

**QUALITY**®  
made by **AAREAL**

# Analyst Conference Call

## Q2 2017 results

August 10, 2017  
Hermann J. Merkens, CEO

**Aareal**

# Agenda






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- 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

## Confirming FY-guidance after solid second quarter

### Highlights

-  Operating profit of € 109 mn (Q2/2016: € 120 mn)  
Quarterly results including one-off effects, operative performance ongoing robust
-  € 2.0 bn new business origination in the structured property financing segment in Q2 2017  
and a total of € 3.8 bn in H1
-  Net commission income further improving due to Aareon's positive development
-  Integration of WestImmo successfully completed
-  FY-outlook 2017 confirmed:  
Operating profit in a range of € 310 mn - € 350 mn expected



# Group results at a glance

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# Group results at a glance

## Q2 includes one-offs, operative performance ongoing robust

€ mn	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Comments
Net interest income	177	175	169	164	158	Further portfolio reduction, lower effects from early repayments
Allowance for credit losses	29	33	33	2	25	LLP below last year's figure and in line with full year target
Net commission income	47	44	56	48	49	Above previous year's high level
Net result from trading / non-trading / hedge acc.	69 <sup>1)</sup>	12	-5	-4	1	
Admin expenses	144	127	130	139	129	Include € 24 mn for optimisation of processes and structures acc. to Aareal 2020
<i>Others</i>	0	3	28	4	55	Of which € 50 mn due to reversal of provisions related to acquisition of Corealcredit
<b>Operating profit</b>	<b>120</b>	<b>74</b>	<b>85</b>	<b>71</b>	<b>109</b>	Solid quarter + one-offs = strong result
Income taxes	38	23	44	24	42	FY 2017e: 37% due to reversal of CCB provisions, Tax ratio Q2 2017: 39% (Q1 2017: 34%)
Minorities / AT1	9	9	8	9	5	Savings from redemption of hybrid instrument from Q2 2017 onwards
<b>Consolidated net income allocated to ord. shareholders</b>	<b>73</b>	<b>42</b>	<b>33</b>	<b>38</b>	<b>62</b>	
Earnings per share [€]	1.23	0.70	0.55	0.63	1.05	

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

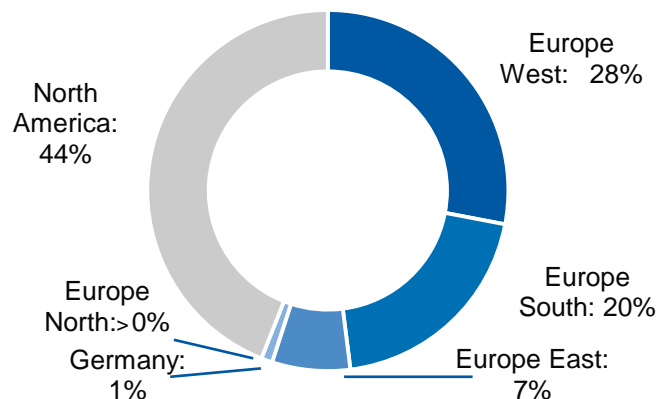


# Segment performance

# Structured property financing

## Strong new business margins, WIB integration completed

New business in Q2 2017 by region<sup>1)</sup>



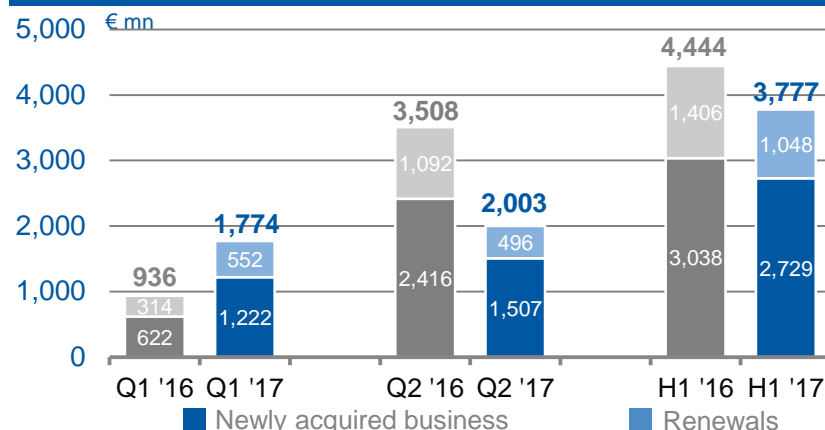
P&L SPF Segment	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17
€ mn					
Net interest income	181	179	174	167	160
Allowance for credit losses (LLP)	29	33	33	2	25
Net commission income	1	2	5	1	2
Net result from trading / non-trading / hedge acc.	69 <sup>2)</sup>	12	-6	-4	1
Admin expenses	94	77	80	89	77
Others	0	2	26	4	54 <sup>3)</sup>
<b>Operating profit</b>	<b>128<sup>2)</sup></b>	<b>85</b>	<b>86</b>	<b>77</b>	<b>115<sup>3)</sup></b>

1) Incl. renewals

2) Incl. € 61 mn from closing Aquatrium / Fatburen

3) Incl. € 50 mn reversal of provisions set aside within the scope of the acquisition of Corealcredit Bank AG

New business origination



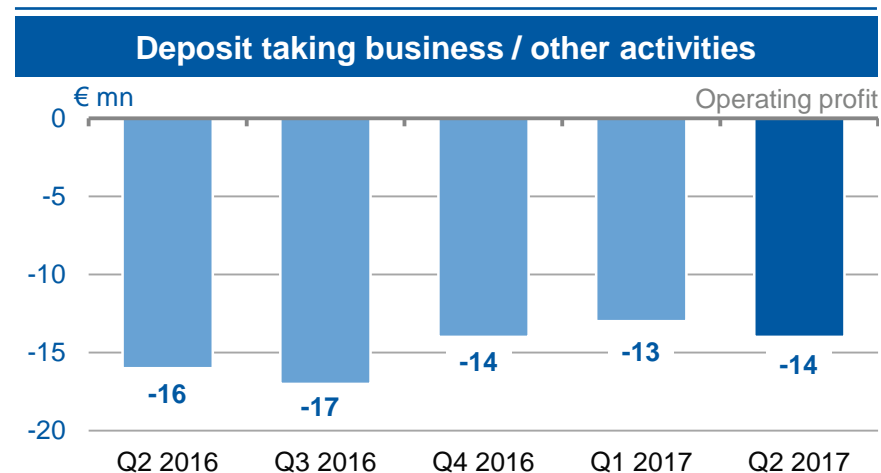
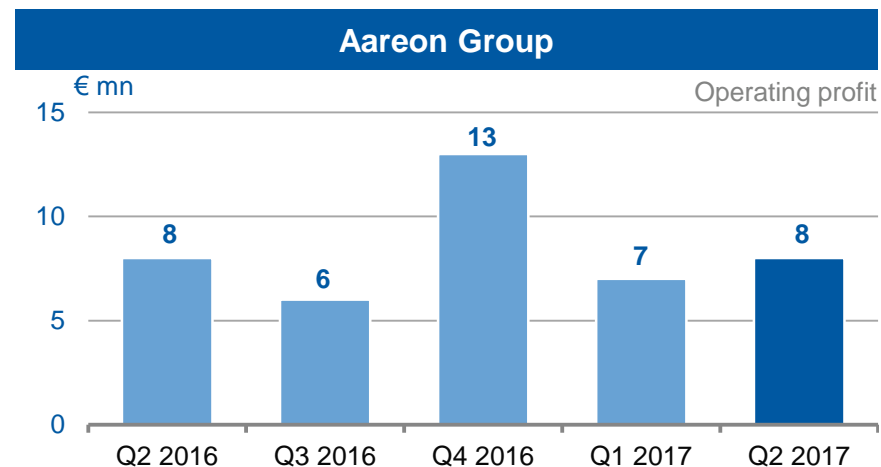
- H1-margins above plan
- Low CRE transaction volumes => less early repayments
- Newly acquired business:
  - Strong North American business (~45% share in H1)
  - Gross margins in H1 above 260 bps (> 240 bps after FX)
  - FY-margin target expected to be outperformed, the resulting positive NII-effect compensating lower effects from early repayments
- Renewals contractually driven
- € 28.8 bn RE finance portfolio (of which € 27.2 bn CRE)

# Consulting / Services

## Aareon on track

P&L C/S Segment	Q2 '16	Q3 '16	Q4 '16	Q1 '17	Q2 '17
€ mn					
Sales revenue	52	47	58	54	55
Own work capitalised	2	1	2	1	1
Other operating income	0	2	4	1	1
Cost material purchased	9	8	11	9	9
Staff expenses	35	36	37	35	36
D, A, impairment losses	3	3	2	3	3
Other operat. expenses	15	14	15	15	15
Others	0	0	0	0	0
<b>Operating profit</b>	<b>-8</b>	<b>-11</b>	<b>-1</b>	<b>-6</b>	<b>-6</b>

- Aareon revenues of € 55 mn (Q2 2016: € 52 mn), EBT of € 8 mn, EBT margin ~15%
- Stronger Aareon revenues resulting from growth in all product lines, digital and additional products with highest growth rates
- Deposit volume acc. to Aareal 2020 at Ø of € 9.6 bn in Q2 '17 (Ø of € 9.5 bn in Q2 '16)
- Focussing on further shift into sustainable deposits





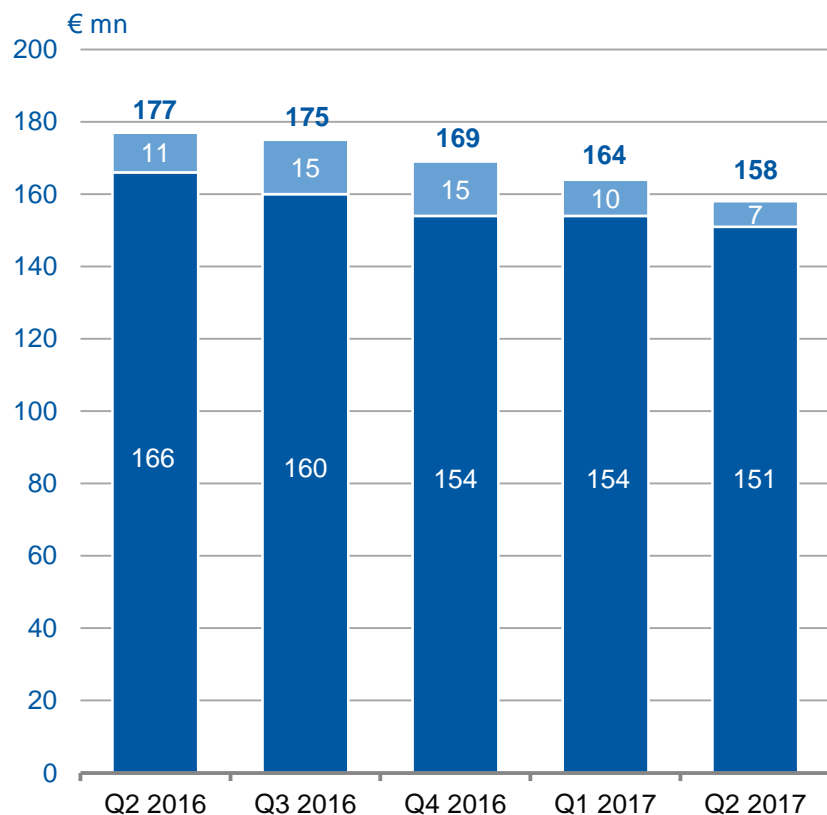


# Group results Q2 2017

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# Net interest income

## Further portfolio reduction and lower effects from early repayments



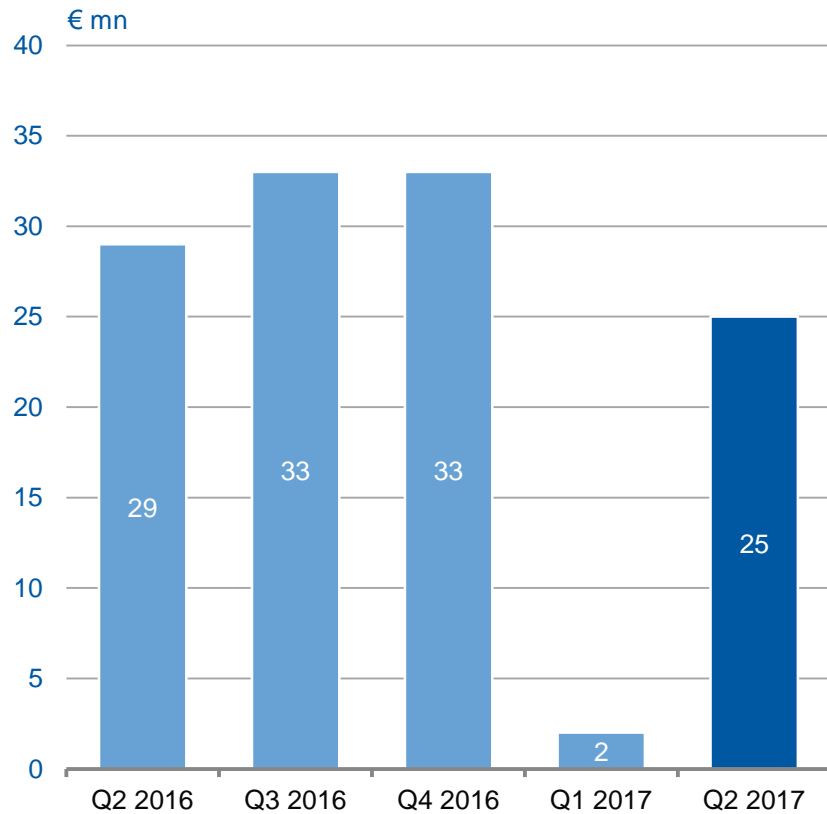
- Portfolio reduction by € 0.8 bn due to
  - Rundown of CCB / WIB portfolio
  - Syndication activities
  - FX-effects
- Declining effects from early repayments due to lower overall transaction volumes: € 4 mn in Q2 (€ 13 mn in H1 vs. expected FY-range of € 35 mn - € 75 mn)
- Deposit margins further burdened by interest rate environment
- Aareal Bank fulfils future NSFR / LCR requirements

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

1) Newly acquired business

## Allowance for credit losses (LLP)

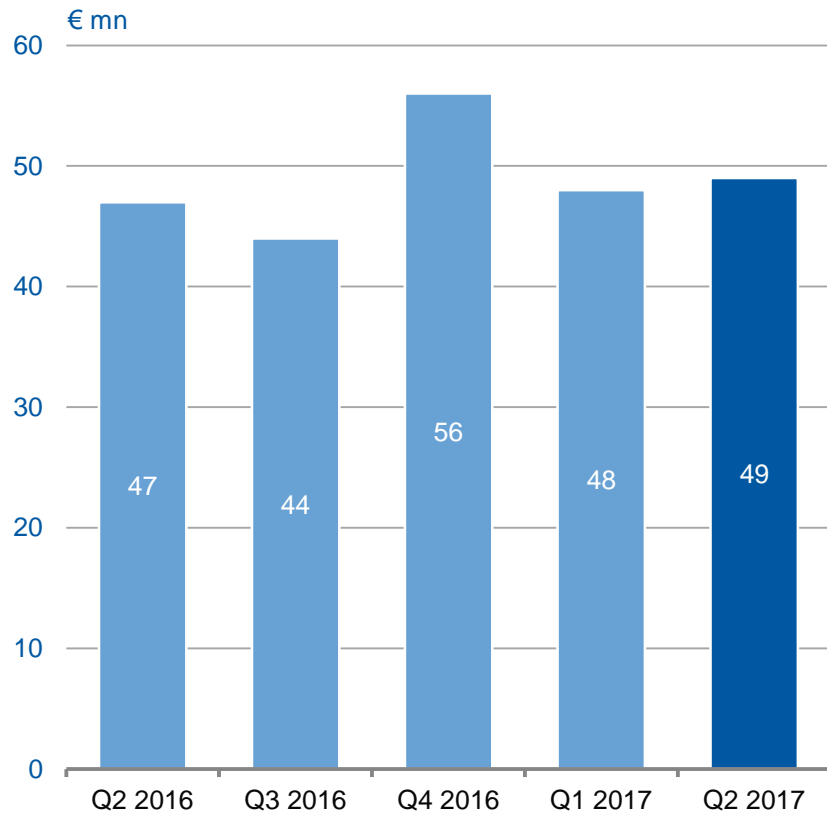
LLP below last year's figure and in line with full year target



- Conservative lending policies paying off

# Net commission income

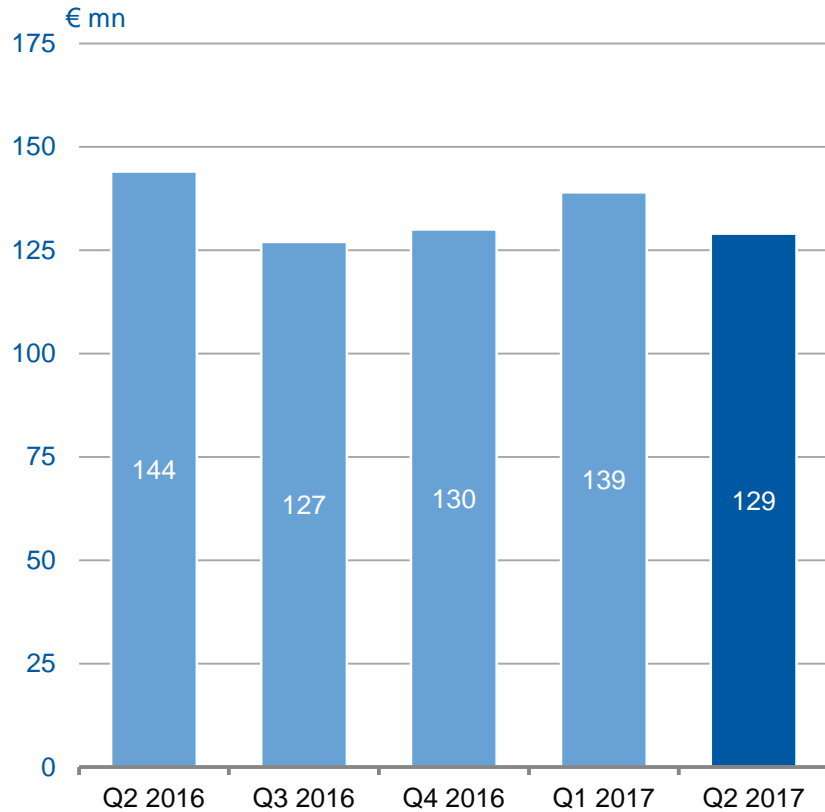
## Above previous year's high level



- Stronger Aareon revenues of € 55 mn (Q2 '16: € 52 mn) resulting from growth in all product lines, digital and additional products with highest growth rates
- Dutch acquisition of Kalshoven Groep B.V. supporting further international growth
- Q4 regularly includes positive seasonal effects

# Admin expenses

Including costs for optimisation of processes and structures



- H1 includes
  - € 24 mn for optimisation of processes and structures
  - € 22 mn for the European bank levy and for the Deposit Protection Guarantee Schemes
- H2 will focus on strategic projects and investments

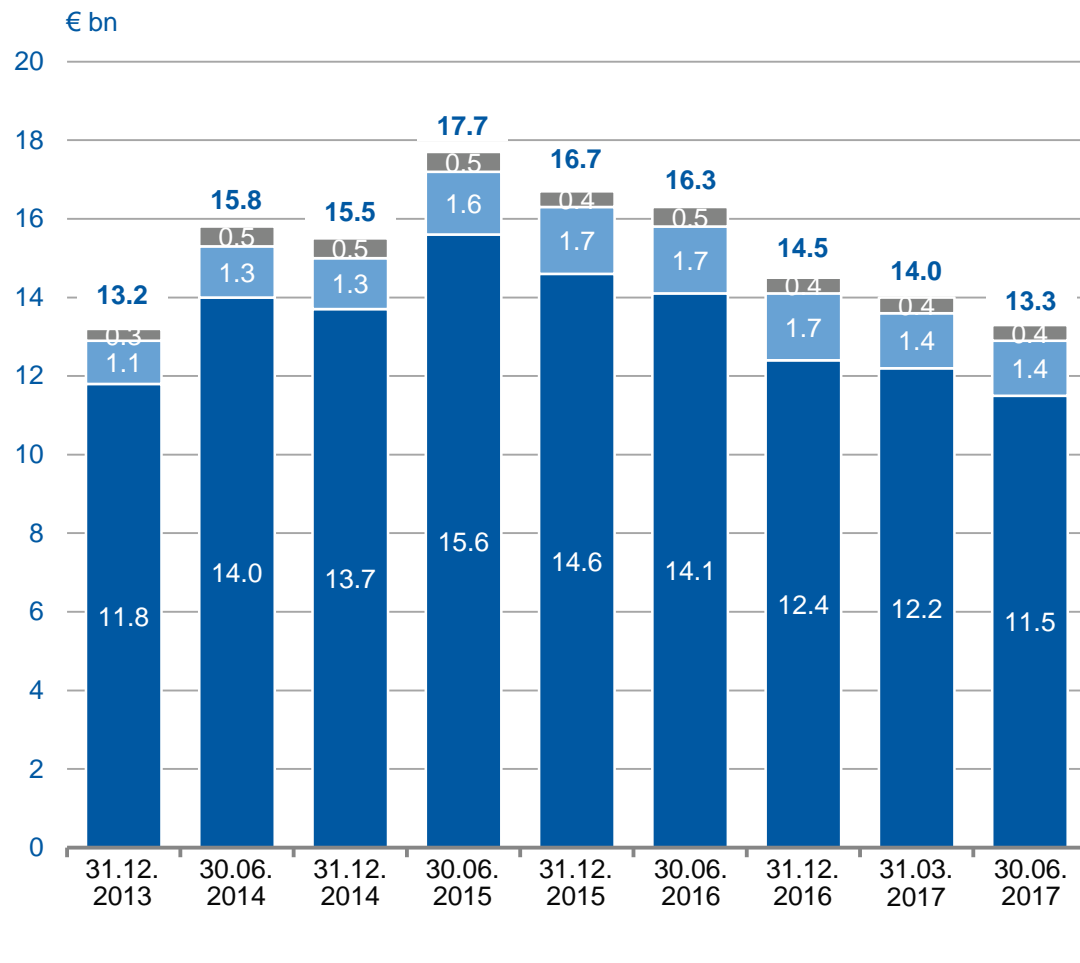


B/S structure, capital & funding position

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# RWA development

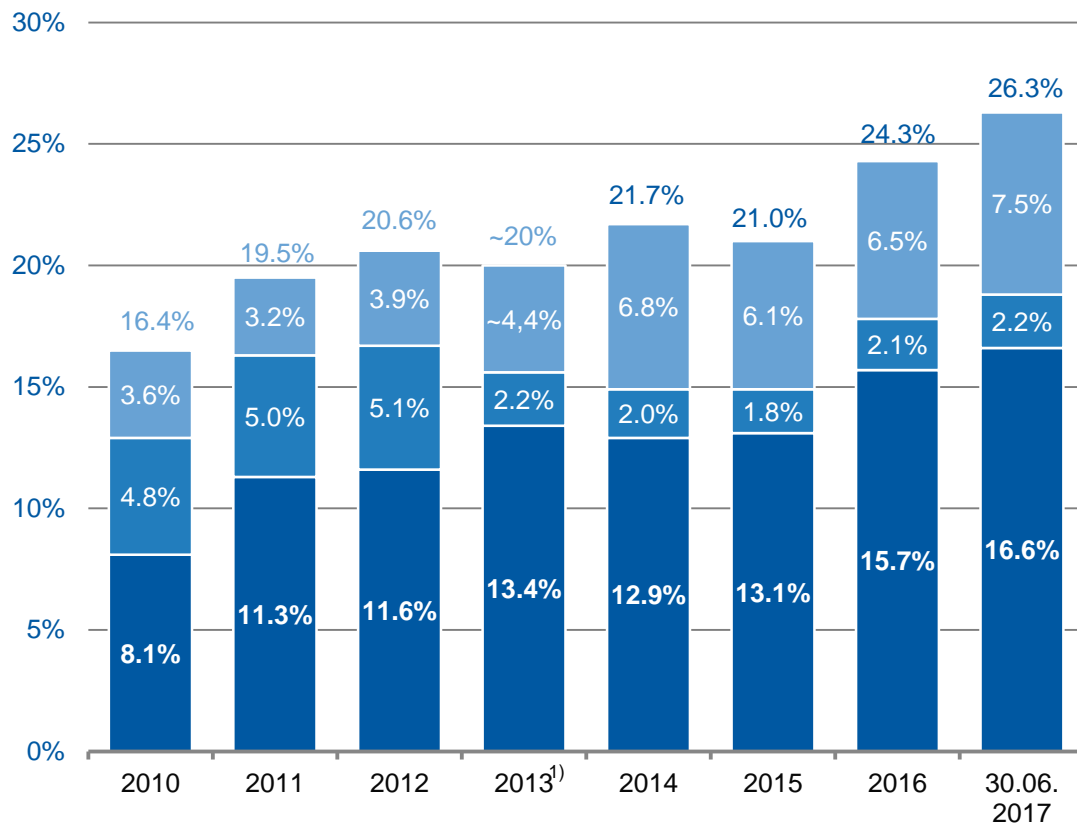
## Successful RWA run down



- Reduction from
  - Rundown of CCB / WIB portfolio
  - Syndication activities
  - FX-effects
  - Rating improvements in Italy
- Operational risk reduction mainly due to model update caused by regulatory changes in Q1
- Operational risk already based on standardised approach

# Capital ratios

## Strong development



1) As at 01.01.2014, published 20.02.2014

- 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 30.06.2017: 6.0% (fully phased)

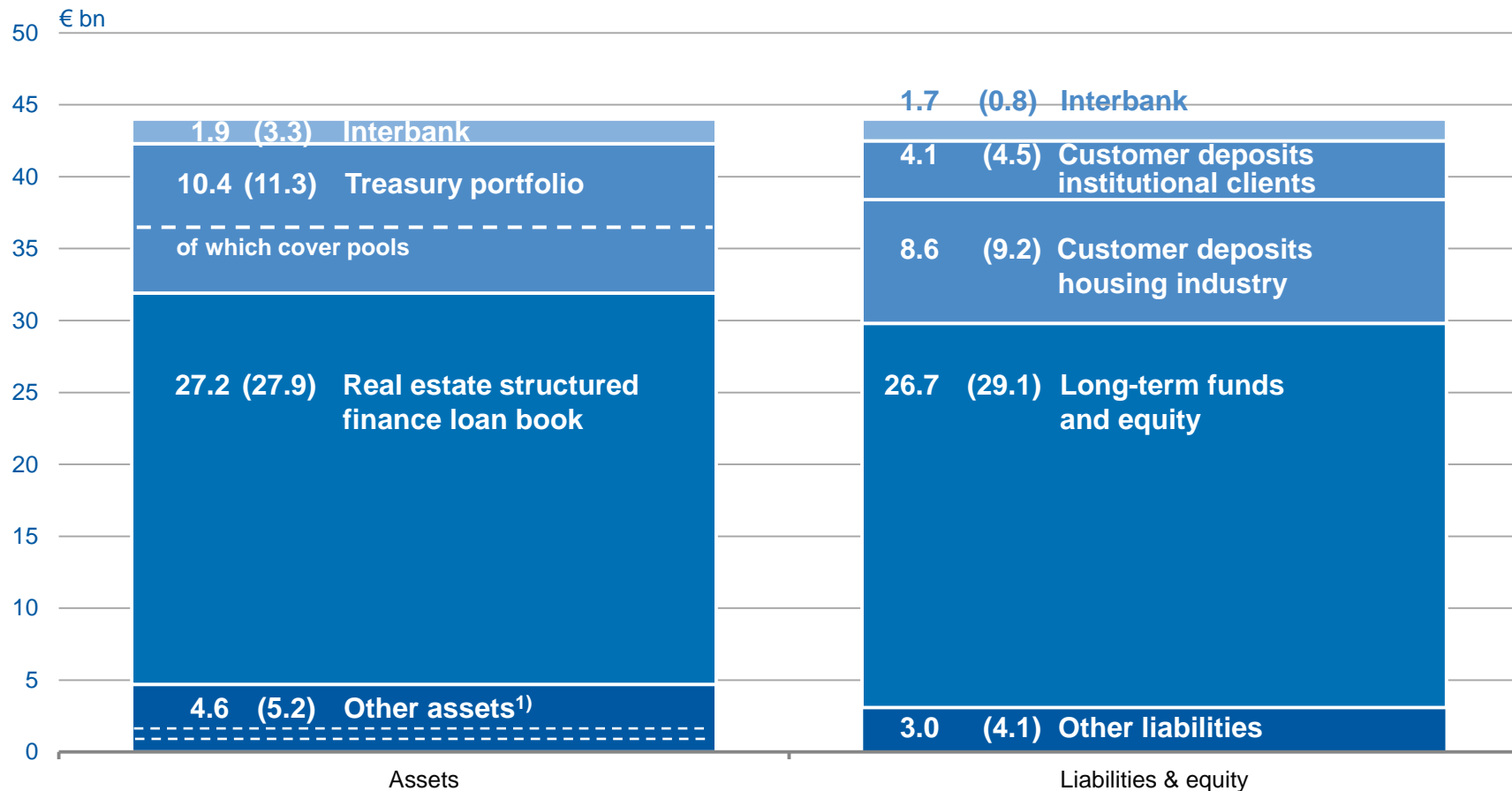
- Tier 2 (T2)
- Additional Tier 1 (AT1)
- Common Equity Tier 1 (CET1)



# Asset- / Liability structure according to IFRS

As at 30.06.2017: € 44.1 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

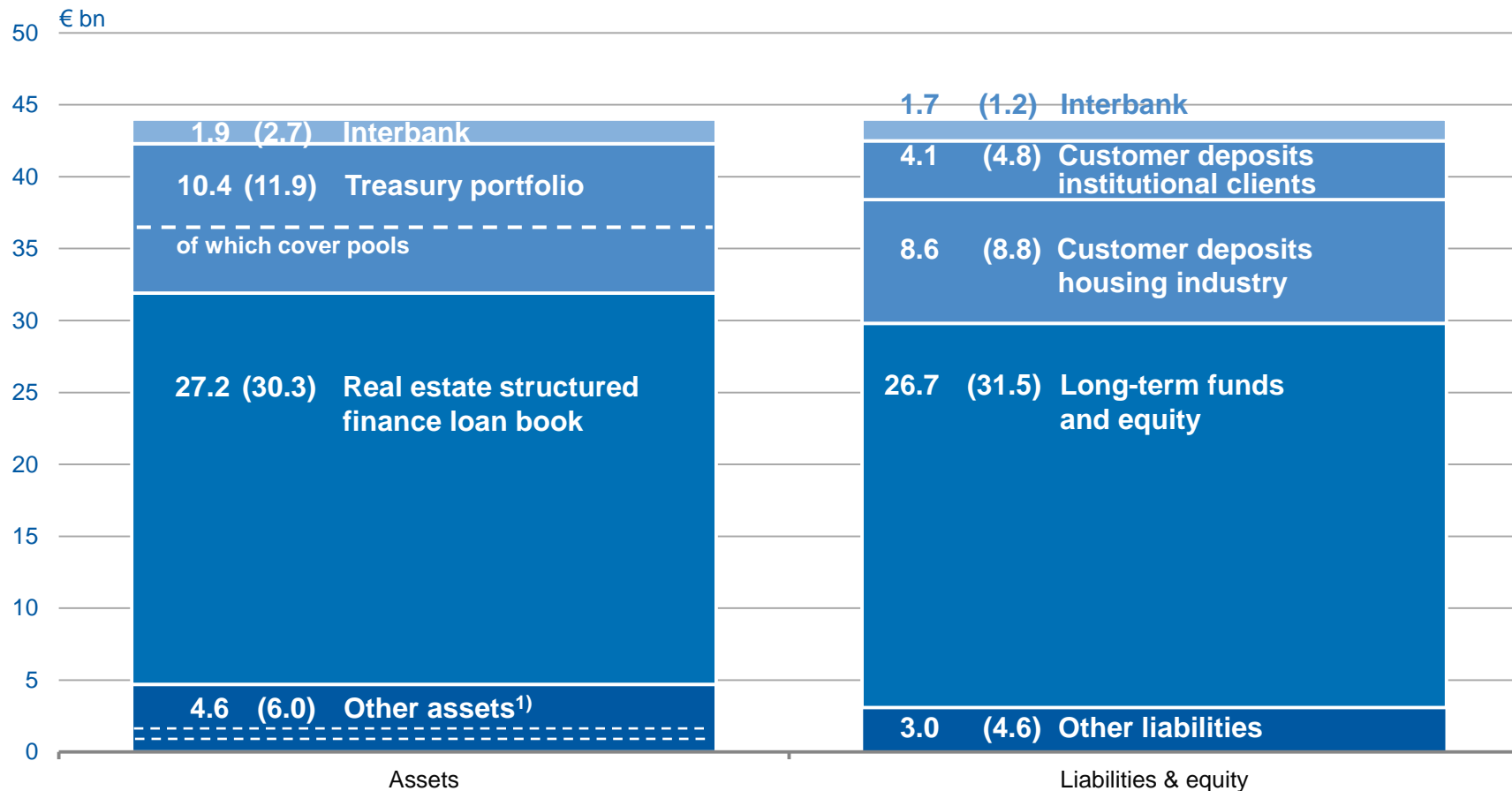


1) Other assets includes € 1.0 bn private client portfolio and WIB's € 0.6 bn public sector loans

# Asset- / Liability structure according to IFRS

As at 30.06.2017: € 44.1 bn (30.06.2016: € 50.9 bn)

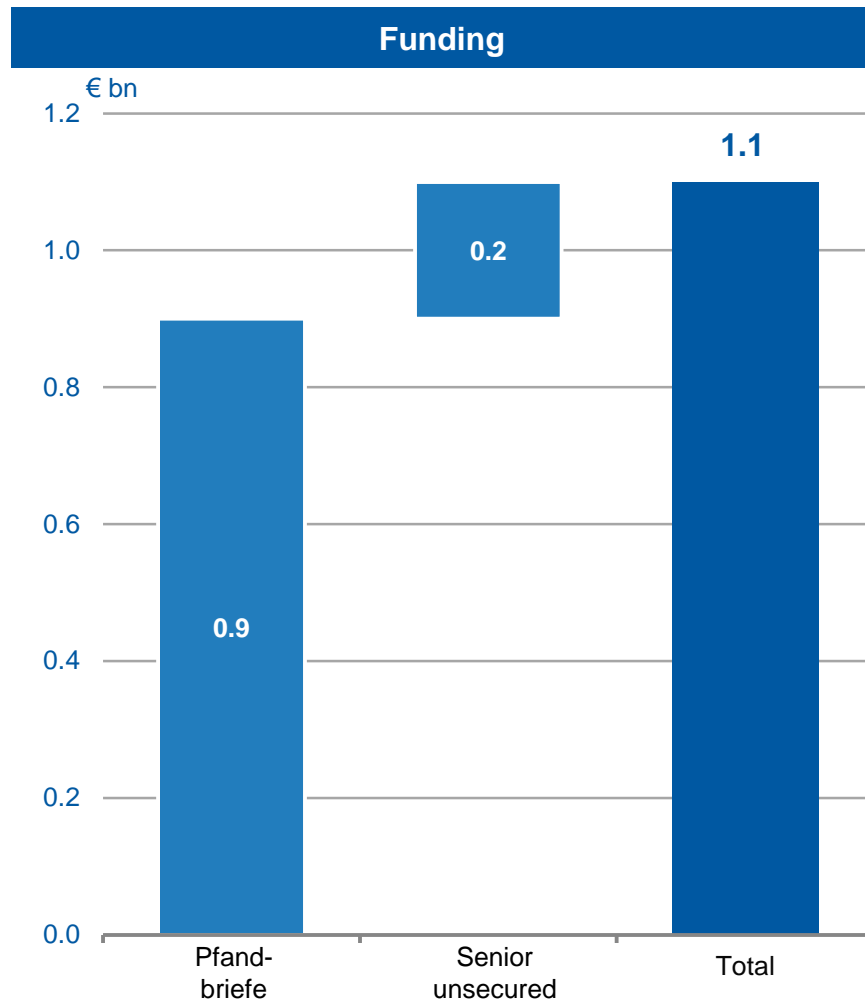
- Conservative balance sheet with structural over borrowed position
- Average maturity of long term funding > average maturity of RSF loans



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

# Capital market funding

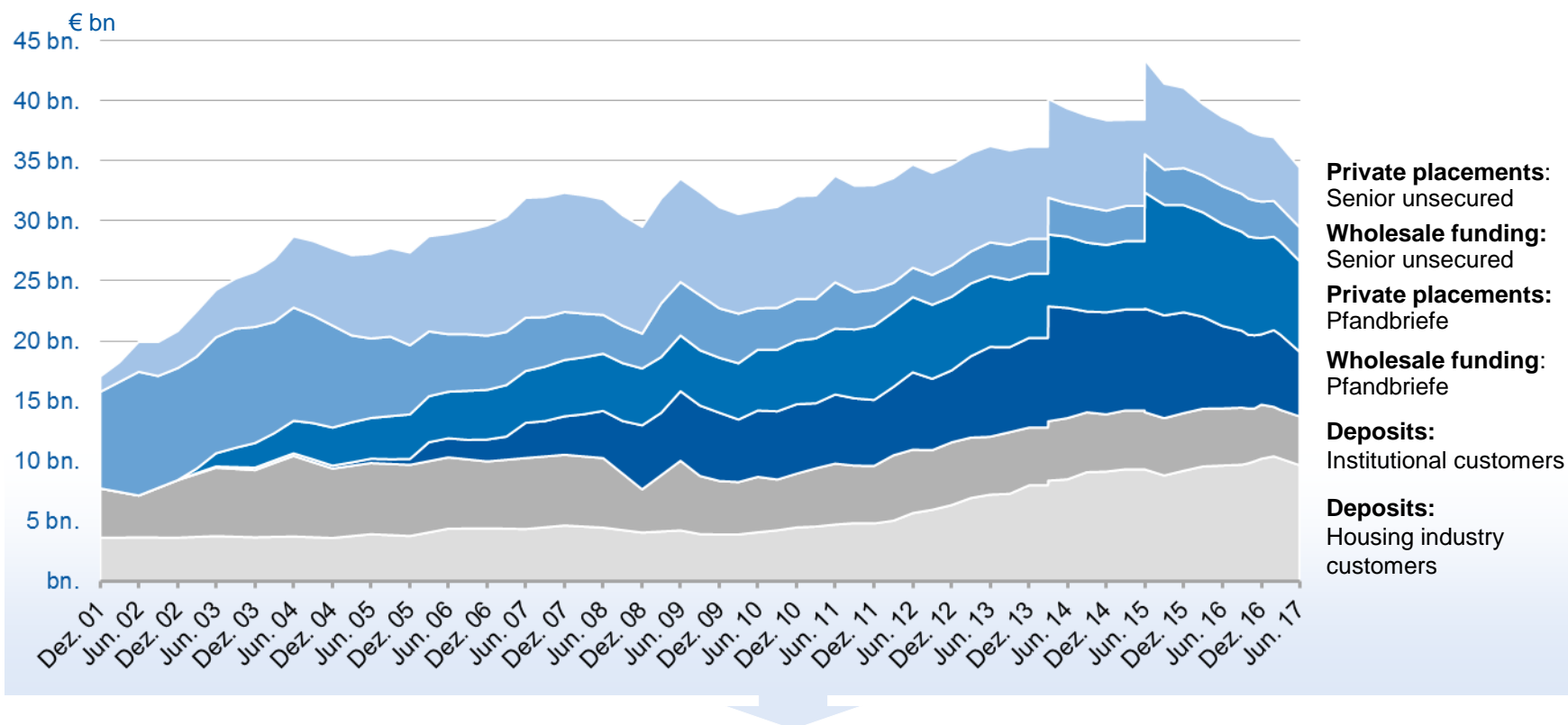
## Sound liquidity position



- Total funding raised in H1 2017: € 1.1 bn mainly Pfandbriefe (€ 0.9 bn)
- Backbone of capital market funding is a loyal, granular, domestic private placement investor base
  - Hold-to-maturity investors: ~ 500
  - 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 30.06.2017, this share has fallen below 25% (or even below 10% without Pfandbriefe)

As at 30.06.2017



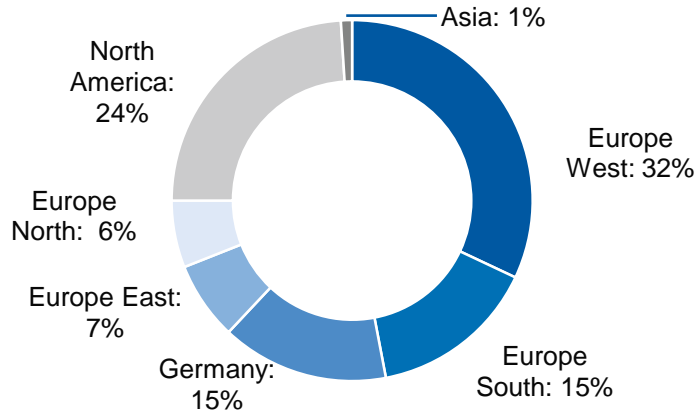
Asset quality

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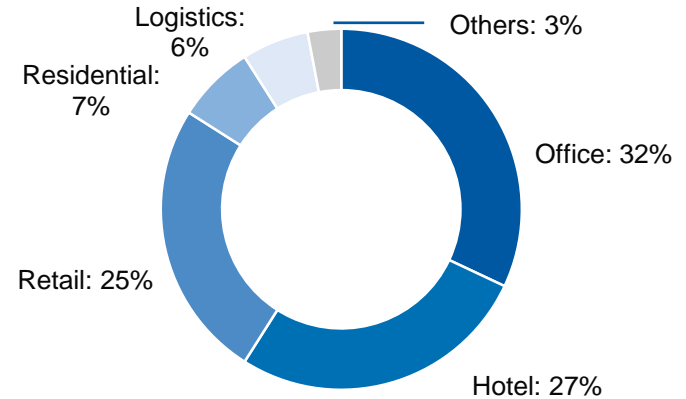
# Property finance portfolio<sup>1)</sup>

€ 27.2 bn highly diversified and sound

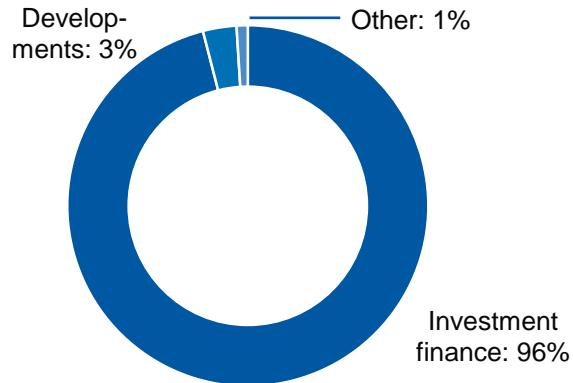
Portfolio by region



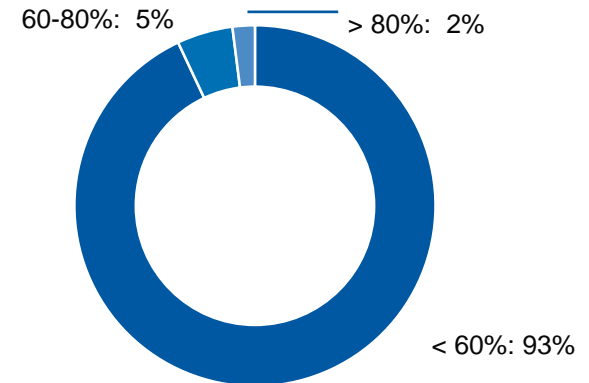
Portfolio by property type



Portfolio by product type



Portfolio by LTV ranges<sup>2)</sup>



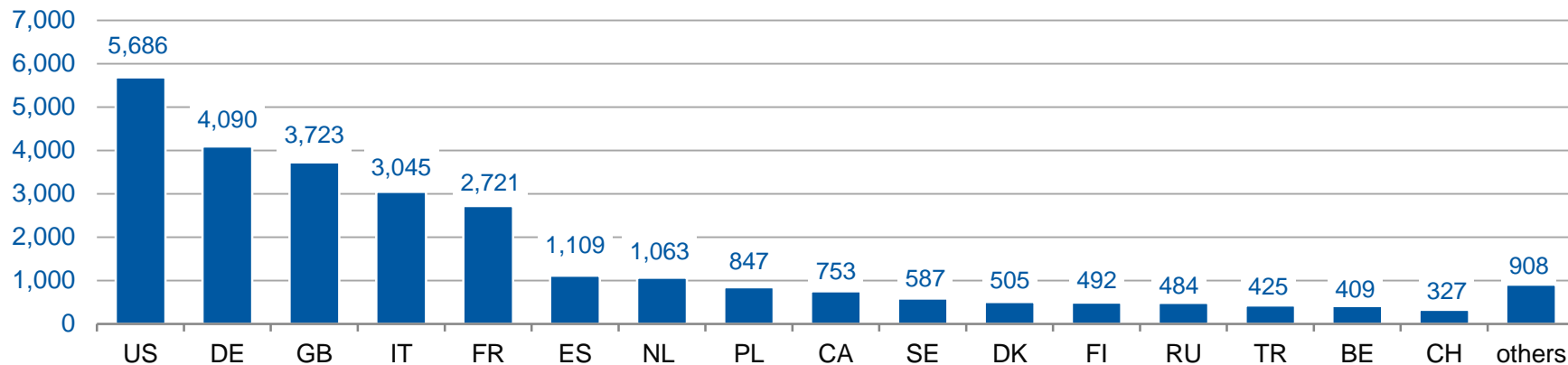
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 30.06.2017

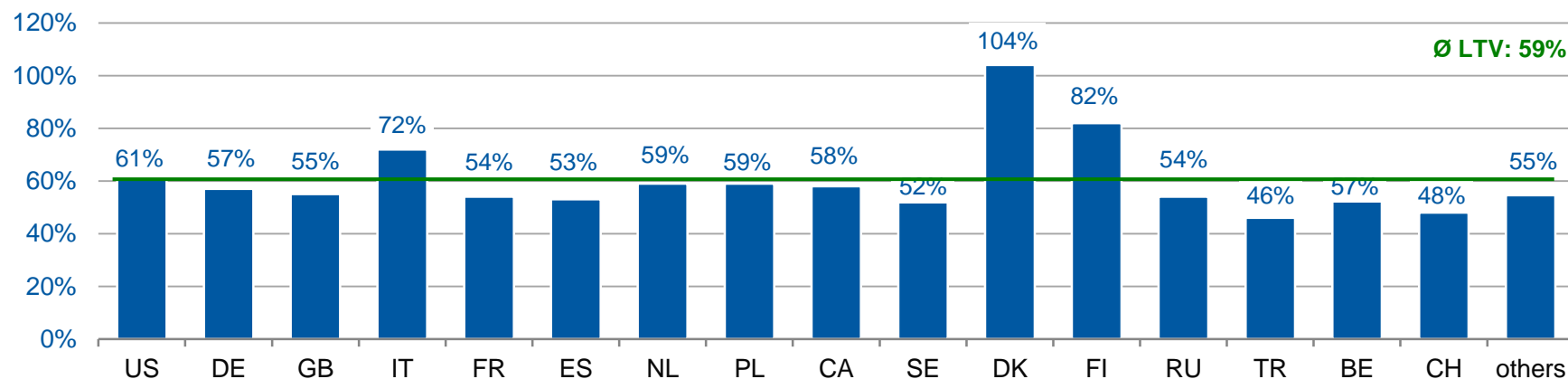
# Property finance portfolio<sup>1)</sup>

## Portfolio details

Total property finance portfolio by country (€ mn)



LTV by country<sup>2)</sup>



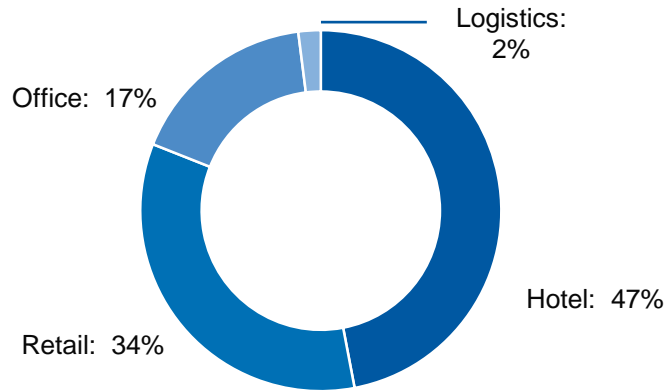
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 30.06.2017

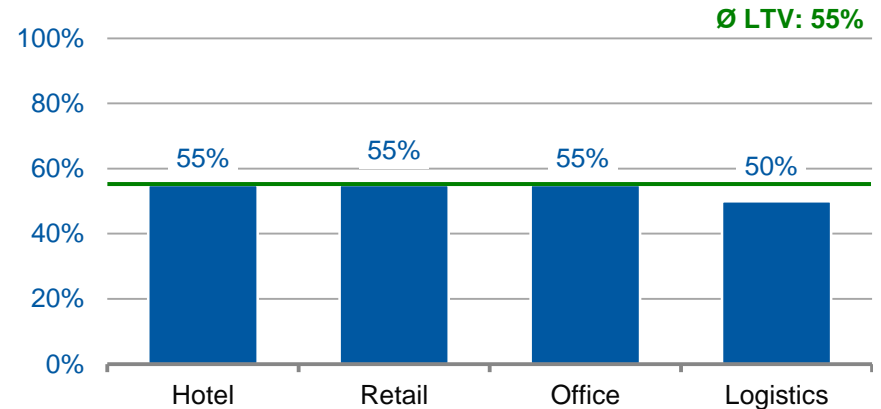
# Spotlight: UK property finance portfolio<sup>1)</sup>

€ 3.7 bn (~14% of total portfolio)

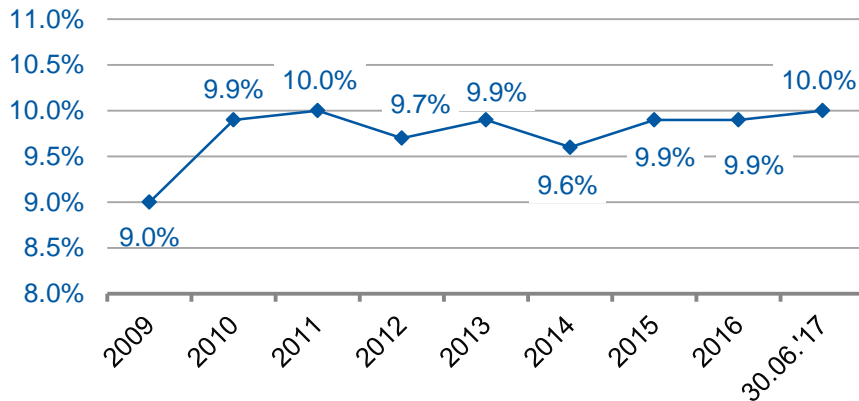
## Total portfolio by property type



## Average LTV by property type<sup>2)</sup>



## Yield on debt<sup>2)</sup>



## Comments

- Performing:
  - ~ 110 properties financed, no developments
  - ~ 55% of total portfolio in Greater London area, emphasising on hotels
  - € 82 mn with an LTV > 60%
  - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 69%
- No NPL

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

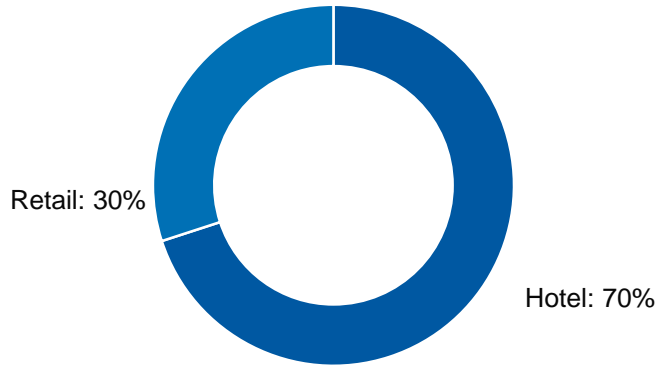
2) Performing CRE-business only, exposure as at 30.06.2017



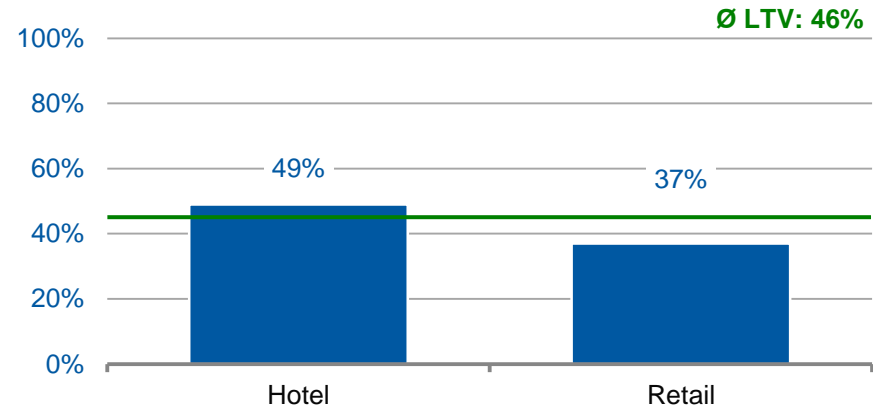
# Spotlight: Turkey property finance portfolio<sup>1)</sup>

€ 0.4 bn (~2% of total portfolio)

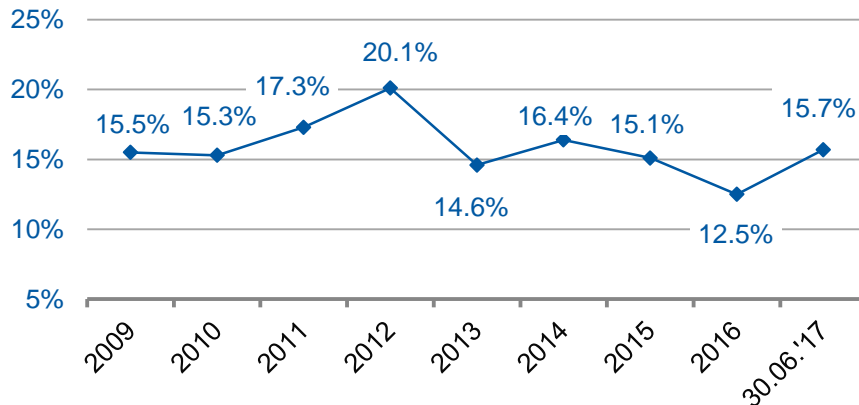
Total portfolio by property type



Average LTV by property type<sup>2)</sup>



Yield on debt<sup>2)</sup>



Comments

- Performing:
  - 8 properties financed: 6 hotels, 2 retail, no logistics, no developments
  - ~ 75% of total portfolio in Istanbul / Antalya
  - € 6 mn with an LTV > 60%
  - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 58%
- NPL: € 92 mn, 2 deals (hotel, retail)

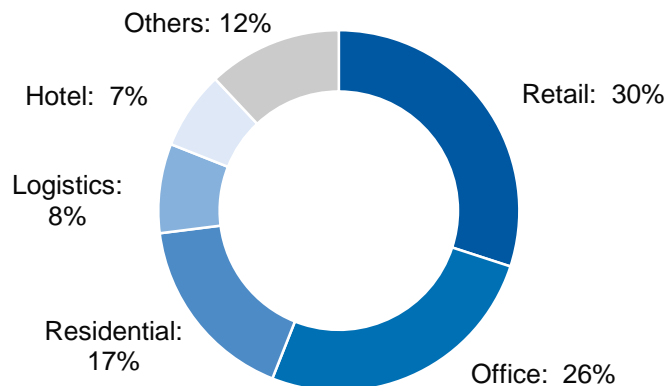
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 30.06.2017

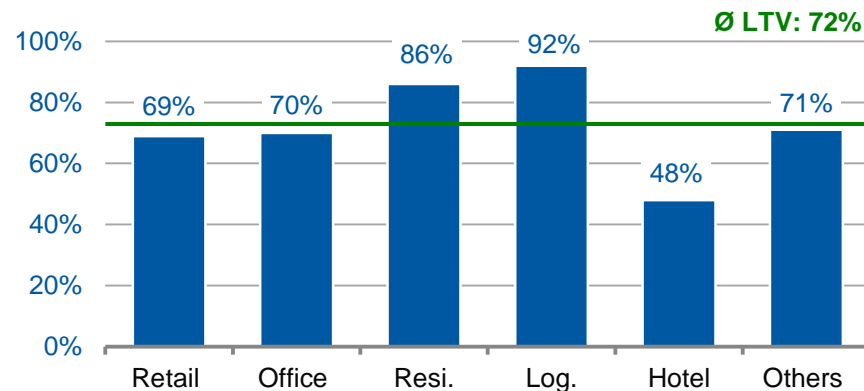
# Spotlight: Italian property finance portfolio<sup>1)</sup>

€ 3.0 bn (~11% of total portfolio)

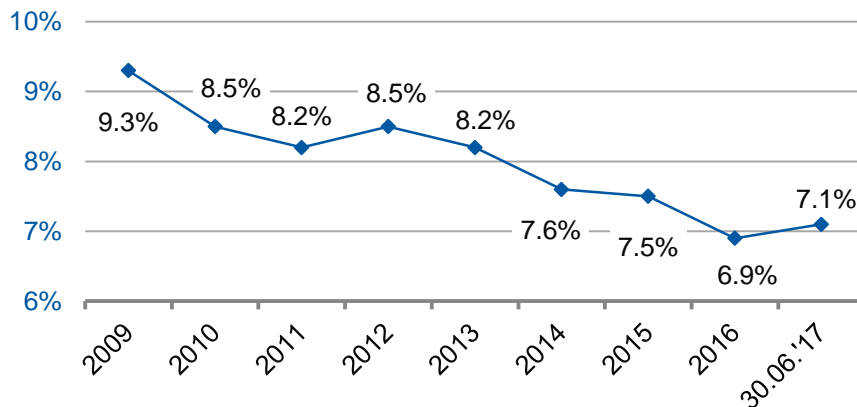
Total portfolio by property type



Average LTV by property type<sup>2)</sup>



Yield on debt<sup>2)</sup>



Comments

- Performing:
  - ~ 200 properties financed, < 10% developments
  - > 50% of total portfolio in Greater Rome or Milan area
  - € 398 mn with an LTV > 60%
  - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 91%
- NPL: € 822 mn

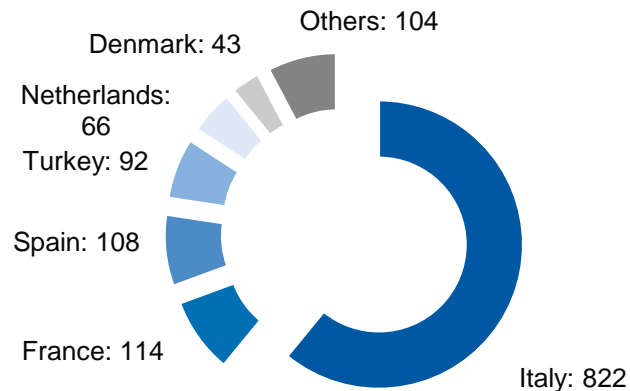
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 30.06.2017

# Spotlight Italy

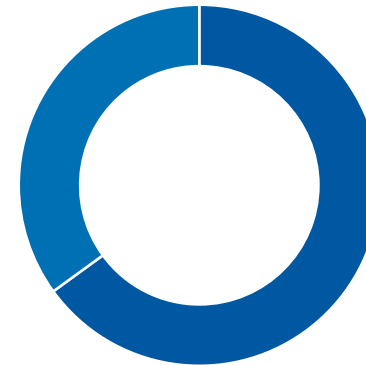
## Italian NPL: clear going forward strategy

Total NPL portfolio: € 1,349 mn



Italian NPL by status

Enforcement:  
~1/3



Restructured /  
agreement in place  
or planned:  
~2/3

Italian NPL

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

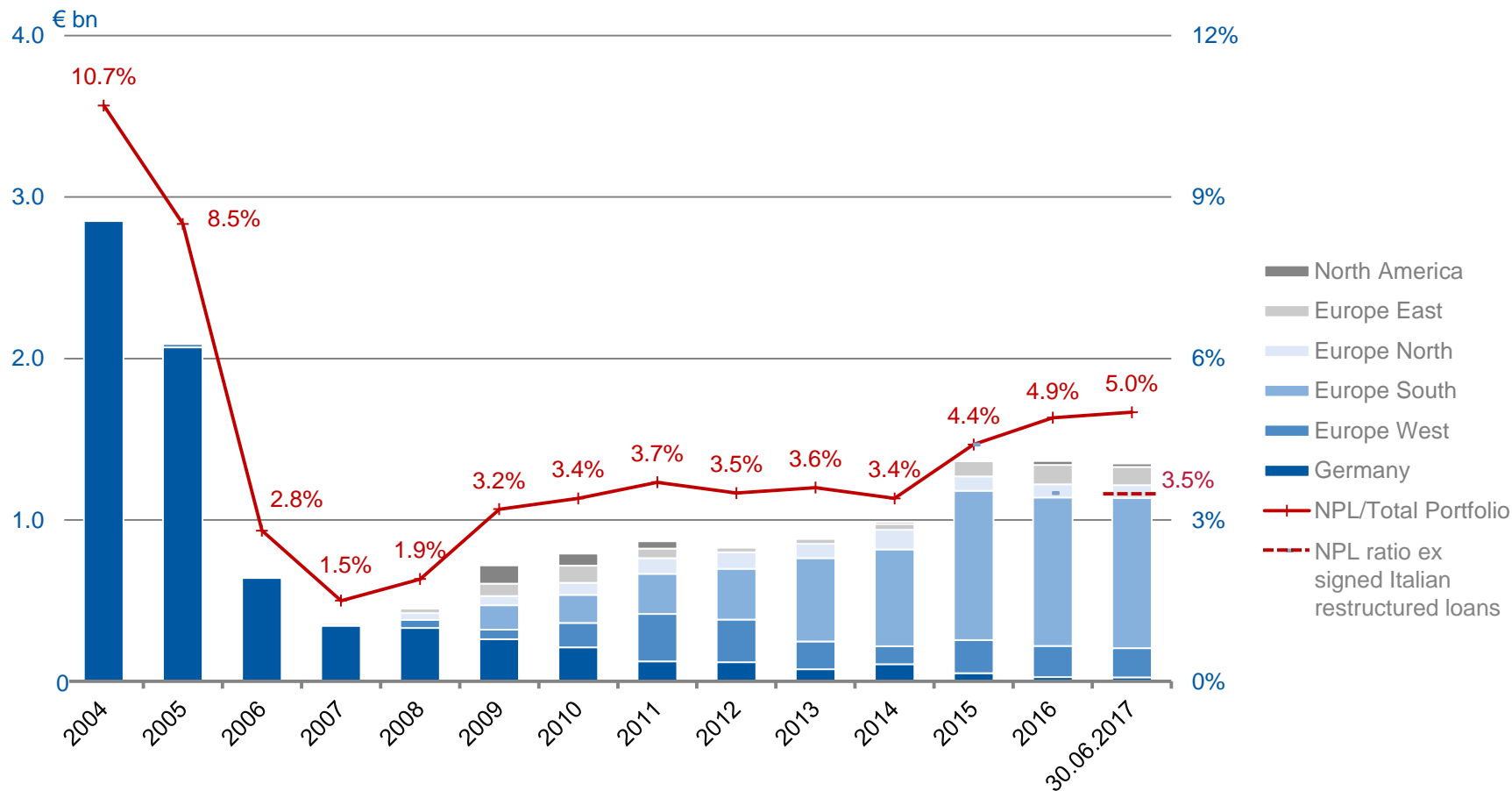


All Italian NPL are fully covered despite being in different workout-stages

# Property finance portfolio<sup>1)</sup>

## Stable NPL volume but declining portfolio volume

NPL and NPL-ratio (since 12.2004)

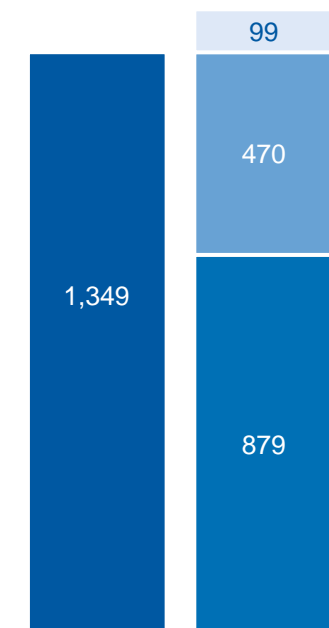
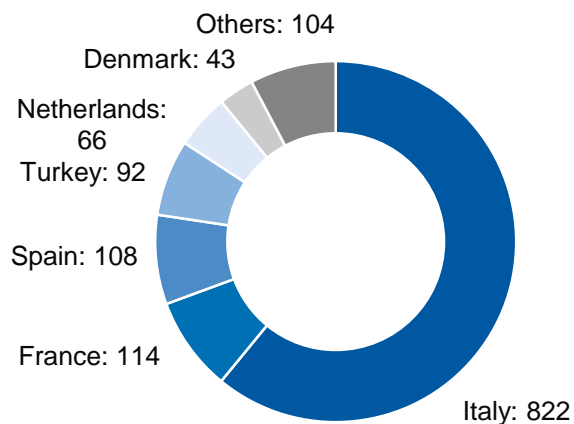


1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

# Property finance portfolio

## NPL exposure fully covered including collaterals

NPL-split and coverage (€ mn)



	30.06.2017
Coverage ratio specific allowance	35%
Coverage ratio including portfolio allowance	42%

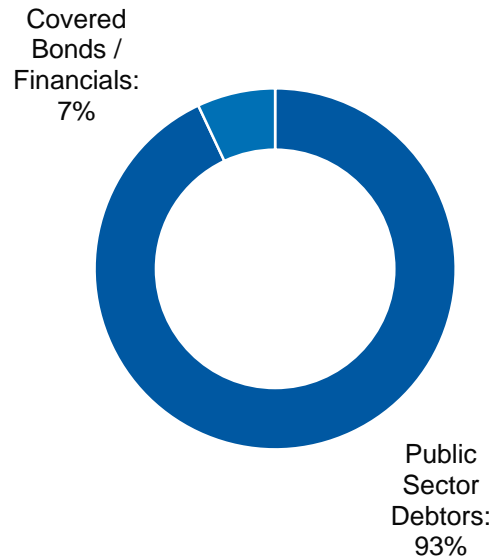
- NPL exposure
- Portfolio allowance
- Specific allowance
- Collaterals

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

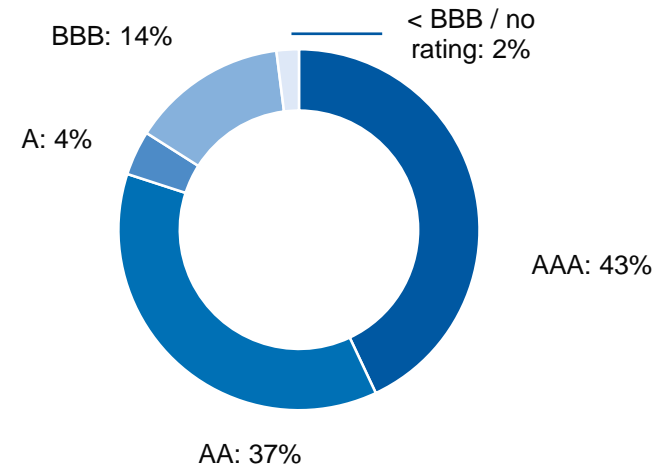
# Treasury portfolio

€ 8.7 bn of high quality and highly liquid assets

by asset class



by rating<sup>1)</sup>



As at 30.06.2017 – all figures are nominal amounts

1) Composite Rating



# Outlook 2017

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# Outlook 2017

## Confirming guidance

2017	
<b>Net interest income</b>	▪ € 620 mn - € 660 mn incl. planned effects from early repayments (€ 35 mn - € 75 mn)
<b>Allow. for credit losses<sup>1)</sup></b>	▪ € 75 mn - € 100 mn
<b>Net commission income</b>	▪ € 195 mn - € 210 mn
<b>Admin expenses</b>	▪ € 470 mn - € 510 mn incl. expenses for projects and investments / effects from integration
<b>Operating profit</b>	▪ <b>€ 310 mn - € 350 mn</b>
<b>Pre-tax RoE</b>	▪ 11% - 12.5% (9% - 10.5% excl. one-off from reversal of provisions related to CCB acquisition)
<b>EpS</b>	▪ € 2.85 - € 3.30
<b>Target portfolio size</b>	▪ € 25 bn - € 28 bn
<b>New business origination<sup>2)</sup></b>	▪ € 7 bn - € 8 bn
<b>Operating profit Aareon<sup>3)</sup></b>	▪ € 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

## Well positioned to continue our successful development

### Key takeaways



We deliver on our promises – both financially and strategically



Once again, good second quarter results demonstrate that we are implementing our program "Aareal 2020" from a position of strength



Focusing on two pillars:  
Further development of the operating business and further optimisation of structures and processes



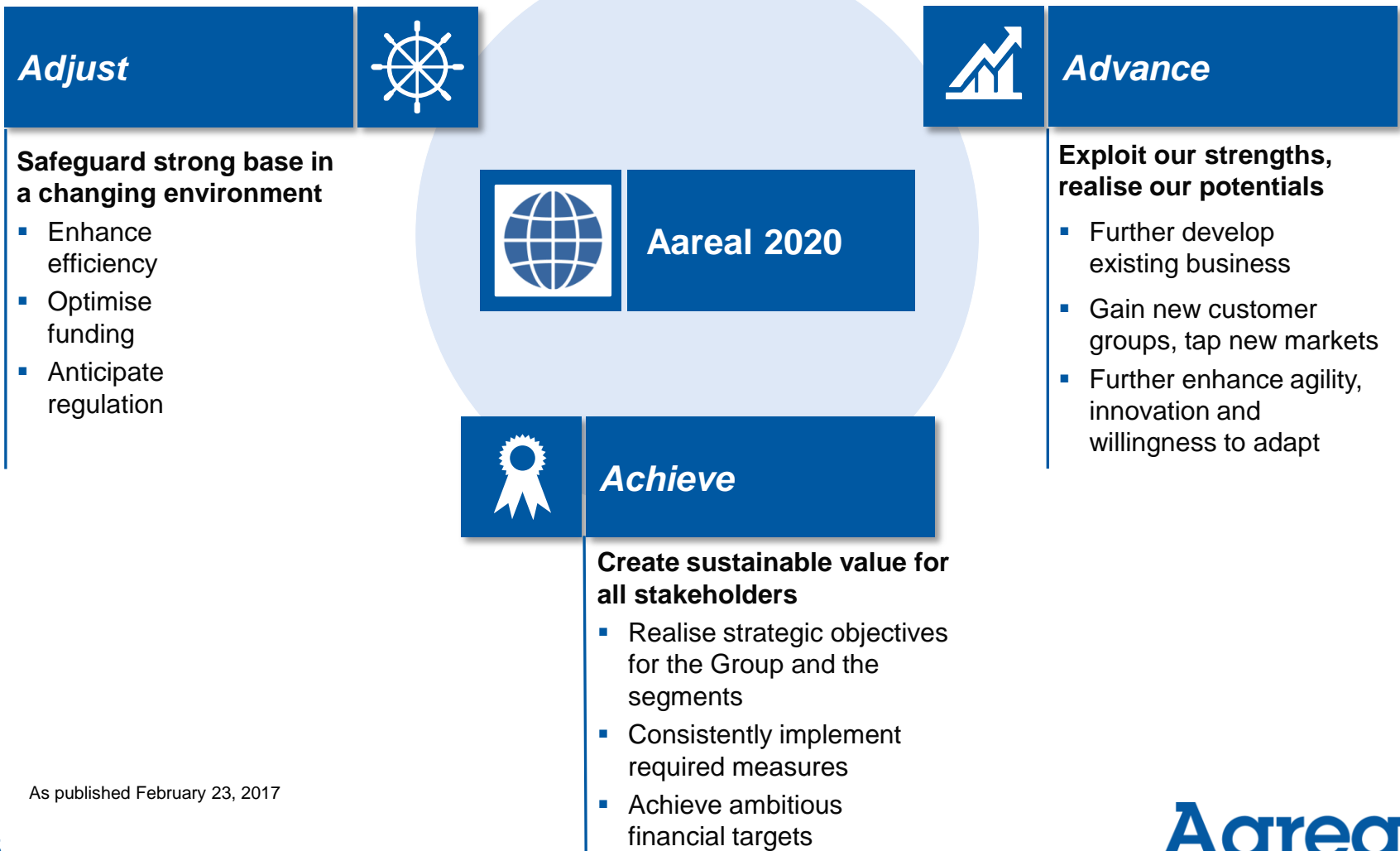
With this combination we establish the basis for sustainable success in a rapidly changing environment



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

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

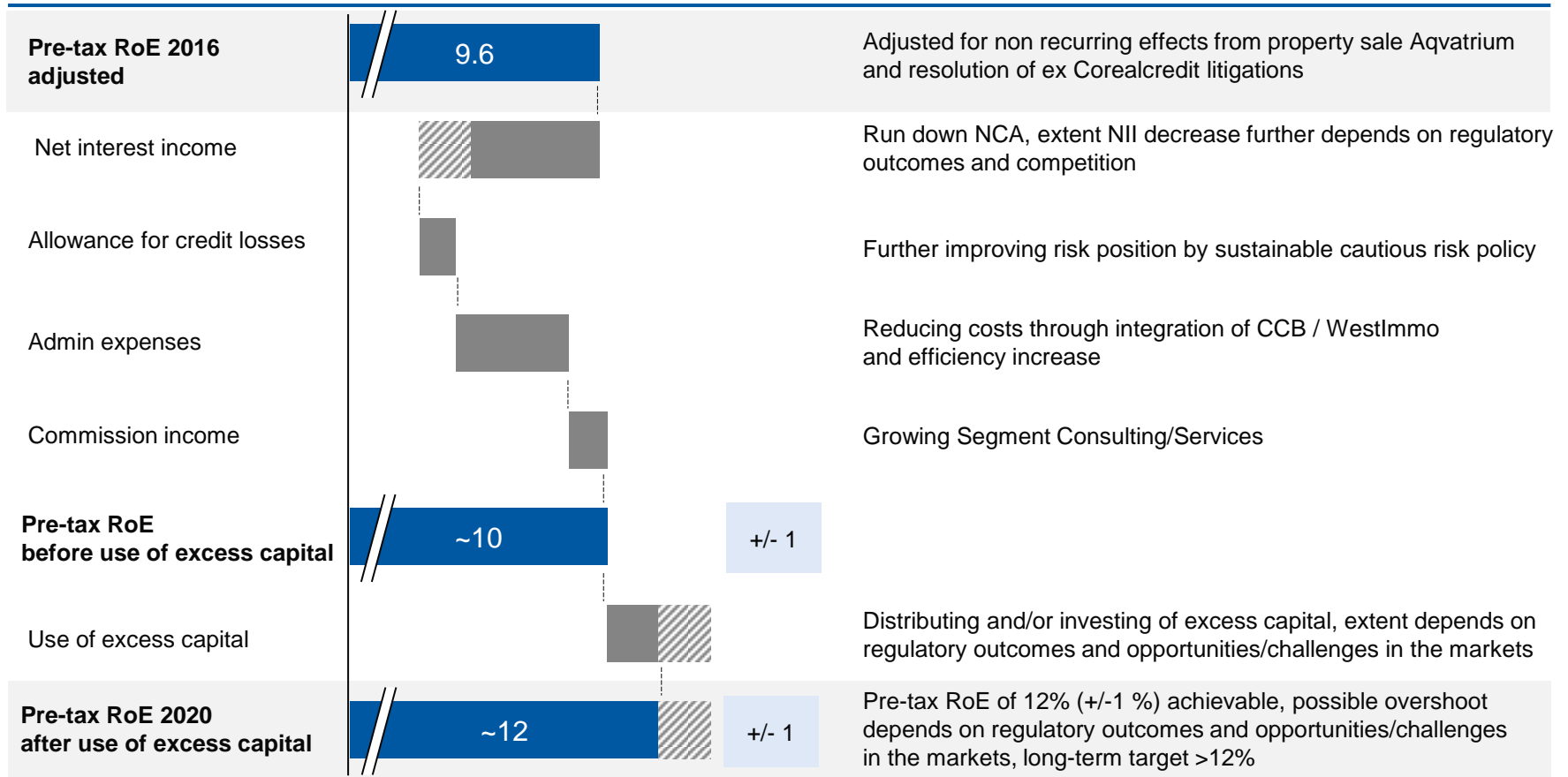
As published February 23, 2017



**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%)<sup>1)</sup>

### Base dividend

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

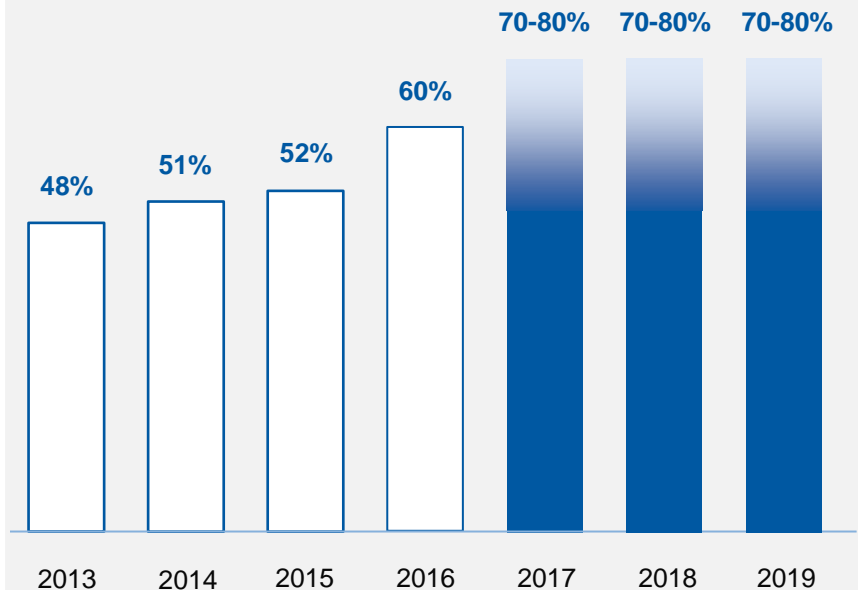
### Supplementary dividend

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 Q2 2017

	01.04.- 30.06.2017 € mn	01.04.- 30.06.2016 € mn	Change
<b>Profit and loss account</b>			
Net interest income	158	177	-11%
Allowance for credit losses	25	29	-14%
<b>Net interest income after allowance for credit losses</b>	<b>133</b>	<b>148</b>	<b>-10%</b>
Net commission income	49	47	4%
Net result on hedge accounting	-3	0	
Net trading income / expenses	4	8	-50%
Results from non-trading assets	0	61	
Results from investments accounted for at equity		0	
Administrative expenses	129	144	-10%
Net other operating income / expenses	55	0	
<b>Operating Profit</b>	<b>109</b>	<b>120</b>	<b>-9%</b>
Income taxes	42	38	11%
<b>Consolidated net income</b>	<b>67</b>	<b>82</b>	<b>-18%</b>
Consolidated net income attributable to non-controlling interests	1	5	-80%
Consolidated net income attributable to shareholders of Aareal Bank AG	66	77	-14%
<b>Earnings per share (EpS)</b>			
Consolidated net income attributable to shareholders of Aareal Bank AG <sup>1)</sup>	66	77	-14%
of which: allocated to ordinary shareholders	61	73	-16%
of which: allocated to AT1 investors	4	4	0%
Earnings per ordinary share (in €) <sup>2)</sup>	1.05	1.23	-15%
Earnings per ordinary AT1 unit (in €) <sup>3)</sup>	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 Q2 2017 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.04.- 30.06. 2017	01.04.- 30.06. 2016	01.04.- 30.06. 2017	01.04.- 30.06. 2016	01.04.- 30.06. 2017	01.04.- 30.06. 2016	01.04.- 30.06. 2017	01.04.- 30.06. 2016
€ mn								
Net interest income	160	181	0	0	-2	-4	158	177
Allowance for credit losses	25	29					25	29
<b>Net interest income after allowance for credit losses</b>	<b>135</b>	<b>152</b>	<b>0</b>	<b>0</b>	<b>-2</b>	<b>-4</b>	<b>133</b>	<b>148</b>
Net commission income	2	1	46	43	1	3	49	47
Net result on hedge accounting	-3	0					-3	0
Net trading income / expenses	4	8		0			4	8
Results from non-trading assets	0	61					0	61
Results from investments accounted for at equity				0				0
Administrative expenses <sup>1)</sup>	77	94	53	51	-1	-1	129	144
Net other operating income / expenses	54	0	1	0	0	0	55	0
<b>Operating profit</b>	<b>115</b>	<b>128</b>	<b>-6</b>	<b>-8</b>	<b>0</b>	<b>0</b>	<b>109</b>	<b>120</b>
Income taxes	44	41	-2	-3			42	38
<b>Consolidated net income</b>	<b>71</b>	<b>87</b>	<b>-4</b>	<b>-5</b>	<b>0</b>	<b>0</b>	<b>67</b>	<b>82</b>
<b>Allocation of results</b>								
Cons. net income attributable to non-controlling interests	0	4	1	1			1	5
Cons. net income attributable to shareholders of Aareal Bank AG	71	83	-5	-6	0	0	66	77

1) € 24 million in provisions for staff-related measures recognised during the first half of 2017, resulting from the optimisation of processes and structures within the scope of the "Aareal 2020" programme for the future, was allocated to the Structured Property Financing segment in full.

# Aareal Bank Group

## Results H1 2017

	01.01.- 30.06.2017 € mn	01.01.- 30.06.2016 € mn	Change
<b>Profit and loss account</b>			
Net interest income	322	357	-10%
Allowance for credit losses	27	31	-13%
<b>Net interest income after allowance for credit losses</b>	<b>295</b>	<b>326</b>	<b>-10%</b>
Net commission income	97	93	4%
Net result on hedge accounting	-6	1	
Net trading income / expenses	3	17	-82%
Results from non-trading assets	0	61	
Results from investments accounted for at equity		0	
Administrative expenses	268	290	-8%
Net other operating income / expenses	59	-1	
<b>Operating Profit</b>	<b>180</b>	<b>207</b>	<b>-13%</b>
Income taxes	66	65	2%
<b>Consolidated net income</b>	<b>114</b>	<b>142</b>	<b>-20%</b>
Consolidated net income attributable to non-controlling interests	6	10	-40%
Consolidated net income attributable to shareholders of Aareal Bank AG	108	132	-18%
<b>Earnings per share (EpS)</b>			
Consolidated net income attributable to shareholders of Aareal Bank AG <sup>1)</sup>	108	132	-18%
of which: allocated to ordinary shareholders	100	124	-19%
of which: allocated to AT1 investors	8	8	0%
Earnings per ordinary share (in €) <sup>2)</sup>	1.68	2.08	-19%
Earnings per ordinary AT1 unit (in €) <sup>3)</sup>	0.08	0.08	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 H1 2017 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.01.- 30.06. 2017	01.01.- 30.06. 2016	01.01.- 30.06. 2017	01.01.- 30.06. 2016	01.01.- 30.06. 2017	01.01.- 30.06. 2016	01.01.- 30.06. 2017	01.01.- 30.06. 2016
€ mn								
Net interest income	327	363	0	0	-5	-6	322	357
Allowance for credit losses	27	31					27	31
<b>Net interest income after allowance for credit losses</b>	<b>300</b>	<b>332</b>	<b>0</b>	<b>0</b>	<b>-5</b>	<b>-6</b>	<b>295</b>	<b>326</b>
Net commission income	3	3	91	85	3	5	97	93
Net result on hedge accounting	-6	1					-6	1
Net trading income / expenses	3	17		0			3	17
Results from non-trading assets	0	61					0	61
Results from investments accounted for at equity				0				0
Administrative expenses <sup>1)</sup>	166	189	104	102	-2	-1	268	290
Net other operating income / expenses	58	-1	1	0	0	0	59	-1
<b>Operating profit</b>	<b>192</b>	<b>224</b>	<b>-12</b>	<b>-17</b>	<b>0</b>	<b>0</b>	<b>180</b>	<b>207</b>
Income taxes	70	71	-4	-6			66	65
<b>Consolidated net income</b>	<b>122</b>	<b>153</b>	<b>-8</b>	<b>-11</b>	<b>0</b>	<b>0</b>	<b>114</b>	<b>142</b>
<b>Allocation of results</b>								
Cons. net income attributable to non-controlling interests	4	8	2	2			6	10
Cons. net income attributable to shareholders of Aareal Bank AG	118	145	-10	-13	0	0	108	132

1) € 24 million in provisions for staff-related measures recognised during the first half of 2017, resulting from the optimisation of processes and structures within the scope of the "Aareal 2020" programme for the future, was allocated to the Structured Property Financing segment in full.

# Aareal Bank Group

## Results – quarter by quarter

	Structured Property Financing					Consulting / Services					Consolidation / Reconciliation					Aareal Bank Group				
	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016
€ mn																				
Net interest income	160	167	174	179	181	0	0	0	0	0	-2	-3	-5	-4	-4	158	164	169	175	177
Allowance for credit losses	25	2	33	33	29											25	2	33	33	29
<b>Net interest income after allowance for credit losses</b>	<b>135</b>	<b>165</b>	<b>141</b>	<b>146</b>	<b>152</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-2</b>	<b>-3</b>	<b>-5</b>	<b>-4</b>	<b>-4</b>	<b>133</b>	<b>162</b>	<b>136</b>	<b>142</b>	<b>148</b>
Net commission income	2	1	5	2	1	46	45	47	39	43	1	2	4	3	3	49	48	56	44	47
Net result on hedge accounting	-3	-3	-4	3	0											-3	-3	-4	3	0
Net trading income / expenses	4	-1	-2	4	8					0						4	-1	-2	4	8
Results from non-trading assets	0		0	5	61			1								0		1	5	61
Results from results accounted for at equity								0	0	0								0	0	0
Administrative expenses	77	89	80	77	94	53	51	51	51	51	-1	-1	-1	-1	-1	129	139	130	127	144
Net other operating income / expenses	54	4	26	2	0	1	0	2	1	0	0	0	0	0	0	55	4	28	3	0
Negative goodwill																				
<b>Operating profit</b>	<b>115</b>	<b>77</b>	<b>86</b>	<b>85</b>	<b>128</b>	<b>-6</b>	<b>-6</b>	<b>-1</b>	<b>-11</b>	<b>-8</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>109</b>	<b>71</b>	<b>85</b>	<b>74</b>	<b>120</b>
Income taxes	44	26	45	27	41	-2	-2	-1	-4	-3						42	24	44	23	38
<b>Consolidated net income</b>	<b>71</b>	<b>51</b>	<b>41</b>	<b>58</b>	<b>87</b>	<b>-4</b>	<b>-4</b>	<b>0</b>	<b>-7</b>	<b>-5</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>67</b>	<b>47</b>	<b>41</b>	<b>51</b>	<b>82</b>
Cons. net income attributable to non-controlling interests	0	4	3	5	4	1	1	1	0	1						1	5	4	5	5
Cons. net income attributable to shareholders of Aareal Bank AG	71	47	38	53	83	-5	-5	-1	-7	-6	0	0	0	0	0	66	42	37	46	77



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
▪ Net income	122	99	77	50
▪ Profit carried forward from previous year	-	-	-	-
▪ Net income attribution to revenue reserves	-	-	-	-
+ Other revenue reserves after net income attribution	720	720	715	710
= Total dividend potential before amount blocked <sup>1)</sup>	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 <sup>1)</sup>	579	532	552	604
+ Increase by aggregated amount of interest expenses relating to Distributions on Tier 1 Instruments <sup>1)</sup>	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 <sup>1)</sup>	625	578	609	661

1) Unaudited figures for information purposes only



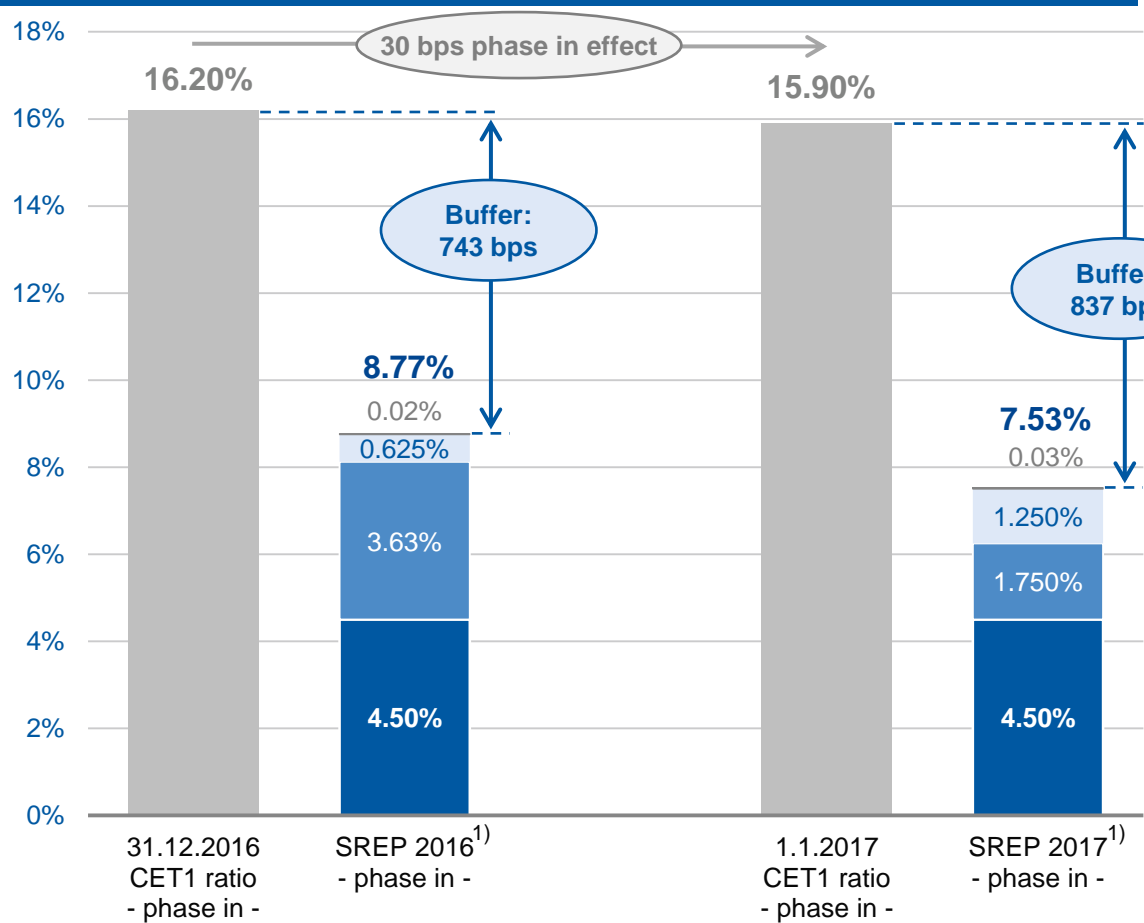
# Appendix SREP



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

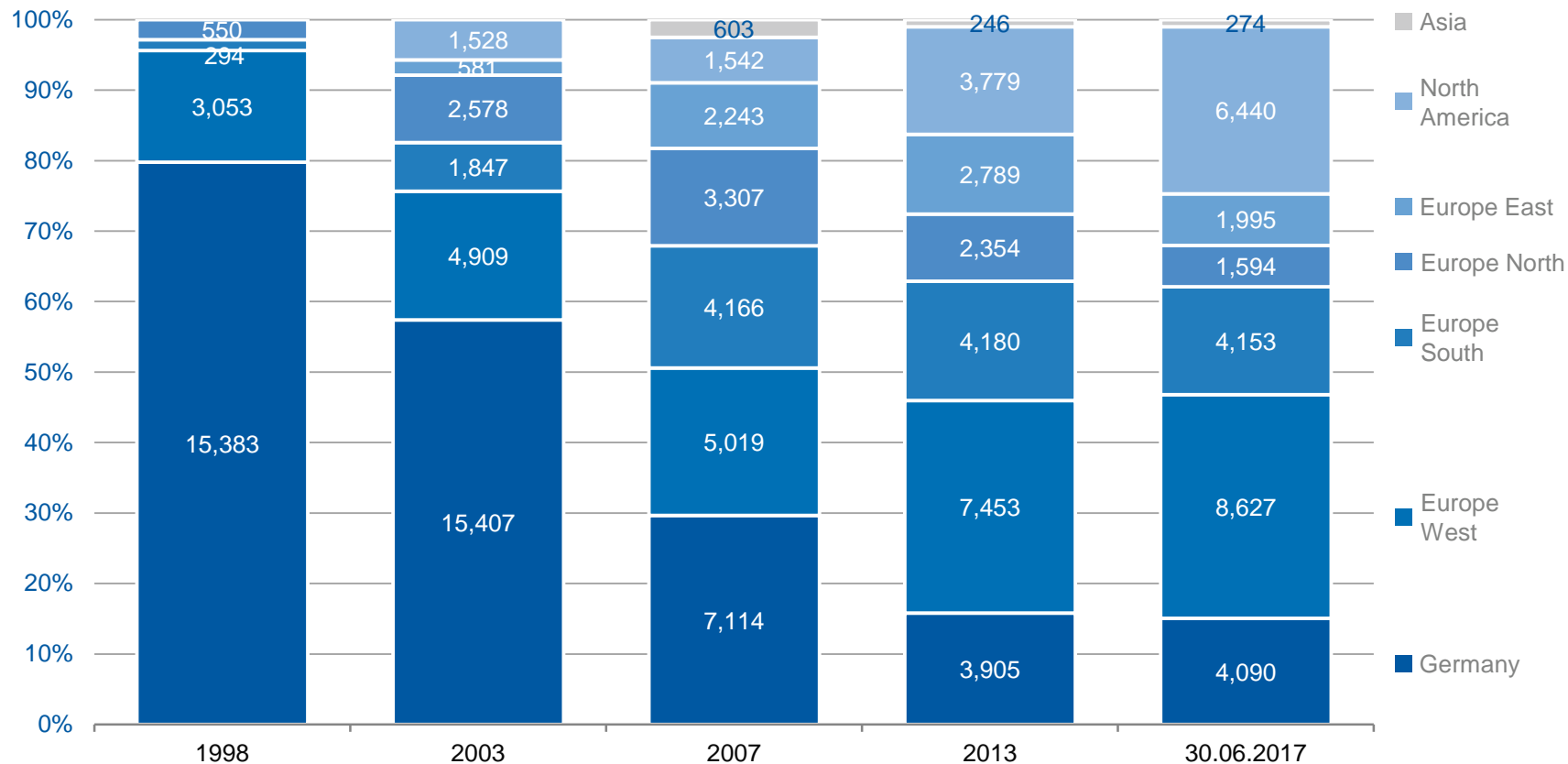
1) SREP-CET1 Requirements incl. buffers (Capital Conservation and Countercyclical)  
As published February 23, 2017



Appendix  
Development property finance portfolio

# Development property finance portfolio<sup>1)</sup>

## Diversification continuously strengthened (in € mn)

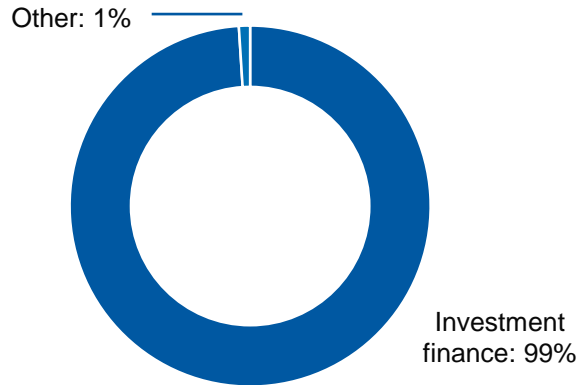


1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

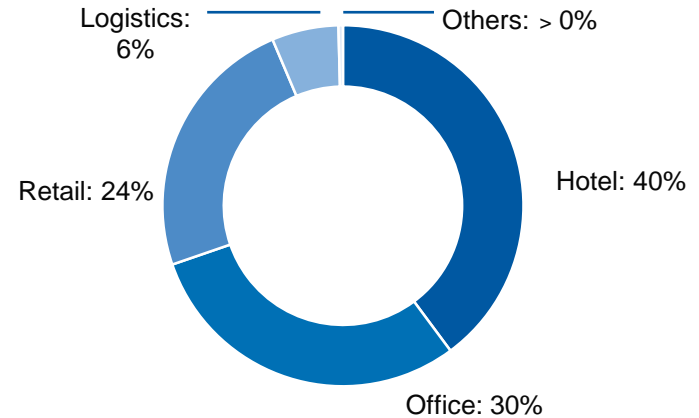
# Western Europe (ex Germany) credit portfolio<sup>1)</sup>

Total volume outstanding as at 30.06.2017: € 8.6 bn

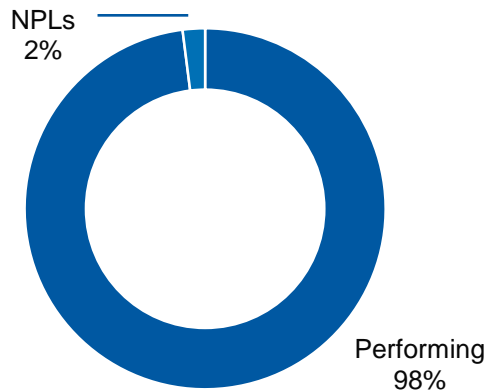
## by product type



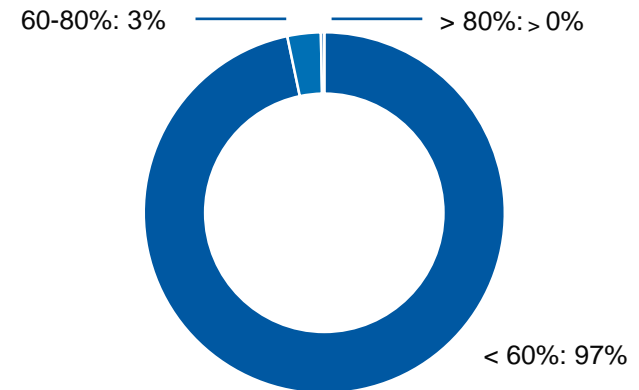
## by property type



## by performance



## by LTV ranges<sup>2)</sup>



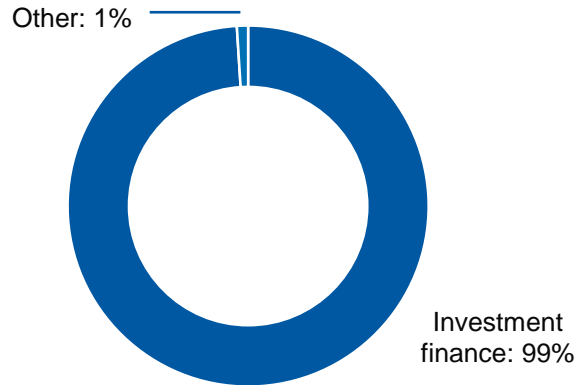
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 30.06.2017

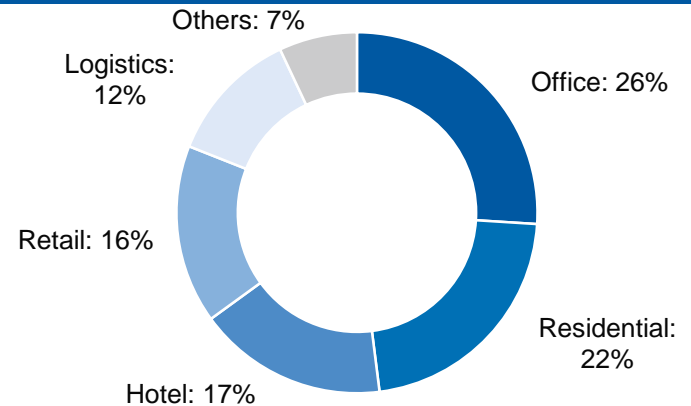
# German credit portfolio<sup>1)</sup>

Total volume outstanding as at 30.06.2017: € 4.1 bn

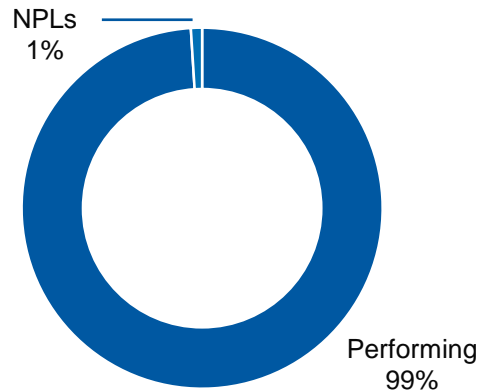
## by product type



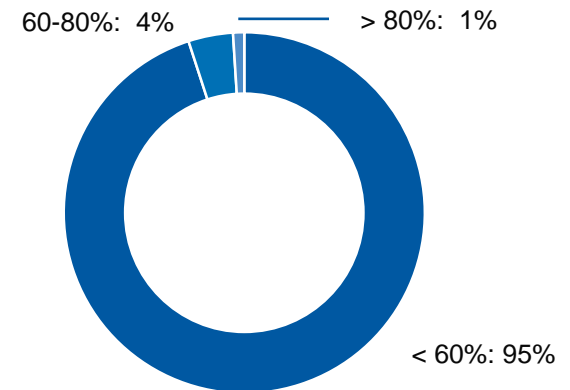
## by property type



## by performance



## by LTV ranges<sup>2)</sup>



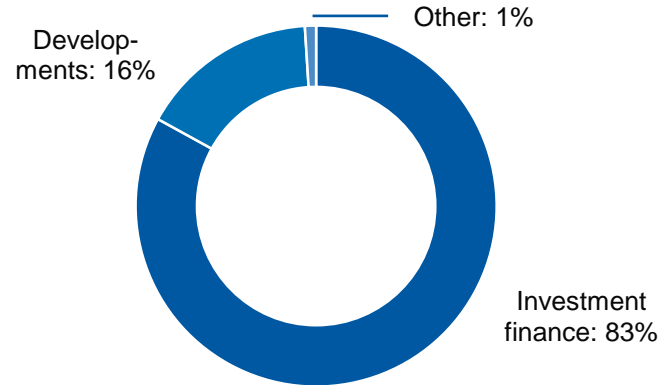
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 30.06.2017

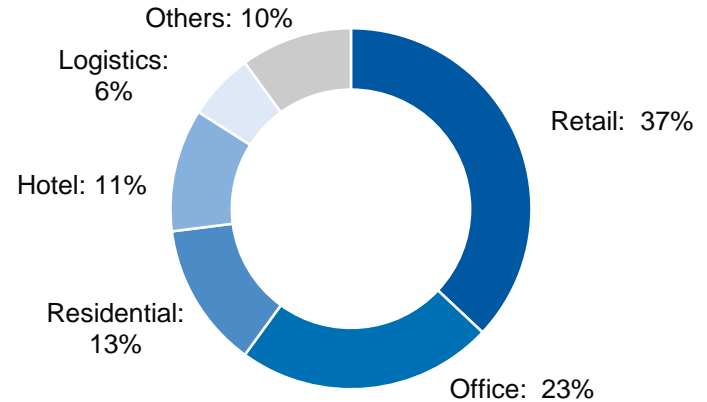
# Southern Europe credit portfolio<sup>1)</sup>

Total volume outstanding as at 30.06.2017: € 4.2 bn

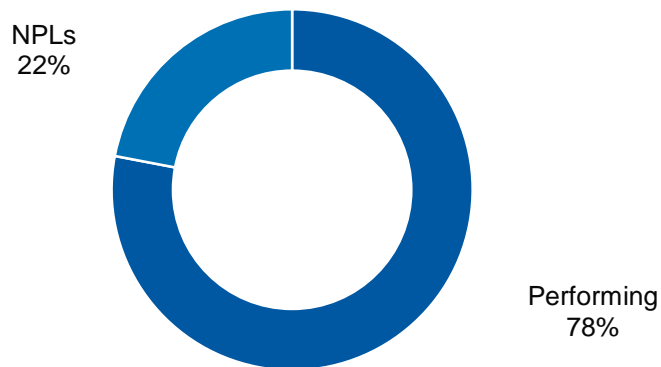
by product type



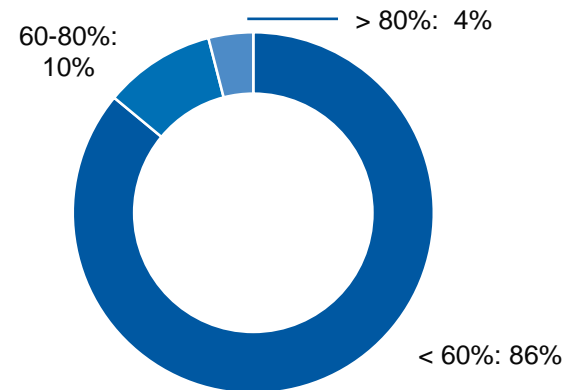
by property type



by performance



by LTV ranges<sup>2)</sup>



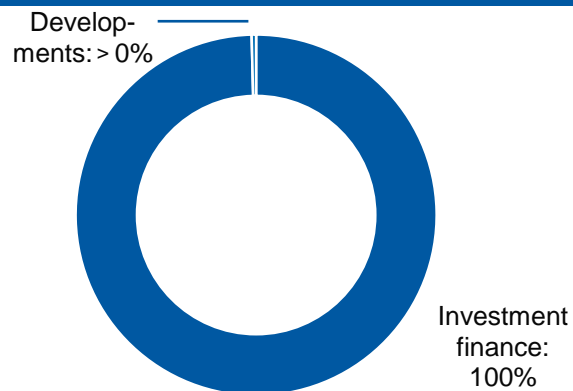
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 30.06.2017

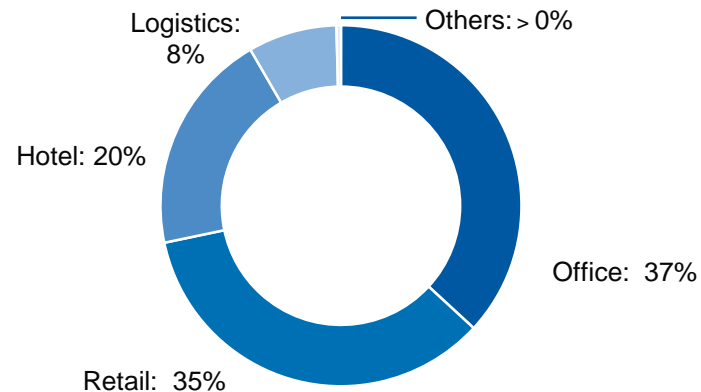
# Eastern Europe credit portfolio<sup>1)</sup>

Total volume outstanding as at 30.06.2017: € 2.0 bn

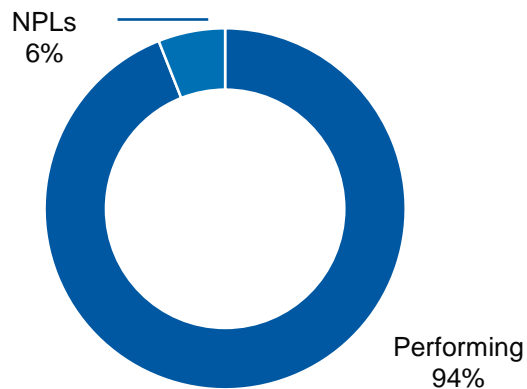
## by product type



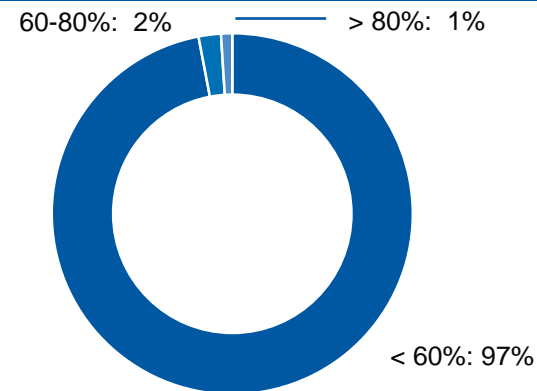
## by property type



## by performance



## by LTV ranges<sup>2)</sup>



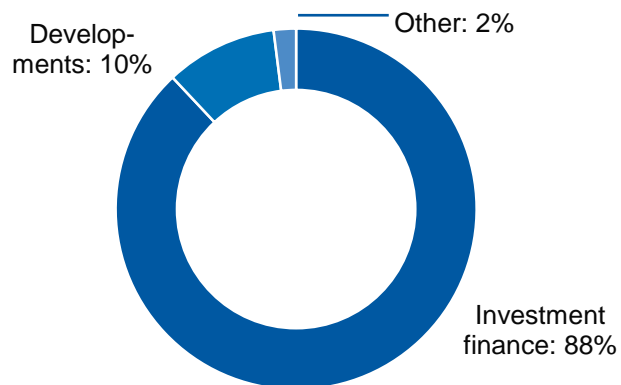
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 30.06.2017

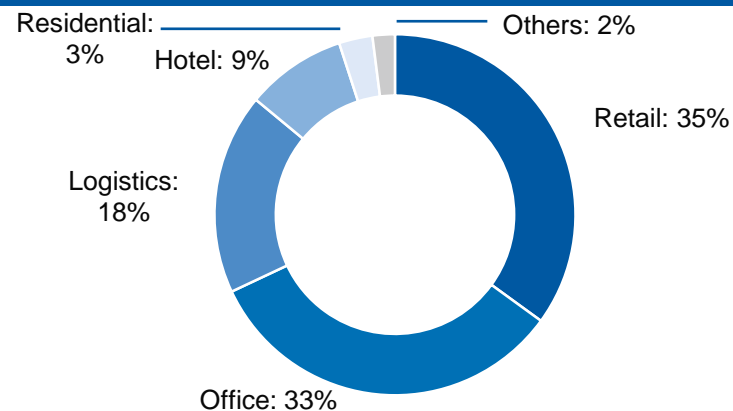
# Northern Europe credit portfolio<sup>1)</sup>

Total volume outstanding as at 30.06.2017: € 1.6 bn

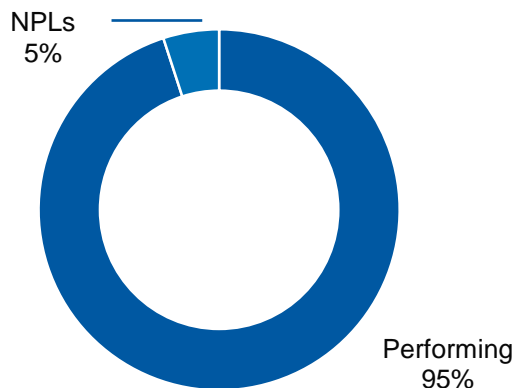
## by product type



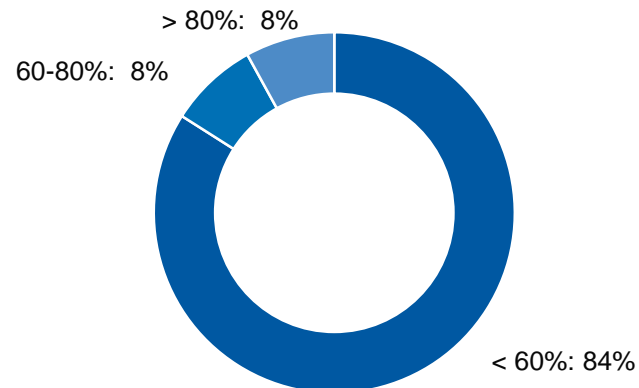
## by property type



## by performance



## by LTV ranges<sup>2)</sup>



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 30.06.2017



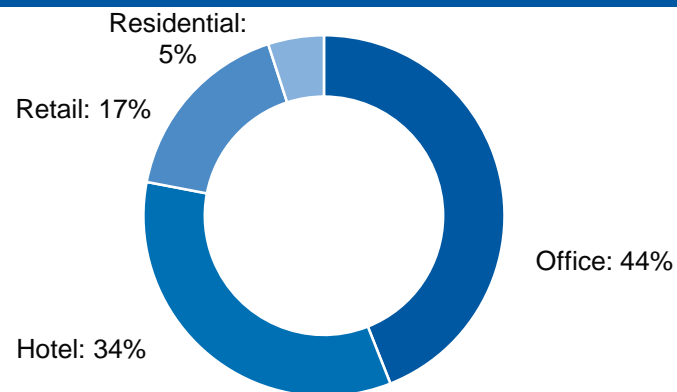
# North America credit portfolio<sup>1)</sup>

Total volume outstanding as at 30.06.2017: € 6.4 bn

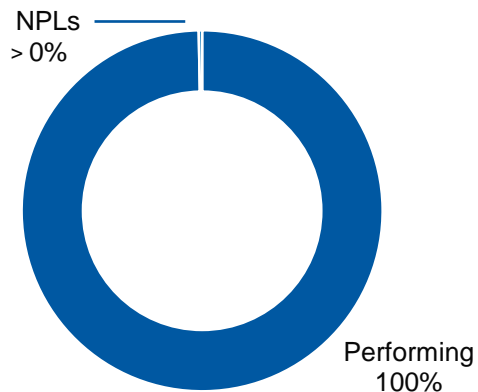
by product type



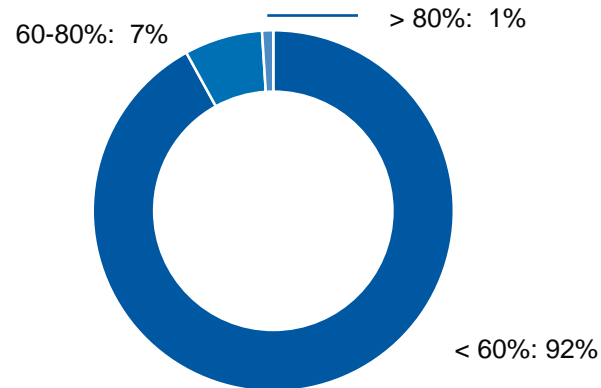
by property type



by performance



by LTV ranges<sup>2)</sup>



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 30.06.2017

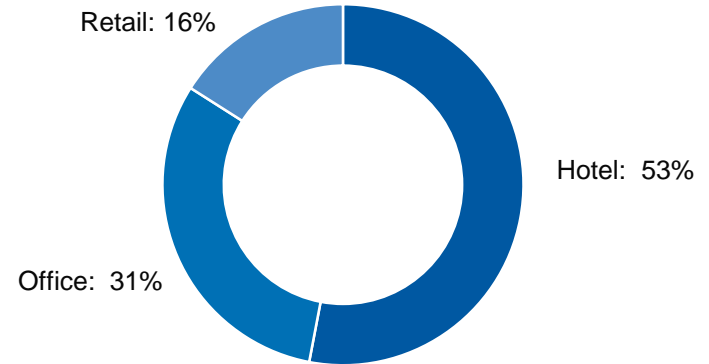
# Asia credit portfolio<sup>1)</sup>

Total volume outstanding as at 30.06.2017: € 0.3 bn

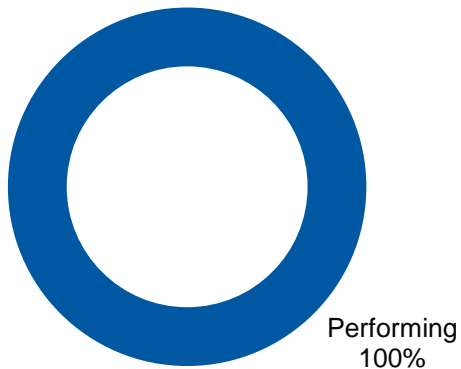
by product type



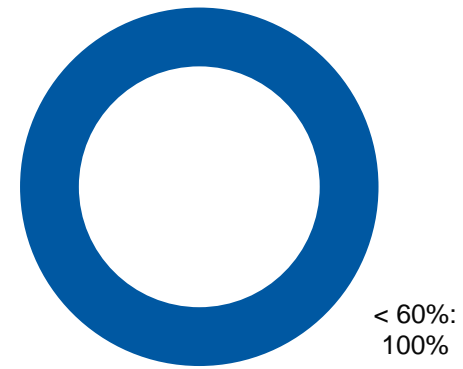
by property type



by performance



by LTV ranges<sup>2)</sup>



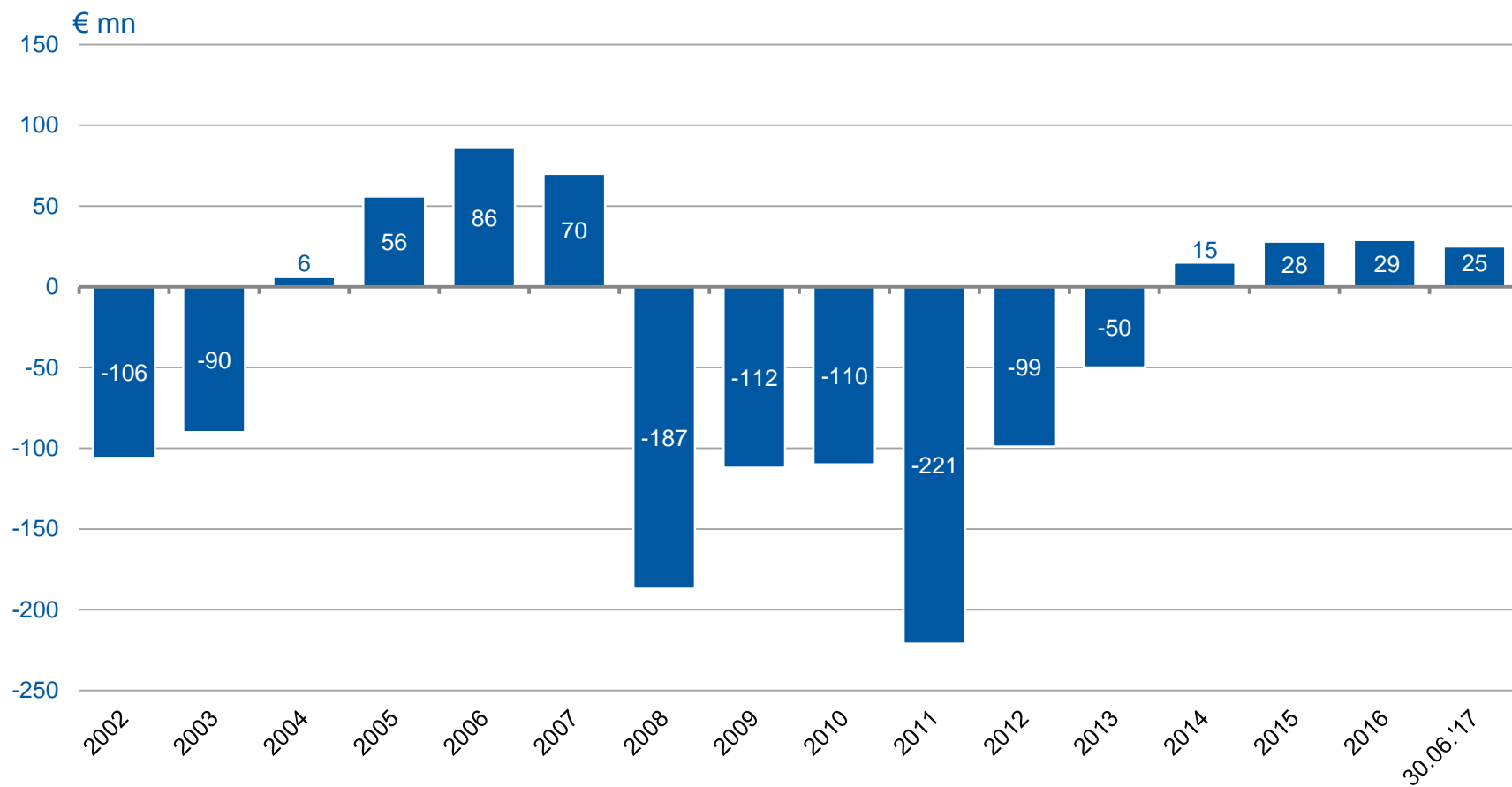
1) CRE-business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing CRE-business only, exposure as at 30.06.2017



Appendix  
Revaluation surplus

# Revaluation surplus



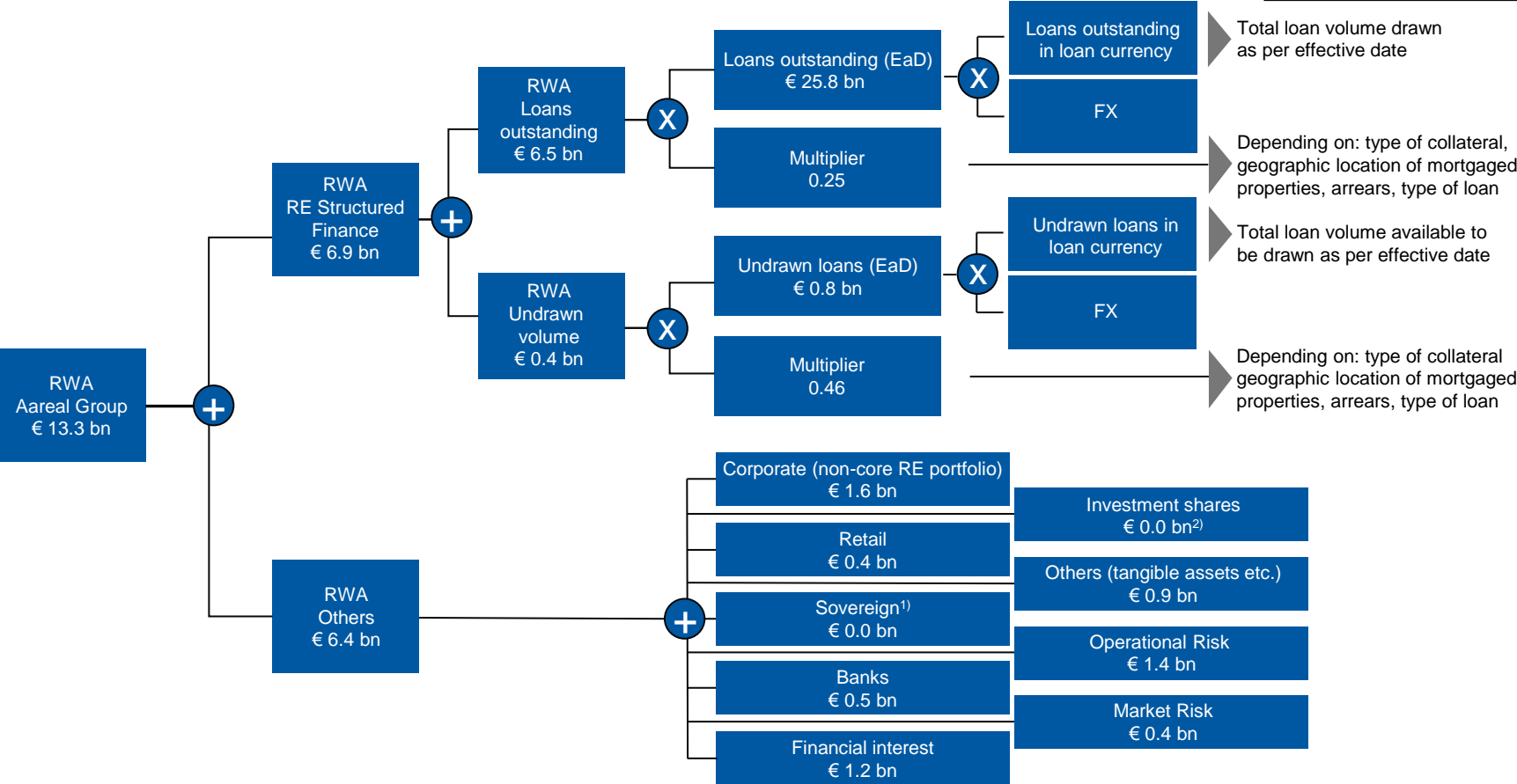


Appendix  
RWA-split

# From asset to risk weighted asset (RWA)

## Essential factors affecting volume of RWA

Effective date 30/06/2017



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

16.6% Common Equity Tier 1 ratio<sup>1)</sup>, exceeds the statutory requirements



€ 27.2 bn Valuable Property Finance Portfolio<sup>2)</sup>



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



Aareal Bank awarded as top employer for the 10<sup>th</sup> time in succession



Systematic approach: Code of Conduct for employees & suppliers



Solid refinancing base: Covered Bonds<sup>3)</sup> with best possible ratings



Aareal Bank & Aareon: Certified Ecoprofit companies, by using

**100%**  
green electricity<sup>4)</sup>

Above-average results in sustainability ratings



1) Full Basel III implementation, as at 30.06.2017

2) CRE business only, private client business (€ 1.0 bn) and WIB's public sector loans (€ 0.6 bn) not included, as at 30.06.2017

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

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



# Sustainability data

## Extends the financial depiction of the Group

### Key takeaways at a glance



#### Transparent Reporting – facilitating informed investment decisions

- 5<sup>th</sup> Report “#THINKING AHEAD. ACTING CONSCIOUSLY.” and “SUSTAINABILITY DISCLOSURES 2016” published<sup>1</sup>
- “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) <https://www.aareal-bank.com/en/responsibility/reporting-on-our-progress/sustainability-reporting/>



# 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** = 
$$\frac{\text{Operating profit } ./ \text{ income/loss attributable to non-controlling interests } ./ \text{ AT1 coupon}}{\text{Average IFRS equity excl. non-controlling interests, other reserves, AT1 and dividends}}$$
- **CIR** = 
$$\frac{\text{Admin expenses}}{\text{Net income}}$$
- **Net income** = net interest income + net commission income + net result on hedge accounting + net trading income + results from non-trading assets + results from investments accounted for at equity + results from investment properties + net other operating income
- **Net stable funding ratio** = 
$$\frac{\text{Available stable funding}}{\text{Required stable funding}} \geq 100\%$$
- **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** = 
$$\frac{\text{operating profit } ./ \text{ income taxes } ./ \text{ income/loss attributable to non controlling interests } ./ \text{ net AT1 coupon}}{\text{Number of ordinary shares}}$$
- **Yield on Debt** = 
$$\frac{\text{Net operating income (NOI)} \times 100}{\text{Current commitment incl. prior / pari-passu loans}}$$

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