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Fixed Income Presentation

Q3 2018 Results

Aareal Bank AG, Wiesbaden
November 13, 2018

Aareal

Agenda

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- Asset quality
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Aareal Bank Group Overview

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Aareal Bank Group

Key messages

- Aareal is a leading finance and service provider to international property markets offering tailor-made products to a stable customer base within its two pillar business model focusing on
 - Structured Property Financing (SPF):
Aareal provides low-risk commercial real estate financing solutions focusing on different property types in Europe, North-America and Asia/Pacific
 - Consulting/Services (C/S):
Within the C/S segment Aareal is #1 provider of ERP solutions to the German and European institutional housing industry and additionally offering transaction banking services to the German housing market and related industries
- Aareal's balance sheet has a sound structure with a high quality and a well diversified credit portfolio, a stable deposit base and a sustainable long-term refinancing mix as well as a solid capital base
- Aareal is an independent publicly listed (MDAX) mid-sized company with high flexibility and adaptability
- The Aareal business model provides stable revenues and a risk management with a positive track record even under in an adverse market environment

Aareal Bank Group

One Bank – two segments

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Structured Property Financing	Consulting / Services for the property industry
International presence and business activities on three continents: Europe, North America, Asia / Pacific	Market-leading IT systems for the management of residential and commercial properties in Europe
Providing commercial real estate financing solutions in more than 20 countries and different property types (hotel, logistic, office, retail, residential)	Integrated payment transaction system for the housing industry (market-leading) and the utility sector
Additional industry experts in hotels, logistics and retail properties	More than 10 mn units under management in Europe, thereof ~ 7 mn in the key market Germany
Total real estate finance portfolio ¹⁾ : ~ € 26 bn	International presence: France, the Netherlands, the UK and Scandinavia

1) REF-portfolio incl. private client business (€ 0.6 bn) and WIB's public sector loans (€ 0.5 bn)

Aareal Bank Group

One Bank – two segments – three continents



International property financing in more than 20 countries – Europe, North America and Asia / Pacific

Structured Property Finance

Specialist for specialists

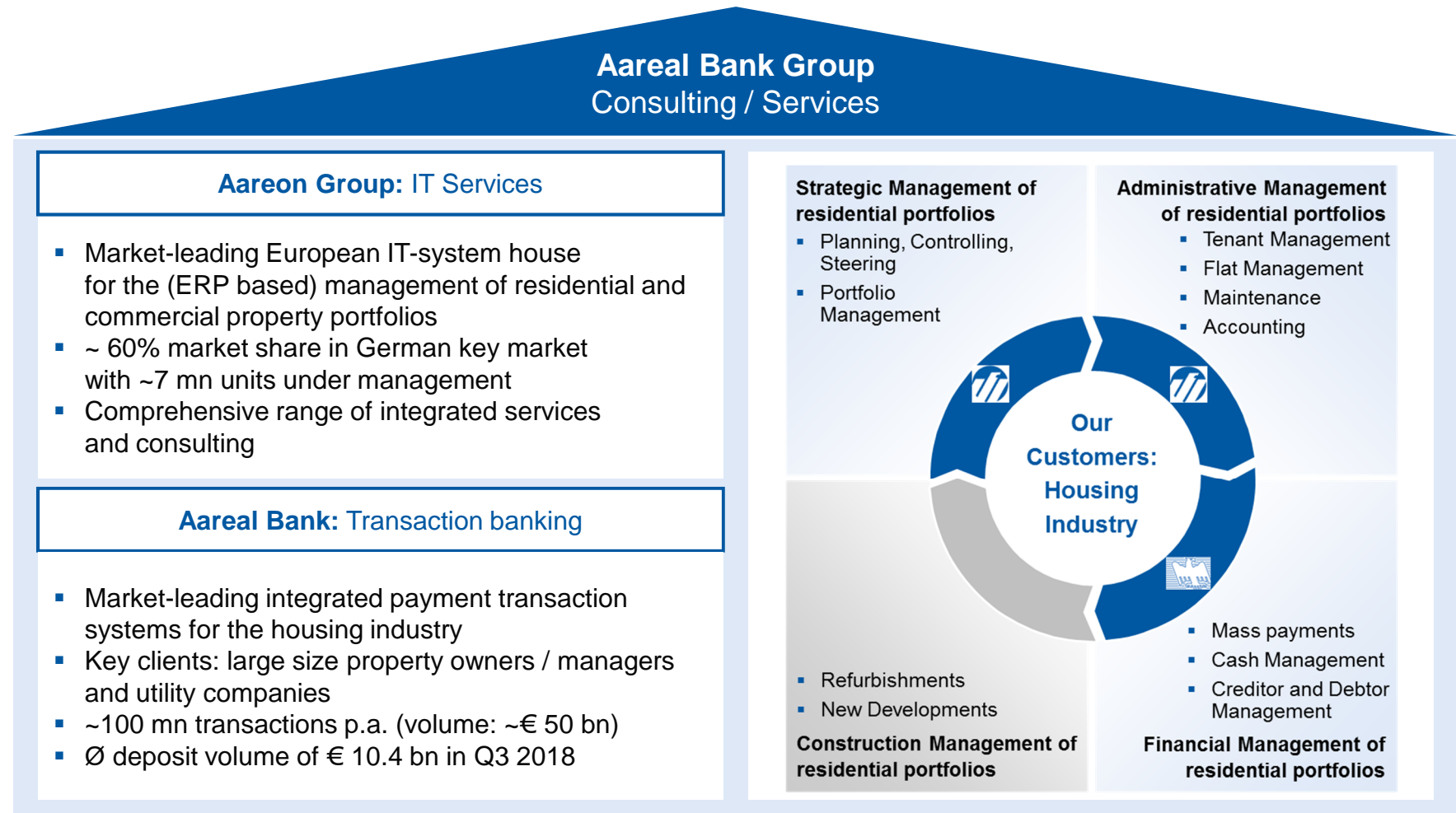
Aareal Bank Group Structured Property Finance

- Cash-flow driven collateralised business
 - Focus on senior lending
 - Based on first-ranking mortgage loans
- Typical products, e.g.:
 - Single asset investment finance
 - Portfolio finance (local or cross-border /-currency)
 - Value add-finance
- In-depth know-how in local markets and special properties
 - Local expertise at our locations
 - Additional industry expertise (head offices)
- International experience with employees from more than 30 nations



Consulting / Services

High customer overlap with substantial cross-selling effects



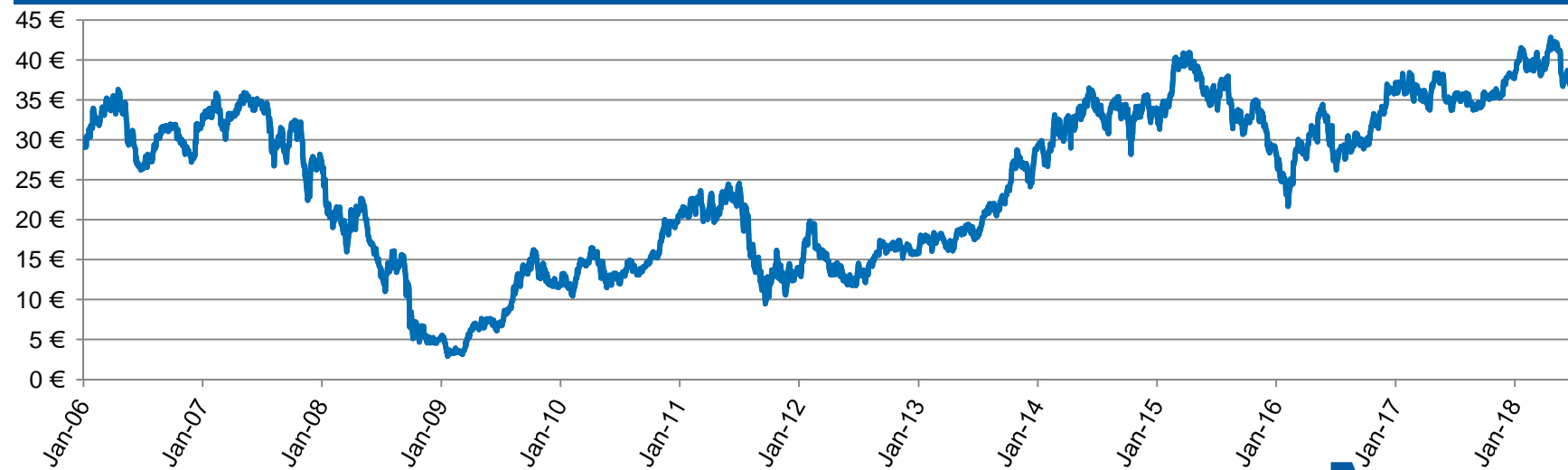
Aareal's ownership structure

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: 40.2 bn €
- Flat hierarchies

Stock performance since 01. Jan 2006



Aareal Bank Ratings



Issuer Default Rating	BBB+
Short-term	F2
Deposit Rating	A-
Senior Preferred	A-
Senior non Preferred	BBB+
Viability Rating	bbb+
Subordinated Debt	BBB
Additional Tier 1	BB-



Issuer Rating	A3
Short-term Issuer Rating	P-2
Bank Deposit Rating	A3
Senior Preferred *	A3
Senior non Preferred **	Baa1
Baseline Credit Assessment	baa3
Mortgage Pfandbriefe	Aaa

* "Senior Unsecured" according Moody's terminology

** "Junior Senior Unsecured" according Moody's terminology



Highlights

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Highlights

Good operating profit despite challenging environment

- ➔ Robust economic environment but high uncertainties ahead
- ➔ Good operating profit of € 70 mn (Q2/2018: € 62 mn).
EpS of 0.70 € (Q2/2018: 0.62 €)
- ➔ Strong new business origination - Raising FY target to € 8 - 9 bn (from € 7 - 8 bn)
- ➔ Agreement on the acquisition of DHB signed.
Positive one-off (neg. goodwill) of ~€ 52 mn expected¹⁾
- ➔ Confirming raised operating profit guidance¹⁾

1) Assuming that closing of acquisition of DHB will take place in 2018 as planned



Group results at a glance

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Group results at a glance

Good operating profit

€ mn	Q3 '17	Q4 '17	Q1'18	Q2'18	Q3'18	Comments
Net interest income	144	135	133	136	131	Solid quarters in line with expectations (€ 130-135 mn)
Derecognition result	20	12	6	5	5	Significantly below PY level and estimate
Loss allowance	26	29	0	19	14	Within expected range
Net commission income	48	61	50	51	51	Stable q-on-q, continuously above PY-level
FV- / hedge-result	11	-1	1	-5	1	
Admin expenses	120	123	128	109	107	Slightly down q-on-q, including one-off effects
<i>Others</i>	5	10	5	3	3	
Operating profit	82	66	67	62	70	Confirming raised operating profit guidance ¹⁾
Income taxes	31	18	23	21	24	FY 2018 tax ratio of ~34% assumed (excl. DHB)
Minorities / AT1	4	4	5	4	5	
Consolidated net income allocated to ord. shareholders	47	44	39	37	41	
Earnings per share [€]	0.78	0.74	0.65	0.62	0.70	

1) Assuming that closing of acquisition of DHB will take place in 2018 as planned

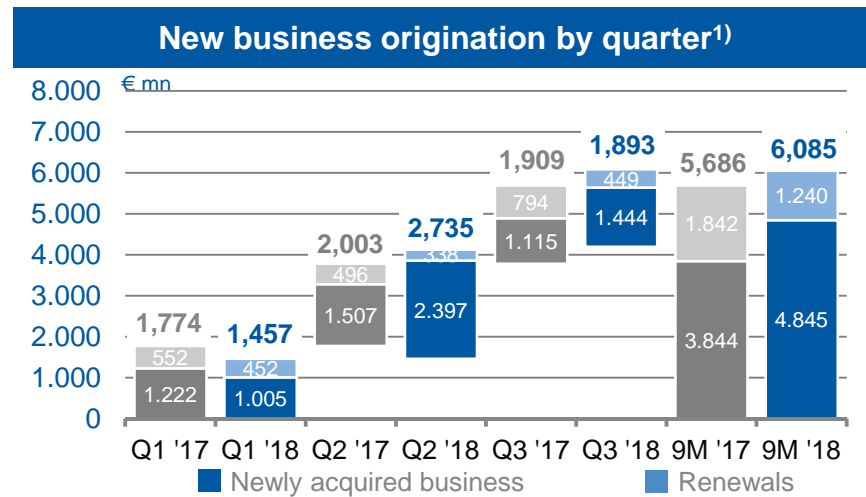


Segment performance

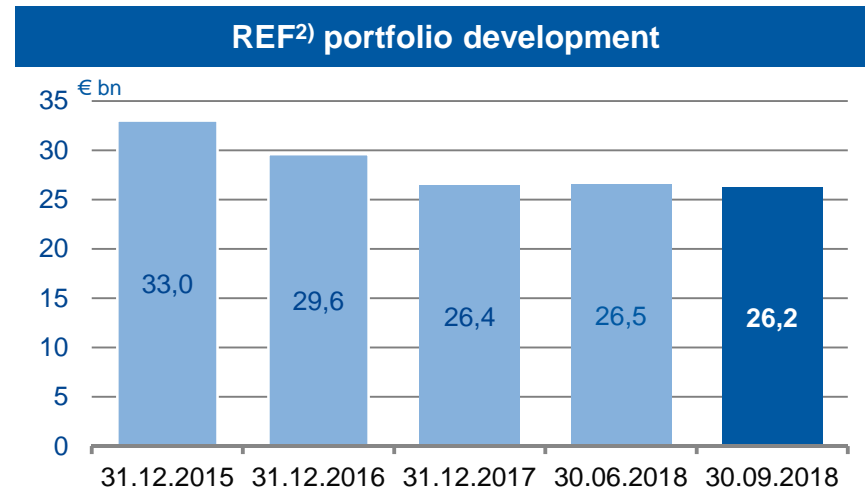
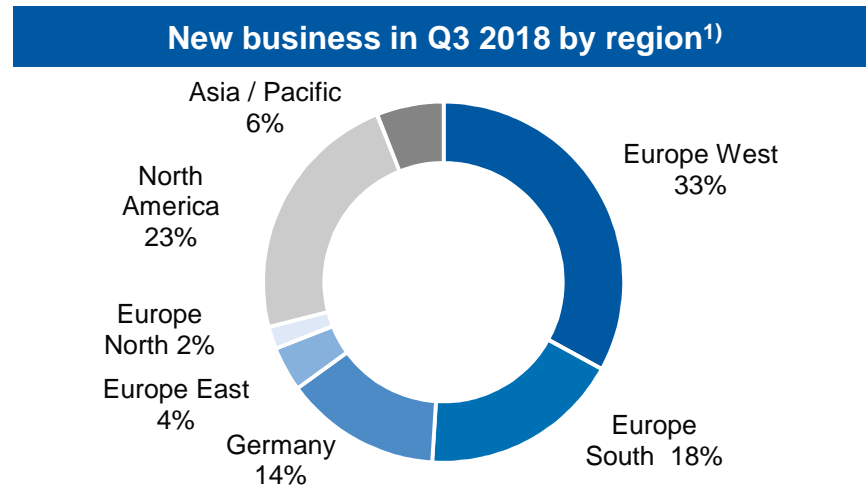
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Structured Property Financing

Strong new business origination



- Strong new business volume while retaining conservative risk policy: “Quality over Quantity”
- Newly acquired business:
 - Stable gross margins after FX: Q3 ~170 bps (vs. Q2 ~170 bps)
 - Pre-FX margins reflecting lower US share: Q3 ~180 bps (vs. Q2 ~190 bps)
 - Confirming FY margin- and portfolio target



1) Incl. renewals

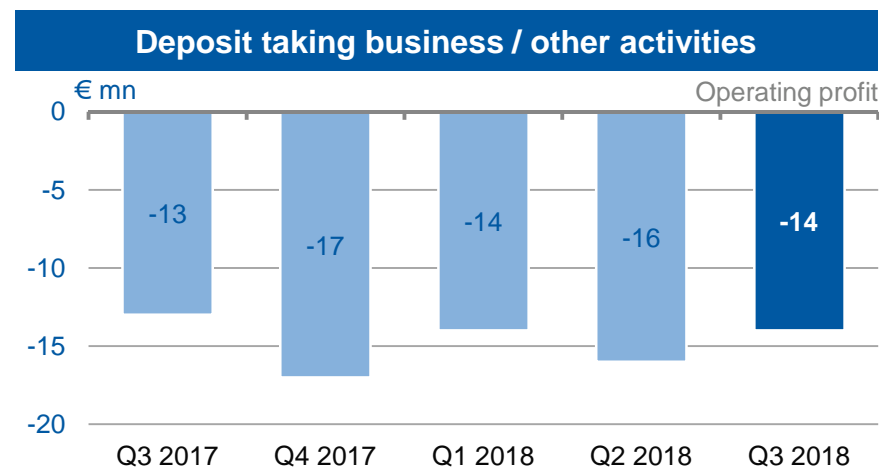
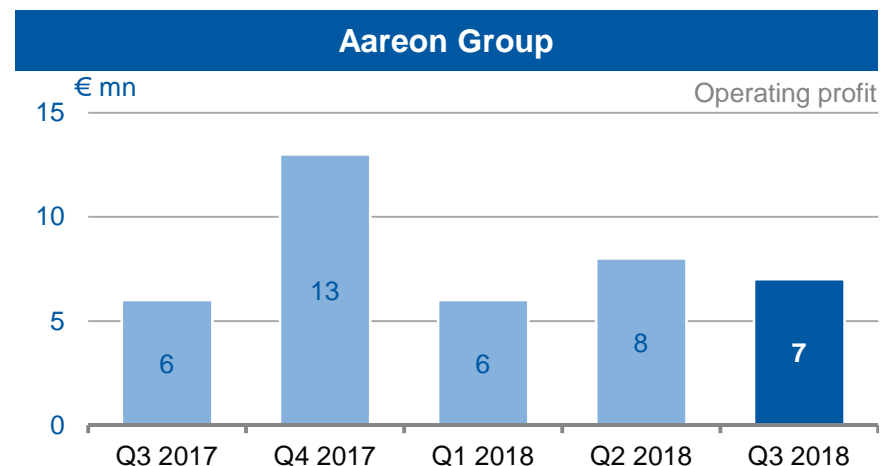
2) REF-portfolio incl. private client business (€ 0.6 bn) and WIB's public sector loans (€ 0.5 bn)

Consulting / Services

Aareon on track

P&L C/S Segment	Q3 '17	Q4 '17	Q1 '18	Q2 '18	Q3 '18
€ mn					
Sales revenue	53	64	56	57	58
Own work capitalised	1	2	1	2	2
Other operating income	1	4	1	1	1
Cost material purchased	8	9	9	11	10
Staff expenses	38	42	37	39	40
D, A, impairment losses	3	4	4	3	4
Other operat. expenses	13	18	16	15	14
Others	0	0	0	0	0
Operating profit	-7	-4	-8	-8	-7

- Further growth of Aareon sales revenue to € 56 mn (Q3 2017: € 51 mn), EBT of € 7 mn, EBT margin ~13%
- Deposit volume on a high level (Ø of € 10.4 bn in Q3)
- Focussing on further shift into sustainable deposits
- Deposit margins still burdening segment result by interest rate environment





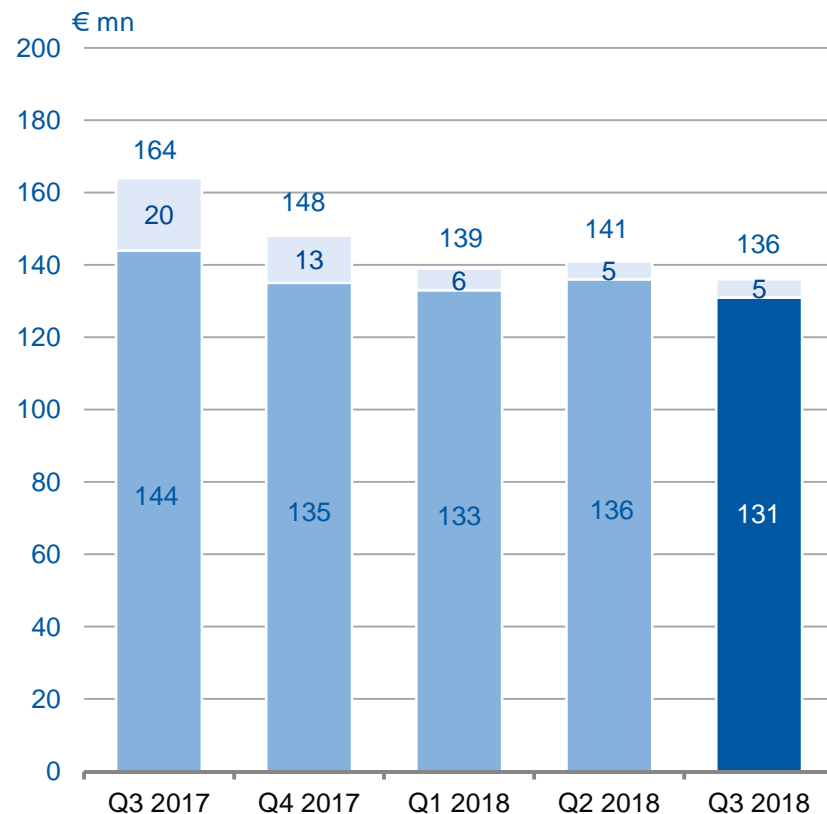
Group results Q2 2018

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Net interest income / Derecognition result

NII: Solid quarters in line with expectations /

DR: Significantly below PY level and estimate



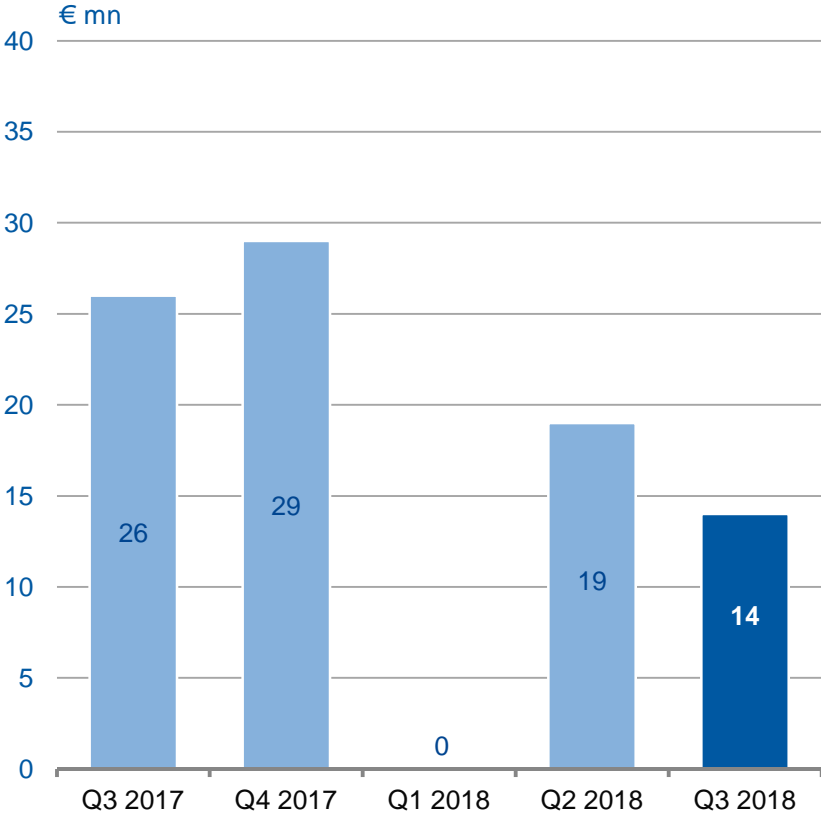
■ Net interest income

■ Derecognition result - to be reported separately under IFRS 9 starting Q1/2018 (mainly effects from early repayments)

- Slight NII decrease vs. Q2 due to
 - Repayments of high-yield loans (e.g. Turkey)
 - Favourable market environment used for increased funding activities
 - Slightly reduced US-share in RSF portfolio
- Derecognition result significantly below PY level and estimate
- Newly acquired business:
 - Gross margins stable after FX: Q3: ~170 bps (vs. Q2 ~170 bps)
 - Pre-FX reflecting lower US share: Q3: ~180 bps (vs. Q2 ~190 bps)
 - Confirming FY margin- and portfolio target

Loss allowance (LLP)

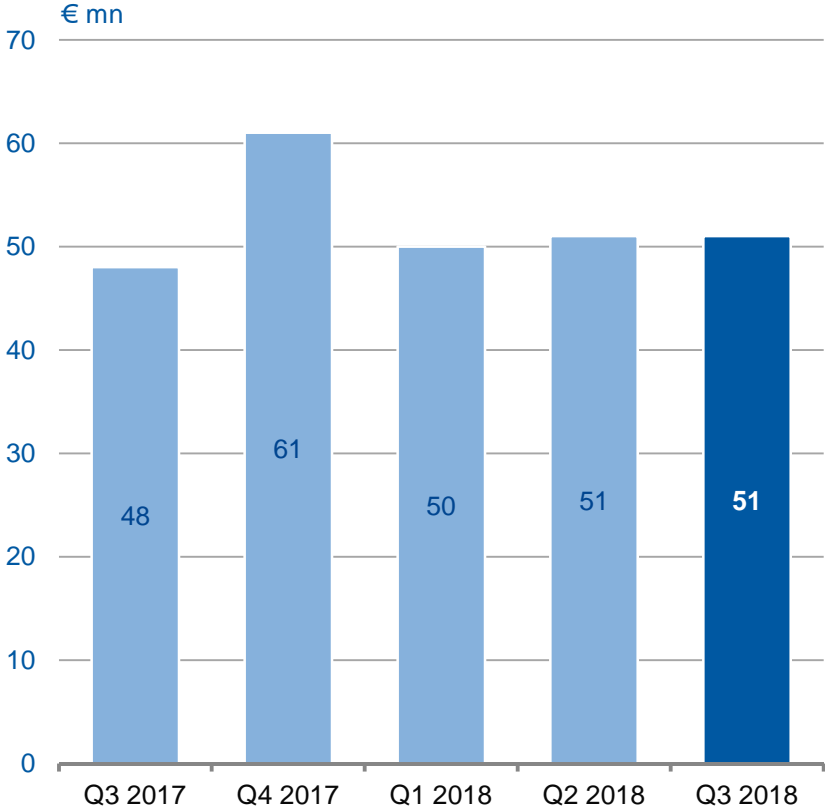
Within expected range



- LLP significantly below last years' figures
- Confirming FY-guidance

Net commission income

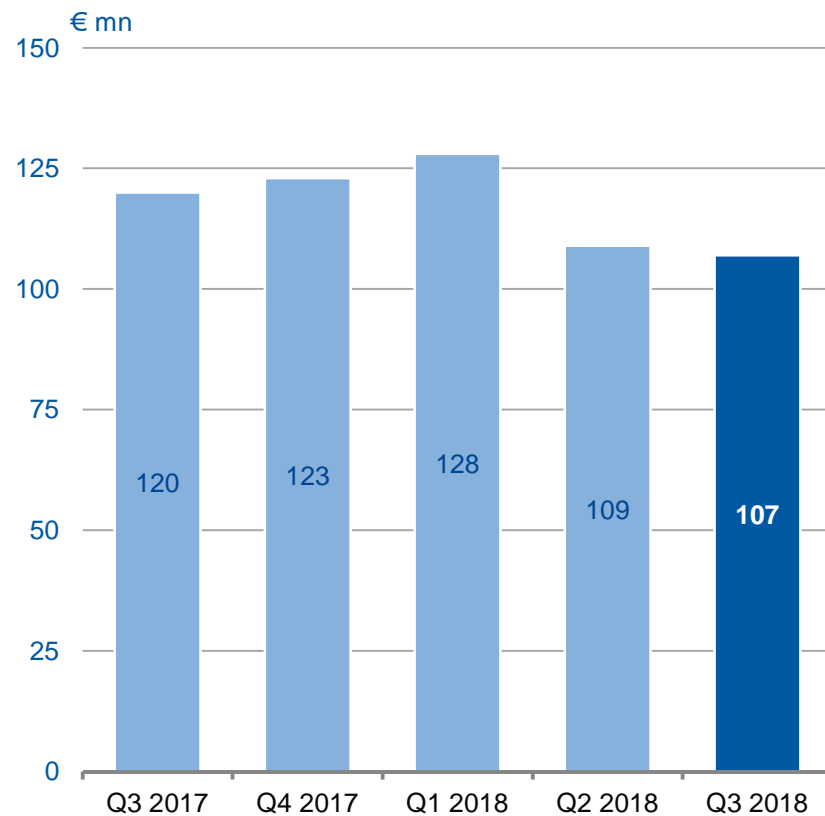
Stable q-on-q, continuously above PY-level



- Further growth of Aareon sales revenue to € 56 mn (Q3 2017: € 51 mn), EBT of € 7 mn, EBT margin ~13%
- Aareon revenues resulting from growth in all product lines, digital products with highest growth rates
- Q4 regularly includes positive seasonal effects

Admin expenses

Admin expenses down q-on-q, including one-off effects



- High likelihood to end up slightly better than guided range
- Transformation costs (FY 2018 plan: € 25 mn):
 - € 4 mn in Q3
 - € 4 mn in Q2
 - € 4 mn in Q1
- Reversal of provisions:
 - € 6 mn in Q3
 - € 4 mn in Q2
 - € 3 mn in Q1
- Admin expenses in Q1 2018 include
 - € 20 mn for the European bank levy and for the Deposit Protection Guarantee Schemes (both expensed in Q1)

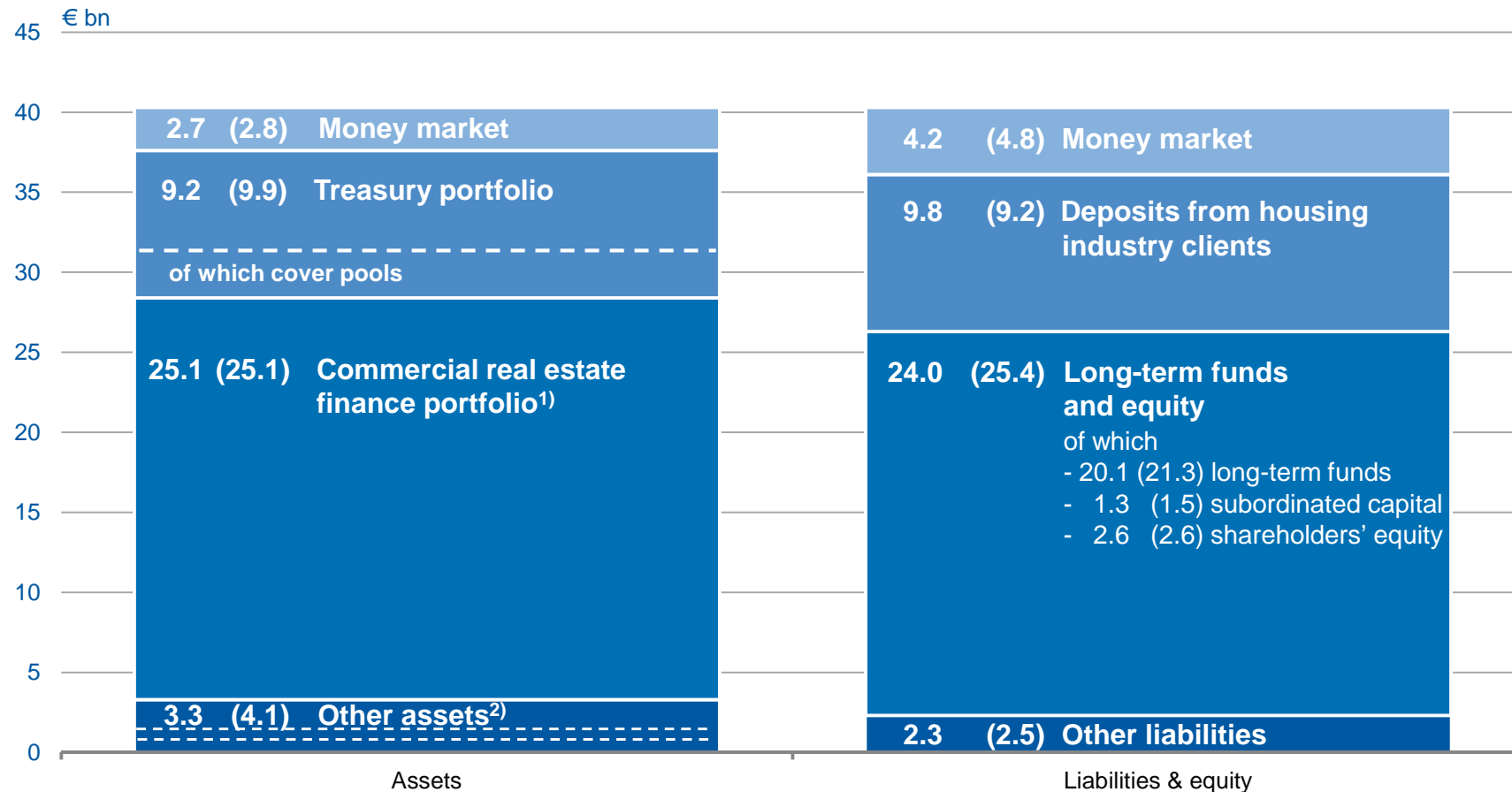


B/S structure, capital & funding position

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B/S structure according to IFRS

As at 30.09.2018: € 40.3 bn (31.12.2017: € 41.9 bn)

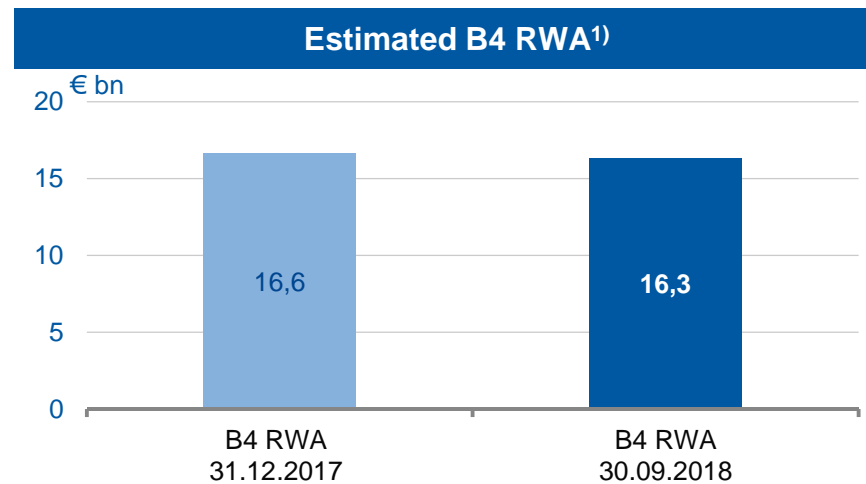


1) CREF-portfolio only, private client business (€ 0.6 bn) and WIB's public sector loans (€ 0.5 bn) not included

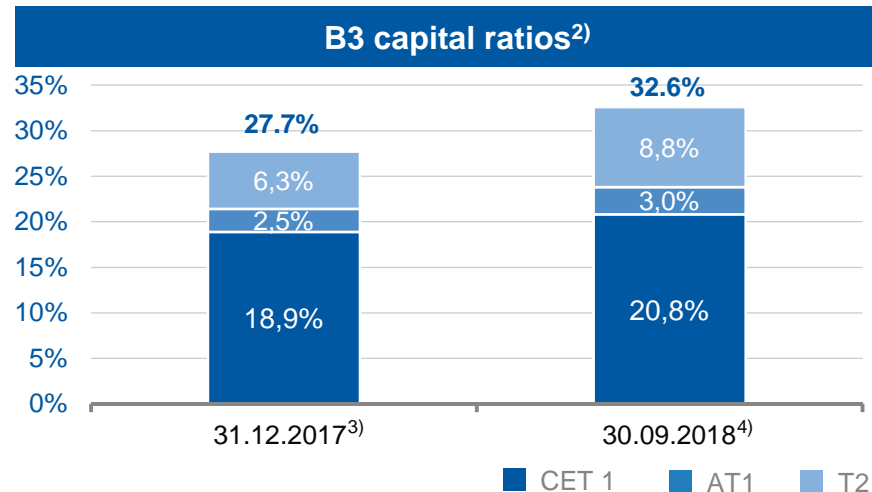
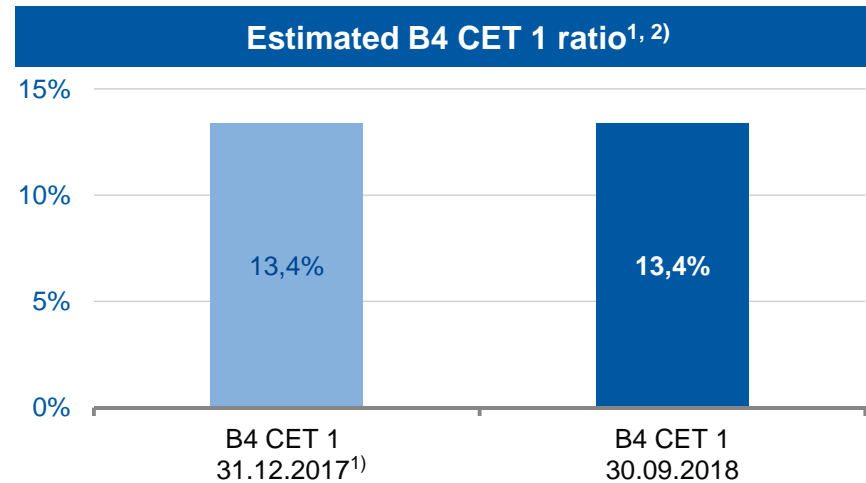
2) Other assets includes € 0.6 bn private client portfolio and WIB's € 0.5 bn public sector loans

Capital position

Strong capital ratios



- Fulfilling Basel IV from day 1
- Remaining regulatory uncertainties well buffered (e.g. Hard test, CRR II)
- Capital ratios significantly above SREP requirements
- T1-Leverage ratio : 6.1%



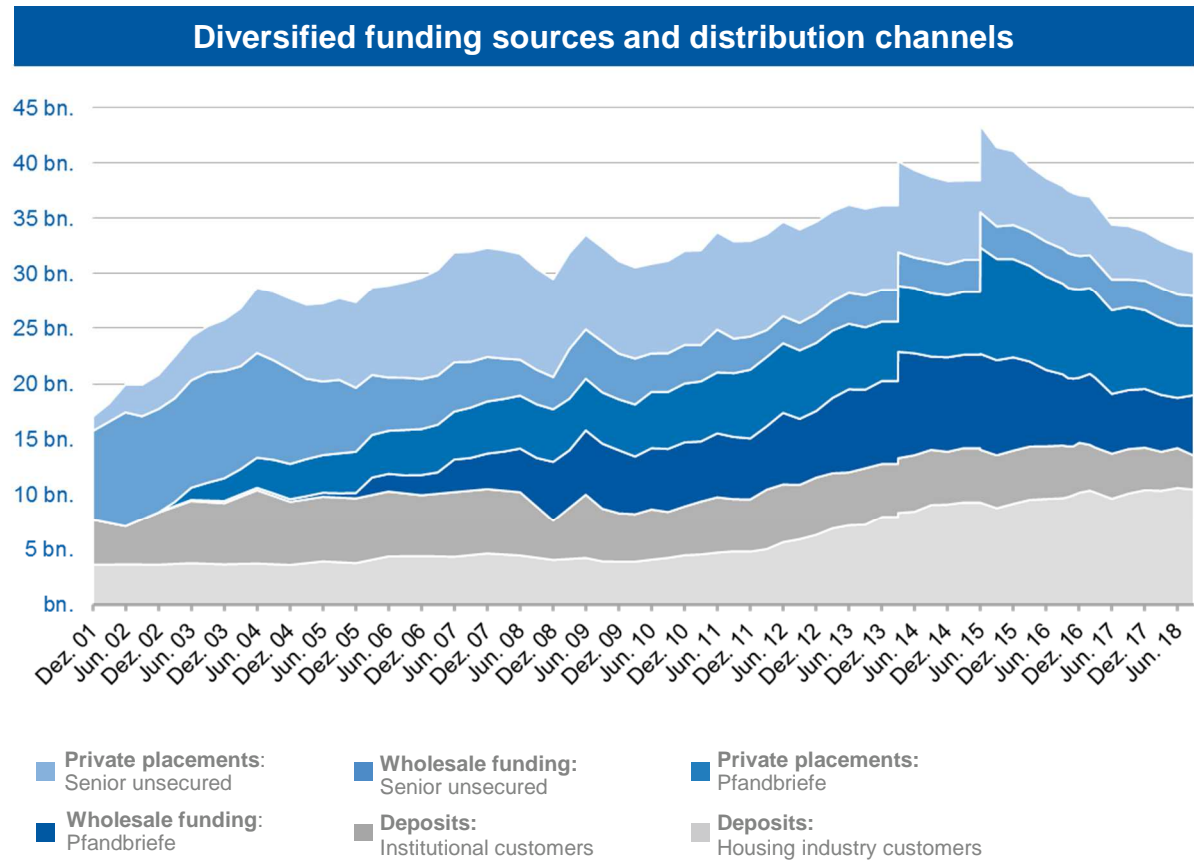
1) Underlying RWA estimate, given a 72.5 % output floor based on the final Basel Committee framework dated 7 December 2017; Calculation of material impact for Aareal Bank, subject to outstanding EU implementation as well as the implementation of further regulatory requirements (CRR II, EBA requirements, TRIM, etc.)

25 2) No interim profit recognition in CET 1 capital in 2018

3) Fully loaded
4) Acc. COREP

Funding position

Favourable market environment used for increased funding activities



- Strong deposit base
- 9M 2018 funding activities include:
 - Successful placement of four Pfandbrief benchmark transactions
 - EUR 500 mn 6.3Y
 - EUR 500 mn 7Y
 - EUR 500 mn 5Y
 - GBP 250 mn 4Y
 - Well diversified private placement activities
 - ~ € 200 mn Senior non pref.
 - ~ € 300 mn Senior preferred
 - ~ € 200 mn Pfandbriefe
- 21st July 2018: Introduction of new asset class “Senior preferred”, private placements successfully executed
- Fulfilling liquidity KPI's
 - NSFR > 1
 - LCR >> 1

Public and Syndicated Transactions in 2017 and 2018

Regular Benchmark activities in EUR, USD and GBP





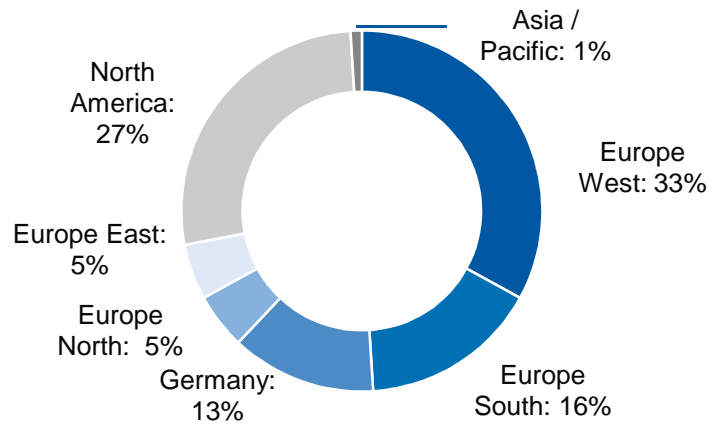
Asset quality

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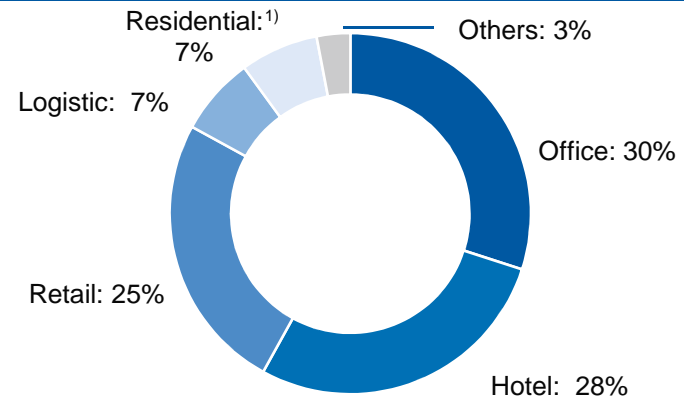
Commercial real estate finance portfolio

€ 25.1 bn highly diversified and sound

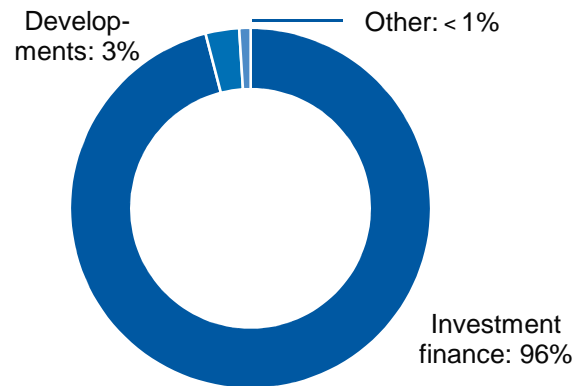
Portfolio by region



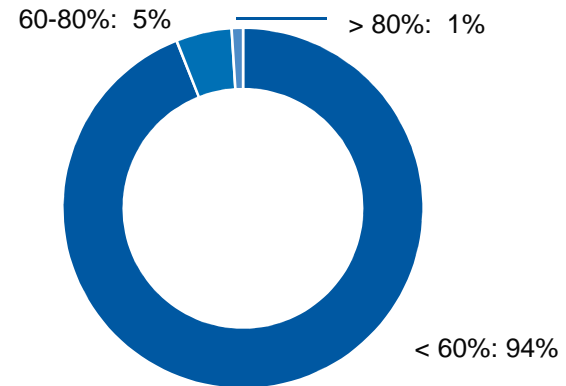
Portfolio by property type



Portfolio by product type



Portfolio by LTV ranges²⁾

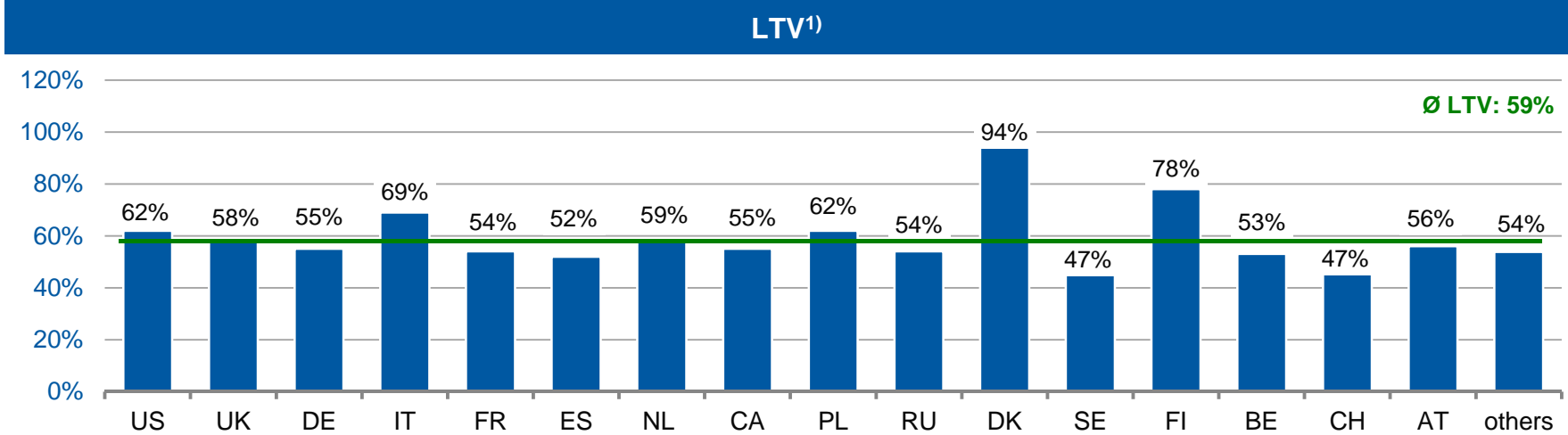
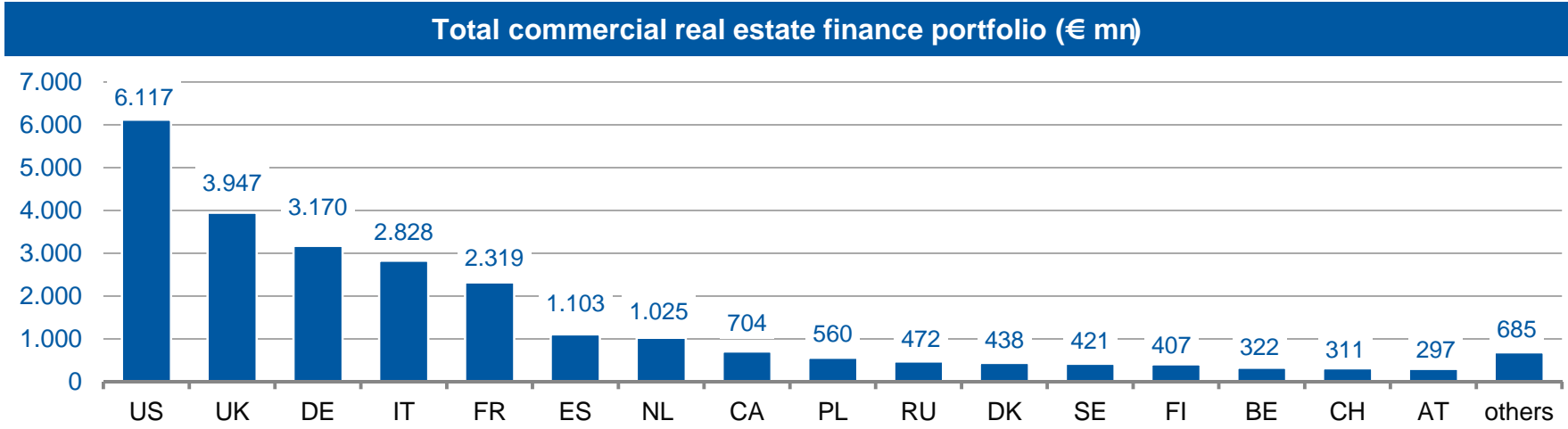


1) Incl. Student housing (UK only)

2) Performing CREF-portfolio only, exposure as at 30.09.2018

Commercial real estate finance portfolio

Portfolio details by country

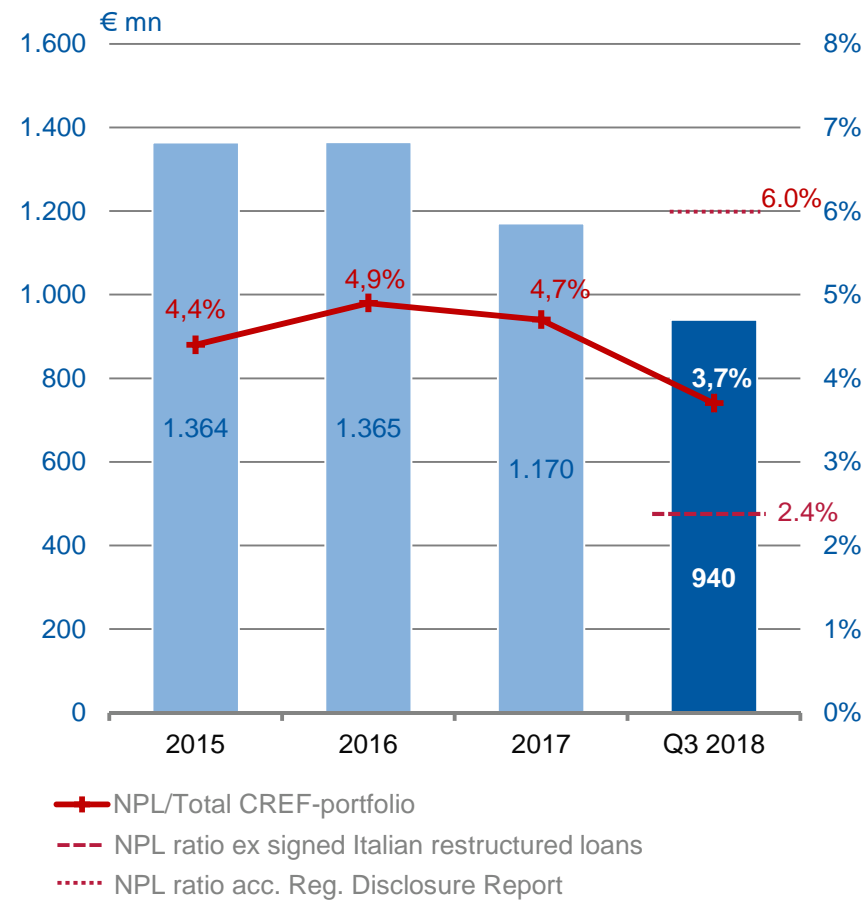


1) Performing CREF-portfolio only, exposure as at 30.09.2018

NPL portfolio

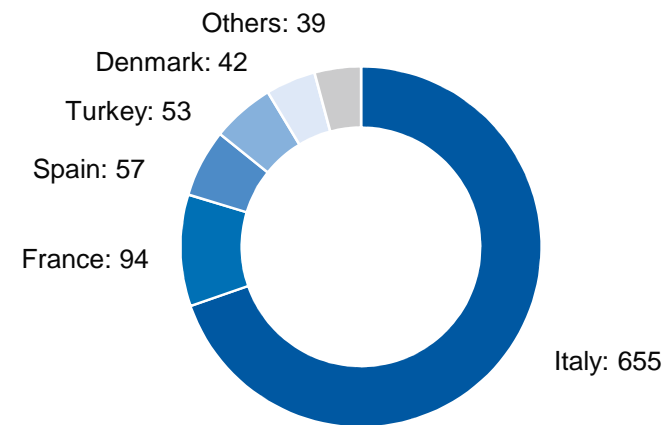
NPL volume and NPL ratio decreased vs. 12/17, stable q-on-q

NPL Portfolio development (Total: € 940 mn)



Considering collaterals, NPL's fully covered

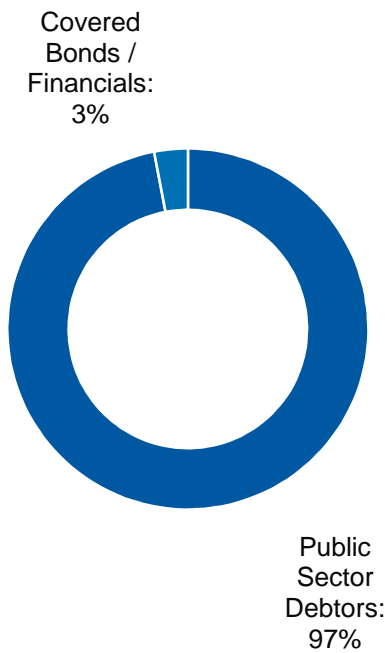
NPL Portfolio by country (Total: € 940 mn)



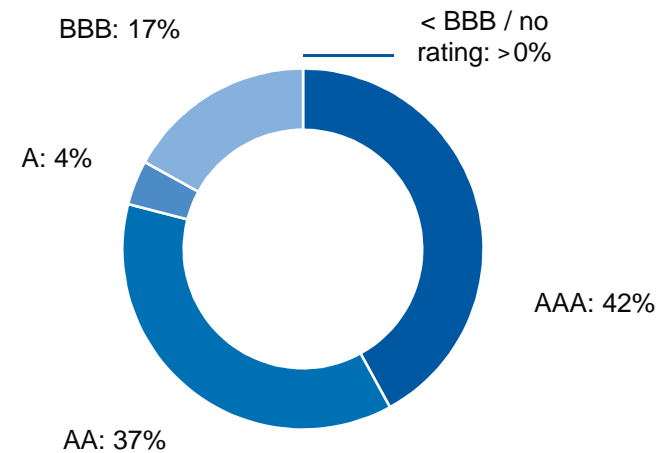
Treasury portfolio

€ 7.7 bn of high quality and highly liquid assets

by asset class



by rating¹⁾



As at 30.09.2018 – all figures are nominal amounts
1) Composite Rating

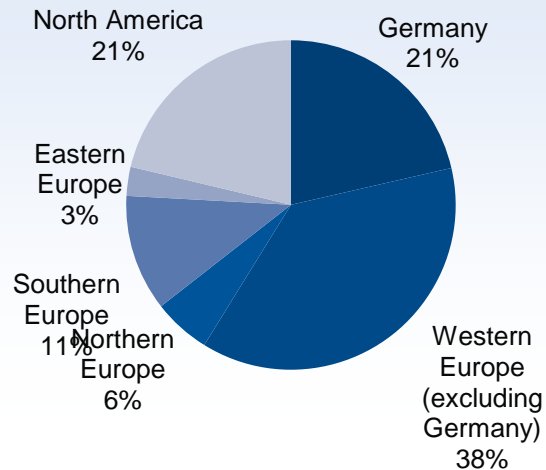
Mortgage Cover Pool

Well diversified regarding Geography and Property Type

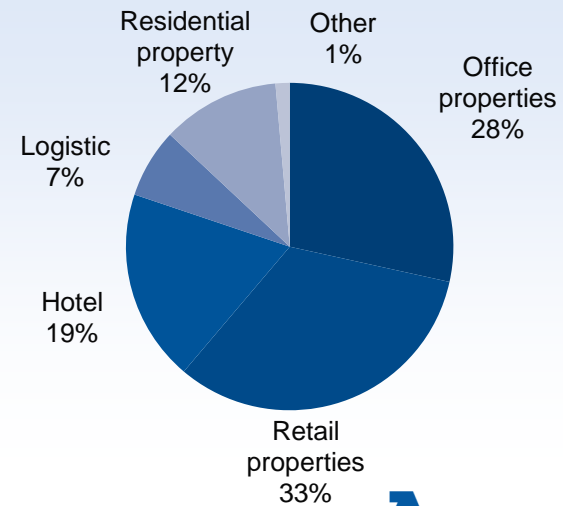
- Cover pool of € 12.0 bn including € 1.1 bn substitute assets diversified over 17 countries
- High quality of assets: first-class mortgage loans (mortgage-lending-value 56%)
- Mortgage-lending-value with high discount from market-value
- Ø LTV of the mortgage cover pool 37.4%
- Moody's has calculated a 'Aaa' supporting over-collateralisation ratio of 11.0% on a PV basis
- High diversification within property types



Cover Pool by Geography



Cover Pool by Property Type





Outlook 2018

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Outlook 2018

Confirming raised operating profit guidance

Net interest income	NII confirmed within range of € 520 mn - € 540 mn
Derecognition result	Clearly below estimate
Net interest income incl. derecognition result	Guided range of € 570 mn - € 610 mn will be difficult to achieve
Loss allowance¹⁾	€ 50 mn - € 80 mn
Net commission income	€ 215 mn - € 235 mn
Admin expenses	€ 470 mn - € 500 mn: High likelihood to end up slightly better than guided range
Operating profit	€ 312 mn - € 352 mn²⁾
Pre-tax RoE	11.5% - 13.0 ²⁾ (9.5% - 11.0% - ex DHB acquisition)
EpS	€ 3.47 - € 3.8 ²⁾
Target portfolio size	€ 25 bn - € 28 bn
New business origination³⁾	€ 8 bn - € 9 bn (Raised from original guidance of € 7 bn - € 8 bn)
Operating profit Aareon⁴⁾	€ 37 mn - € 38 mn

1) As in 2017, the bank cannot rule out additional loss allowance

2) Incl. expected ~ € 52 mn negative goodwill from DHB acquisition, assuming closing will take place in 2018 as planned

3) Incl. renewals

4) After segment adjustments

Conclusion

Aareal Bank stays on track

Key takeaways



Aareal Bank Group continues to perform well in a challenging environment. Our operating performance continues to be very robust, and we are willing and able to exploit attractive, value-increasing opportunities at any time.



We are making good progress with the transformation we have initiated with 'Aareal 2020'.



We therefore remain on track not only to meet our raised earnings target for the current year, but also to safeguard a sustainable, positive long-term performance for Aareal Bank Group.



Appendix

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Appendix
Group results

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Aareal Bank Group

Results Q3 2018

	01.07.- 30.09.2018 € mn	01.07.- 30.09.2017 ¹⁾ € mn	Change
Profit and loss account			
Net interest income	131	144	-9%
Loss allowance	14	26	-46%
Net commission income	51	48	6%
Net derecognition gain or loss	5	20	-75%
Net gain or loss from financial instruments (fvpl)	0	10	
Net gain or loss on hedge accounting	1	1	0%
Net gain or loss from investments accounted for using the equity method			
Administrative expenses	107	120	-11%
Net other operating income / expenses	3	5	-40%
Operating Profit	70	82	-15%
Income taxes	24	31	-23%
Consolidated net income	46	51	-10%
Consolidated net income attributable to non-controlling interests	1	0	
Consolidated net income attributable to shareholders of Aareal Bank AG	45	51	-12%
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ²⁾	45	51	-12%
of which: allocated to ordinary shareholders	41	47	-13%
of which: allocated to AT1 investors	4	4	0%
Earnings per ordinary share (in €) ³⁾	0.70	0.78	-9%
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 Q3 2018 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.07.- 30.09. 2018	01.07.- 30.09. 2017 ¹⁾	01.07.- 30.09. 2018	01.07.- 30.09. 2017 ¹⁾	01.07.- 30.09. 2018	01.07.- 30.09. 2017 ¹⁾	01.07.- 30.09. 2018	01.07.- 30.09. 2017 ¹⁾
€ mn								
Net interest income	134	147	0	0	-3	-3	131	144
Loss allowance	14	26	0				14	26
Net commission income	2	1	48	45	1	2	51	48
Net derecognition gain or loss	5	20					5	20
Net gain or loss from financial instruments (fvpl)	0	10					0	10
Net gain or loss on hedge accounting	1	1					1	1
Net gain or loss from investments accounted for using the equity method								
Administrative expenses	53	68	56	53	-2	-1	107	120
Net other operating income / expenses	2	4	1	1	0	0	3	5
Operating profit	77	89	-7	-7	0	0	70	82
Income taxes	27	34	-3	-3			24	31
Consolidated net income	50	55	-4	-4	0	0	46	51
Allocation of results								
Cons. net income attributable to non-controlling interests	0	0	1	0			1	0
Cons. net income attributable to shareholders of Aareal Bank AG	50	55	-5	-4	0	0	45	51

1) Comparative amounts reclassified according to the new classification format

Aareal Bank Group

Results 9M 2018

	01.01.- 30.09.2018 € mn	01.01.- 30.09.2017 ¹⁾ € mn	Change
Profit and loss account			
Net interest income	400	449	-11%
Loss allowance	33	53	-38%
Net commission income	152	145	5%
Net derecognition gain or loss	16	37	-57%
Net gain or loss from financial instruments (fvpl)	-1	13	
Net gain or loss on hedge accounting	-2	-5	
Net gain or loss from investments accounted for using the equity method			
Administrative expenses	344	388	-11%
Net other operating income / expenses	11	64	-83%
Operating Profit	199	262	-24%
Income taxes	68	97	-30%
Consolidated net income	131	165	-21%
Consolidated net income attributable to non-controlling interests	2	6	-67%
Consolidated net income attributable to shareholders of Aareal Bank AG	129	159	-19%
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ²⁾	129	159	-19%
of which: allocated to ordinary shareholders	117	147	-20%
of which: allocated to AT1 investors	12	12	0%
Earnings per ordinary share (in €) ³⁾	1.97	2.46	-20%
Earnings per ordinary AT1 unit (in €) ⁴⁾	0.12	0.12	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 9M 2018 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.01.- 30.09. 2018	01.01.- 30.09. 2017 ¹⁾	01.01.- 30.09. 2018	01.01.- 30.09. 2017 ¹⁾	01.01.- 30.09. 2018	01.01.- 30.09. 2017 ¹⁾	01.01.- 30.09. 2018	01.01.- 30.09. 2017 ¹⁾
	€ mn							
Net interest income	409	457	0	0	-9	-8	400	449
Loss allowance	33	53	0				33	53
Net commission income	6	4	141	136	5	5	152	145
Net derecognition gain or loss	16	37					16	37
Gains / losses from financial instruments (fvpl)	-1	13					-1	13
Net result on hedge accounting	-2	-5					-2	-5
Results from investments accounted for at equity								
Administrative expenses	182	234	166	157	-4	-3	344	388
Net other operating income / expenses	9	62	2	2	0	0	11	64
Operating profit	222	281	-23	-19	0	0	199	262
Income taxes	77	104	-9	-7			68	97
Consolidated net income	145	177	-14	-12	0	0	131	165
Allocation of results								
Cons. net income attributable to non-controlling interests	0	4	2	2			2	6
Cons. net income attributable to shareholders of Aareal Bank AG	145	173	-16	-14	0	0	129	159

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				
	Q3	Q2	Q1	Q4	Q3	Q3	Q2	Q1	Q4	Q3	Q3	Q2	Q1	Q4	Q3	Q3	Q2	Q1	Q4	Q3
€ mn	2018			2017 ¹⁾		2018			2017 ¹⁾		2018			2017 ¹⁾	2018	2018			2017 ¹⁾	
Net interest income	134	139	136	139	147	0	0	0	0	0	-3	-3	-3	-4	-3	131	136	133	135	144
Loss allowance	14	19	0	29	26	0	0	0							14	19	0	29	26	
Net commission income	2	3	1	3	1	48	46	47	55	45	1	2	2	3	2	51	51	50	61	48
Net derecognition gain or loss	5	5	6	13	20										5	5	6	13	20	
Net gain or loss from financial instruments (fvpl)	0	-4	3	1	10										0	-4	3	1	10	
Net gain or loss on hedge accounting	1	-1	-2	-2	1										1	-1	-2	-2	1	
Net gain or loss from investments accounted for using the equity method																				
Administrative expenses	53	55	74	62	68	56	55	55	63	53	-2	-1	-1	-2	-1	107	109	128	123	120
Net other operating income / expenses	2	2	5	7	4	1	1	0	4	1	0	0	0	-1	0	3	3	5	10	5
Operating profit	77	70	75	70	89	-7	-8	-8	-4	-7	0	0	0	0	0	70	62	67	66	82
Income taxes	27	24	26	19	34	-3	-3	-3	-1	-3					24	21	23	18	31	
Consolidated net income	50	46	49	51	55	-4	-5	-5	-3	-4	0	0	0	0	46	41	44	48	51	
Cons. net income attributable to non-controlling interests	0	0	0	0	0	1	0	1	0	0					1	0	1	0	0	
Cons. net income attributable to shareholders of Aareal Bank AG	50	46	49	51	55	-5	-5	-6	-3	-4	0	0	0	0	45	41	43	48	51	

1) Comparative amounts reclassified according to the new classification format

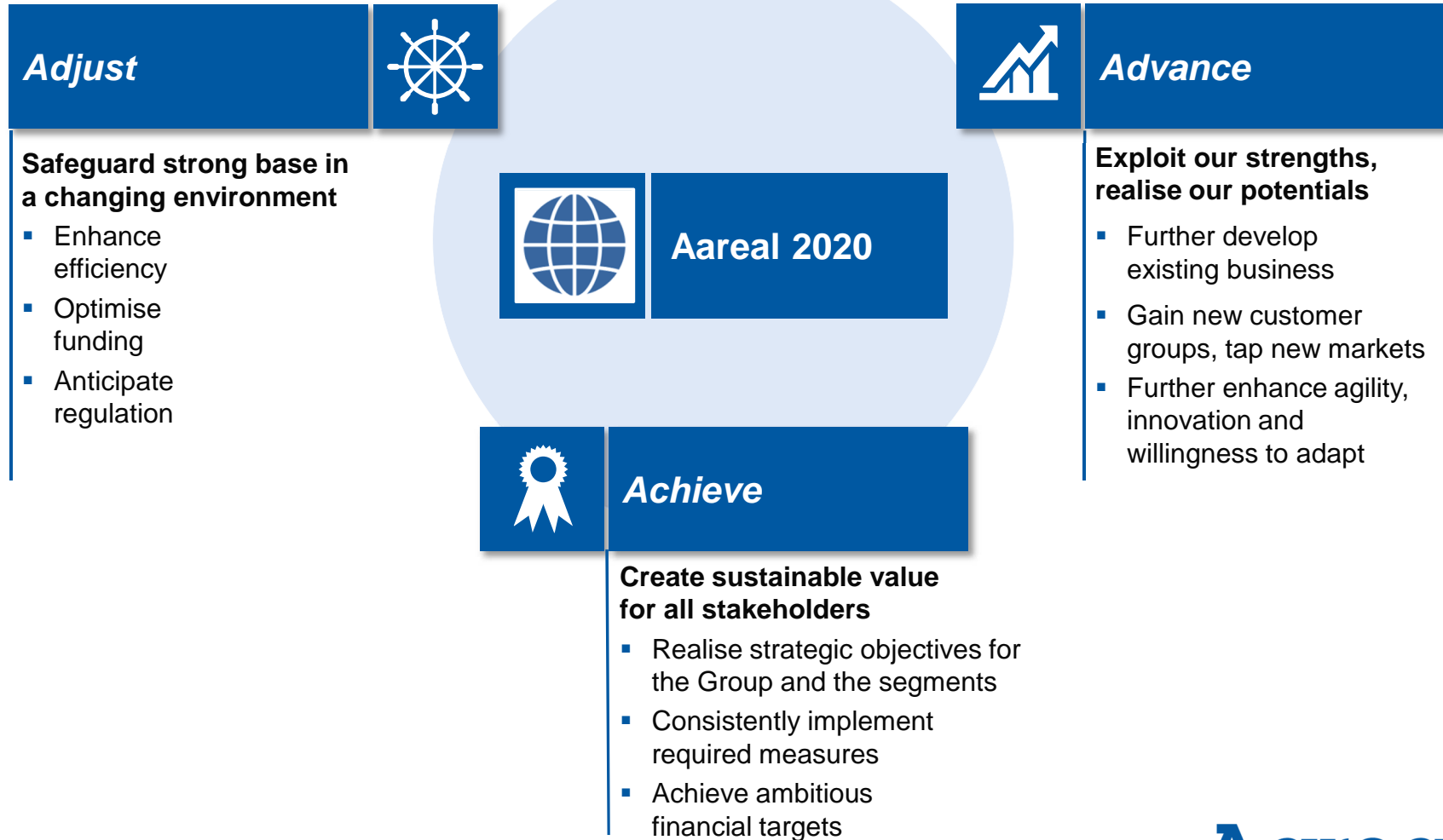


Aareal 2020

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)	 Targets: (extract)
<p>Adjust</p> 	<ul style="list-style-type: none"> ✓ 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 	<ul style="list-style-type: none"> – 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	<ul style="list-style-type: none"> ✓ 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 	<ul style="list-style-type: none"> – 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	<ul style="list-style-type: none"> ✓ 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 	<ul style="list-style-type: none"> – 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



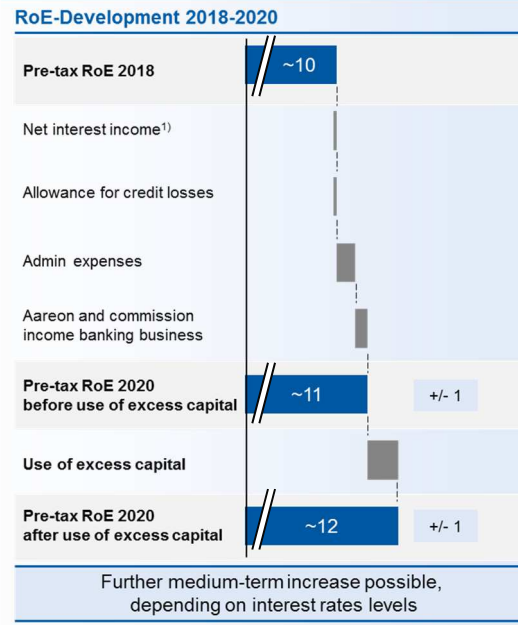
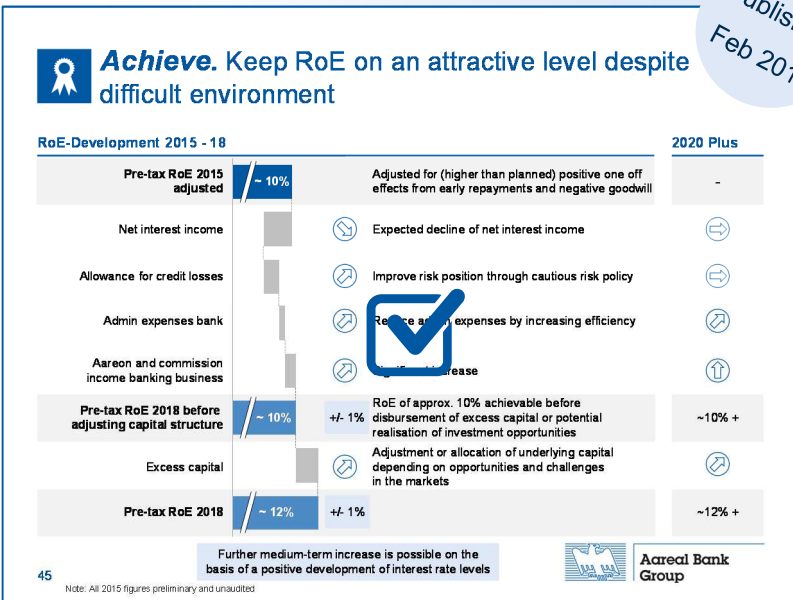
Achieve.

RoE development: Our way ahead

Published Feb 2018

2015 - 2018 2018 - 2020

Published Feb 2016



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)

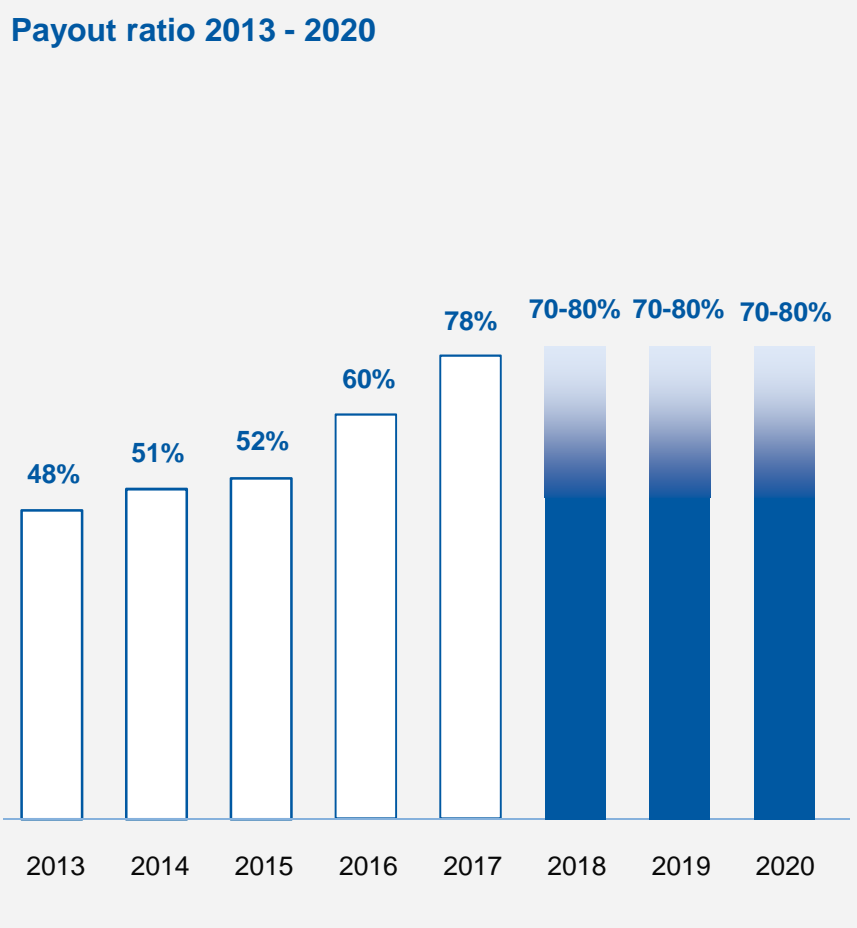
Dividend policy¹⁾ Confirmed

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



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.

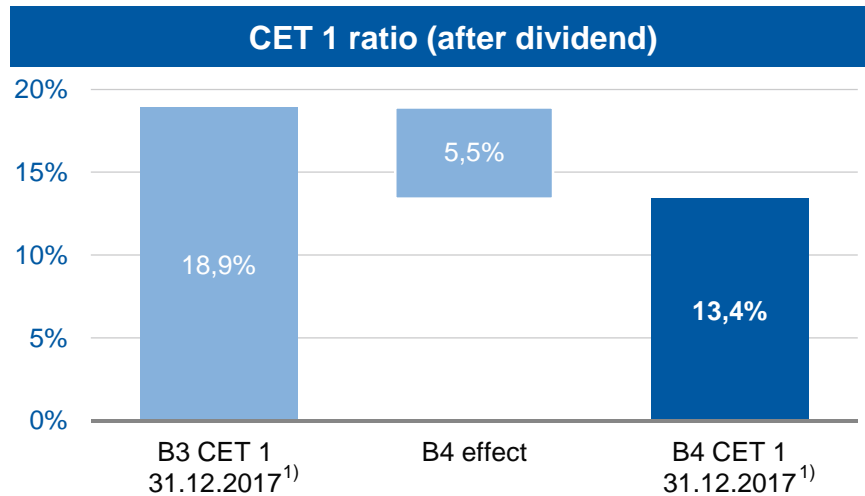
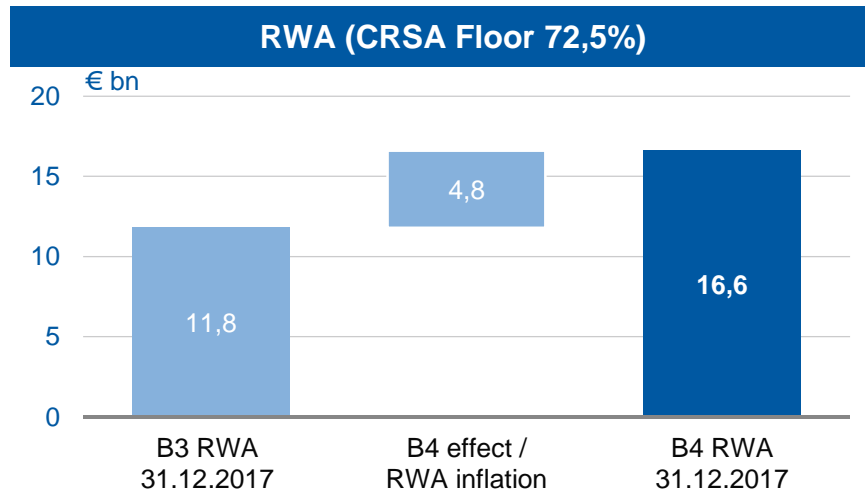


Appendix
Basel 4 / IFRS 9 / Defaulted exposure

Aareal

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

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

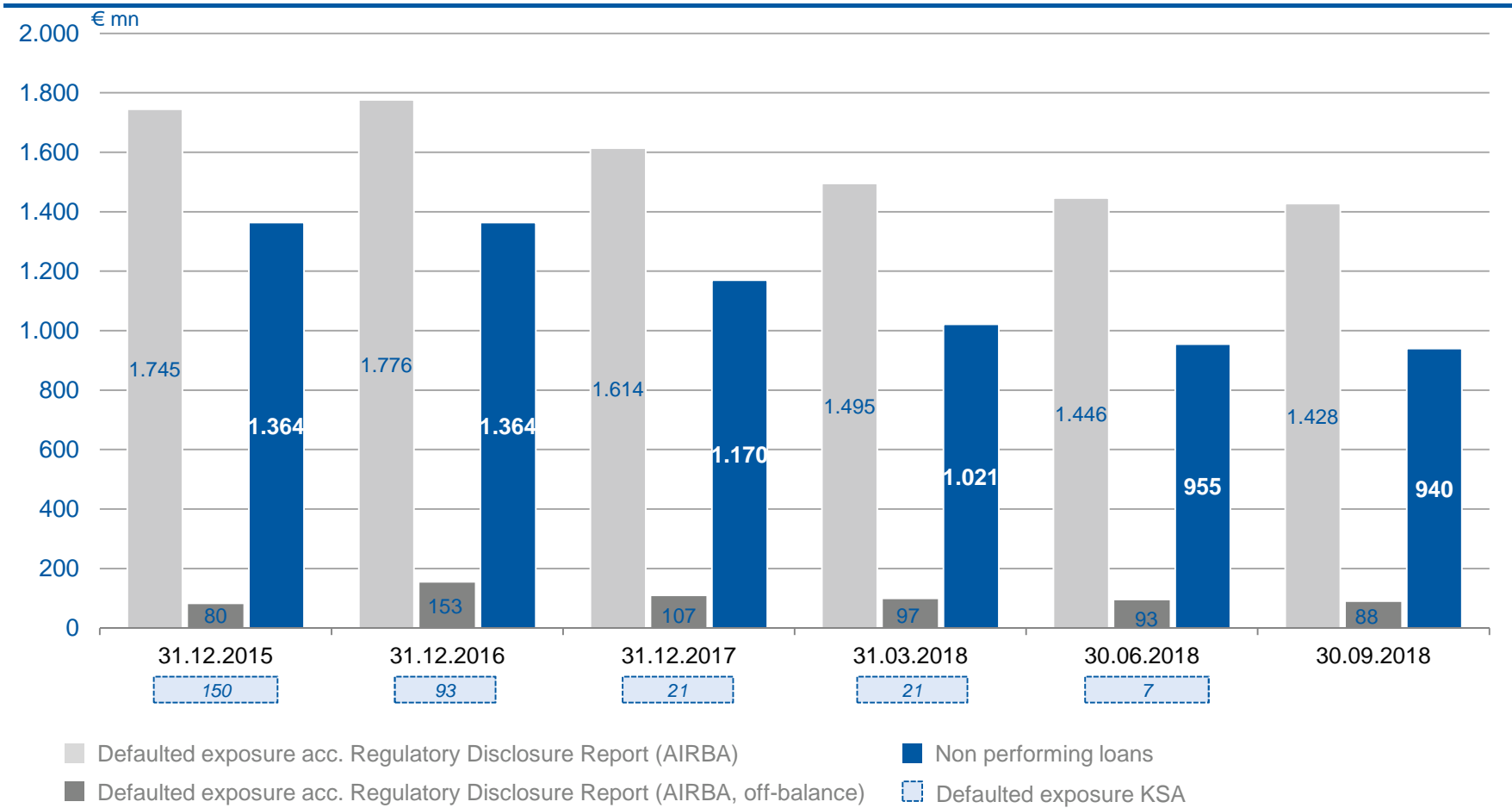
- Expected loss model:
 - Stage 1: LLP based on 12-Month expected credit losses on recognition
 - Stage 2: LLP based on lifetime expected credit losses on financial assets with significant increase in credit risk and
 - Stage 3: LLP based on lifetime expected credit losses on impaired financial assets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

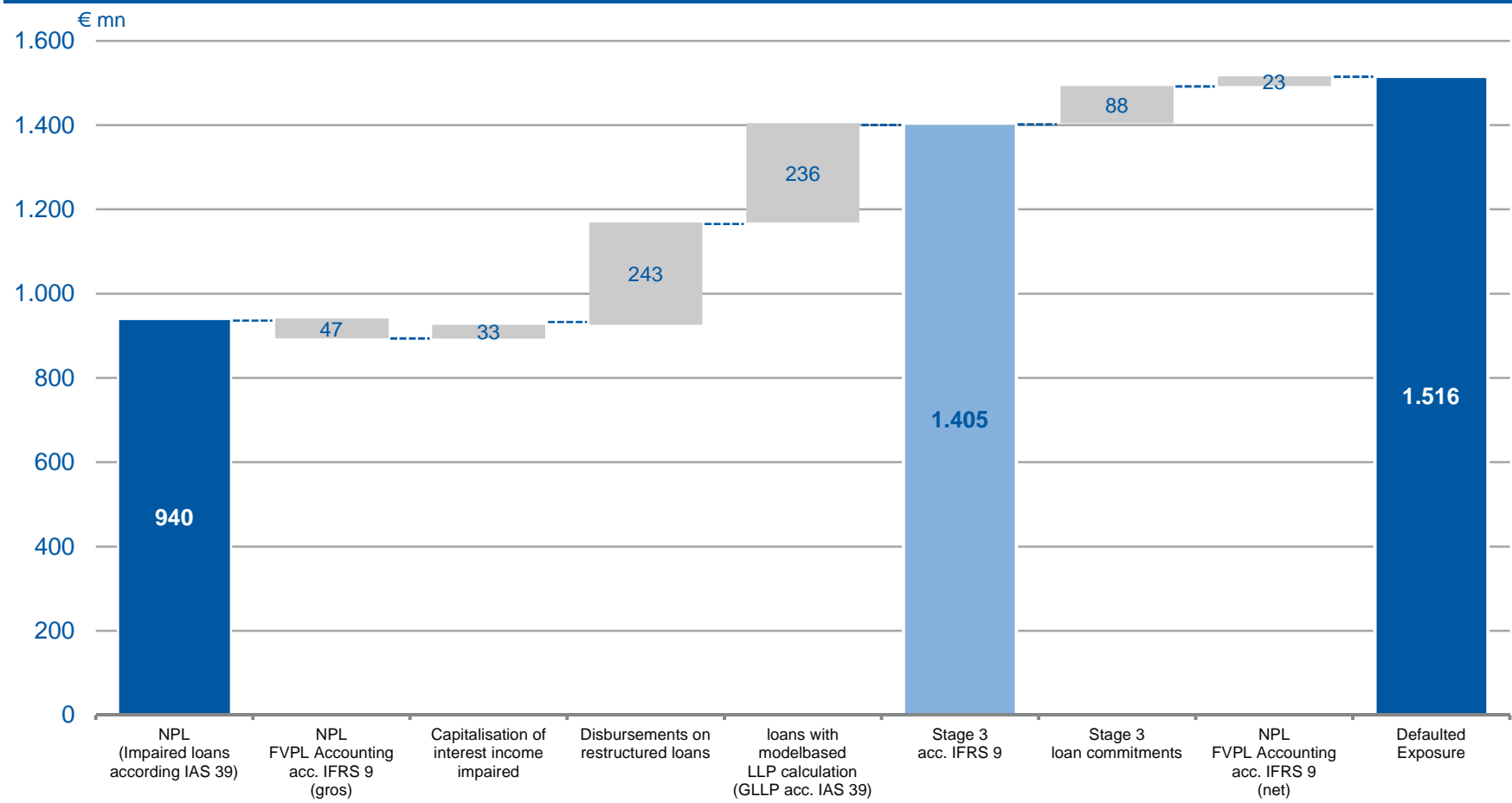
Defaulted exposure

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



Defaulted Exposure

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





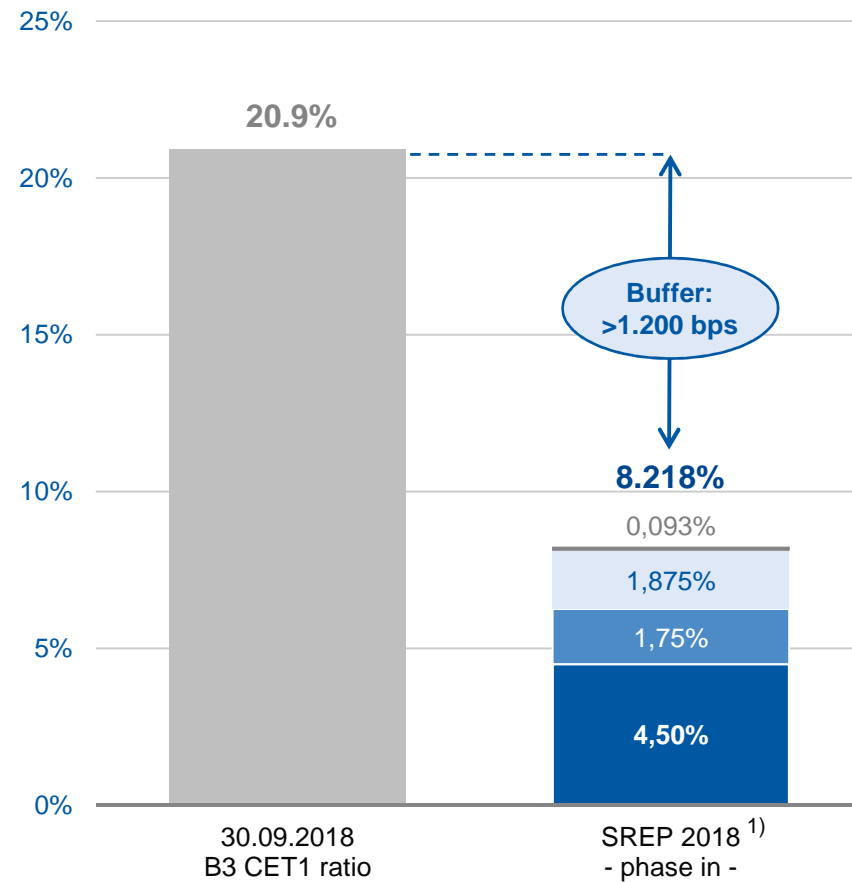
Appendix
SREP

Aareal

SREP (CET 1) requirements

Demonstrating conservative and sustainable business model

B3 CET1 ratio vs. SREP (CET1) requirements



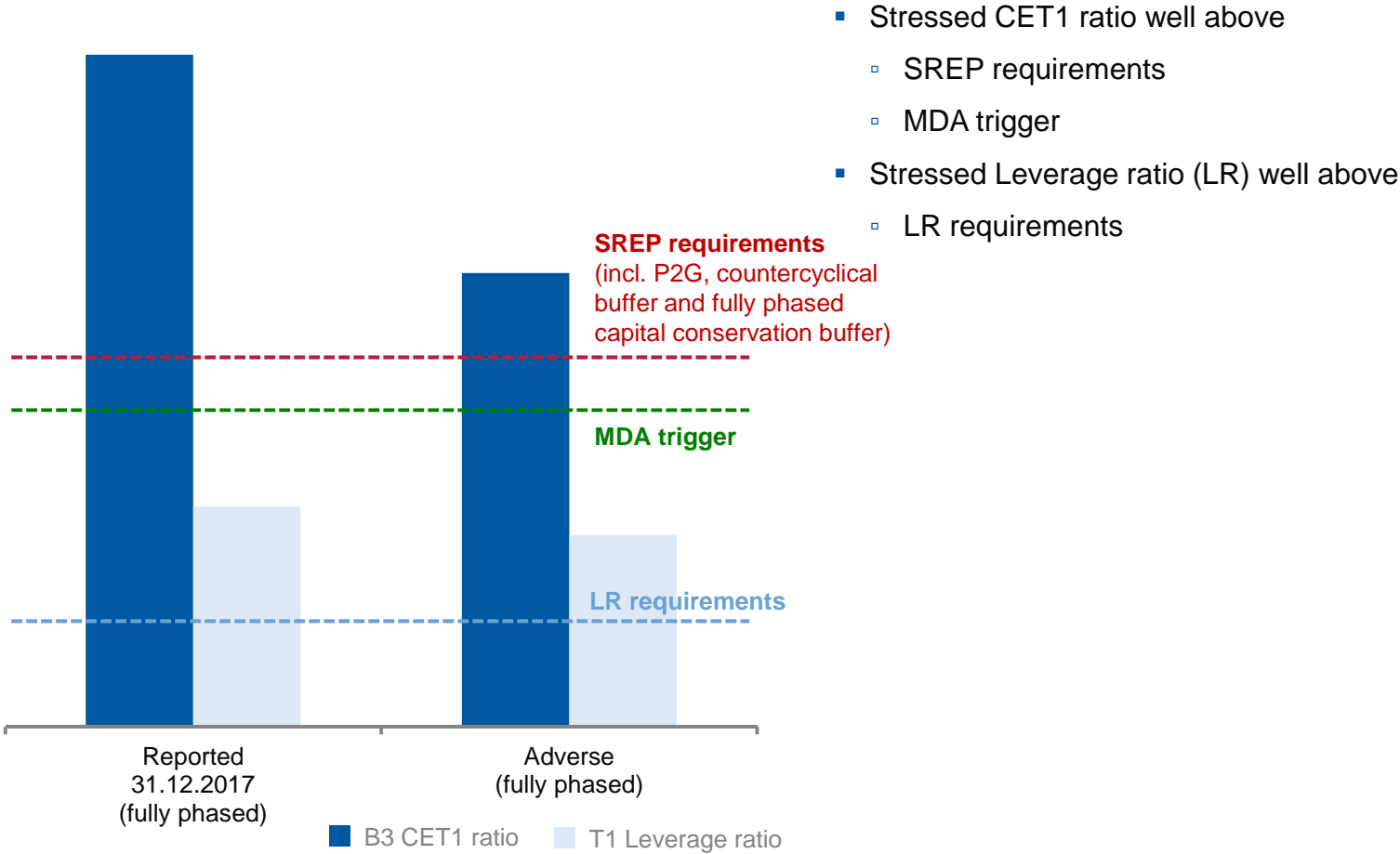
- Corresponding total capital requirement 2018 (Overall Capital Requirement (OCR) incl. buffers, phase-in) amounts to 11.718%
- As of 30 September 2018 total capital ratio amounts to 32.8%

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

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

Stress Test 2018 (preliminary calculation)

Even in adverse scenario capital ratios remain well above requirements

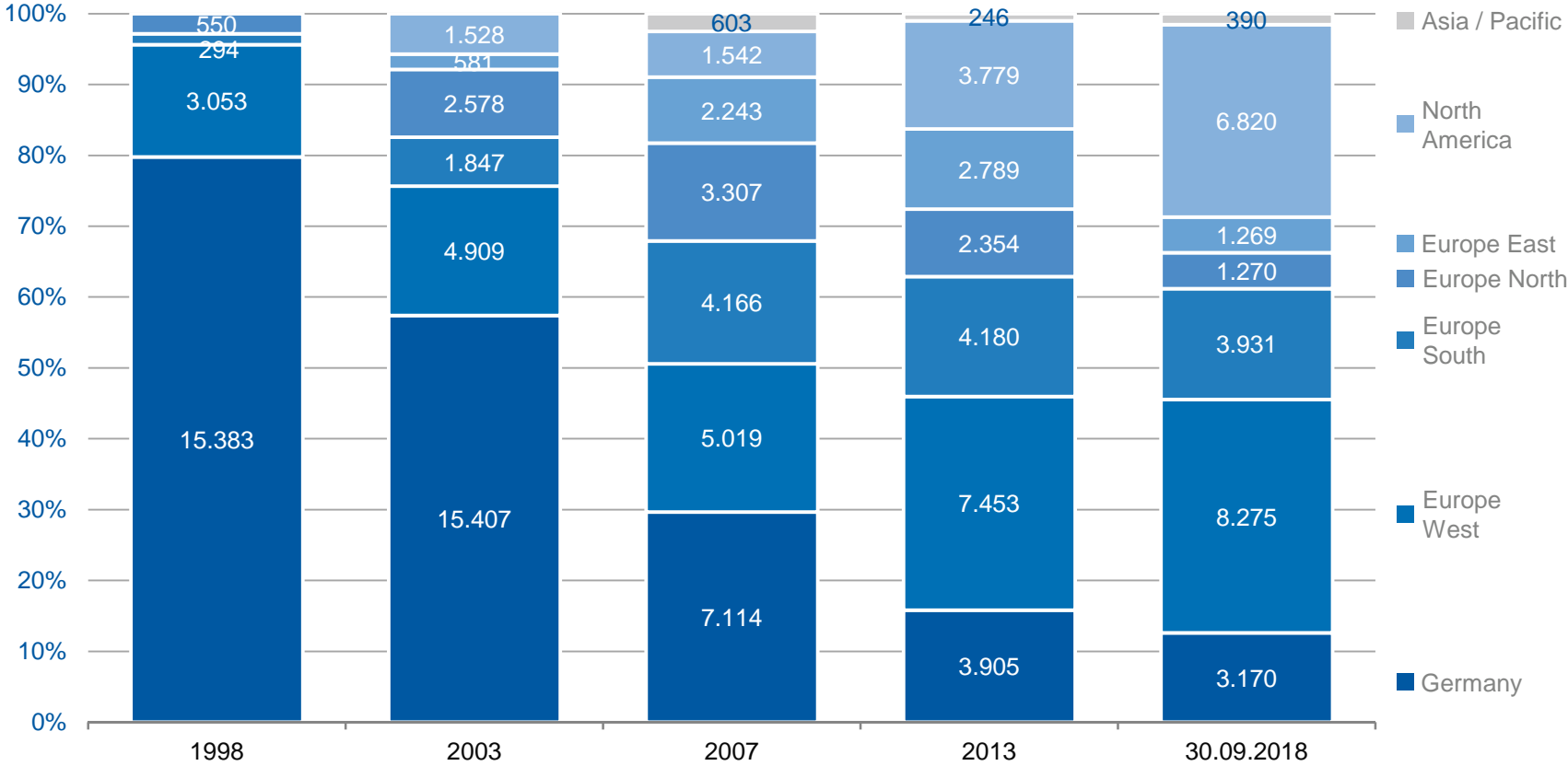




Appendix
Development commercial
real estate finance portfolio

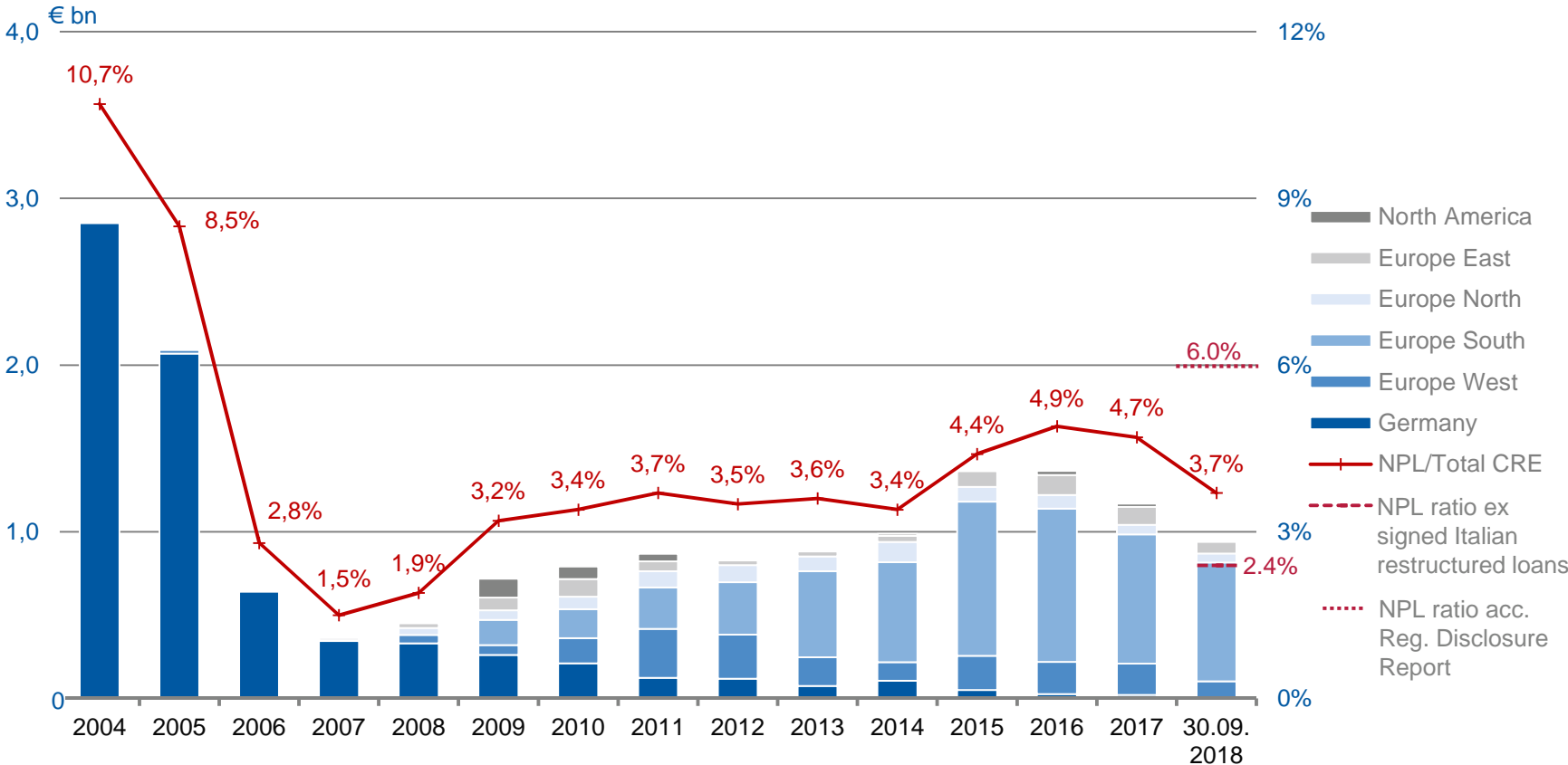
Aareal

Development commercial real estate finance portfolio



Commercial real estate finance portfolio

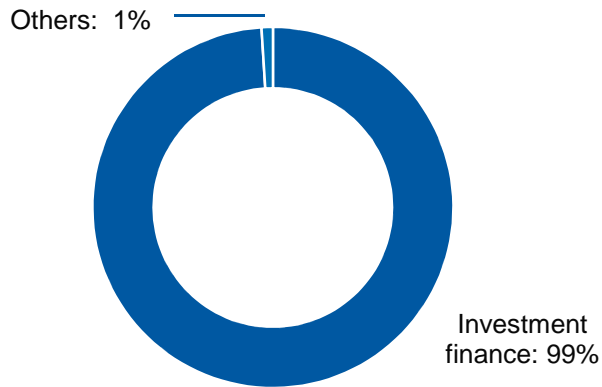
Further declining NPL volume and NPL ratio, stable q-on-q



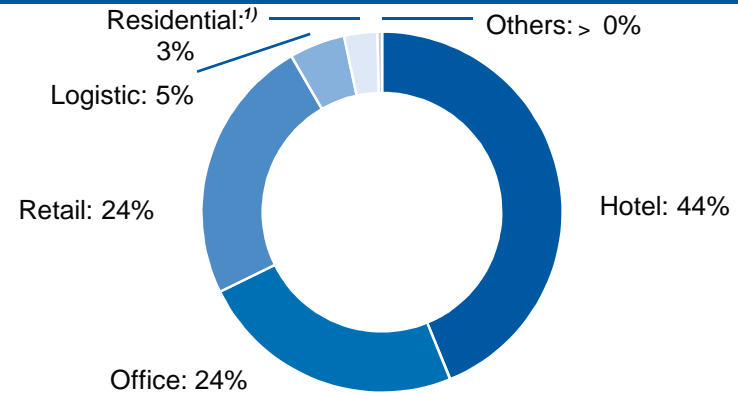
Western Europe (ex Germany) CRE finance portfolio

Total volume outstanding as at 30.09.2018: € 8.3 bn

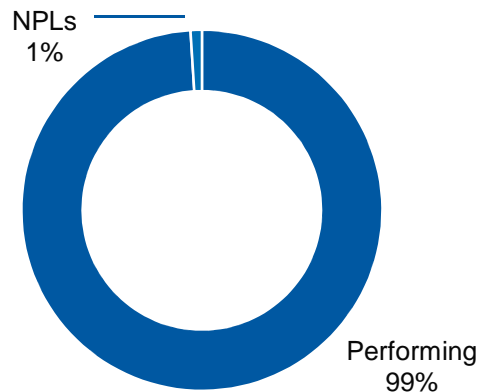
by product type



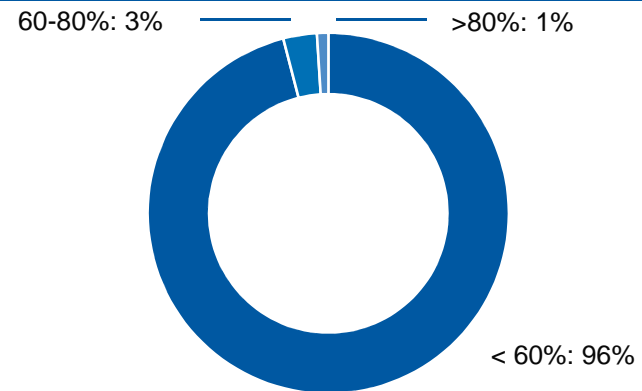
by property type



by performance



by LTV ranges²⁾



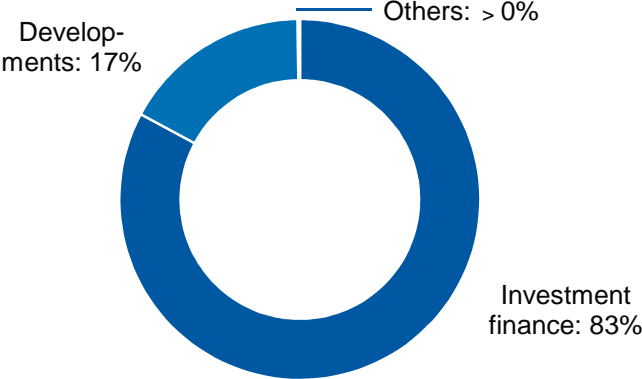
1) Incl. Student housing (UK only)

2) Performing CREF-portfolio only, exposure as at 30.09.2018

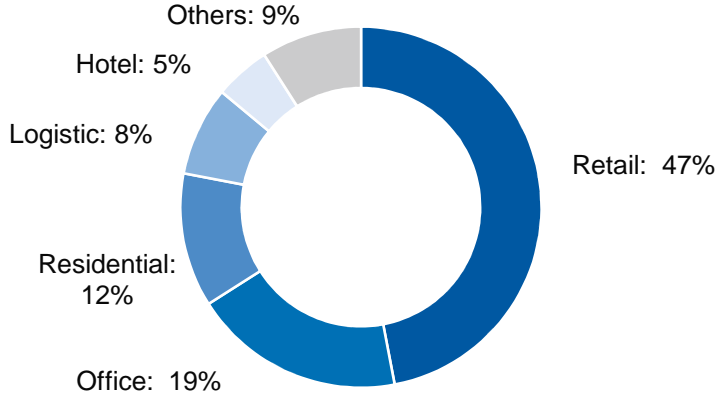
Southern Europe CRE finance portfolio

Total volume outstanding as at 30.09.2018: € 3.9 bn

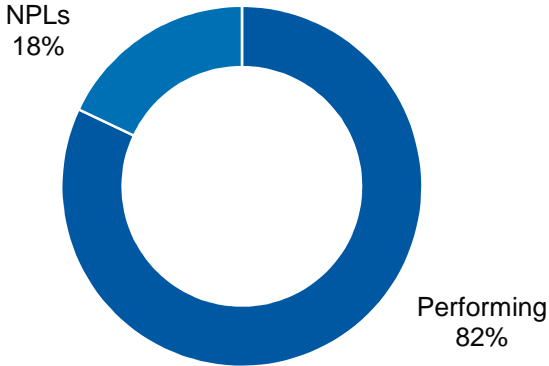
by product type



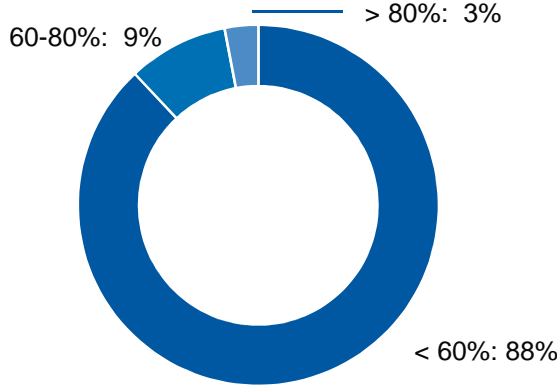
by property type



by performance



by LTV ranges¹⁾

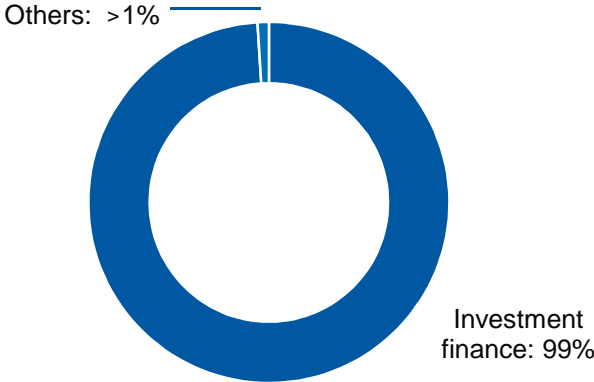


1) Performing CREF-portfolio only, exposure as at 30.09.2018

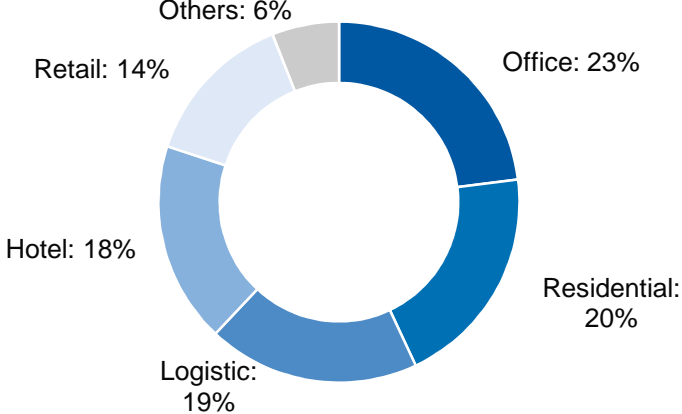
German CRE finance portfolio

Total volume outstanding as at 30.09.2018: € 3.2 bn

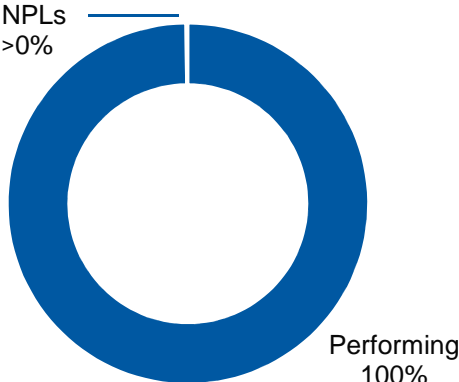
by product type



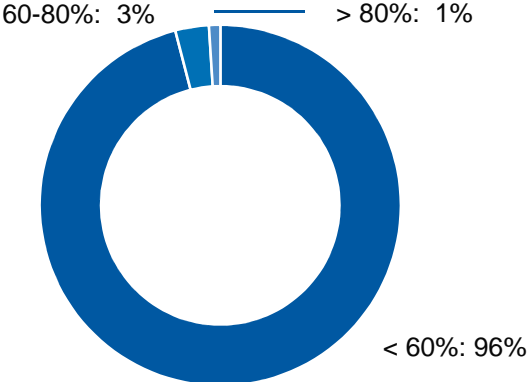
by property type



by performance



by LTV ranges²⁾

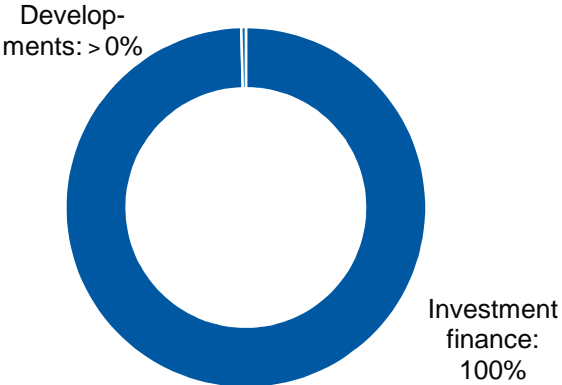


1) Performing CREF-portfolio only, exposure as at 30.09.2018

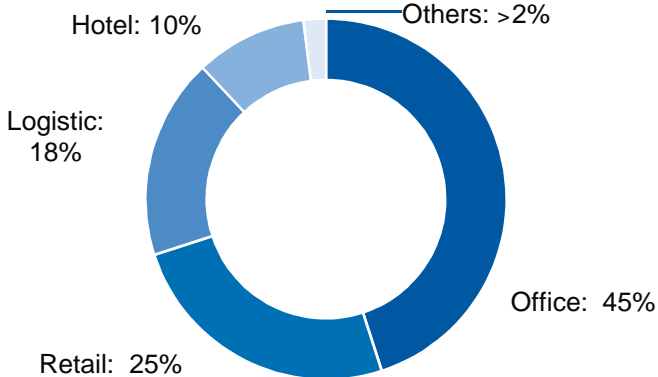
Eastern Europe CRE finance portfolio

Total volume outstanding as at 30.09.2018: € 1.3 bn

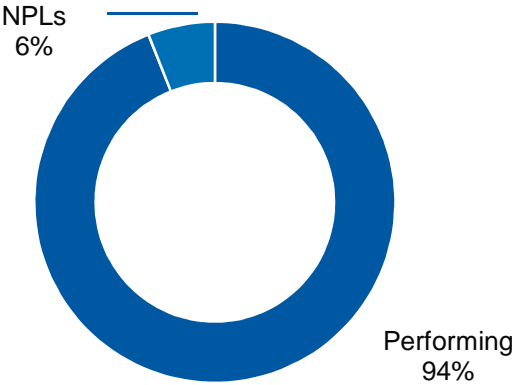
by product type



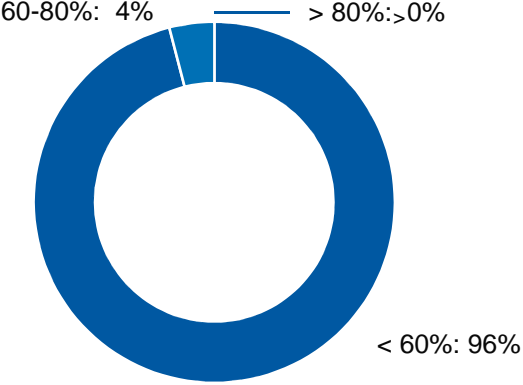
by property type



by performance



by LTV ranges¹⁾

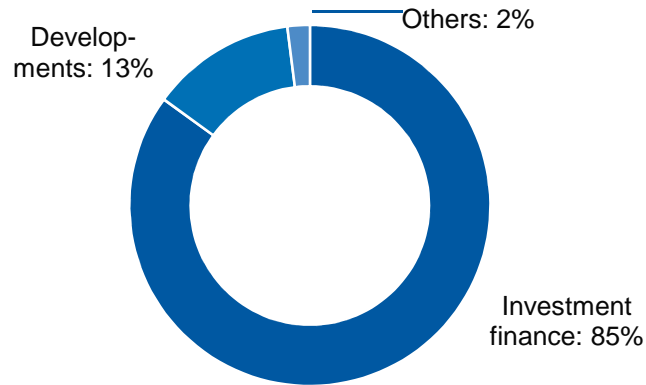


1) Performing CREF-portfolio only, exposure as at 30.09.2018

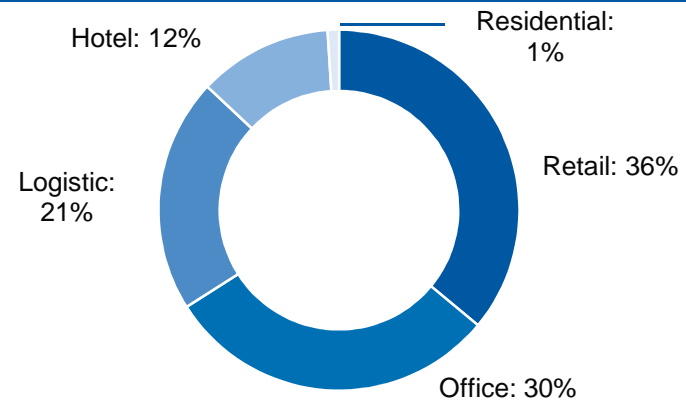
Northern Europe CRE finance portfolio

Total volume outstanding as at 30.09.2018: € 1.3 bn

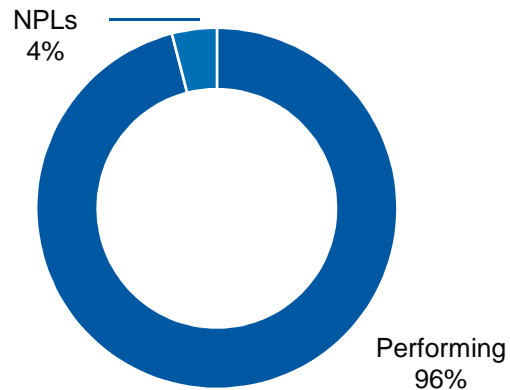
by product type



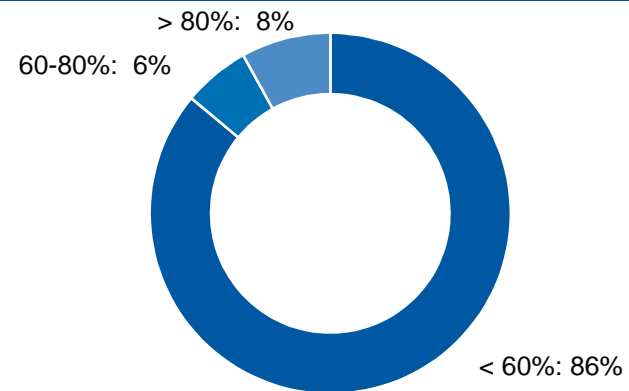
by property type



by performance



by LTV ranges¹⁾



1) Performing CRE portfolio only, exposure as at 30.09.2018

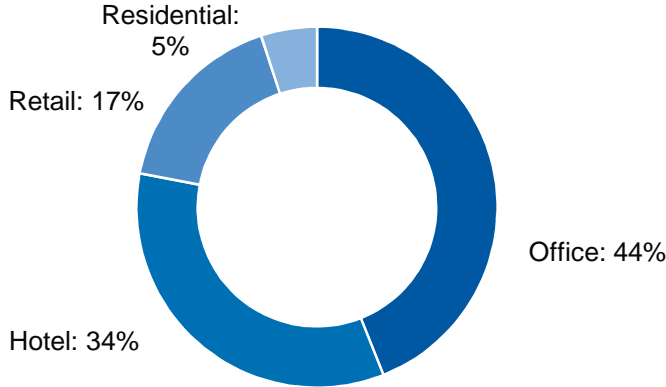
North America CRE finance portfolio

Total volume outstanding as at 30.09.2018: € 6.8 bn

by product type



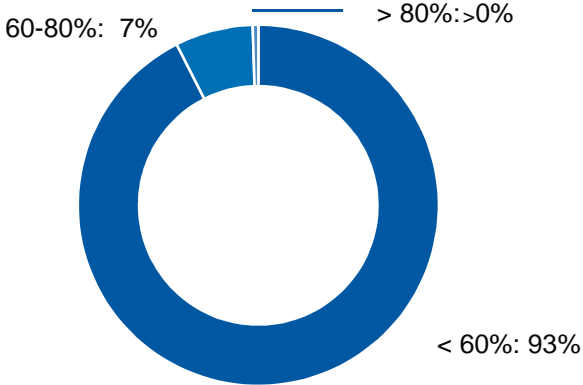
by property type



by performance



by LTV ranges¹⁾

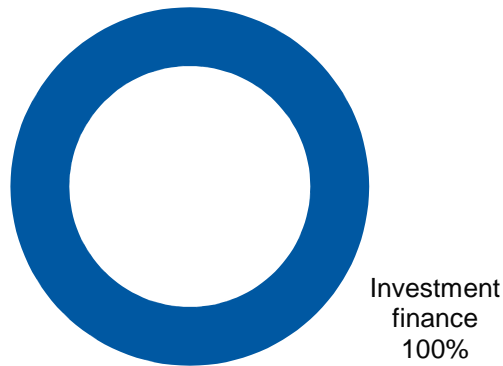


1) Performing CREF-portfolio only, exposure as at 30.09.2018

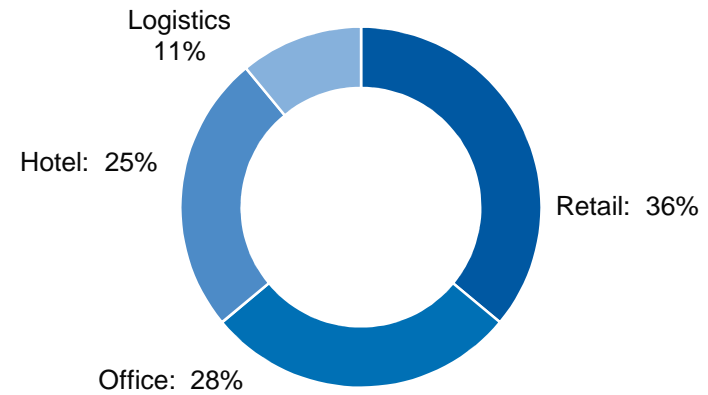
Asia / Pacific CRE finance portfolio

Total volume outstanding as at 30.09.2018: € 0.4 bn

by product type



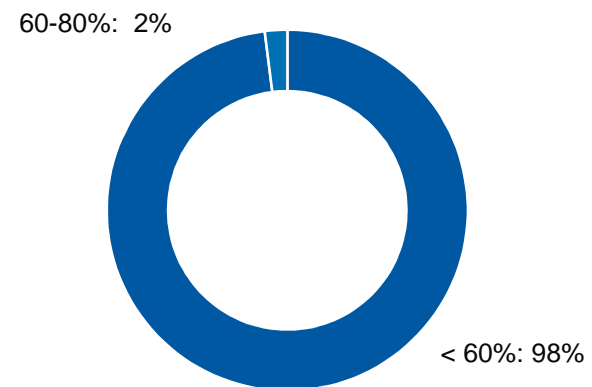
by property type



by performance



by LTV ranges¹⁾

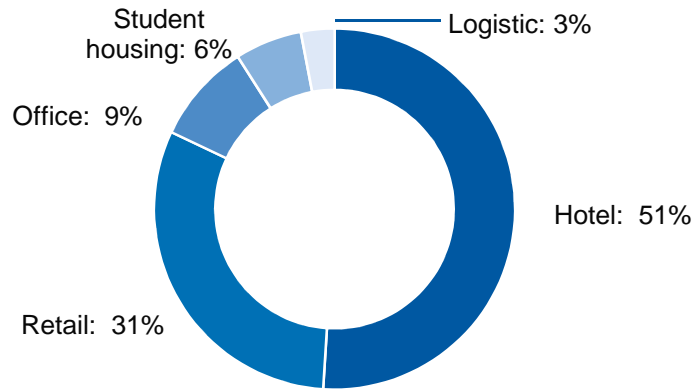


1) Performing CREF-portfolio only, exposure as at 30.09.2018

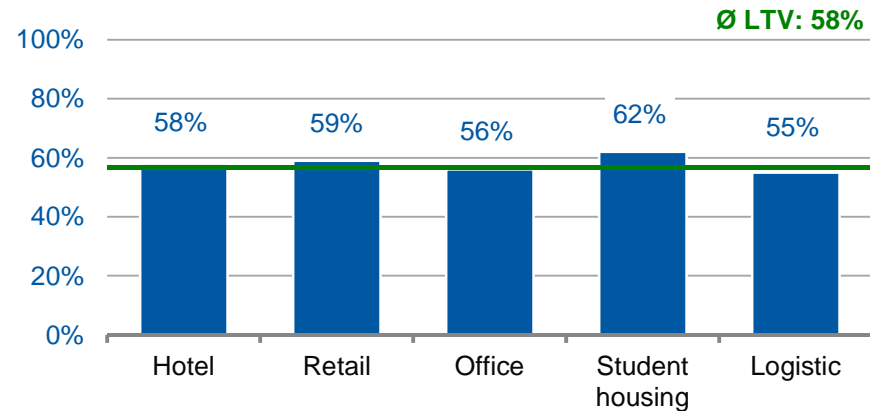
Spotlight: UK CRE finance portfolio

€ 3.9 bn (~16% of total CRE-portfolio)

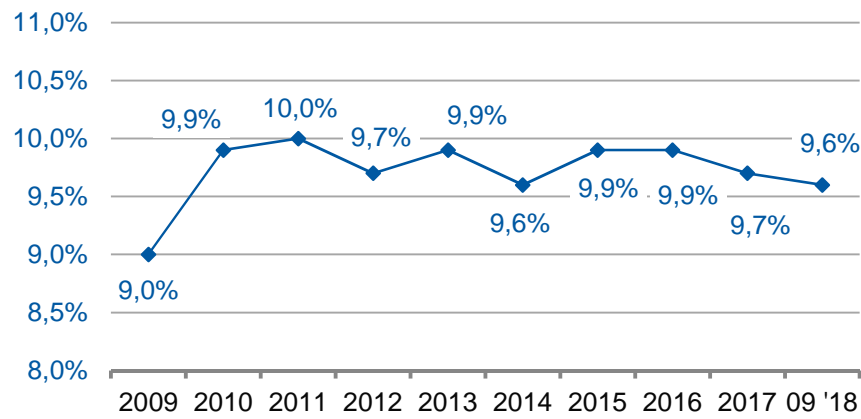
Total portfolio by property type



Average LTV by property type¹⁾



Yield on debt



1) Performing CREF-portfolio only, exposure as at 30.09.2018

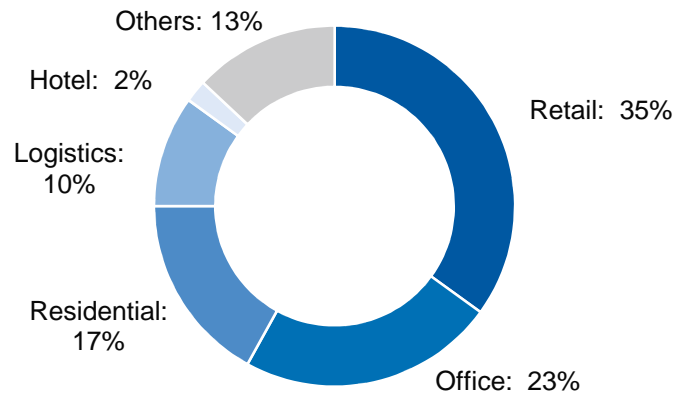
Comments

- Performing:
 - Investment finance only, no developments
 - ~ 60% of total portfolio in Greater London area, emphasising on hotels
 - € 176 mn with LTV > 60%
 - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 73%
- No NPL

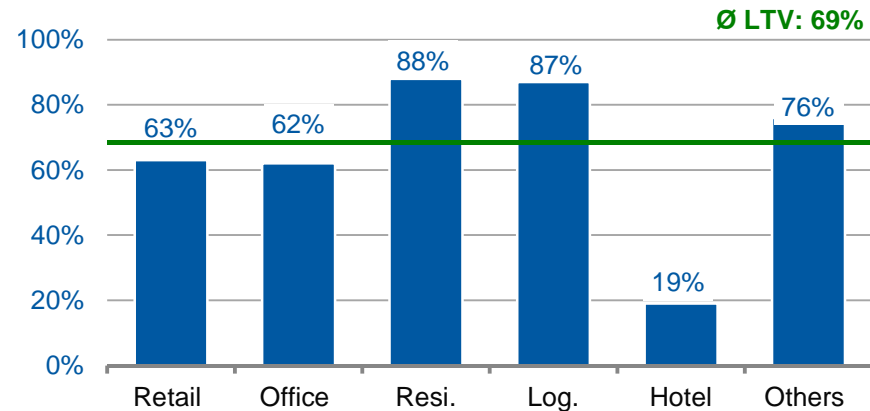
Spotlight: Italian CRE finance portfolio

€ 2.8 bn (~11% of total portfolio)

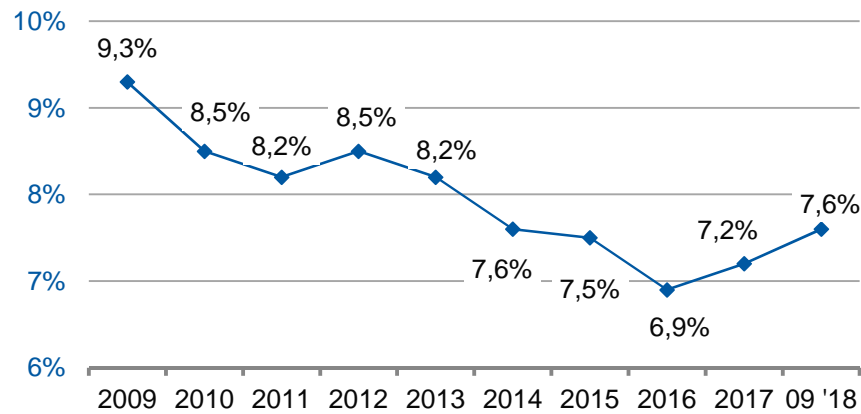
Total portfolio by property type



Average LTV by property type¹⁾



Yield on debt



1) Performing CREF-portfolio only, exposure as at 30.09.2018
 2) Current enforcement period 3-4 years, but improving due to new legislation

Comments

- Performing:
 - Share of developments financed below 10%
 - ~ 50% 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. 88%
- NPL: € 655 mn of which
 - ~ 70% restructured / agreement in place or planned
 - ~ 30% enforcement²⁾

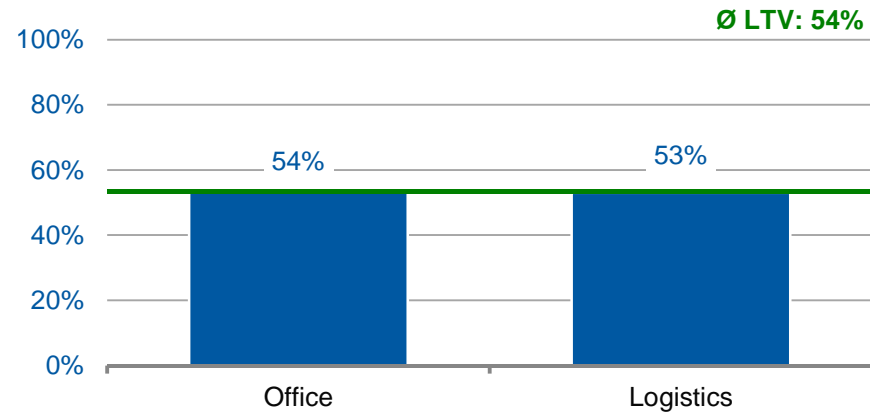
Spotlight: Russian CRE finance portfolio

€ 0.5 bn (~2% of total portfolio)

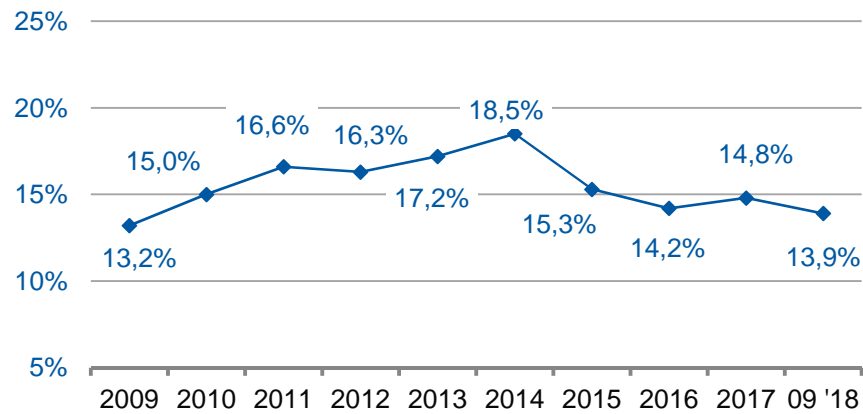
Total portfolio by property type



Average LTV by property type¹⁾



Yield on debt



1) Performing CREF-portfolio only, exposure as at 30.09.2018

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. 67%
- NPL: € 18 mn, 1 office in St. Petersburg



Appendix
AT1: ADI of Aareal Bank AG

Aareal

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

Aareal Bank Group

Stands for solidity, reliability and predictability

Doing business sustainably

20.8% Common Equity Tier 1 ratio¹⁾, exceeds the statutory requirements



€ 26.2 bn Valuable Real Estate 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⁾

Positive results in sustainability ratings



1) Basel 3, as at 30.09.2018

2) REF-portfolio includes private client business (€ 0.6 bn) and WIB's public sector loans (€ 0.5 bn), as at 30.09.2018

3) Mortgage Pfandbriefe rated Aaa by Moody's

4) At our main locations in Wiesbaden and Mainz, selected other German and international sites

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 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 01/2018]
ISS-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 35 out of 100 in GRESB Debt Assessment [as per 09/2018]
imug	Aareal Bank was rated “positive BB” in the category “Issuer Performance”; the second best result of all 60 rated Banks [as per 05/2018]

1) https://www.aareal-bank.com/fileadmin/05_Verantwortung/03_Other_PDF-files/Nichtfinanzieller_Bericht_2017_en.pdf

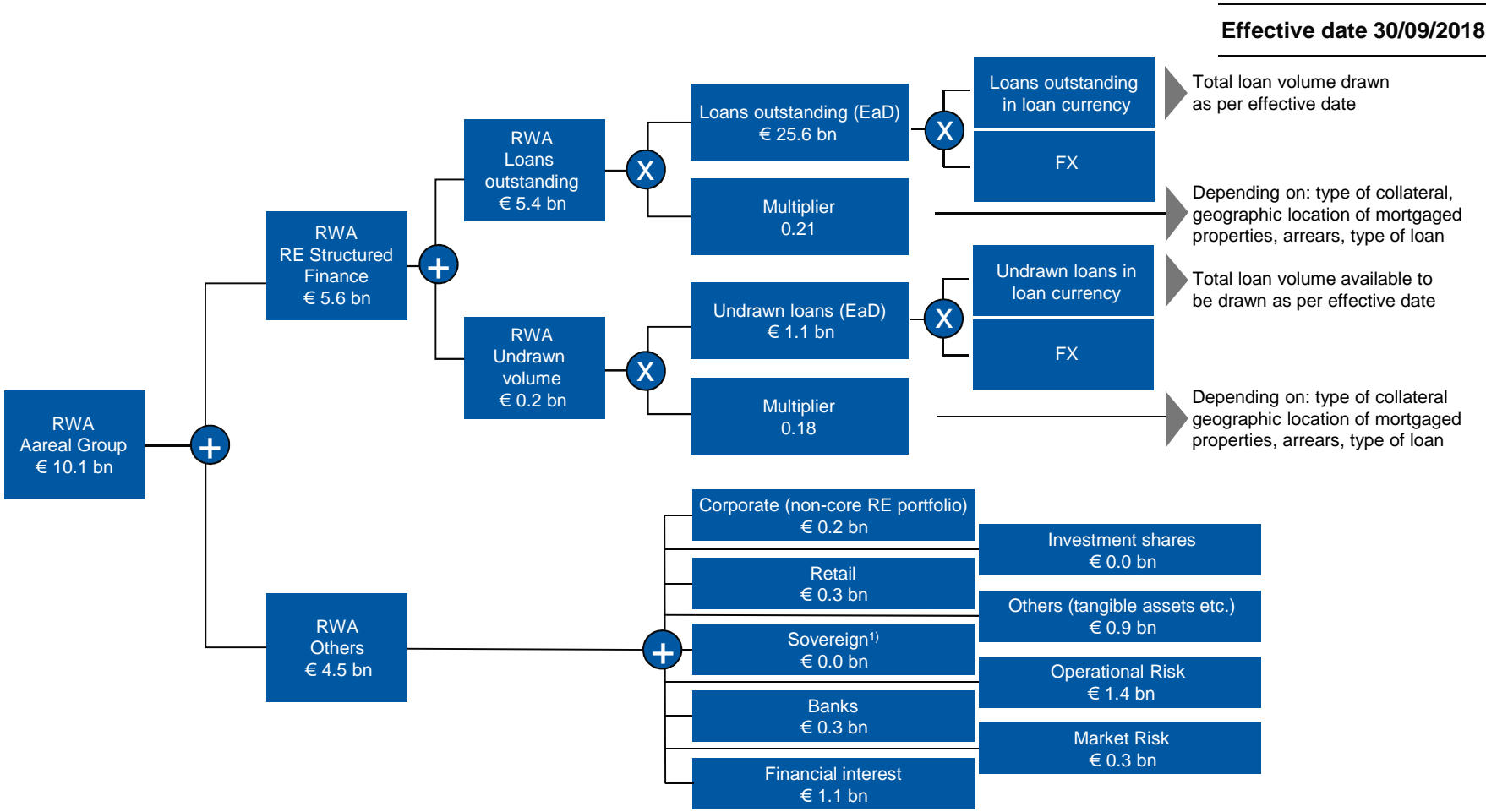
2) <https://cr.aareal-bank.com/2017>



Appendix
RWA-split

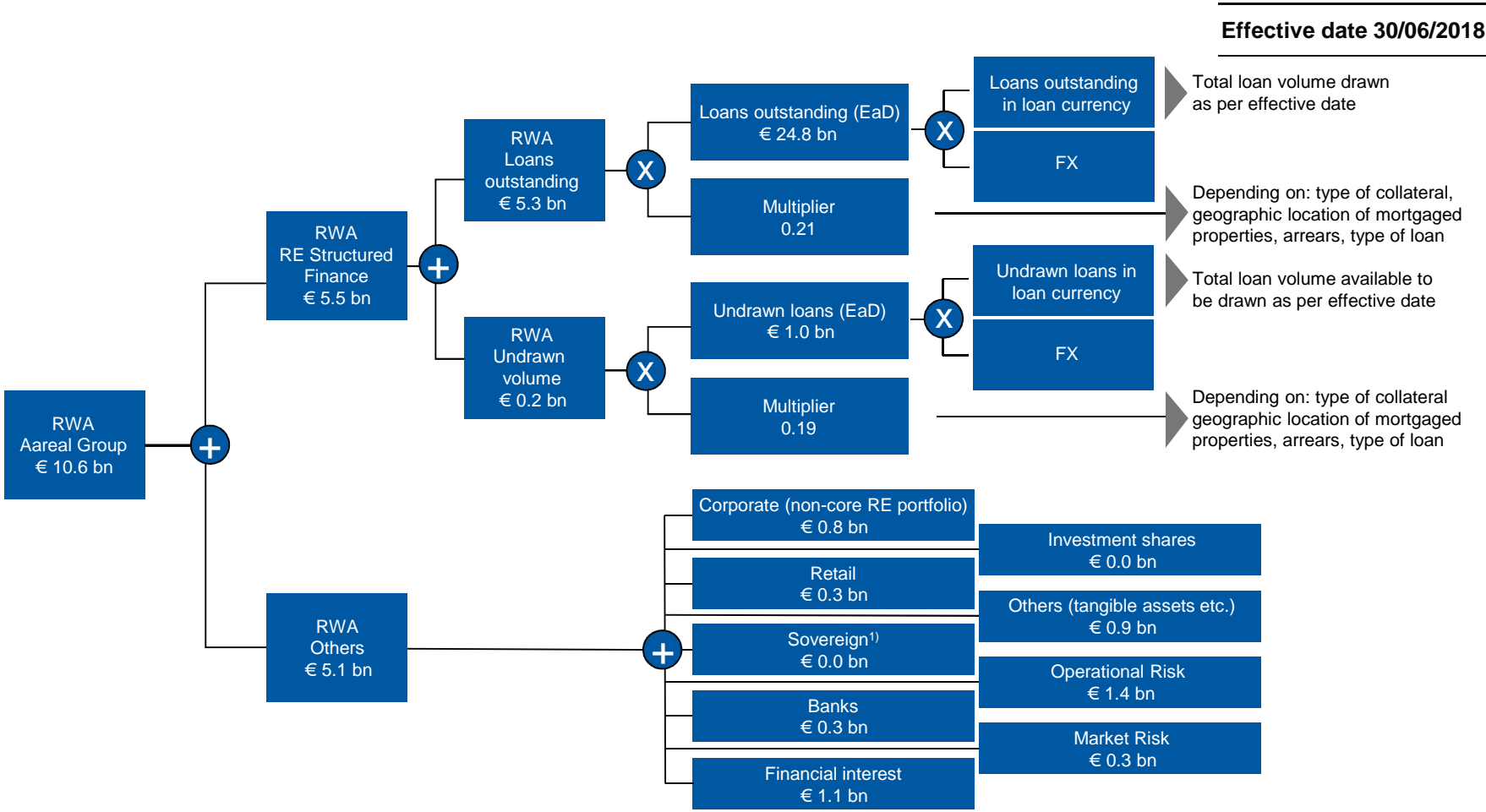
Aareal

From asset to risk weighted asset (RWA)



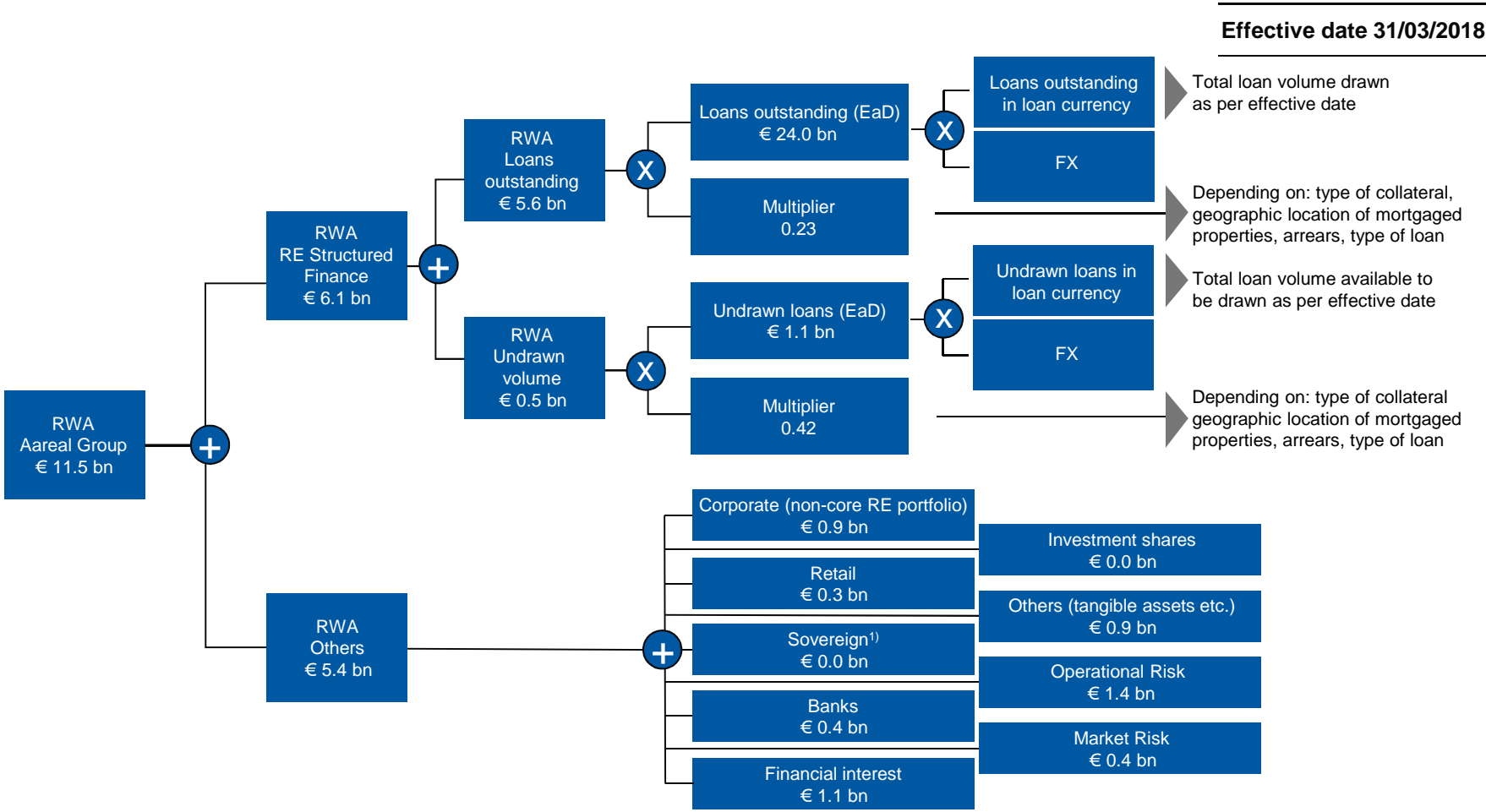
1) Amounts to € 35 mn

From asset to risk weighted asset (RWA)



1) Amounts to € 41 mn

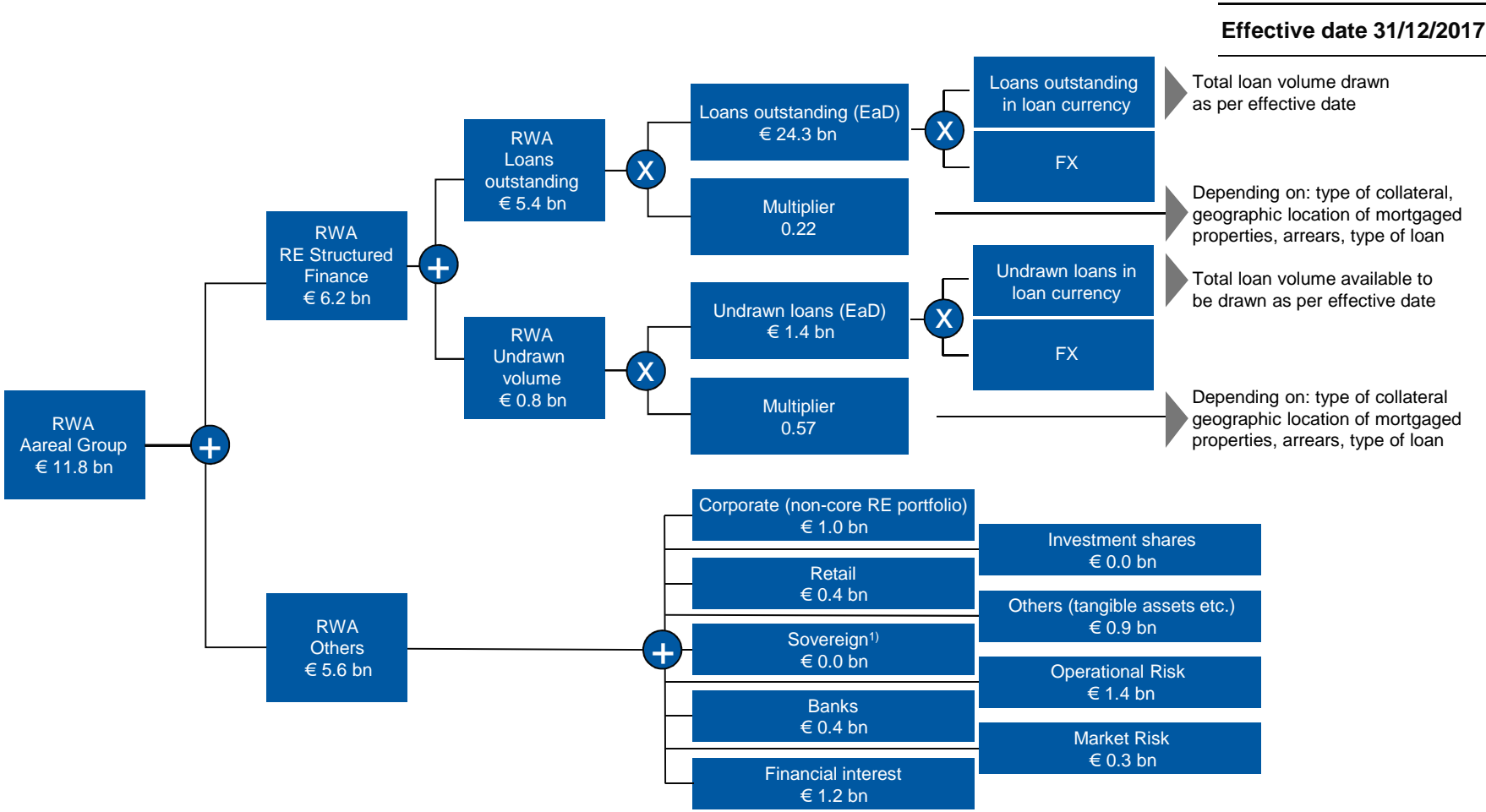
From asset to risk weighted asset (RWA)



1) Amounts to € 35 mn

From asset to risk weighted asset (RWA)

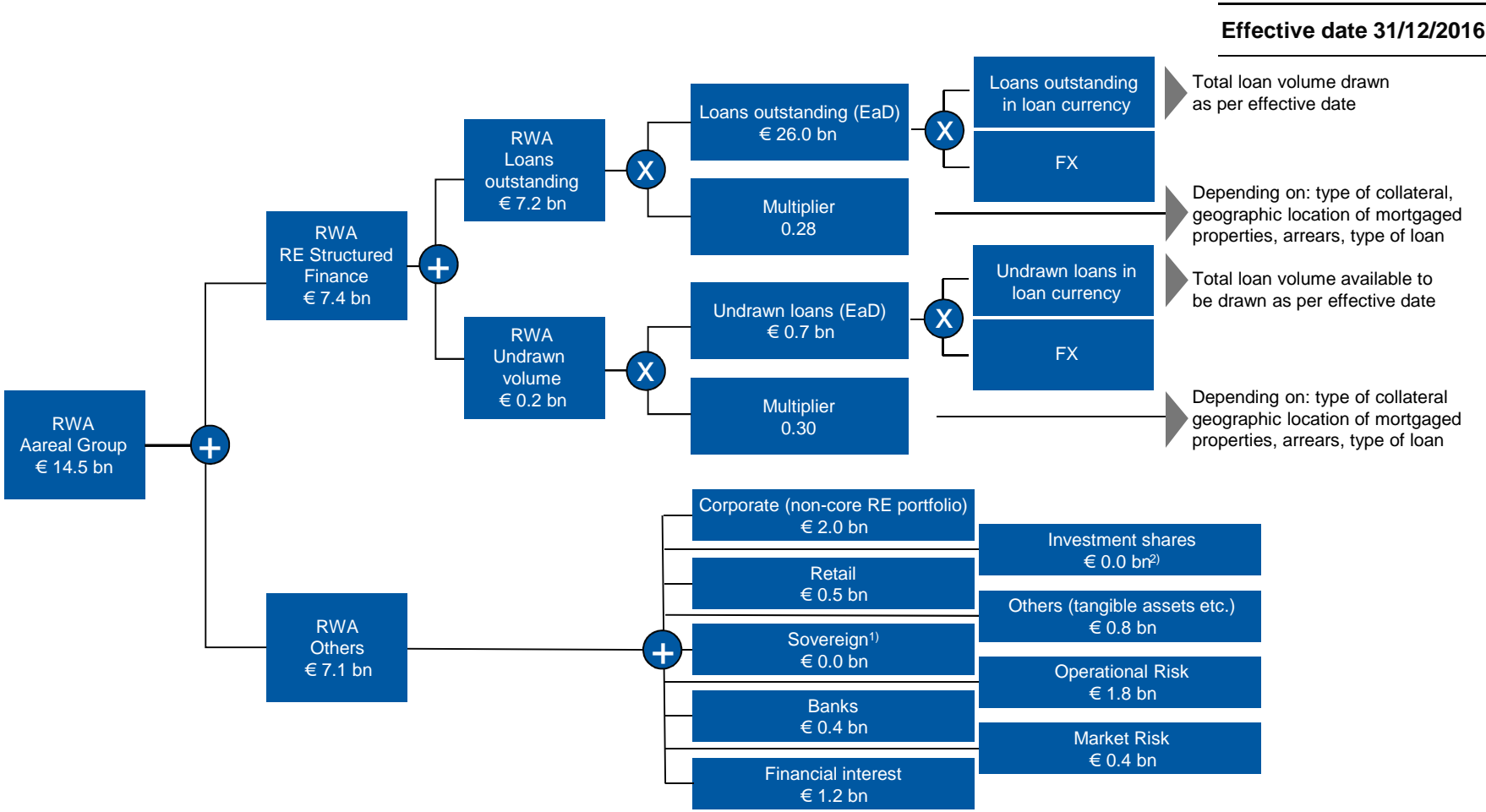
Essential factors affecting volume of RWA



1) Amounts to € 35 mn

From asset to risk weighted asset (RWA)

Essential factors affecting volume of RWA



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



Definitions and contacts

Aareal

Definitions

- **New Business** = Newly acquired business + renewals
- **Common Equity Tier 1 ratio** =
$$\frac{\text{CET1}}{\text{Risk weighted assets}}$$
- **Pre tax RoE** =
$$\frac{\text{Operating profit } ./ \text{ income/loss attributable to non-controlling interests } ./ \text{ AT1 coupon}}{\text{Average IFRS equity excl. non-controlling interests, other reserves, AT1 and dividends}}$$
- **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** =
$$\frac{\text{Total stock of high quality liquid assets}}{\text{Net cash outflows under stress}}$$
- **Earnings per share** =
$$\frac{\text{operating profit } ./ \text{ income taxes } ./ \text{ income/loss attributable to non controlling interests } ./ \text{ net AT1 coupon}}{\text{Number of ordinary shares}}$$
- **Yield on Debt** =
$$\frac{\text{Net operating income (NOI) x 100}}{\text{Current commitment incl. prior / pari-passu loans}}$$
- **CREF-portfolio** = Commercial real estate finance portfolio excl. private client business and WIB's public sector loans
- **REF-portfolio** = Real estate finance portfolio incl. private client business and WIB's public sector 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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