

QUALITY®
made by **AAREAL**

Analyst Conference Call

Q1 2017 results

May 11, 2017
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 2017

- Appendix
- Definitions and contacts

Highlights

Good start into 2017

Highlights



First-quarter consolidated operating profit of € 71 mn (Q1 2016: € 87 mn) fully in line with expectations



Very robust net interest income, thanks to continued strong margins – year-on-year decline primarily due to the continued reduction of the WestImmo and Corealcredit portfolios



Strong new business originated in the Structured Property Financing segment – very low allowance for credit losses



Further growth in net commission income, due to Aareon's good performance



Increased full-year guidance confirmed:
Aareal Bank anticipates consolidated operating profit of between € 310 mn and € 350 mn



Group results at a glance

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Group results at a glance

Solid quarterly results in line with full year targets

| € mn | Q1 '16 | Q2 '16 | Q3 '16 | Q4 '16 | Q1 '17 | Comments |
|---|-----------|------------------|-----------|-----------|-----------|---|
| Net interest income | 180 | 177 | 175 | 169 | 164 | Stable margins, further reduction of CCB and WIB portfolios |
| Allowance for credit losses | 2 | 29 | 33 | 33 | 2 | Seasonally lower, in line with full year target |
| Net commission income | 46 | 47 | 44 | 56 | 48 | Above previous year's high level |
| Net result from trading / non-trading / hedge acc. | 10 | 69 ¹⁾ | 12 | -5 | -4 | |
| Admin expenses | 146 | 144 | 127 | 130 | 139 | Including European banking levy and Deposit Protection Guarantee Schemes |
| <i>Others</i> | -1 | 0 | 3 | 28 | 4 | |
| Operating profit | 87 | 120 | 74 | 85 | 71 | Solid quarterly results in line with full year targets |
| Income taxes | 27 | 38 | 23 | 44 | 24 | Tax ratio Q1 2017: 34% FY 2017e: 37% due to reversal of CCB provisions |
| Minorities / AT1 | 9 | 9 | 9 | 8 | 9 | Savings from redemption of hybrid instrument from Q2 2017 onwards |
| Consolidated net income allocated to ord. shareholders | 51 | 73 | 42 | 33 | 38 | |
| Earnings per share [€] | 0.85 | 1.23 | 0.70 | 0.55 | 0.63 | |

1) Inc. € 61 mn from closing Aqvatrium / Fatburen

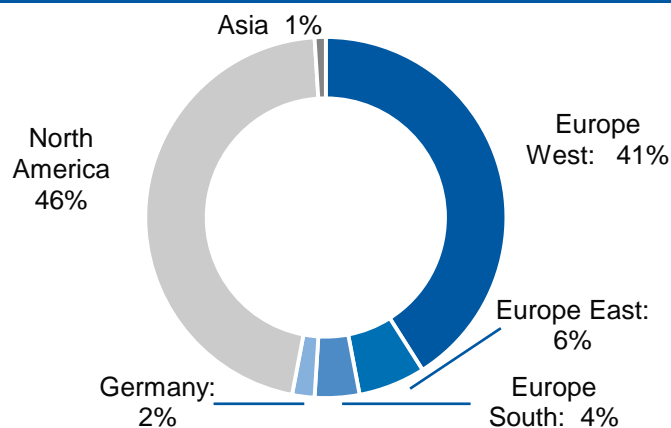


Segment performance

Structured property financing

Strong US business – stable margins

New business in Q1 2017 by region¹⁾

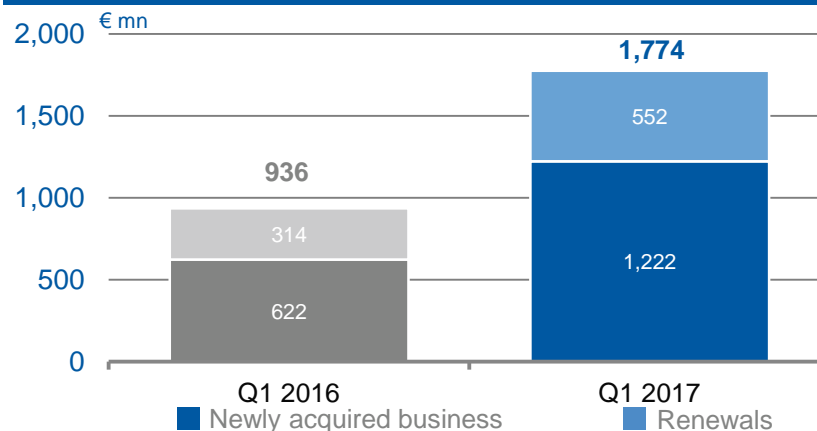


| P&L SPF Segment | Q1 '16 | Q2 '16 | Q3 '16 | Q4 '16 | Q1 '17 |
|--|-----------|-------------------------|-----------|-----------|-----------|
| € mn | | | | | |
| Net interest income | 182 | 181 | 179 | 174 | 167 |
| Allowance for credit losses (LLP) | 2 | 29 | 33 | 33 | 2 |
| Net commission income | 2 | 1 | 2 | 5 | 1 |
| Net result from trading / non-trading / hedge acc. | 10 | 69 ²⁾ | 12 | -6 | -4 |
| Admin expenses | 95 | 94 | 77 | 80 | 89 |
| Others | -1 | 0 | 2 | 26 | 4 |
| Operating profit | 96 | 128²⁾ | 85 | 86 | 77 |

1) Incl. renewals

2) Inc. € 61 mn from closing Aqvatrium / Fatburen

New business origination

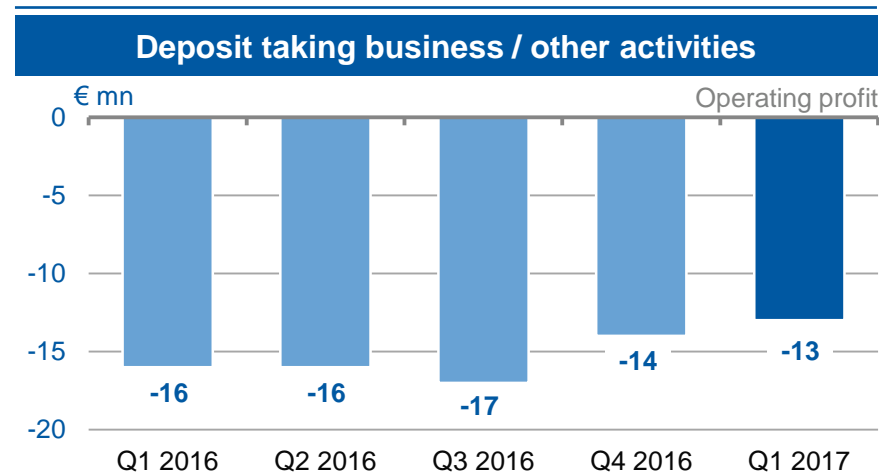
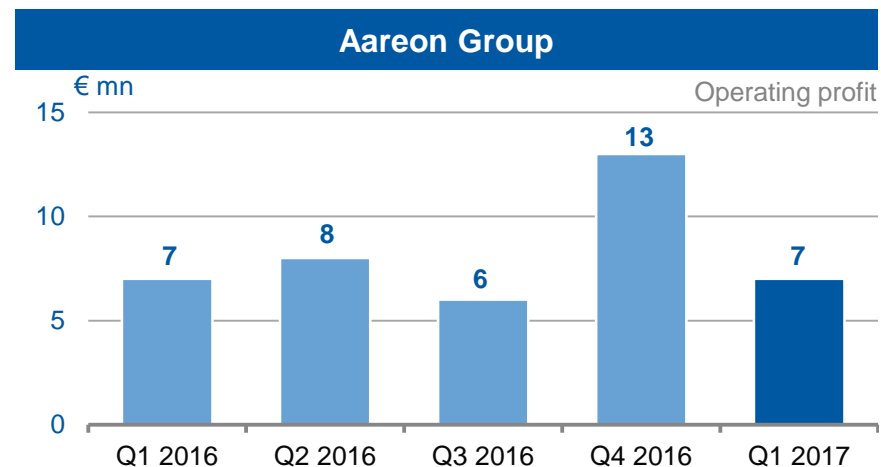


- Stable margins due to flexible new business allocation
- Newly acquired business:
 - Strong US business (~ 60% share)
 - Gross margins in Q1 2017 of around 250 bps (~ 220 bps after FX), low LTV's
 - Sticking to FY target of 200-210 bps
- € 29.6 bn RE portfolio (of which € 28.0 bn CRE)

Consulting / Services

Aareon earnings on high level of previous year

| P&L C/S Segment | Q1 '16 | Q2 '16 | Q3 '16 | Q4 '16 | Q1 '17 |
|-------------------------|-----------|-----------|------------|-----------|-----------|
| € mn | | | | | |
| Sales revenue | 49 | 52 | 47 | 58 | 54 |
| Own work capitalised | 1 | 2 | 1 | 2 | 1 |
| Other operating income | 1 | 0 | 2 | 4 | 1 |
| Cost material purchased | 7 | 9 | 8 | 11 | 9 |
| Staff expenses | 36 | 35 | 36 | 37 | 35 |
| D, A, impairment losses | 3 | 3 | 3 | 2 | 3 |
| Other operat. expenses | 14 | 15 | 14 | 15 | 15 |
| Others | 0 | 0 | 0 | 0 | 0 |
| Operating profit | -9 | -8 | -11 | -1 | -6 |



- Aareon revenues of € 52 mn (Q1 2016: € 50 mn), EBT of € 7 mn, EBT margin ~13.5%
- Aareon revenues resulting from growth in all product lines, digital products with highest growth rates
- Dutch acquisition of Kalshoven Automation B.V. supporting further international growth
- Deposit volume further increased acc. to Aareal 2020 to Ø of € 10.2 bn in Q1 '17 (Ø of € 10.0 bn in Q4 '16)
- Focussing on further shift into sustainable deposits

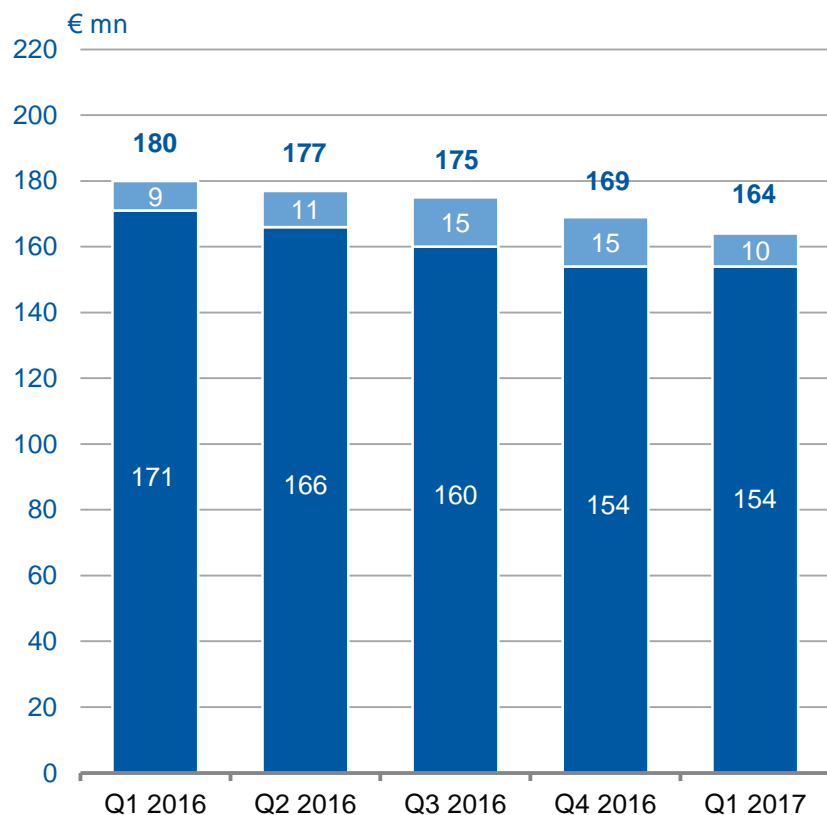


Group results Q1 2017

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Net interest income

Stable margins but further reduction of CCB and WIB portfolios



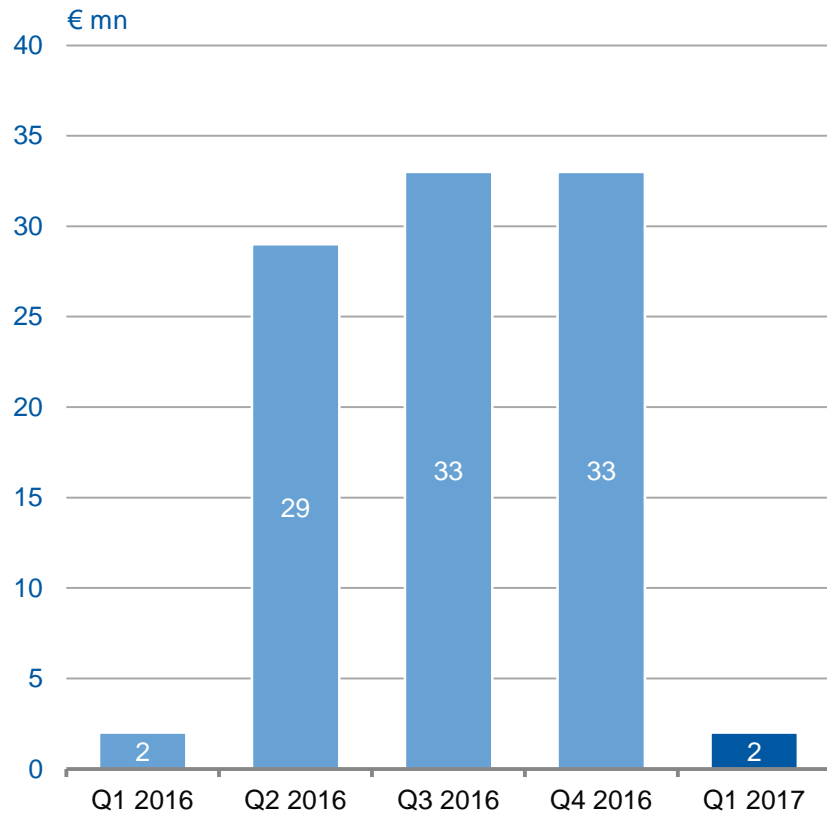
- Gross margins¹⁾ in Q1 2017: ~250 bps, ~220 bps after FX (Q1 2016: ~270 bps, ~230 bps after FX)
- Sticking to FY target of 200-210 bps
- € 9 mn effects from early repayments
- Deposit margins further burdened by interest rate environment
- Aareal Bank already fulfils future NSFR / LCR requirements

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

1) Newly acquired business

Allowance for credit losses (LLP)

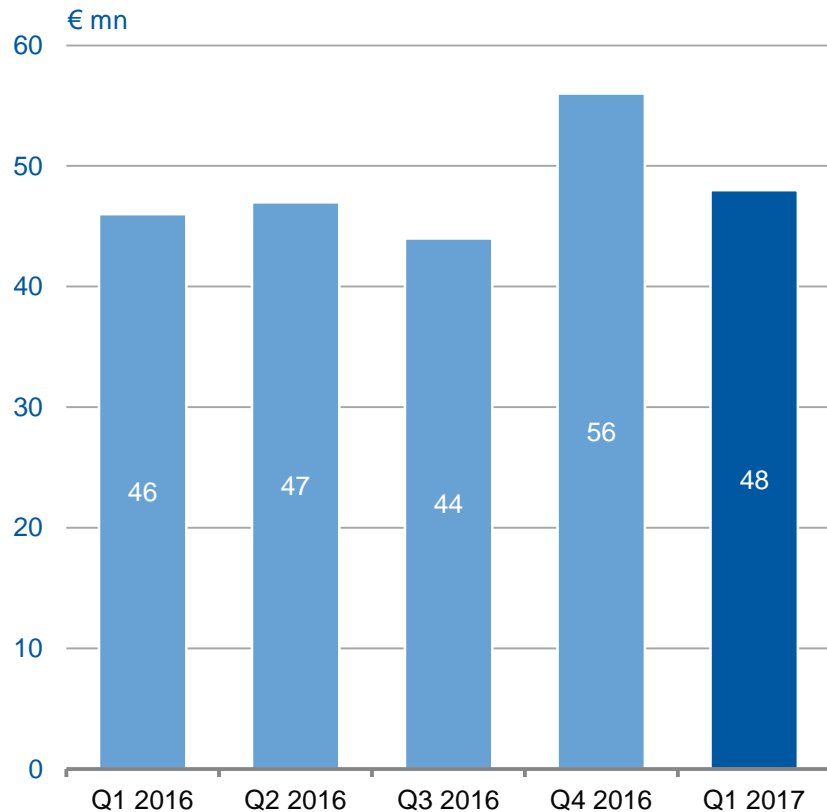
Seasonally lower, in line with full year target



- LLP with seasonal effects, in line with reduced full year target
- Conservative lending policies paying off
- No additional burden from Italian portfolio

Net commission income

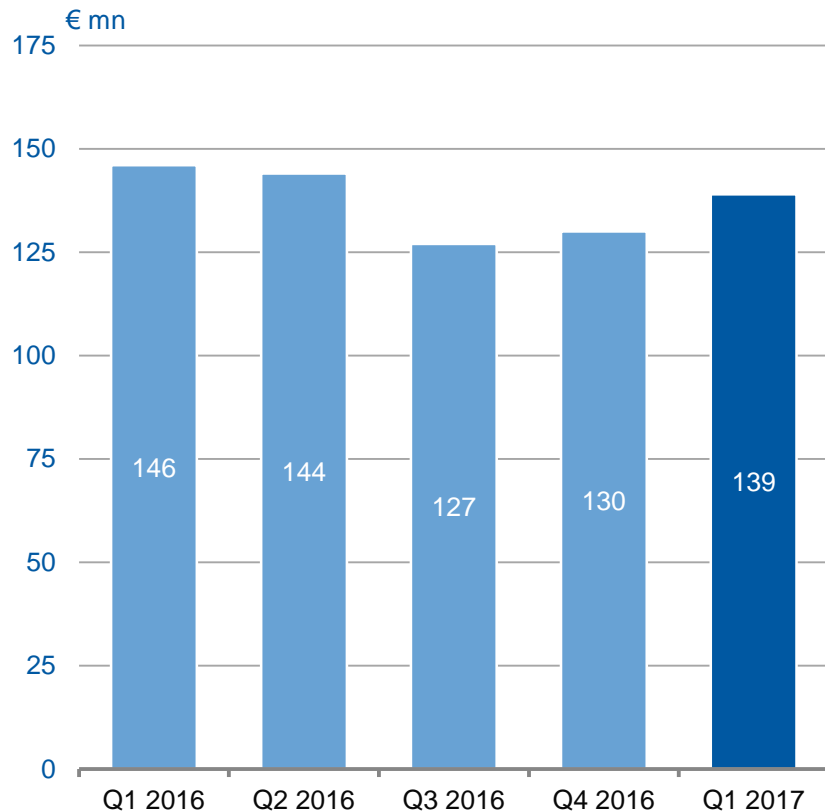
Above previous year's high level



- Stronger Aareon revenues of € 52 mn (Q1 '16: € 50 mn) resulting from growth in all product lines, digital products with highest growth rates
- Dutch acquisition of Kalshoven Automation B.V. supporting further international growth
- Q4 regularly includes positive seasonal effects

Admin expenses

Incl. European banking levy and Deposit Protection Guarantee Schemes



Admin expenses in Q1 2017 includes

- € 22 mn for the European bank levy and for the Deposit Protection Guarantee Schemes (both fully booked in Q1)
- € 4 mn for projects and investments (FY 2017 plan: € 30 mn)

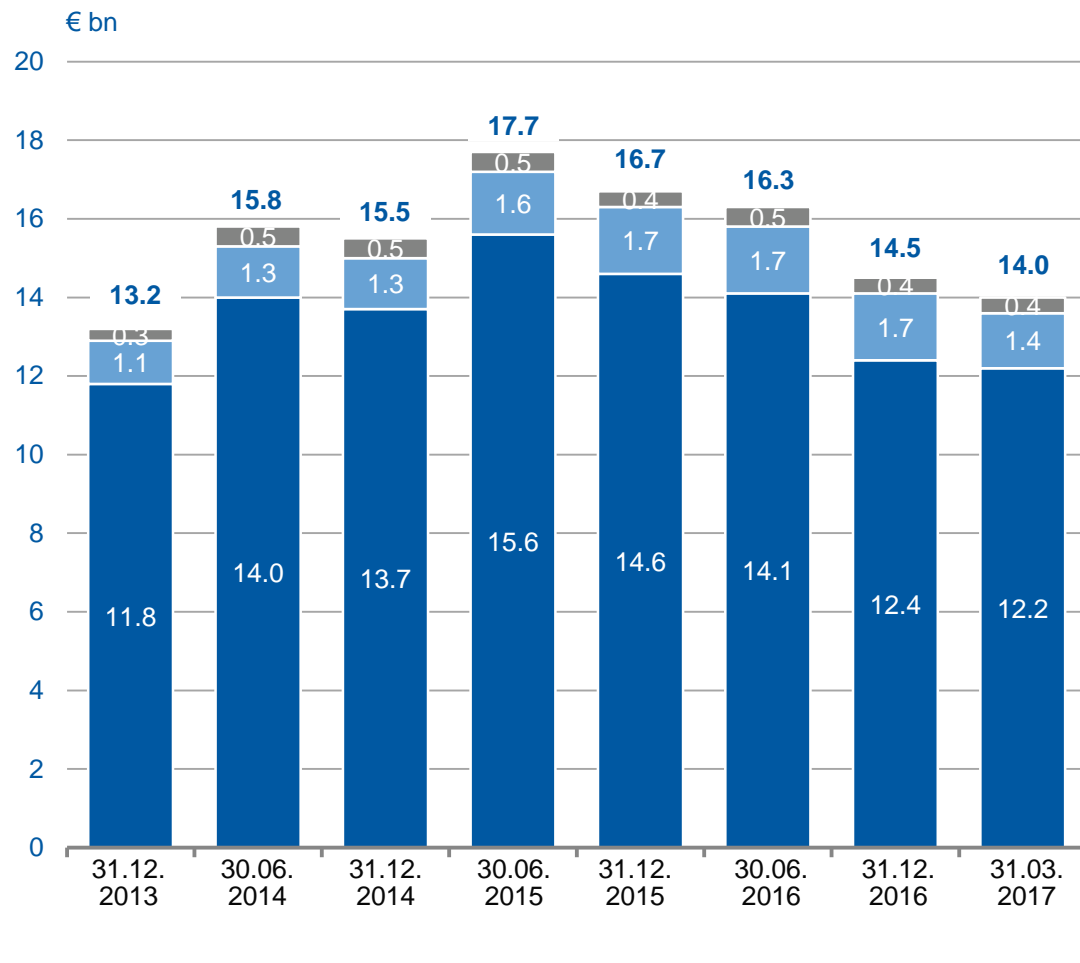


B/S structure, capital & funding position

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RWA development

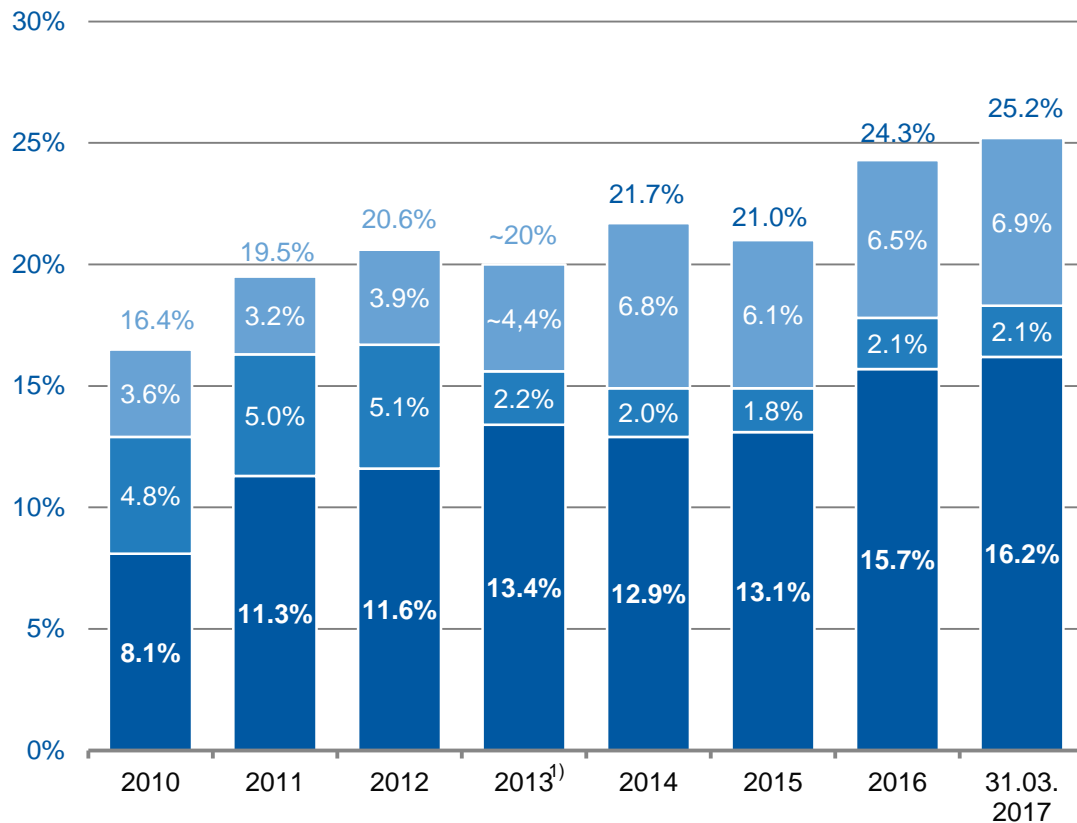
Successful RWA run down



- Operational risk reduction mainly due to model update caused by regulatory changes
- Operational risk already based on standardised approach
- Credit risk reduction due to further run down of WIB / CCB portfolios

Capital ratios

Strong development



German GAAP (phased-in)

IFRS (fully phased)

- Regulatory uncertainties buffered by very strong capital ratios
- Instruments assumed to mature until 2019 (planning period) are excluded from the fully phased ratios
- Bail-in capital ratio (acc. to our definition): above 8%
- T1-Leverage ratio as at 31.03.2017: 5.9% (fully phased)

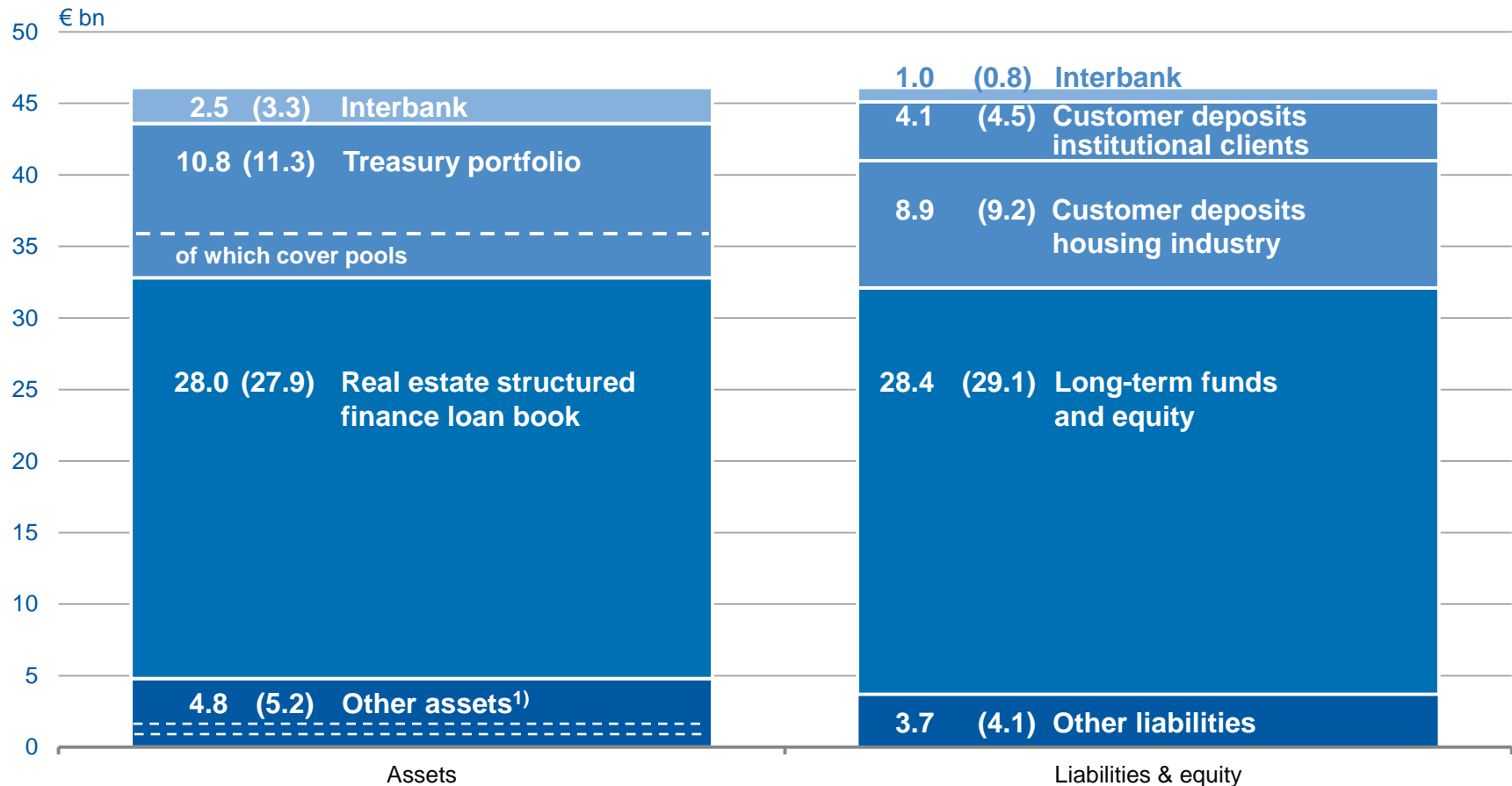
- Tier 2 (T2)
- Additional Tier 1 (AT1)
- Common Equity Tier 1 (CET1)

1) As at 01.01.2014, published 20.02.2014

Asset- / Liability structure according to IFRS

As at 31.03.2017: € 46.1 bn (31.12.2016: € 47.7 bn)

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

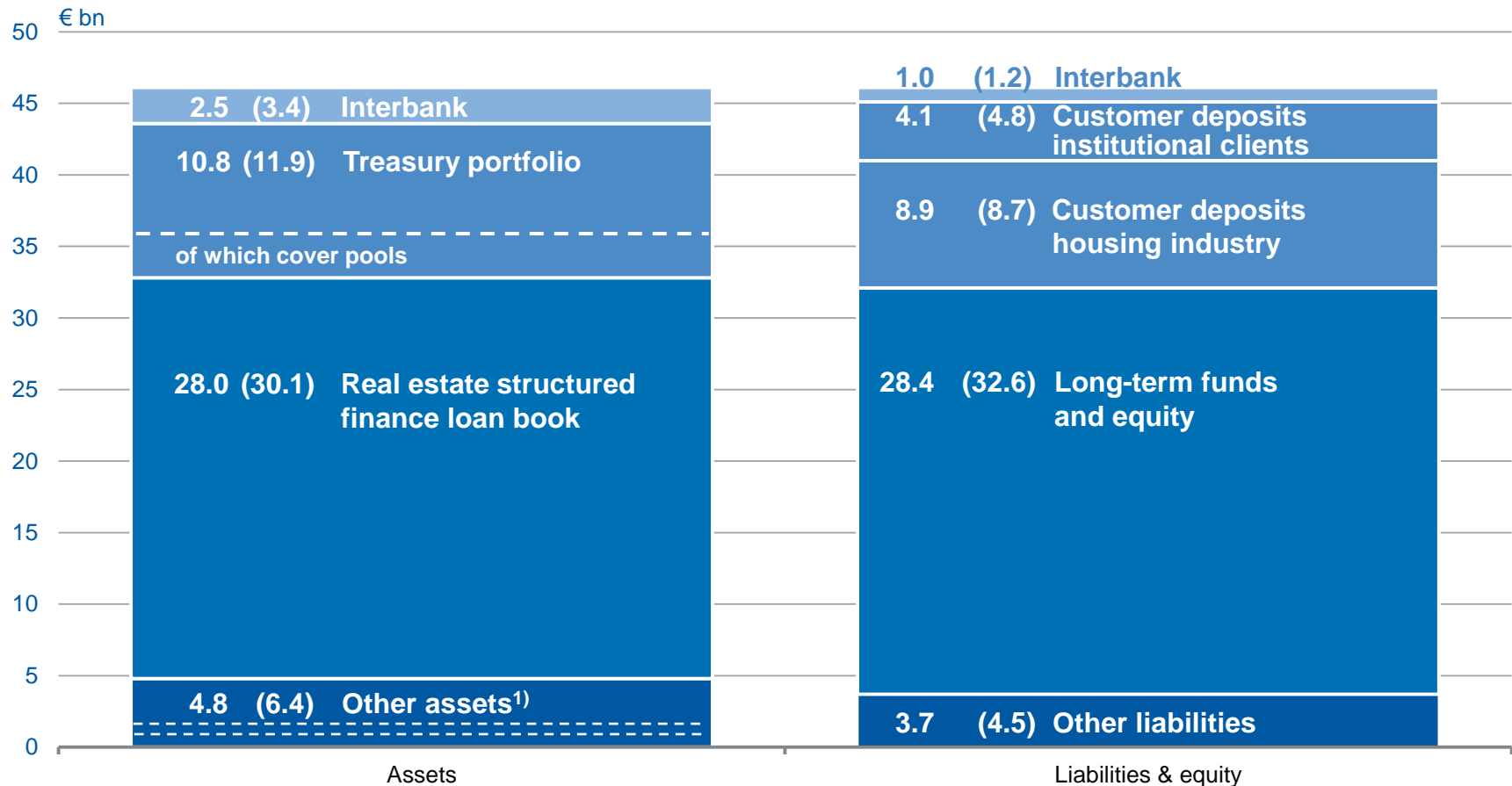


1) Other assets includes € 1.0 bn private client portfolio and WIB's € 0.6 bn public sector loans

Asset- / Liability structure according to IFRS

As at 31.03.2017: € 46.1 bn (31.03.2016: € 51.8 bn)

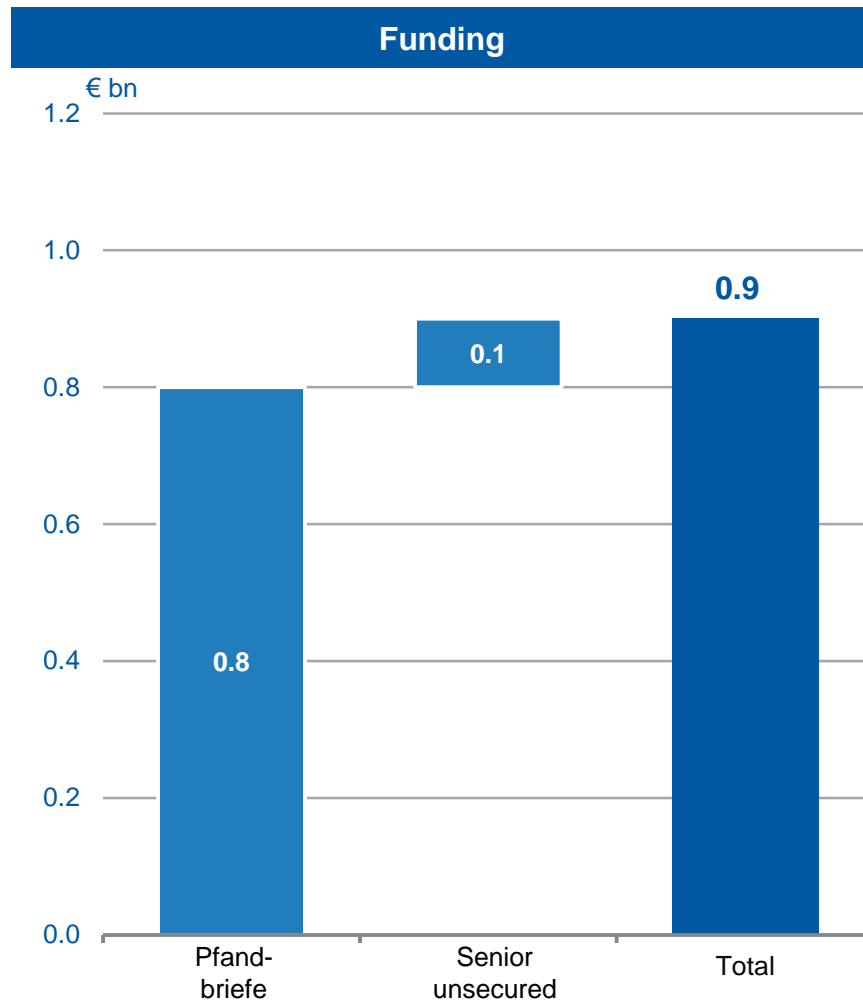
- Conservative balance sheet with structural over borrowed position
- Average maturity of long term funding > average maturity of RSF loans



1) Other assets includes € 1.0 bn private client portfolio and WIB's € 0.6 bn public sector loans

Capital market funding

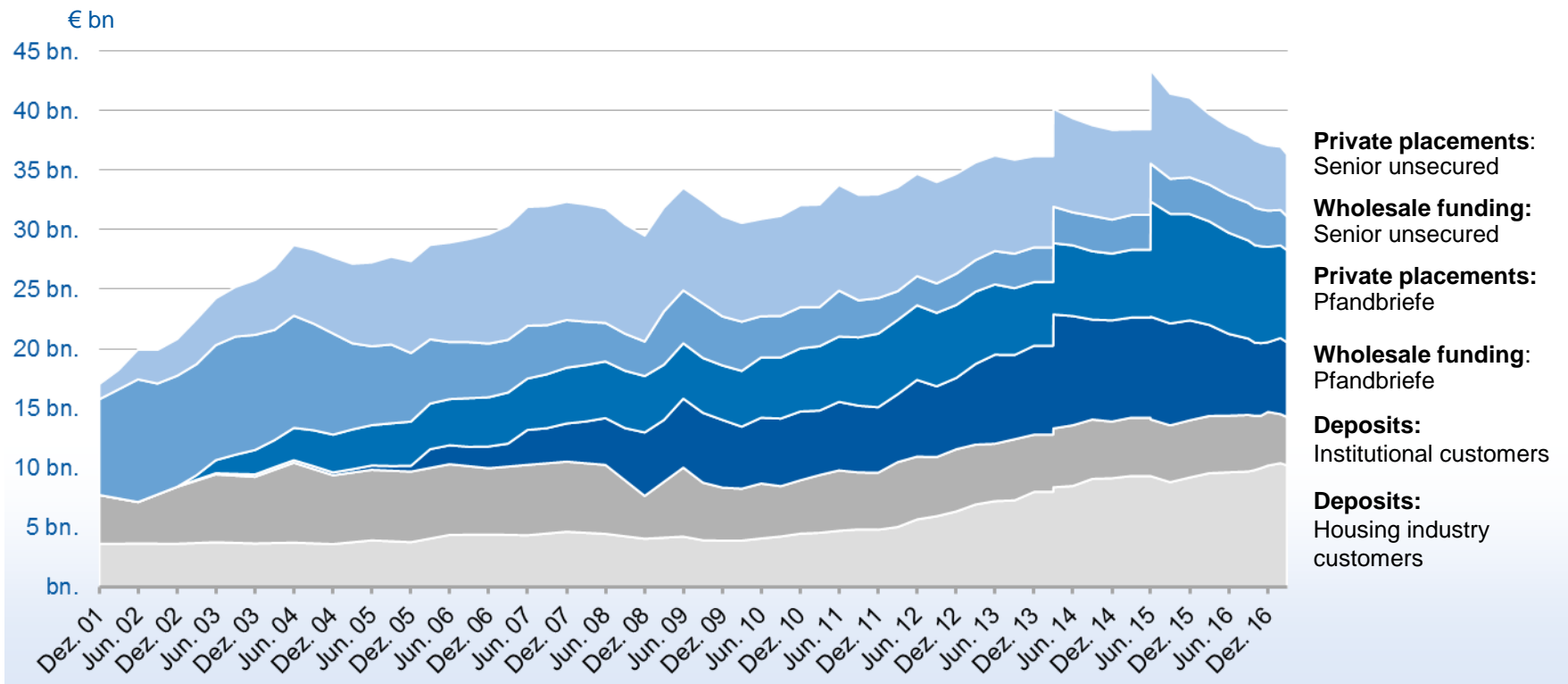
Sound liquidity position



- Total funding raised in Q1 2017: € 0.9 bn mainly Pfandbriefe (€ 0.8 bn)
- Backbone of capital market funding is a loyal, granular, domestic private placement investor base
 - Hold-to-maturity investors: ~ 600
 - Average ticket size: ~ € 10 mn
- Fulfilling liquidity KPIs
 - NSFR > 1
 - LCR >> 1

Refinancing situation

Diversified funding sources and distribution channels



- Aareal Bank has clearly reduced its dependency on wholesale funding
- 2002 long term wholesale funding accounted for 47% of overall funding volumes – by 31.03.2017, this share has fallen below 25% (or even below 10% without Pfandbriefe)

As at 31.03.2017



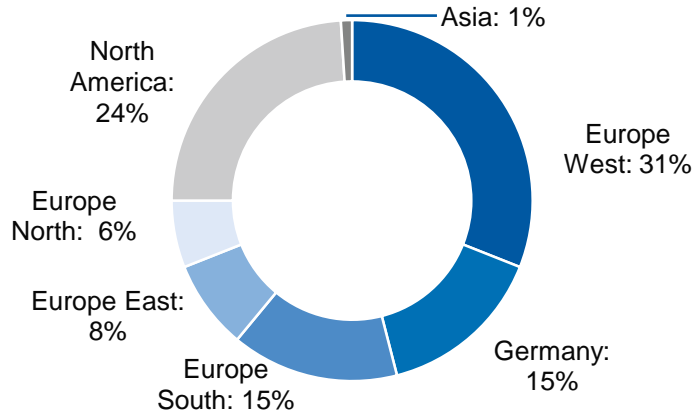
Asset quality

Aareal

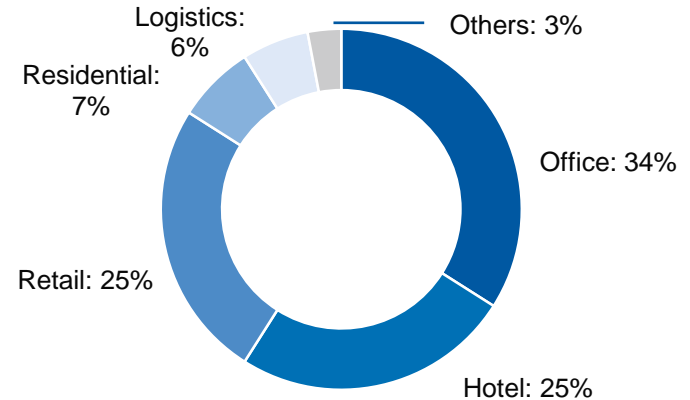
Property finance portfolio¹⁾

€ 28.0 bn highly diversified and sound

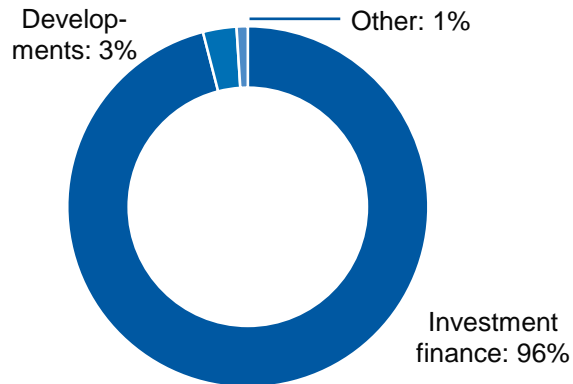
Portfolio by region



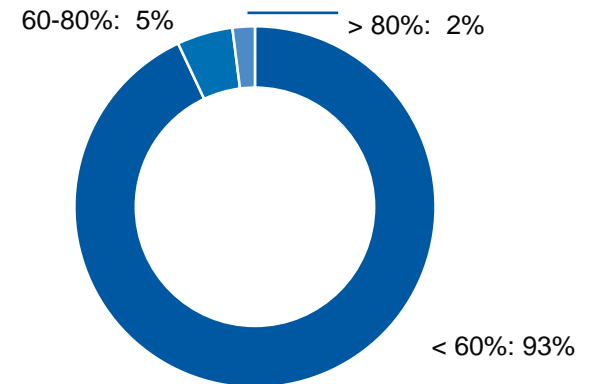
Portfolio by property type



Portfolio by product type



Portfolio by LTV ranges²⁾



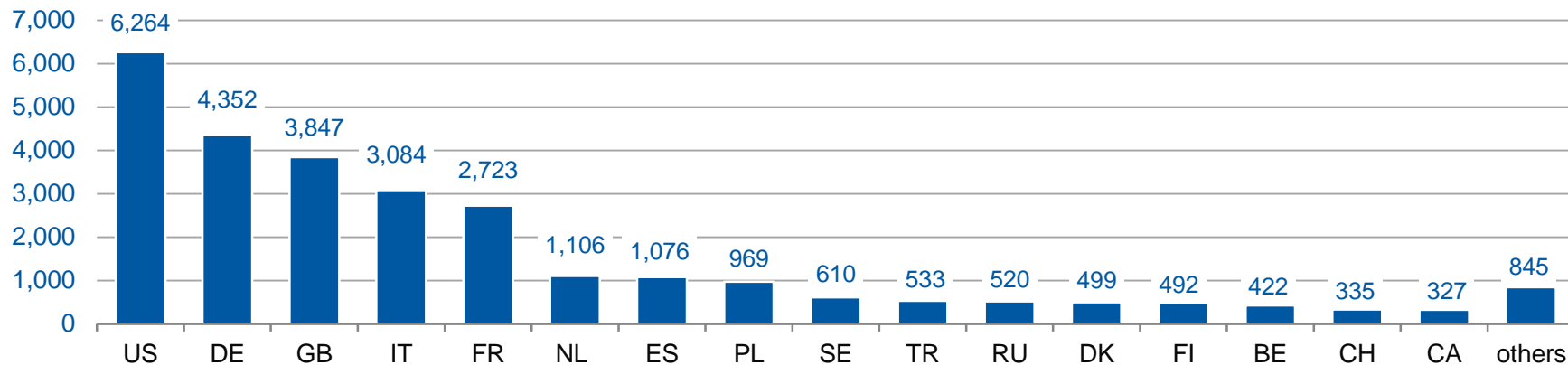
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 31.03.2017

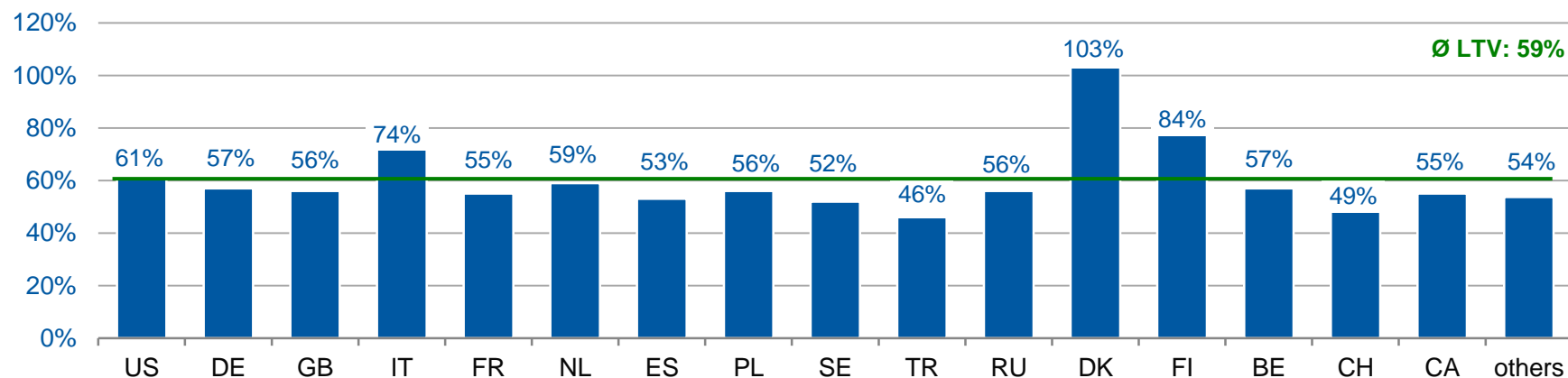
Property finance portfolio¹⁾

Portfolio details

Total property finance portfolio by country (€ mn)



LTV by country²⁾



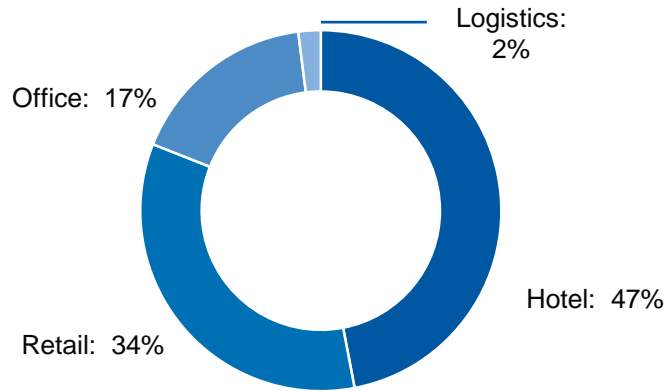
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

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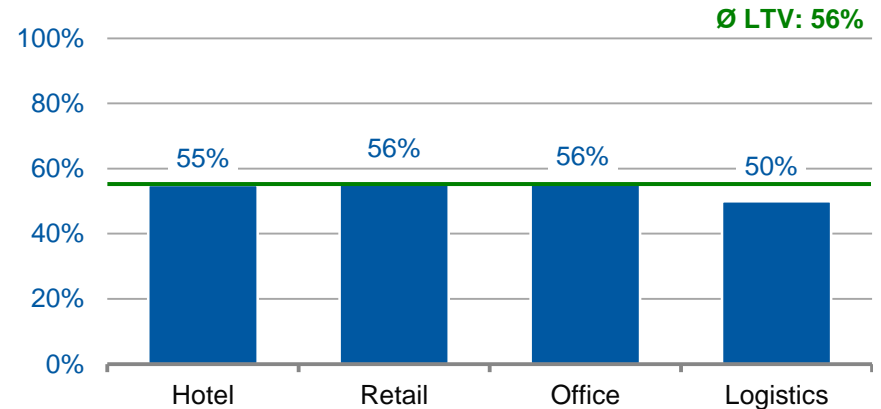
Spotlight: UK property finance portfolio¹⁾

€ 3.8 bn (~14% of total portfolio)

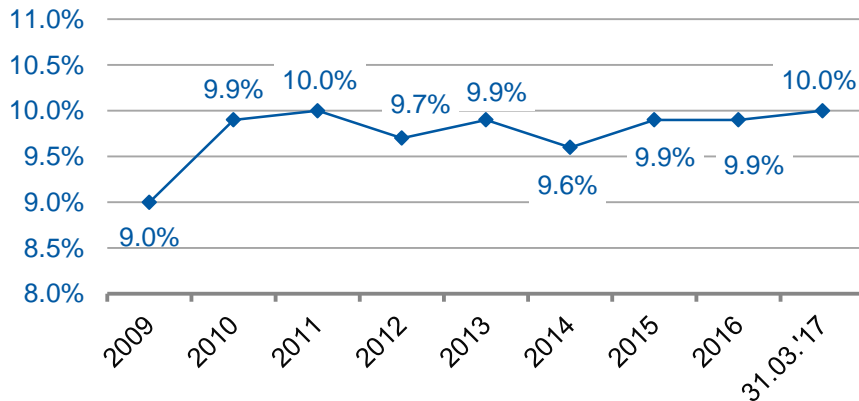
Total portfolio by property type



Average LTV by property type²⁾



Yield on debt²⁾



Comments

- Performing:
 - ~ 110 properties financed, no developments
 - ~ 55% of total portfolio in Greater London area, emphasising on hotels
 - € 101 mn with an LTV > 60%
 - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 69%
- NPL: € 10 mn

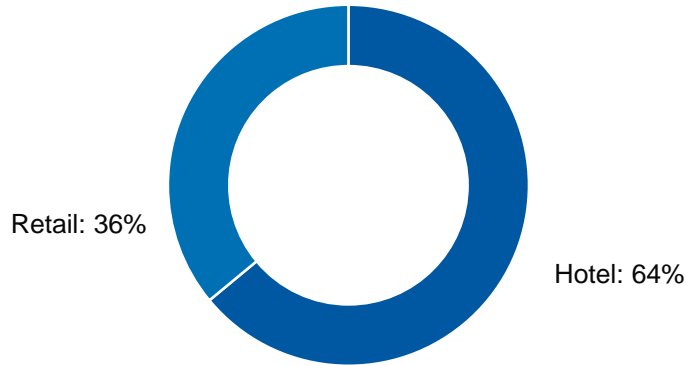
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 31.03.2017

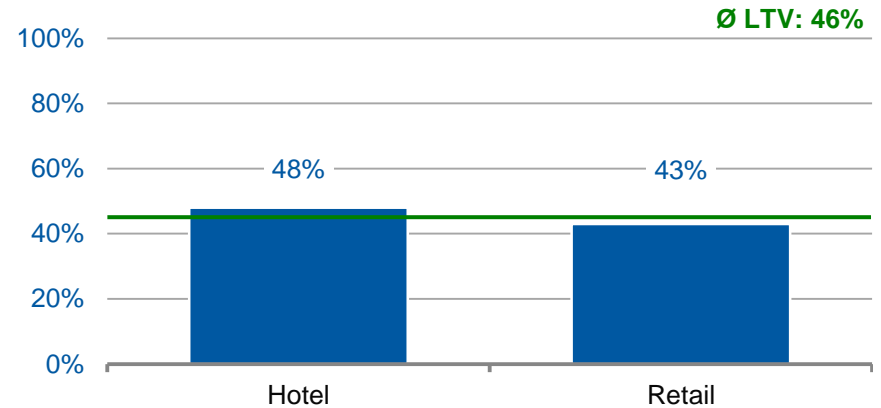
Spotlight: Turkey property finance portfolio¹⁾

€ 0.5 bn (~2% of total portfolio)

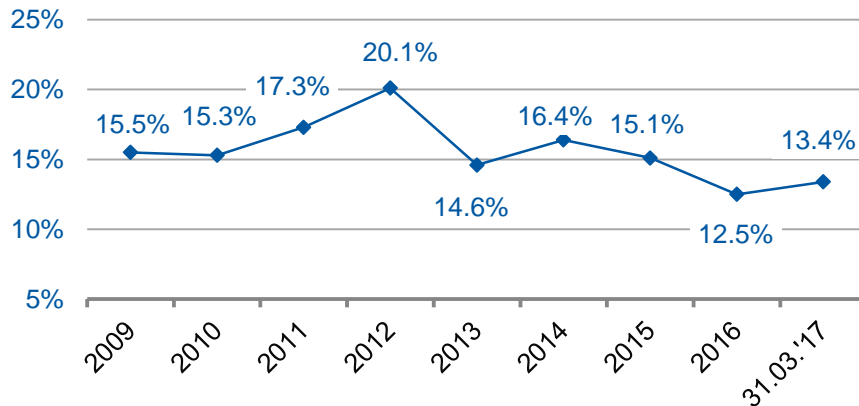
Total portfolio by property type



Average LTV by property type²⁾



Yield on debt²⁾



Comments

- Performing:
 - 10 properties financed: 7 hotels, 3 retail, no logistics, no developments
 - ~ 65% of total portfolio in Istanbul / Antalya
 - € 1 mn with an LTV > 60%
 - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 58%
- NPL: € 95 mn, 2 deals (hotel, retail)

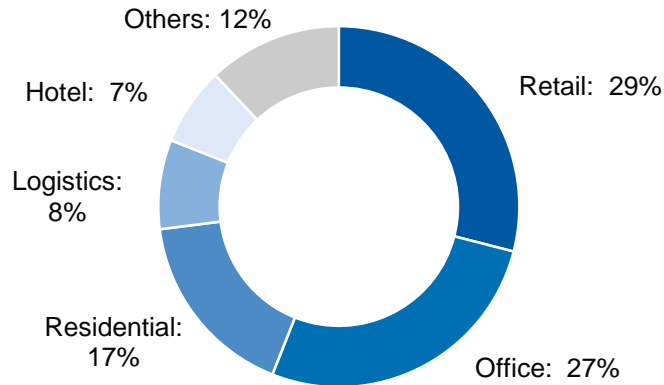
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 31.03.2017

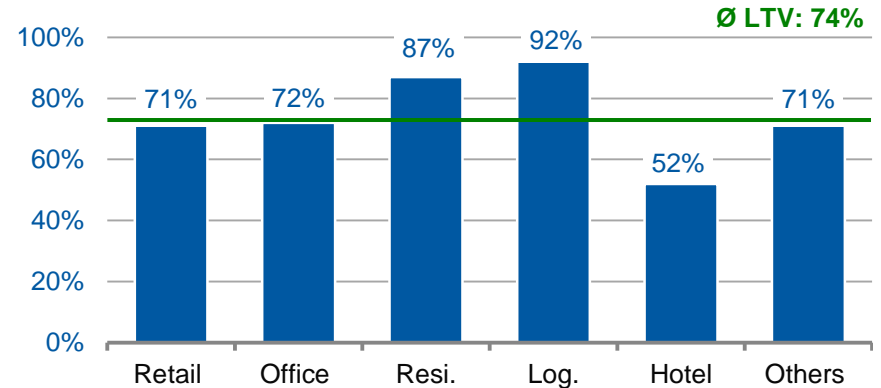
Spotlight: Italian property finance portfolio¹⁾

€ 3.1 bn (~11% of total portfolio)

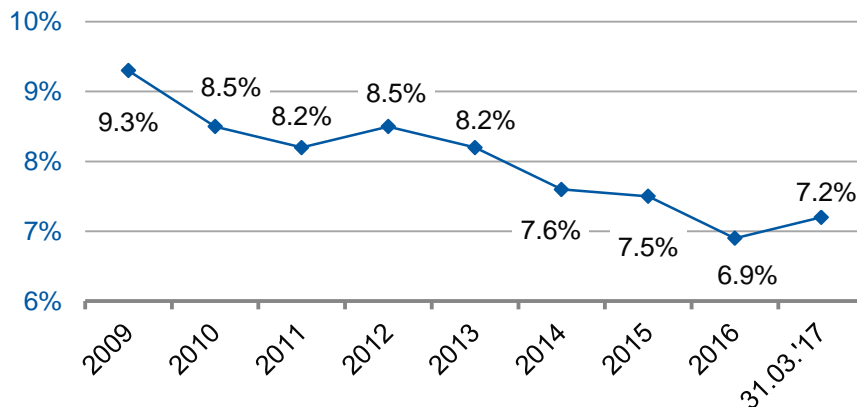
Total portfolio by property type



Average LTV by property type²⁾



Yield on debt²⁾



Comments

- Performing:
 - ~ 200 properties financed, < 10% developments
 - > 50% of total portfolio in Greater Rome or Milan area
 - € 421 mn with an LTV > 60%
 - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 93%
- NPL: € 809 mn

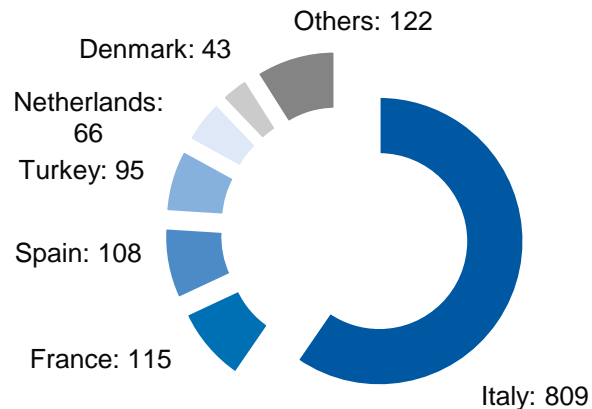
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 31.03.2017

Spotlight Italy

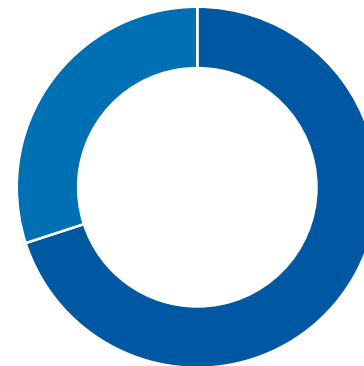
Italian NPL: clear going forward strategy

Total NPL portfolio: € 1,358 mn



Italian NPL by status

Enforcement:
~30%



Restructured /
agreement in place
or planned:
~70%

Italian NPL

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

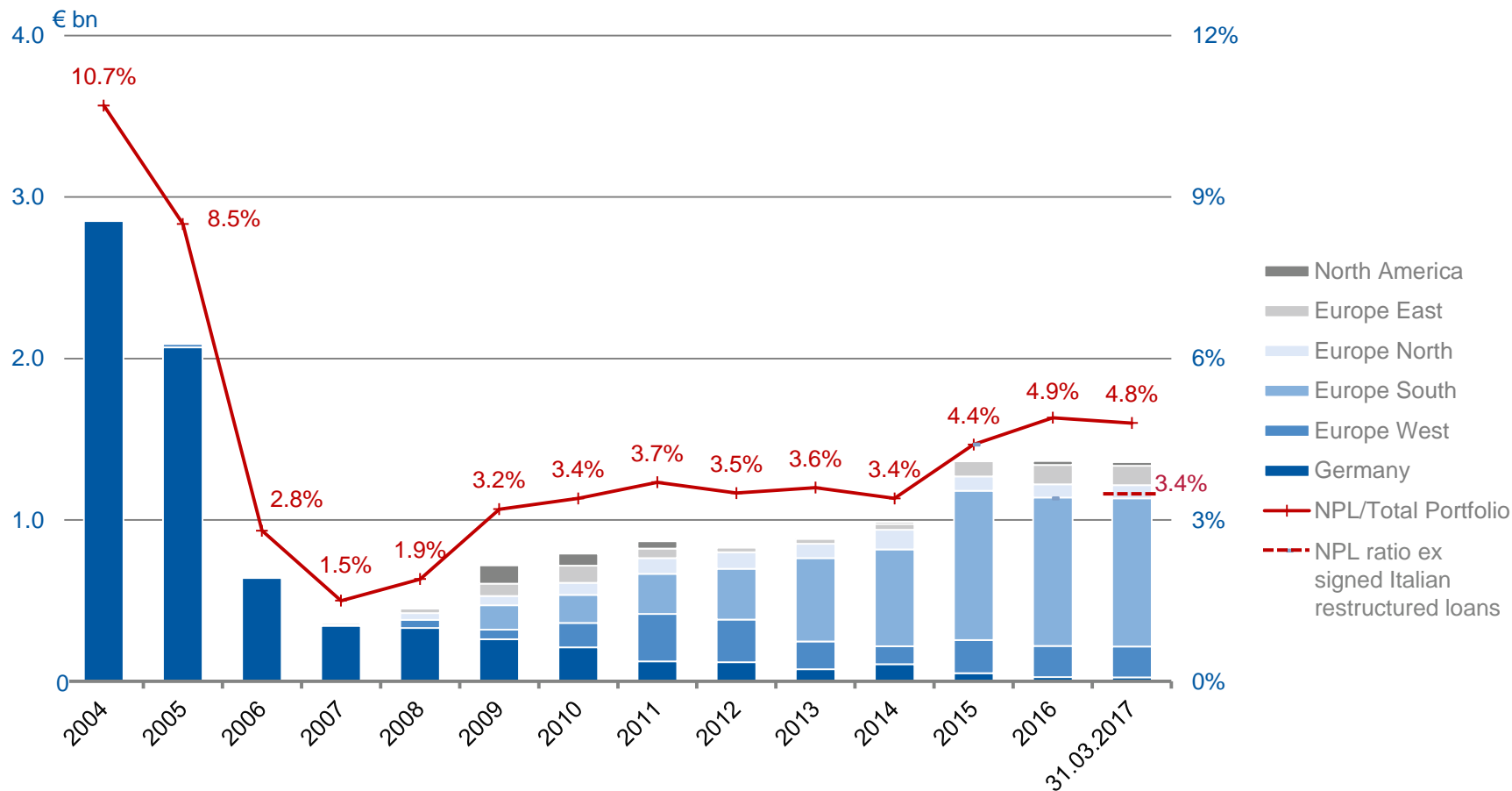


All Italian NPL are fully covered despite being in different workout-stages

Property finance portfolio¹⁾

Stable NPL volume

NPL and NPL-ratio (since 12.2004)

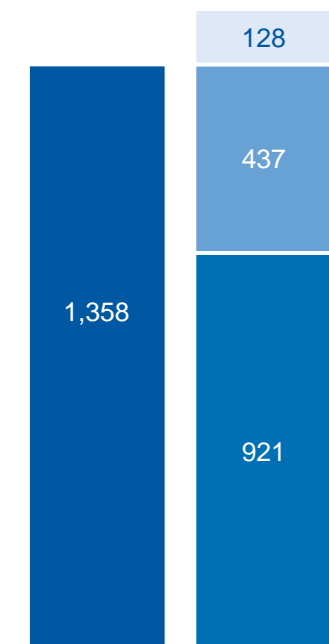
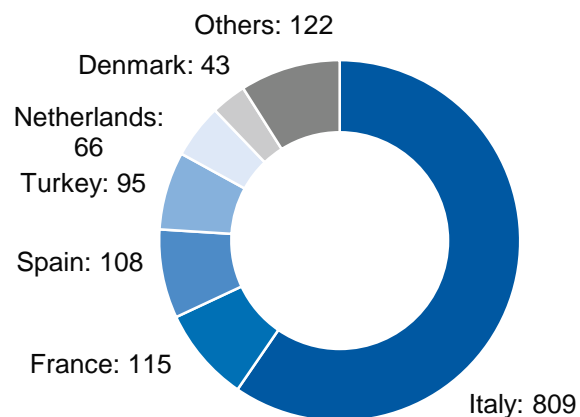


1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

Property finance portfolio

NPL exposure fully covered including collaterals

NPL-split and coverage (€ mn)



| | 31.03.2017 |
|--|------------|
| Coverage ratio specific allowance | 32% |
| Coverage ratio including portfolio allowance | 42% |

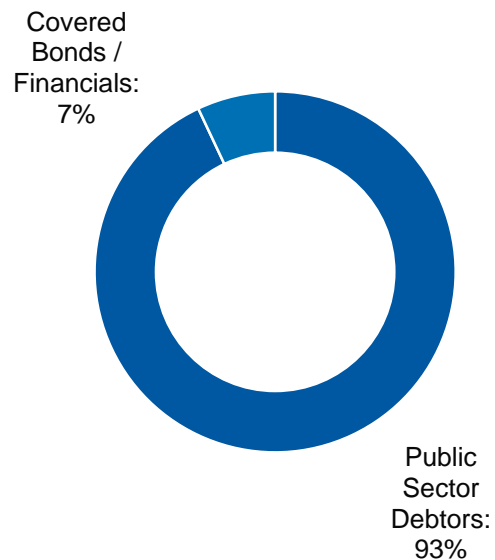
- NPL exposure
- Portfolio allowance
- Specific allowance
- Collaterals

1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

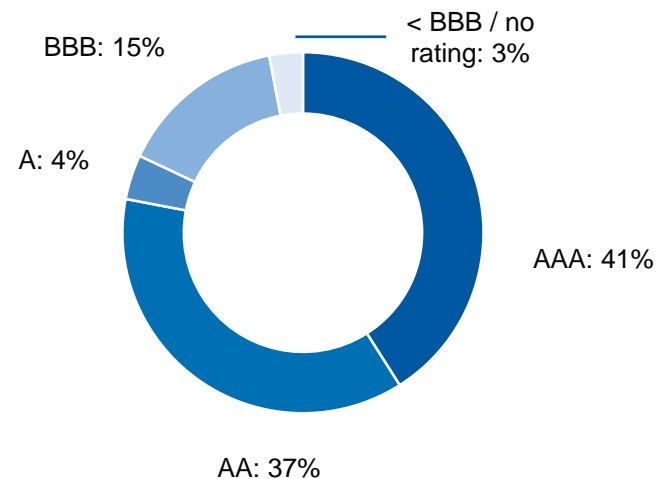
Treasury portfolio

€ 8.9 bn of high quality and highly liquid assets

by asset class



by rating¹⁾



As at 31.03.2017 – all figures are nominal amounts

1) Composite Rating



Outlook 2017

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Outlook 2017

Confirming increased guidance

| 2017 | |
|--|--|
| Net interest income | ▪ € 620 mn - € 660 mn incl. planned effects from early repayments (€ 35 mn - € 75 mn) |
| Allow. for credit losses¹⁾ | ▪ € 75 mn - € 100 mn |
| Net commission income | ▪ € 195 mn - € 210 mn |
| Admin expenses | ▪ € 470 mn - € 510 mn incl. expenses for projects and investments / effects from integration |
| Operating profit | ▪ € 310 mn - € 350 mn |
| Pre-tax RoE | ▪ 11% - 12.5% (9% - 10.5% excl. one-off from reversal of provisions related to CCB acquisition) |
| EpS | ▪ € 2.85 - € 3.30 |
| Target portfolio size | ▪ € 25 bn - € 28 bn |
| New business origination²⁾ | ▪ € 7 bn - € 8 bn |
| Operating profit Aareon³⁾ | ▪ € 34 mn - € 35 mn |

1) As in 2016, the bank cannot rule out additional allowances for credit losses

2) Incl. renewals

3) After segment adjustments

Conclusion

Aareal Bank Group well positioned to continue successful development

Key takeaways



Aareal Bank Group remains on course, following solid start into the new year



Consolidated operating profit fully in line with expectations



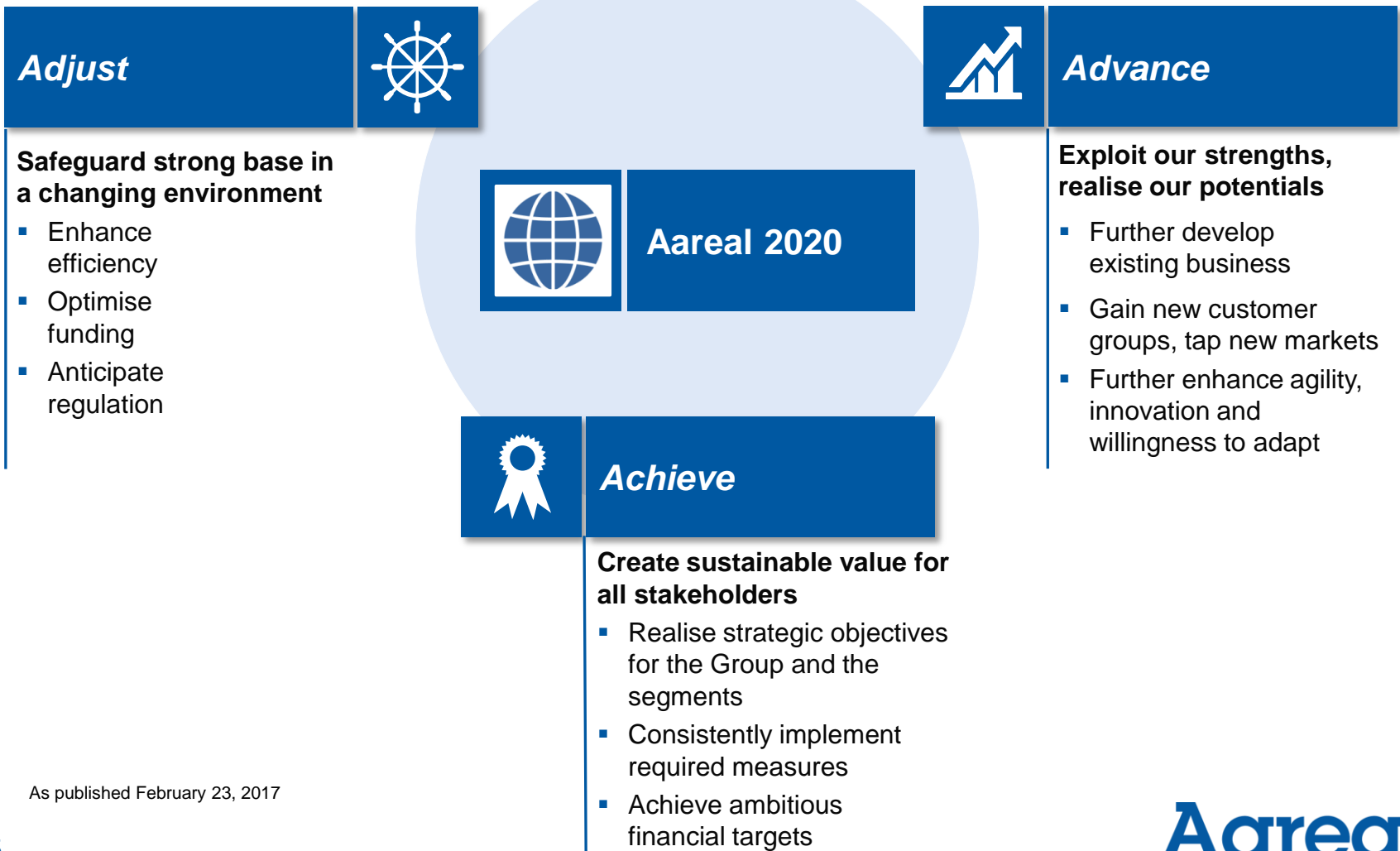
Increased full-year guidance confirmed



Appendix
Aareal 2020

Aareal 2020 – *Adjust. Advance. Achieve.*

Our way ahead



As published February 23, 2017

Aareal 2020 – Adjust. Advance. Achieve.





We successfully started – in our operational business ...

| | Achievements so far  | Focus 2017  | Targets 2020 Plus  |
|--|--|---|--|
| Structured Property Finance  | <ul style="list-style-type: none"> ✓ US-portfolio enhanced ✓ Non-core assets reduced ✓ Syndication volume increased ✓ Servicing platform, cooperation signed | <ul style="list-style-type: none"> ▪ Further enhancing of attractive markets, e.g. USA ▪ Further reduction of non-core assets ▪ Further increasing syndication, enhancing investor bases and product scope ▪ Digitalisation of internal processes as well as clients' interface | <ul style="list-style-type: none"> ▪ Expansion in markets with attractive risk return profile ▪ Strengthened portfolio- and balance sheet management ▪ New (digital) opportunities taken by enhancing value chain |
| Consulting/ Services | <ul style="list-style-type: none"> ✓ Core business successfully enhanced ✓ Digital platform developed and new digital solutions launched ✓ International cross-selling increased ✓ Network with start-ups enlarged, first cooperation signed | <ul style="list-style-type: none"> ▪ Enlarging digital solutions portfolio ▪ Tapping joint markets and customer groups, e.g. utilities and CRE ▪ Intensifying cooperation, in particular with start-ups | <ul style="list-style-type: none"> ▪ Eco system housing industry and utilities expanded ▪ Existing platform products for the B2C business for the housing industry further developed ▪ Further development of our payment transaction system and IT products as well as enlarging our customer base |

As published February 23, 2017

Aareal 2020 – *Adjust. Advance. Achieve*

... and investing in our organisation and IT

| | Achievements so far  | Focus 2017  | Targets 2020 Plus  |
|---|--|---|--|
|  | <ul style="list-style-type: none"> ✓ New governance model established ✓ Requirement of new IT-infrastructure defined ✓ WIB integration faster than originally planned ✓ Funding optimised and flexibility via second rating gained ✓ Regulation anticipated, Basel III requirements already fulfilled | <ul style="list-style-type: none"> ▪ Optimising group structure and exploiting synergies ▪ Set-up of new IT-infrastructure ▪ Optimising deposit structure and making use of second rating ▪ Constant monitoring of regulation and anticipation possible changes | <ul style="list-style-type: none"> ▪ Enhancing flexibility and efficiency ▪ Reducing complexity ▪ Optimising IT and digital processes ▪ Equilibrating capital structure ▪ Safeguarding broadly diversified funding base |

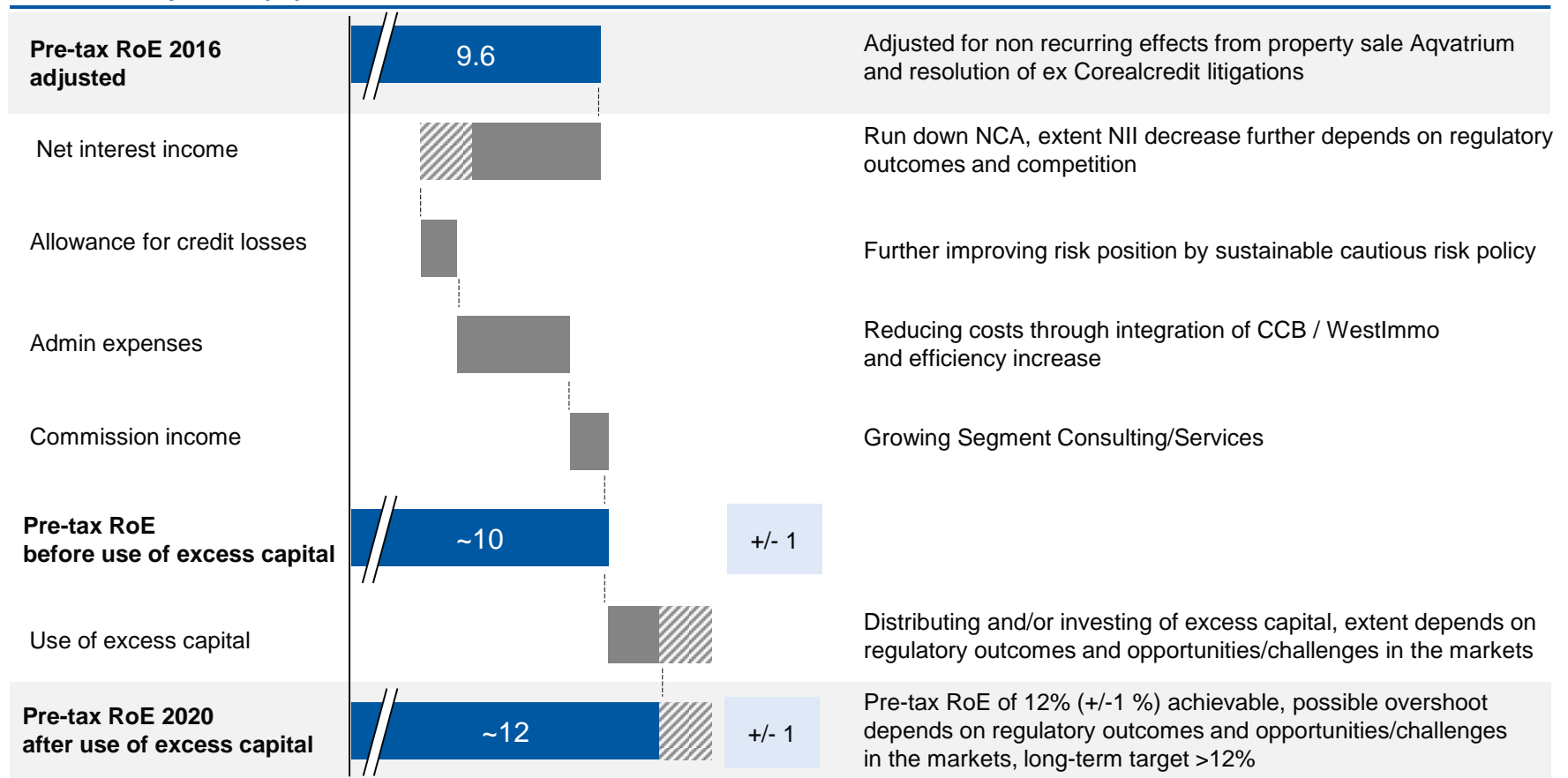
As published February 23, 2017



Achieve.

Keep RoE on an attractive level despite difficult environment

RoE-Development (%)



As published February 23, 2017

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



Achieve.

Increase payout ratio (up to 80%)¹⁾

Base dividend

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

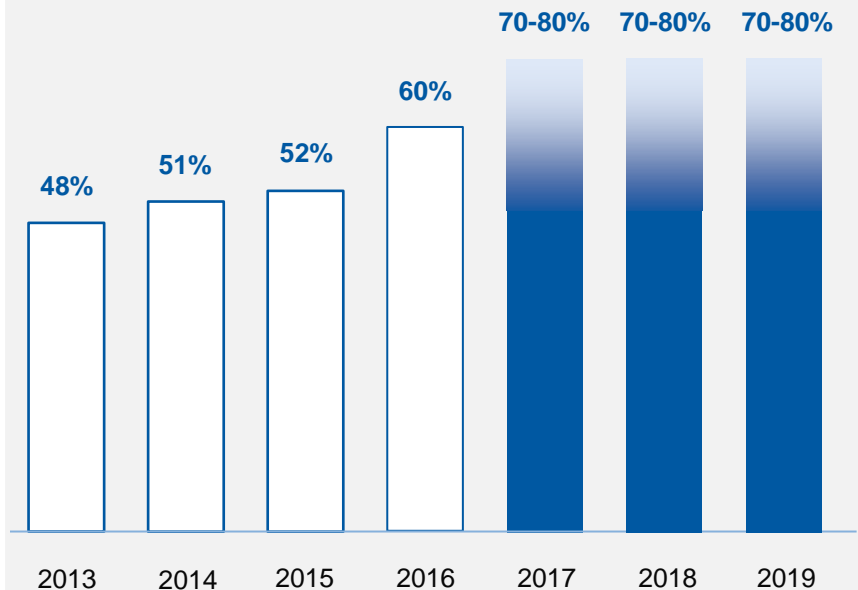
Supplementary dividend

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

Prerequisites:

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

Payout ratio 2013 - 2019



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
Group results

Aareal Bank Group

Results Q1 2017

| | 01.01.- 31.03.2017 € mn | 01.01.- 31.03.2016 € mn | Change |
|--|-------------------------------|-------------------------------|-------------|
| Profit and loss account | | | |
| Net interest income | 164 | 180 | -9% |
| Allowance for credit losses | 2 | 2 | 0% |
| Net interest income after allowance for credit losses | 162 | 178 | -9% |
| Net commission income | 48 | 46 | 4% |
| Net result on hedge accounting | -3 | 1 | |
| Net trading income / expenses | -1 | 9 | |
| Results from non-trading assets | | 0 | |
| Results from investments accounted for at equity | | 0 | |
| Administrative expenses | 139 | 146 | -5% |
| Net other operating income / expenses | 4 | -1 | |
| Operating Profit | 71 | 87 | -18% |
| Income taxes | 24 | 27 | -11% |
| Consolidated net income | 47 | 60 | -22% |
| Consolidated net income attributable to non-controlling interests | 5 | 5 | 0% |
| Consolidated net income attributable to shareholders of Aareal Bank AG | 42 | 55 | -24% |
| Earnings per share (EpS) | | | |
| Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾ | 42 | 55 | -24% |
| of which: allocated to ordinary shareholders | 38 | 51 | -25% |
| of which: allocated to AT1 investors | 4 | 4 | 0% |
| Earnings per ordinary share (in €) ²⁾ | 0.63 | 0.85 | -26% |
| Earnings per ordinary AT1 unit (in €) ³⁾ | 0.04 | 0.04 | 0% |

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

2) Earnings per ordinary share are determined by dividing the earnings allocated to ordinary shareholders of Aareal Bank AG by the weighted average of ordinary shares outstanding during the financial year (59,857,221 shares). Basic earnings per ordinary share correspond to diluted earnings per ordinary share.

3) Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of 3 € each) are determined by dividing the earnings allocated to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Earnings per AT1 unit (basic) correspond to (diluted) earnings per AT1 unit.

Aareal Bank Group

Results Q1 2017 by segments

| | Structured Property Financing | | Consulting / Services | | Consolidation/ Reconciliation | | Aareal Bank Group | |
|---|-------------------------------|---------------------|-----------------------|---------------------|-------------------------------|---------------------|---------------------|---------------------|
| | 01.01.- 31.03. 2017 | 01.01.- 31.03. 2016 | 01.01.- 31.03. 2017 | 01.01.- 31.03. 2016 | 01.01.- 31.03. 2017 | 01.01.- 31.03. 2016 | 01.01.- 31.03. 2017 | 01.01.- 31.03. 2016 |
| | | | | | | | | |
| € mn | | | | | | | | |
| Net interest income | 167 | 182 | 0 | 0 | -3 | -2 | 164 | 180 |
| Allowance for credit losses | 2 | 2 | | | | | 2 | 2 |
| Net interest income after allowance for credit losses | 165 | 180 | 0 | 0 | -3 | -2 | 162 | 178 |
| Net commission income | 1 | 2 | 45 | 42 | 2 | 2 | 48 | 46 |
| Net result on hedge accounting | -3 | 1 | | | | | -3 | 1 |
| Net trading income / expenses | -1 | 9 | | 0 | | | -1 | 9 |
| Results from non-trading assets | | 0 | | | | | | 0 |
| Results from investments accounted for at equity | | | | 0 | | | | 0 |
| Administrative expenses | 89 | 95 | 51 | 51 | -1 | 0 | 139 | 146 |
| Net other operating income / expenses | 4 | -1 | 0 | 0 | 0 | 0 | 4 | -1 |
| Operating profit | 77 | 96 | -6 | -9 | 0 | 0 | 71 | 87 |
| Income taxes | 26 | 30 | -2 | -3 | | | 24 | 27 |
| Consolidated net income | 51 | 66 | -4 | -6 | 0 | 0 | 47 | 60 |
| Allocation of results | | | | | | | | |
| Cons. net income attributable to non-controlling interests | 4 | 4 | 1 | 1 | | | 5 | 5 |
| Cons. net income attributable to shareholders of Aareal Bank AG | 47 | 62 | -5 | -7 | 0 | 0 | 42 | 55 |

Aareal Bank Group

Results – quarter by quarter

| | Structured Property Financing | | | | | Consulting / Services | | | | | Consolidation / Reconciliation | | | | | Aareal Bank Group | | | | |
|---|-------------------------------|------------|------------|------------|------------|-----------------------|-----------|------------|-----------|-----------|--------------------------------|-----------|-----------|-----------|-----------|-------------------|------------|------------|------------|------------|
| | Q1 2017 | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 | Q1 2017 | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 | Q1 2017 | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 | Q1 2017 | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 |
| € mn | | | | | | | | | | | | | | | | | | | | |
| Net interest income | 167 | 174 | 179 | 181 | 182 | 0 | 0 | 0 | 0 | 0 | -3 | -5 | -4 | -4 | -2 | 164 | 169 | 175 | 177 | 180 |
| Allowance for credit losses | 2 | 33 | 33 | 29 | 2 | | | | | | | | | | | 2 | 33 | 33 | 29 | 2 |
| Net interest income after allowance for credit losses | 165 | 141 | 146 | 152 | 180 | 0 | 0 | 0 | 0 | 0 | -3 | -5 | -4 | -4 | -2 | 162 | 136 | 142 | 148 | 178 |
| Net commission income | 1 | 5 | 2 | 1 | 2 | 45 | 47 | 39 | 43 | 42 | 2 | 4 | 3 | 3 | 2 | 48 | 56 | 44 | 47 | 46 |
| Net result on hedge accounting | -3 | -4 | 3 | 0 | 1 | | | | | | | | | | | -3 | -4 | 3 | 0 | 1 |
| Net trading income / expenses | -1 | -2 | 4 | 8 | 9 | | | | 0 | 0 | | | | | | -1 | -2 | 4 | 8 | 9 |
| Results from non-trading assets | | 0 | 5 | 61 | 0 | | 1 | | | | | | | | | | 1 | 5 | 61 | 0 |
| Results from results accounted for at equity | | | | | | | 0 | 0 | 0 | 0 | | | | | | | 0 | 0 | 0 | 0 |
| Administrative expenses | 89 | 80 | 77 | 94 | 95 | 51 | 51 | 51 | 51 | 51 | -1 | -1 | -1 | -1 | 0 | 139 | 130 | 127 | 144 | 146 |
| Net other operating income / expenses | 4 | 26 | 2 | 0 | -1 | 0 | 2 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 28 | 3 | 0 | -1 |
| Negative goodwill | | | | | | | | | | | | | | | | | | | | |
| Operating profit | 77 | 86 | 85 | 128 | 96 | -6 | -1 | -11 | -8 | -9 | 0 | 0 | 0 | 0 | 0 | 71 | 85 | 74 | 120 | 87 |
| Income taxes | 26 | 45 | 27 | 41 | 30 | -2 | -1 | -4 | -3 | -3 | | | | | | 24 | 44 | 23 | 38 | 27 |
| Consolidated net income | 51 | 41 | 58 | 87 | 66 | -4 | 0 | -7 | -5 | -6 | 0 | 0 | 0 | 0 | 0 | 47 | 41 | 51 | 82 | 60 |
| Cons. net income attributable to non-controlling interests | 4 | 3 | 5 | 4 | 4 | 1 | 1 | 0 | 1 | 1 | | | | | | 5 | 4 | 5 | 5 | 5 |
| Cons. net income attributable to shareholders of Aareal Bank AG | 47 | 38 | 53 | 83 | 62 | -5 | -1 | -7 | -6 | -7 | 0 | 0 | 0 | 0 | 0 | 42 | 37 | 46 | 77 | 55 |



Appendix
AT1: ADI of Aareal Bank AG

Interest payments and ADI of Aareal Bank AG

Available Distributable Items (as of end of the relevant year)

| | 31.12. 2016 | 31.12. 2015 | 31.12. 2014 | 31.12. 2013 |
|--|----------------|----------------|----------------|----------------|
| € mn | | | | |
| Net Retained Profit | 122 | 99 | 77 | 50 |
| ▪ <i>Net income</i> | 122 | 99 | 77 | 50 |
| ▪ <i>Profit carried forward from previous year</i> | - | - | - | - |
| ▪ <i>Net income attribution to revenue reserves</i> | - | - | - | - |
| + Other revenue reserves after net income attribution | 720 | 720 | 715 | 710 |
| = Total dividend potential before amount blocked ¹⁾ | 842 | 819 | 792 | 760 |
| ./. Dividend amount blocked under section 268 (8) of the German Commercial Code | 235 | 287 | 240 | 156 |
| ./. Dividend amount blocked under section 253 (6) of the German Commercial Code | 28 | - | - | - |
| = Available Distributable Items ¹⁾ | 579 | 532 | 552 | 604 |
| + Increase by aggregated amount of interest expenses relating to Distributions on Tier 1 Instruments ¹⁾ | 46 | 46 | 57 | 57 |
| = 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⁾ | 625 | 578 | 609 | 661 |

1) Unaudited figures for information purposes only

Interest payments and ADI of Aareal Bank AG

Available Distributable Items (as of end of the relevant year)

| | 31.12. 2013 | 31.12. 2014 | 31.12. 2015 | 31.12. 2016 |
|--|----------------|----------------|----------------|----------------|
| € mn | | | | |
| Net Retained Profit | 50 | 77 | 99 | 122 |
| ▪ <i>Net income</i> | 50 | 77 | 99 | 122 |
| ▪ <i>Profit carried forward from previous year</i> | - | - | - | - |
| ▪ <i>Net income attribution to revenue reserves</i> | - | - | - | - |
| + Other revenue reserves after net income attribution | 710 | 715 | 720 | 720 |
| = Total dividend potential before amount blocked ¹⁾ | 760 | 792 | 819 | 842 |
| ./. Dividend amount blocked under section 268 (8) of the German Commercial Code | 156 | 240 | 287 | 235 |
| ./. Dividend amount blocked under section 253 (6) of the German Commercial Code | - | - | - | 28 |
| = Available Distributable Items ¹⁾ | 604 | 552 | 532 | 579 |
| + Increase by aggregated amount of interest expenses relating to Distributions on Tier 1 Instruments ¹⁾ | 57 | 57 | 46 | 46 |
| = 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⁾ | 661 | 609 | 578 | 625 |

1) Unaudited figures for information purposes only

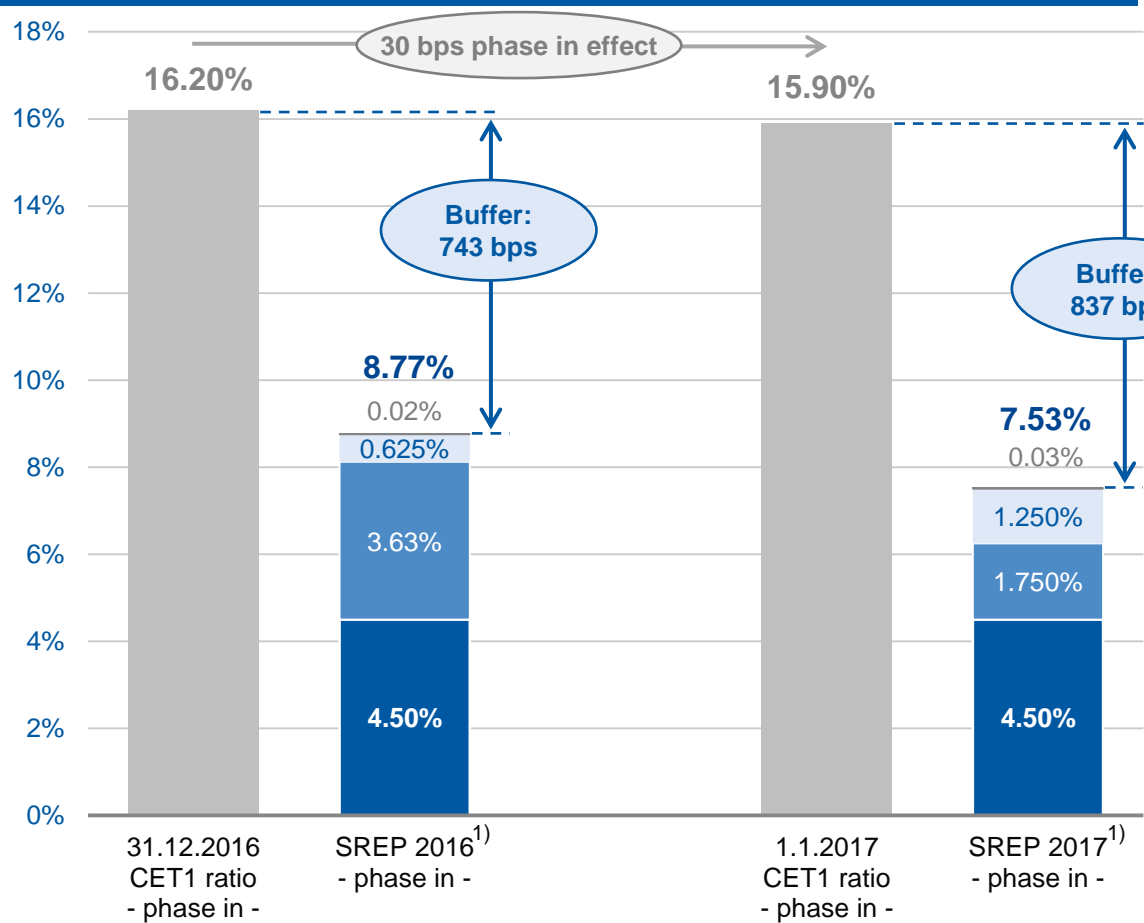


Appendix SREP

SREP (CET 1) requirements

Demonstrating conservative and sustainable business model

Current CET1 ratio vs. SREP (CET1) requirements



- SREP requirement 2017 conceptual adjusted from CET1 approach to total SREP capital requirements (TSCR) approach
- Corresponding total capital requirement 2017 (Overall Capital Requirement (OCR) incl. buffers, phase-in) amounts to 11.03%. As of 31 Dec 2016 total capital ratio (phase-in) amounts to 27.5%

- Current CET 1 ratio
- Counter-cyclical Buffer
- Capital Conservation Buffer
- Pillar 2 Requirement
- Pillar 1 Requirement

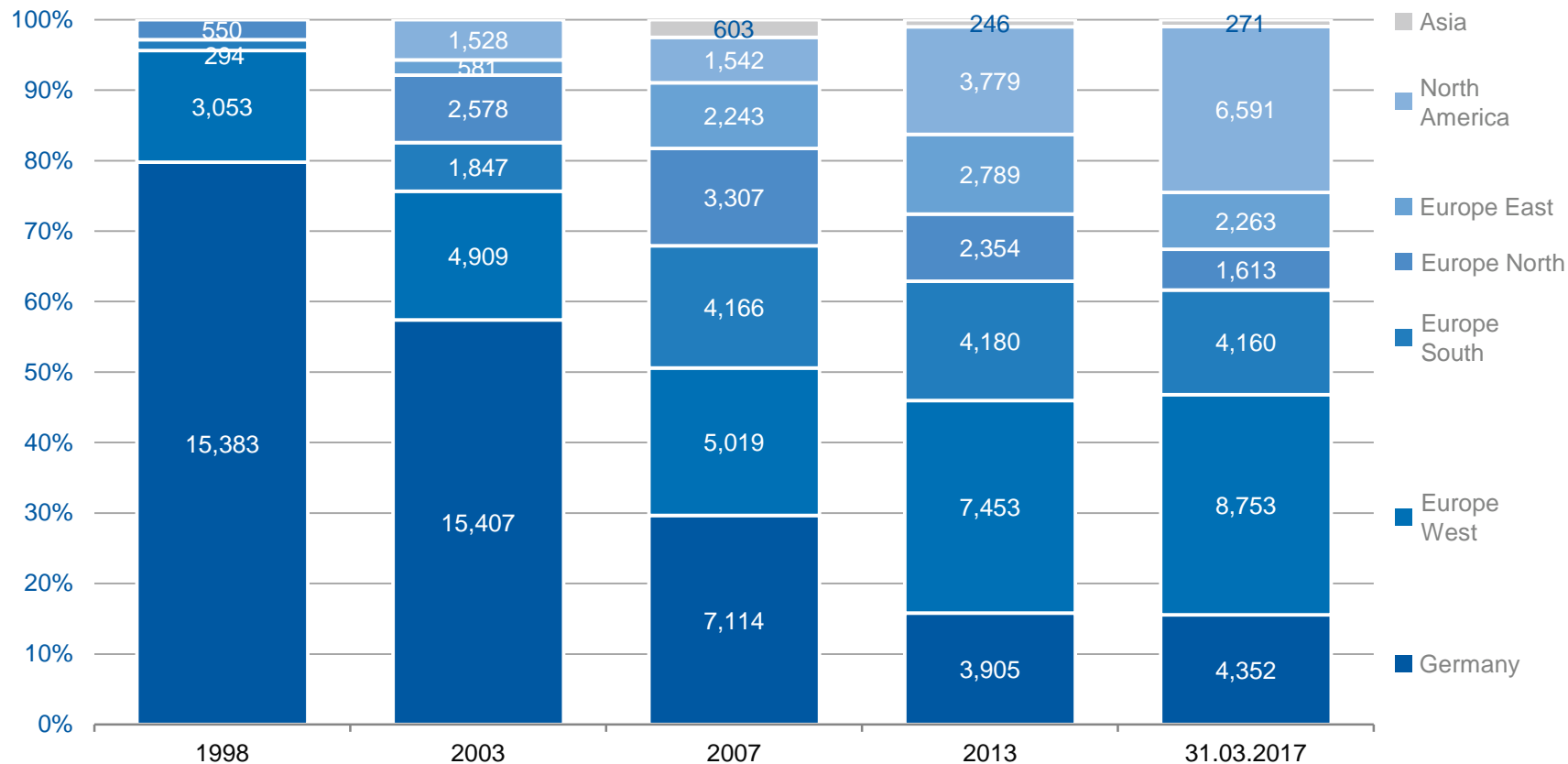
1) SREP-CET1 Requirements incl. buffers (Capital Conservation and Counter-cyclical)
As published February 23, 2017



Appendix
Development property finance portfolio

Development property finance portfolio¹⁾

Diversification continuously strengthened (in € mn)

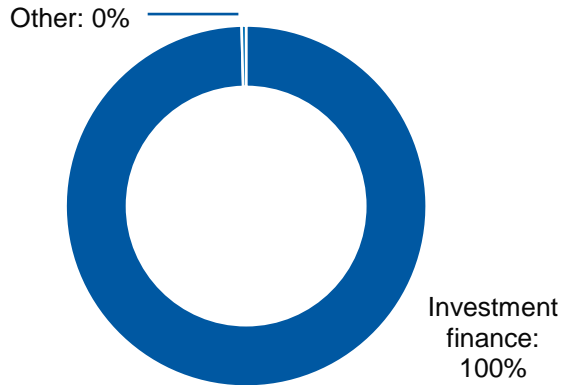


1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

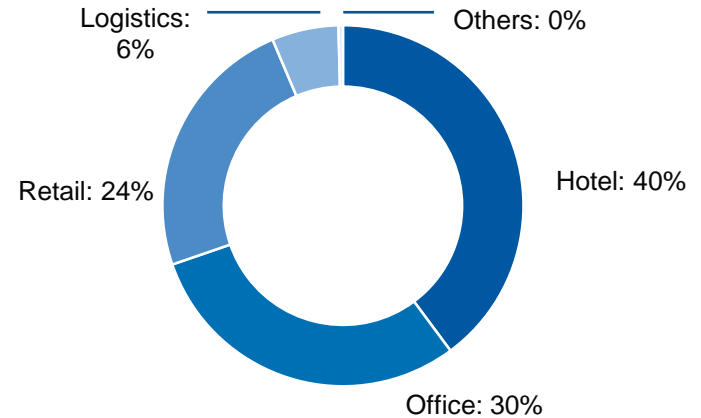
Western Europe (ex Germany) credit portfolio¹⁾

Total volume outstanding as at 31.03.2017: € 8.8 bn

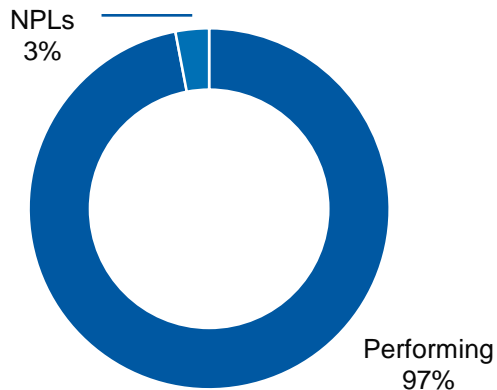
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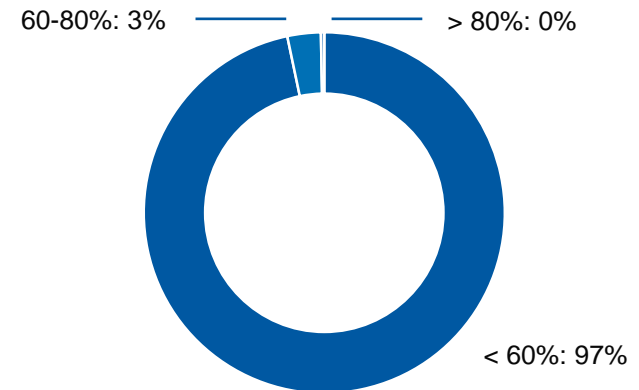
by property type



by performance



by LTV ranges²⁾



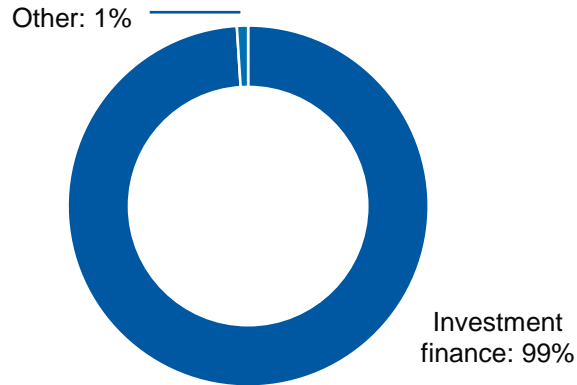
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 31.03.2017

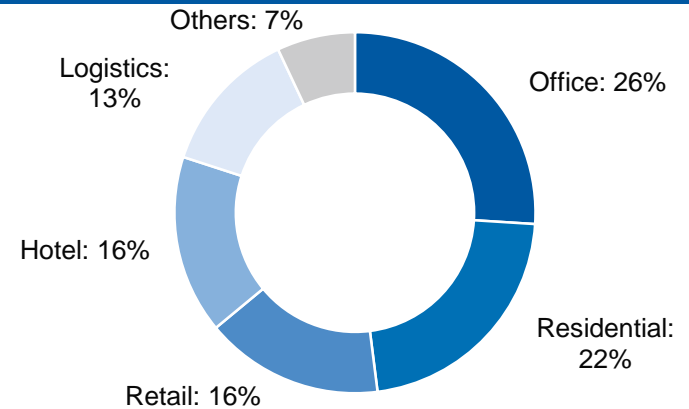
German credit portfolio¹⁾

Total volume outstanding as at 31.03.2017: € 4.4 bn

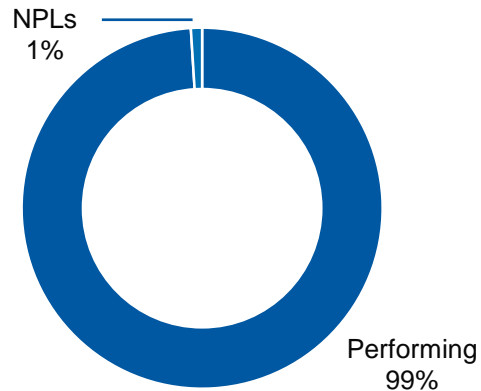
by product type



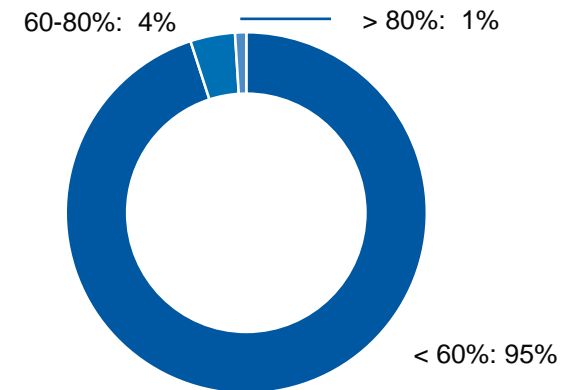
by property type



by performance



by LTV ranges²⁾



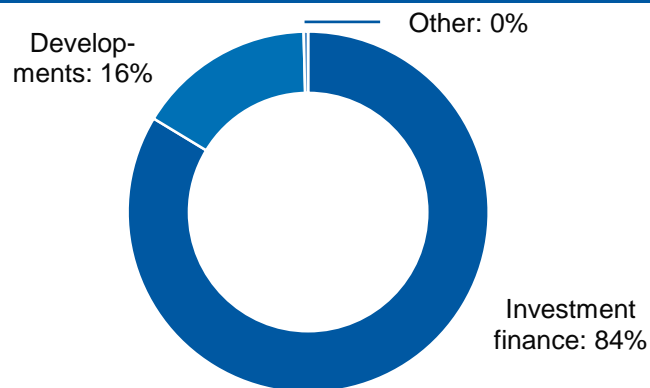
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 31.03.2017

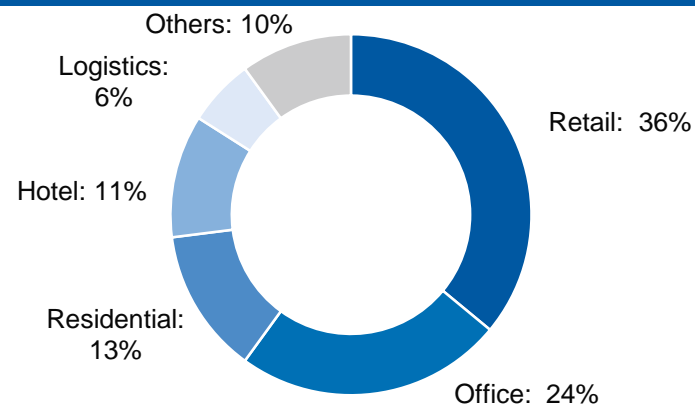
Southern Europe credit portfolio¹⁾

Total volume outstanding as at 31.03.2017: € 4.2 bn

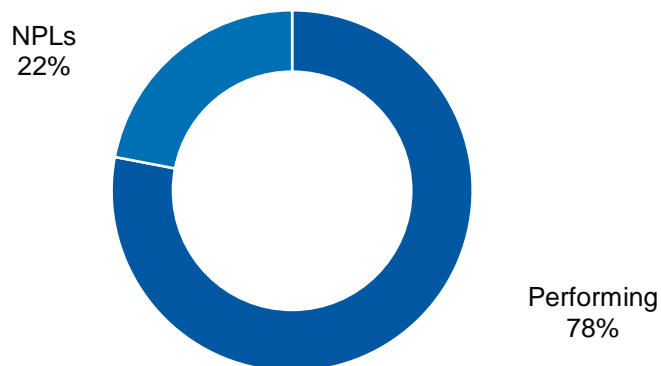
by product type



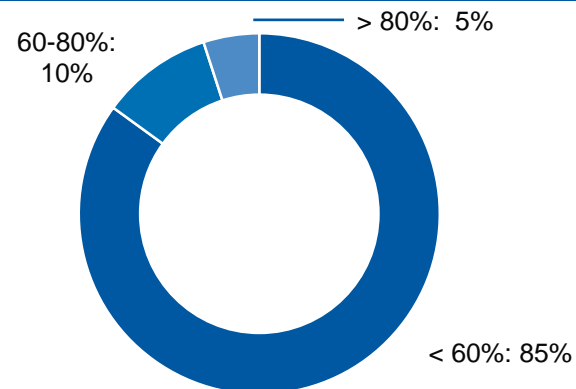
by property type



by performance



by LTV ranges²⁾



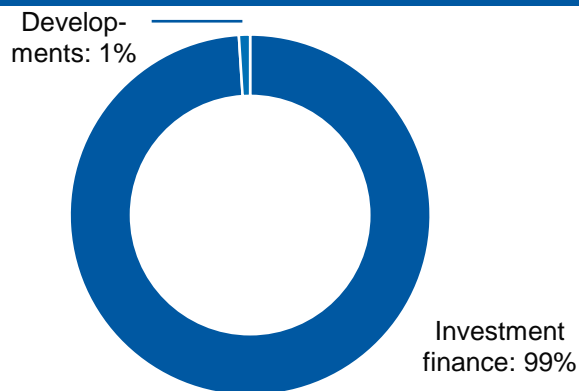
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 31.03.2017

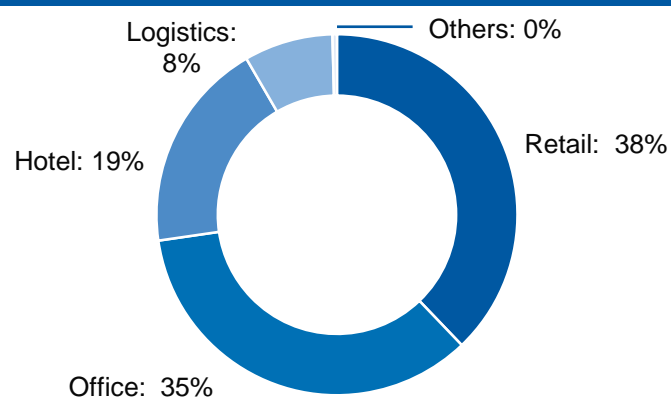
Eastern Europe credit portfolio¹⁾

Total volume outstanding as at 31.03.2017: € 2.3 bn

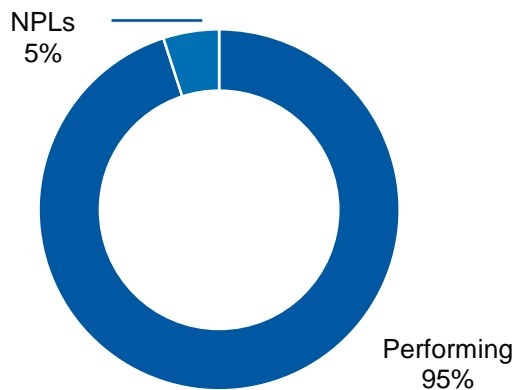
by product type



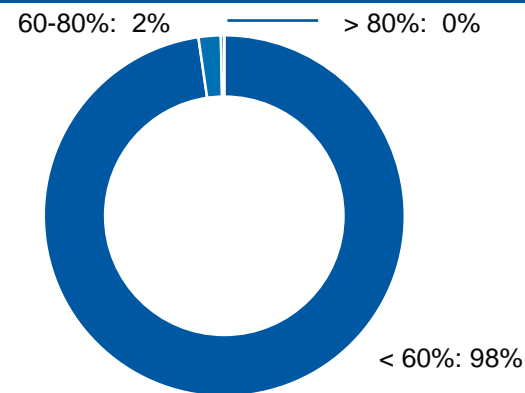
by property type



by performance



by LTV ranges²⁾



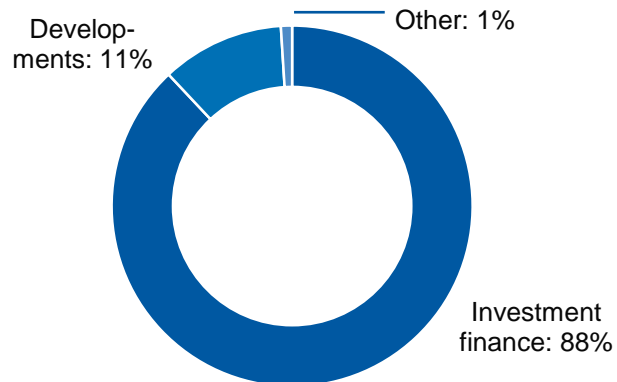
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 31.03.2017

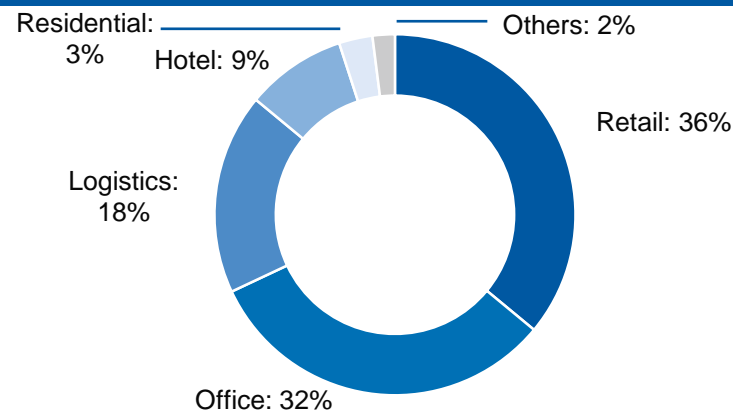
Northern Europe credit portfolio¹⁾

Total volume outstanding as at 31.03.2017: € 1.6 bn

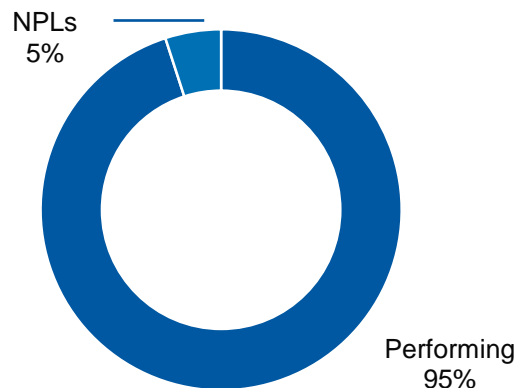
by product type



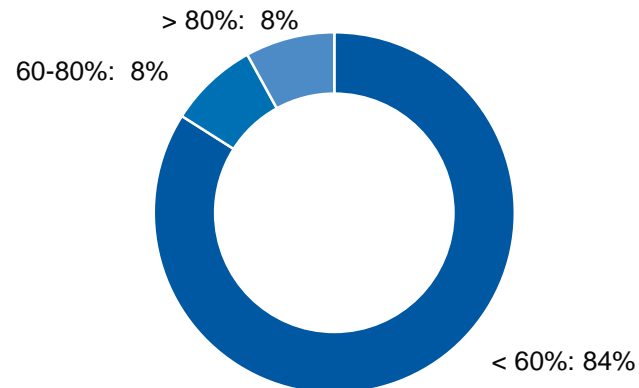
by property type



by performance



by LTV ranges²⁾



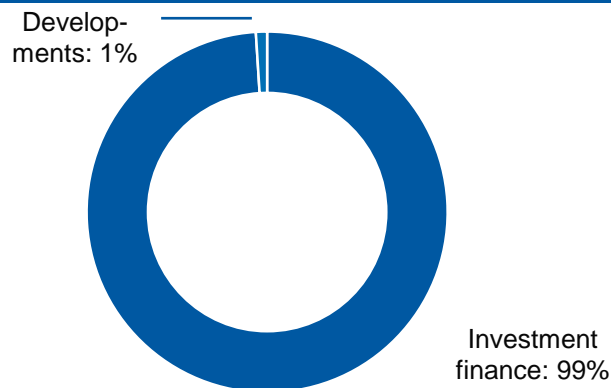
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 31.03.2017

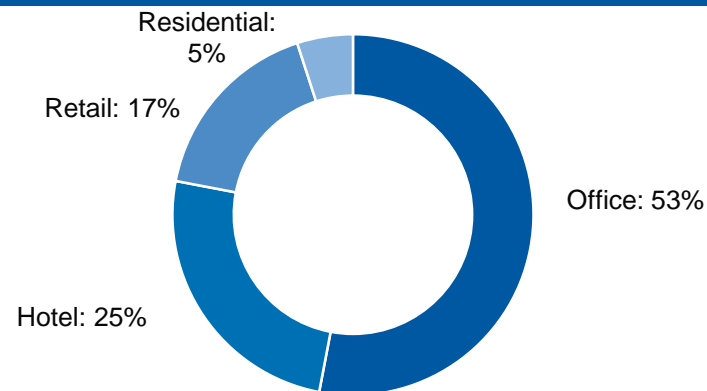
North America credit portfolio¹⁾

Total volume outstanding as at 31.03.2017: € 6.6 bn

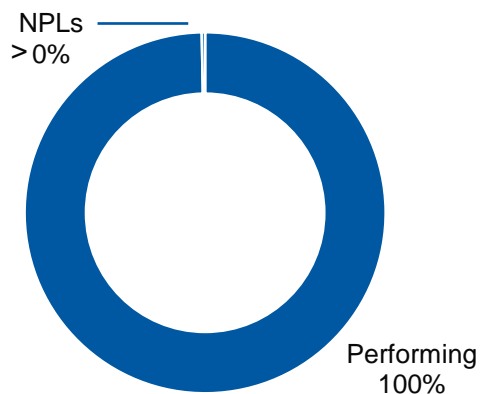
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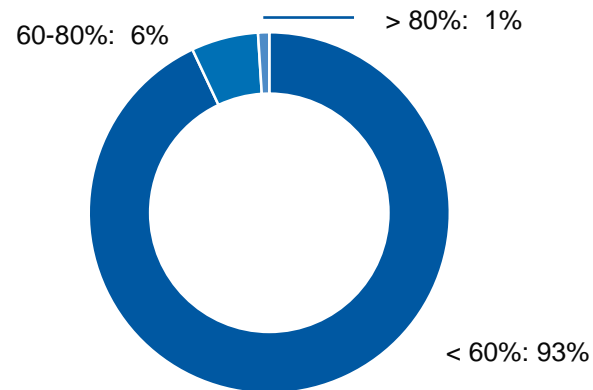
by property type



by performance



by LTV ranges²⁾



1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 31.03.2017

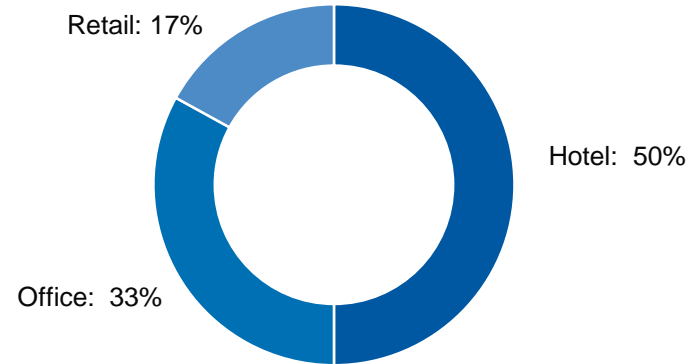
Asia credit portfolio¹⁾

Total volume outstanding as at 31.03.2017: € 0.3 bn

by product type



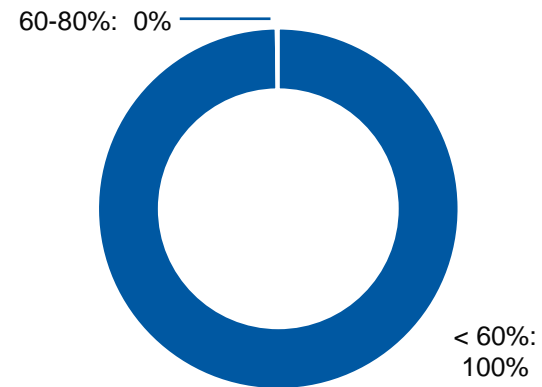
by property type



by performance



by LTV ranges²⁾



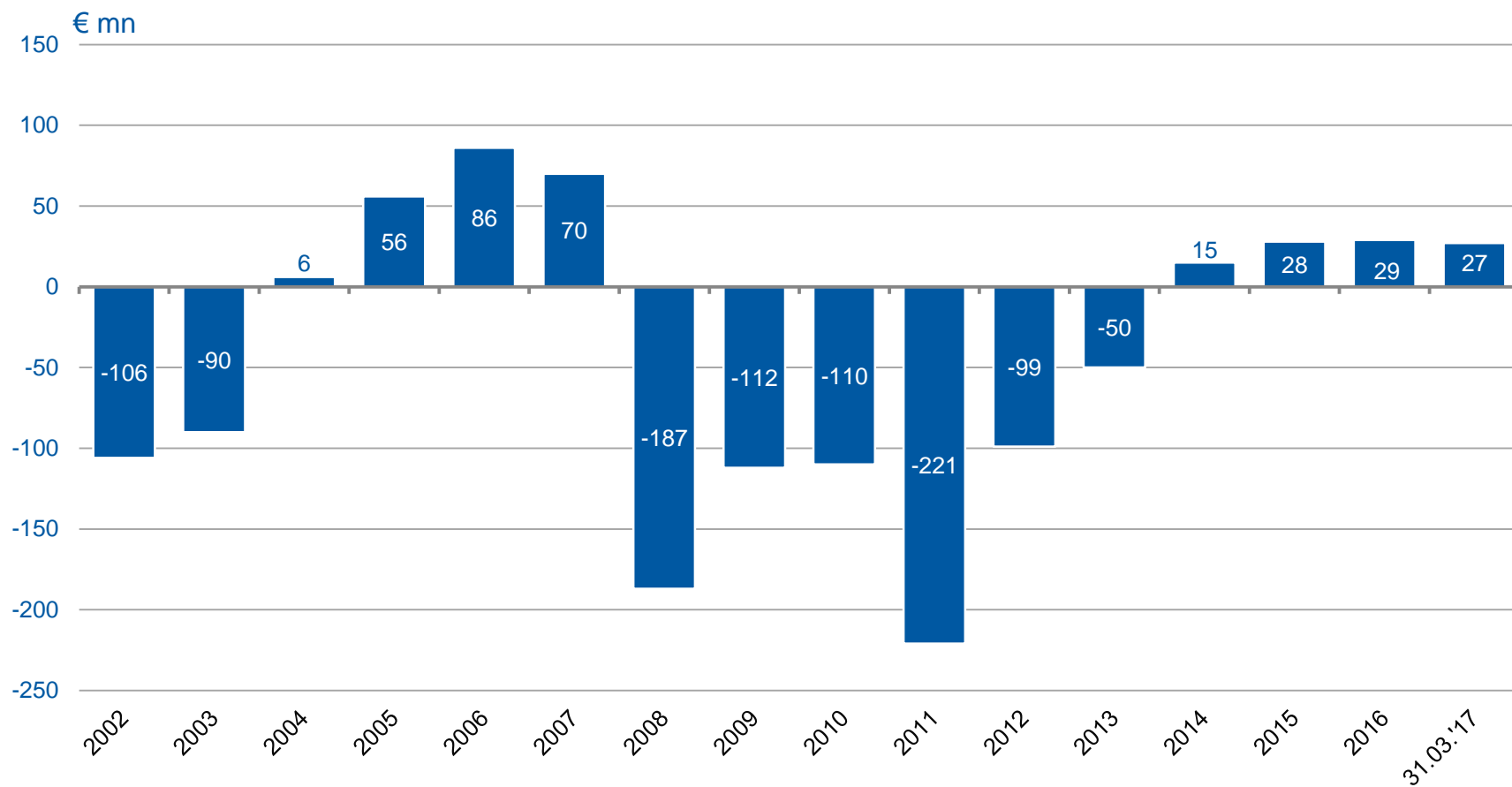
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 31.03.2017



Appendix
Revaluation surplus

Revaluation surplus



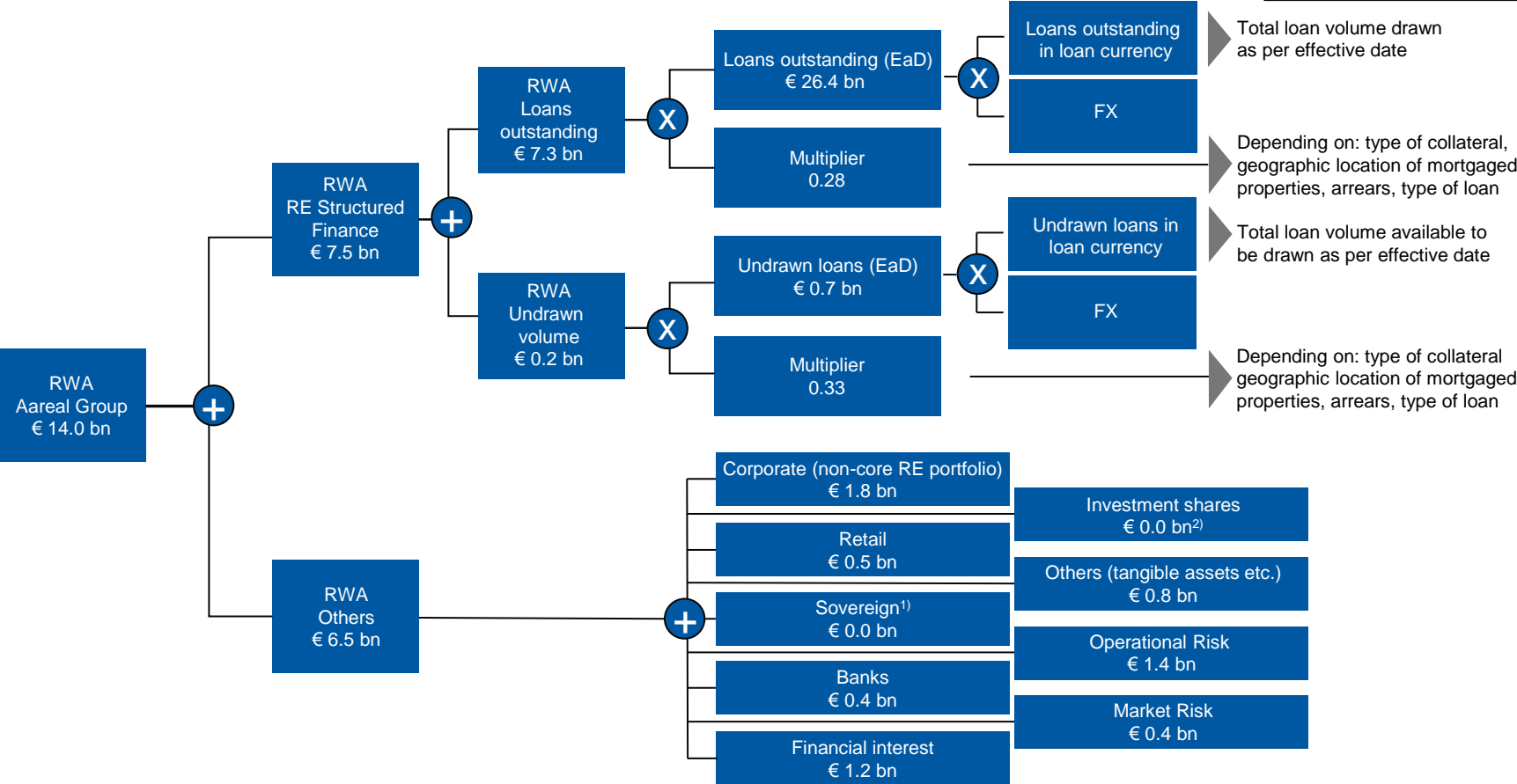


Appendix
RWA-split

From asset to risk weighted asset (RWA)

Essential factors affecting volume of RWA

Effective date 31/03/2017



1) Amounts to € 34 mn
2) Amounts to € 1 mn



Sustainability Performance

Aareal

Aareal Bank Group

Stands for solidity, reliability and predictability

Doing business sustainably

16.2% Common Equity Tier 1 ratio¹⁾, exceeds the statutory requirements



€ 28.0 bn Valuable Property Finance Portfolio²⁾



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



Aareal Bank awarded as top employer for the 10th 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) Full Basel III implementation, as at 31. 03.2017

2) CRE business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included, as at 31.03.2017

3) Mortgage Pfandbriefe and Public-sector Pfandbriefe rated AAA by Fitch; Mortgage Pfandbriefe rated Aaa by Moody's

4) At our main locations in Wiesbaden and Mainz, selected other German sites as well as at our Stockholm branch

Sustainability data

Extends the financial depiction of the Group

Key takeaways at a glance



Transparent Reporting – facilitating informed investment decisions

- 5th Report “#THINKING AHEAD. ACTING CONSCIOUSLY.” and “SUSTAINABILITY DISCLOSURES 2016” will be published online¹⁾ on May 11th 2017
- “SUSTAINABILITY DISCLOSURES 2016”, structured according to requirements of EU Directive 2014/95/EU “Disclosure of non-financial and diversity information”, is based on Global Reporting Initiative (GRI) G4 guidelines, in compliance with “in accordance - core” option
- PricewaterhouseCoopers AG prepared a limited assurance engagement on materiality analysis / selected data



Sustainability Ratings – confirming the company’s sustainability performance



MSCI – Aareal Bank Group with “AA ESG Rating” and in highest scoring range for all the companies assessed relative to global peers with respect to Corporate Governance practices [as per 02/2017]



oekom research – Aareal Bank Group holds “prime status”, ranking among the leaders in its industry [since 2012]



Sustainalytics – Aareal Bank Group was classified as “outperformer”, ranking among the best 14% of its industry [as per 03/2017]



CDP – Aareal Bank Group achieved a result of “Management Level B”, well above average of peer group Financials (DACH region) / MDAX companies (“Awareness Level C”) [Report 2016]



imug – Aareal Bank was rated “positive BBB” in the category “Uncovered Bonds”; the second best result of all 109 rated Financial Institutions [as per 03/2017]

1) <http://www.aareal-bank.com/en/responsibility>



Definitions and contacts

Definitions

- **Structured Property Financing Portfolio** = Paid-out financings on balance sheet
- **New Business** = Newly acquired business incl. renewals + Contract is signed by customer + Fixed loan value and margin
- **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** =
$$\frac{\text{Available stable funding}}{\text{Required stable funding}} \geq 100\%$$
- **Liquidity coverage ratio** =
$$\frac{\text{Total stock of high quality liquid assets}}{\text{Net cash outflows under stress}} \geq 100\%$$
- **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** =
$$\frac{\text{Net operating income (NOI)} \times 100}{\text{Current commitment incl. prior / pari-passu loans}}$$

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