

QUALITY®
made by **AAREAL**

Analyst Conference Call

Q2 2016 results

August 11, 2016
Hermann J. Merkens, CEO

Aareal

Agenda

- Highlights
- General environment
- Group results Q2 2016 at a glance
- Segment performance
- Group results Q2 2016
- B/S structure, capital & funding position
- Asset quality
- Outlook 2016

- Appendix
- Definitions and Contacts

Highlights Q2 2016

Aareal Bank Group stays on track

Key facts and figures at a glance

- Operating profit of € 120 mn reflects strong operating performance, additionally influenced by two one-offs
 - Closing of successful sale of foreclosed Swedish asset as planned
 - Integration / project costs and investments as expected
- Successful development in both segments:
 - Strong new business (Q2 of € 3.5 bn / H1 of € 4.4 bn)
 - Aareon again with increasing sales revenues and EBIT
- „Aareal 2020“ on track
- 2016 outlook confirmed

General environment

- US-recovery is still on track, Europe with moderate growth, China's growth rate is slowing down
- Brexit causes political and economic uncertainties, ongoing geopolitical risks and tensions e.g. in Russia and Turkey
- Diverging monetary policies between ECB and FED: but no major weakening of the EUR expected
- ECB has broadened QE, further steps possible: enormous impact on capital markets - risking asset bubbles and therefore risks from LTVs partly based on extreme low cap rates
- High liquidity on property market, but decreasing transaction volumes in H1 2016 (vs. H1 2015)
Transaction volume in Italy significantly up in Q2 2016 vs. Q1 2016 (+ 69%)
- Stable to moderately increasing property values and rents in most European countries as well as in North America
- Intensive competition for commercial real estate financing, European margins bottoming out
- Uncertainties about regulatory requirements

Main takeaways

- ➔ Main focus for new business in markets with attractive risk/return profile like North America
- ➔ In Turkey and Russia only renewals; still prepared to finance in the UK
- ➔ Partly tightened requirements for new business regarding LTV
- ➔ Regulatory projects in progress



Group results Q2 2016 at a glance

Aareal

Q2 2016 at a glance

Strong results despite very challenging environment

	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Comments
€ mn						
Net interest income <i>(excl. unplanned effects from early repayments)</i>	177 (175)	180 (180)	198 (183)	214 (192)	191 (181)	NII reflects <ul style="list-style-type: none"> Robust margins – declining NCA Effects from early repayments slightly above Q1 2016-level, in line with FY-plan (€ 35 mn)
Allow. for credit losses	29	2	42	37	31	In line with full year target
Net commission income	47	46	52	40	42	Strong performance of Aareon supporting its FY-target
Admin expenses	144	146	138	147	136	€ 30 mn one-offs from integration as well as from project / investment costs
Operating profit	120	87	92	82	229 ¹⁾ 79	Including € 61 mn from Aquatrium / Fatburen property sale as already announced
Earnings per share [€]	1.23	0.85	1.01	0.78	3.27 ¹⁾ 0.77	

1) Including negative goodwill from Westlmmo takeover, adjusted



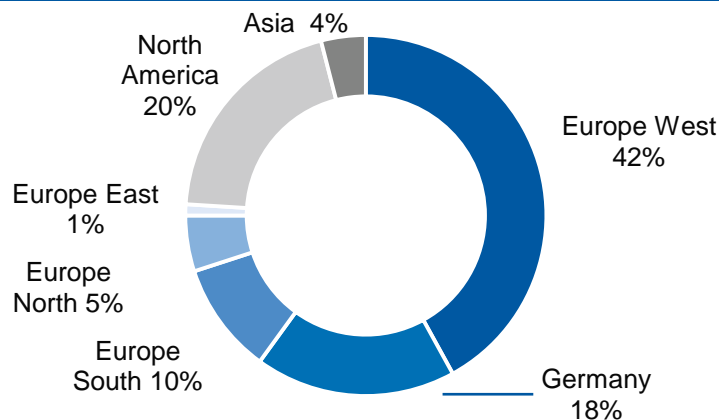
Segment performance

Aareal

Structured property financing

Strong new business origination

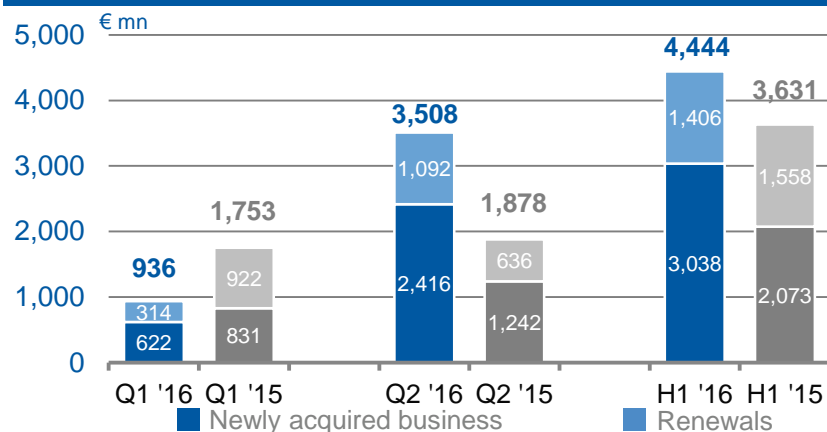
New business in Q2 2016 by region¹⁾



P&L SPF Segment	Q2 '16	Q1 '16	Q4 '15	Q3 '15	Q2 '15
€ mn					
Net interest income	181	182	199	214	192
Loan loss provision	29	2	42	37	31
Net commission income	1	2	2	2	2
Net result from trading / non-trading / hedge acc.	69	10	6	-3	0
Admin expenses	94	95	85	101	89
Others	0	-1	14	14	12
Negative goodwill					150 ²⁾
Operating profit	128	96	94	89	236²⁾

- 1) Incl. renewals
- 2) Adjusted
- 3) Newly acquired business

New business origination



- New business in Europe mainly driven by several large portfolio transactions
- New business in line with full year target of € 7-8 bn
- Gross margins³⁾ of around 220 bps (H1: ~230 bps)
- Early repayment effects slightly above Q1 2016-level, in line with FY-plan (€ 35 mn vs. € 75 mn 2015)
- Long term target portfolio (€ 25-30 bn) to be likely at the lower end of the given range, strengthening off-balance lending in line with “Aareal 2020”
- Closing Aqvatrium / Fatburen in April 2016 with a positive € 61 mn effect

Consulting / Services

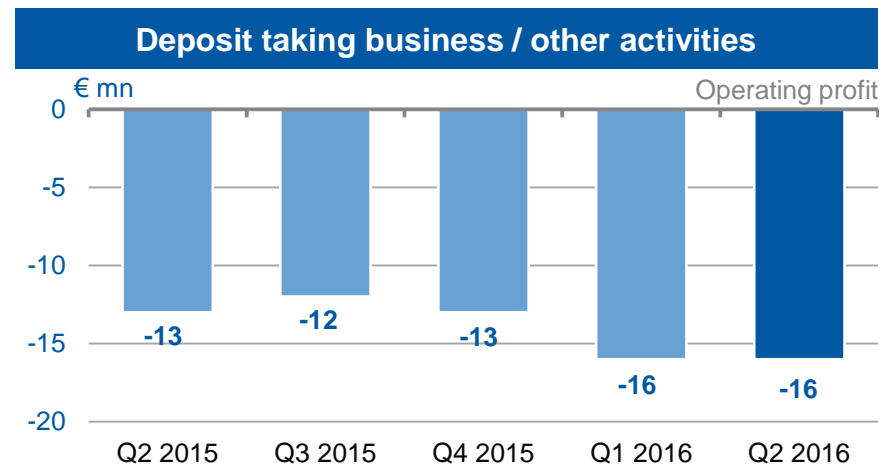
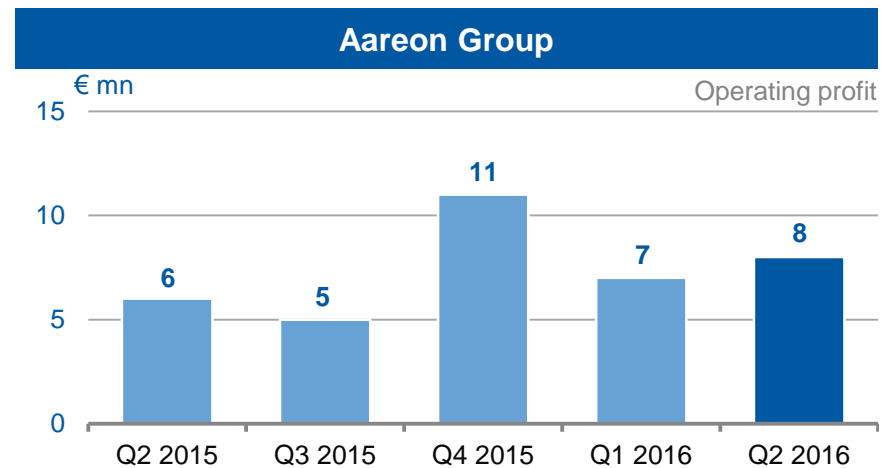
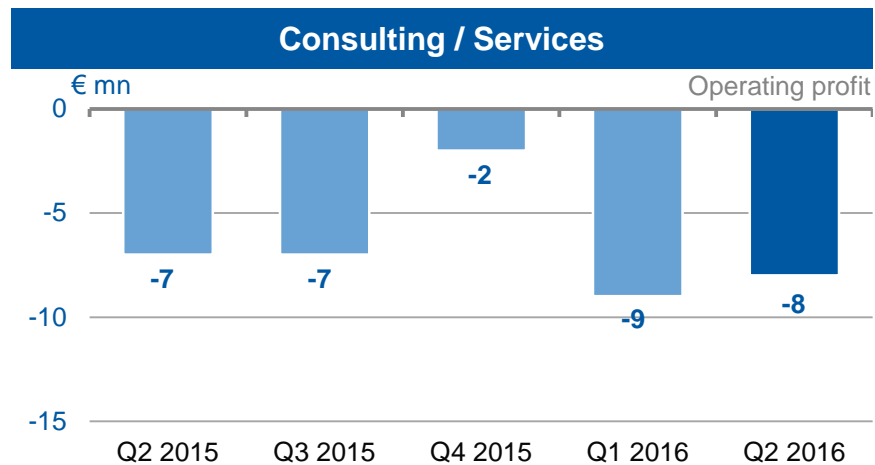
Aareon again with higher sales revenues

P&L C/S Segment	Q2 '16	Q1 '16	Q4 '15	Q3 '15	Q2 '15
€ mn					
Sales revenue	52	49	56	44	47
Own work capitalised	2	1	0	2	1
Changes in inventory	0	0	0	0	0
Other operating income	0	1	4	2	2
Cost of material purchased	9	7	7	5	7
Staff expenses	35	36	37	35	33
D, A, impairment losses	3	3	3	3	3
Results at equity acc. investm.	0	0	0	0	0
Other operating expenses	15	14	15	12	14
Results from interest and similar	0	0	0	0	0
Operating profit	-8	-9	-2	-7	-7

- Aareon sales revenues (€ 52 mn vs. € 46 mn in Q2 2015) again above previous year level and in line with full year target
- Migration GES / Wodis Sigma according to plan
- New products strong in France and Netherlands (sale of new-ERP bundle and add-on products)
- Digitisation:
 - Further development of Aareon Smart World according to plan
 - Digital platform development on track
 - Sales of digital add-on products across countries intensified
- Deposit volume from housing industry of Ø € 9.5 bn on a high level (€ 9.3 bn Ø in Q1 2016)
- Deposit margins further burden segment result due to low-interest environment
- Housing industry deposits generate a stable funding base, crisis-proven

Consulting / Services

Aareon again with higher EBIT



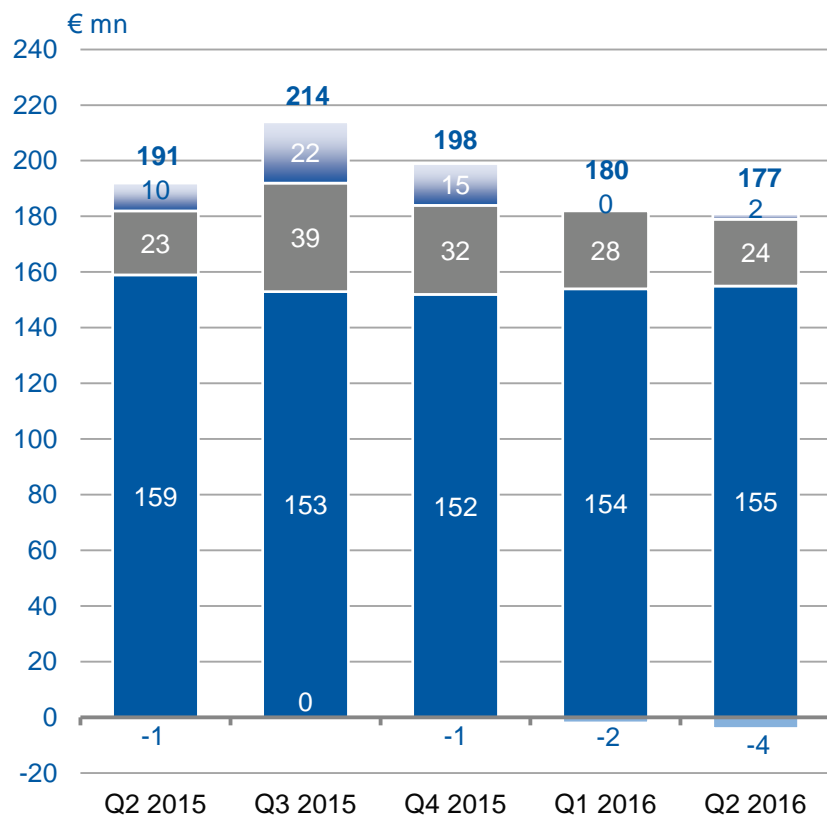


Group results Q2 2016

Aareal

Net interest income

Robust margins – declining NCA



- NII effects from early repayments²⁾
- NII NCA (linear approximation since Q2 2015)
- NII Core
- NII C/S

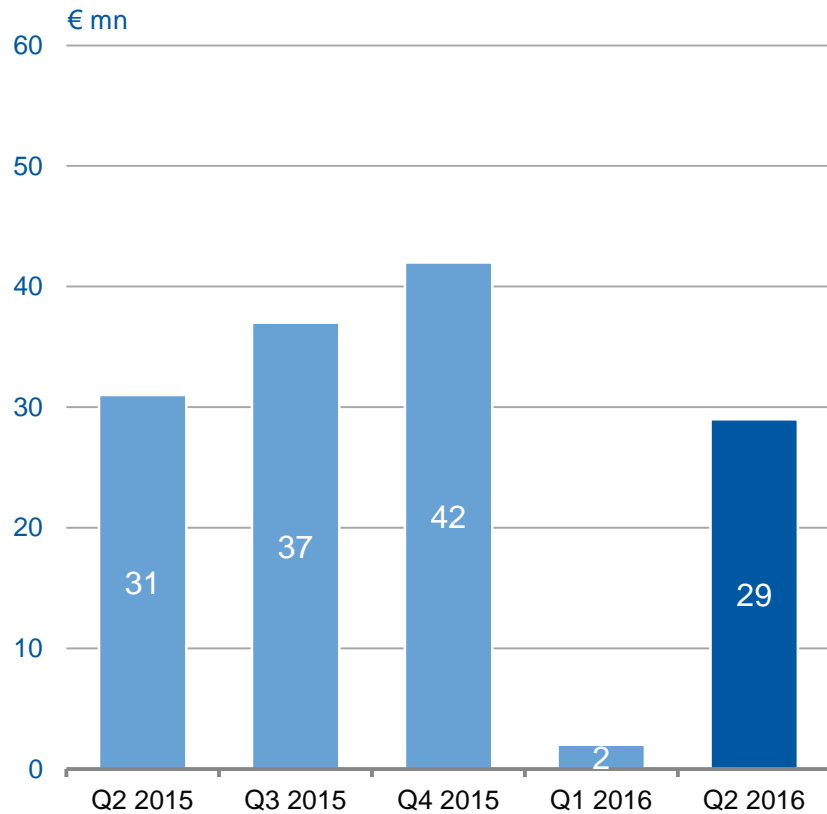
1) Newly acquired business

2) Additional effects exceeding originally planned repayments

- Gross margins¹⁾ of around 220 bps
H1: ~ 230 bps
- NII effected by run down of non core assets as planned
- Effects from early repayments slightly above Q1 2016 level
- Core CRE portfolio: € 26.8 mn (03/2016: € 25.9 mn)
- Full contribution of WestImmo since Q3 2015
- NII Consulting / Services still burdened by interest rate environment
- Aareal Bank already fulfils future NSFR / LCR requirements

Allowance for credit losses (LLP)

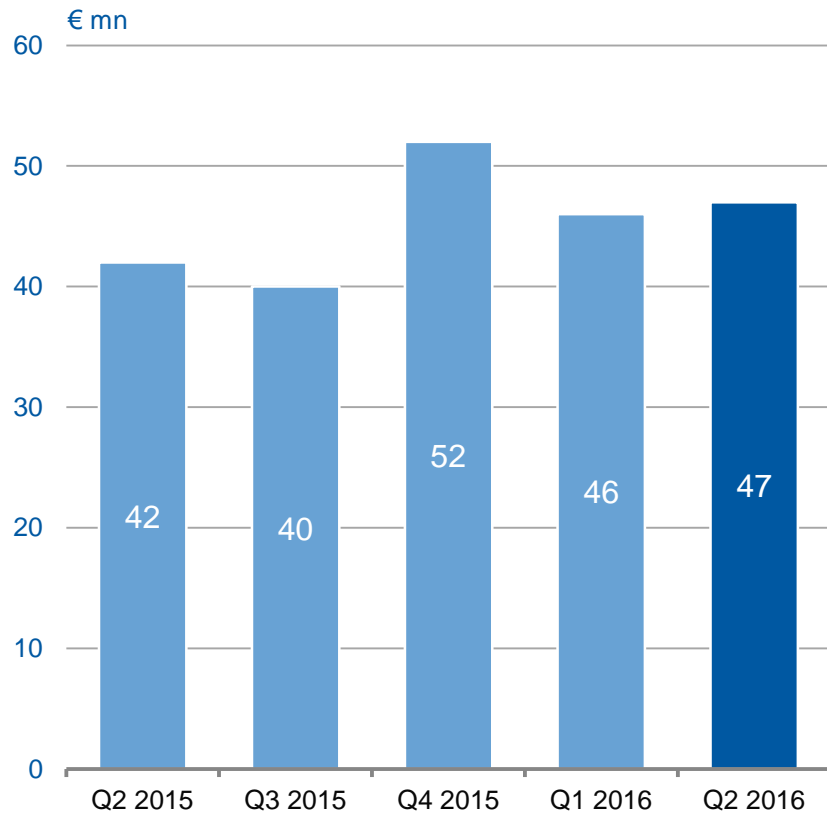
In line with full year target



- Regular revaluation of collaterals led to adjusted portfolio-, and specific allowances
- No additional NPL's in Italian portfolio

Net commission income

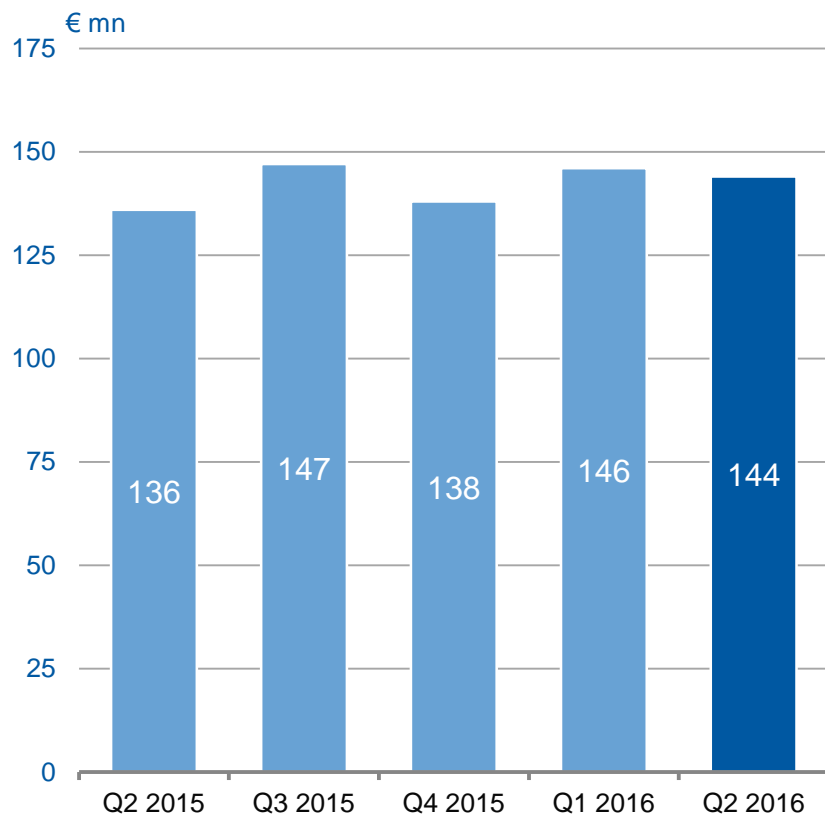
Aareon again with strong performance in Q2



- Aareon sales revenues on high level of prior quarter and in line with guidance
- Q4 2015 with seasonal effects
- First time consolidation of Aareon's new acquisitions in Q4 2015 (phi-Consulting, Square DMS)

Admin expenses

Including integration costs as planned



- Q2 figures include
 - € 30 mn one-offs from integration as well as from project / investment costs
- Q1 figures include
 - € 17 mn for the European bank levy for the fiscal year 2016
 - € 10 mn one-offs from integrations as well as from project / investment costs
 - Operating admin expenses of WestImmo since 06/2015 included
- Operating admin expenses for Aareon's new acquisitions phi-Consulting and Square DMS (since Q4 2015)

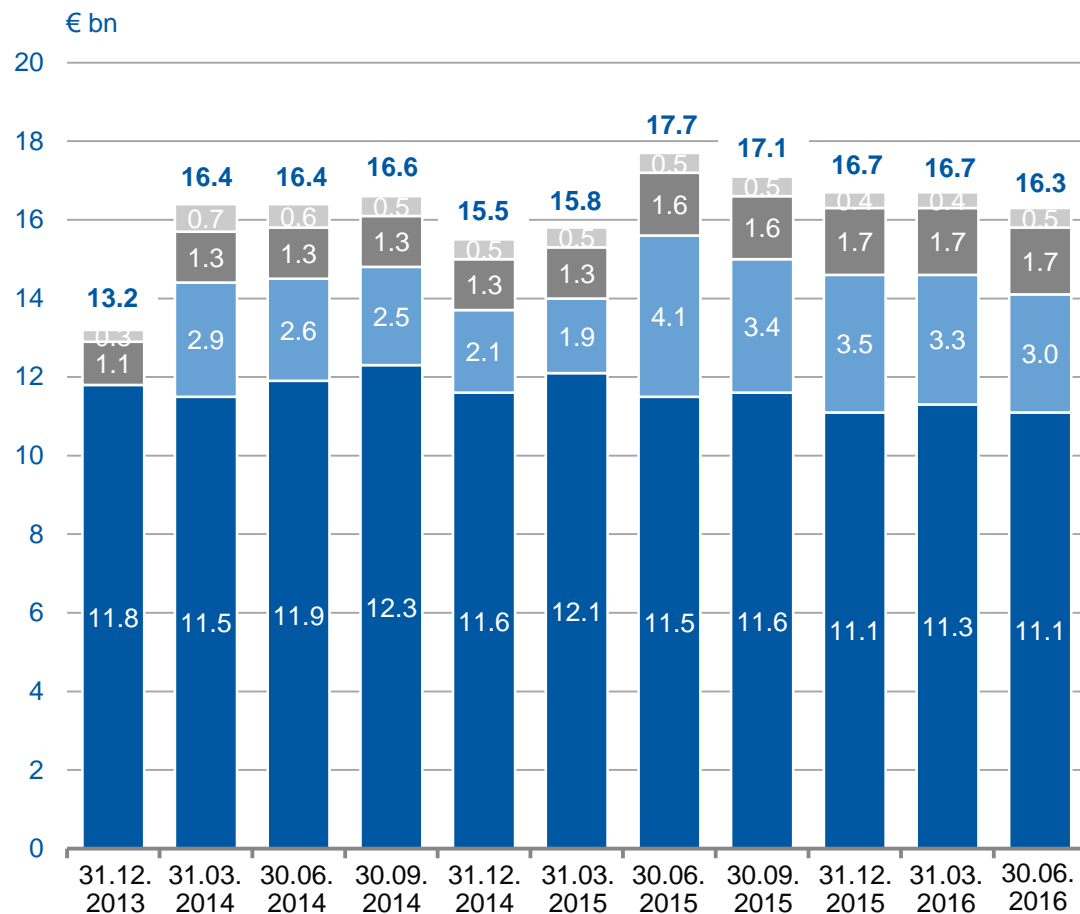


B/S structure, capital & funding position

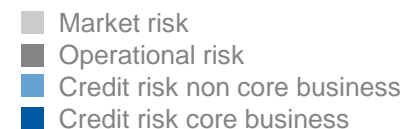
Aareal

RWA development

Successful run down of NCA

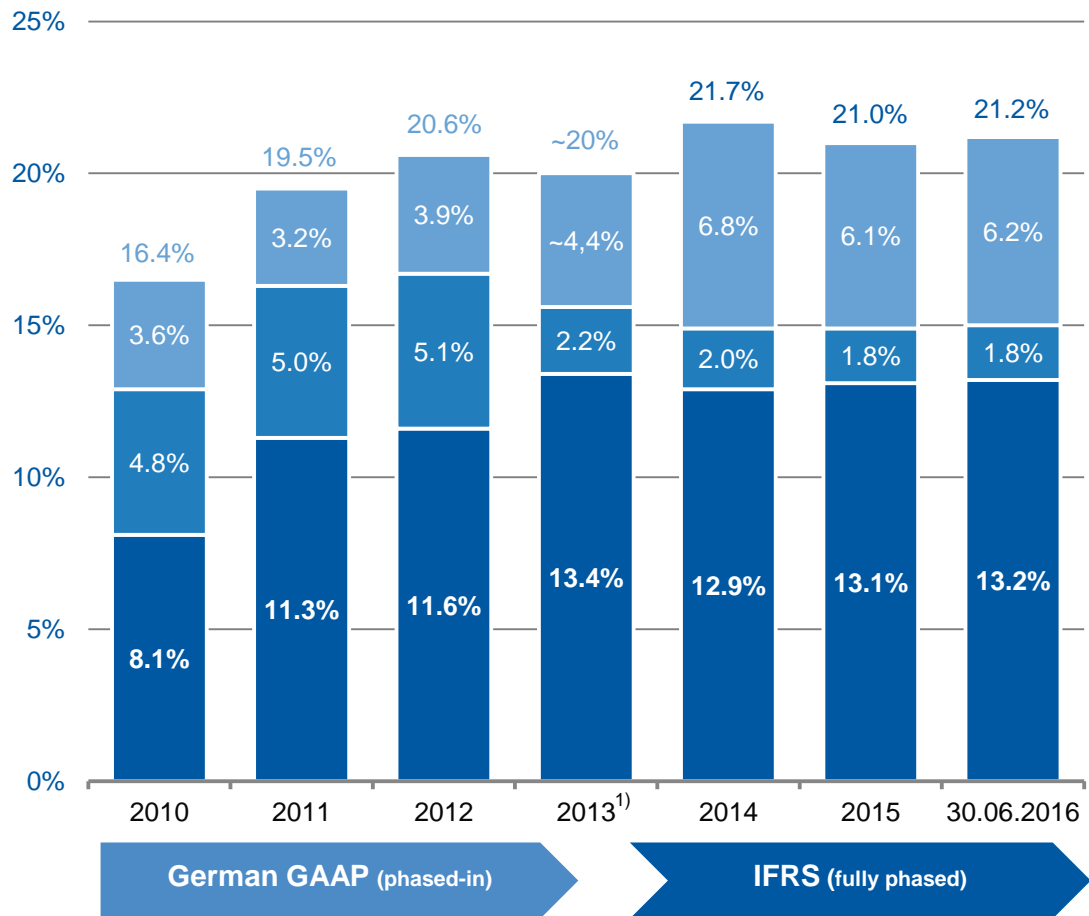


- Decreasing RWA from NCA reduction
- Sale of Aquatrium / Fatburen visible in lower core RWA
- Operational risk already based on standardised approach
- RWA from “Financials” already close to CRSA-level



Capital ratios

Strong development



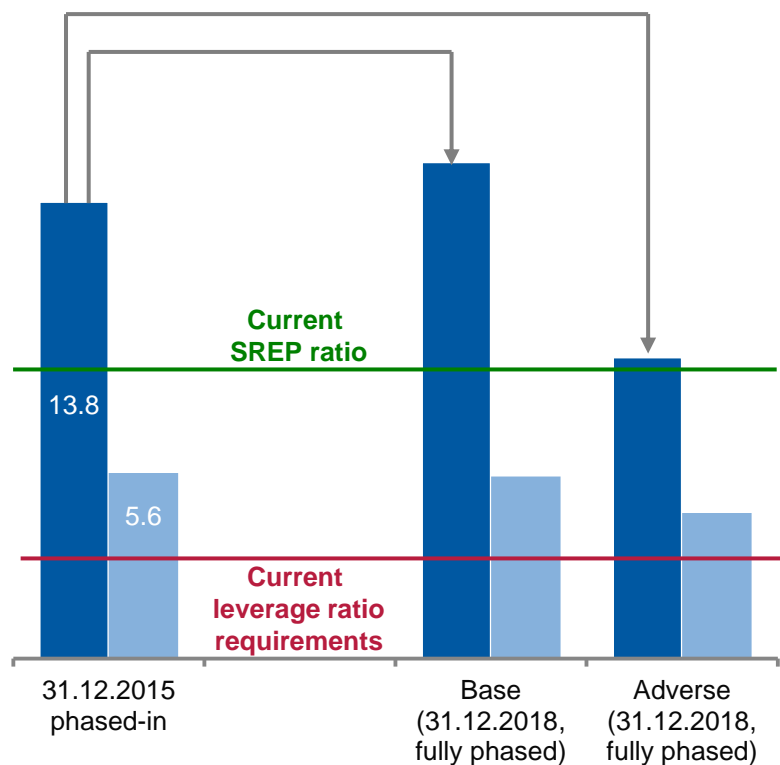
1) As at 01.01.2014, published 20.02.2014

- Regulatory uncertainties buffered by very strong capital ratios
- Instruments assumed to mature until 2018 (planning period) are excluded from the fully phased ratios
- Bail-in capital ratio (acc. to our definition): above 8%
- T1-Leverage ratio as at 30.06.2016: 5.0% (fully phased)

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

Stress Test

Capital ratio remain above current SREP requirements in adverse scenario



- Even in adverse scenario
 - CET1 ratio (fully phased) above current SREP requirements
 - Solid leverage ratio
- Current SREP ratio 8.75% including capital conservation buffer
- 2016 SREP letter expected H2 2016

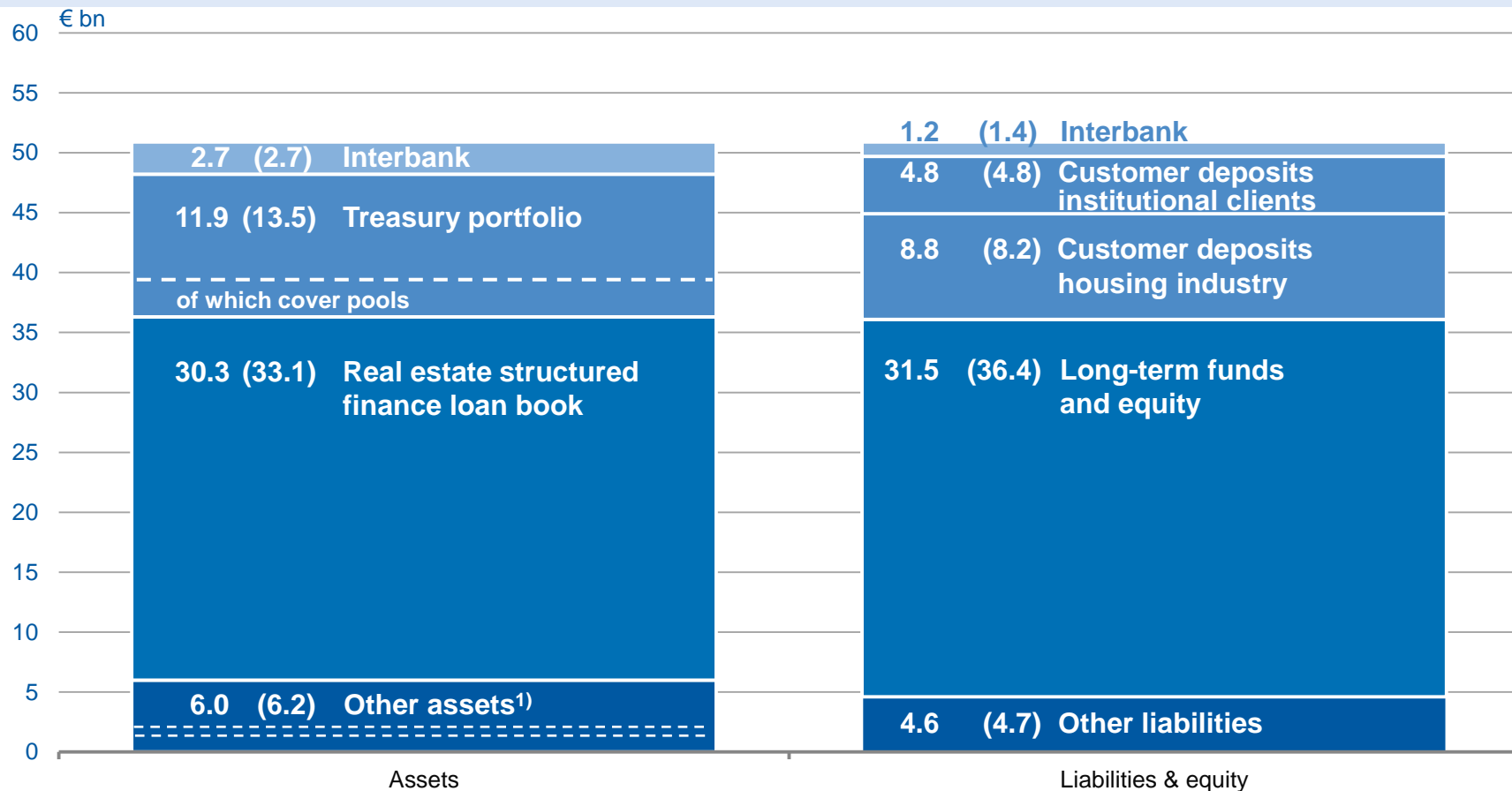
■ Leverage ratio
■ Common Equity Tier 1 (CET1)

Including phasing effects

Asset- / Liability structure according to IFRS

As at 30.06.2016: € 50.9 bn (30.06.2015: € 55.5 bn)

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

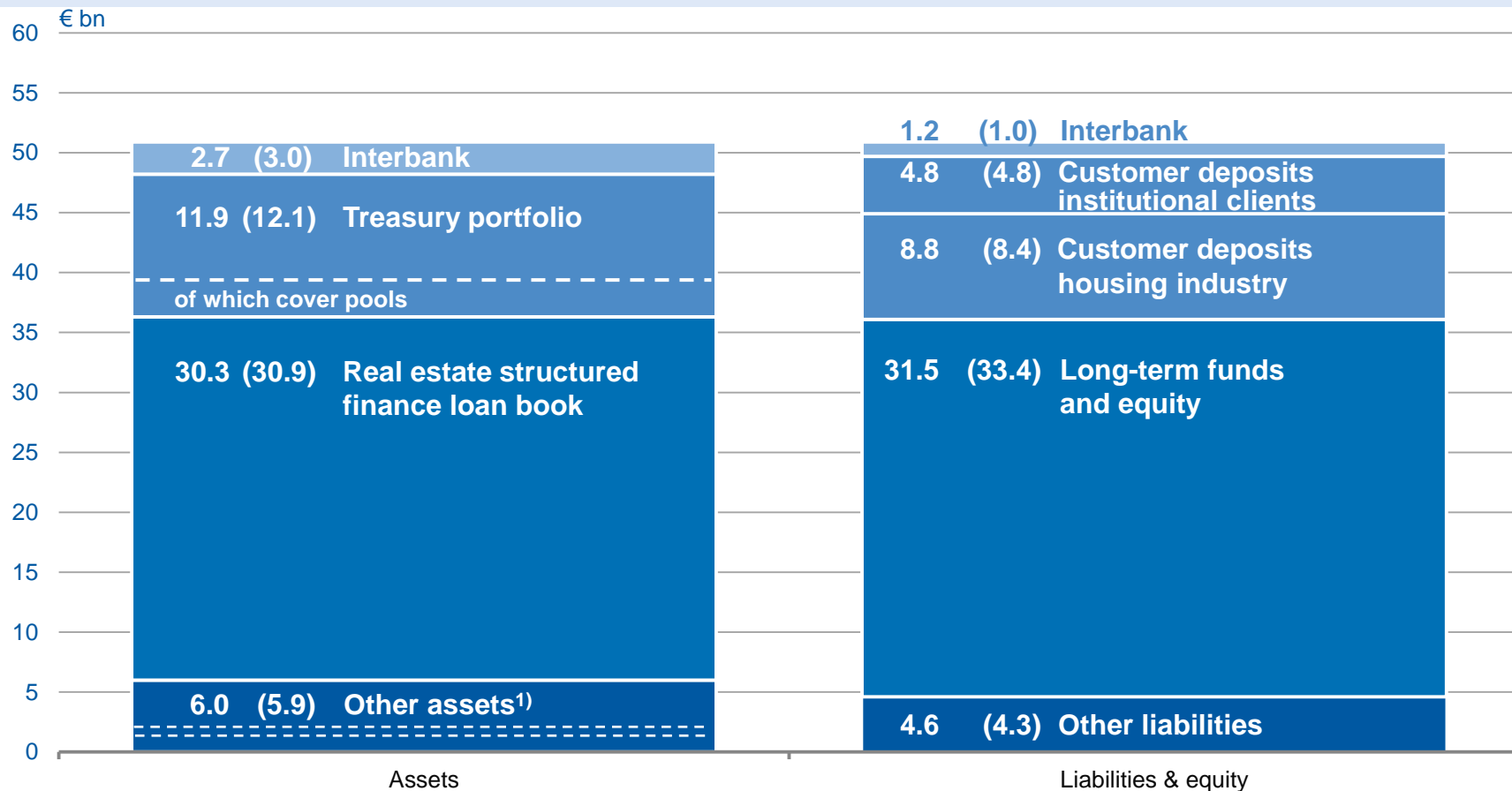


1) Other assets includes € 1.3 bn private client portfolio and WIB's € 0.6 bn public sector loans

Asset- / Liability structure according to IFRS

As at 30.06.2016: € 50.9 bn (31.12.2015: € 51.9)

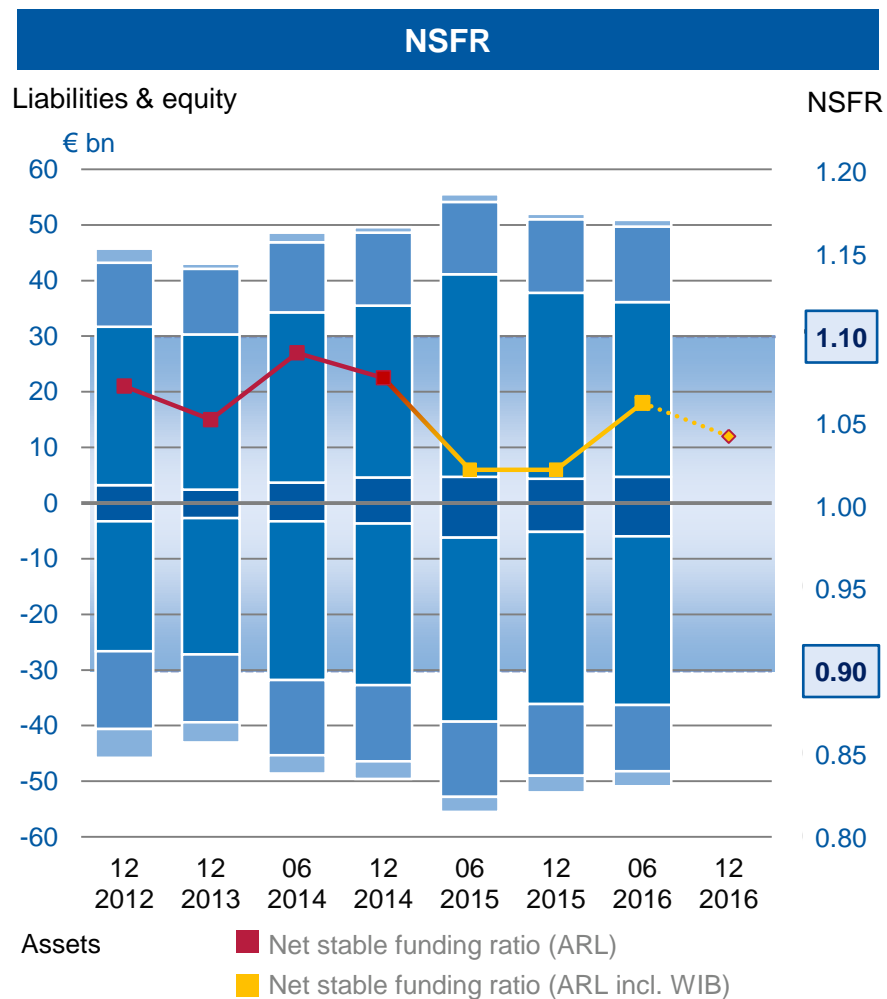
- Conservative balance sheet with structural over borrowed position
- Average maturity of long term funding > average maturity of RSF loans



1) Other assets includes € 1.3 bn private client portfolio and WIB's € 0.6 bn public sector loans

Net stable funding- / liquidity coverage ratio

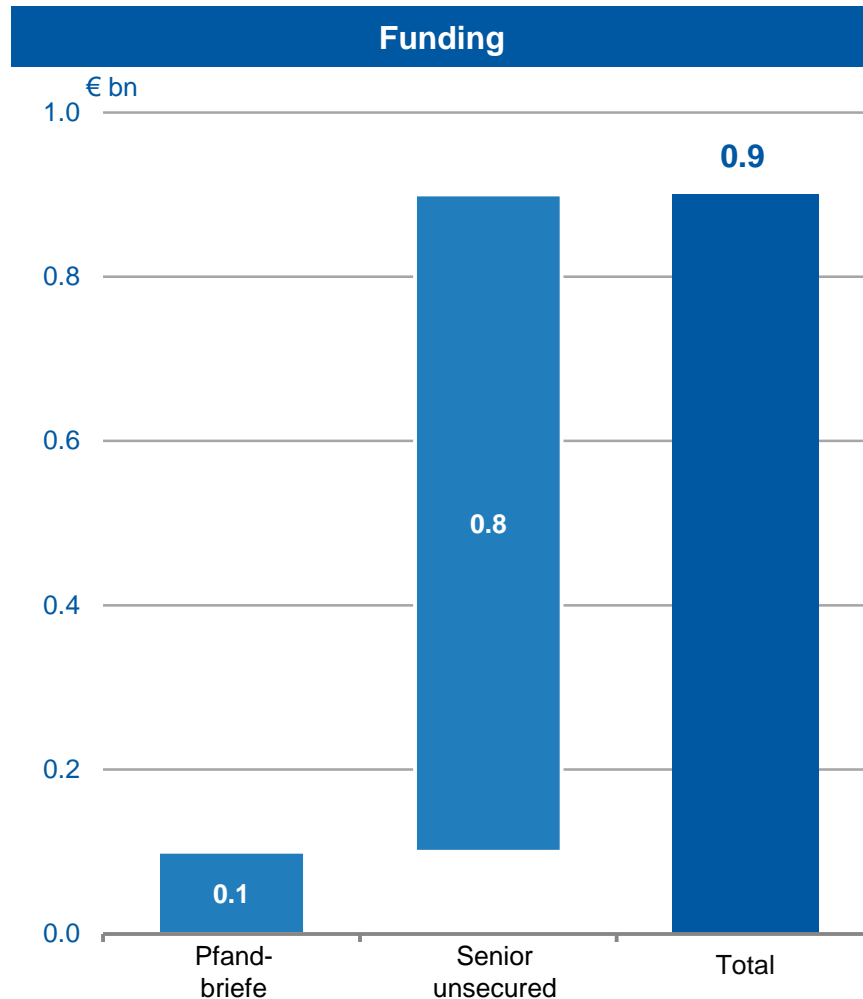
Sound liquidity position despite WestImmo takeover



- Aareal Bank already fulfils future requirements
 - NSFR > 1.0
 - LCR >> 1.0
- Basel III and CRR require adherence of specific liquidity ratios starting end 2018
- As intended, additional funding requirements from acquisition of WestImmo covered by NSFR surplus

Refinancing situation H1 2016

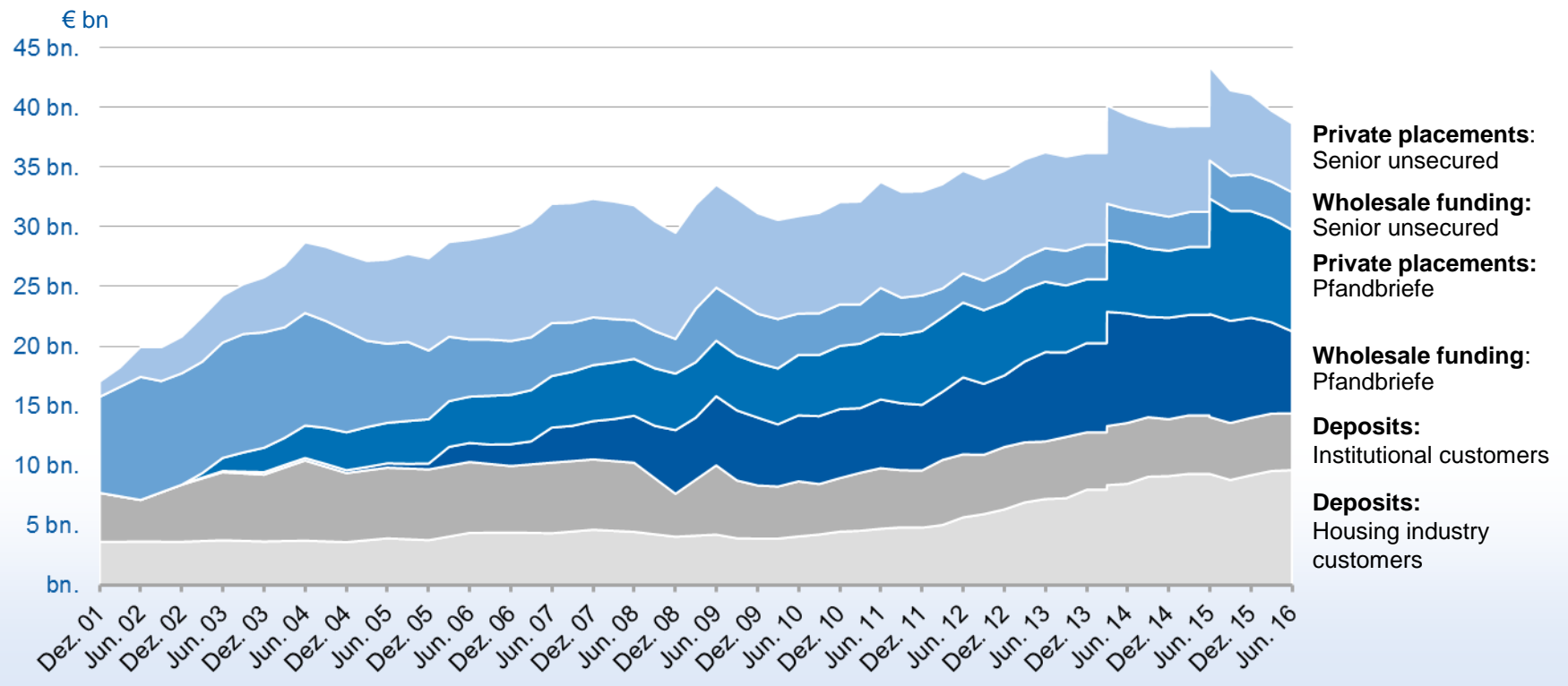
Successful funding activities



- Total funding of € 0.9 bn in H1 2016: mainly senior unsecured (€ 0.8 bn)
- Low Pfandbrief issuance due to acquisition of Westlmmo
- Backbone of capital market funding is a loyal, granular, domestic private placement investor base
 - Hold-to-maturity investors: over 600
 - Ticket size: € 10 mn - € 50 mn

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 30.06.2016, this share has fallen below 30% (or even below 10% without Pfandbriefe)

As at 30.06.2016



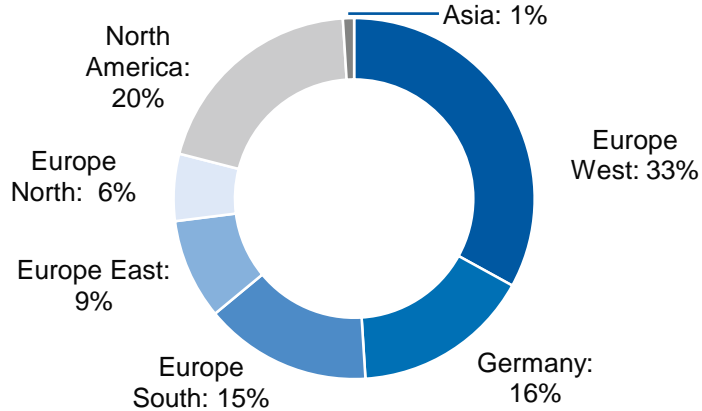
Asset quality

Aareal

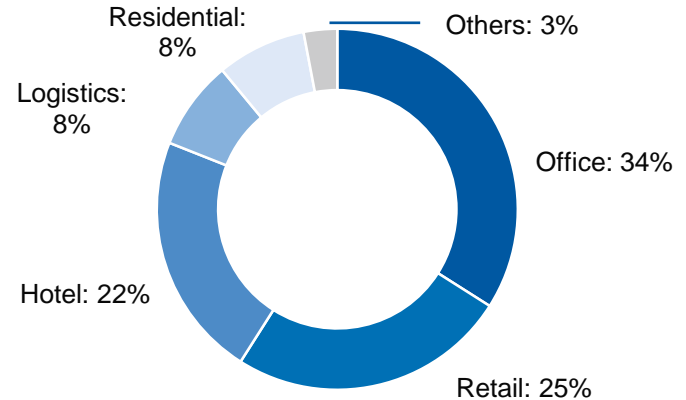
Property finance portfolio¹⁾

€ 30.3 bn highly diversified and sound

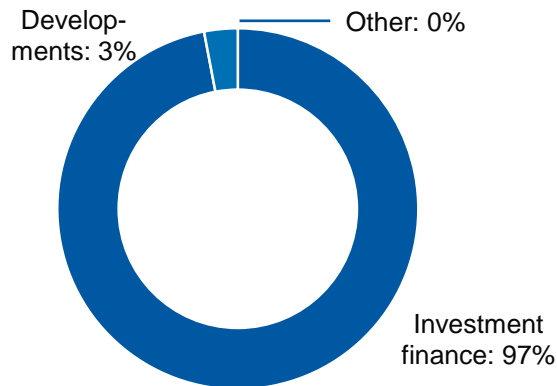
Portfolio by region



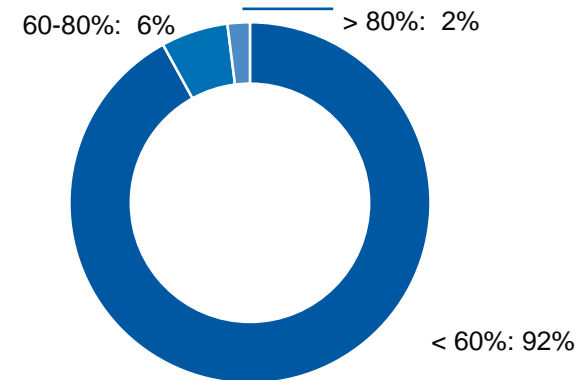
Portfolio by property type



Portfolio by product type



Portfolio by LTV ranges²⁾



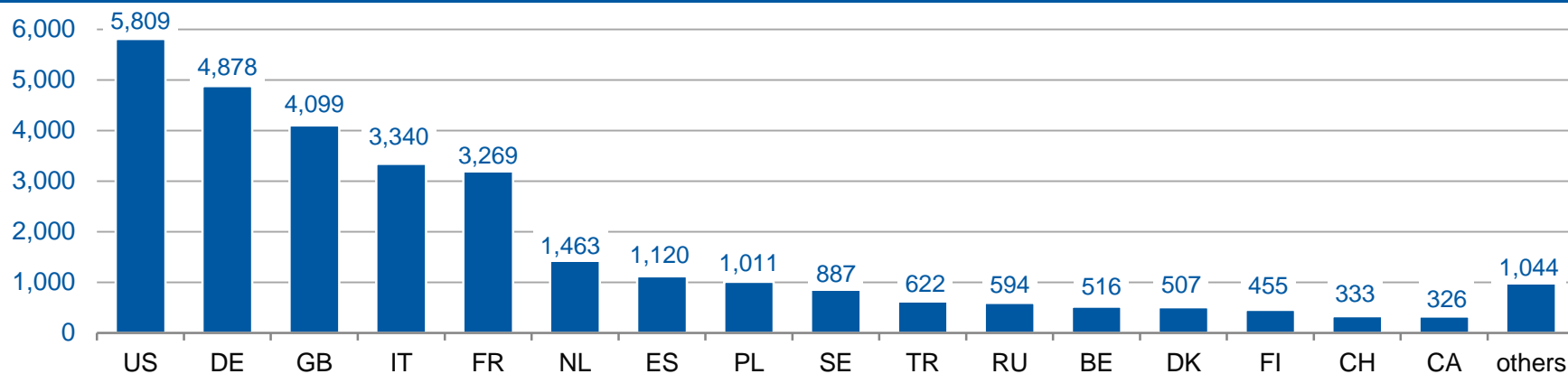
1) CRE business only, private client business (€ 1.3 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing business only, exposure as at 30.06.2016

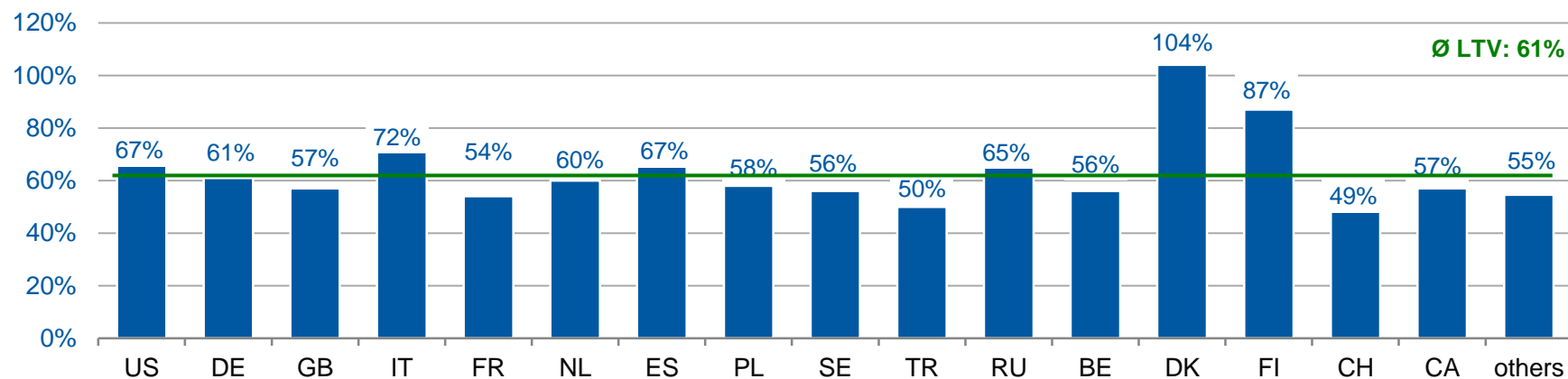
Property finance portfolio¹⁾

Portfolio details

Total property finance portfolio by country (€ mn)



LTV by country²⁾



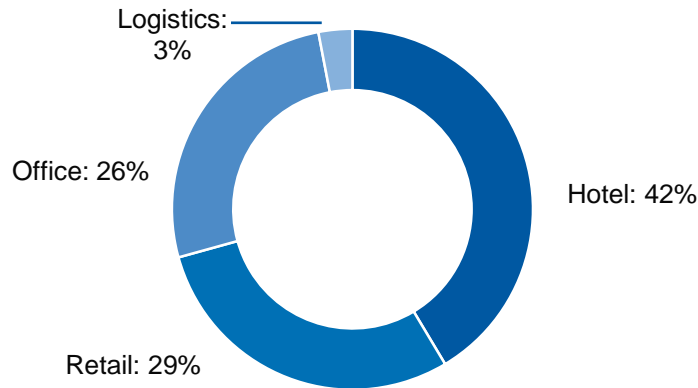
1) CRE business only, private client business (€ 1.3 bn) and WIB's public finance (€ 0.6 bn) not included

2) Performing business only, exposure as at 30.06.2016

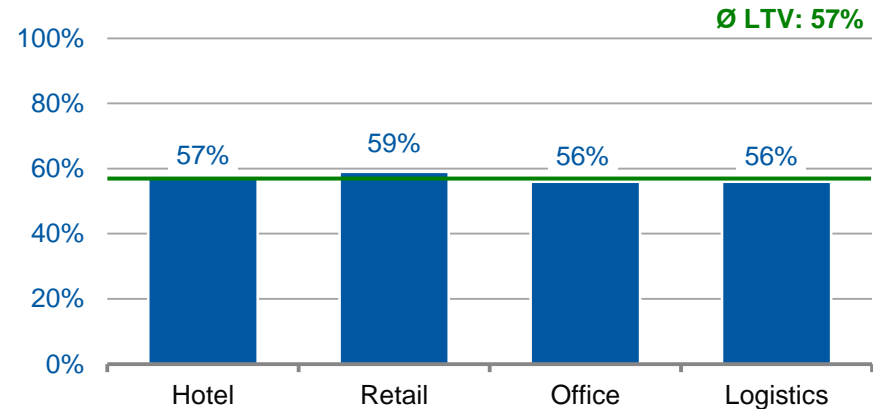
Spotlight: UK property finance portfolio

€ 4.1 bn (~14% of total portfolio)

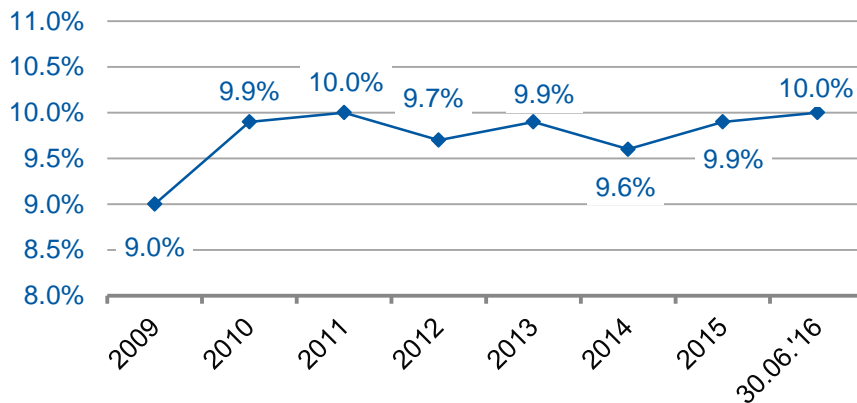
Total portfolio by property type



Average LTV by property type¹⁾



Yield on debt¹⁾



1) Performing business only

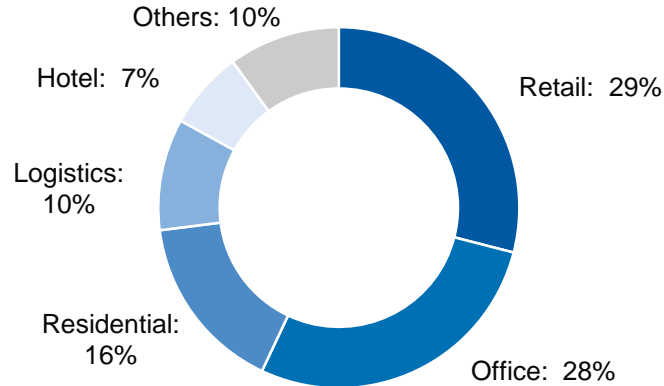
Comments

- Performing:
 - ~ 100 properties financed, no developments
 - ~ 55% of total portfolio in Greater London area, emphasising on hotels
 - € 188 mn with an LTV > 60%
 - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 71%
- NPL: € 13 mn

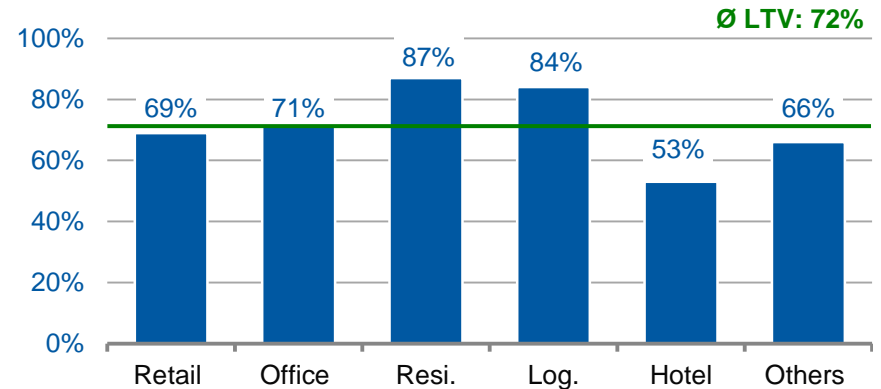
Spotlight: Italian property finance portfolio

€ 3.4 bn (~11% of total portfolio)

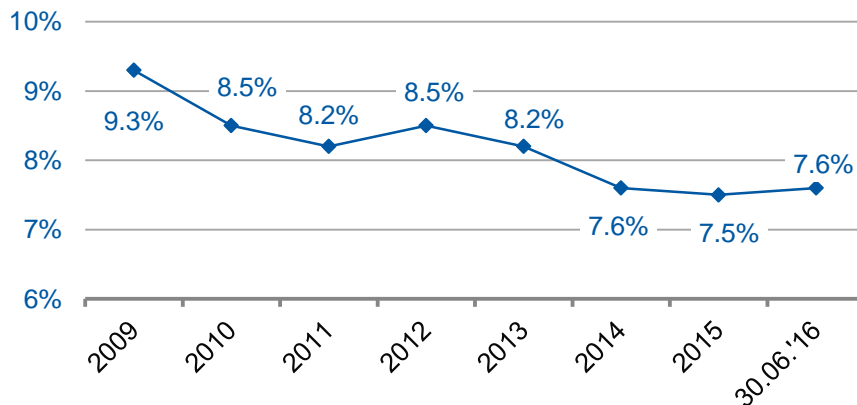
Total portfolio by property type



Average LTV by property type¹⁾



Yield on debt¹⁾



1) Performing business only

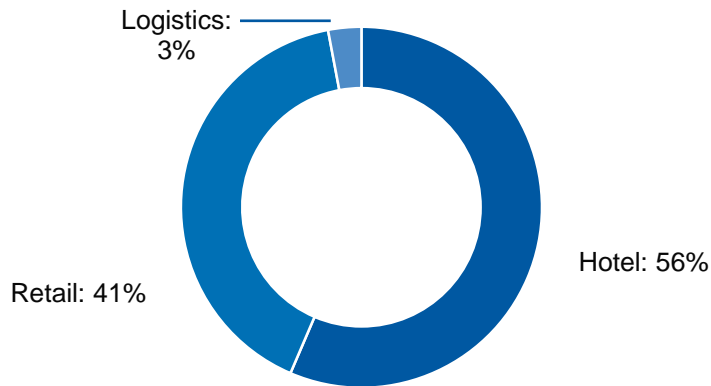
Comments

- Performing:
 - ~ 250 properties financed, < 10% developments
 - > 50% of total portfolio in Greater Rome / Milan area
 - € 429 mn with an LTV > 60%
 - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 90%
- NPL: € 832 mn (further details on slide 33)

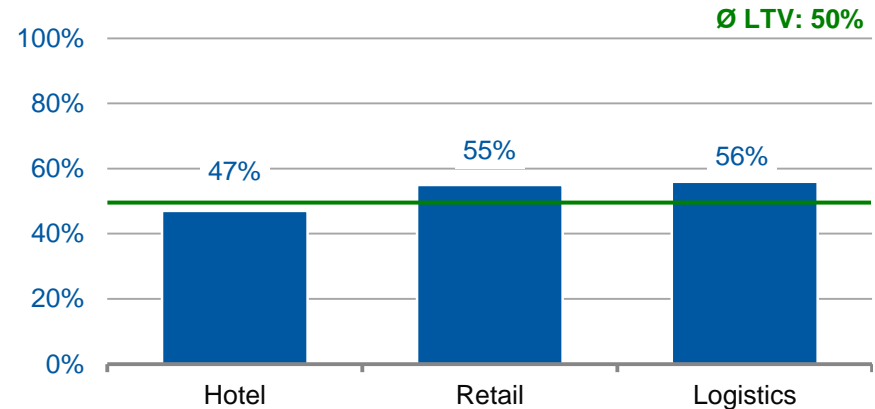
Spotlight: Turkey property finance portfolio

€ 0.6 bn (~2% of total portfolio)

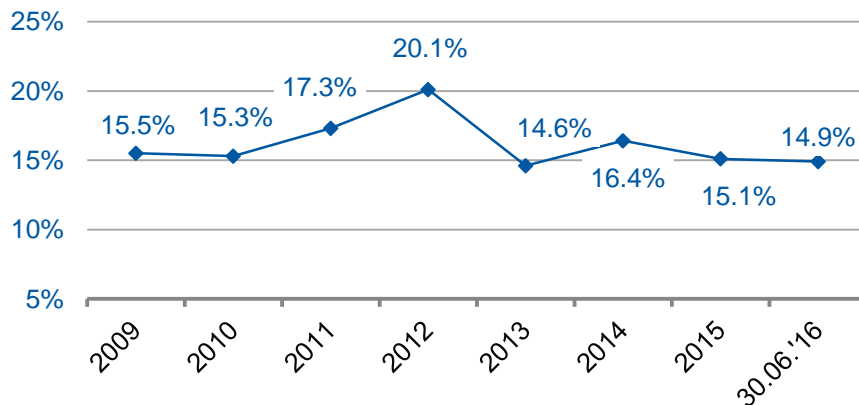
Total portfolio by property type



Average LTV by property type¹⁾



Yield on debt¹⁾



1) Performing business only

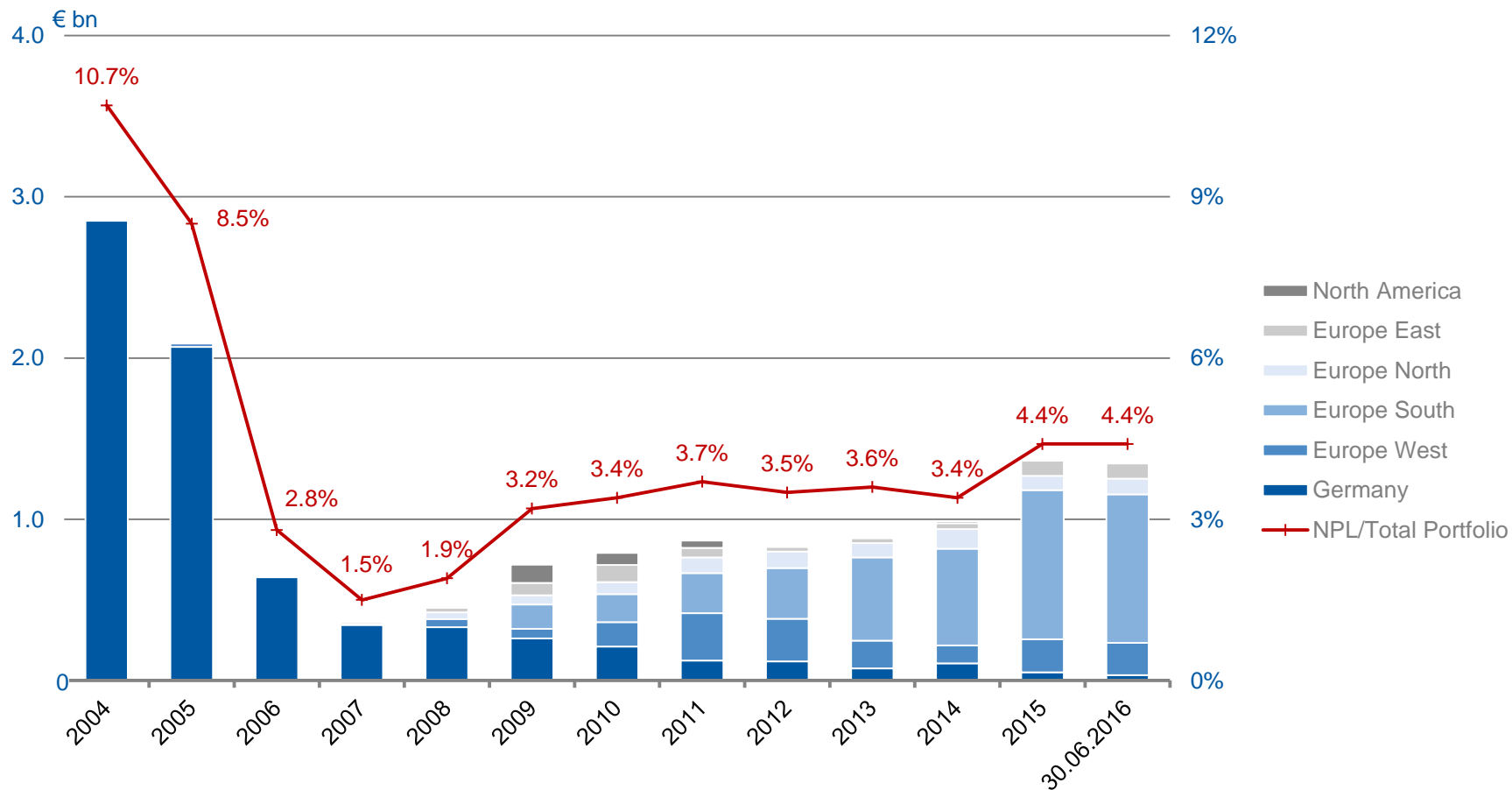
Comments

- Performing:
 - 12 properties financed: 7 hotels, 3 retail, 2 logistics, no developments
 - > 70% of total portfolio in Istanbul / Antalya
 - € 3 mn with an LTV > 60%
 - Theoretical stress on property values (-20%): would lead to portfolio LTV of approx. 63%
- NPL: € 94 mn, 2 deals (hotel, retail)

Property finance portfolio

NPL-ratio stabilised

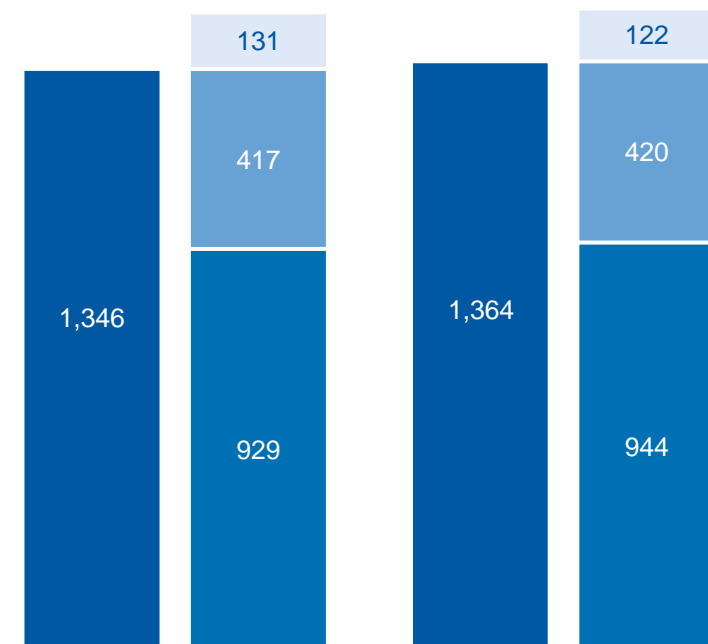
NPL and NPL-ratio (since 12.2004)



Property finance portfolio

NPL exposure fully covered including collaterals

NPL- and LLP development (€ mn)



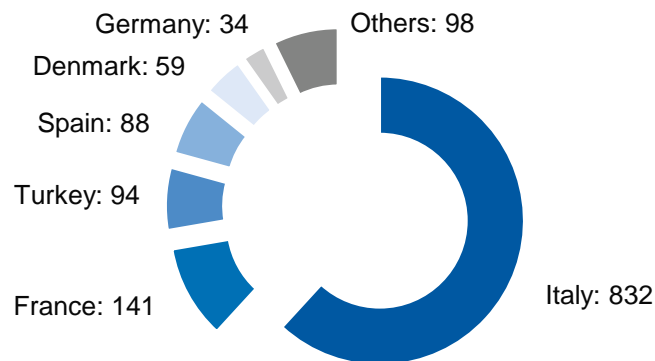
	30.06.2016	31.12.2015
Coverage ratio specific allowance	31%	31%
Coverage ratio including portfolio allowance	41%	40%

- NPL exposure
- Portfolio allowance
- Specific allowance
- Collaterals

Spotlight Italy

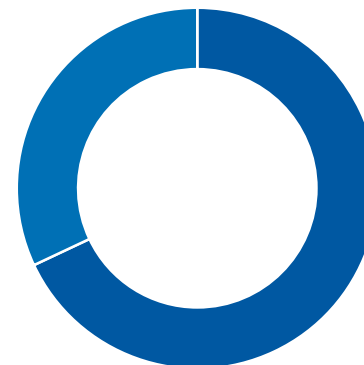
Italian NPL: clear going forward strategy

Total NPL portfolio: € 1,346 mn



Italian NPL by status

Enforcement:
32%



Restructured /
agreement in place
or planned:
68%

Italian NPL

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

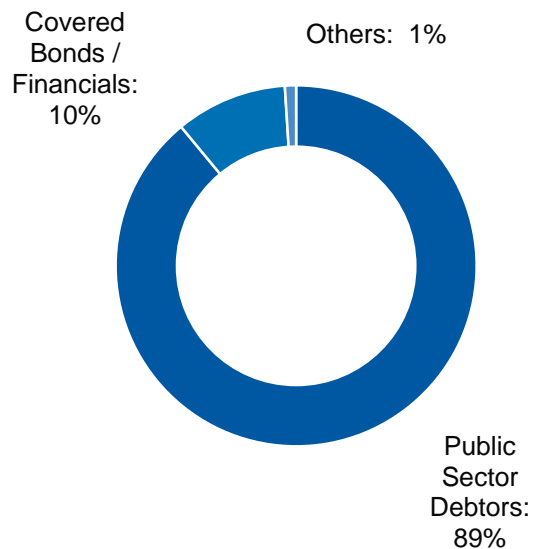


All Italian NPL are fully covered despite being in different workout-stages

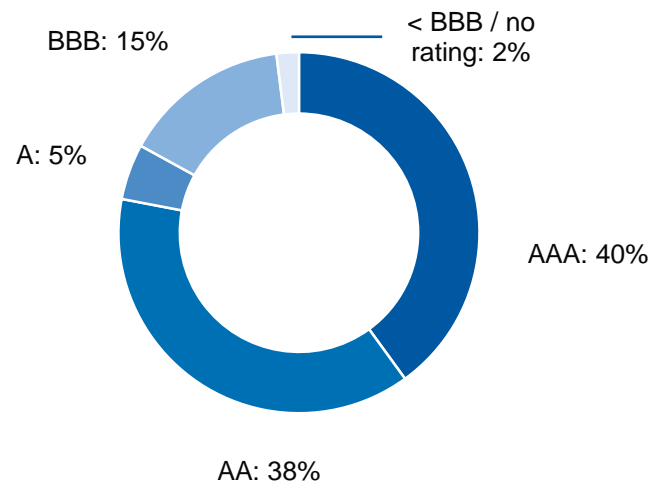
Treasury portfolio

€ 9.6 bn of high quality and highly liquid assets

by asset class



by rating¹⁾



As at 30.06.2016 – all figures are nominal amounts

1) Composite Rating



Outlook 2016

Aareal

Outlook 2016 confirmed

2016	
Net interest income	▪ € 700 mn - € 740 mn incl. effects from early repayments (Original plan 2016: € 35 mn / FY 2015: € 75 mn)
Allow. for credit losses¹⁾	▪ € 80 mn - € 120 mn
Net commission income	▪ € 190 mn - € 200 mn
Admin expenses	▪ € 520 mn - € 550 mn incl. expenses for integration / projects and investments
Operating profit	▪ € 300 mn - € 330 mn
Pre-tax RoE	▪ ~ 11%
EpS²⁾	▪ € 2.85 - € 3.19
Target portfolio size (ARL core portfolio)	▪ € 25 bn - € 27 bn
New business origination	▪ € 7 bn - € 8 bn
Operating profit Aareon³⁾	▪ € 33 mn - € 35 mn

1) As in 2015, the bank cannot rule out additional allowances for credit losses

2) Earnings per ordinary share, tax rate of ~31% assumed

3) After segment adjustments

Conclusion

Aareal Bank Group remains on successful course

Key takeaways at a glance



Aareal Bank Group remains successful in challenging environment



Strong new lending business, Aareon stays on growth path



„Aareal 2020“ on track



Outlook 2016 confirmed



Appendix
Aareal 2020

Strategic background

Assumptions

General environment



Tougher competition and changing clients' needs



Volatile markets (interest rates / exchange rates, oil)



Increasingly stringent regulation, historically low interest rate environment



Technological change and digitalisation



Geopolitical risks

As published February 25, 2016

Basic planning assumption: high volatility, low growth

Regulation



- Basel IV effects in line with our expectations
- Increasing regulation does not lead to additional (material) burdens

Property markets



- Property values: stable (EU), slightly increasing (US)
- Ongoing liquidity driven property markets, therefore increasingly inherent portfolio risks (esp. in Europe)

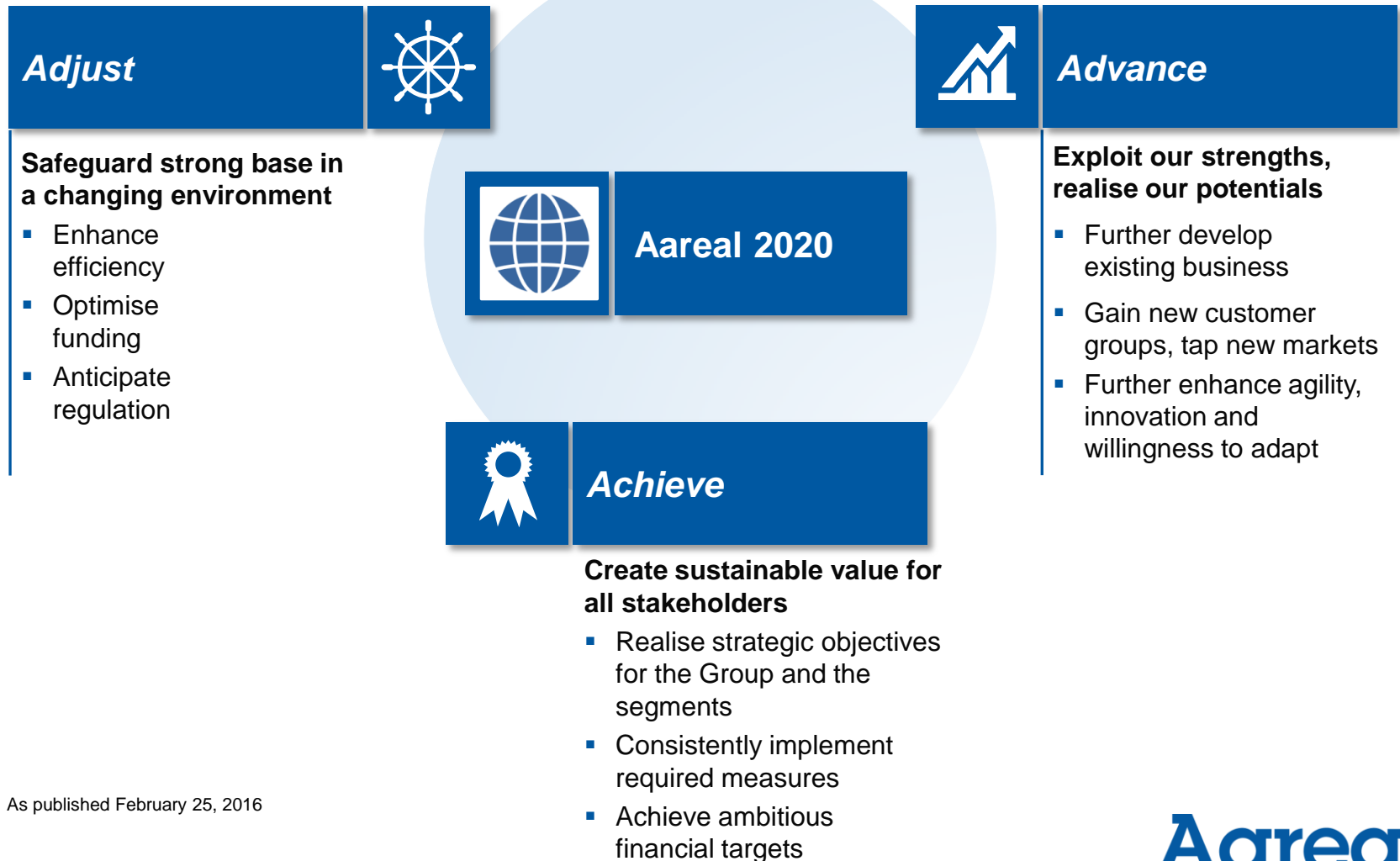
Macro-economic environment



- Economic development:
 - Euro zone sideways
 - US and some EU countries more dynamic
- Interest rates:
 - Euro zone: moderate increase starting '17
 - US: continued increase this year
- No euro zone break-up, no "Brexit", no strengthening of nationalistic tendencies in Europe
- No adverse development of geopolitical conflicts

Aareal 2020 – *Adjust. Advance. Achieve.*

Our way ahead



As published February 25, 2016



Adjust.

Maintain strategy, optimise set-up

Enhance efficiency

Considerably reduce admin expenses, digitise processes, optimise IT-architecture

Reduce admin expenses to ~ € 450 mn by 2018



Optimise funding

Further reduction of capital market-funding by increasing deposit base

Housing industry deposits to be increased to € 10 bn by 2018



Anticipate regulation

Aareal Bank well-prepared for expected scenarios, has identified counter measures to sustainably safeguard its business model

CET1 ratio 10.75% (plus 2.25% management buffer¹⁾), T1-leverage ratio 4-5%



As published February 25, 2016

1) Management buffer of 2.25% planned until regulatory environment is sufficiently stable



Advance: Structured Property Financing.

Safeguard core business in adverse environment

**Further develop
existing business**

**Gain new
customer groups,
tap new markets**

- In the medium term, expansion in markets with an attractive risk / return and macroeconomic growth potential, e.g. grow North America portfolio to € 6.0 bn - € 6.5 bn
- Active portfolio- and balance-sheet management e.g. by syndication
- Use digitisation potential with clients, identify and realise new digital business opportunities
- Examine additional business opportunities along the value chain of commercial property financing, e.g. in the area of servicing

Further enhance agility, innovation and willingness to adapt

As published February 25, 2016



Advance: Consulting / Services.

Leverage position as leading provider of ERP solutions in Europe to achieve future growth

**Further develop
existing business**

**Gain new
customer groups,
tap new markets**

- Expanding “ecosystem housing industry”:
international cross-selling, develop add-on products for ERP systems and new digital products
- Utilise existing know-how to expand “ecosystem utilities”
by offering specific products (e.g. for transaction services)
and IT services / consulting
- Further development of existing platform products for the management
of housing companies for their B2C business
- Push our payment transaction services and IT products,
targeting small-sized housing enterprises and COA-Manager

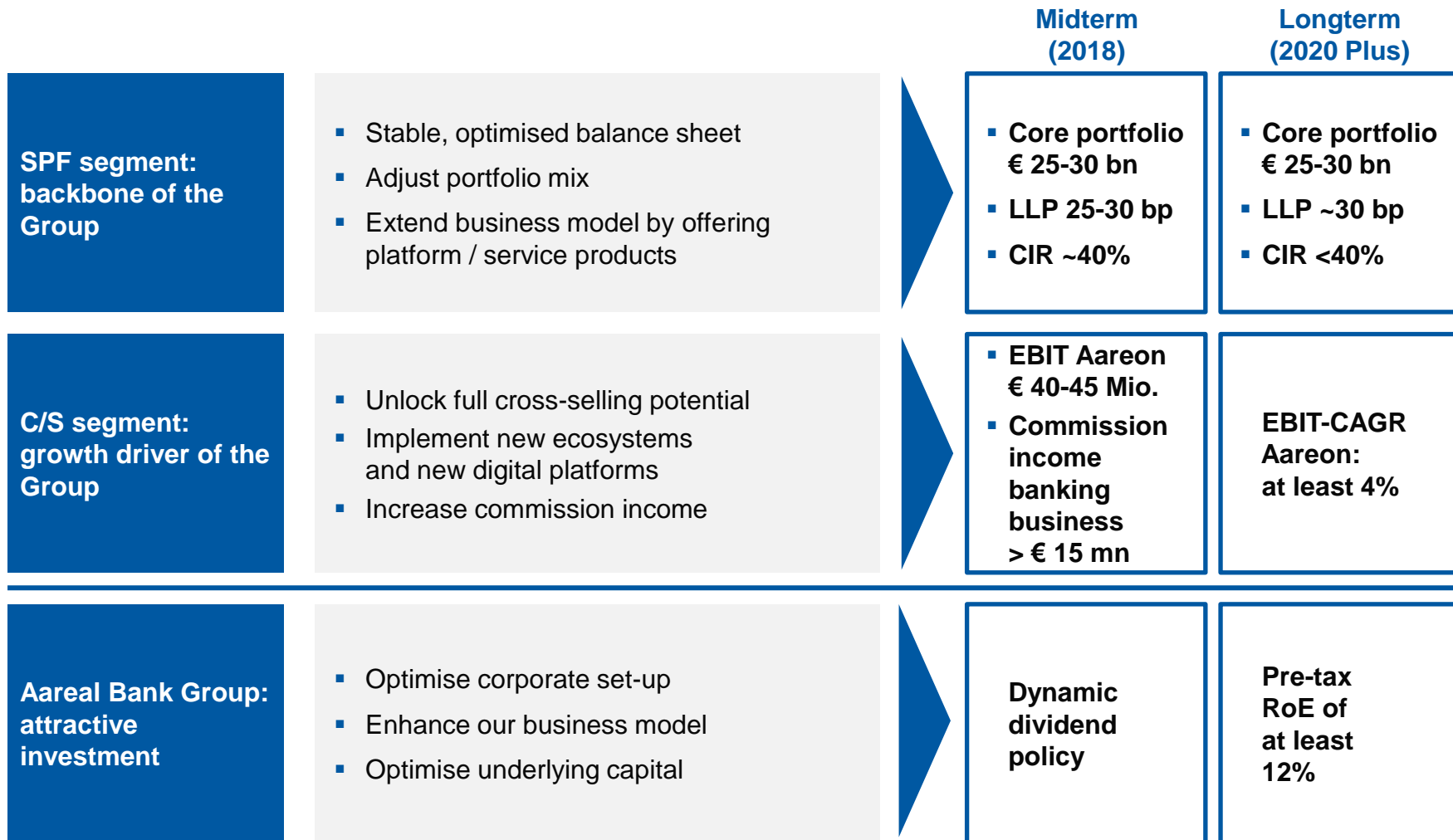
Further enhance agility, innovation and willingness to adapt

As published February 25, 2016



Achieve.

What we are targeting



As published February 25, 2016

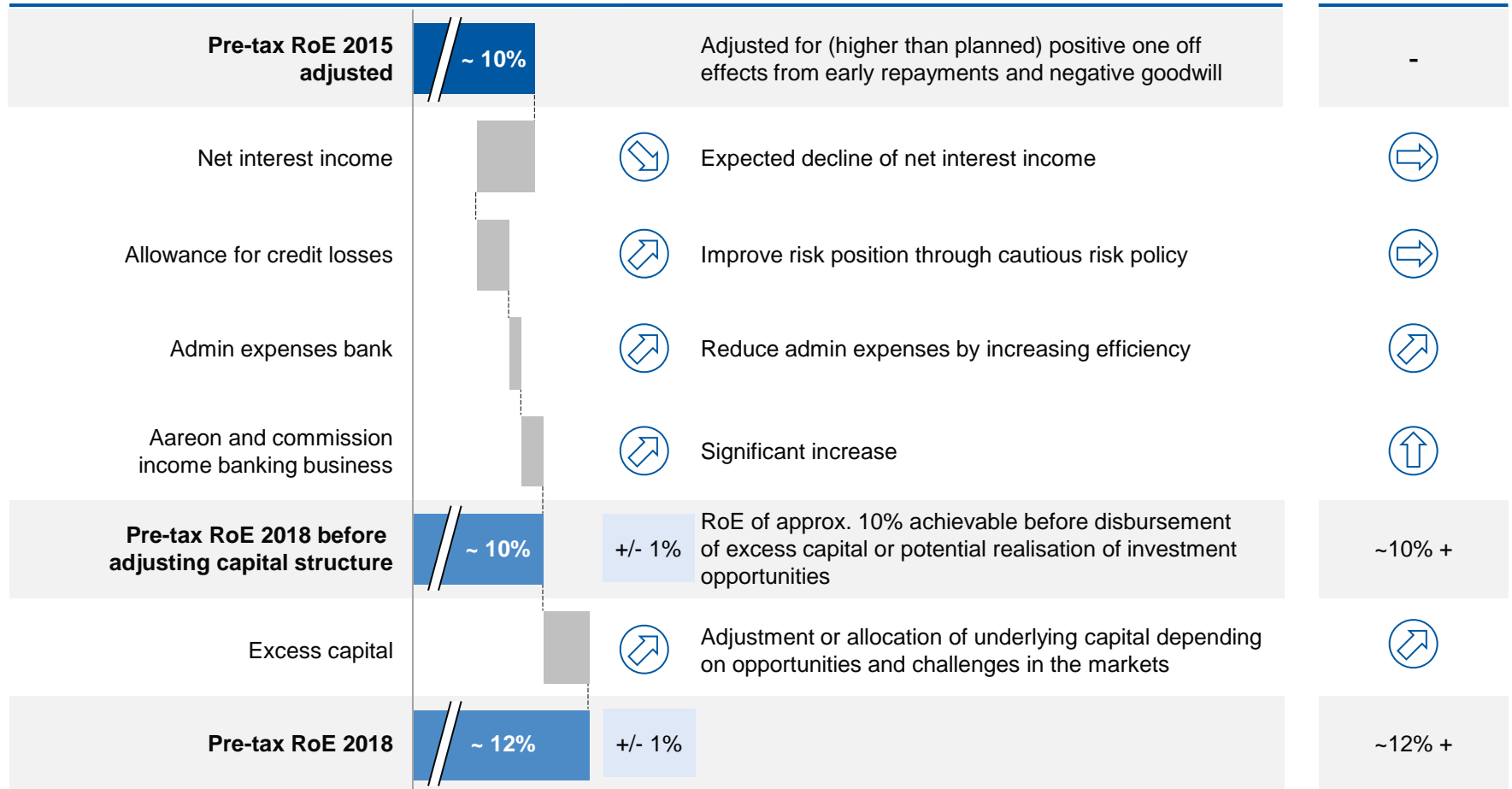


Achieve.

Keep RoE on an attractive level despite difficult environment

RoE-Development 2015 - 18

2020 Plus



As published February 25, 2016

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



Achieve.

Increase payout ratio (up to 80%) and dividend¹⁾

Base dividend

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

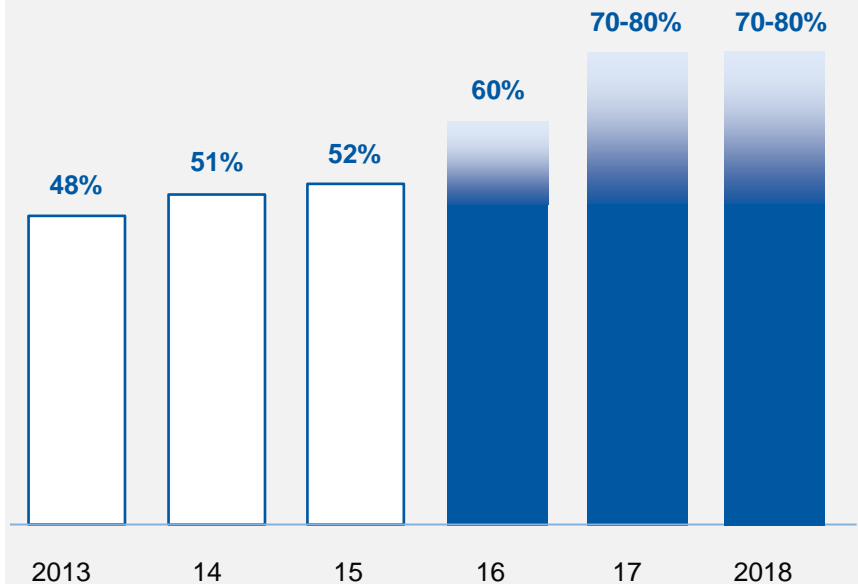
Supplementary dividend

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 - 2018



As published February 25, 2016

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 Areal 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 2016

	01.04.- 30.06.2016 € mn	01.04.- 30.06.2015 € mn	Change
Profit and loss account			
Net interest income	177	191	-7%
Allowance for credit losses	29	31	-6%
Net interest income after allowance for credit losses	148	160	-8%
Net commission income	47	42	12%
Net result on hedge accounting	0	-3	
Net trading income / expenses	8	2	300%
Results from non-trading assets	61	1	
Results from investments accounted for at equity	0	0	
Administrative expenses	144	136	6%
Net other operating income / expenses	0	13	
Negative goodwill		150 ¹⁾	
Operating Profit	120	229¹⁾	-48%
Income taxes	38	24	58%
Consolidated net income	82	205¹⁾	-60%
Consolidated net income attributable to non-controlling interests	5	5	0%
Consolidated net income attributable to shareholders of Aareal Bank AG	77	200 ¹⁾	-62%
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ²⁾	77	200 ¹⁾	-62%
of which: allocated to ordinary shareholders	73	196	-63%
of which: allocated to AT1 investors	4	4	0%
Earnings per ordinary share (in €) ³⁾	1.23	3,27 ¹⁾	-62%
Earnings per ordinary AT1 unit (in €) ⁴⁾	0.04	0.04	0%

1) Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3

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

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

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

Aareal Bank Group

Results Q2 2016 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.04.- 30.06. 2016	01.04.- 30.06. 2015	01.04.- 30.06. 2016	01.04.- 30.06. 2015	01.04.- 30.06. 2016	01.04.- 30.06. 2015	01.04.- 30.06. 2016	01.04.- 30.06. 2015
€ mn								
Net interest income	181	192	0	0	-4	-1	177	191
Allowance for credit losses	29	31					29	31
Net interest income after allowance for credit losses	152	161	0	0	-4	-1	148	160
Net commission income	1	2	43	40	3	0	47	42
Net result on hedge accounting	0	-3					0	-3
Net trading income / expenses	8	2	0				8	2
Results from non-trading assets	61	1					61	1
Results from investments accounted for at equity			0	0			0	0
Administrative expenses	94	89	51	48	-1	-1	144	136
Net other operating income / expenses	0	12	0	1	0	0	0	13
Negative goodwill		150 ¹⁾						150 ¹⁾
Operating profit	128	236¹⁾	-8	-7	0	0	120	229¹⁾
Income taxes	41	26	-3	-2			38	24
Consolidated net income	87	210¹⁾	-5	-5	0	0	82	205¹⁾
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	83	206 ¹⁾	-6	-6	0	0	77	200 ¹⁾

1) Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3

Aareal Bank Group

Results H1 2016

	01.01.- 30.06.2016 € mn	01.01.- 30.06.2015 € mn	Change
Profit and loss account			
Net interest income	357	369	-3%
Allowance for credit losses	31	49	-37%
Net interest income after allowance for credit losses	326	320	2%
Net commission income	93	83	12%
Net result on hedge accounting	1	8	-88%
Net trading income / expenses	17	-5	
Results from non-trading assets	61	-2	
Results from investments accounted for at equity	0	0	
Administrative expenses	290	268	8%
Net other operating income / expenses	-1	10	
Negative goodwill		150 ¹⁾	
Operating Profit	207	296¹⁾	-30%
Income taxes	65	46	41%
Consolidated net income	142	250¹⁾	-43%
Consolidated net income attributable to non-controlling interests	10	10	0%
Consolidated net income attributable to shareholders of Aareal Bank AG	132	240 ¹⁾	-45%
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ²⁾	132	240 ¹⁾	-45%
of which: allocated to ordinary shareholders	124	232 ¹⁾	-47%
of which: allocated to AT1 investors	8	8	0%
Earnings per ordinary share (in €) ³⁾	2,08	3,87 ¹⁾	-47%
Earnings per ordinary AT1 unit (in €) ⁴⁾	0,08	0,08	0%

1) Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3

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

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

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

Aareal Bank Group

Results H1 2016 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.01.- 30.06. 2016	01.01.- 30.06. 2015	01.01.- 30.06. 2016	01.01.- 30.06. 2015	01.01.- 30.06. 2016	01.01.- 30.06. 2015	01.01.- 30.06. 2016	01.01.- 30.06. 2015
€ mn								
Net interest income	363	370	0	0	-6	-1	357	369
Allowance for credit losses	31	49					31	49
Net interest income after allowance for credit losses	332	321	0	0	-6	-1	326	320
Net commission income	3	2	85	81	5	0	93	83
Net result on hedge accounting	1	8					1	8
Net trading income / expenses	17	-5	0				17	-5
Results from non-trading assets	61	-2					61	-2
Results from investments accounted for at equity			0	0			0	0
Administrative expenses	189	173	102	96	-1	-1	290	268
Net other operating income / expenses	-1	9	0	1	0	0	-1	10
Negative goodwill		150 ¹⁾						150 ¹⁾
Operating profit	224	310¹⁾	-17	-14	0	0	207	296¹⁾
Income taxes	71	50	-6	-4			65	46
Consolidated net income	153	260¹⁾	-11	-10	0	0	142	250¹⁾
Allocation of results								
Cons. net income attributable to non-controlling interests	8	8	2	2			10	10
Cons. net income attributable to shareholders of Aareal Bank AG	145	252 ¹⁾	-13	-12	0	0	132	240 ¹⁾

1) Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3

Aareal Bank Group

Results – quarter by quarter

	Structured Property Financing					Consulting / Services					Consolidation / Reconciliation					Aareal Bank Group				
	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
€ mn																				
Net interest income	181	182	199	214	192	0	0	0	0	0	-4	-2	-1	0	-1	177	180	198	214	191
Allowance for credit losses	29	2	42	37	31											29	2	42	37	31
Net interest income after allowance for credit losses	152	180	157	177	161	0	0	0	0	0	-4	-2	-1	0	-1	148	178	156	177	160
Net commission income	1	2	2	2	2	43	42	49	39	40	3	2	1	-1	0	47	46	52	40	42
Net result on hedge accounting	0	1	3	-3	-3											0	1	3	-3	-3
Net trading income / expenses	8	9	5	13	2	0	0	0								8	9	5	13	2
Results from non-trading assets	61	0	-2	-13	1											61	0	-2	-13	1
Results from results accounted for at equity				0		0	0	0	0	0						0	0	0	0	0
Administrative expenses	94	95	85	101	89	51	51	54	47	48	-1	0	-1	-1	-1	144	146	138	147	136
Net other operating income / expenses	0	-1	14	14	12	0	0	3	1	1	0	0	-1	0	0	0	-1	16	15	13
Negative goodwill					150 ¹⁾															150 ¹⁾
Operating profit	128	96	94	89	236¹⁾	-8	-9	-2	-7	-7	0	0	0	0	0	120	87	92	82	229¹⁾
Income taxes	41	30	27	29	26	-3	-3	-3	-3	-2						38	27	24	26	24
Consolidated net income	87	66	67	60	210¹⁾	-5	-6	1	-4	-5	0	0	0	0	0	82	60	68	56	205¹⁾
Cons. net income attributable to non-controlling interests	4	4	3	5	4	1	1	1	0	1						5	5	4	5	5
Cons. net income attributable to shareholders of Aareal Bank AG	83	62	64	55	206 ¹⁾	-6	-7	0	-4	-6	0	0	0	0	0	77	55	64	51	200 ¹⁾

1) Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3



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. 2015	31.12. 2014	31.12. 2013
€ mn			
Net Retained Profit	99	77	50
▪ <i>Net income</i>	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	715	710
= Total dividend potential before amount blocked ¹⁾	819	792	760
./. Dividend amount blocked under section 268 (8) of the German Commercial Code	287	240	156
= Available Distributable Items ¹⁾	532	552	604
+ Increase by aggregated amount of interest expenses relating to Distributions on Tier 1 Instruments ¹⁾	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⁾	578	609	661

1) Unaudited figures for information purposes only

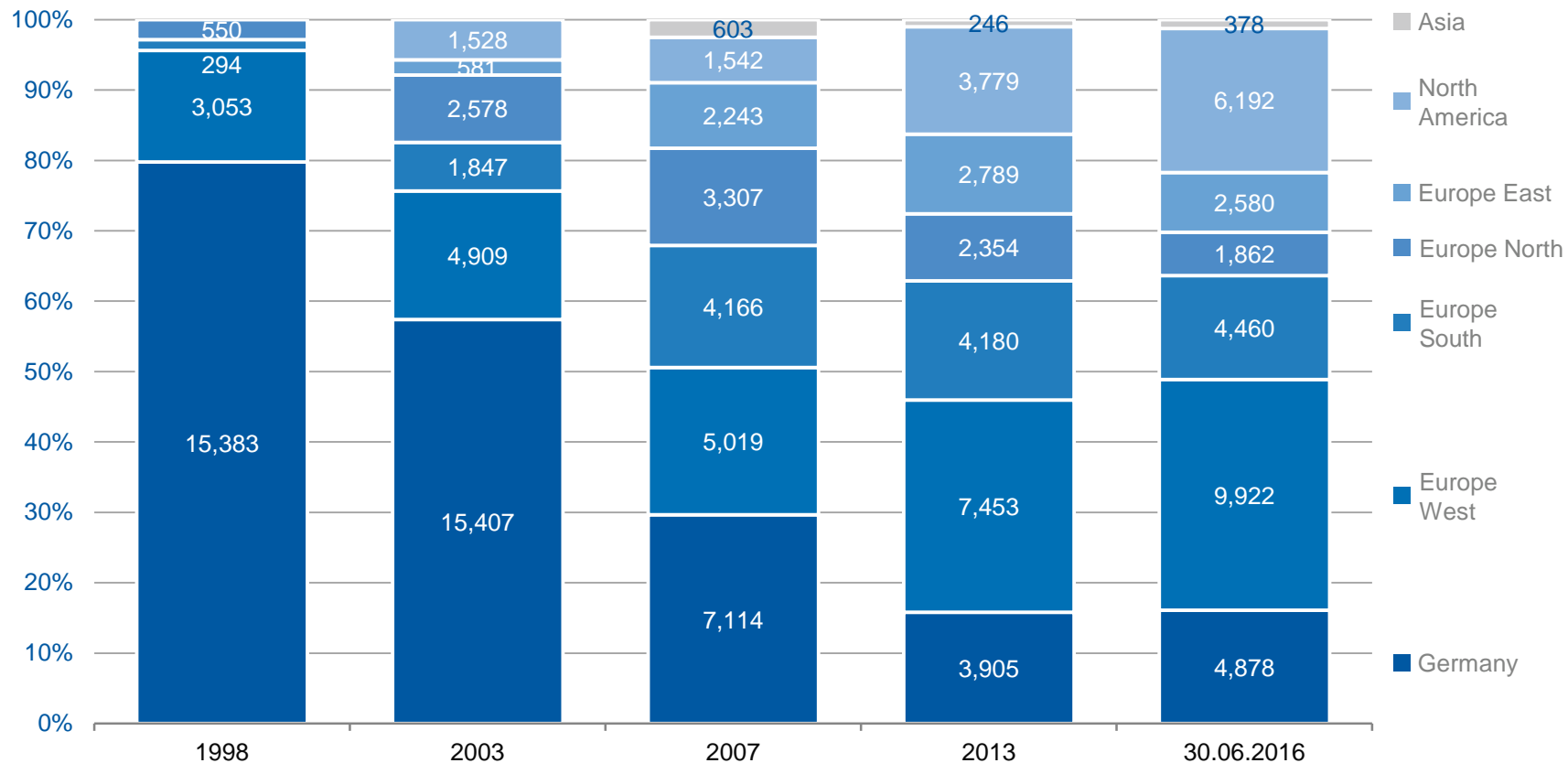


Appendix

Development property finance portfolio

Development property finance portfolio

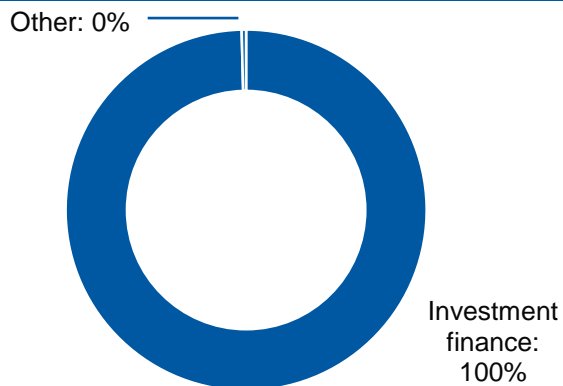
Diversification continuously strengthened (in € mn)



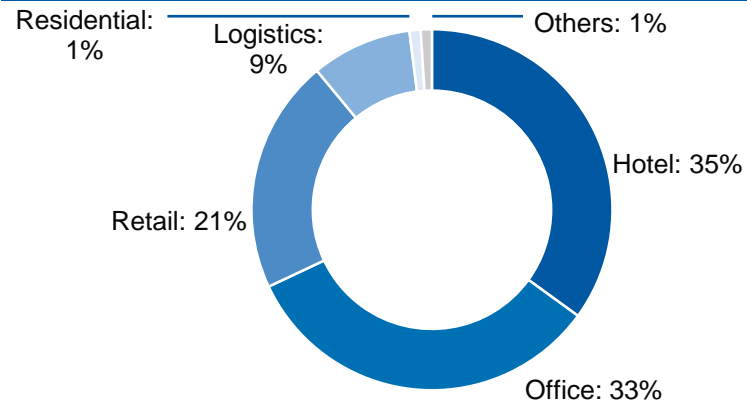
Western Europe (ex Germany) credit portfolio

Total volume outstanding as at 30.06.2016: € 9.9 bn

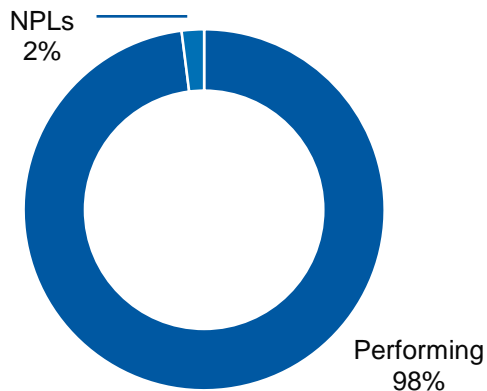
by product type



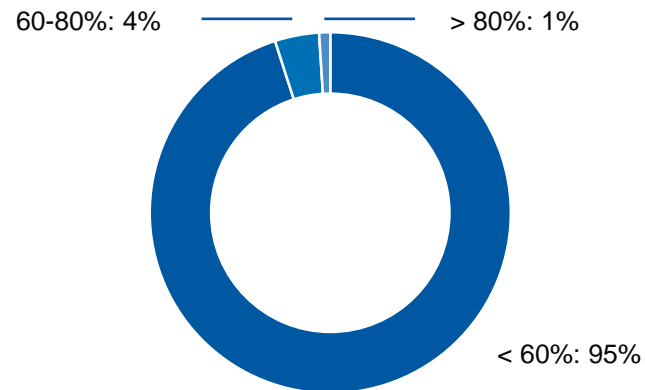
by property type



by performance



by LTV ranges¹⁾

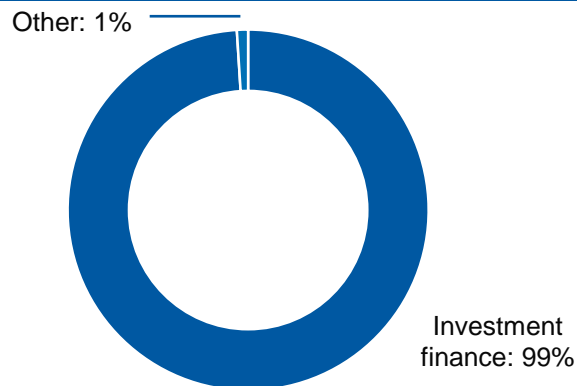


1) Performing business only, exposure as at 30.06.2016

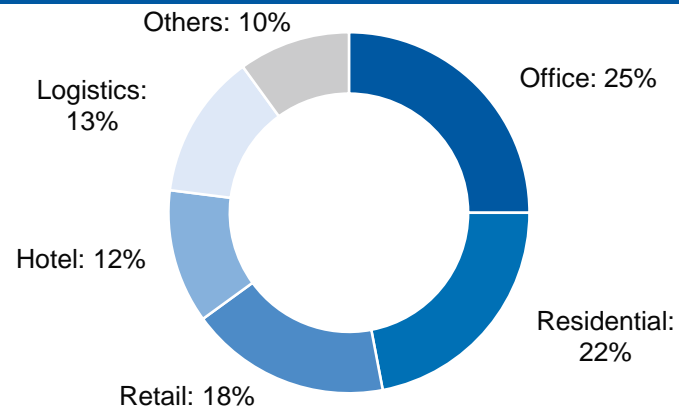
German credit portfolio

Total volume outstanding as at 30.06.2016: € 4.9 bn

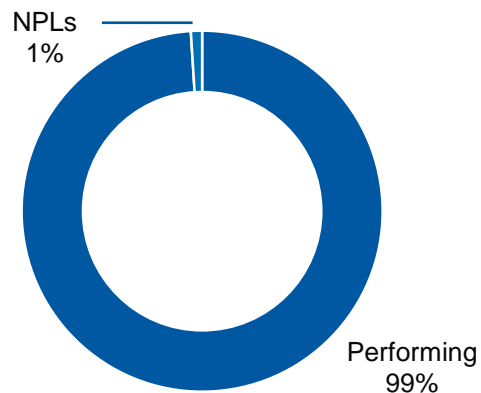
by product type



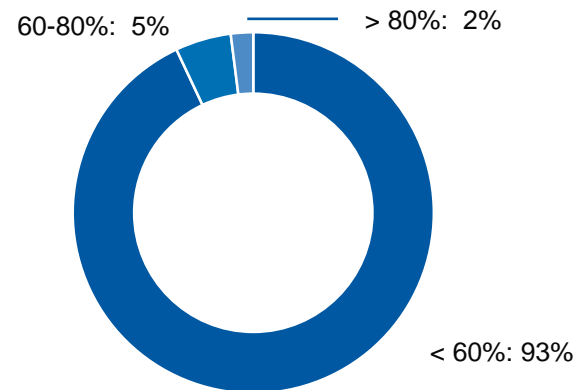
by property type



by performance



by LTV ranges¹⁾

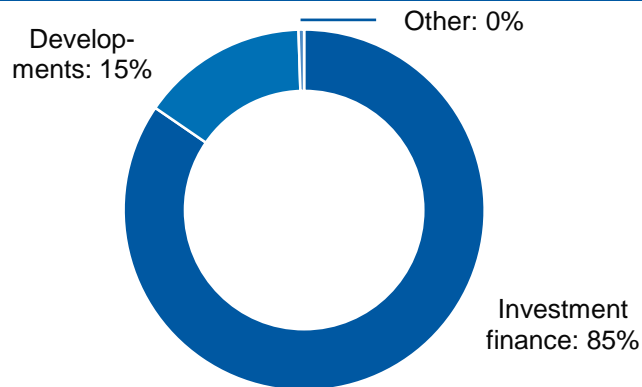


1) Performing business only, exposure as at 30.06.2016

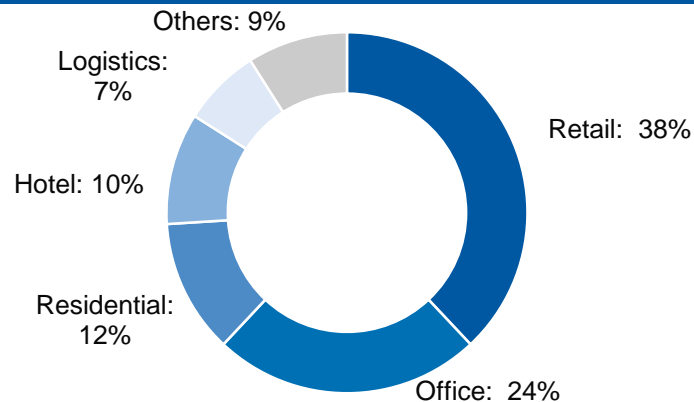
Southern Europe credit portfolio

Total volume outstanding as at 30.06.2016: € 4.5 bn

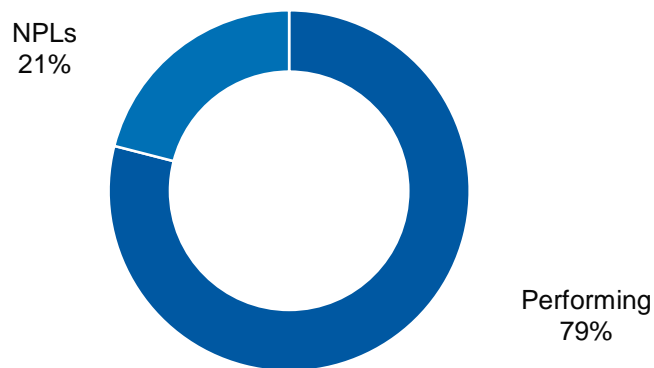
by product type



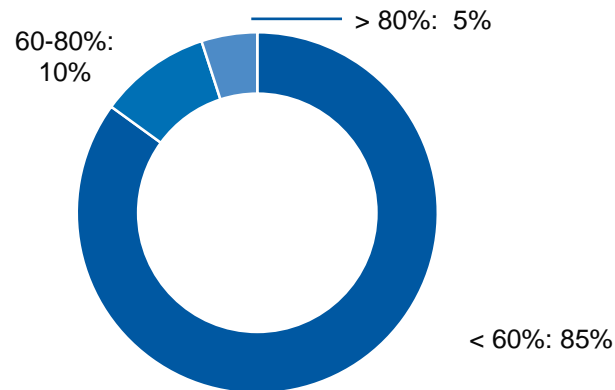
by property type



by performance



by LTV ranges¹⁾

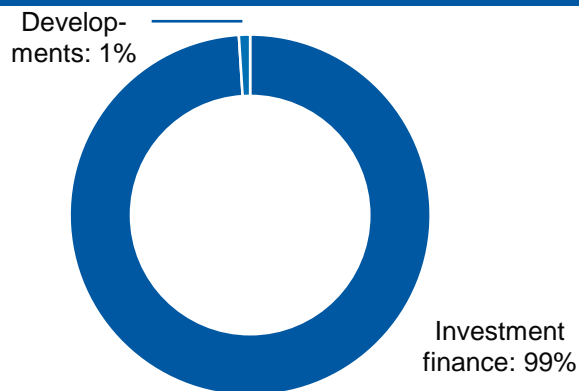


1) Performing business only, exposure as at 30.06.2016

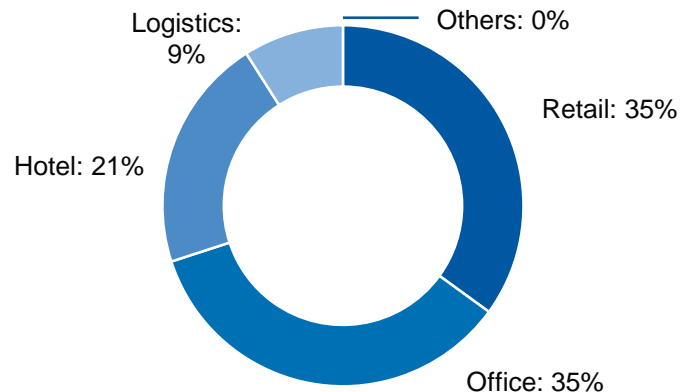
Eastern Europe credit portfolio

Total volume outstanding as at 30.06.2016: € 2.6 bn

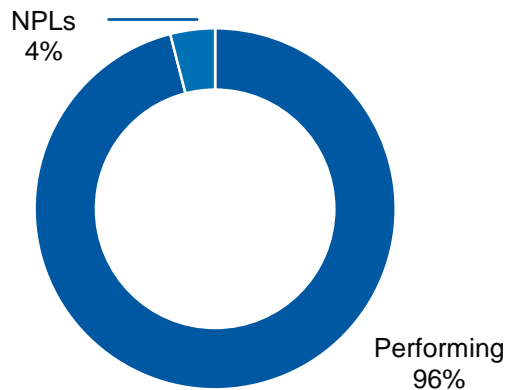
by product type



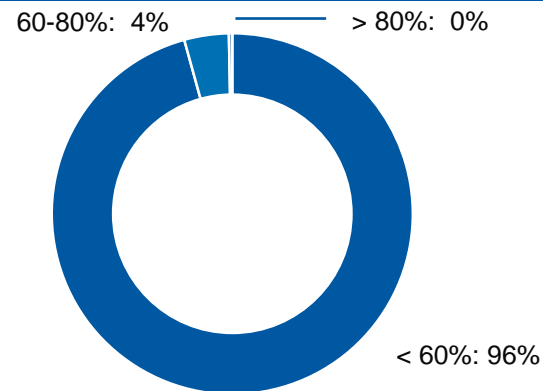
by property type



by performance



by LTV ranges¹⁾

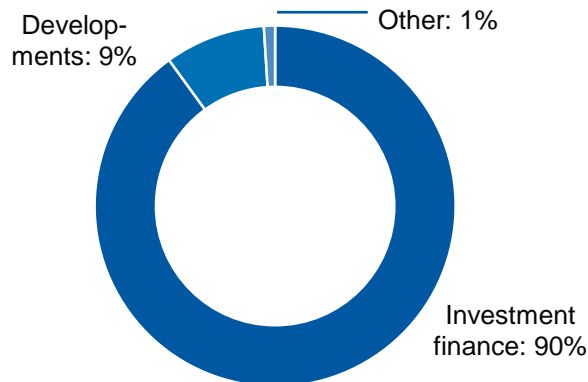


1) Performing business only, exposure as at 30.06.2016

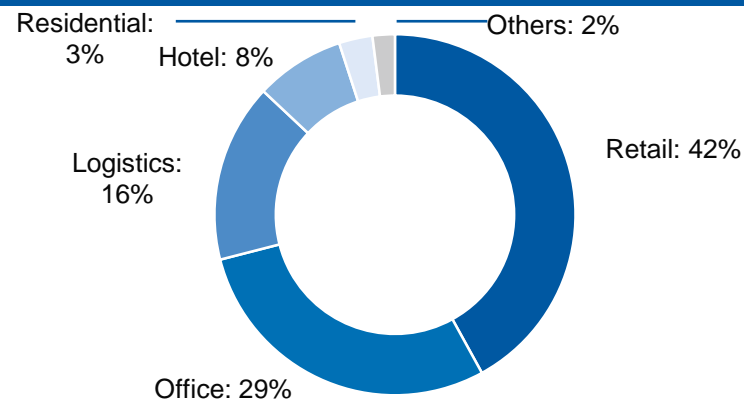
Northern Europe credit portfolio

Total volume outstanding as at 30.06.2016: € 1.9 bn

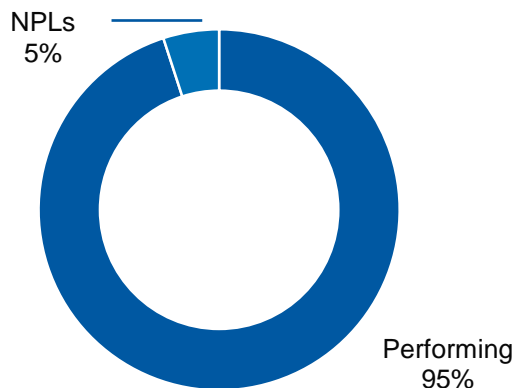
by product type



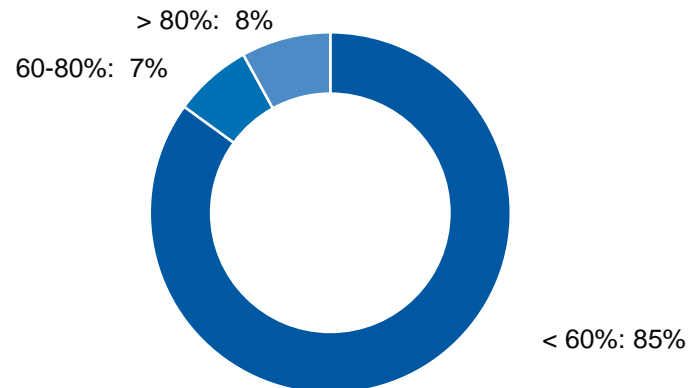
by property type



by performance



by LTV ranges¹⁾

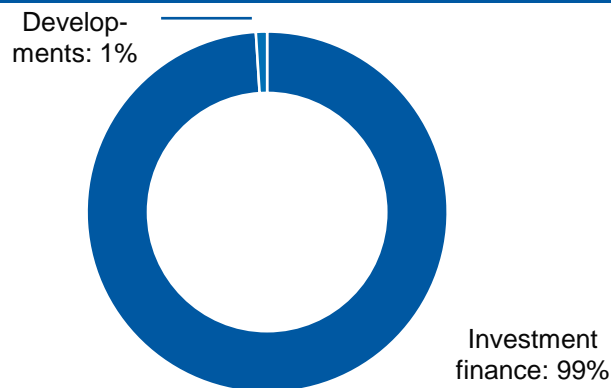


1) Performing business only, exposure as at 30.06.2016

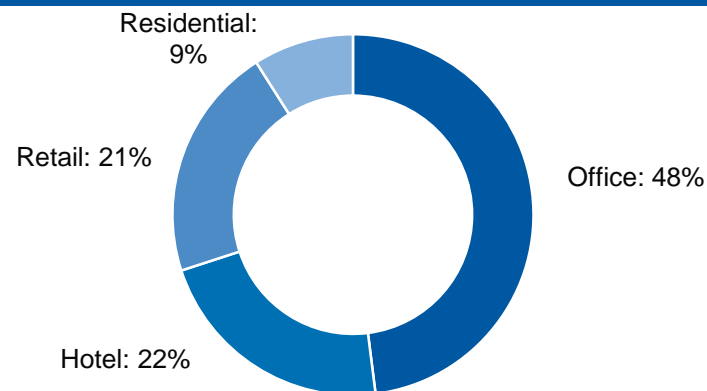
North America credit portfolio

Total volume outstanding as at 30.06.2016: € 6.2 bn

by product type



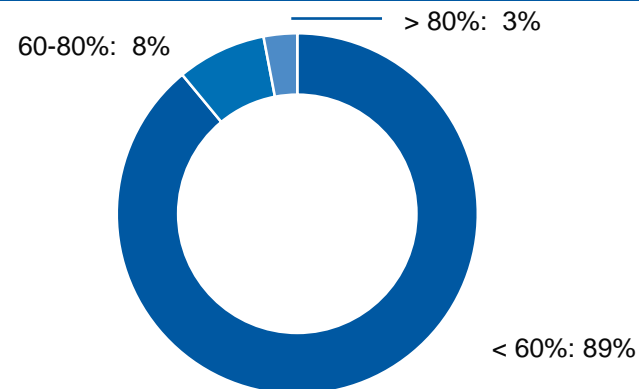
by property type



by performance



by LTV ranges¹⁾



1) Performing business only, exposure as at 30.06.2016

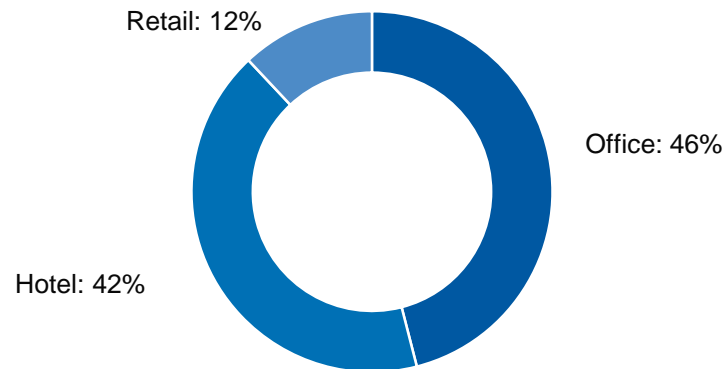
Asia credit portfolio

Total volume outstanding as at 30.06.2016: € 0.4 bn

by product type



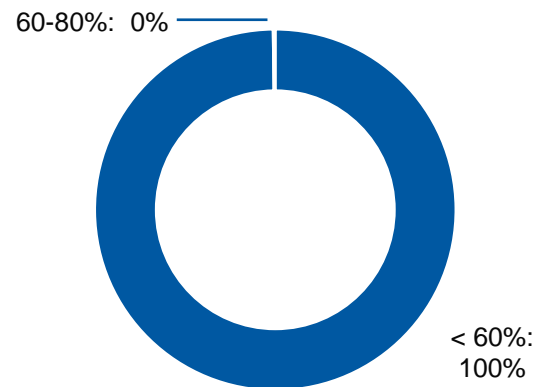
by property type



by performance



by LTV ranges¹⁾



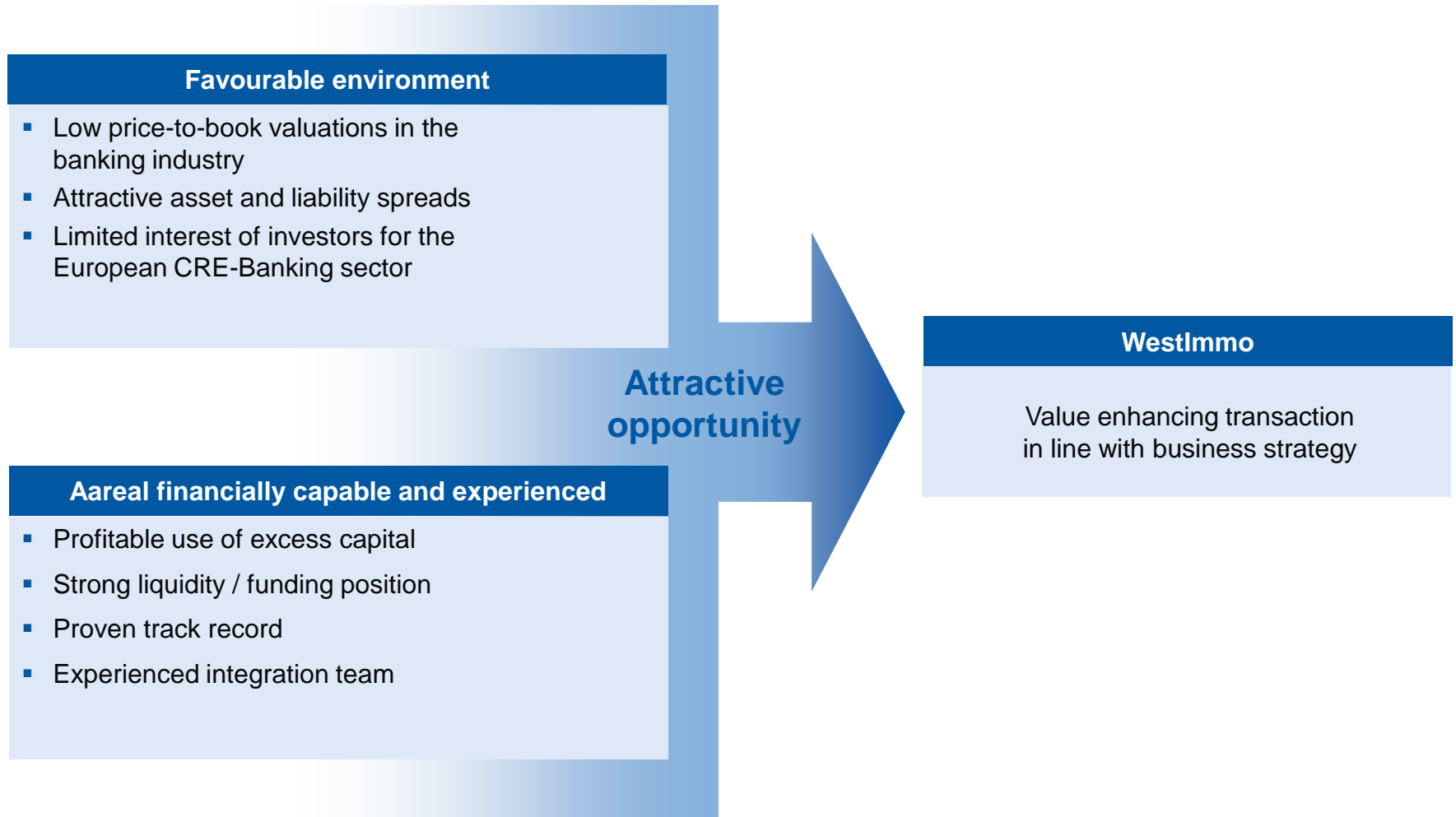
1) Performing business only, exposure as at 30.06.2016



Appendix
Acquisition of WestImmo

Acquisition of WestImmo¹⁾: Strategic rationale

Attractive opportunity to pursue inorganic growth



1) As published February 22, 2015

Acquisition of WestImmo¹⁾: Strategic rationale

Value enhancing transaction in line with business strategy

- ➔ Transaction represents attractive opportunity for Aareal Bank to pursue inorganic growth as it is EpS accretive and creating shareholder value from day one while mid-term targets unchanged
- ➔ Acquisition using existing excess capital demonstrates strength and strategic capacity while generating further excess capital and therefore dividend distribution potential at the same time
- ➔ Immediate (inorganic) growth of interest earning asset base in times of increasing competition
- ➔ Perfect overlap to Aareal's core business further strengthens position as a specialised commercial real estate lender
- ➔ International well experienced staff and platform maintained despite currently not being allowed to write new business (acc. to EU-regulations) and therefore in run-down mode
- ➔ High diversification of CRE portfolio and conservative risk profile remains unchanged
- ➔ Optimisation of capital structure in line with communicated strategy

1) As published February 22, 2015

Acquisition of WestImmo¹⁾: Strategic rationale

Business ability even without new business origination

Strategy and business modell

- WestImmo is a specialist in international commercial real estate financing focussing on office, shopping center, hotel and logistics, headquartered in Mainz / Münster
- Additional activities for private clients and public sector
- Originally focussing on Europe, the US and Asia with international locations
- Balance sheet of ~ € 8.1 bn (~ € 3.3 bn RWA), thereof CRE business ~ € 4.3 bn, private clients ~ € 1.6 bn, public sector ~ € 0.8 bn (pro forma extrapolated as at 31.03.2015)
- 280 employees (~ 255 FTE)

History

- WestImmo was a subsidiary of former WestLB
- After the split of former WestLB into Portigon AG and Erste Abwicklungsanstalt (EAA) in September 2012, WestImmo became a 100%-subsidiary of EAA
- WestImmo has either to be sold or to be wind down (acc. to EU-regulations) and therefore was not allowed to write new business since H2 2012
- In order to prepare an open, transparent and non-discriminatory bidding process in H1 2014 non Pfandbriefbank “suitable” assets and liabilities were transferred to EAA via carve out

1) As published February 22, 2015

Acquisition of WestImmo¹⁾: Transaction structure

Attractive terms and conditions

Transaction

- All cash transaction to acquire 100% of the shares
- Via pre-closing carve out, all funding provided and financial guarantees given from EAA to WestImmo will be terminated.
At the same time specific assets will be transferred from WestImmo to EAA.
In addition Aareal Bank provides WestImmo an external credit- / liquidity-line
- Profit until closing to be paid to EAA
- Fair / conservative valuation; attractive asset and liability spreads logged in
- Extensive due diligence carried out
- Attractive purchase price of € 350 mn²⁾

Closing conditions

- Subject to BaFin / ECB approval
- Subject to anti-trust approval

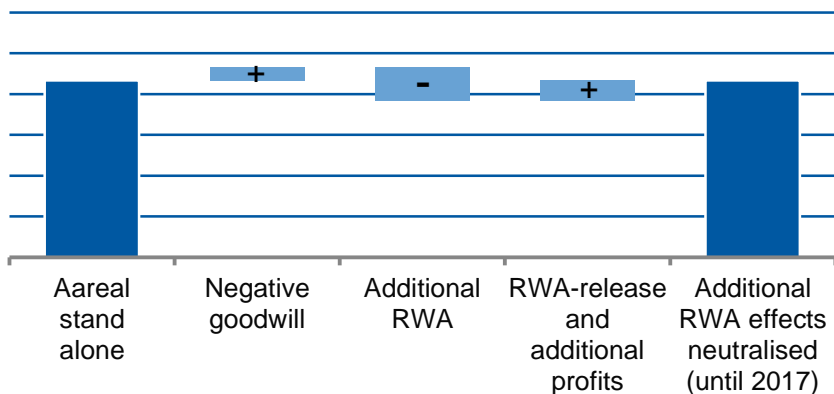
1) As published February 22, 2015

2) Subject to further adjustments

Acquisition of WestImmo¹⁾: Financials

Impact on capital ratios, EpS, and RoE²⁾

Expected CET1 effects (Basel III fully phased)



EpS

- Transaction is EpS accretive from day 1
- Expected cumulative EpS for the next three years > 3 €
- Substantial part of the capital currently absorbed by acquired RWA already to be released until 2017
- No capital relief from switch of rating model (WestImmo already on AIRBA)

Capital ratios:

- All cash transaction
 - Allocation of excess capital
 - RWA increase partly compensated by negative goodwill
- Expected pro forma CET1 as at 31.12.2015: 11.8%
- Bail in capital ratio expected above target (~8%)

RoE

- Transaction in line with mid term RoE target
- Pre-tax RoE target confirmed at ~12%

Dividend policy

- Reconfirming active dividend policy with payout ratios of ~50% (excl. negative goodwill)

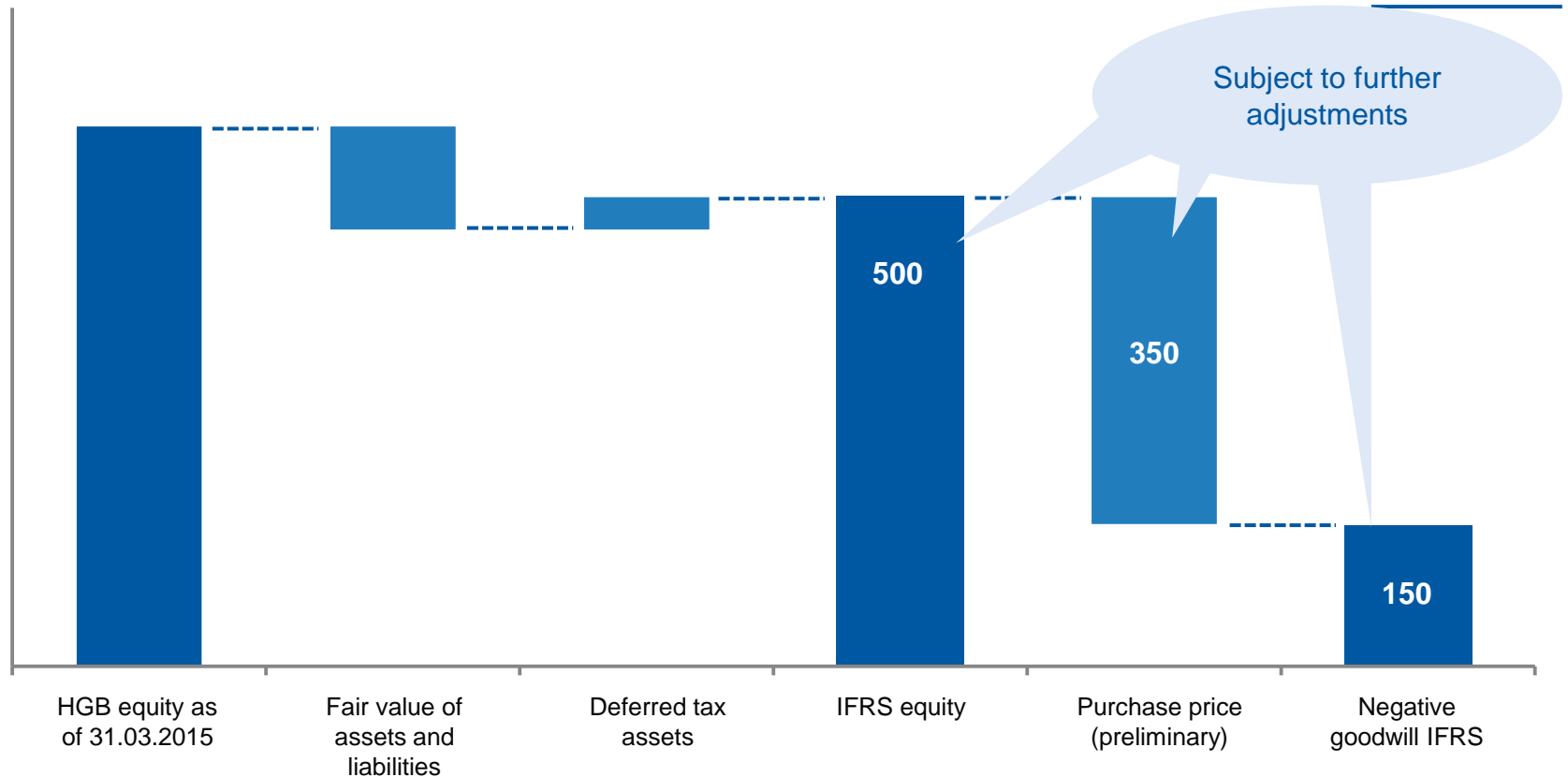
1) As published February 22, 2015

2) Pro forma extrapolated, assumed closing 31.03.2015

Acquisition of WestImmo¹⁾: Financials

Purchase price illustration²⁾

schematic



1) As published February 22, 2015

2) Pro forma extrapolated, assumed closing 31.03.2015

Acquisition of WestImmo¹⁾: Private client loans and Public sector loans²⁾

Private client loans

- Volume of € 1.6 bn extrapolated as at 31.03.2015
- All non performing loans have been carved out, purely performing business with average LtV < 60%
- Outstandings < 100 T€: 58%, 100 – 150 T€: 24%, 150 – 200 T€: 10%, 200 – 250 T€: 4%; 250 – 500: <4%; > 500 T€: <1%
> 50% in Baden Wuerttemberg, Bayern, Hessen, and NRW
- Historical defaults on that portfolio in the very, very low double digit area (bp)
- Potential risks from clawbacks regarding loan fees (“Rückforderungen von Bearbeitungsgebühren”) and faulty revocation clause (“fehlerhafte Widerrufsbelehrungen”) will be covered by the seller

Public sector loans

- Volume of € 0.8 bn extrapolated as at 31.03.2015
- Loans, warranties or guaranties to German sub-sovereign bodies

1) As published February 22, 2015

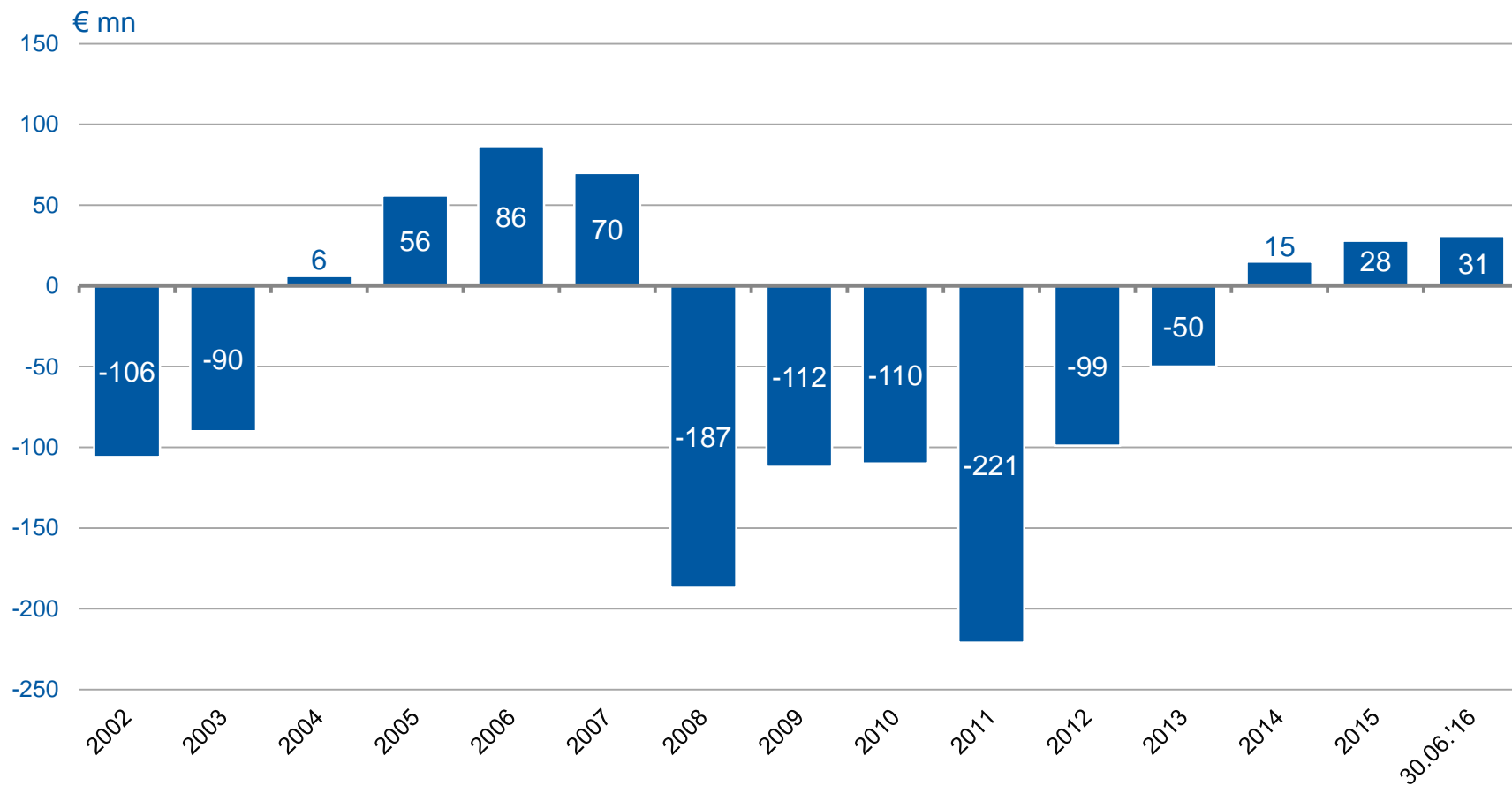
2) Pro forma extrapolated as at 31.03.2015



Appendix
Revaluation surplus

Revaluation surplus

Change mainly driven by asset spreads





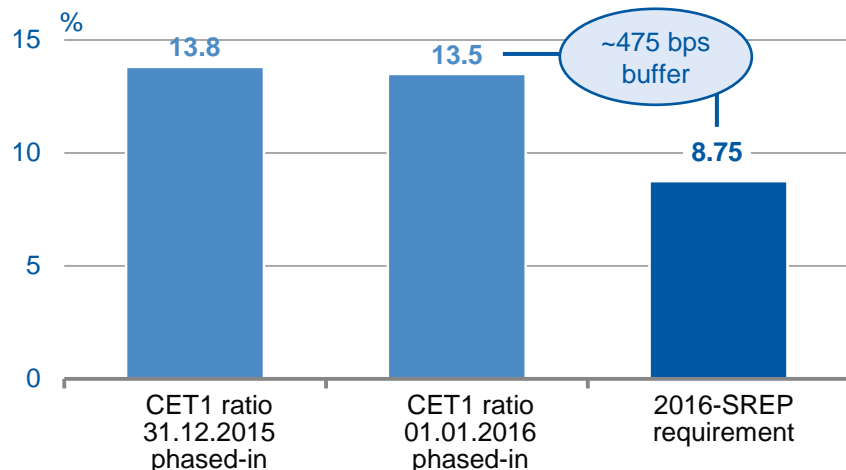
Appendix

SREP requirements and RWA-split

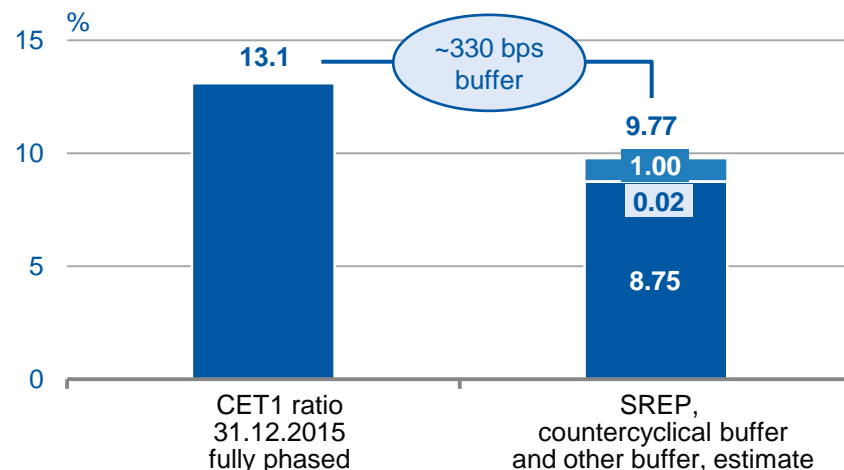
Capital ratios

SREP¹⁾ requirements

Capital ratios vs. SREP requirements (phased-in)



Capital ratios vs. SREP requirements (fully phased)



Main takeaways

- Aareal Bank's SREP requirement according to ECB notification: 8.75% CET1 including capital conservation buffer
- Other buffer of 1% (estimated - not yet announced); actual countercyclical buffer: 0.02%
- CET1 ratio of 13.1% (fully phased) as at 31.12.2015: ~330 bps above SREP requirement (including capital conservation buffer AND estimated other buffer)
- ~330 bps buffer currently available to cover uncertainties coming from regulatory environment

■ Other buffer, estimate
■ Countercyclical buffer
■ SREP requirement

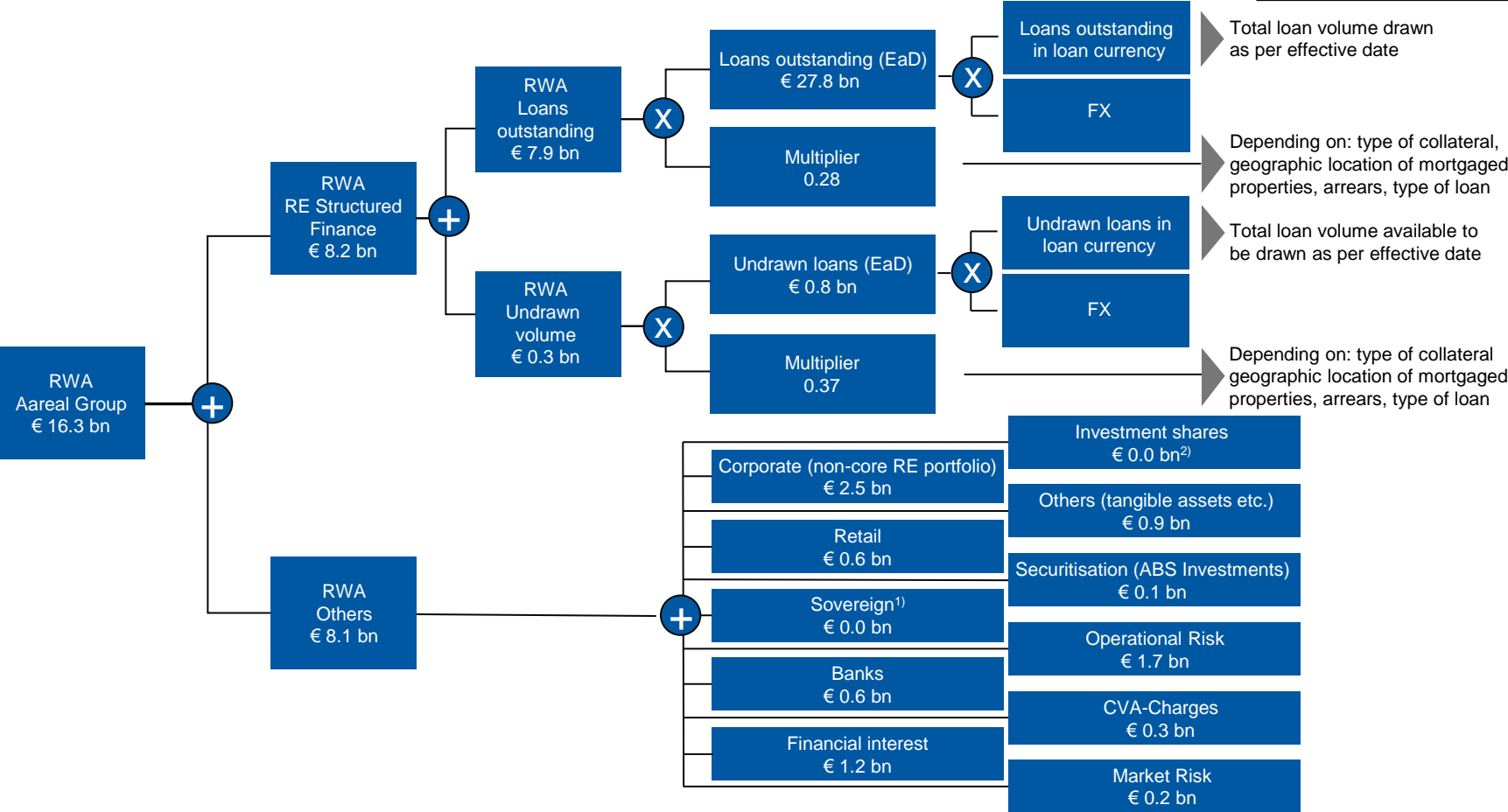
As published April 14, 2016

1) Supervisory Review and Evaluation Process (SREP)

From asset to risk weighted asset (RWA)

Essential factors affecting volume of RWA

Effective date 30/06/2016



1) Amounts to € 36 mn
2) Amounts to € 4 mn



Sustainability Performance

Aareal

Doing Business Sustainably

Aareal Bank Group stands for solidity, reliability and predictability

Key takeaways at a glance



Transparent Reporting – facilitating informed investment decisions

- 4th Sustainability Report “In Dialogue. By conviction.” published on 10 May 2016 (online-version¹⁾)
- Based on Global Reporting Initiative (GRI) G4 guidelines, in compliance with “in accordance - core” option, including GRI Materiality Disclosures Services check
- PricewaterhouseCoopers AG prepared a limited assurance engagement on materiality analysis / selected data



Sustainability Ratings – documenting the company’s sustainability performance



oeekom 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 16% of its industry [[as per 12/2015](#)]



CDP – Aareal Bank Group achieved a result of “94C”, well above average of peer group Financials (87C) / of MDAX companies (72C) [[Report 2015](#)]



imug – Aareal Bank was rated “positive BB” in the category “Uncovered Bonds”, ranking among Top 3 of 102 banks rated in total [[as per 01/2016](#)]

1) http://www.aareal-bank.com/fileadmin/DAM_Content/Konzern/dokumente/06_nachhaltigkeitsbericht2015_en.pdf



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** =
$$\frac{\text{operating profit ./. income taxes ./. income/loss attributable to non controlling interests ./. net AT1 coupon}}{\text{Number of ordinary shares}}$$

Contacts

- **Jürgen Junginger**
Managing Director Investor Relations
Phone: +49 611 348 2636
juergen.junginger@aareal-bank.com
- **Carsten Schäfer**
Director Investor Relations
Phone: +49 611 348 3616
carsten.schaefer@aareal-bank.com
- **Sebastian Götzken**
Senior Manager Investor Relations
Phone: +49 611 348 3337
sebastian.goetzken@aareal-bank.com
- **Karin Desczka**
Manager Investor Relations
Phone: +49 611 348 3009
karin.desczka@aareal-bank.com

Disclaimer

© 2016 Aareal Bank AG. All rights reserved.

- This document has been prepared by Aareal Bank AG, exclusively for the purposes of a corporate presentation by Aareal Bank AG. The presentation is intended for professional and institutional customers only.
- It must not be modified or disclosed to third parties without the explicit permission of Aareal Bank AG. Any persons who may come into possession of this information and these documents must inform themselves of the relevant legal provisions applicable to the receipt and disclosure of such information, and must comply with such provisions. This presentation may not be distributed in or into any jurisdiction where such distribution would be restricted by law.
- This presentation is provided for general information purposes only. It does not constitute an offer to enter into a contract on the provision of advisory services or an offer to purchase securities. Aareal Bank AG has merely compiled the information on which this document is based from sources considered to be reliable – without, however, having verified it. The securities of Aareal Bank AG are not registered in the United States of America and may not be offered or sold except under an exemption from, or pursuant to, registration under the United States Securities Act of 1933, as amended. Therefore, Aareal Bank AG does not give any warranty, and makes no representation as to the completeness or correctness of any information or opinion contained herein. Aareal Bank AG accepts no responsibility or liability whatsoever for any expense, loss or damages arising out of, or in any way connected with, the use of all or any part of this presentation. The securities of Aareal Bank AG are not registered in the United States of America and may not be offered or sold except under an exemption from, or pursuant to, registration under the United States Securities Act of 1933, as amended.
- This presentation may contain forward-looking statements of future expectations and other forward-looking statements or trend information that are based on current plans, views and/or assumptions and subject to known and unknown risks and uncertainties, most of them being difficult to predict and generally beyond Aareal Bank AG's control. This could lead to material differences between the actual future results, performance and / or events and those expressed or implied by such statements.
- Aareal Bank AG assumes no obligation to update any forward-looking statement or any other information contained herein.