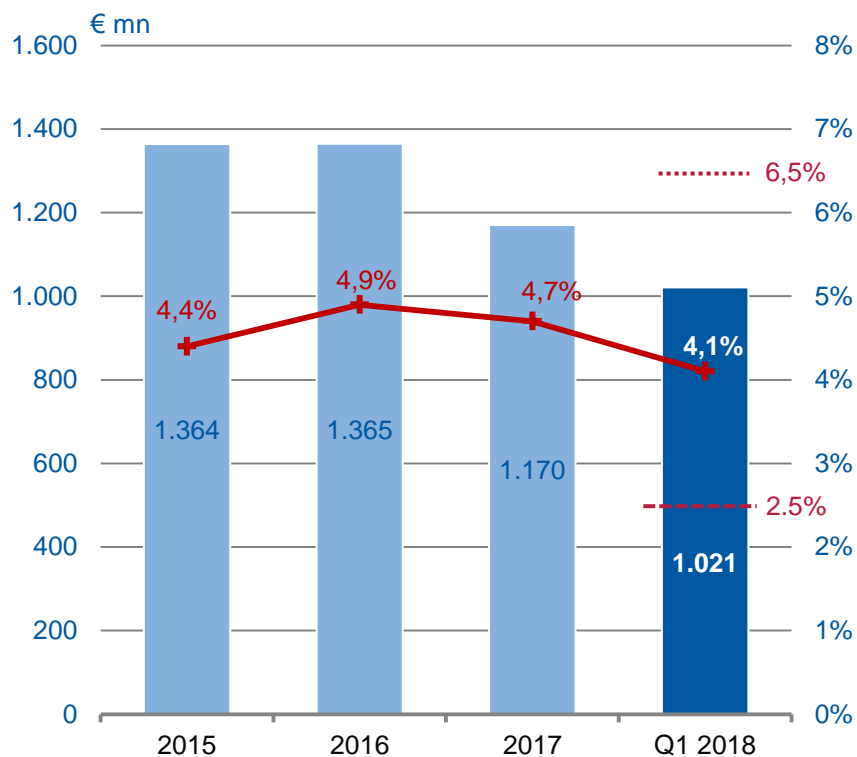
1) CRE-business only, private client business (€ 0.7 bn) and WIB's public sector loans (€ 0.5 bn) not included

2) Performing CRE-business only, exposure as at 31.03.2018

NPL portfolio

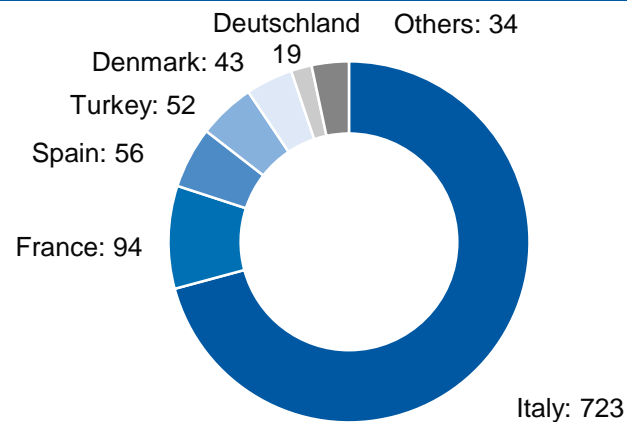
Further declining NPL volume and NPL ratio

NPL Portfolio development (Total: € 1,021 mn)



- NPL/Total CRE-portfolio
- - - NPL ratio ex signed Italian restructured loans
- ⋯ NPL ratio acc. Reg. Disclosure Report

NPL Portfolio by country (Total: € 1,021 mn)

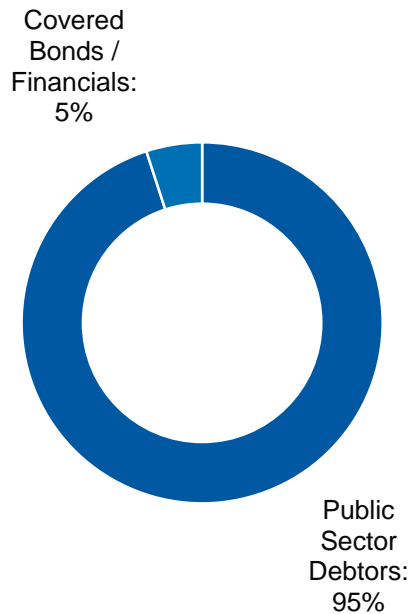


- Coverage ratio of 40%
- Considering collaterals, NPL's fully covered

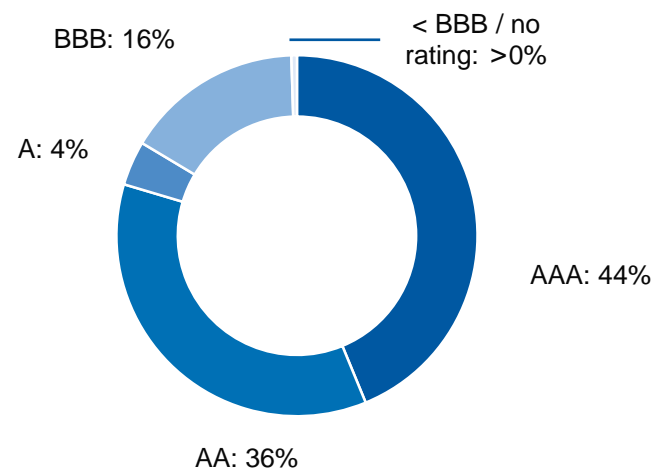
Treasury portfolio

€ 8.0 bn of high quality and highly liquid assets

by asset class



by rating¹⁾



As at 31.03.2018 – all figures are nominal amounts

1) Composite Rating

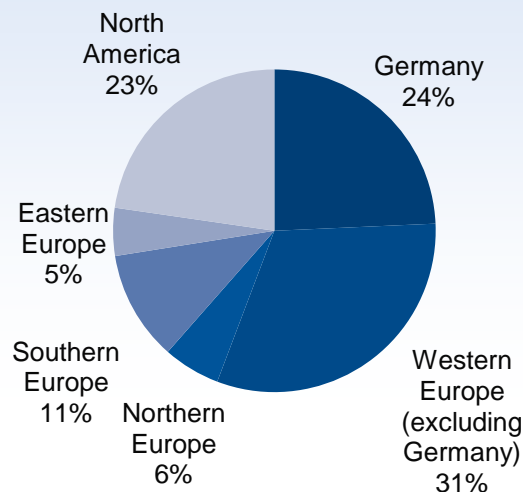
Mortgage Cover Pool

Well diversified regarding Geography and Property Type

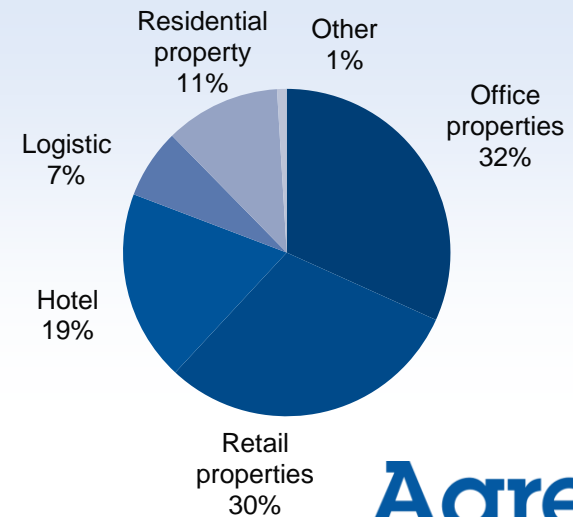
- Cover pool of € 13.1 bn including € 2 bn substitute assets diversified over 18 countries
- High quality of assets: first-class mortgage loans (mortgage-lending-value 56.2%%)
- Mortgage-lending-value with high discount from market-value
- Ø LTV of the mortgage cover pool 36.7%
- Fitch has calculated a 'AAA' supporting over-collateralisation ratio (SOC) of 27.5%
- Moody's has calculated a 'Aaa' supporting over-collateralisation ratio of 13.0% on a PV basis
- High diversification within property types



Cover Pool by Geography



Cover Pool by Property Typ





Outlook 2018

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Outlook 2018

Confirming full year targets

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

Key takeaways



Aareal Bank Group after solid Q1 on track



Operating profit completely in line with expectations



Confirming FY-targets



Appendix



Appendix

Group results

Aareal Bank Group

Results Q1 2018

	01.01.- 31.03.2018 € mn	01.01.- 31.03.2017 ¹⁾ € mn	Change
Profit and loss account			
Net interest income	133	154	-14%
Allowance for credit losses	0	2	
Net commission income	50	48	4%
Net derecognition gain or loss	6	10	-40%
Net gain or loss from financial assets (fvpl)	3	-1	
Net result on hedge accounting	-2	-3	
Results from investments accounted for at equity			
Administrative expenses	128	139	-8%
Net other operating income / expenses	5	4	25%
Operating Profit	67	71	-6%
Income taxes	23	24	-4%
Consolidated net income	44	47	-6%
Consolidated net income attributable to non-controlling interests	1	5	-80%
Consolidated net income attributable to shareholders of Aareal Bank AG	43	42	2%
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ²⁾	43	42	2%
of which: allocated to ordinary shareholders	39	38	3%
of which: allocated to AT1 investors	4	4	0%
Earnings per ordinary share (in €) ³⁾	0.65	0.63	3%
Earnings per ordinary AT1 unit (in €) ⁴⁾	0.04	0.04	0%

1) Comparative amounts reclassified according to the new classification format

2) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

3) 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.

4) 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 Q1 2018 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.01.- 31.03. 2018	01.01.- 31.03. 2017 ¹⁾	01.01.- 31.03. 2018	01.01.- 31.03. 2017	01.01.- 31.03. 2018	01.01.- 31.03. 2017	01.01.- 31.03. 2018	01.01.- 31.03. 2017 ¹⁾
	€ mn							
Net interest income	136	157	0	0	-3	-3	133	154
Allowance for credit losses	0	2	0				0	2
Net commission income	1	1	47	45	2	2	50	48
Net derecognition gain or loss	6	10					6	10
Net gain or loss from financial assets (fvpl)	3	-1					3	-1
Net result on hedge accounting	-2	-3					-2	-3
Results from investments accounted for at equity								
Administrative expenses	74	89	55	51	-1	-1	128	139
Net other operating income / expenses	5	4	0	0	0	0	5	4
Operating profit	75	77	-8	-6	0	0	67	71
Income taxes	26	26	-3	-2			23	24
Consolidated net income	49	51	-5	-4	0	0	44	47
Allocation of results								
Cons. net income attributable to non-controlling interests	0	4	1	1			1	5
Cons. net income attributable to shareholders of Aareal Bank AG	49	47	-6	-5	0	0	43	42

1) Comparative amounts reclassified according to the new classification format

Aareal Bank Group

Results – quarter by quarter

	Structured Property Financing					Consulting / Services					Consolidation / Reconciliation					Aareal Bank Group				
	Q1 2018	Q4	Q3	Q2	Q1	Q1 2018	Q4	Q3	Q2	Q1	Q1 2018	Q4	Q3	Q2	Q1	Q1 2018	Q4	Q3	Q2	Q1
€ mn																				
Net interest income	136	139	147	153	157	0	0	0	0	0	-3	-4	-3	-2	-3	133	135	144	151	154
Allowance for credit losses	0	29	26	25	2	0										0	29	26	25	2
Net commission income	1	3	1	2	1	47	55	45	46	45	2	3	2	1	2	50	61	48	49	48
Net derecognition gain or loss	6	13	20	7	10											6	13	20	7	10
Net gain or loss from financial assets (fpl)	3	1	10	4	-1					1						3	1	10	4	-1
Net result on hedge accounting	-2	-2	1	-3	-2					0						-2	-2	1	-3	-3
Results from investments accounted for at equity																				
Administrative expenses	74	62	68	77	89	55	63	53	53	51	-1	-2	-1	-1	-1	128	123	120	129	139
Net other operating income / expenses	5	7	4	54	4	0	4	1	1	0	0	-1	0	0	0	5	10	5	55	4
Operating profit	75	70	89	115	77	-8	-4	-7	-6	-6	0	0	0	0	0	67	66	82	109	71
Income taxes	26	19	34	44	26	-3	-1	-3	-2	-2						23	18	31	42	24
Consolidated net income	49	51	55	71	51	-5	-3	-4	-4	-4	0	0	0	0	0	44	48	51	67	47
Cons. net income attributable to non-controlling interests	0	0	0	0	4	1	0	0	1	1						1	0	0	1	5
Cons. net income attributable to shareholders of Aareal Bank AG	49	51	55	71	47	-6	-3	-4	-5	-5	0	0	0	0	0	43	48	51	66	42

1) Comparative amounts reclassified according to the new classification format

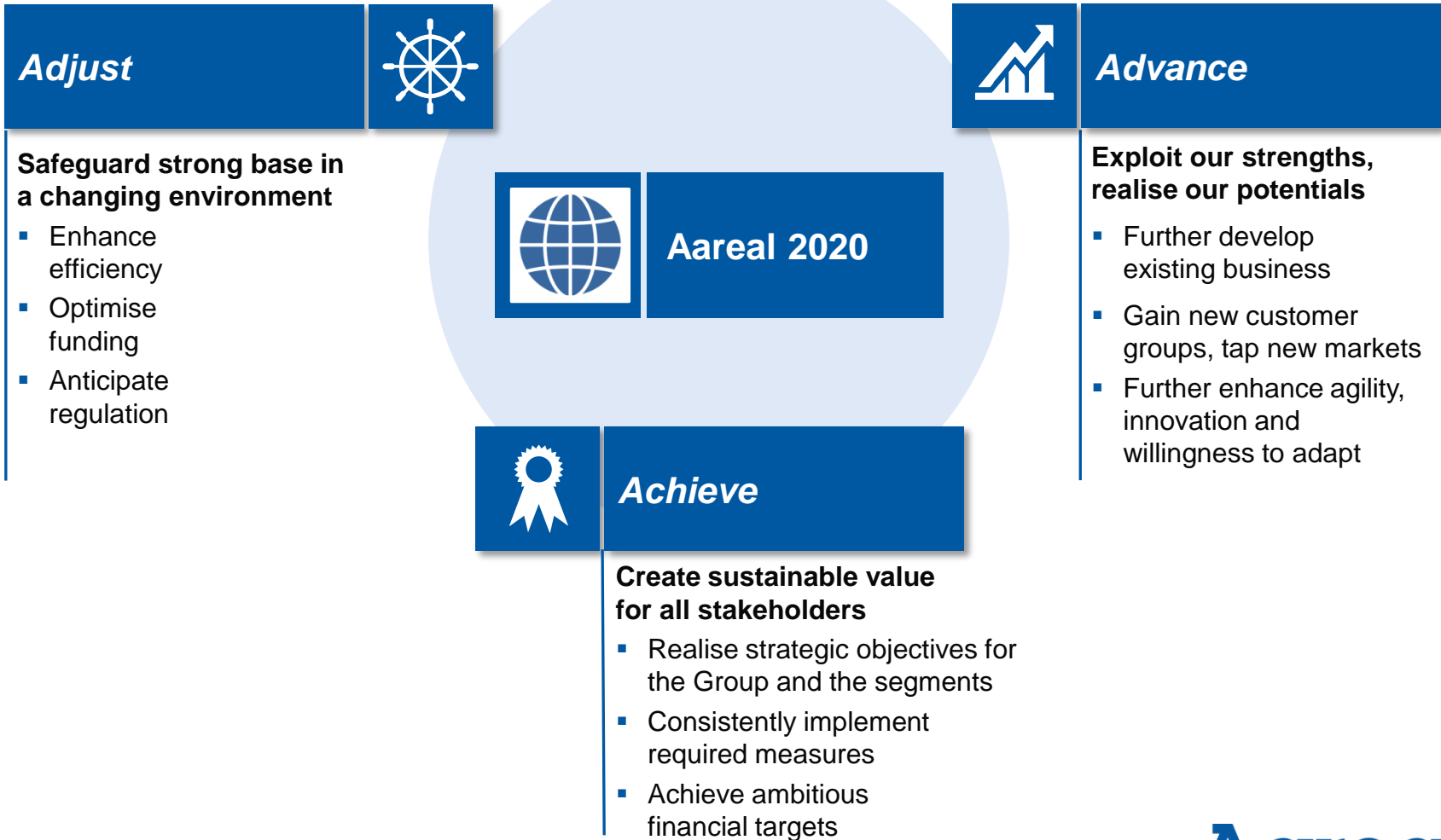


Aareal 2020

Aareal

Aareal 2020 – *Adjust. Advance. Achieve.*

Our way ahead



Aareal 2020 – *Adjust. Advance. Achieve*

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



Achievements so far: (extract)

Adjust



- ✓ Alignment of structures and processes successfully implemented to increase efficiency
- ✓ Further development of the future IT-infrastructure
- ✓ Balance sheet structure / funding optimised: new investor groups made accessible
- ✓ Housing industry deposits stabilised as a crisis proven refinancing source – volume on forecasted high level (~ € 10 bn)
- ✓ Fulfilment of Basel IV requirements from day 1, capital ratios significantly increased, IFRS 9 implemented



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

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



Achieve.

RoE development: Our way ahead

2015 - 2018

2018 - 2020

Published
Feb 2016

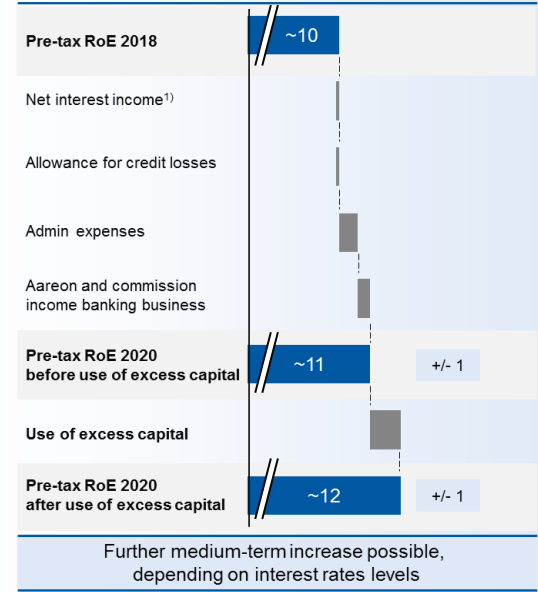
Achieve. Keep RoE on an attractive level despite difficult environment

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		

45 Note: All 2015 figures preliminary and unaudited



RoE-Development 2018-2020



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

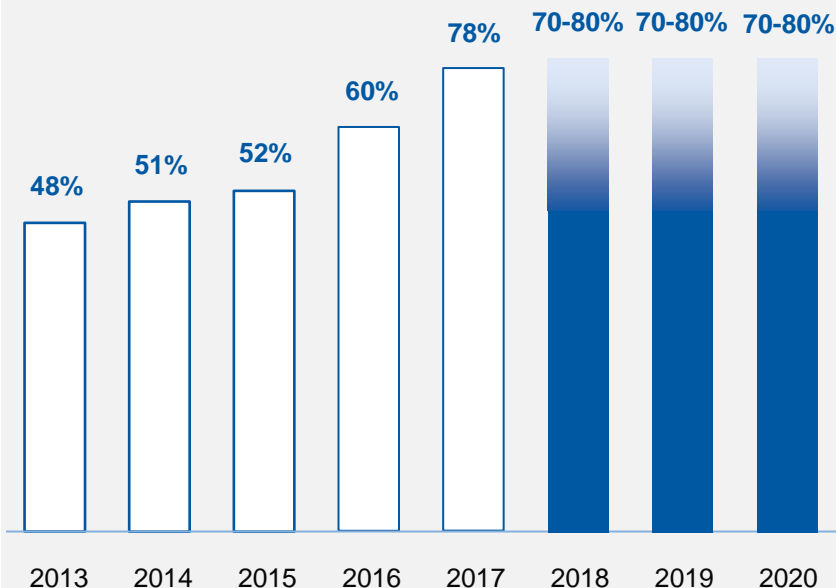
Supplementary dividend

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



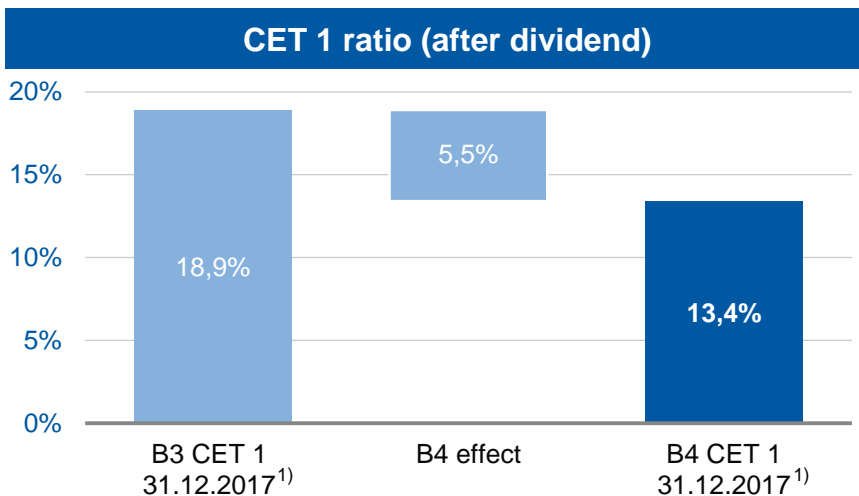
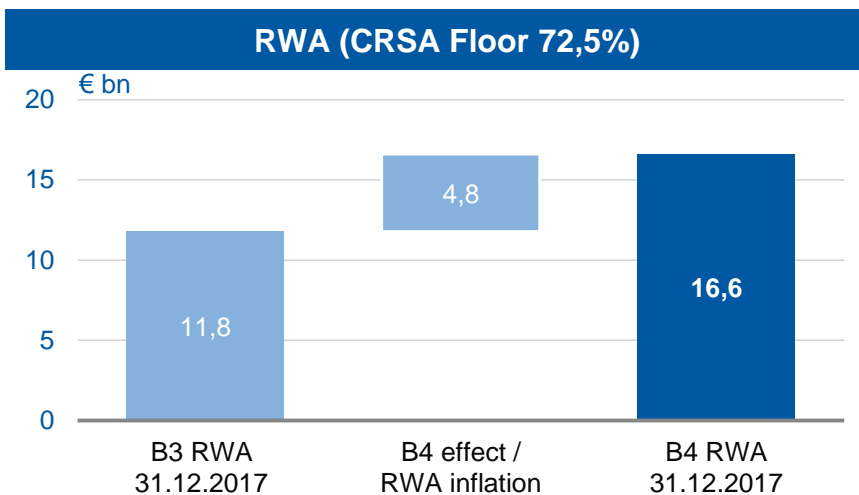
1) The future dividend policy applies provided that the dividend payments resulting from it are consistent with a long-term and sustained business development of Aareal Bank AG. In addition, the dividend payments are subject to the proviso that corresponding dividend proposals have been made by the Management Board and the Supervisory Board for the respective year.



Appendix
Basel 4 / IFRS 9 / Defaulted exposure

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 and approved until mid 2020 to meet EBA deadline

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

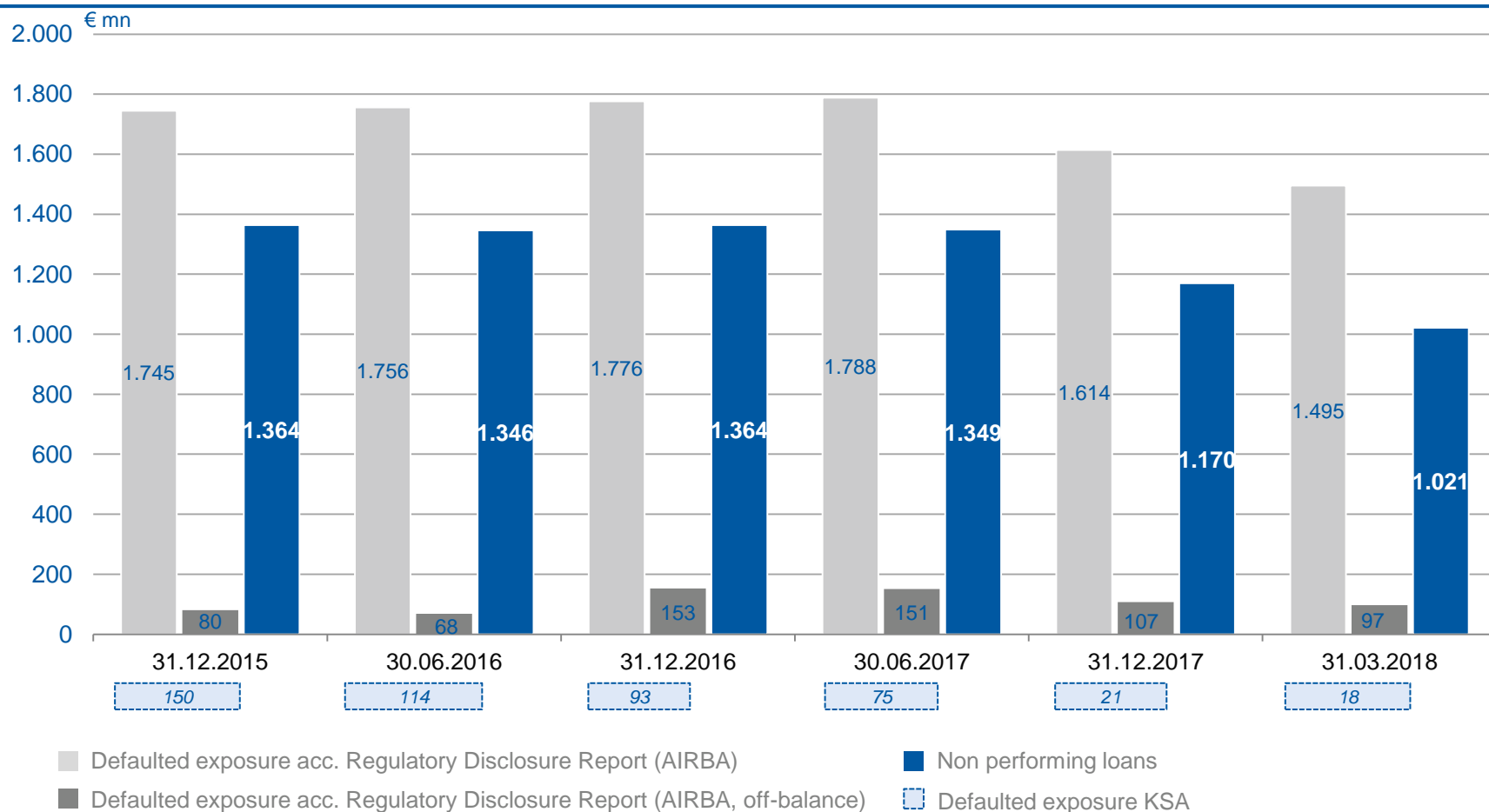
- Expected loss model:
 - Stage 1: LLP based on 12-Month expected credit losses on recognition
 - Stage 2: LLP based on lifetime expected credit losses on financial assets with significant increase in credit risk and
 - Stage 3: LLP based on lifetime expected credit losses on impaired financial assets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

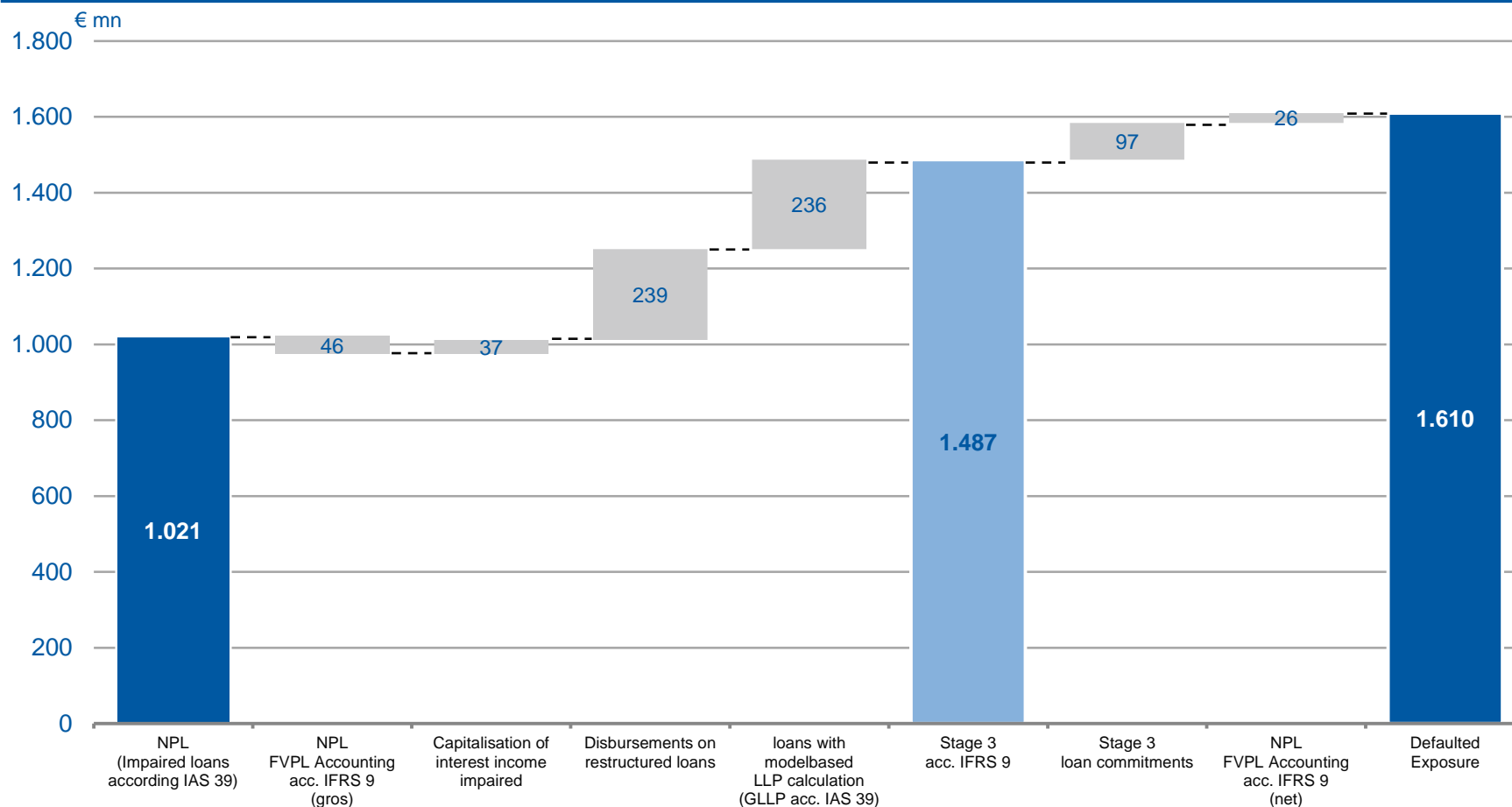
Defaulted exposure

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



Defaulted Exposure

NPL vs. Stage 3 (IFRS 9) vs. defaulted exposure acc. Reg. Disc. Report



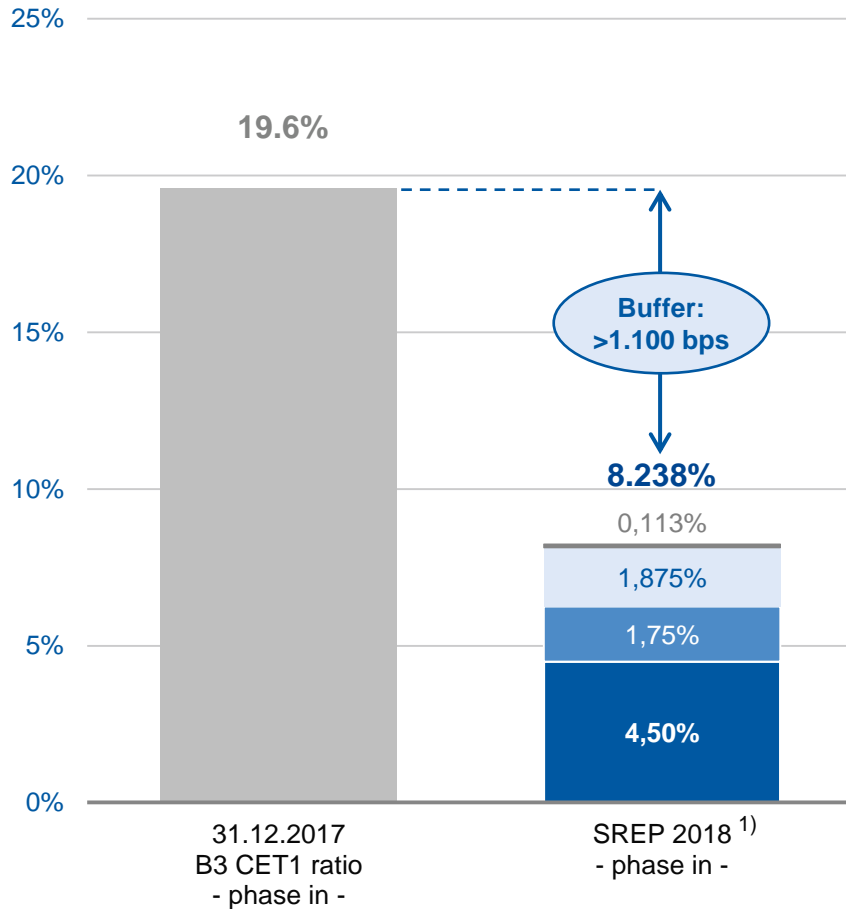


Appendix
SREP

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 11.738%
- As of 31 Dec 2017 total capital ratio (phase-in) amounts to 30.0%

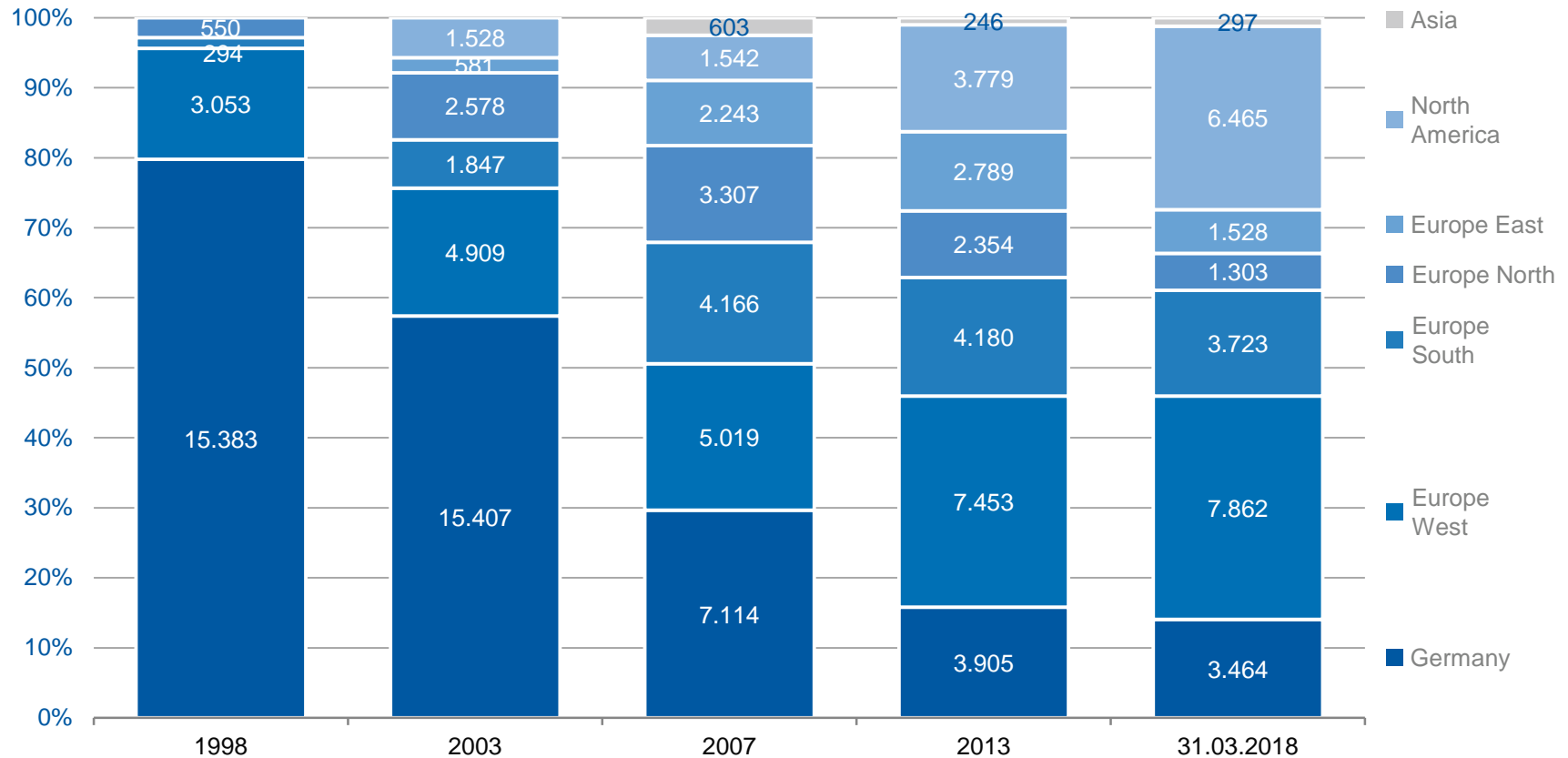
- Countercyclical Buffer
- Capital Conservation Buffer
- Pillar 2 Requirement
- Pillar 1 Requirement



Appendix
Development commercial
real estate finance portfolio

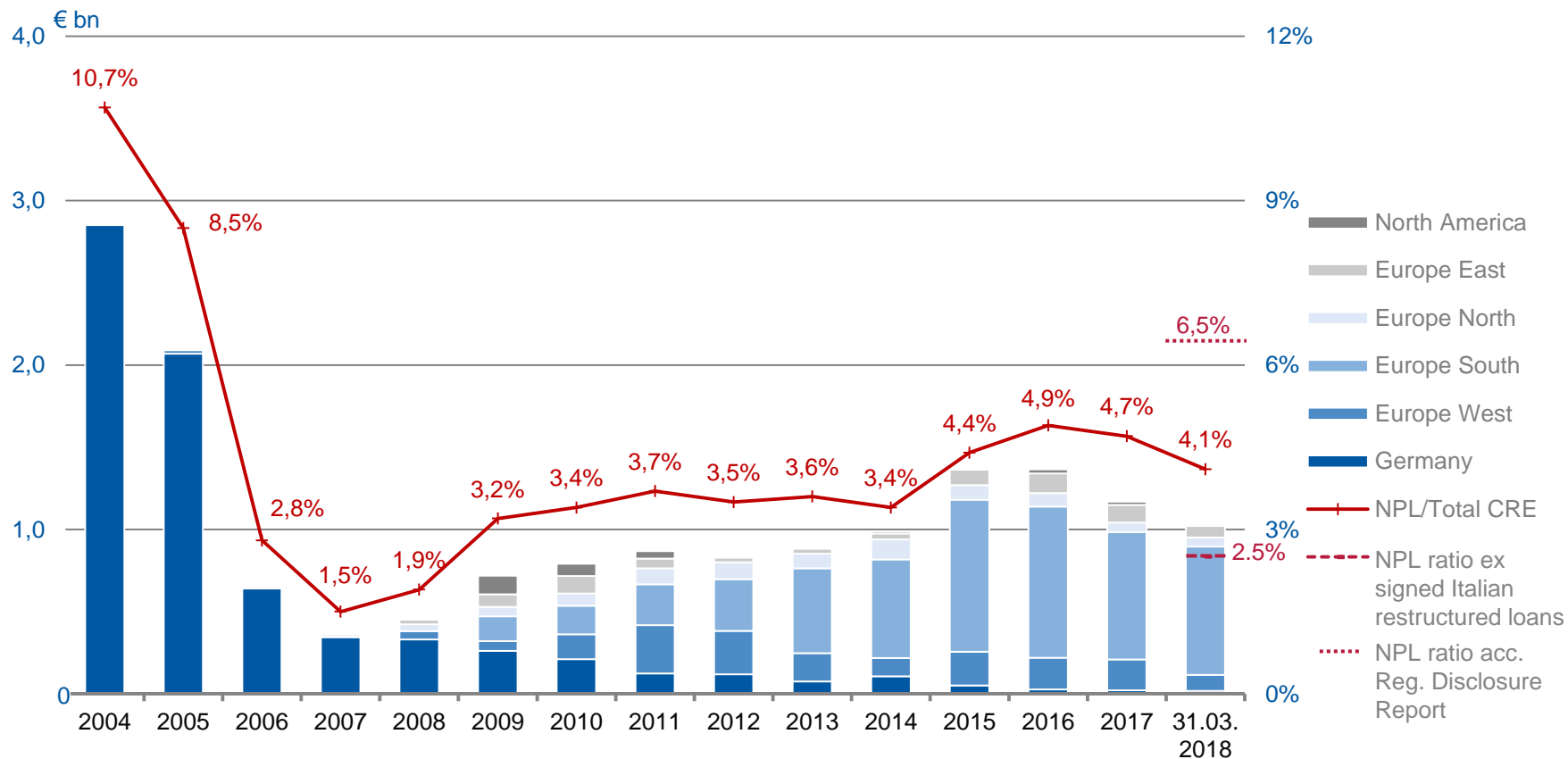
Development commercial real estate finance portfolio

Diversification continuously strengthened (in € mn)



Commercial real estate finance portfolio¹⁾

Declining NPL volume

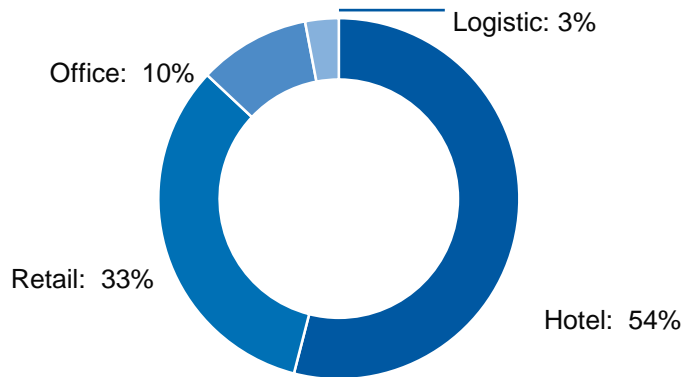


1) CRE-business only, private client business (€ 0.7 bn) and WIB's public sector loans (€ 0.5 bn) not included

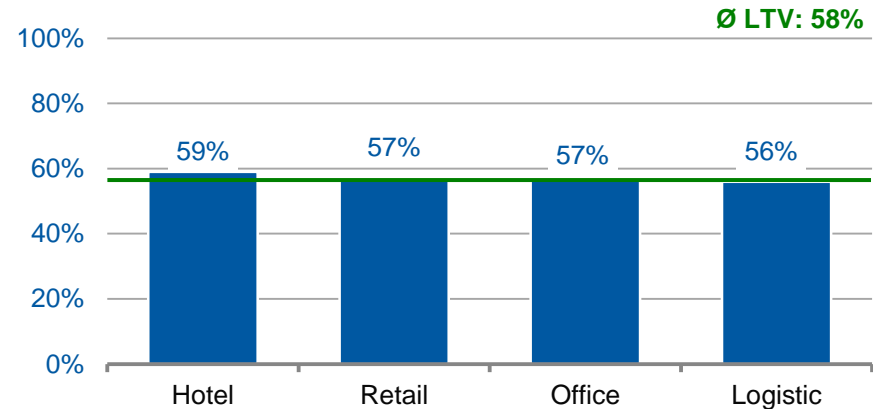
Spotlight: UK CRE finance portfolio¹⁾

€ 3.8 bn (~15% of total CRE-portfolio)

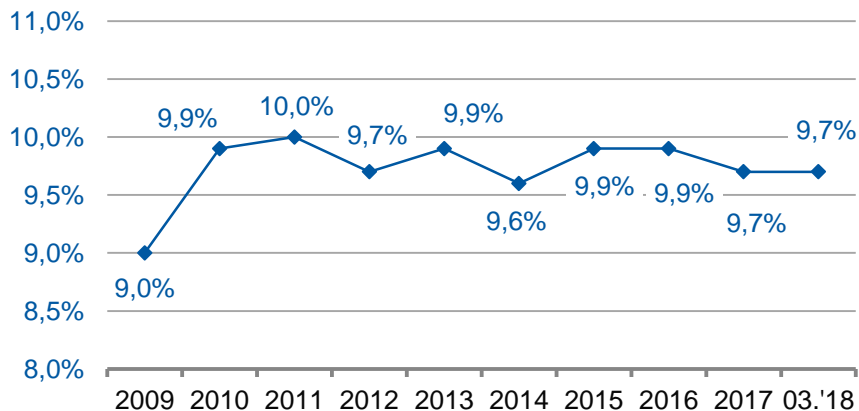
Total portfolio by property type



Average LTV by property type²⁾



Yield on debt



Comments

- Performing:
 - Investment finance only, no developments
 - ~ 60% of total portfolio in Greater London area, emphasising on hotels
 - < € 200 mn with LTV > 60%
 - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 73%
- No NPL

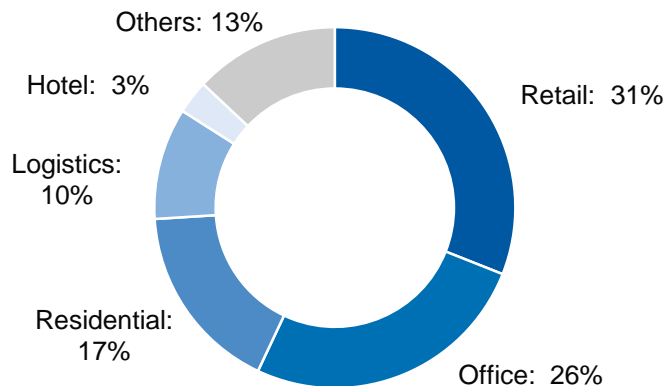
1) CRE-business only

2) Performing CRE-business only, exposure as at 31.03.2018

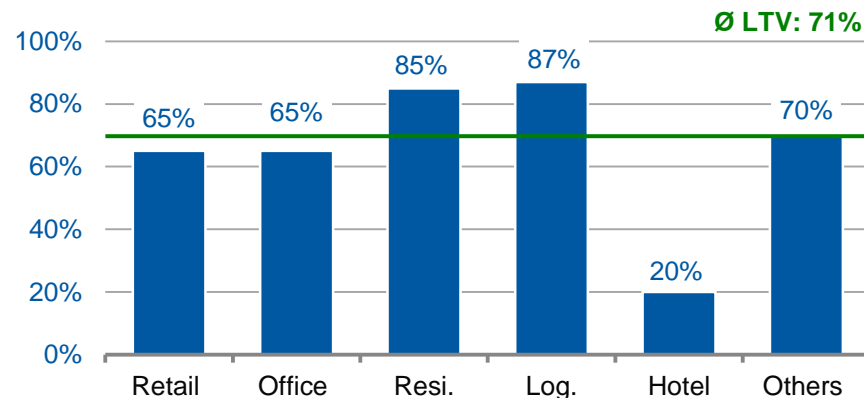
Spotlight: Italian CRE finance portfolio¹⁾

€ 2.8 bn (~11% of total portfolio)

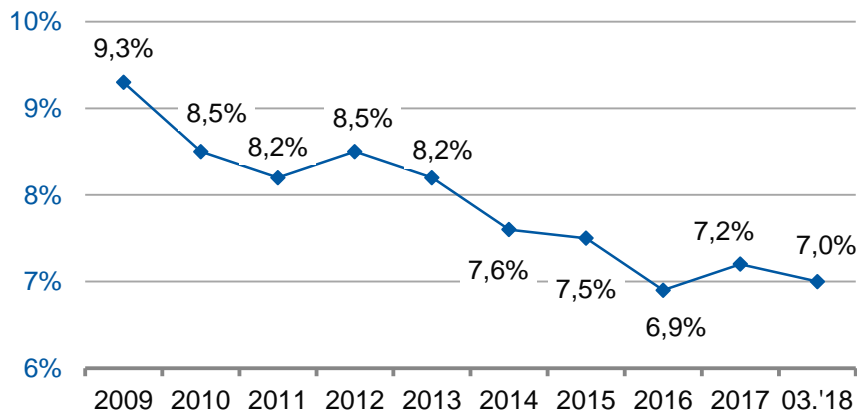
Total portfolio by property type



Average LTV by property type²⁾



Yield on debt



Comments

- Performing:
 - Share of developments financed below 10%
 - ~ 60% of total portfolio in Greater Rome or Milan area
 - € 325 mn with LTV > 60%
 - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 90%
- NPL: € 723 mn of which
 - ~ ¾ restructured³⁾ / agreement in place or planned
 - ~ ¼ enforcement⁴⁾

1) CRE-business only

2) Performing CRE-business only, exposure as at 31.03.2018

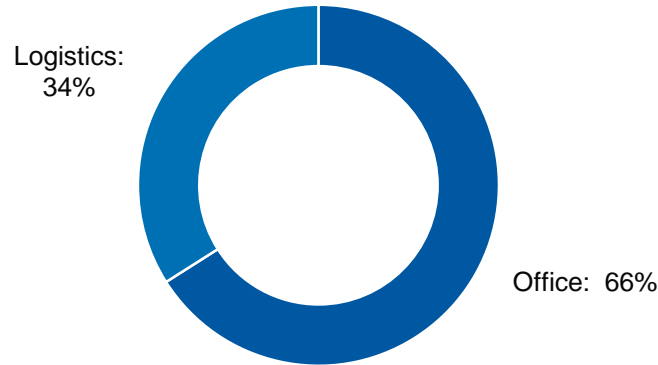
3) Restructuring period: vast majority to be solved till 2020

4) Current enforcement period 3-4 years, but improving due to new legislation

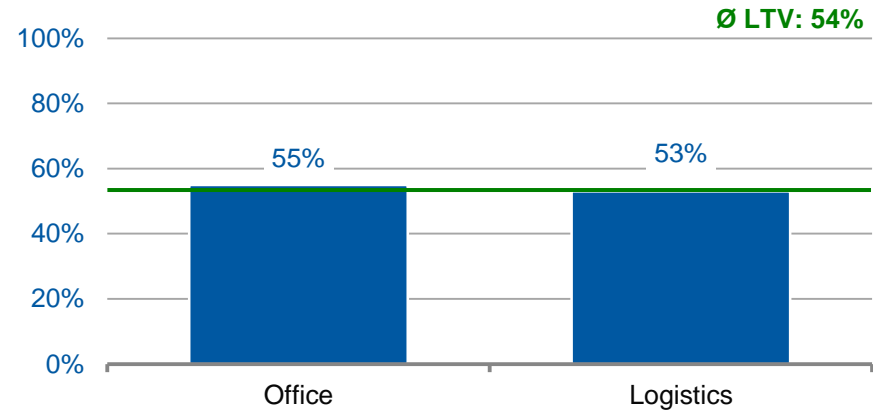
Spotlight: Russian CRE finance portfolio¹⁾

€ 0.4 bn (~2% of total portfolio)

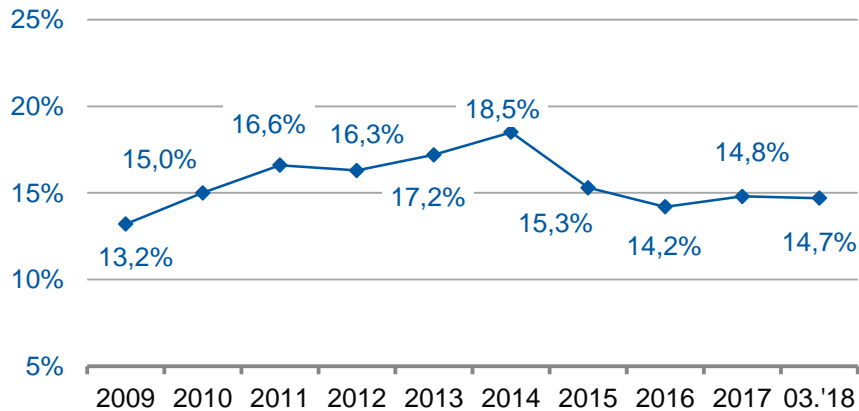
Total portfolio by property type



Average LTV by property type²⁾



Yield on debt



Comments

- Performing:
 - Investment finance only: 2 logistics and 1 office in Moscow
 - No Deals with LTV > 60%
 - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 66%
- NPL: € 17 mn, 1 office in St. Petersburg

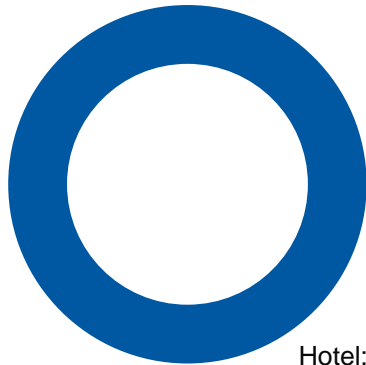
1) CRE-business only

2) Performing CRE-business only, exposure as at 31.03.2018

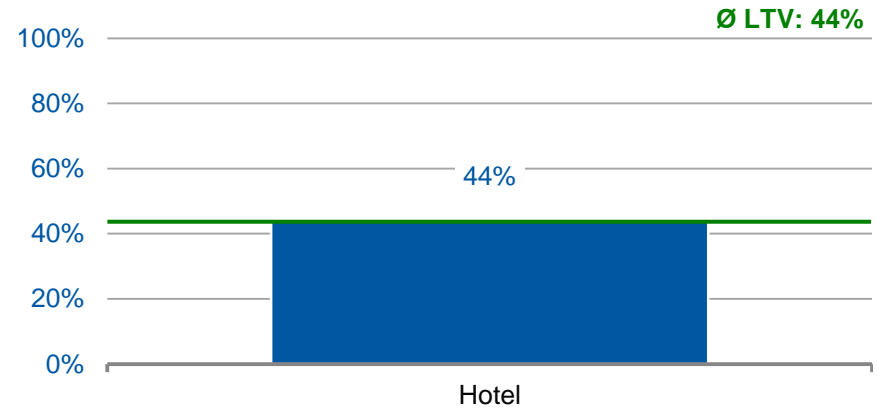
Spotlight: Turkey CRE finance portfolio¹⁾

€ 0.3 bn (~1% of total portfolio)

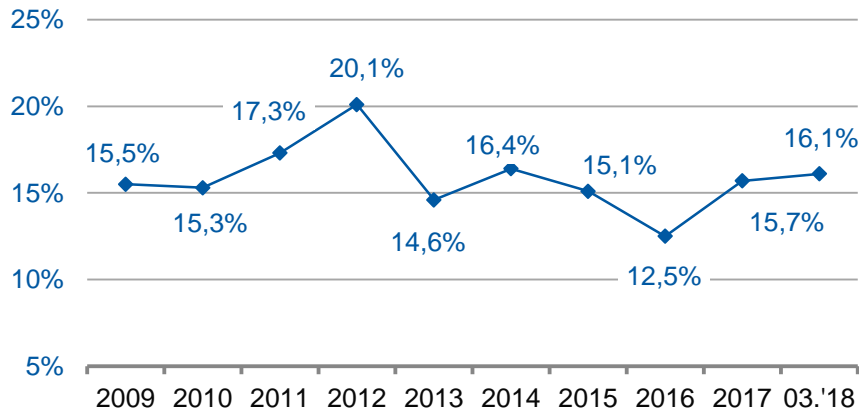
Total portfolio by property type



Average LTV by property type²⁾



Yield on debt



Comments

- Performing:
 - Investment finance only
 - Total portfolio in Istanbul / Antalya
 - No Deals with LTV > 60%
 - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 58%
- NPL: € 52 mn, 1 deal (2 hotels)

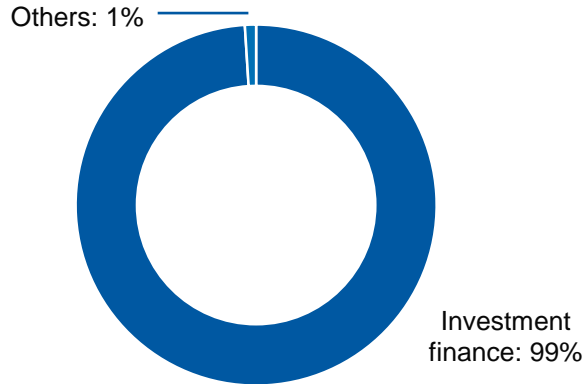
1) CRE-business only

2) Performing CRE-business only, exposure as at 31.03.2018

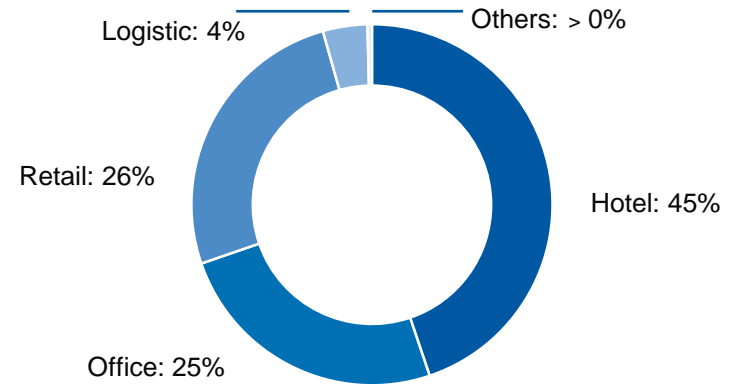
Western Europe (ex Germany) CRE finance portfolio¹⁾

Total volume outstanding as at 31.03.2018: € 7.9 bn

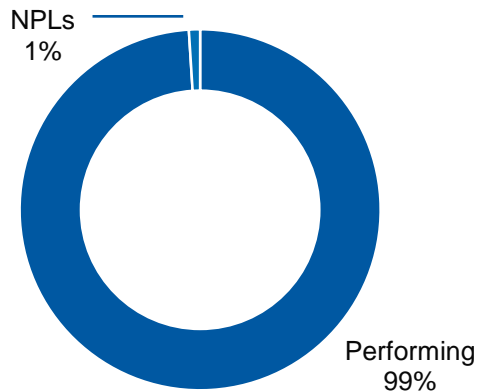
by product type



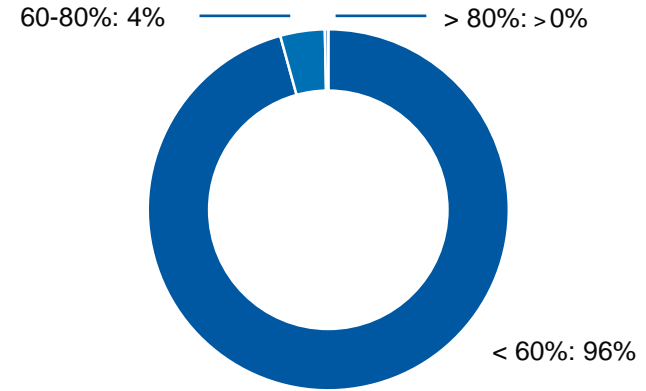
by property type



by performance



by LTV ranges²⁾



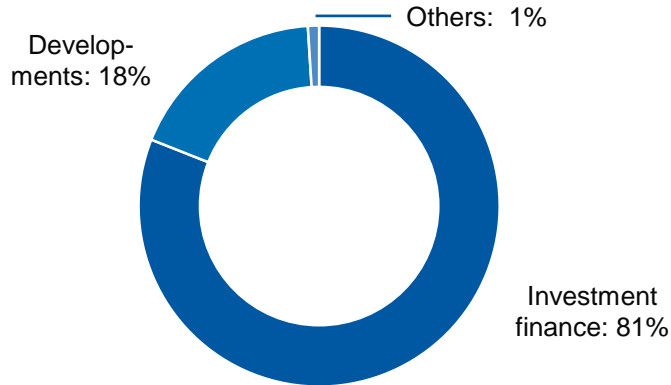
1) CRE-business only

2) Performing CRE-business only, exposure as at 31.03.2018

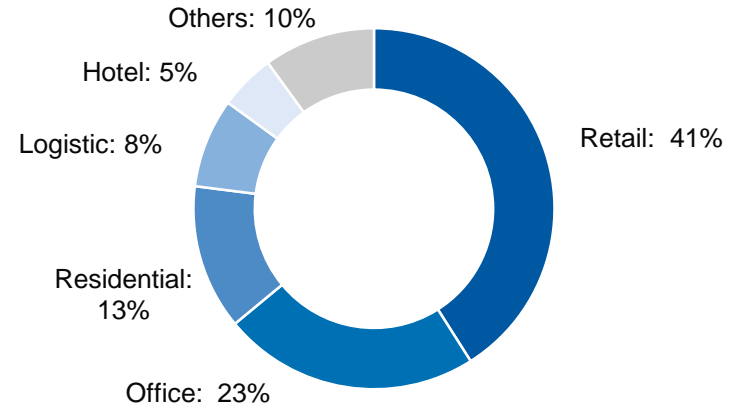
Southern Europe CRE finance portfolio¹⁾

Total volume outstanding as at 31.03.2018: € 3.7 bn

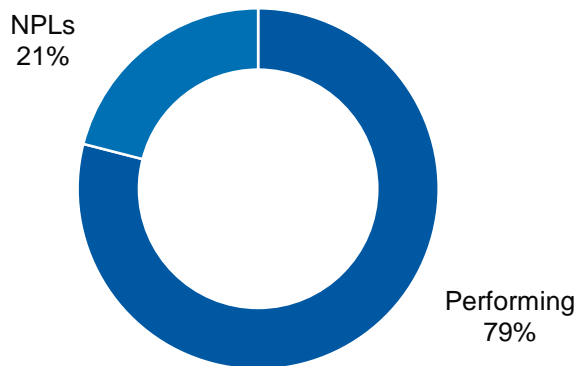
by product type



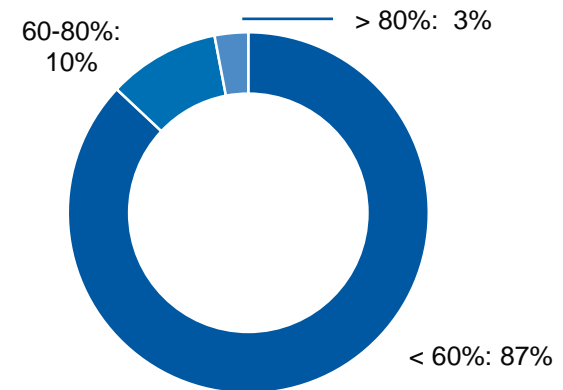
by property type



by performance



by LTV ranges²⁾



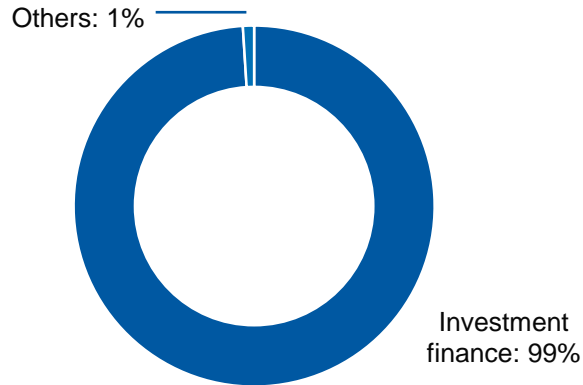
1) CRE-business only

2) Performing CRE-business only, exposure as at 31.03.2018

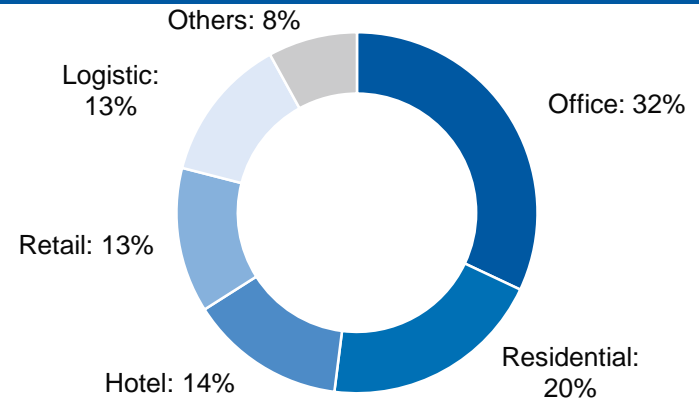
German CRE finance portfolio¹⁾

Total volume outstanding as at 31.03.2018: € 3.5 bn

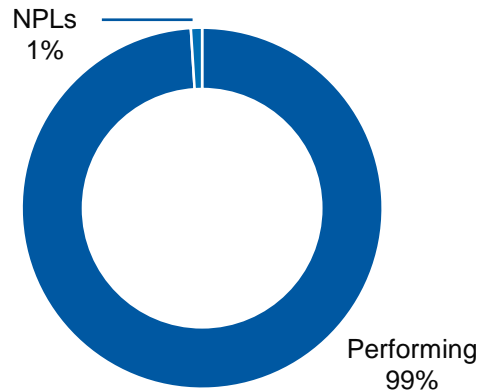
by product type



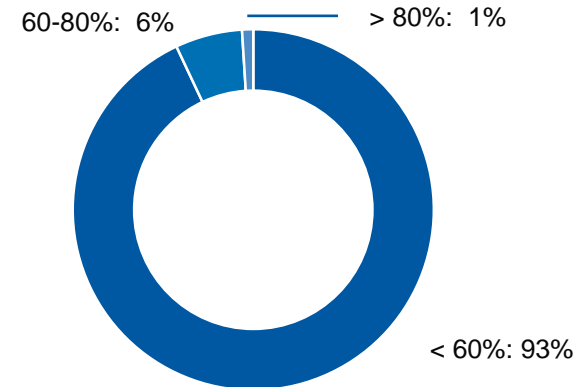
by property type



by performance



by LTV ranges²⁾



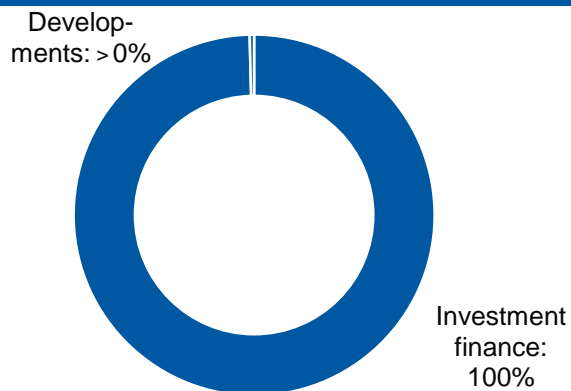
1) CRE-business only

2) Performing CRE-business only, exposure as at 31.03.2018

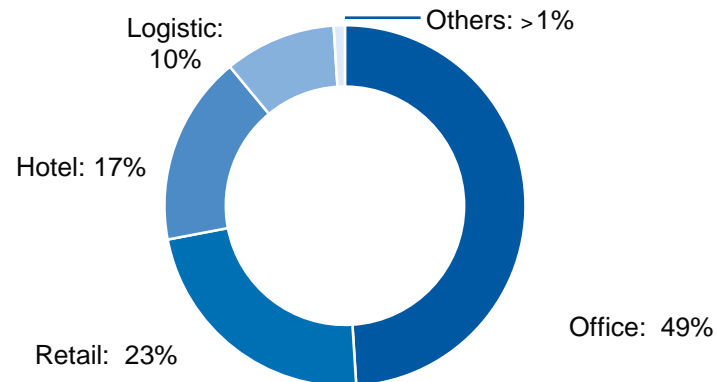
Eastern Europe CRE finance portfolio¹⁾

Total volume outstanding as at 31.03.2018: € 1.5 bn

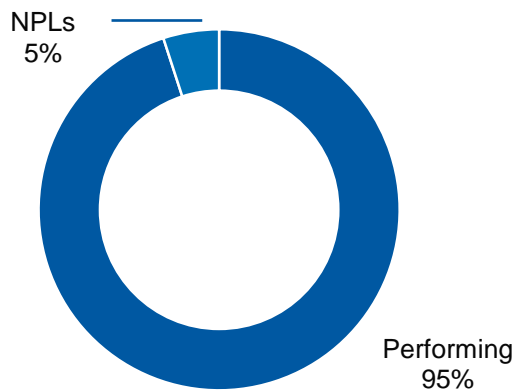
by product type



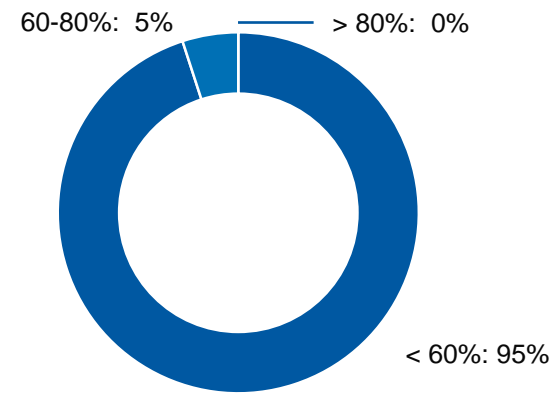
by property type



by performance



by LTV ranges²⁾



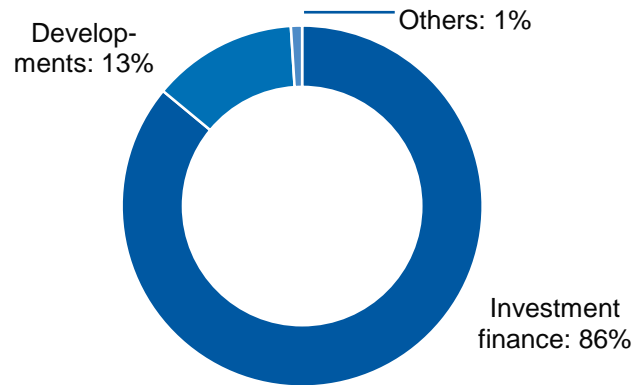
1) CRE-business only

2) Performing CRE-business only, exposure as at 31.03.2018

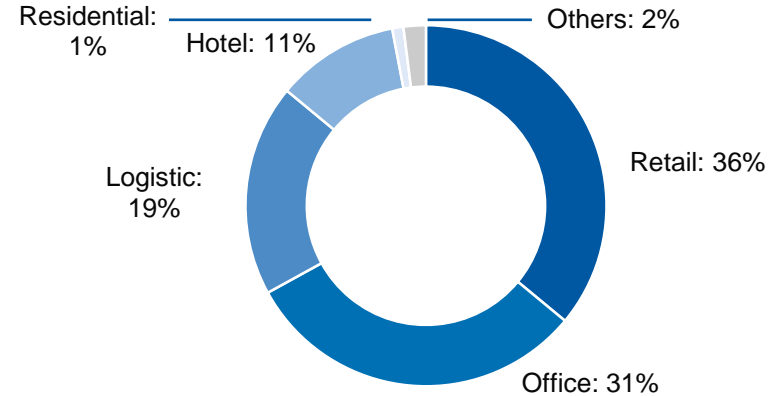
Northern Europe CRE finance portfolio¹⁾

Total volume outstanding as at 31.03.2018: € 1.3 bn

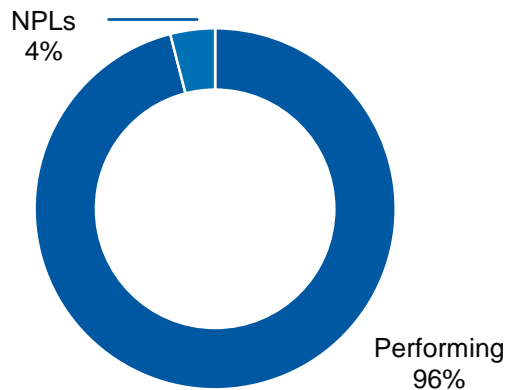
by product type



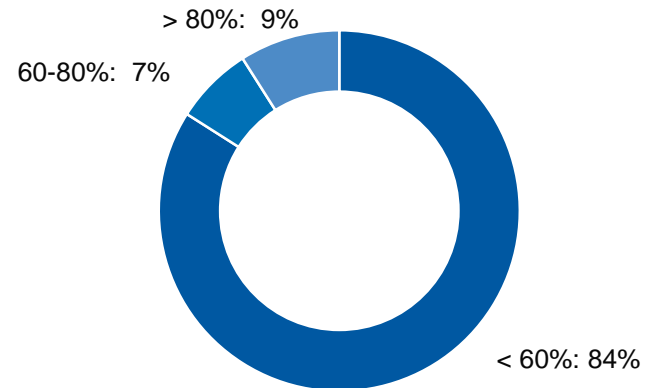
by property type



by performance



by LTV ranges²⁾



1) CRE-business only

2) Performing CRE-business only, exposure as at 31.03.2018

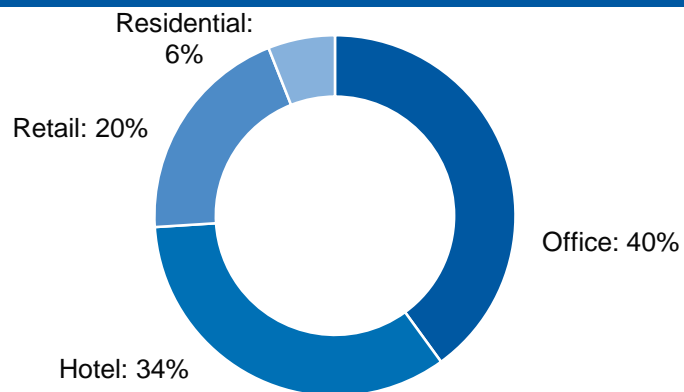
North America CRE finance portfolio¹⁾

Total volume outstanding as at 31.03.2018: € 6.5 bn

by product type



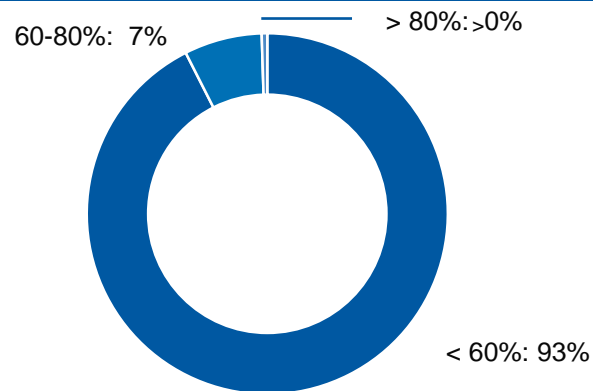
by property type



by performance



by LTV ranges²⁾



1) CRE-business only

2) Performing CRE-business only, exposure as at 31.03.2018

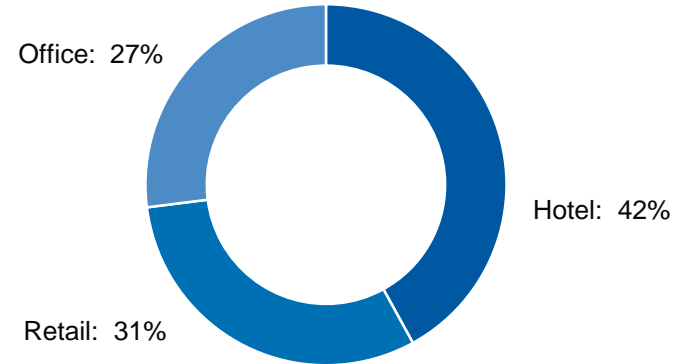
Asia CRE finance portfolio¹⁾

Total volume outstanding as at 31.03.2018: € 0.3 bn

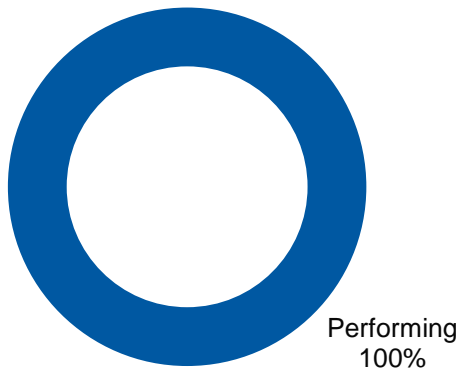
by product type



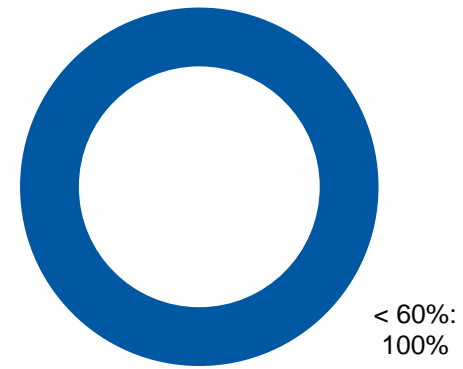
by property type



by performance



by LTV ranges²⁾



1) CRE-business only

2) Performing CRE-business only, exposure as at 31.03.2018



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)

Published
Feb 2018

	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



Sustainability Performance

Aareal

Sustainability data

Extends the financial depiction of the Group

Key takeaways at a glance



Transparent Reporting – facilitating informed investment decisions

- “COMBINED SEPARATE NON-FINANCIAL REPORT 2017 FOR AAREAL BANK AG”¹⁾ and SUSTAINABILITY REPORT 2017 “THINK FUTURE. ACT NOW.”²⁾ published on March 28, 2018
- PricewaterhouseCoopers GmbH performed a limited assurance engagement and issued an unqualified review opinion



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 ³⁾]
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 17% of its industry [as per 02/2017 ³⁾]
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 ³⁾]

1) https://www.aareal-bank.com/fileadmin/DAM_Content/Verantwortung/Nichtfinanzieller_Bericht_2017_en.pdf

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

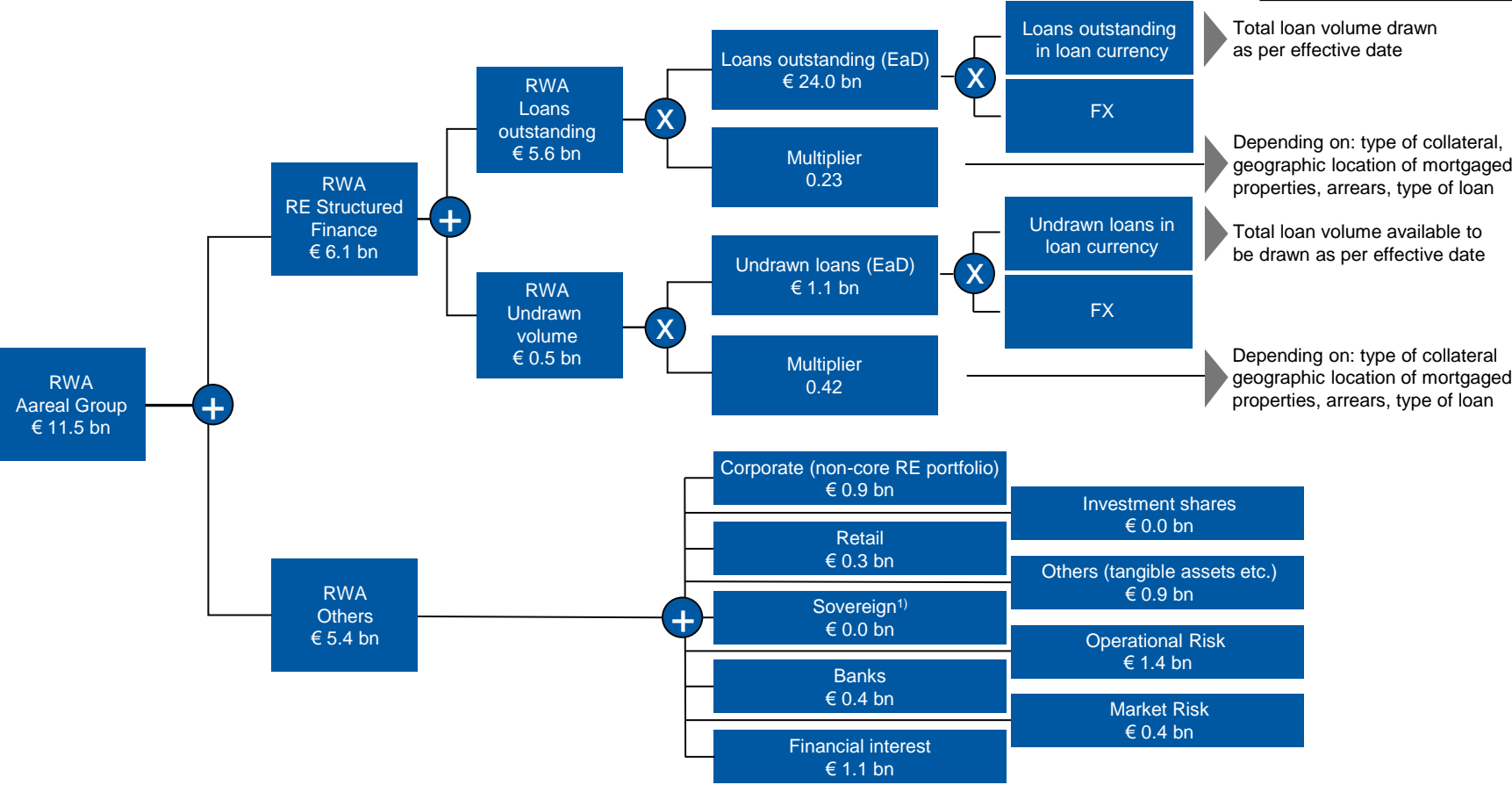
3) New rating results expected



Appendix
RWA-split

From asset to risk weighted asset (RWA)

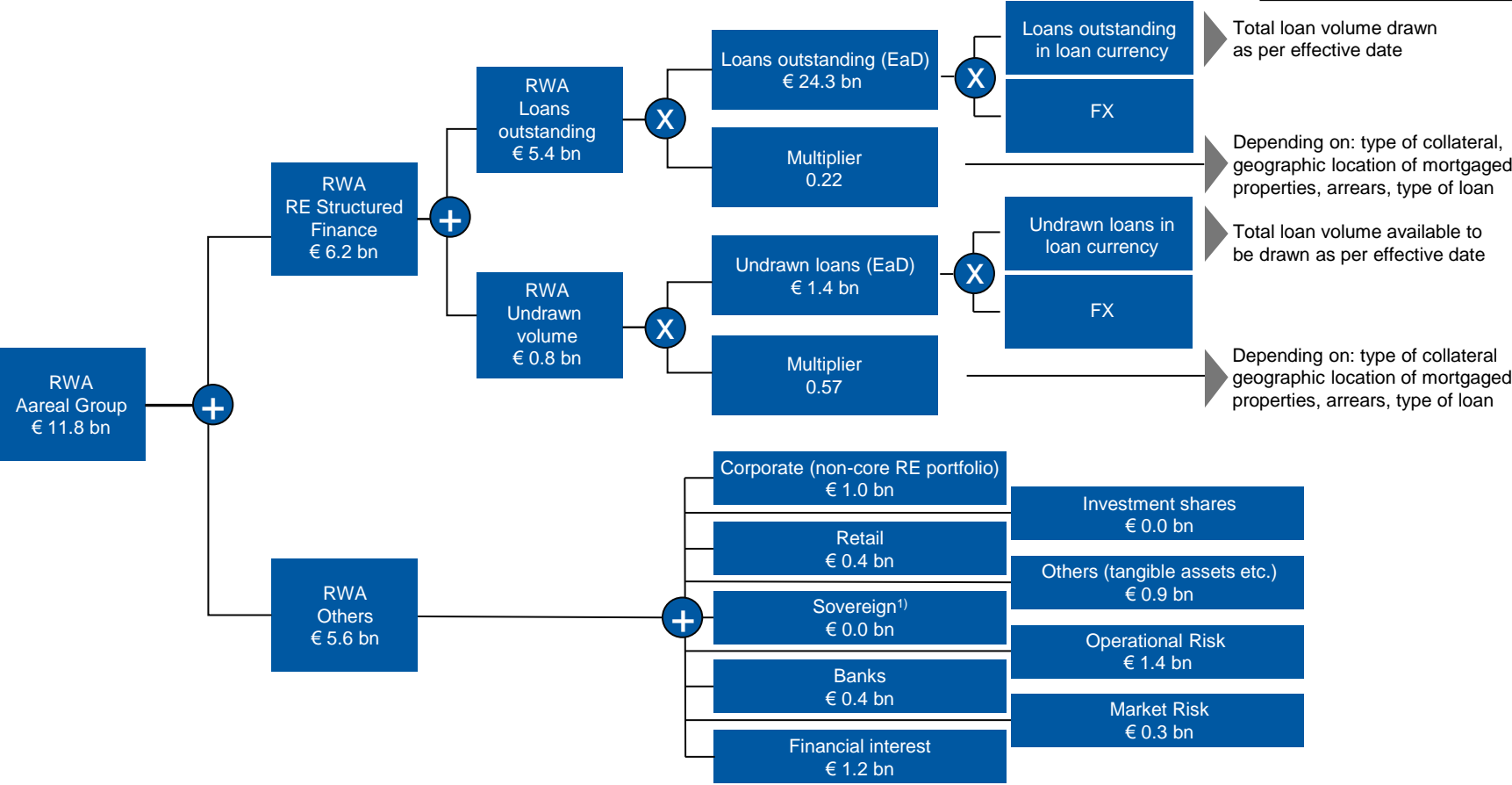
Effective date 31/03/2018



From asset to risk weighted asset (RWA)

Essential factors affecting volume of RWA

Effective date 31/12/2017

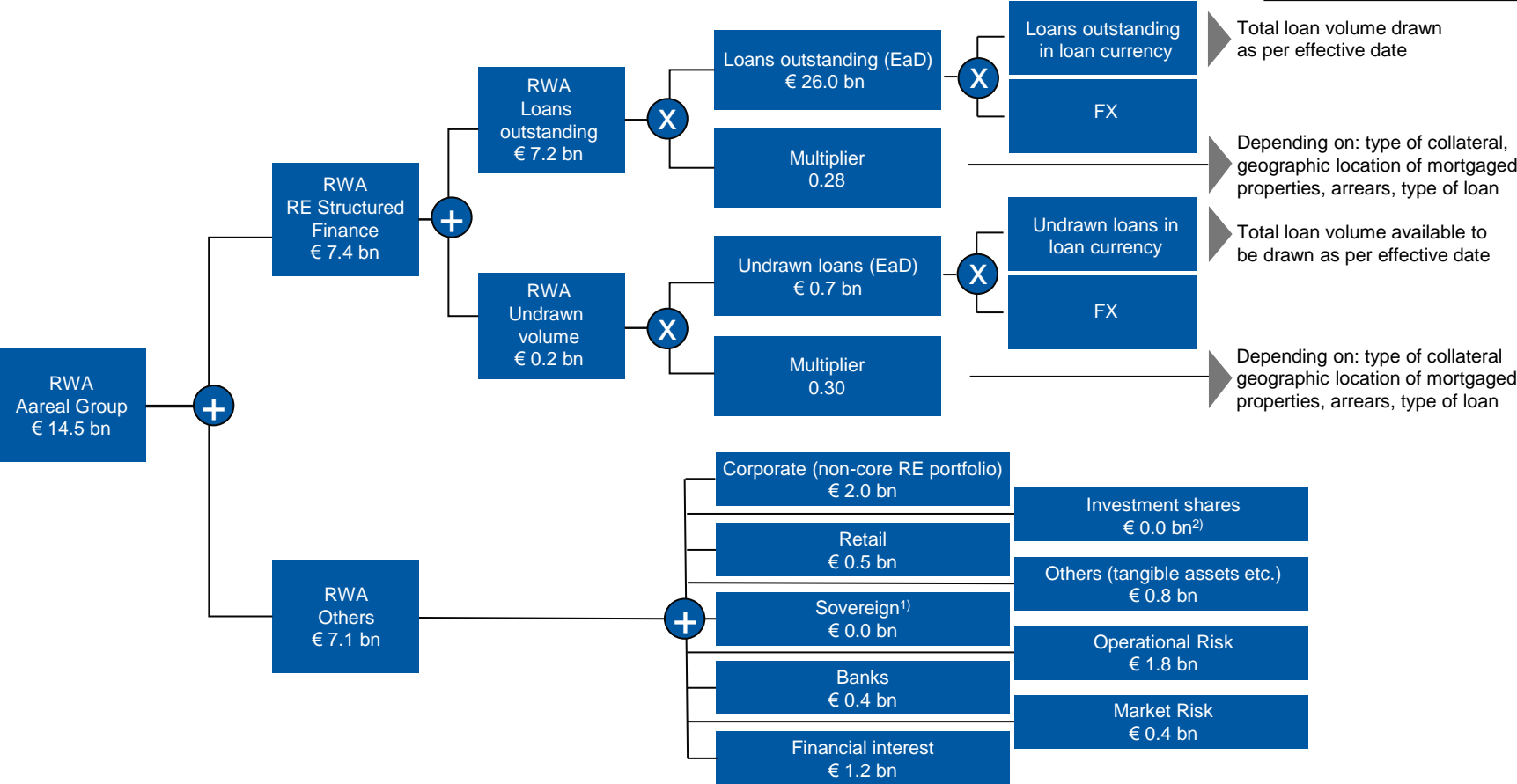


1) Amounts to € 35 mn

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



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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- ◆ Homepage <http://www.aareal-bank.com>
 - ◆ Bloomberg Equity: ARL GR, Bond: AARB
 - ◆ Reuters ARLG.F
 - ◆ Deutsche Börse ARL

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