

QUALITY®
made by **AAREAL**

Analyst Conference Call

Q2 2018 results

August 14, 2018
Hermann J. Merkens, CEO

Aareal

Agenda

- Highlights
- Group results at a glance
- Segment performance
- Group results
- B/S structure, capital & funding position
- Asset quality
- Outlook 2018

- Appendix
- Definitions and contacts

Highlights

Robust operating performance despite challenging environment



Robust economic development.
Unchanged high economic uncertainties (e.g. political uncertainties, raising interest rates in the USA, Brexit)



Solid operating profit of € 62 mn (Q2/2017: € 109 mn including one-off effects).
EpS of 0.62 € (Q2/2017: 1.05 € including one-off effects)



Strong new business origination in the Structured Property Financing segment
despite ongoing high competition in the CRE lending markets



NII increase following strong new business



Admin expenses on low level – as expected



Outlook operating profit confirmed



Group results at a glance

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Group results at a glance

Robust operating performance

€ mn	Q2 '17	Q3 '17	Q4 '17	Q1'18	Q2'18	Comments
Net interest income (incl. derecognition result)	158	164	148	139	141	NII increase following strong new business
Loss allowance	25	26	29	0	19	Within expectations
Net commission income	49	48	61	50	51	Further growth in Aareon sales revenues; EBT of € 37-38 mn expected
FV- / hedge-result	1	11	-1	1	-5	
Admin expenses	129	120	123	128	109	Admin expenses on low level - as expected
<i>Others</i>	55	5	10	5	3	
Operating profit	109	82	66	67	62	Robust operating performance
Income taxes	42	31	18	23	21	FY 2018 tax ratio of ~34% assumed
Minorities / AT1	5	4	4	5	4	
Consolidated net income allocated to ord. shareholders	62	47	44	39	37	
Earnings per share [€]	1.05	0.78	0.74	0.65	0.62	



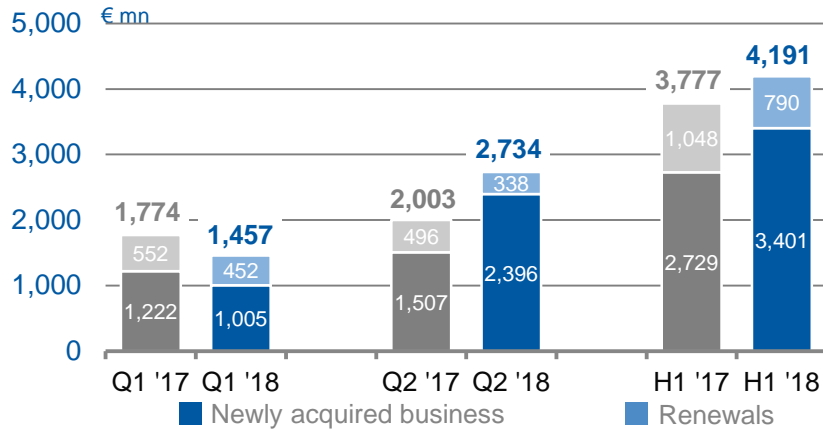
Segment performance

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Structured Property Financing

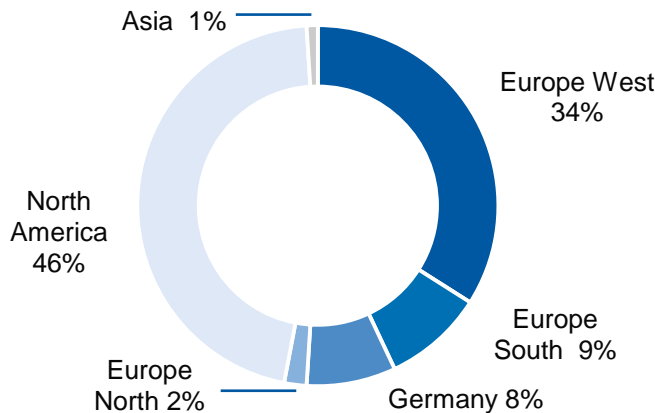
Despite challenging markets strong new business origination in Q2

New business origination by quarter¹⁾

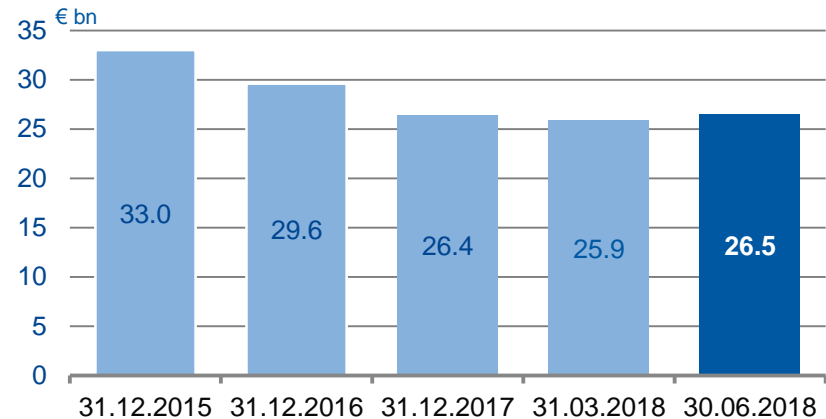


- Despite lower transaction volumes new business volume as planned
- Newly acquired business:
 - Gross margins in Q2 / H1 2018 of ~190 / 210 bps (~170 / 190 bps after FX)
 - Lower US share compared to Q1
 - Sticking to FY margin target
- Despite further NCA reduction RE portfolio²⁾ increase q-on-q to € 26.5 bn (31.03.2018: € 25.9 bn)

New business in Q2 2018 by region¹⁾



RE²⁾ portfolio development



1) Incl. renewals

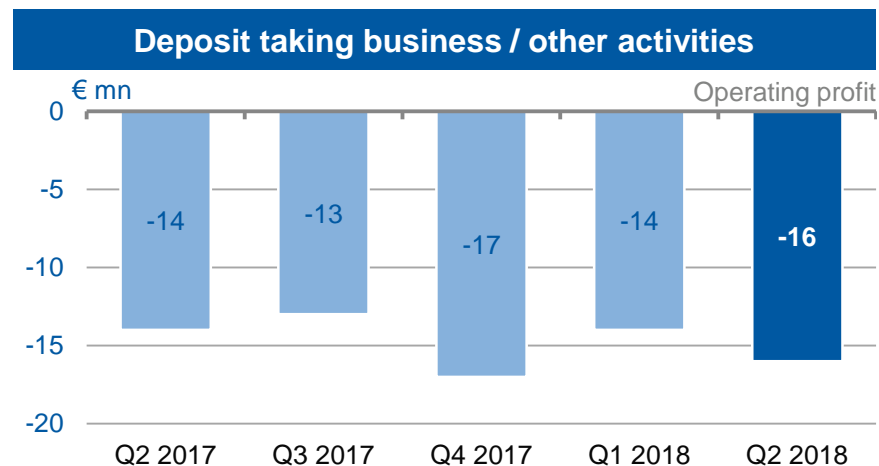
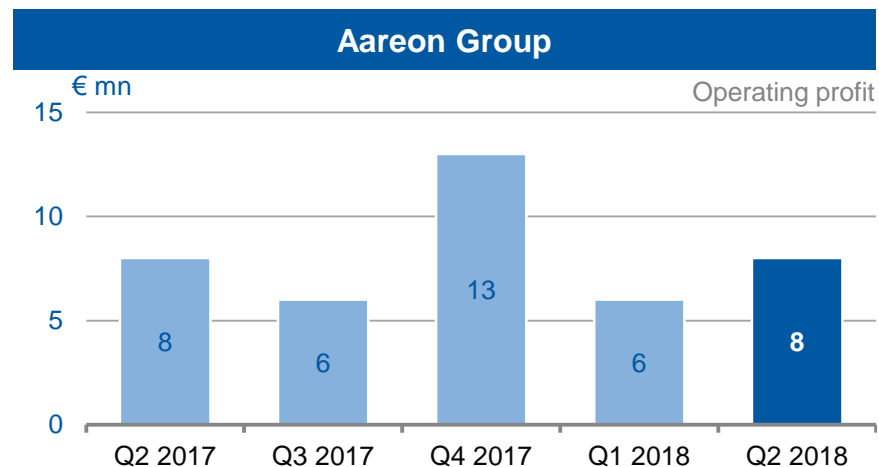
2) RE-business incl. private client business (€ 0.7 bn) and WIB's public sector loans (€ 0.5 bn)

Consulting / Services

Now Aareon EBT of € 37-38 mn expected – due to one-offs

P&L C/S Segment	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Q2 '18
€ mn					
Sales revenue	55	53	64	56	57
Own work capitalised	1	1	2	1	2
Other operating income	1	1	4	1	1
Cost material purchased	9	8	9	9	11
Staff expenses	36	38	42	37	39
D, A, impairment losses	3	3	4	4	3
Other operat. expenses	15	13	18	16	15
Others	0	0	0	0	0
Operating profit	-6	-7	-4	-8	-8

- Aareon's mid-term target unaffected
- Further growth of Aareon revenues to € 57 mn (Q2 2017: € 55 mn), EBT of € 8 mn, EBT margin ~14%
- Deposit volume on a high level (Ø of € 10.5 bn in Q2)
- Focussing on further shift into sustainable deposits
- Deposit margins still burdening segment result by interest rate environment



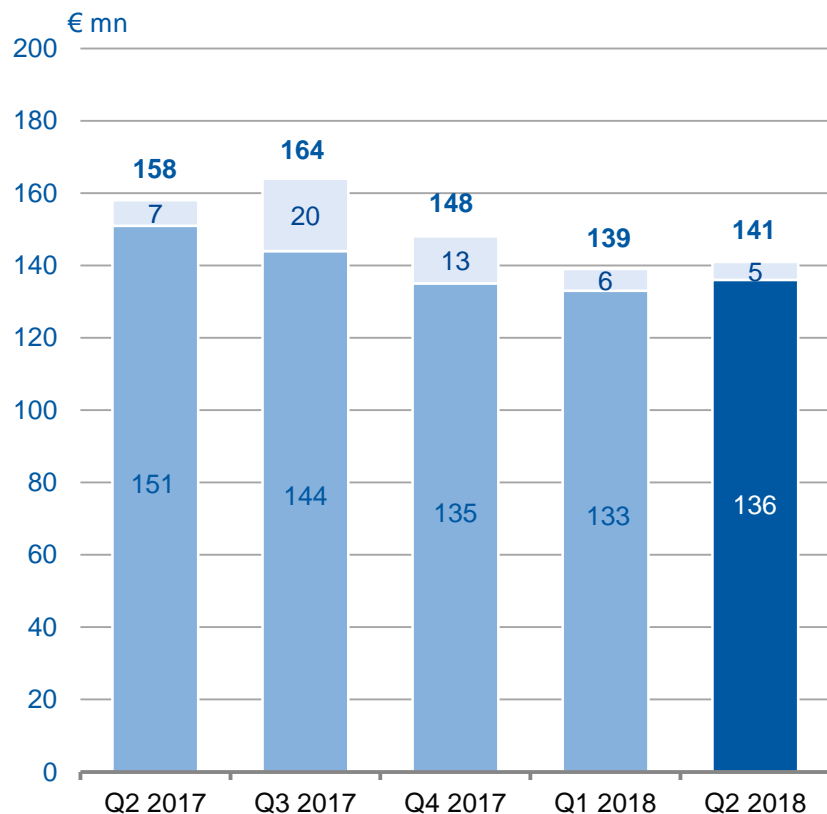


Group results Q2 2018

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Net interest income incl. derecognition result

NII increase following strong new business

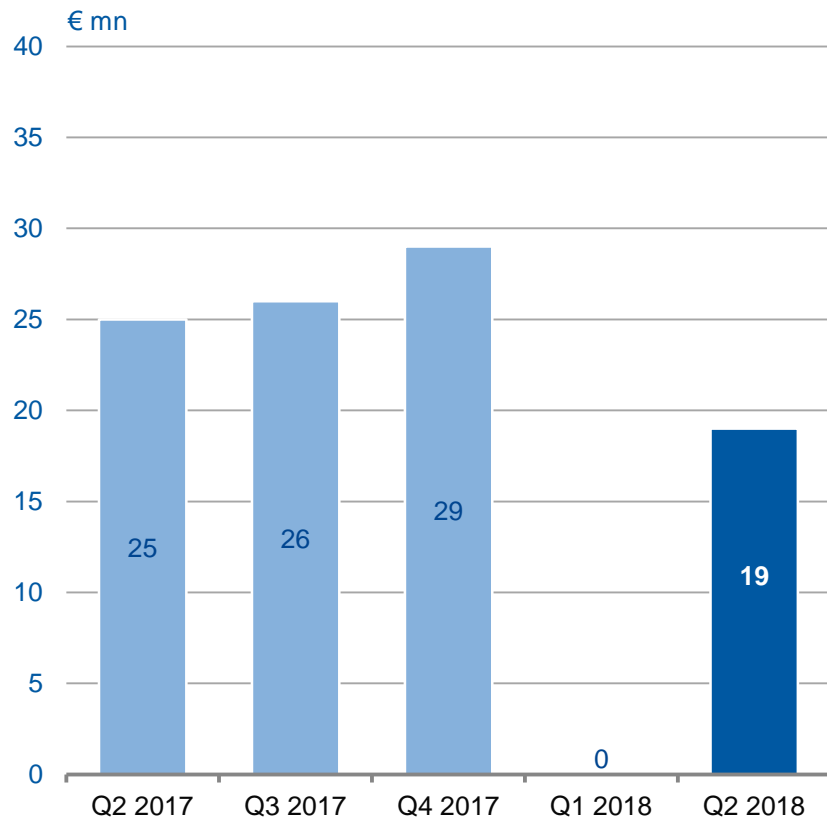


- NII further stabilising
- RE finance portfolio back on targeted level (€ 26.5 bn vs. € 25.9 bn as at 31.03.2018) despite further NCA reduction
- New business
 - Gross margins in Q2 / H1 2018 of ~190 / 210 bps (~170 / 190 bps after FX)
 - Lower US share compared to Q1
 - Sticking to FY margin target
- Derecognition result on a low level
- Deposit margins still burdened by interest rate environment

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

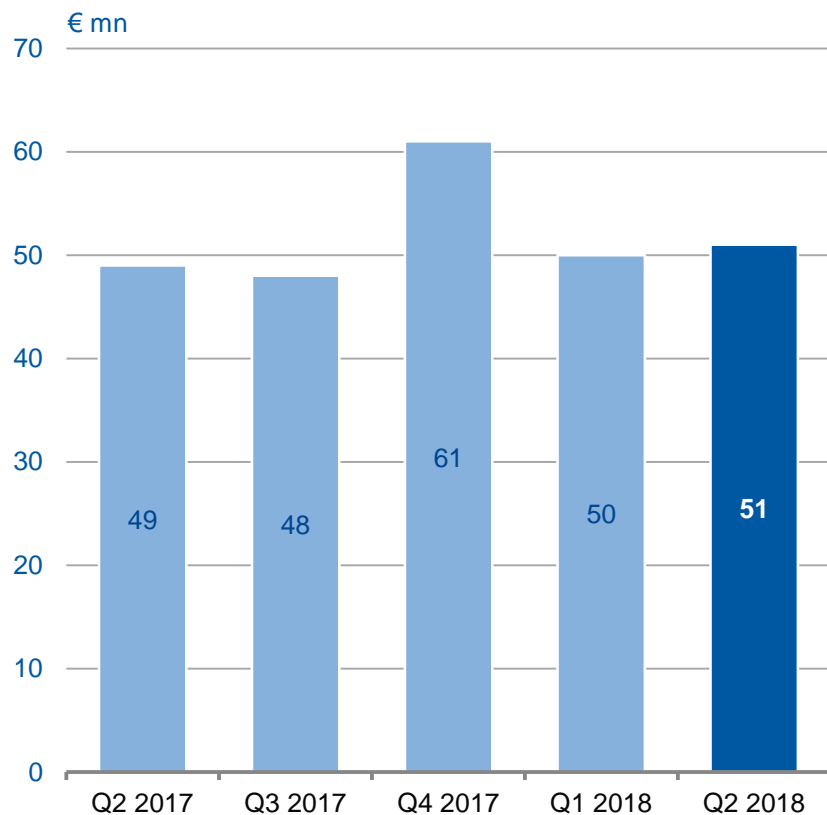
Loss allowance (LLP)

Within expectations



Net commission income

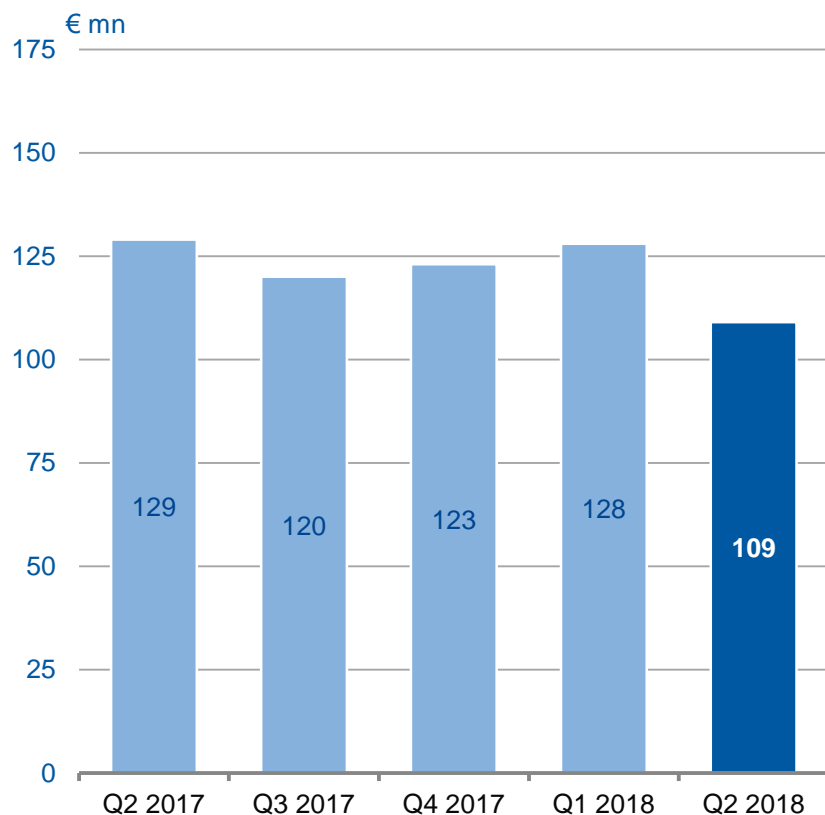
Further growth in Aareon sales revenues



- Aareon revenues of € 57 mn (Q2 2017: € 55 mn), EBT of € 8 mn, EBT margin ~14%
- Aareon revenues resulting from growth in all product lines, digital products with highest growth rates
- Q4 regularly includes positive seasonal effects
- Aareon's FY-EBT target down by € 2 - 3 mn due to one-off burden
- Aareon's mid-term target unaffected

Admin expenses

Admin expenses on low level - as expected



- Admin expenses in Q2 2018 include
 - € 4 mn transformation costs (FY 2018 plan: € 25 mn)
 - Reversal of restructuring provisions of € 4 mn (related to the acquisition of former WIB)
- 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
 - Reversal of restructuring provisions of € 3 mn (related to the acquisition of former CCB and WIB)

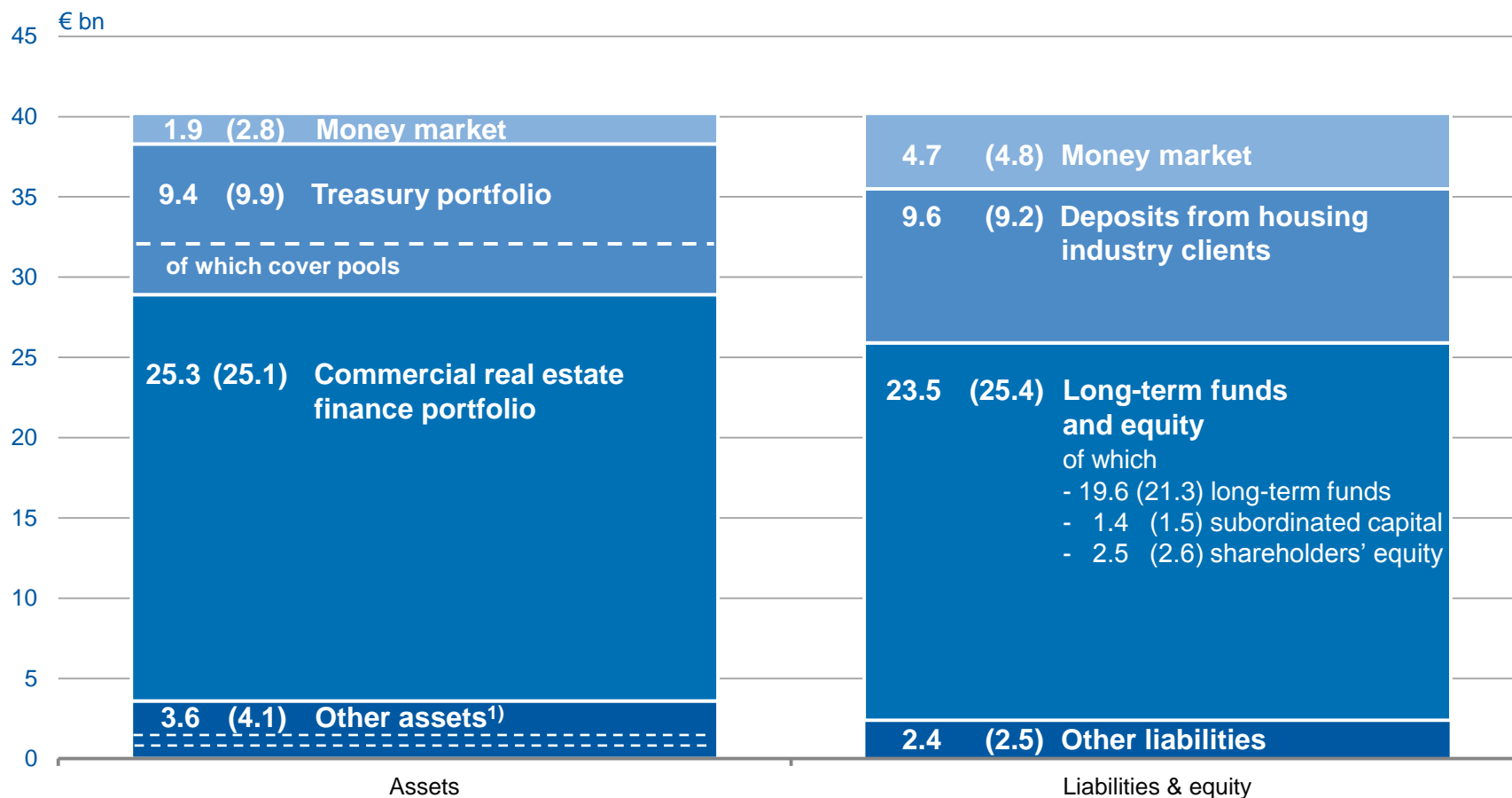


B/S structure, capital & funding position

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B/S structure according to IFRS

As at 30.06.2018: € 40.2 bn (31.12.2017: € 41.9 bn)

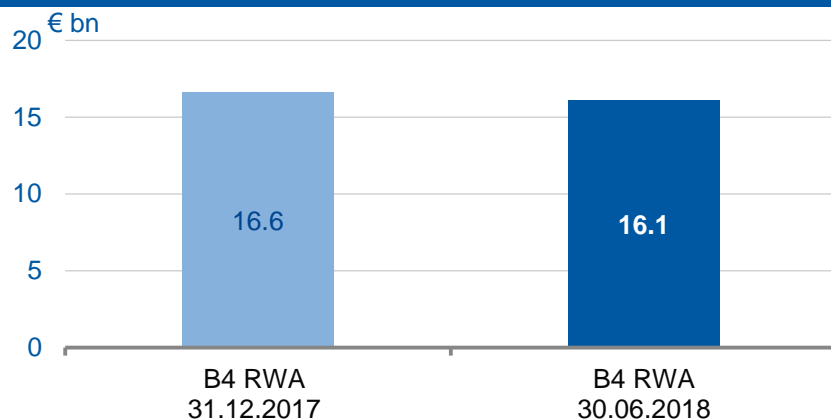


1) Other assets includes € 0.7 bn private client portfolio and WIB's € 0.5 bn public sector loans

Capital position

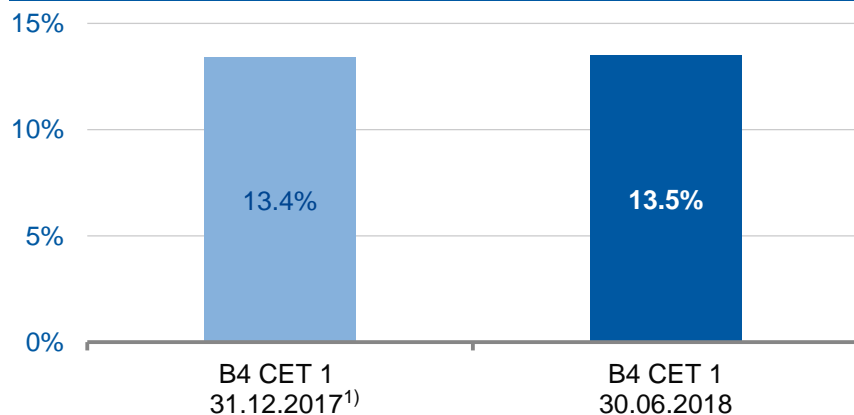
Strong capital ratios

Estimated B4 RWA¹⁾

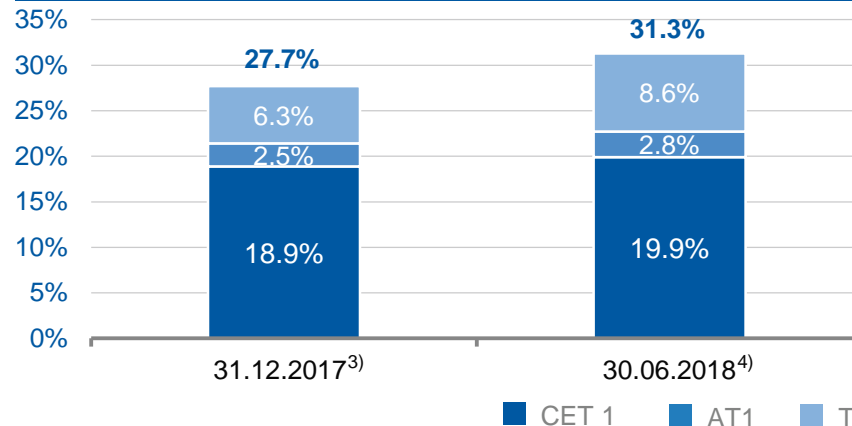


- Fulfilling Basel IV from day 1
- Remaining regulatory uncertainties well buffered (e.g. Hard test)
- Capital ratios significantly above SREP requirements
- T1-Leverage ratio : 6.2%

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



B3 capital ratios²⁾



1) 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.)

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

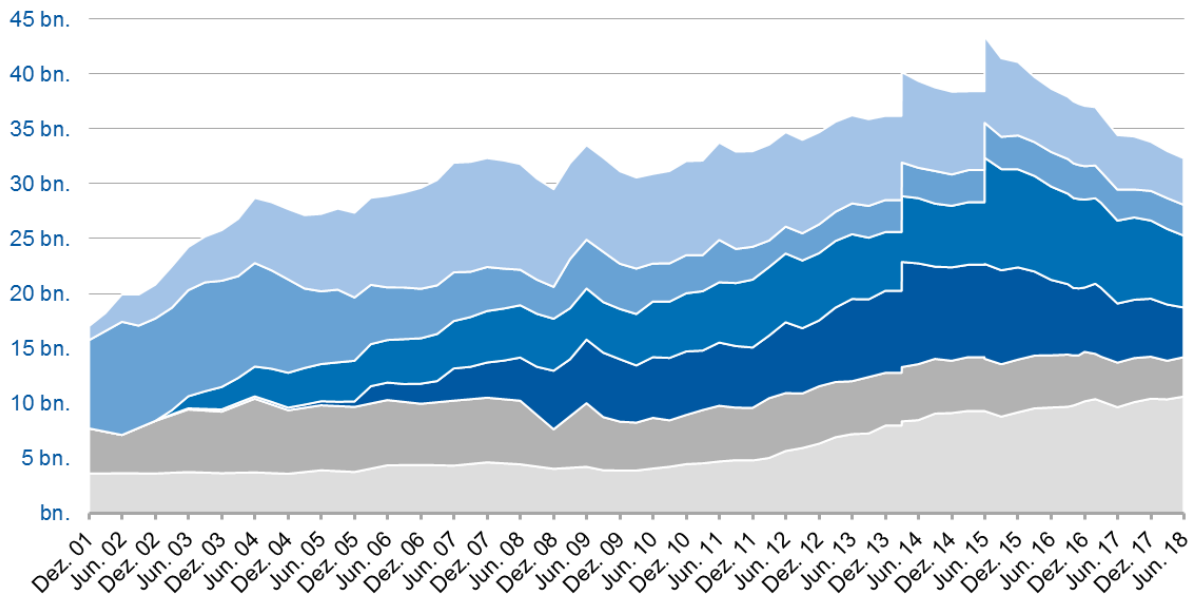
3) Fully loaded

4) Acc. COREP

Funding position

Diversified funding sources and distribution channels

Funding structure development



- Private placements: Senior unsecured
- Wholesale funding: Senior unsecured
- Wholesale funding: Pfandbriefe
- Deposits: Institutional customers
- Private placements: Pfandbriefe
- Deposits: Housing industry customers

- Very strong deposit base
- H1 2018 funding activities
 - Successful placement of Pfandbrief benchmark transactions (EUR 500 mn 6.3Y)
 - Senior unsecured (> € 200 mn)
- 21st July 2018: Introduction of new asset class “Senior preferred”, private placements successfully executed
- Fulfilling liquidity KPI’s
 - NSFR > 1
 - LCR >> 1



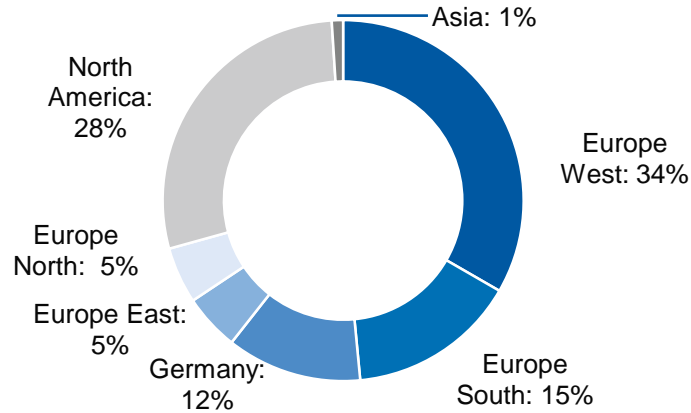
Asset quality

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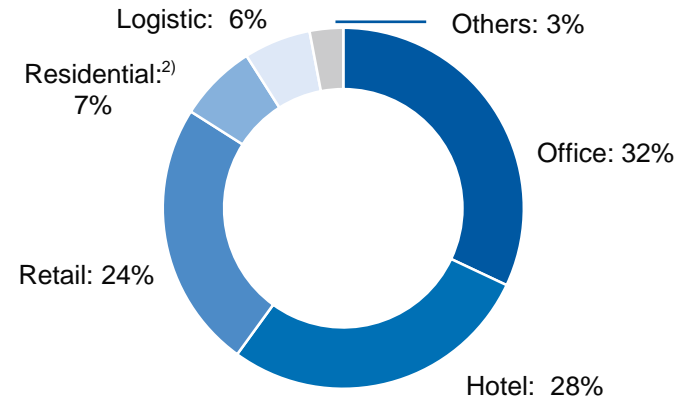
Commercial real estate finance portfolio¹⁾

€ 25.3 bn highly diversified and sound

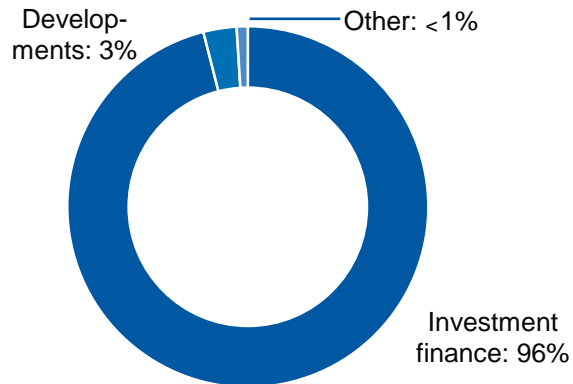
Portfolio by region



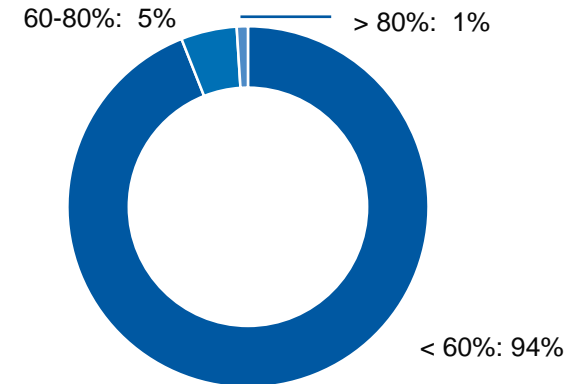
Portfolio by property type



Portfolio by product type



Portfolio by LTV ranges³⁾



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

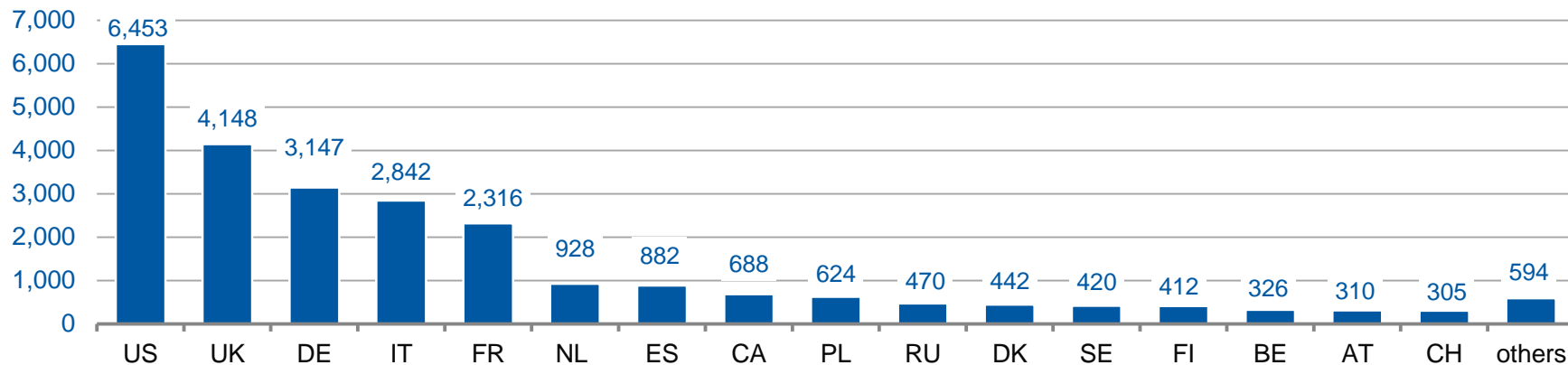
2) Incl. Student housing (UK only)

3) Performing CRE-business only, exposure as at 30.06.2018

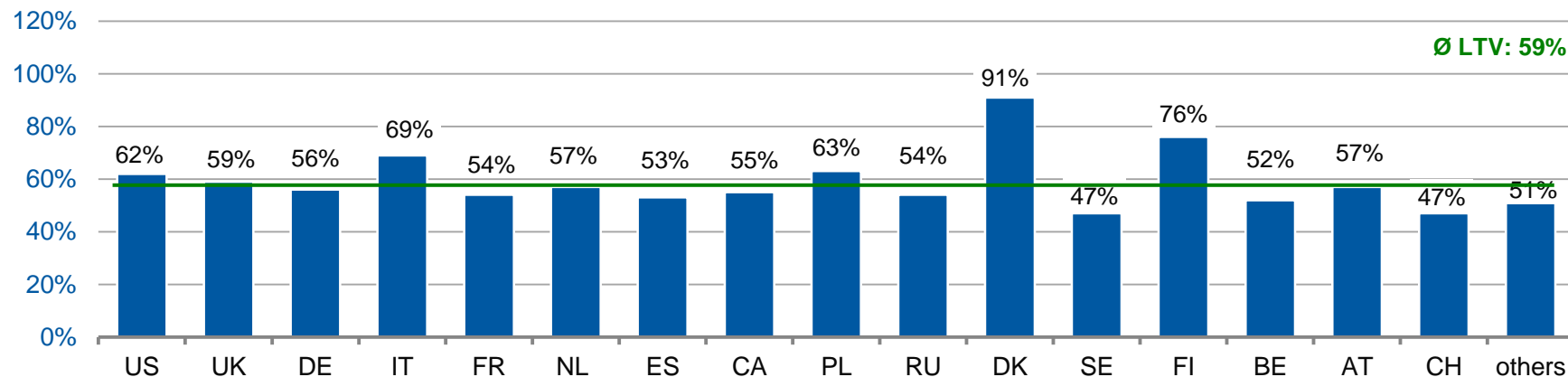
Commercial real estate finance portfolio¹⁾

Portfolio details by country

Total commercial real estate finance portfolio (€ mn)



LTV²⁾



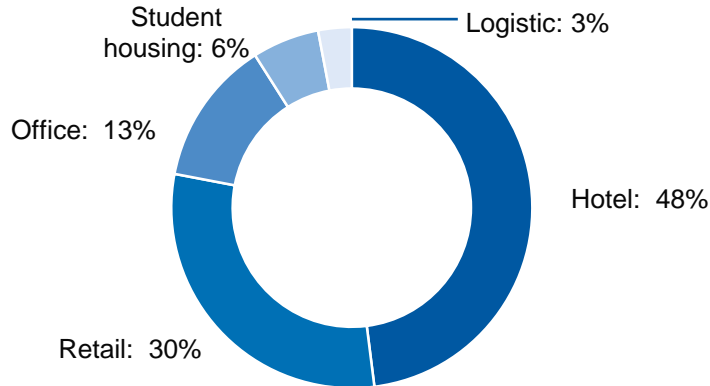
1) CRE-business only, private client business (€ 0.7 bn) and WIB's public sector loans (€ 0.5 bn) not included

2) Performing CRE-business only, exposure as at 30.06.2018

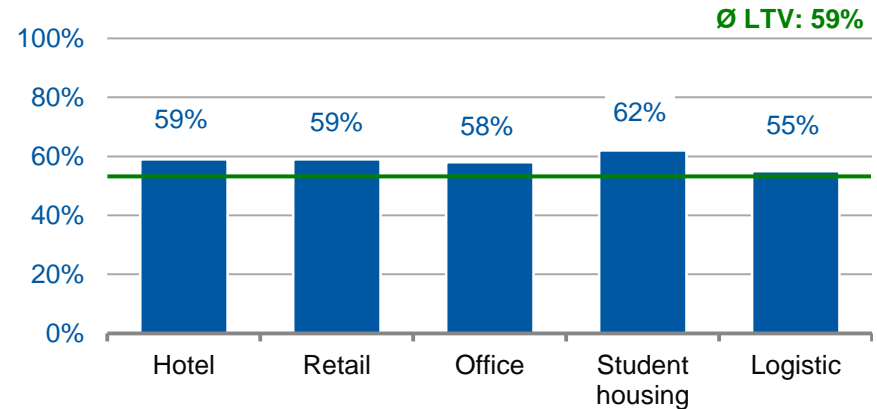
Spotlight: UK CRE finance portfolio¹⁾

€ 4.1 bn (~16% of total CRE-portfolio)

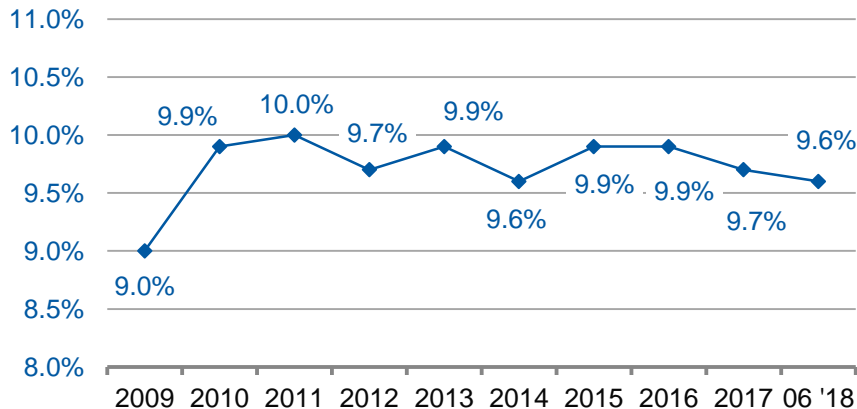
Total portfolio by property type



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
 - € 215 mn with LTV > 60%
 - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 73%
- No NPL

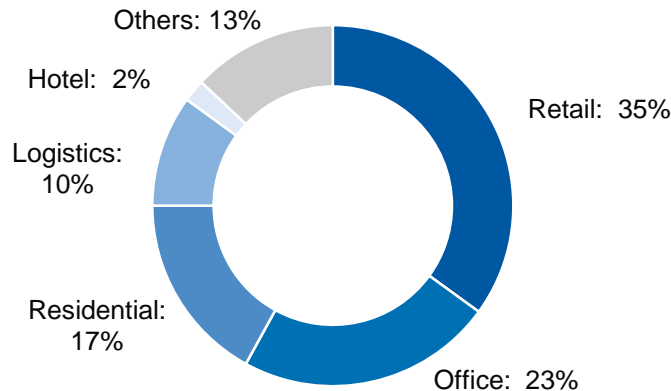
1) CRE-business only

2) Performing CRE-business only, exposure as at 30.06.2018

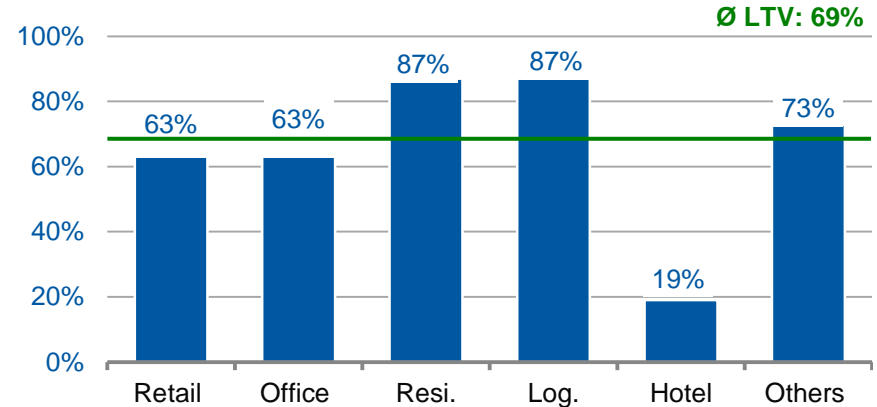
Spotlight: Italian CRE finance portfolio¹⁾

€ 2.8 bn (~11% of total portfolio)

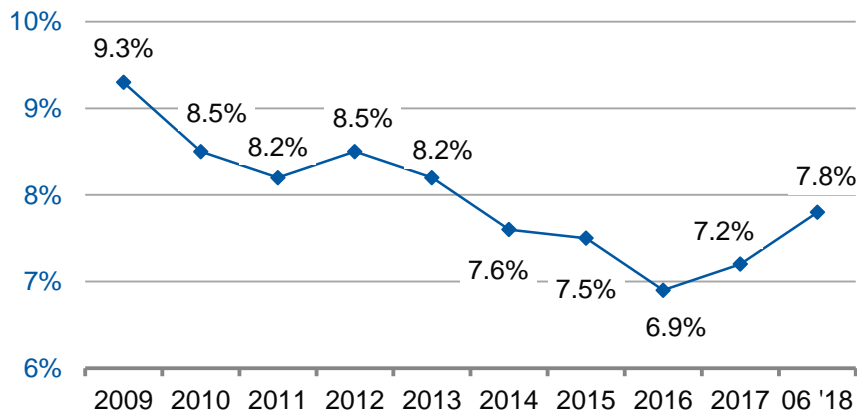
Total portfolio by property type



Average LTV by property type²⁾



Yield on debt



Comments

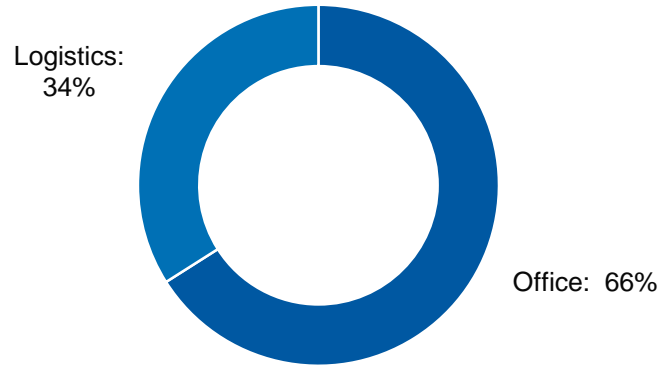
- Performing:
 - Share of developments financed below 10%
 - ~ 50% of total portfolio in Greater Rome or Milan area
 - € 319 mn with LTV > 60%
 - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 88%
- NPL: € 669 mn of which
 - ~ 70% restructured / agreement in place or planned
 - ~ 30% enforcement³⁾

1) CRE-business only
 2) Performing CRE-business only, exposure as at 30.06.2018
 3) Current enforcement period 3-4 years, but improving due to new legislation

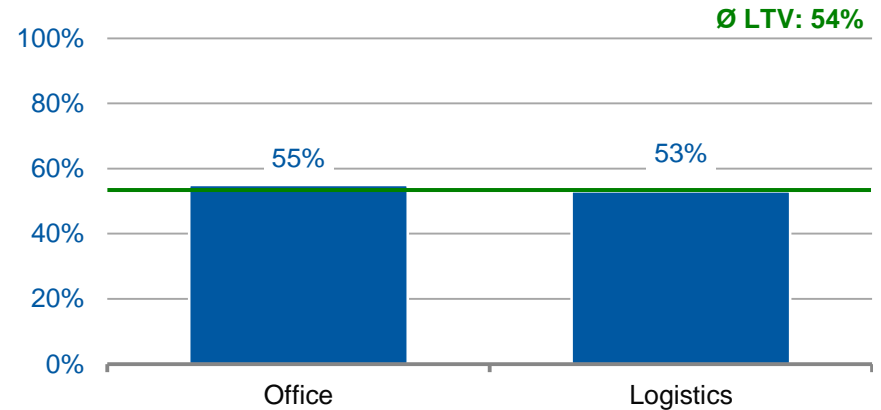
Spotlight: Russian CRE finance portfolio¹⁾

€ 0.5 bn (~2% of total portfolio)

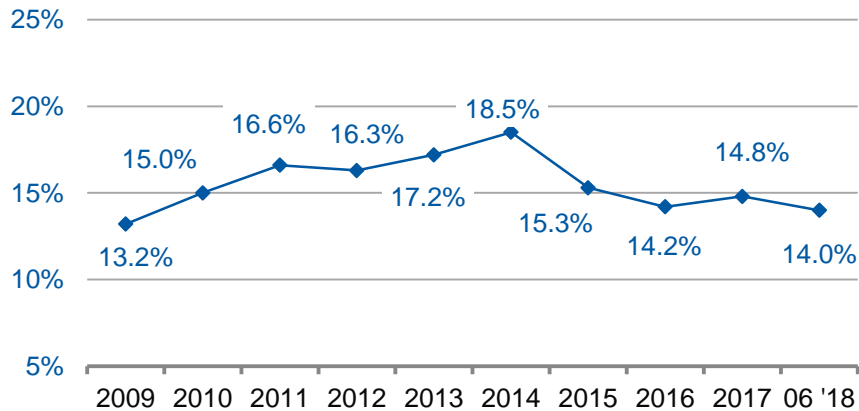
Total portfolio by property type



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. 67%
- NPL: € 17 mn, 1 office in St. Petersburg

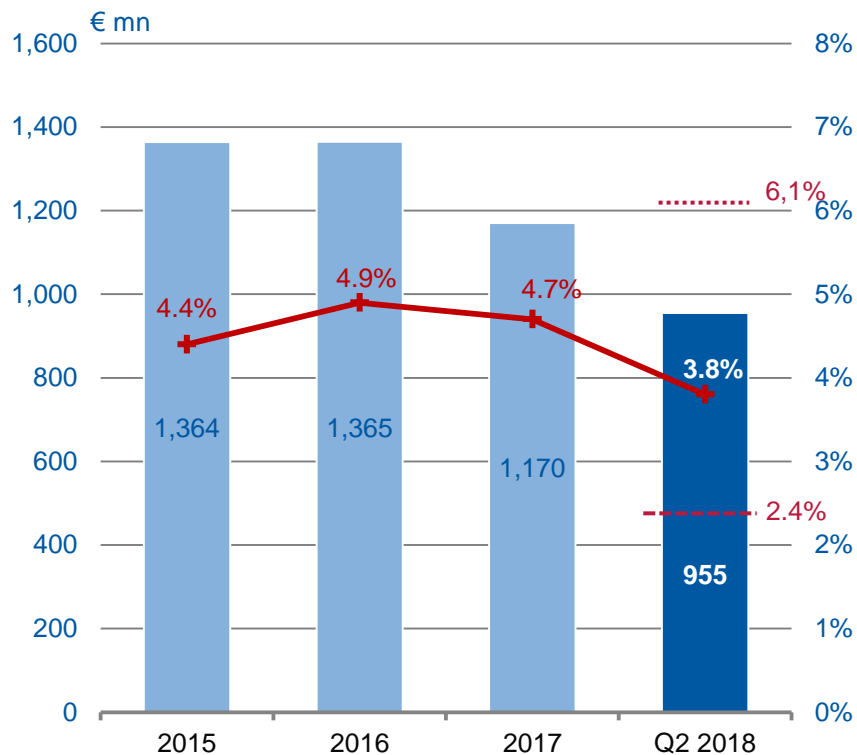
1) CRE-business only

2) Performing CRE-business only, exposure as at 30.06.2018

NPL portfolio

Further declining NPL volume and NPL ratio

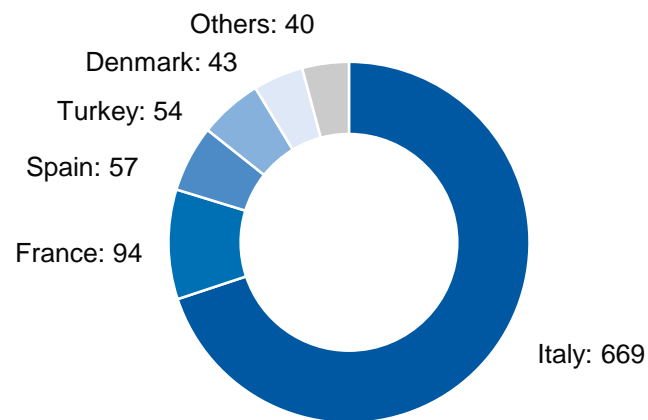
NPL Portfolio development (Total: € 955 mn)



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

Considering collaterals, NPL's fully covered

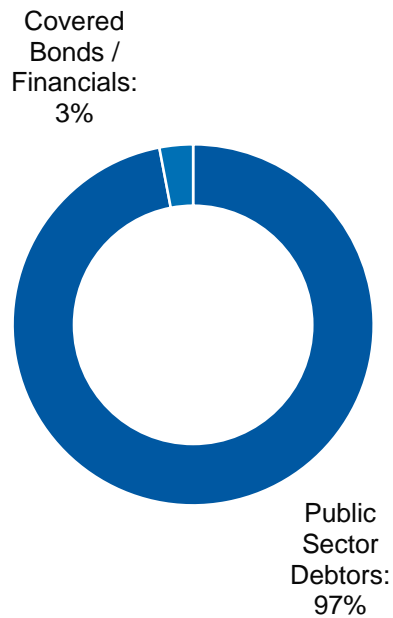
NPL Portfolio by country (Total: € 955 mn)



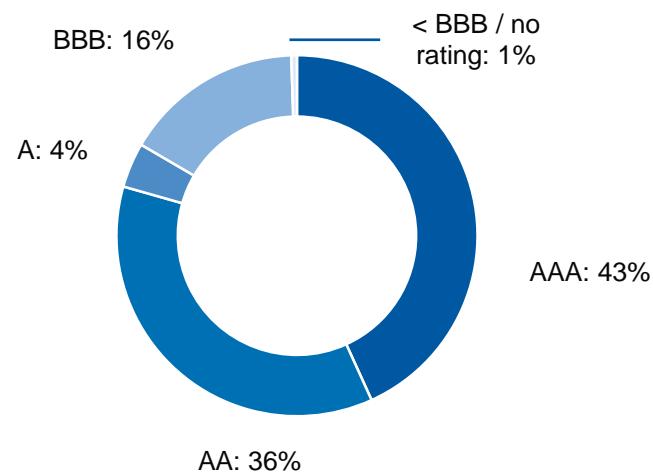
Treasury portfolio

€ 7.8 bn of high quality and highly liquid assets

by asset class



by rating¹⁾



As at 30.06.2018 – all figures are nominal amounts

1) Composite Rating



Outlook 2018

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Outlook 2018

Operating profit confirmed

Net interest income incl. derecognition result	▪ € 570 mn - € 610 mn
Loss allowance¹⁾	▪ € 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⁾	▪ € 37 mn - € 38 mn (from ~€ 40 mn)

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

2) Incl. renewals

3) After segment adjustments

Conclusion

Aareal Bank Group stays on track

Key takeaways



Robust operating performance in H1 underlines Aareal Bank Group's good market position in its two segments



Transformation of the Aareal Bank Group is well on its way, measures within the "Aareal 2020" future program show an increasingly positive effect



Aareal Bank Group is well on track to achieving its 2018-operating profit guidance as well as its strategic midterm to long-term targets



Appendix

Group results

Aareal Bank Group

Results Q2 2018

	01.04.- 30.06.2018	01.04.- 30.06.2017 ¹⁾	Change
	€ mn	€ mn	
Profit and loss account			
Net interest income	136	151	-10%
Loss allowance	19	25	-24%
Net commission income	51	49	4%
Net derecognition gain or loss	5	7	-29%
Gains / losses from financial instruments (fvpl)	-4	4	
Net result on hedge accounting	-1	-3	
Results from investments accounted for at equity	-	-	
Administrative expenses	109	129	-16%
Net other operating income / expenses	3	55	-95%
Operating Profit	62	109	-43%
Income taxes	21	42	-50%
Consolidated net income	41	67	-39%
Consolidated net income attributable to non-controlling interests	0	1	
Consolidated net income attributable to shareholders of Aareal Bank AG	41	66	-38%
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ²⁾	41	66	-38%
of which: allocated to ordinary shareholders	37	62	-40%
of which: allocated to AT1 investors	4	4	0%
Earnings per ordinary share (in €) ³⁾	0.62	1.05	-40%
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 Q2 2018 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.04.- 30.06. 2018	01.04.- 30.06. 2017 ¹⁾	01.04.- 30.06. 2018	01.04.- 30.06. 2017 ¹⁾	01.04.- 30.06. 2018	01.04.- 30.06. 2017 ¹⁾	01.04.- 30.06. 2018	01.04.- 30.06. 2017 ¹⁾
	€ mn							
Net interest income	139	153	0	0	-3	-2	136	151
Loss allowance	19	25	0				19	25
Net commission income	3	2	46	46	2	1	51	49
Net derecognition gain or loss	5	7					5	7
Gains / losses from financial instruments (fvpl)	-4	4					-4	4
Net result on hedge accounting	-1	-3					-1	-3
Results from investments accounted for at equity								
Administrative expenses	55	77	55	53	-1	-1	109	129
Net other operating income / expenses	2	54	1	1	0	0	3	55
Operating profit	70	115	-8	-6	0	0	62	109
Income taxes	24	44	-3	-2			21	42
Consolidated net income	46	71	-5	-4	0	0	41	67
Allocation of results								
Cons. net income attributable to non-controlling interests	0	0	0	1			0	1
Cons. net income attributable to shareholders of Aareal Bank AG	46	71	-5	-5	0	0	41	66

1) Comparative amounts reclassified according to the new classification format

Aareal Bank Group

Results H1 2018

	01.01.- 30.06.2018 € mn	01.01.- 30.06.2017 ¹⁾ € mn	Change
Profit and loss account			
Net interest income	269	305	-12%
Loss allowance	19	27	-30%
Net commission income	101	97	4%
Net derecognition gain or loss	11	17	-35%
Gains / losses from financial instruments (fvpl)	-1	3	
Net result on hedge accounting	-3	-6	
Results from investments accounted for at equity			
Administrative expenses	237	268	-12%
Net other operating income / expenses	8	59	-86%
Operating Profit	129	180	-28%
Income taxes	44	66	-33%
Consolidated net income	85	114	-25%
Consolidated net income attributable to non-controlling interests	1	6	-83%
Consolidated net income attributable to shareholders of Aareal Bank AG	84	108	-22%
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ²⁾	84	108	-22%
of which: allocated to ordinary shareholders	76	100	-24%
of which: allocated to AT1 investors	8	8	0%
Earnings per ordinary share (in €) ³⁾	1.27	1.68	-24%
Earnings per ordinary AT1 unit (in €) ⁴⁾	0.08	0.08	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 H1 2018 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.01.-	01.01.-	01.01.-	01.01.-	01.01.-	01.01.-	01.01.-	01.01.-
	30.06.	30.06.	30.06.	30.06.	30.06.	30.06.	30.06.	30.06.
	2018	2017 ¹⁾	2018	2017 ¹⁾	2018	2017 ¹⁾	2018	2017 ¹⁾
€ mn								
Net interest income	275	310	0	0	-6	-5	269	305
Loss allowance	19	27	0				19	27
Net commission income	4	3	93	91	4	3	101	97
Net derecognition gain or loss	11	17					11	17
Gains / losses from financial instruments (fvpl)	-1	3					-1	3
Net result on hedge accounting	-3	-6					-3	-6
Results from investments accounted for at equity								
Administrative expenses	129	166	110	104	-2	-2	237	268
Net other operating income / expenses	7	58	1	1	0	0	8	59
Operating profit	145	192	-16	-12	0	0	129	180
Income taxes	50	70	-6	-4			44	66
Consolidated net income	95	122	-10	-8	0	0	85	114
Allocation of results								
Cons. net income attributable to non-controlling interests	0	4	1	2			1	6
Cons. net income attributable to shareholders of Aareal Bank AG	95	118	-11	-10	0	0	84	108

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					
	Q2	Q1	Q4	Q3	Q2	Q2	Q1	Q4	Q3	Q2	Q2	Q1	Q4	Q3	Q2	Q2	Q1	Q4	Q3	Q2	
	2018			2017 ¹⁾		2018			2017 ¹⁾		2018			2017 ¹⁾		2018			2017 ¹⁾		
€ mn																					
Net interest income	139	136	139	147	153	0	0	0	0	0	-3	-3	-4	-3	-2	136	133	135	144	151	
Loss allowance	19	0	29	26	25	0	0									19	0	29	26	25	
Net commission income	3	1	3	1	2	46	47	55	45	46	2	2	3	2	1	51	50	61	48	49	
Net derecognition gain or loss	5	6	13	20	7											5	6	13	20	7	
Gains / losses from financial instruments (fvpl)	-4	3	1	10	4											-4	3	1	10	4	
Net result on hedge accounting	-1	-2	-2	1	-3											-1	-2	-2	1	-3	
Results from investments accounted for at equity																					
Administrative expenses	55	74	62	68	77	55	55	63	53	53	-1	-1	-2	-1	-1	109	128	123	120	129	
Net other operating income / expenses	2	5	7	4	54	1	0	4	1	1	0	0	-1	0	0	3	5	10	5	55	
Operating profit	70	75	70	89	115	-8	-8	-4	-7	-6	0	0	0	0	0	62	67	66	82	109	
Income taxes	24	26	19	34	44	-3	-3	-1	-3	-2						21	23	18	31	42	
Consolidated net income	46	49	51	55	71	-5	-5	-3	-4	-4	0	0	0	0	0	41	44	48	51	67	
Cons. net income attributable to non-controlling interests	0	0	0	0	0	0	1	0	0	1						0	1	0	0	1	
Cons. net income attributable to shareholders of Aareal Bank AG	46	49	51	55	71	-5	-6	-3	-4	-5	0	0	0	0	0	41	43	48	51	66	

1) Comparative amounts reclassified according to the new classification format

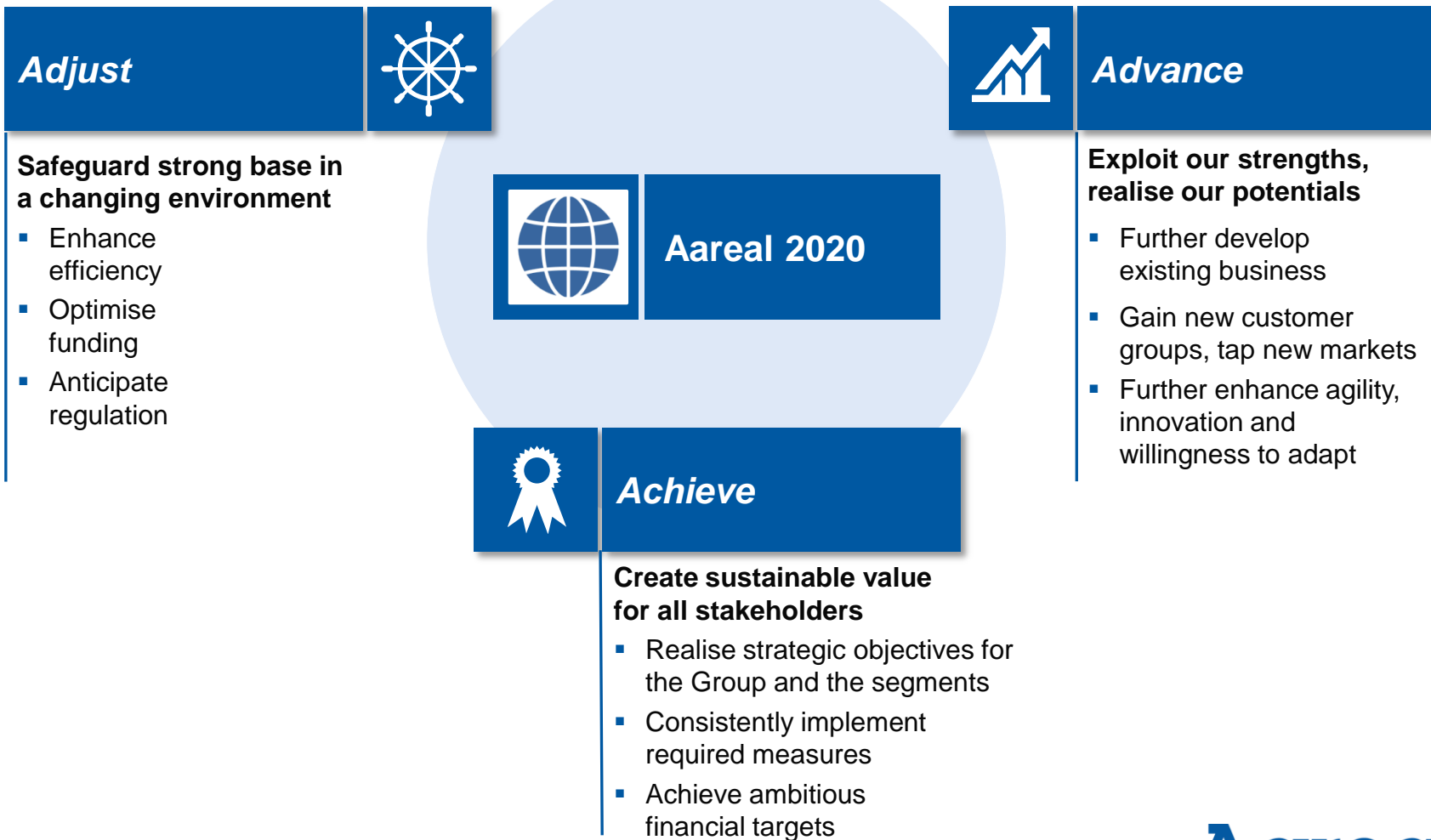


Aareal 2020

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	⬆️	Commission increase	⬆️
Pre-tax RoE 2018 before adjusting capital structure	-10%	RoE of approx. 10% achievable before disbursement of excess capital or potential realisation of investment opportunities	-10% +
Excess capital	⬇️	Adjustment or allocation of underlying capital depending on opportunities and challenges in the markets	⬇️
Pre-tax RoE 2018	-12%		-12% +

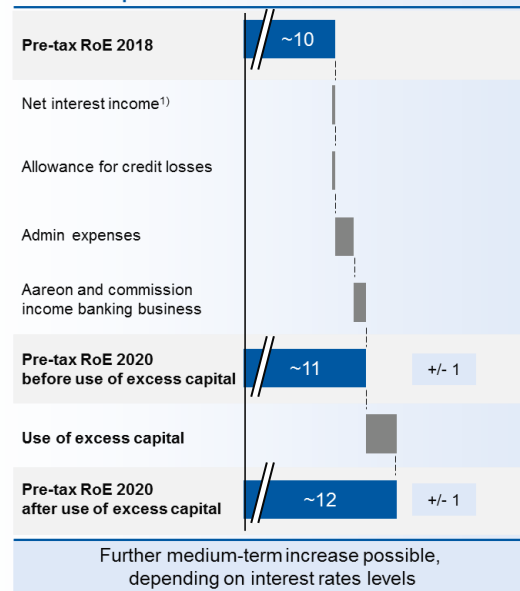
Further medium-term increase is possible on the basis of a positive development of interest rate levels



45

Note: All 2015 figures preliminary and unaudited

RoE-Development 2018-2020



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

Achievements:

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

1) incl. effects from derecognition of financial instruments

Way ahead:

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

Dividend policy

Confirmed

Base dividend

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

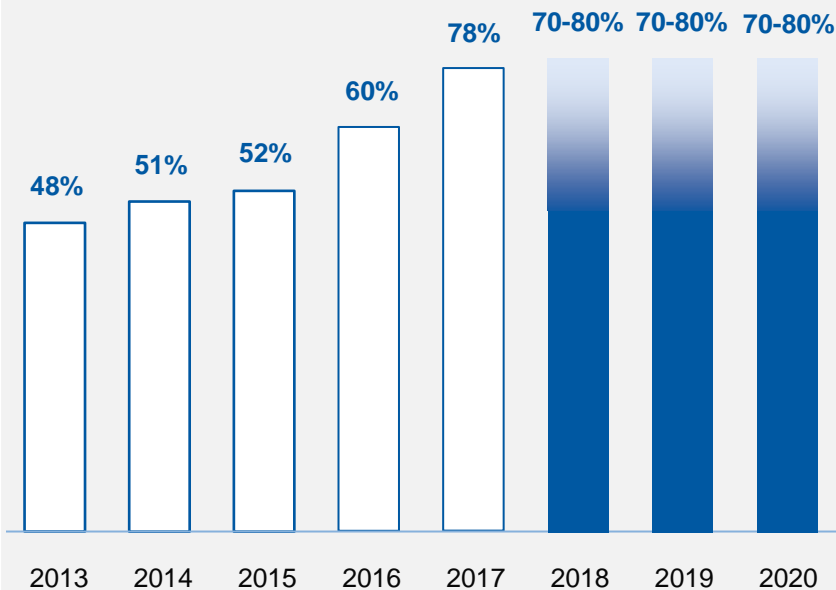
Supplementary dividend

In addition, we plan to distribute **supplementary dividends, started in 2016 with 10% increasing up to 20-30% of the EpS**

Prerequisites:

- No material deterioration of the environment (with longer-term and sustainably negative effects)
- Neither attractive investment opportunities nor positive growth environment

Payout ratio 2013 - 2020



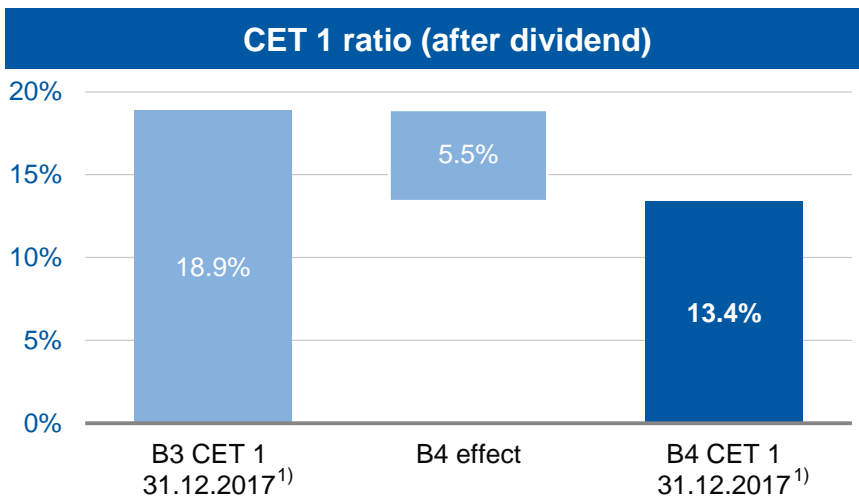
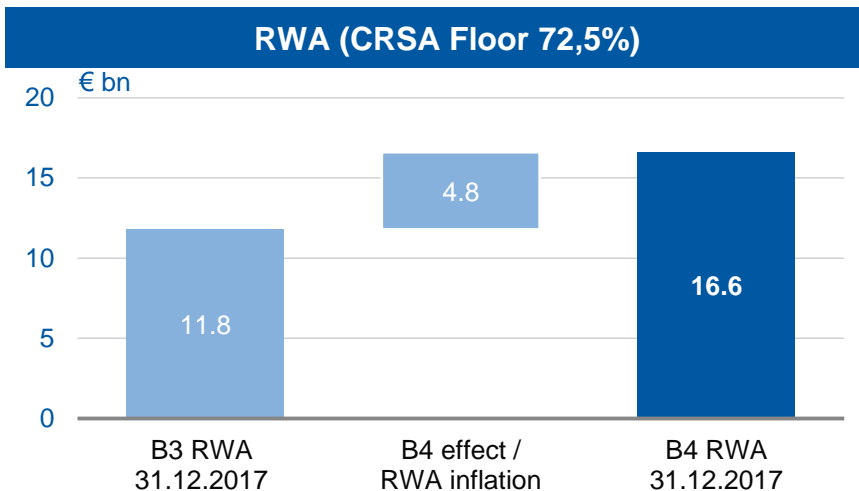
1) The future dividend policy applies provided that the dividend payments resulting from it are consistent with a long-term and sustained business development of Aareal Bank AG. In addition, the dividend payments are subject to the proviso that corresponding dividend proposals have been made by the Management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



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

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

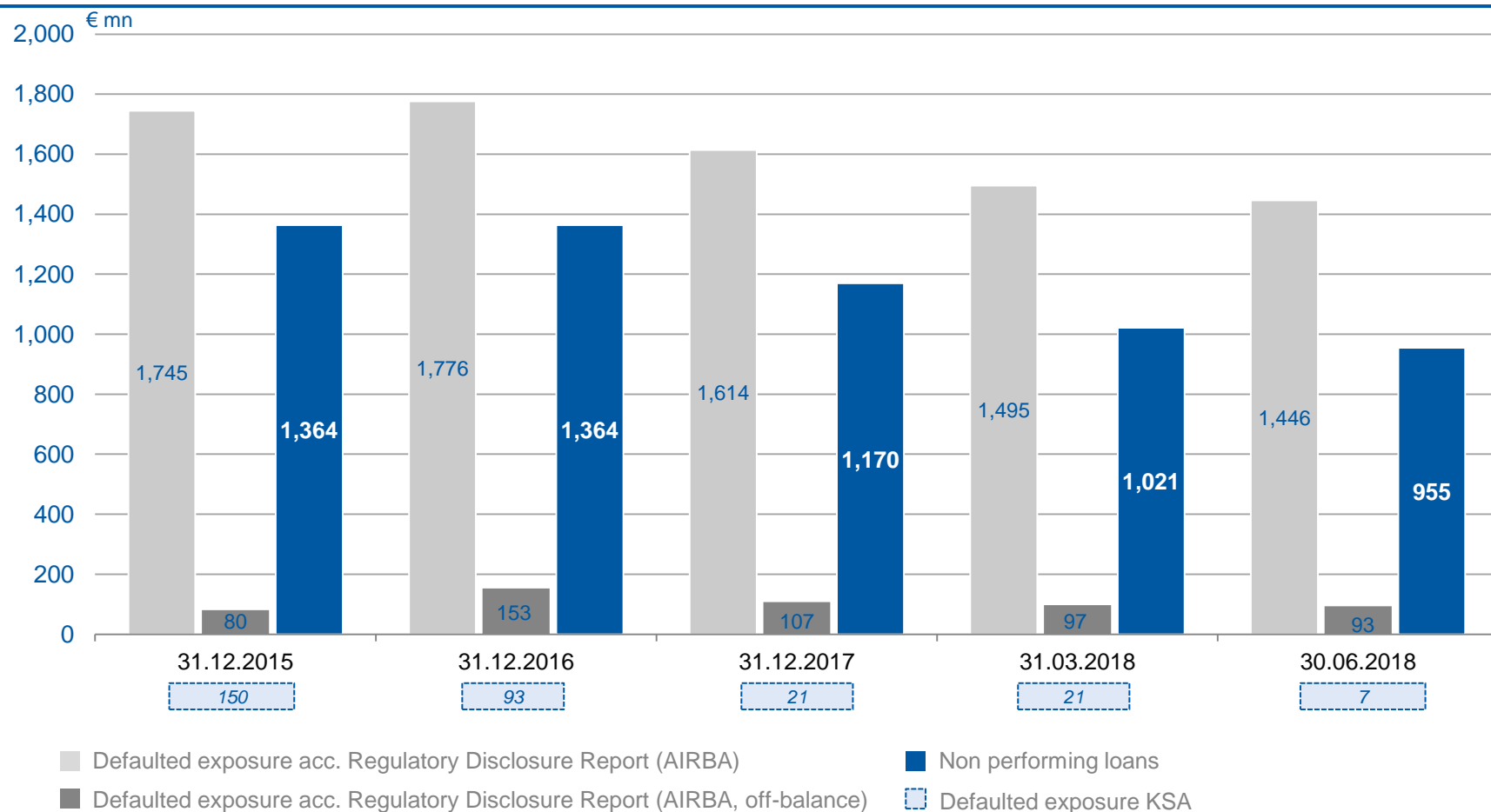
- Expected loss model:
 - Stage 1: LLP based on 12-Month expected credit losses on recognition
 - Stage 2: LLP based on lifetime expected credit losses on financial assets with significant increase in credit risk and
 - Stage 3: LLP based on lifetime expected credit losses on impaired financial assets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

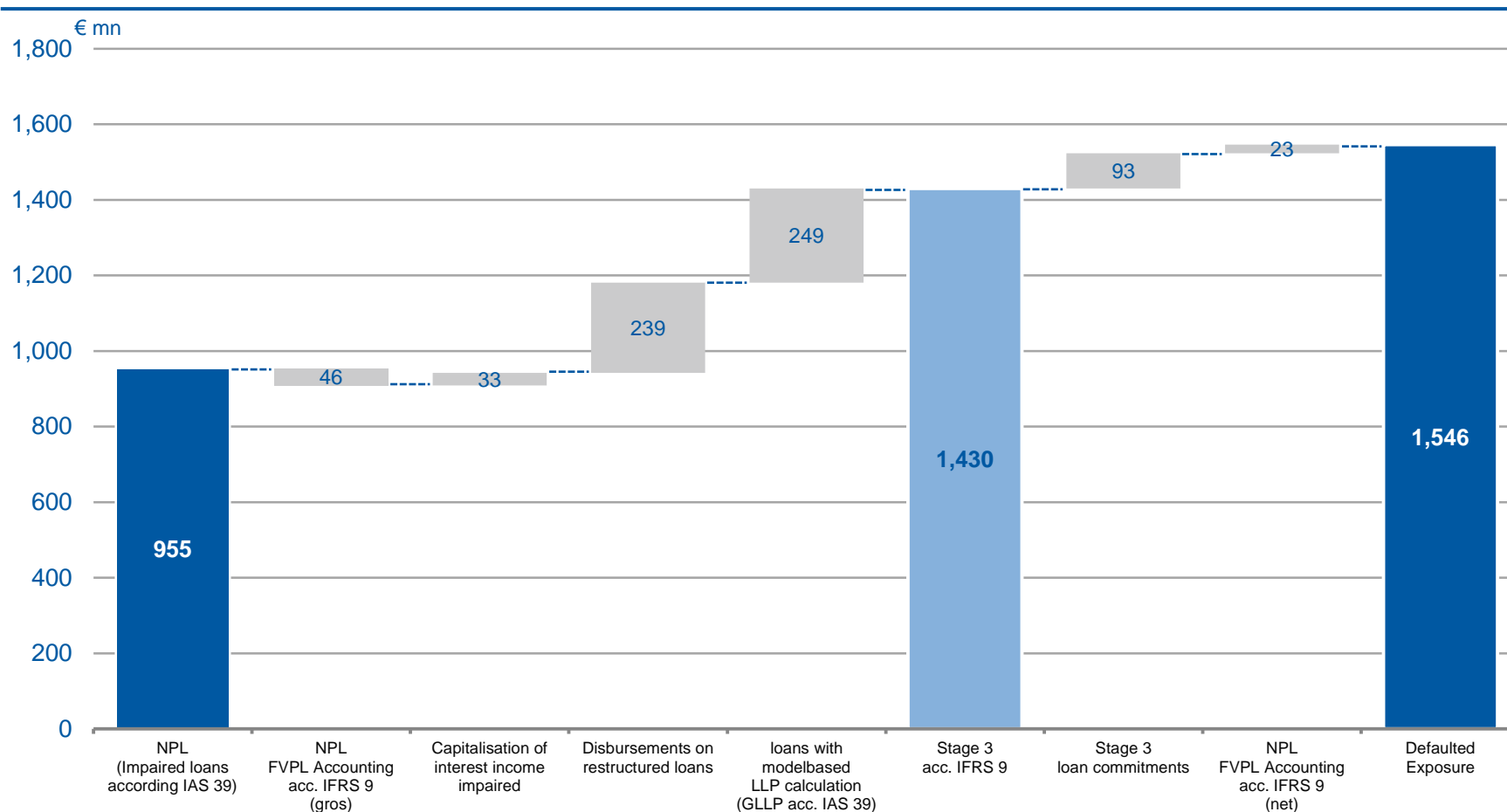
Defaulted exposure

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



Defaulted Exposure

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



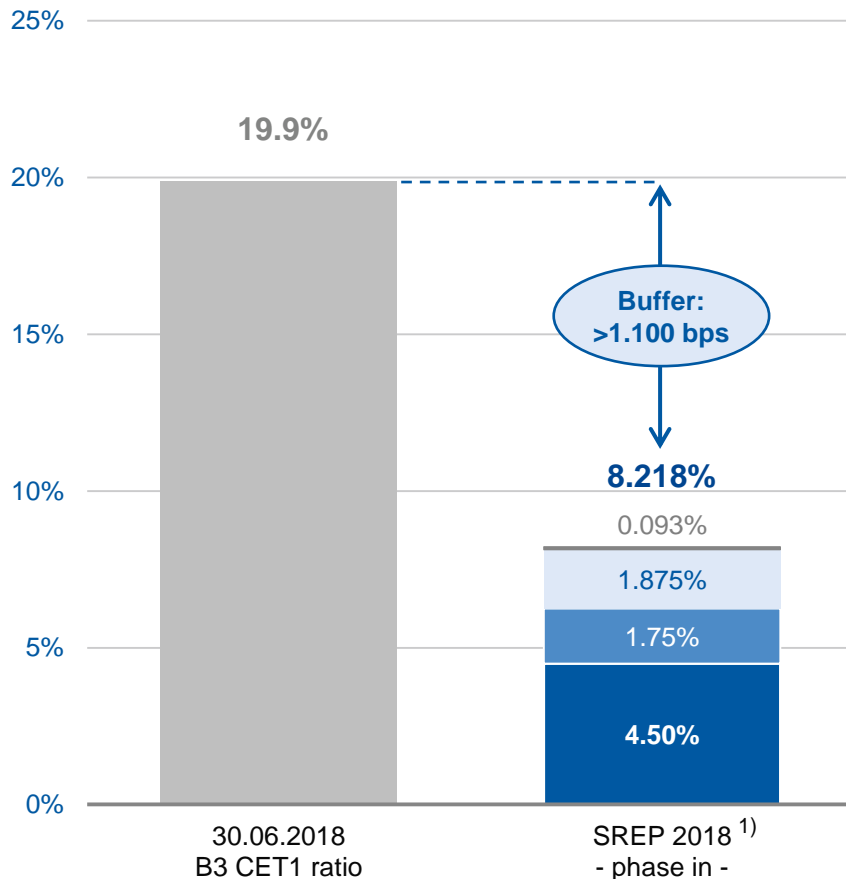


Appendix
SREP

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 June 2018 total capital ratio amounts to 31.3%

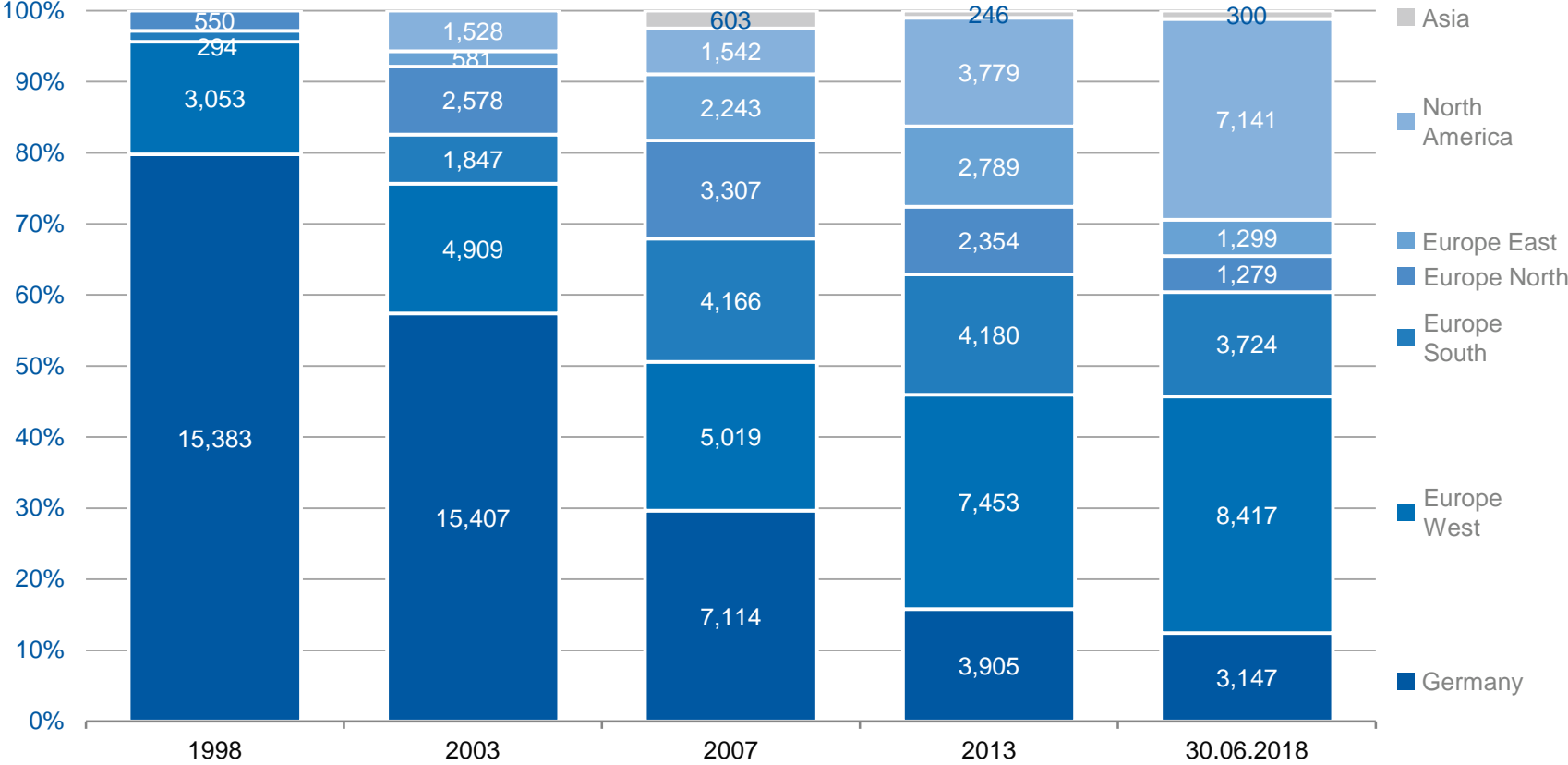
- Countercyclical Buffer
- Capital Conservation Buffer
- Pillar 2 Requirement
- Pillar 1 Requirement

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



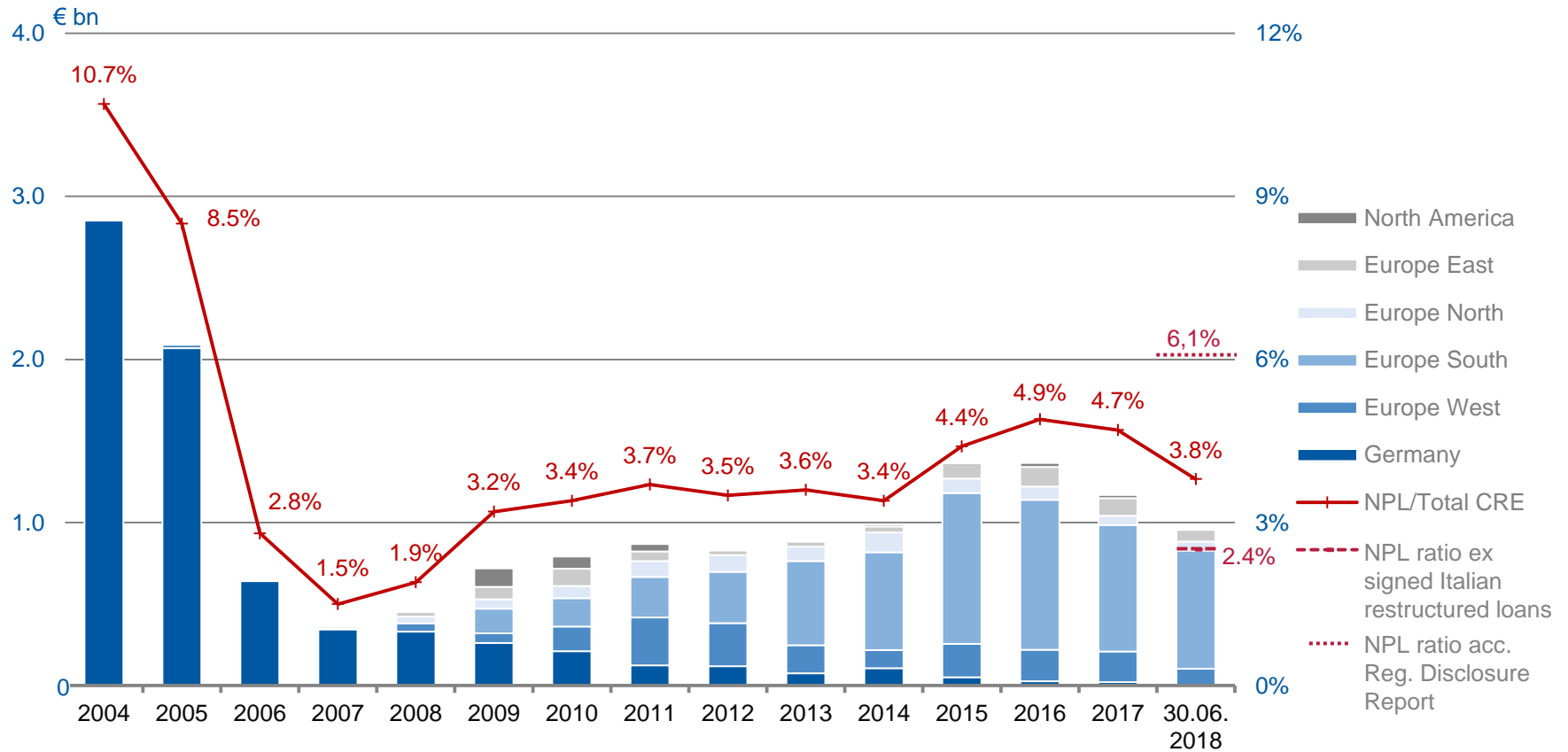
Appendix
Development commercial
real estate finance portfolio

Development commercial real estate finance portfolio



Commercial real estate finance portfolio¹⁾

Further declining NPL volume and NPL ratio

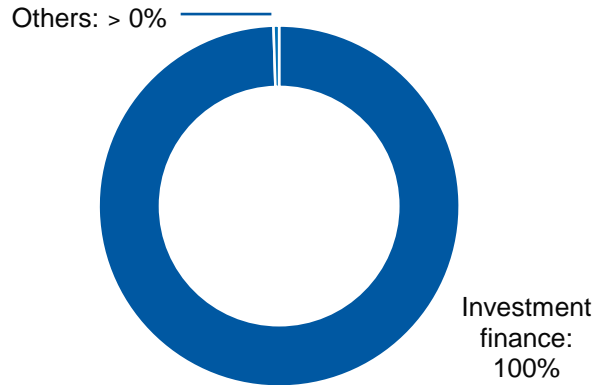


1) CRE-business only, private client business (€ 0.7 bn) and WIB's public sector loans (€ 0.5 bn) not included

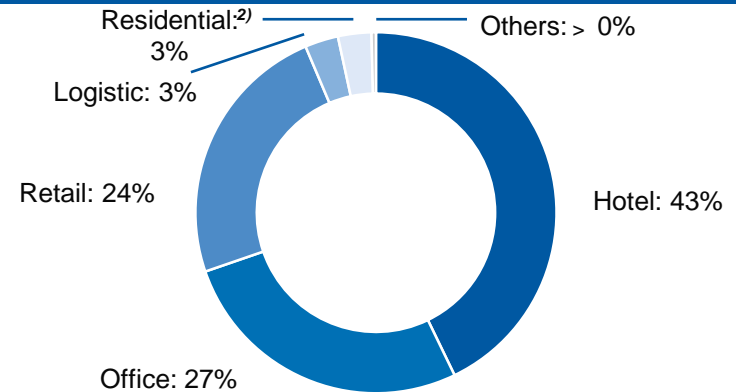
Western Europe (ex Germany) CRE finance portfolio¹⁾

Total volume outstanding as at 30.06.2018: € 8.4 bn

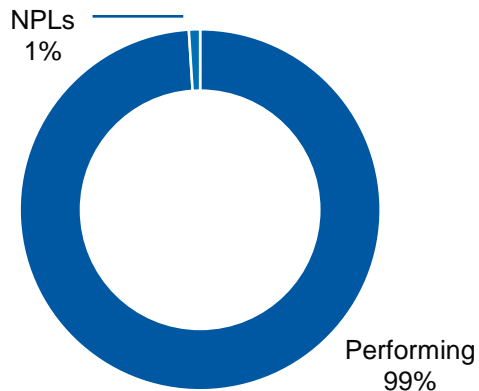
by product type



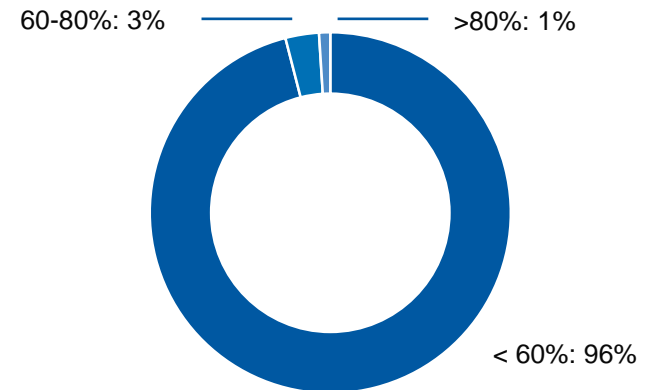
by property type



by performance



by LTV ranges³⁾

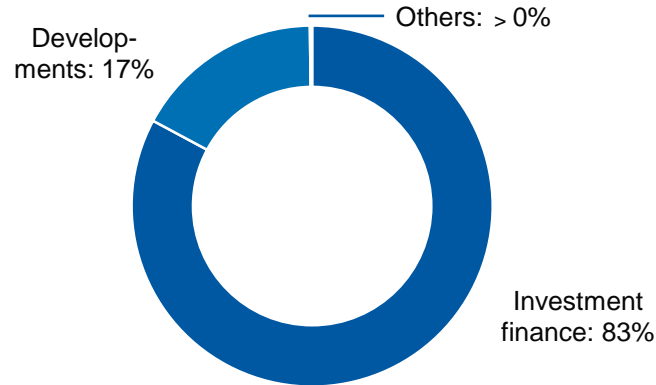


1) CRE-business only
2) Incl. Student housing (UK only)
3) Performing CRE-business only, exposure as at 30.06.2018

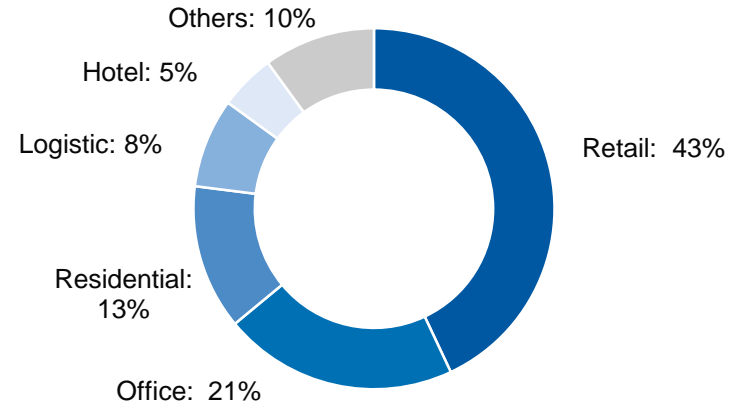
Southern Europe CRE finance portfolio¹⁾

Total volume outstanding as at 30.06.2018: € 3.7 bn

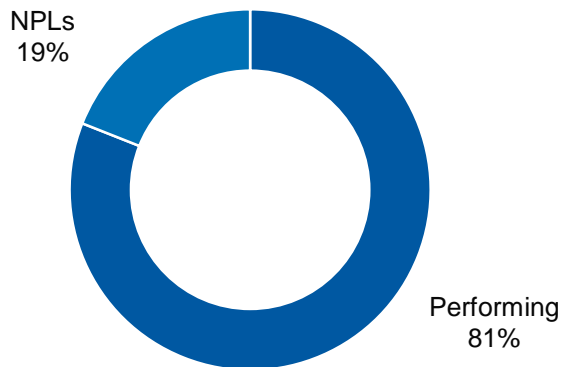
by product type



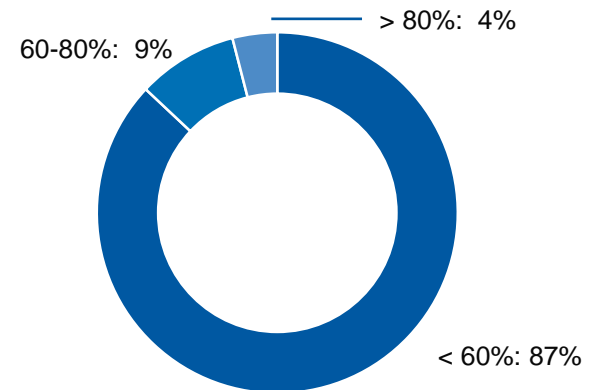
by property type



by performance



by LTV ranges²⁾



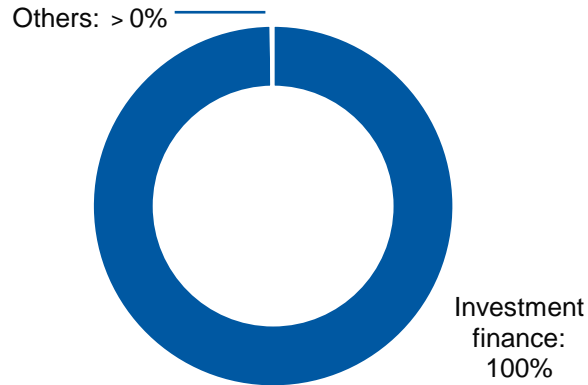
1) CRE-business only

2) Performing CRE-business only, exposure as at 30.06.2018

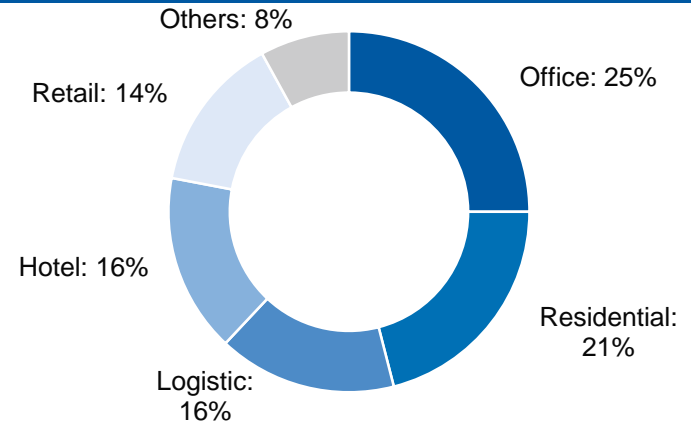
German CRE finance portfolio¹⁾

Total volume outstanding as at 30.06.2018: € 3.1 bn

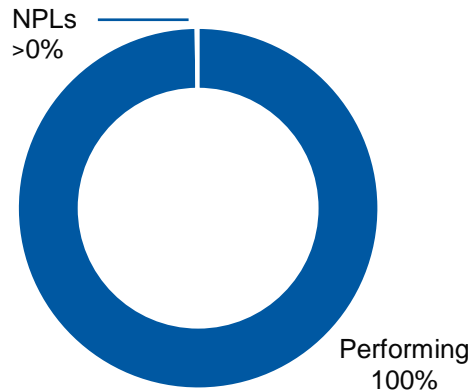
by product type



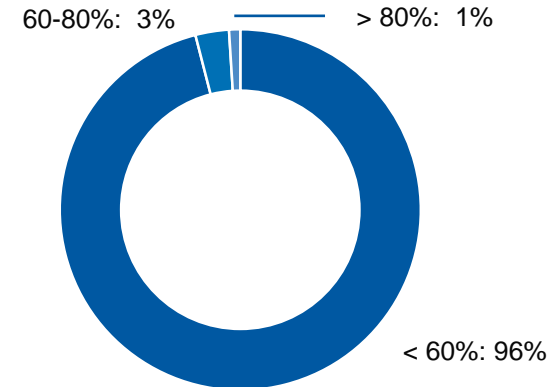
by property type



by performance



by LTV ranges²⁾



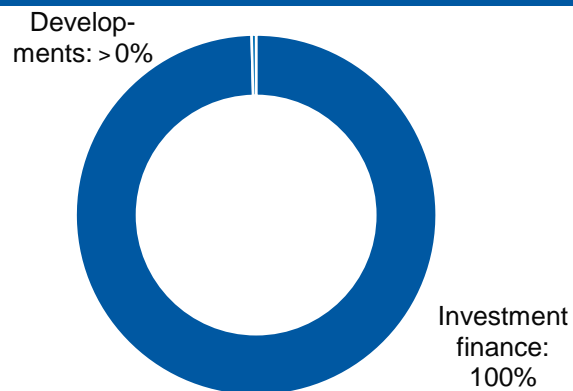
1) CRE-business only

2) Performing CRE-business only, exposure as at 30.06.2018

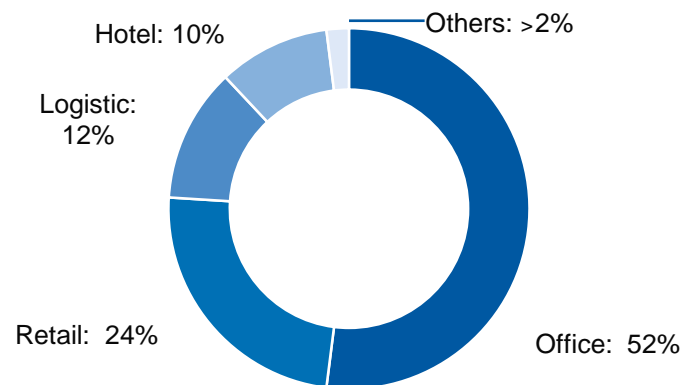
Eastern Europe CRE finance portfolio¹⁾

Total volume outstanding as at 30.06.2018: € 1.3 bn

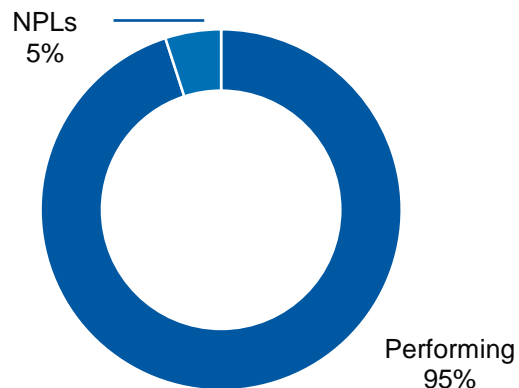
by product type



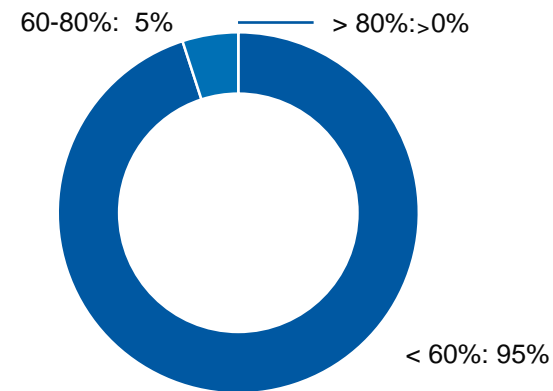
by property type



by performance



by LTV ranges²⁾



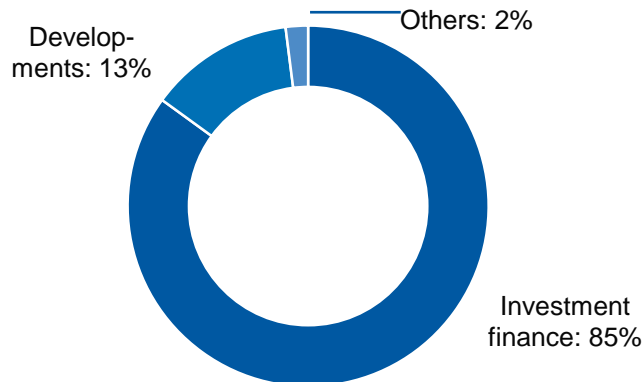
1) CRE-business only

2) Performing CRE-business only, exposure as at 30.06.2018

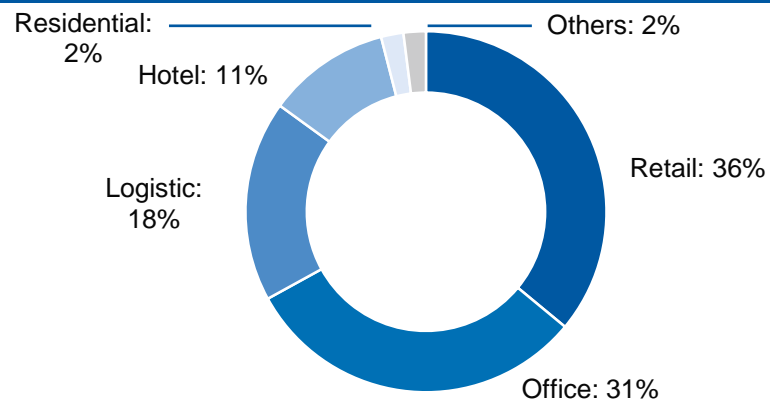
Northern Europe CRE finance portfolio¹⁾

Total volume outstanding as at 30.06.2018: € 1.3 bn

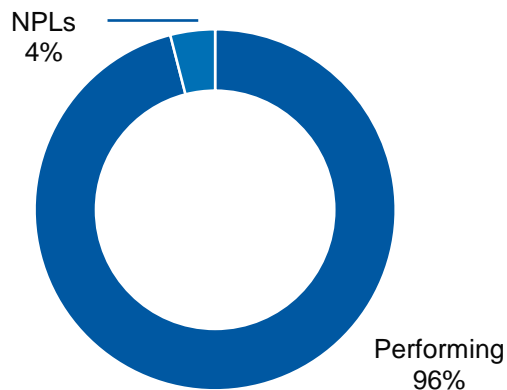
by product type



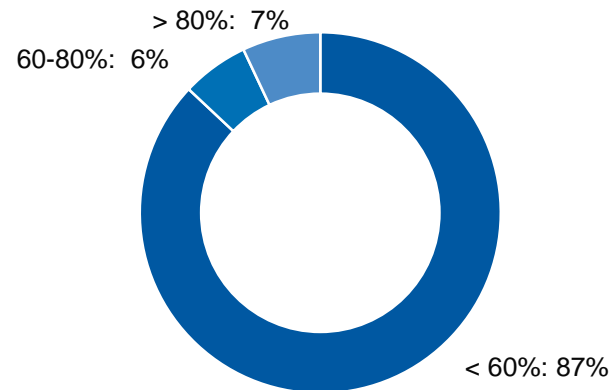
by property type



by performance



by LTV ranges²⁾



1) CRE-business only

2) Performing CRE-business only, exposure as at 30.06.2018

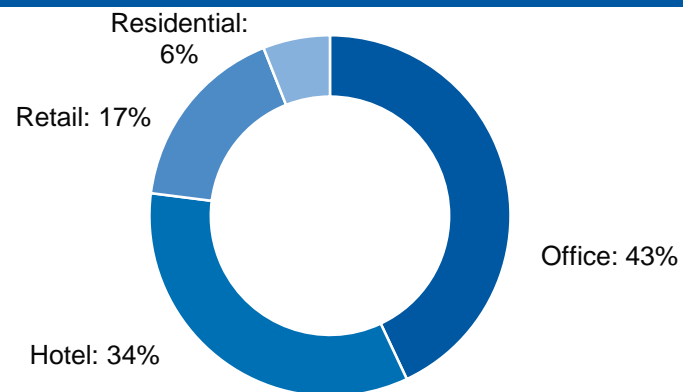
North America CRE finance portfolio¹⁾

Total volume outstanding as at 30.06.2018: € 7.1 bn

by product type



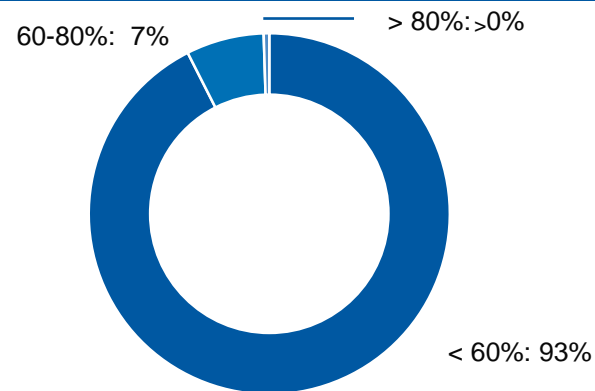
by property type



by performance



by LTV ranges²⁾



1) CRE-business only

2) Performing CRE-business only, exposure as at 30.06.2018

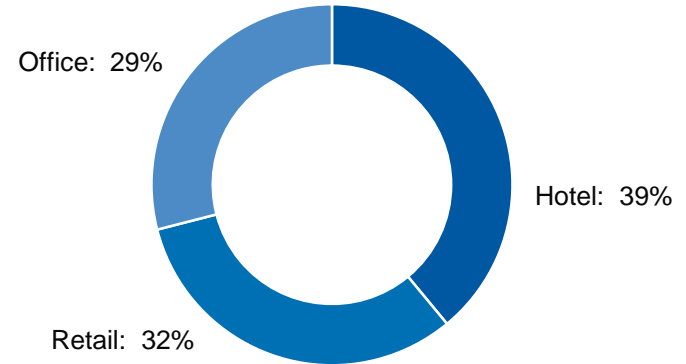
Asia CRE finance portfolio¹⁾

Total volume outstanding as at 30.06.2018: € 0.3 bn

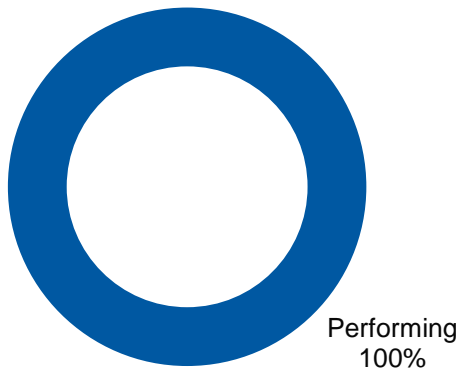
by product type



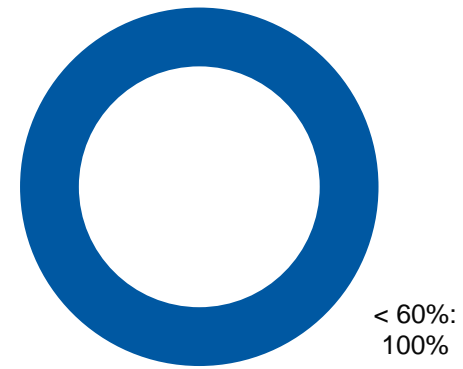
by property type



by performance



by LTV ranges²⁾



1) CRE-business only

2) Performing CRE-business only, exposure as at 30.06.2018



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

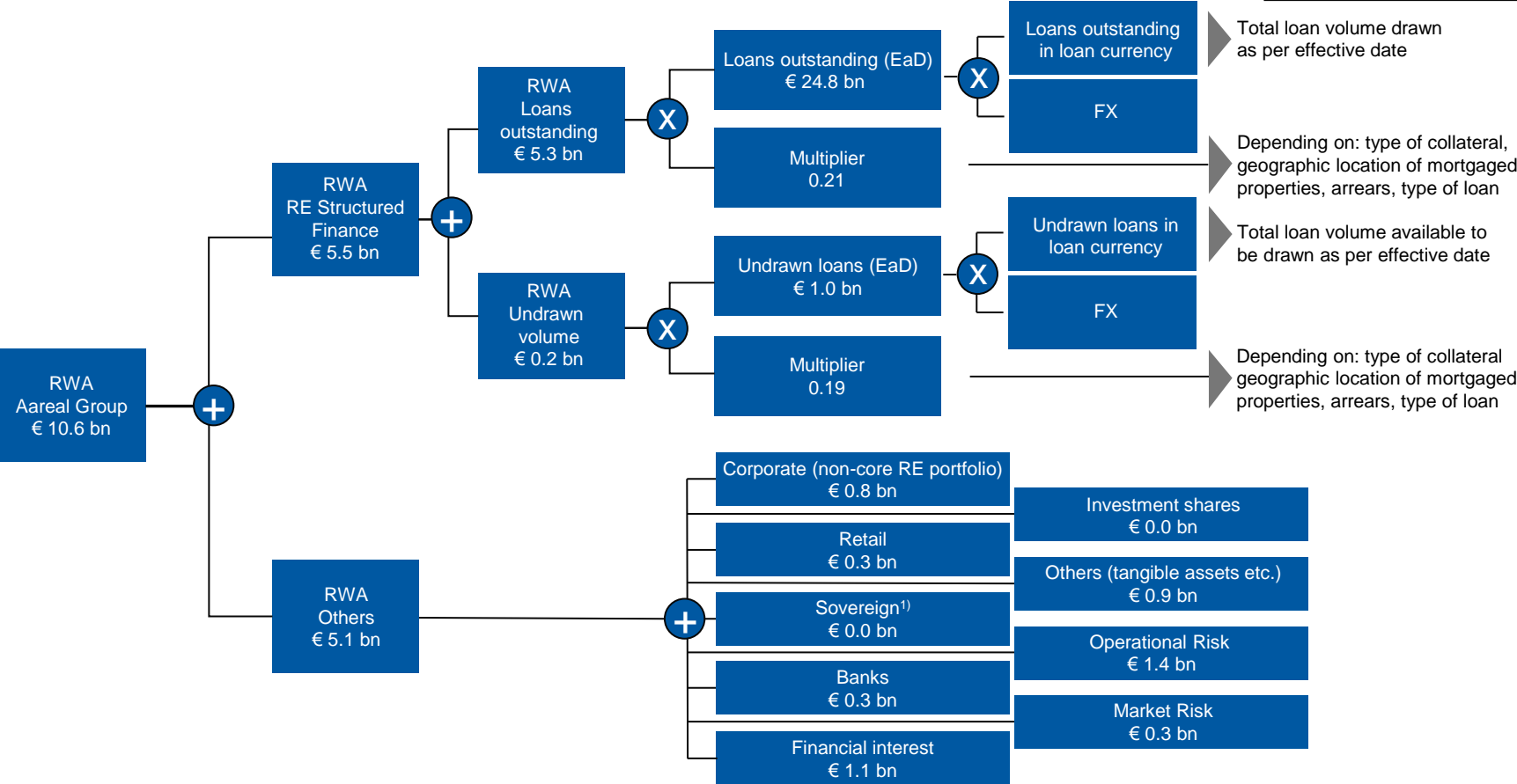


Appendix

RWA-split

From asset to risk weighted asset (RWA)

Effective date 30/06/2018



1) Amounts to € 41 mn



Sustainability Performance

Aareal

Aareal Bank Group

Stands for solidity, reliability and predictability

Doing business sustainably

19.9% Common Equity Tier 1 ratio¹⁾, exceeds the statutory requirements



€ 25.3 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 30.06.2018

2) CRE business only, private client business (€ 0.7 bn) and WIB's public sector loans (€ 0.5 bn) not included, as at 30.06.2018

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 56 out of 100 in GRESB Debt Assessment [as per 08/2017 ³⁾]
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>

3) New rating results expected



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** =
$$\frac{\text{Net operating income (NOI) x 100}}{\text{Current commitment incl. prior / pari-passu loans}}$$

Contacts

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