

LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

Analyst Conference Call

Q2 2014 results

August 12, 2014
Dr. Wolf Schumacher, CEO – Hermann J. Merckens, CFO



**Aareal Bank
Group**

Agenda

- Environment Q2 2014
- Q2 2014 results at a glance
- Segment performance
- B/S structure, capital & funding position
- Group figures Q2 2014
- Asset quality
- Outlook 2014

- Appendix
- Definitions and Contacts



Environment Q2 2014

General environment

- Capital markets continued to ease – backed by central bank measures in Europe and the US
- Existing geo-political risks are not yet fully reflected in the markets
- Very low short-term / negative interest rates expected to challenge further – fighting deflation but risking asset bubbles
- The slight world economic recovery continued in Q2 and is expected to continue throughout the year, but with different speed of recovery in Europe, North American and Asia
- Regulatory environment more predictable (but still possible challenges, e.g. additional capital requirements)
- Publishing of AQR and stress test results may cause further uncertainties / possible leakage?

Main takeaways



Increasing competition in our lending buckets - as a consequence margin compression earlier than originally expected and early repayments of high margin loans will continue. Partially offset by lower funding costs and -structure



We see increasing property values and rents in the majority of European countries but further NPL inflow mainly from our southern European portfolio



While Aareon is expected to be on track deposit business will suffer on segment reporting level – deposit volume supports funding and cheapens funding costs on group level



Q2 2014 results at a glance



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Q2 2014 results at a glance

Corealcredit P&L included from Q2 2014 onwards

	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Comments
€ mn						
Net interest income	169	144	147	133	126	<ul style="list-style-type: none"> ▪ Strong NII development due to <ul style="list-style-type: none"> ▫ Corealcredit first consolidation ▫ Effects from early repayments Q2: € 8 mn/Q1: € 4 mn/Q4: € 10 mn ▫ Strategic ALM measures ▫ ARL portfolio growth: €1.7bn (Q2'13)
Net loan loss provisions	32	37	39	29	28	<ul style="list-style-type: none"> ▪ Q2-LLP in line with guidance ▪ Q1-LLP of € 37 mn due to adjustment to more conservative LIP factor 1: <ul style="list-style-type: none"> ▫ € 6 mn specific allowances ▫ € 31 mn portfolio allowances,
Net commission income	39	40	48	40	39	<ul style="list-style-type: none"> ▪ Aareon on track ▪ Q4 with regular seasonal effects
Admin expenses	114	102	99	94	90	<ul style="list-style-type: none"> ▪ Burdened by regulatory projects, AQR costs and integration of Corealcredit
Negative goodwill		152 ¹⁾				<ul style="list-style-type: none"> ▪ Gain from initial consolidation
Operating profit	65	217 ¹⁾	58	48	45	<ul style="list-style-type: none"> ▪ Positive development continued

1) Adjusted



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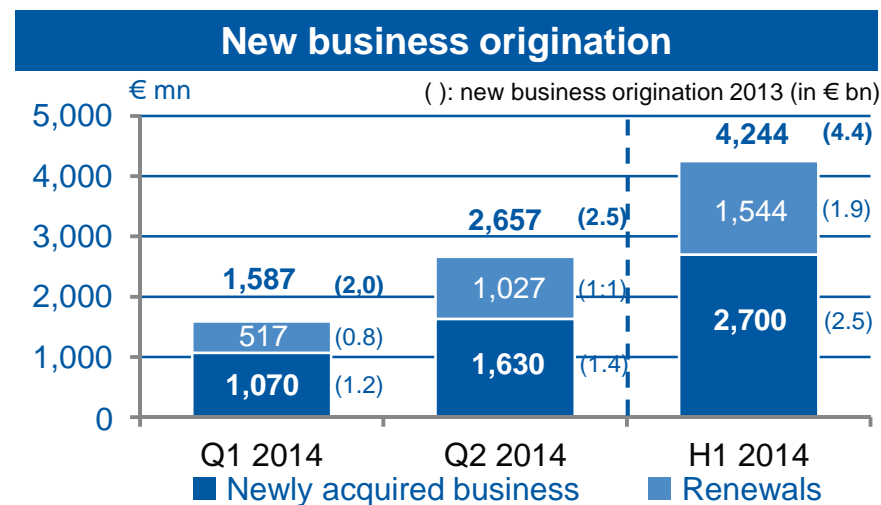
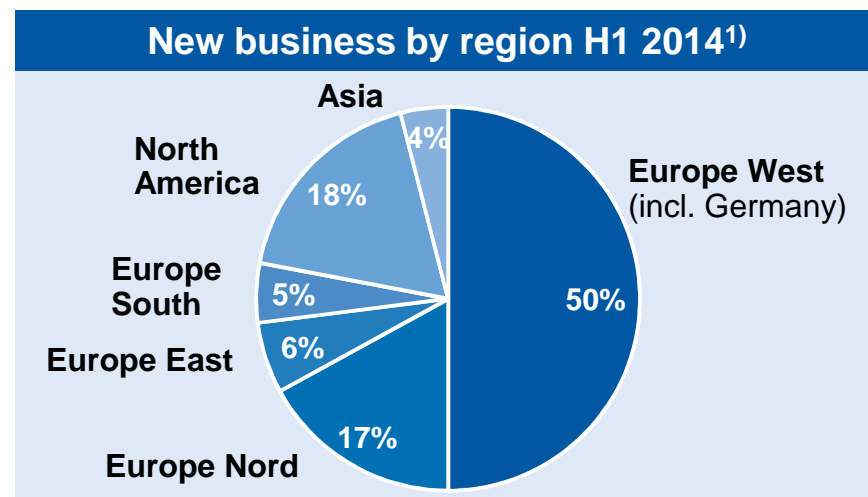
Segment performance



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Structured property financing

New business in line



P&L SPF Segment	Q2 '14	Q1 '14	Q4 '13	Q3 '13	Q2 '13
€ mn					
Net interest income	168	143	146	131	124
Loan loss provision	32	37	39	29	28
Net commission income	1	1	3	2	3
Net result from trading / non-trading / hedge acc.	3	4	1	1	0
Admin expenses	68	56	54	50	47
Others	-1	16	-1	-3	-2
Negative goodwill		152 ²⁾			
Operating profit	71	223²⁾	56	52	50

1) Incl. renewals
2) Adjusted

- Newly acquired business above 2013-level
- Lower renewal volume contractually driven
- Net interest income includes effects from early repayments: Q2: € 8 mn/Q1: € 4 mn
- Focus on attractive risk-return profile with low risk-weighting and cover pool eligible loans
- Increasing competition in core markets / for prime locations



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Consulting / Services

Solid in IT & volumes – weak in deposit margins

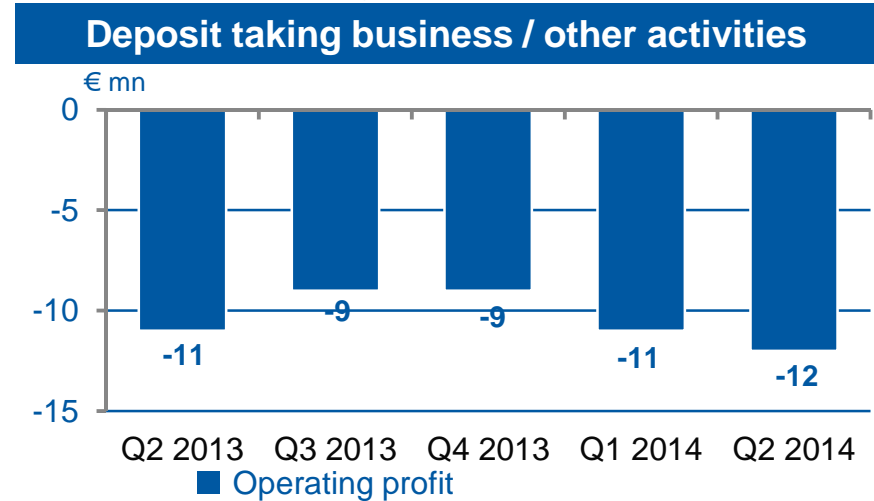
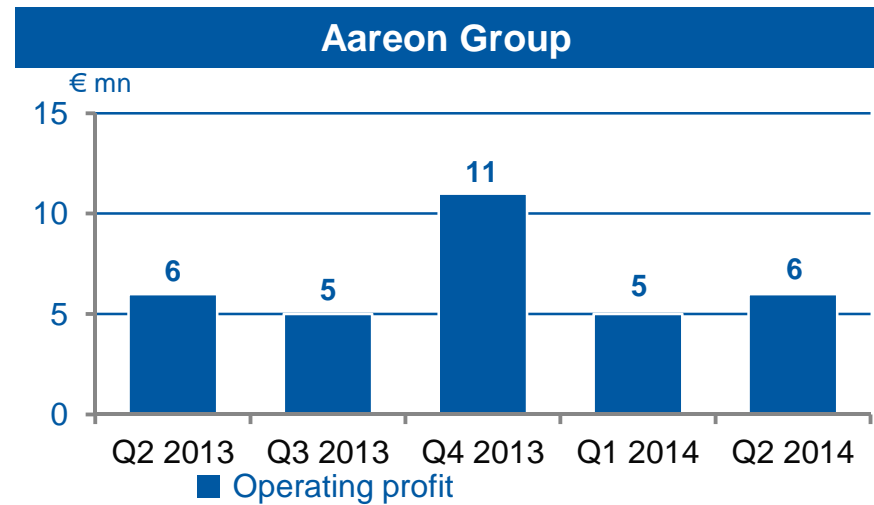
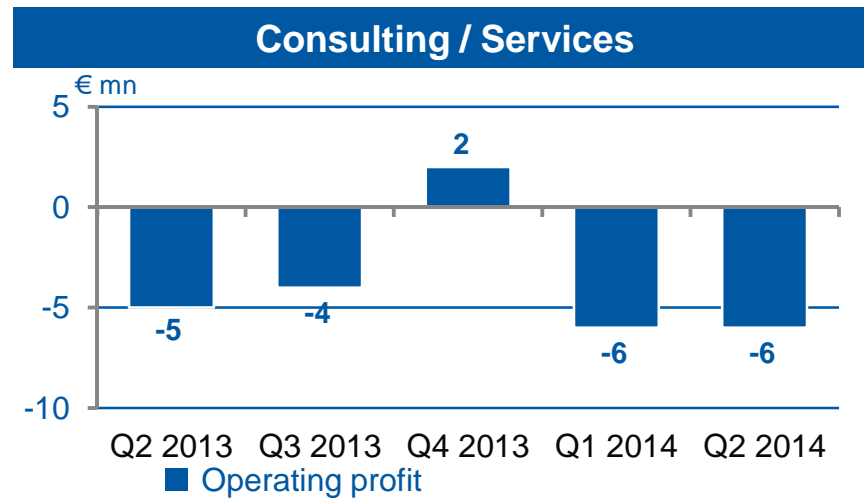
P&L C/S Segment	Q2 '14	Q1 '14	Q4 '13	Q3 '13	Q2 '13
€ mn					
Sales revenue	45	46	53	46	44
Own work capitalised	1	1	1	1	1
Changes in inventory	0	0	0	0	0
Other operating income	2	1	4	1	1
Cost of material purchased	5	6	6	6	5
Staff expenses	32	32	34	30	29
D, A, impairment losses	3	4	3	4	4
Results at equity acc. investm.	-	-	0	-	-
Other operating expenses	14	12	13	12	13
Results from interest and similar	0	0	0	0	0
Operating profit	-6	-6	2	-4	-5

- Performance of Aareon within guidance
- Unchanged low interest rate environment continues to burden segment results
- Deposit volume of the housing industry has increased to
 - € 8.5 bn Ø in Q2 2014
 - € 8.1 bn Ø in Q1 2014
 - € 7.2 bn Ø in Q2 2013
- The strategic importance of the housing industry deposits as an additional source of funding exceeds the importance of the margins shown in the segment



Consulting / Services

Deposit taking business burdens segment performance



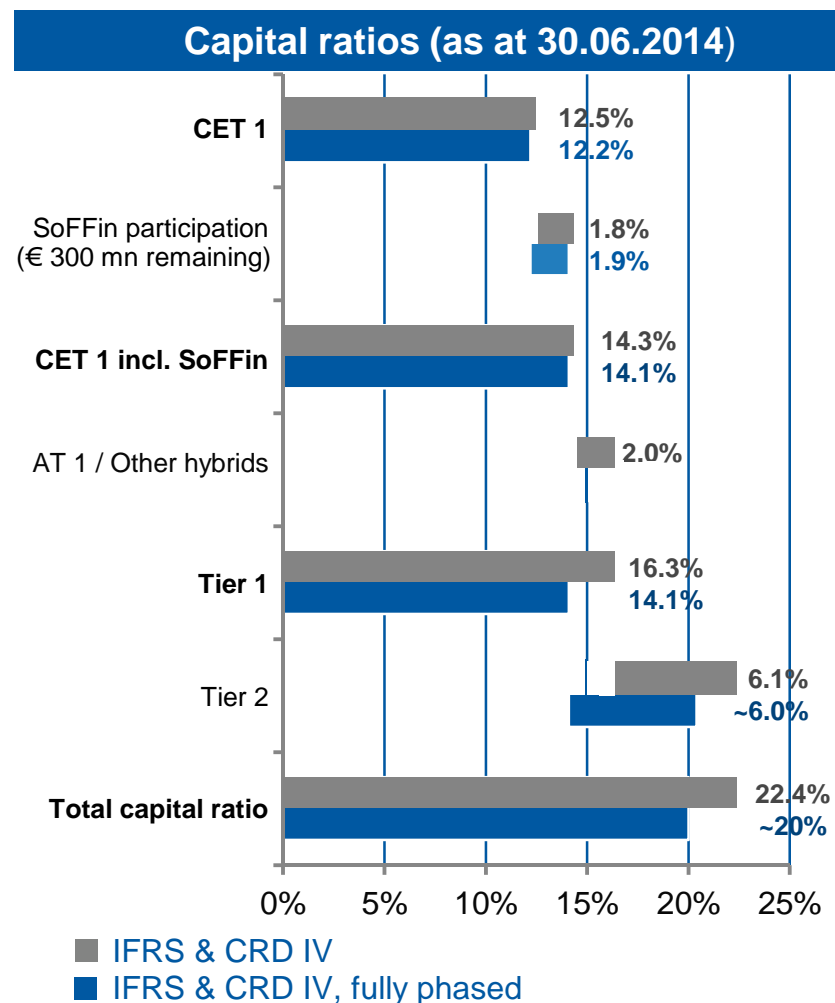
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B/S structure, capital & funding position



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Strong capital ratios & stable capital structure (IFRS, CRD IV as at 30.06.2014)

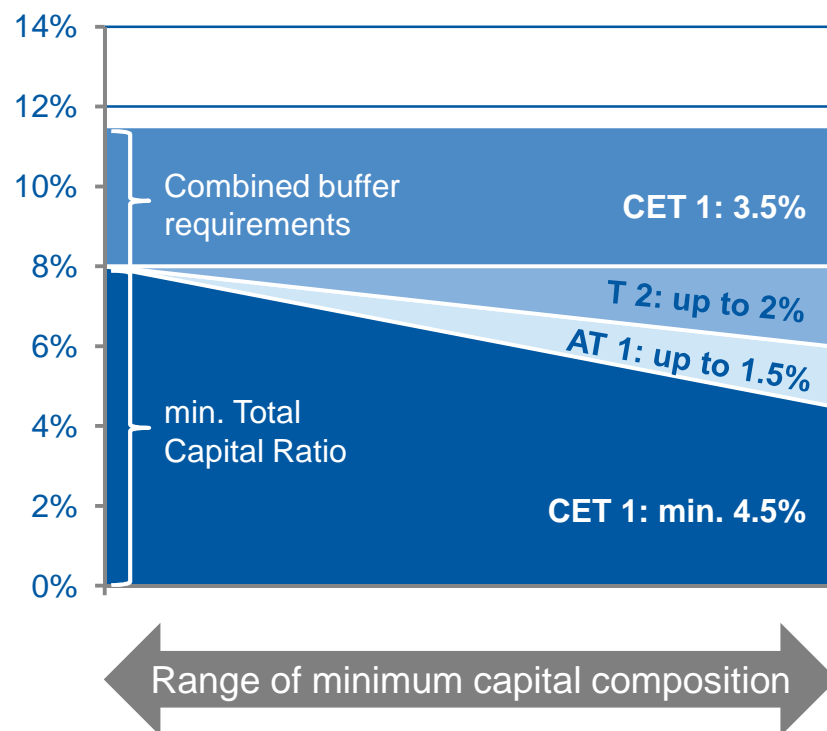


- Bail-in capital ratio (acc. to our definition): above 8%
- Strong capital ratios enable us to take new business on board
- Strong capital ratios in line with business model, company size and capital market expectations
- Full repayment of remaining SoFFin silent participation possible without capital increase
- AT 1 to be raised depending on market conditions and requirements
- Leverage ratio as at 30.06.2014
 - 4.1% (CET 1 excl. SoFFin)
 - 4.7% (CET 1 incl. SoFFin)



Regulatory requirements of future capital structure

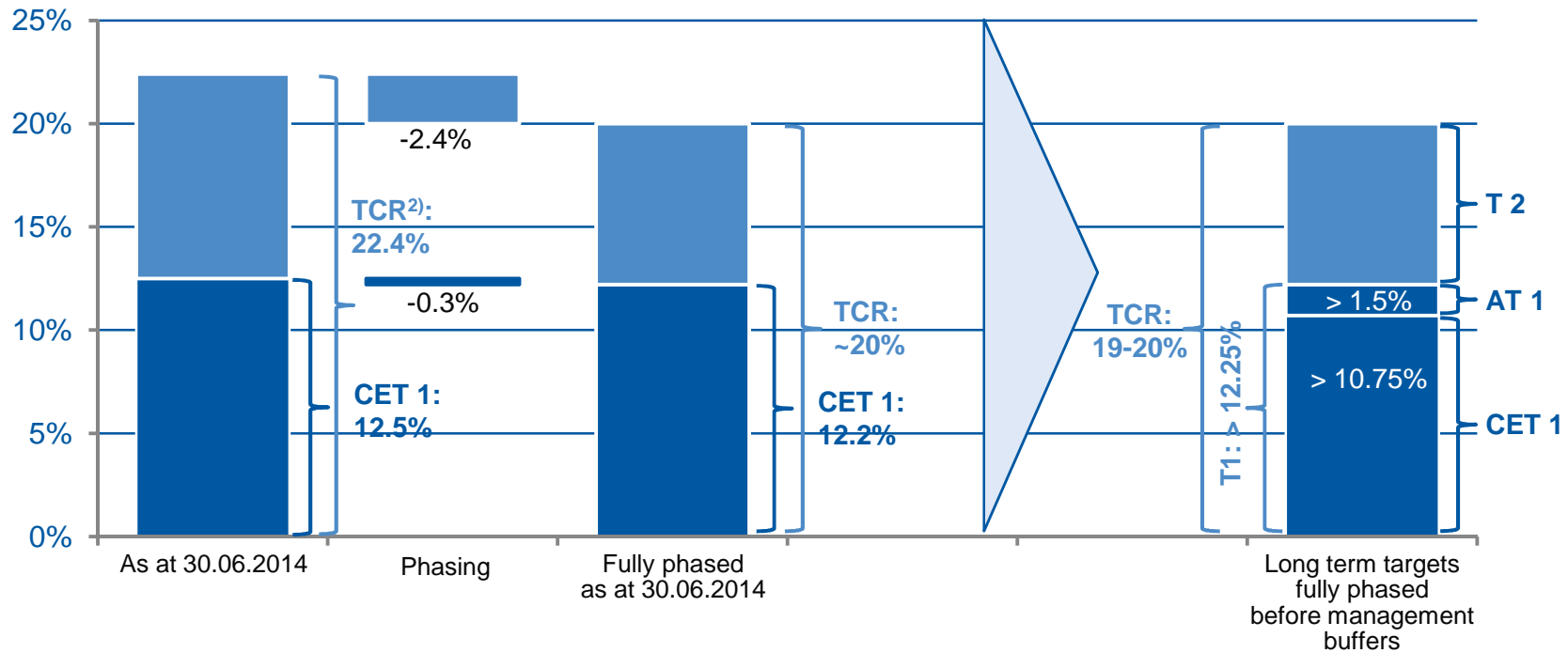
Rationale for AT1 transaction



- According CRR minimum TCR of 8% (as from 2019):
 - min. 4.5% CET1
 - up to 1.5% AT1
 - up to 2.0% T2
- Additional combined CET1 buffer¹⁾:
 - 2.5% capital conservation buffer
 - 1.0% other estimated buffers
- Restrictions:
 - Upon breach of 11.5% (TCR incl. buffer) restrictions will be placed on all discretionary distributions (e.g. dividends)
- For an optimised capital structure AT1 and T2 to replace CET1 for the fulfilment of the required 11.5%
 - T2 already issued
 - AT1 planned

1) Other possible Buffers are:
 - Up to 5% targeted systemic risk buffer (set by member state)
 - Up to 2.5% institution specific countercyclical buffer
 - Higher of G-SII/O-SII/systemic risk buffer
 => We assume that a 1% O-SII risk buffer will apply to Aareal

Expected development of capital ratios¹⁾ (IFRS & CRD IV as at 30.06.2014)

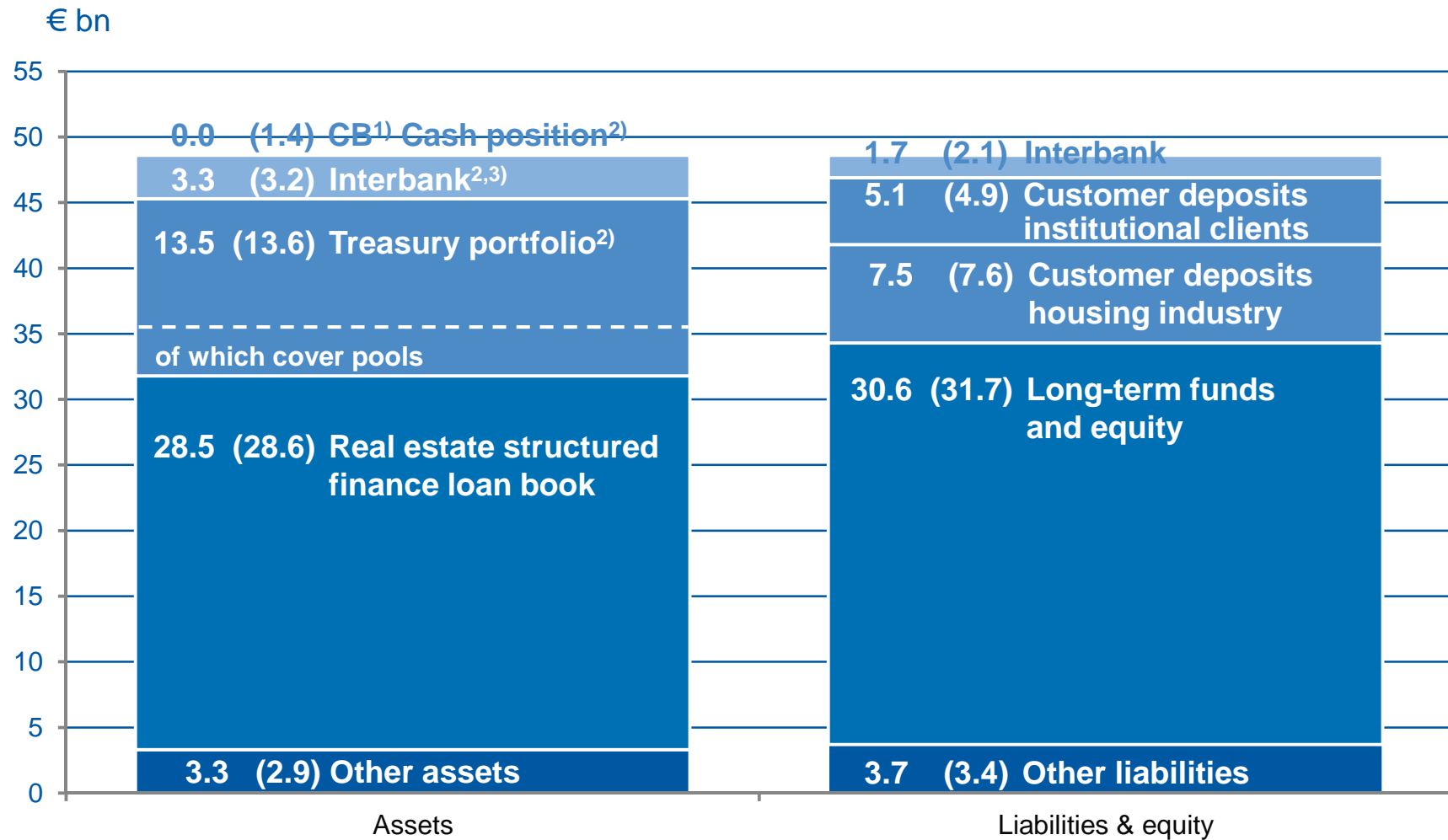


1) Actual figures may vary significantly from estimates
2) TCR: total capital ratio



Asset- / Liability structure according to IFRS

As at 30.06.2014: € 48.6 bn (31.03.2014: € 49.7 bn)



1) CB: Central banks

2) Liquidity position clearly exceeds 15% of the total balance sheet. This includes unencumbered ECB-eligible assets, available excess cash at other banks as well as highly liquid government securities

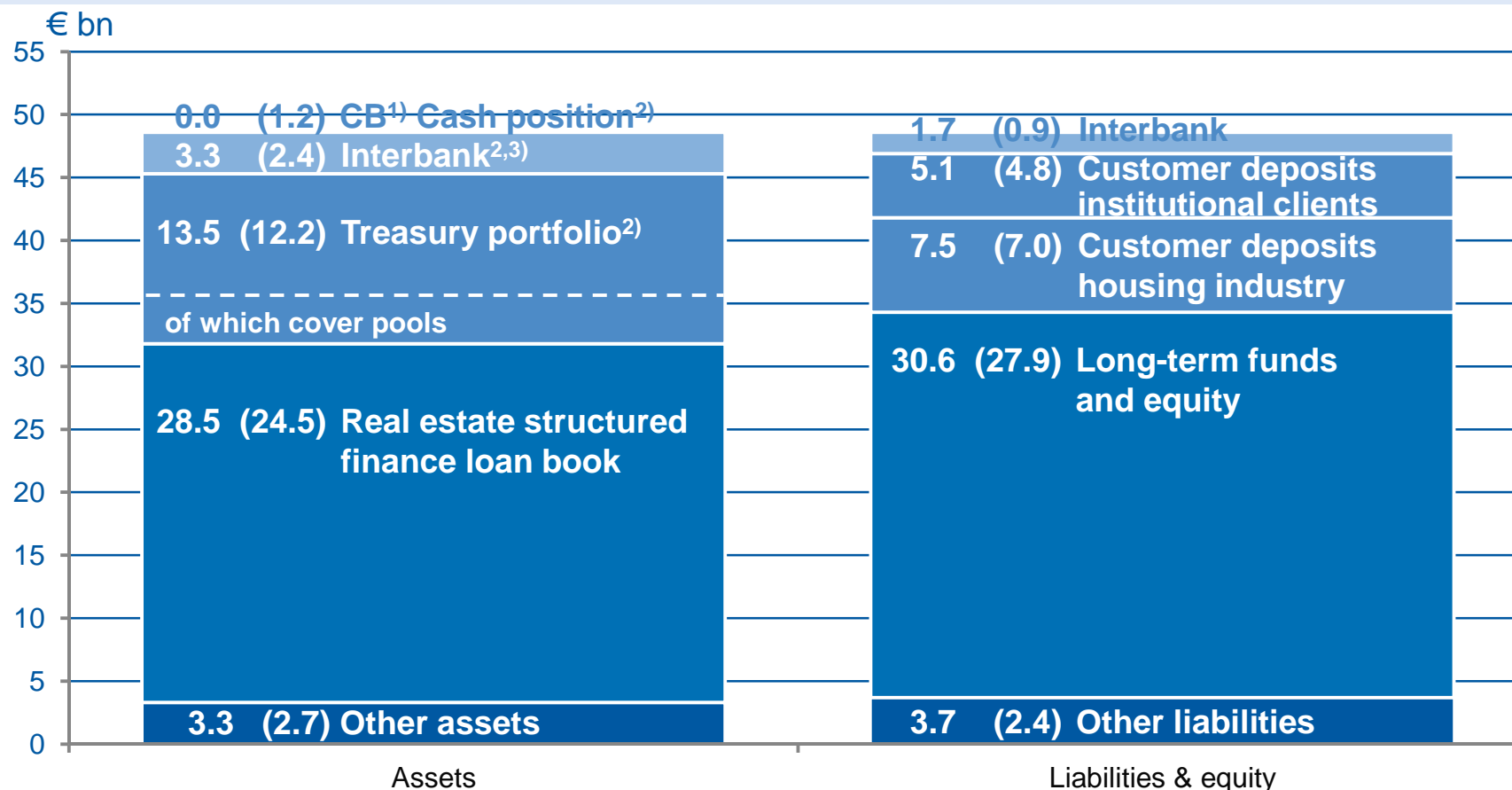
3) Interbank includes reverse repos of € 1.7 bn



Asset- / Liability structure according to IFRS

As at 30.06.'14: € 48.6 bn (31.12.'13: € 43.0 bn - excl. Coreal)

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



1) CB: Central banks

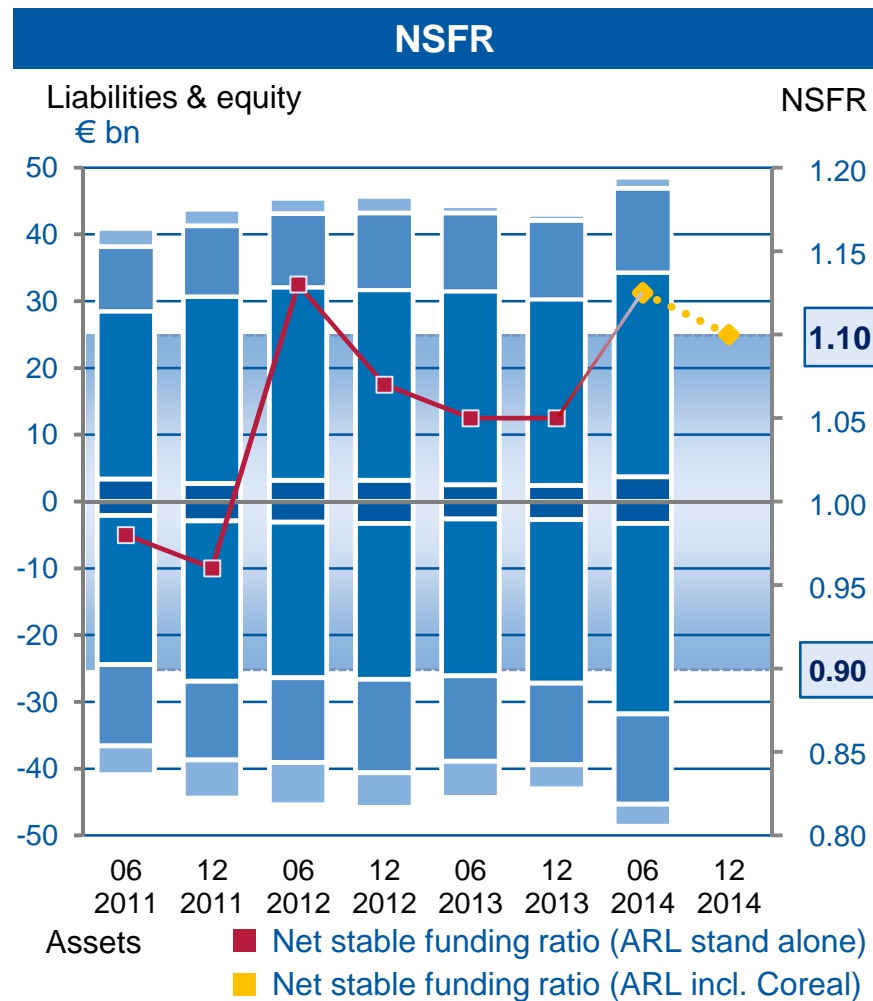
2) Liquidity position clearly exceeds 15% of the total balance sheet. This includes unencumbered ECB-eligible assets, available excess cash at other banks as well as highly liquid government securities

3) Interbank includes reverse repos of € 1.7 bn



Net stable funding- / Liquidity coverage ratio

Fulfilling CRD IV requirements

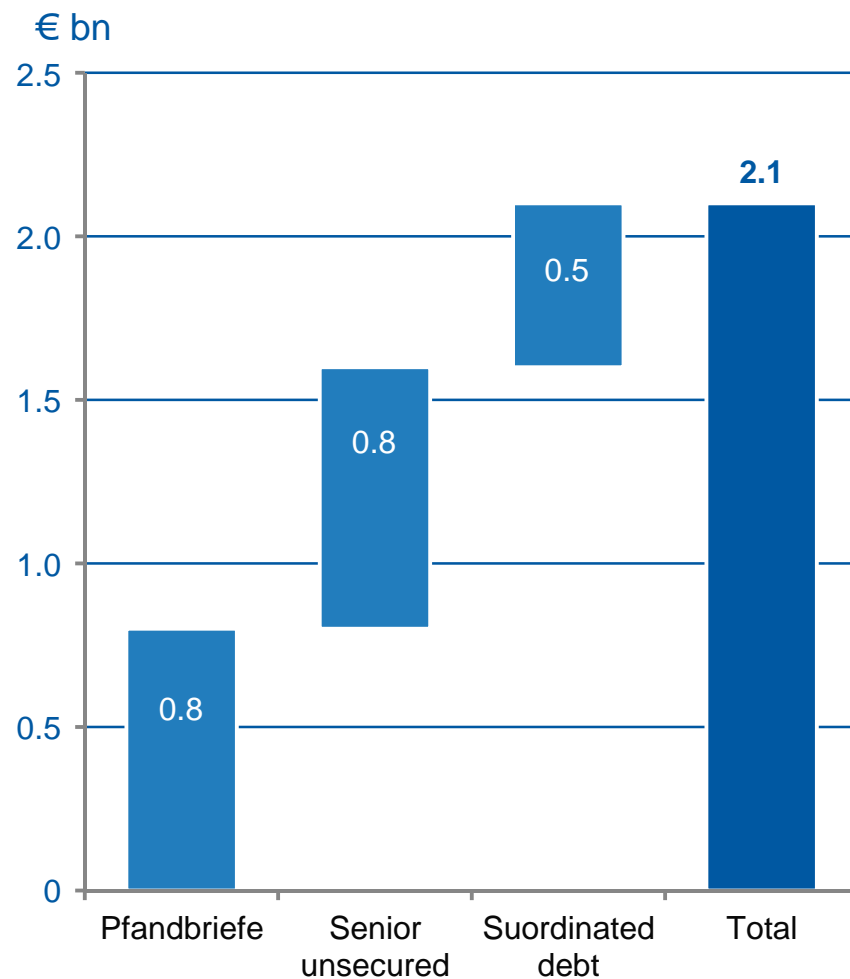


- Aareal Bank already fulfils future requirements
 - NSFR > 1.0
 - LCR >> 1.0
- Basel III and CRD IV require specific liquidity ratios starting end 2018
- High NSFR surplus used to purchase Corealcredit Bank's balance sheet
- Positive effect in 2014 due to changed weighting factors



Refinancing situation H1 2014

Successful funding activities



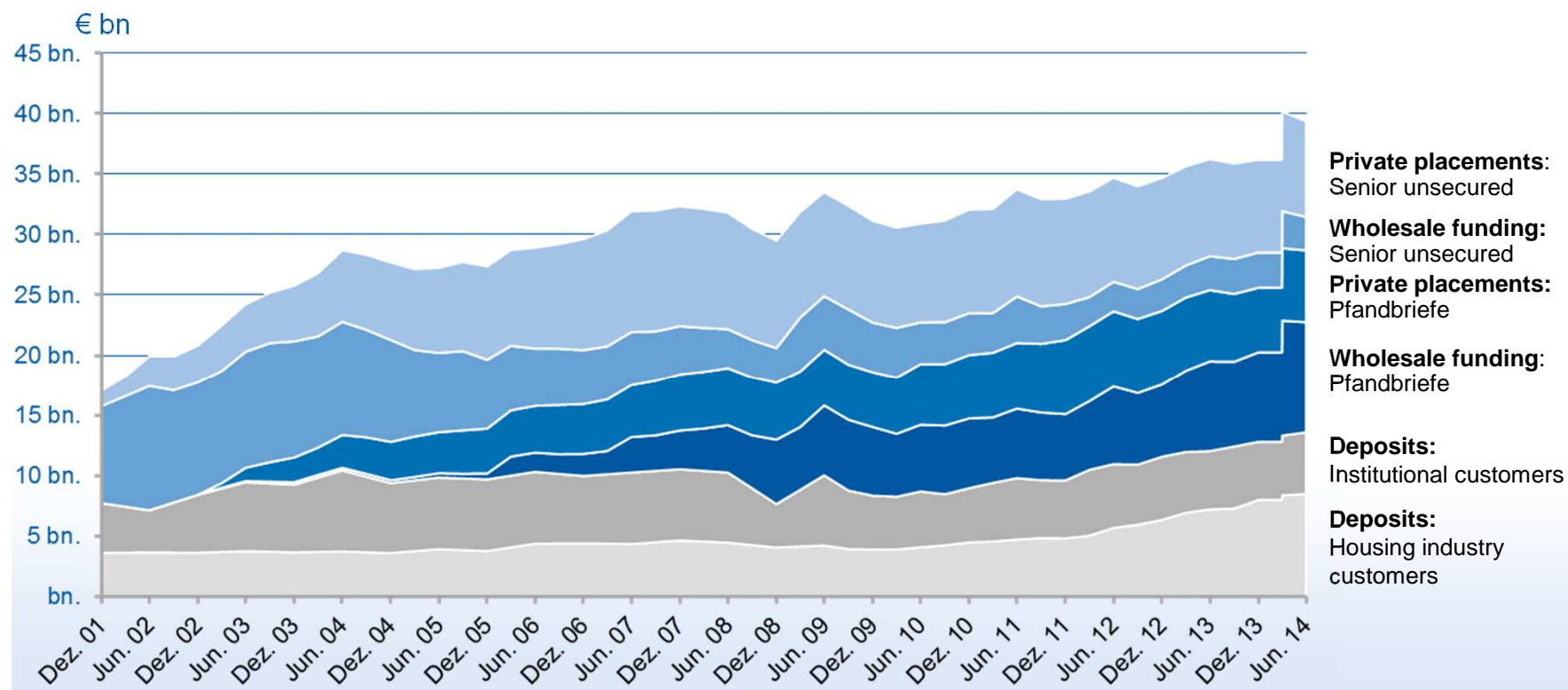
Total funding of € 2.1 bn in H1 2014

- Pfandbriefe: € 0.8 bn
- Senior unsecured: € 0.8 bn
- Subordinated debt (Tier 2): € 0.5 bn
- Backbone of capital market funding is a loyal, granular, domestic private placement investor base
 - Hold-to-maturity investors: over 600
 - Average ticket size: € 10 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 30.06.2014, this share has fallen to ~30% (or even below 10% without Pfandbriefe)

As at 30.06.2014



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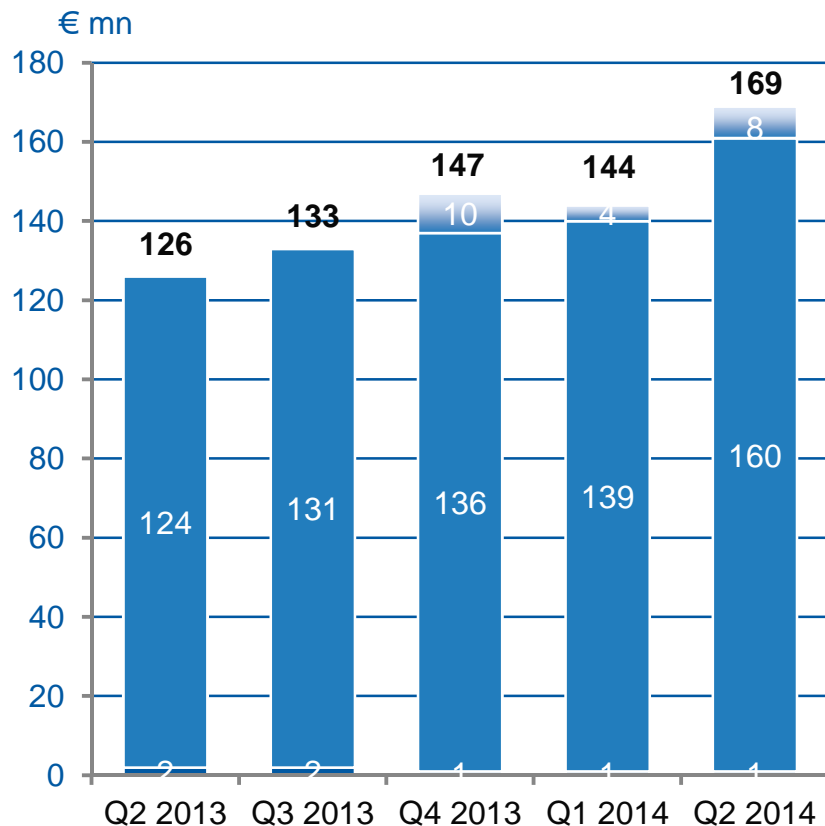
Group figures Q2 2014



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Net interest income

NII reflects portfolio growth, sound margins, low funding costs



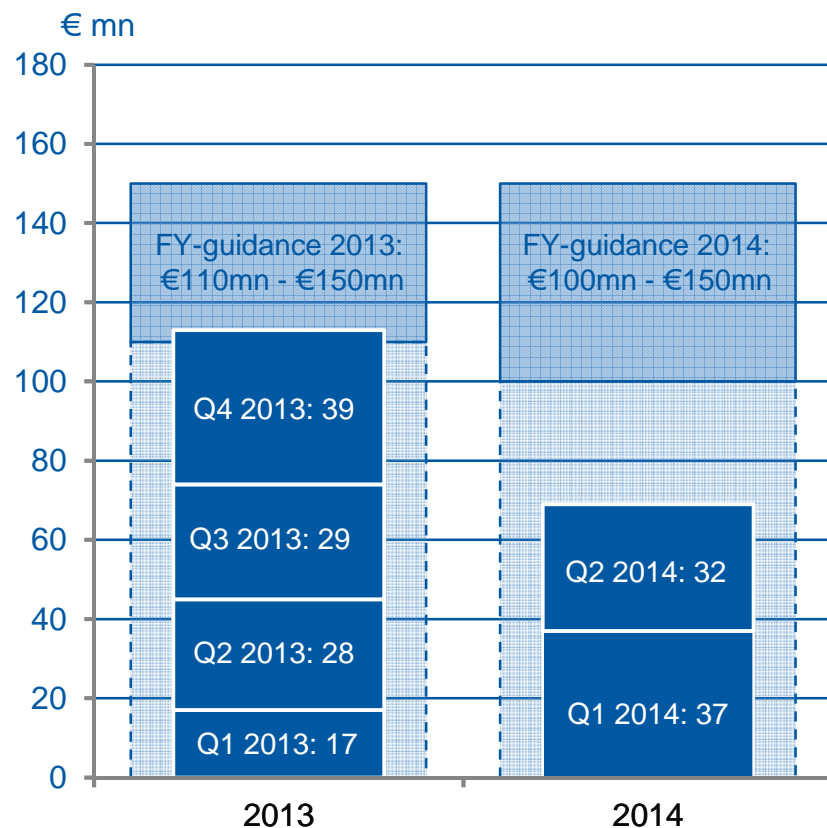
- NII effect from early repayments
- NII Structured Property Financing
- NII Consulting / Services

- Corealcredit consolidated since Q2 2014
- NII include ~ € 8 mn in Q2, ~ € 4 mn in Q1, ~ € 10 mn in Q4 2013 from early repayments
- Portfolio growth (€ 1.7 bn since Q2 2013) and sound margins from the CRE business
- Former liquidity parking with central banks now switched to reverse repos and used for strategic ALM measures according to our long term plan
- NII Consulting / Services further burdened by interest rate environment
- Aareal Bank already fulfils future NSFR / LCR requirements



Loan loss provisions

Q2-LLP in line with guidance



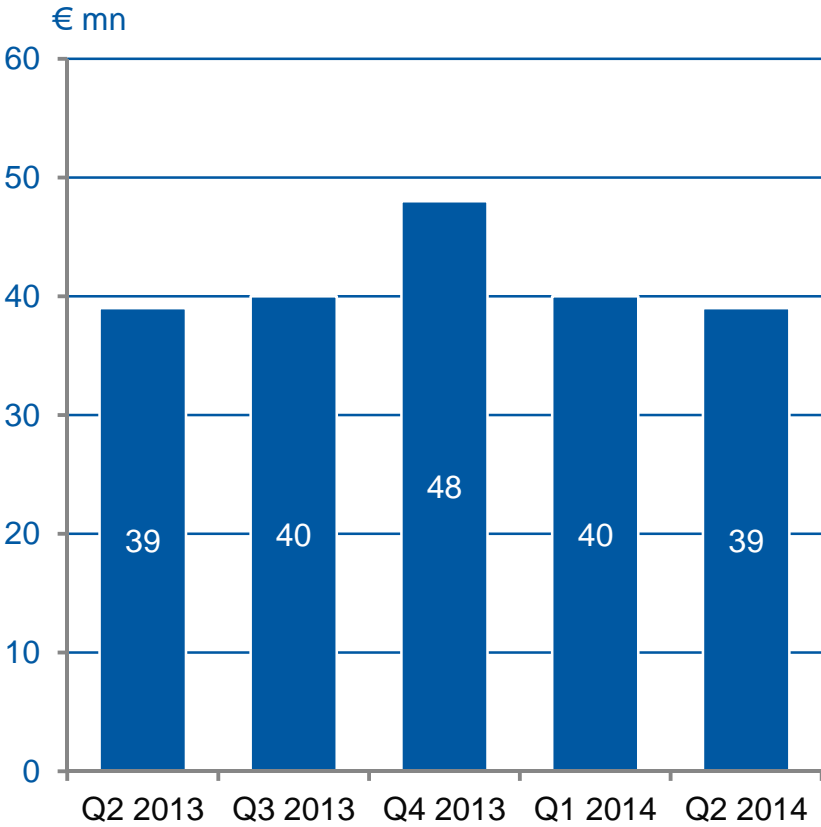
■ FY guidance

- Q2-LLP on track
- Q1-LLP of € 37 mn includes one-off due to more conservative LIP factor 1
 - € 6 mn specific allowances
 - € 31 mn portfolio allowances,
- 2013 full year LLP of €113 mn translates to 47 bp risk costs
- Confirmed guidance of € 100 mn to € 150 mn equals to 36 bp to 54 bp risk costs (on planned weighted average portfolio)



Net commission income

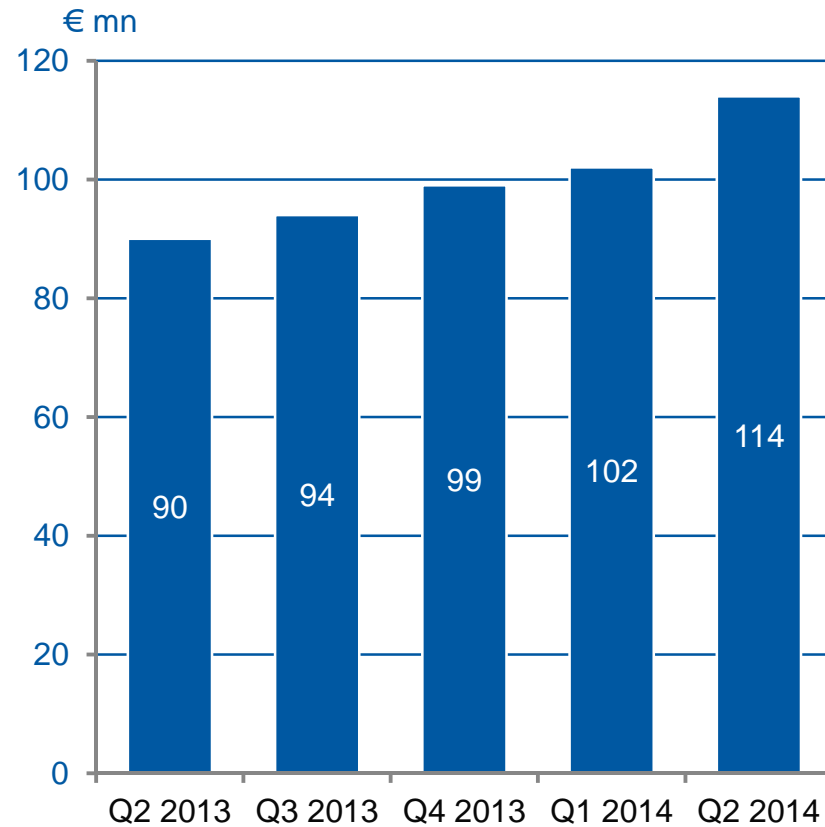
Confirming expectation



- Aareon on track
- Strong Aareon revenue regularly pushing Q4

Admin expenses

Confirming guidance



- Additional burden by
 - Regulatory projects
 - AQR costs
 - Integration of Corealcredit
- Admin expenses will stabilise on a higher level due to acquisition of Incit and Corealcredit



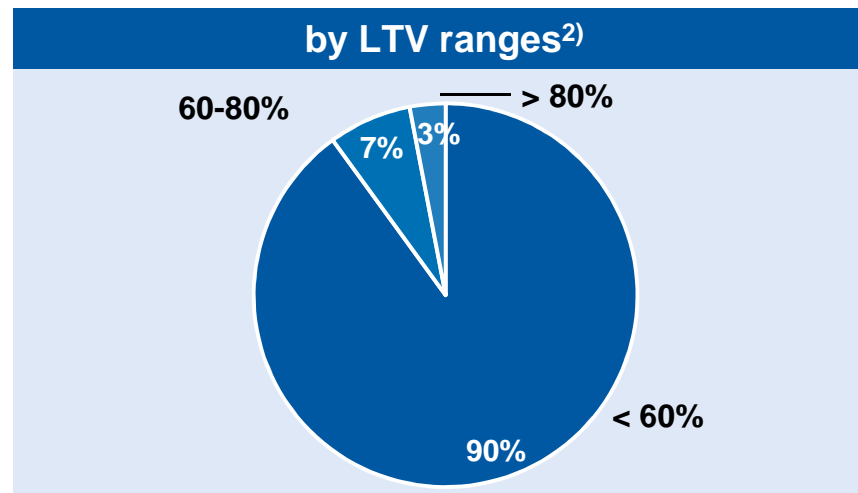
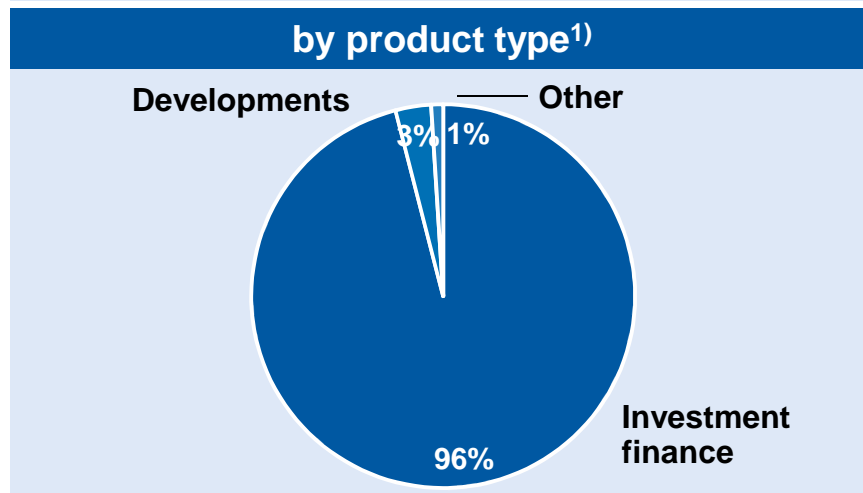
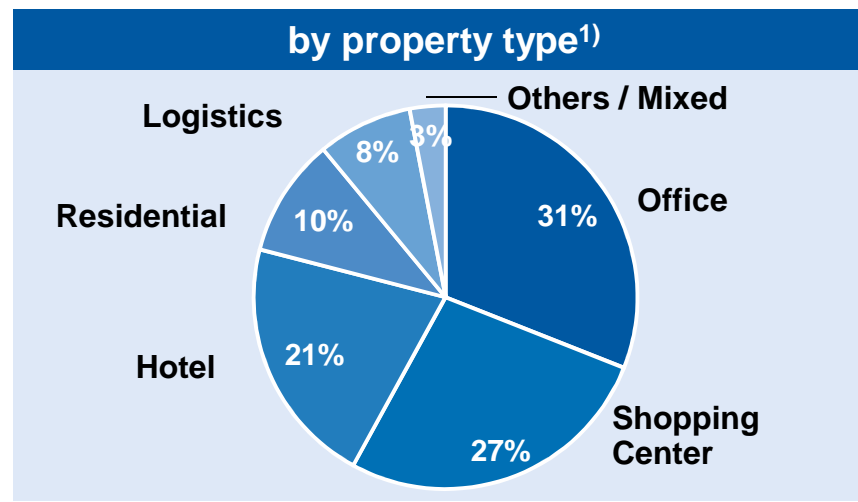
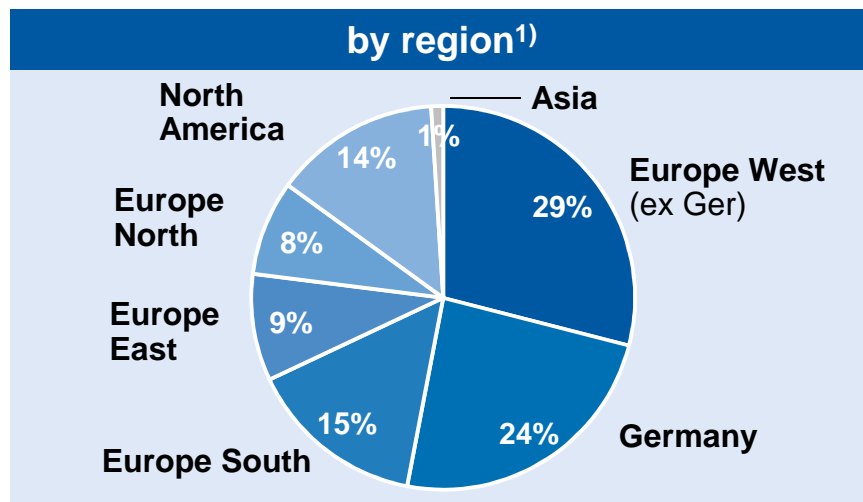
Asset quality



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Total property finance portfolio

High diversification and sound asset quality



1) Total volume: €28.5 bn as at 30.06.2014

2) Performing business only, exposure as at 30.06.2014



Total property finance portfolio

Continuing conservative approach

NPL- and LLP development			
€ mn	NPL Exposure ¹⁾	Specific Allowances ¹⁾	Portfolio Allowances ²⁾
Aareal Bank Group as at 31.03.2014	887	288	117
Aareal Bank Group utilisation in Q2 '14	-43	-12	0
Aareal Bank Group addition in Q2 '14	87	33	-1
Aareal Bank Group as at 30.06.2014	931	309	116
Coverage ratio specific allowances	33,2%		
		309	116
Aareal Bank Group as at 30.06.2014	931	425	
Coverage ratio incl. portfolio allowances	45,7%		

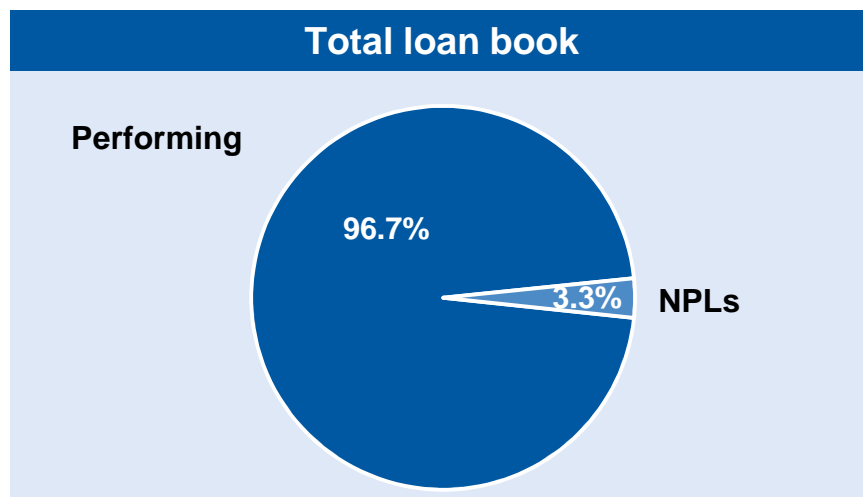
1) Incl. property finance portfolio still on DEPFA's balance sheet

2) Portfolio allowances mainly reflect expected losses which are calculated on the bases of specific loans in most cases



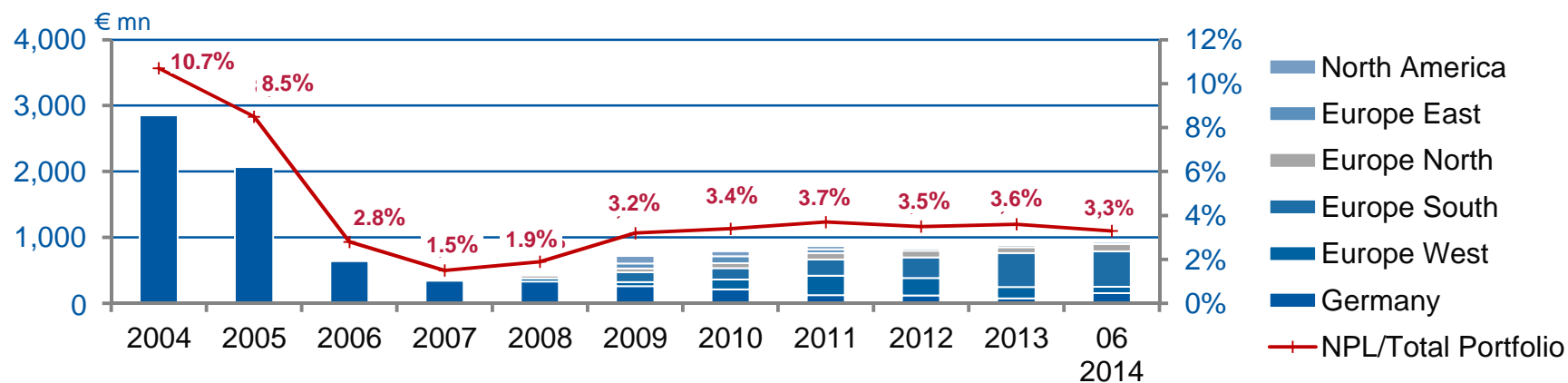
Total property finance portfolio

€ 28.5 bn of high quality real estate assets



	Nominal (in € mn)	Average LTV	NPL (in € mn)
Greece	-	-	-
Ireland	-	-	-
Italy	3,107	69.5%	446
Portugal	-	-	-
Spain	1,038	88.8%	92

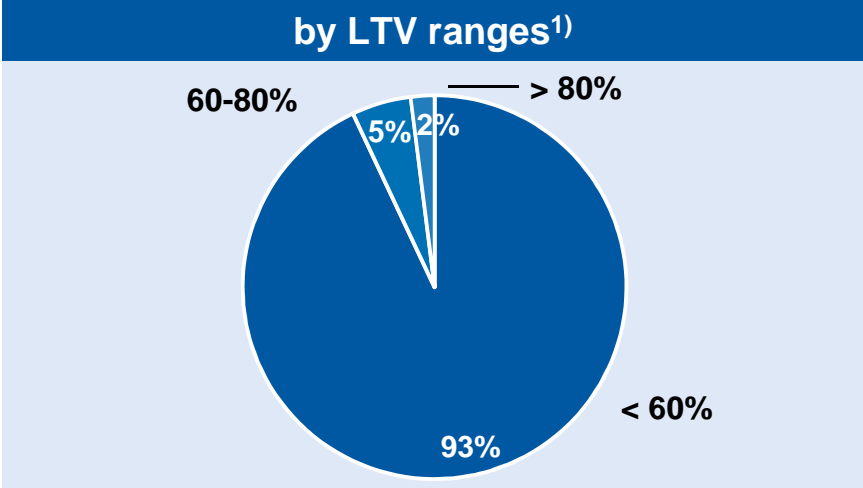
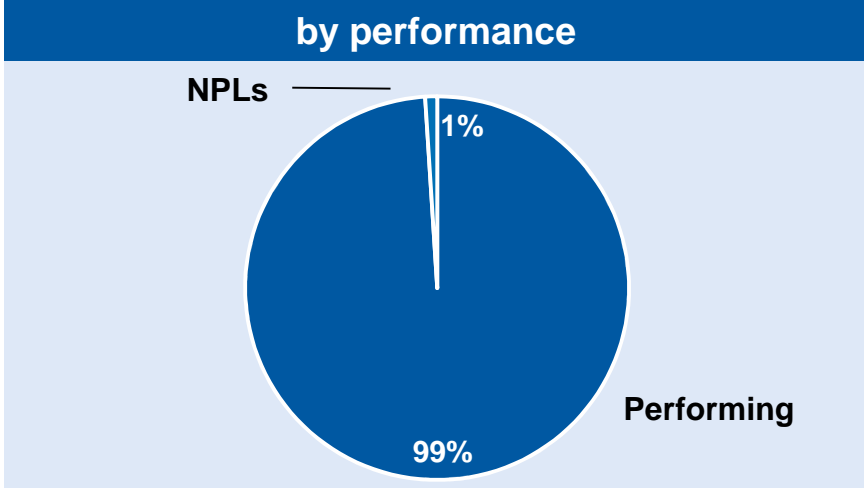
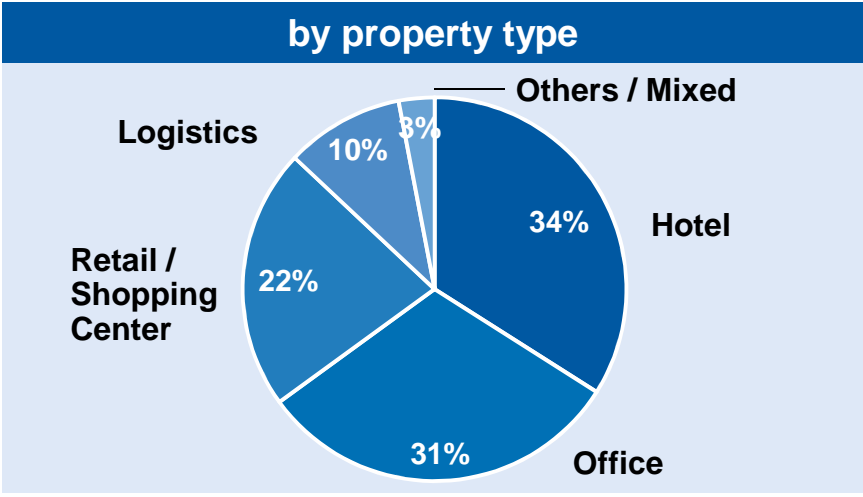
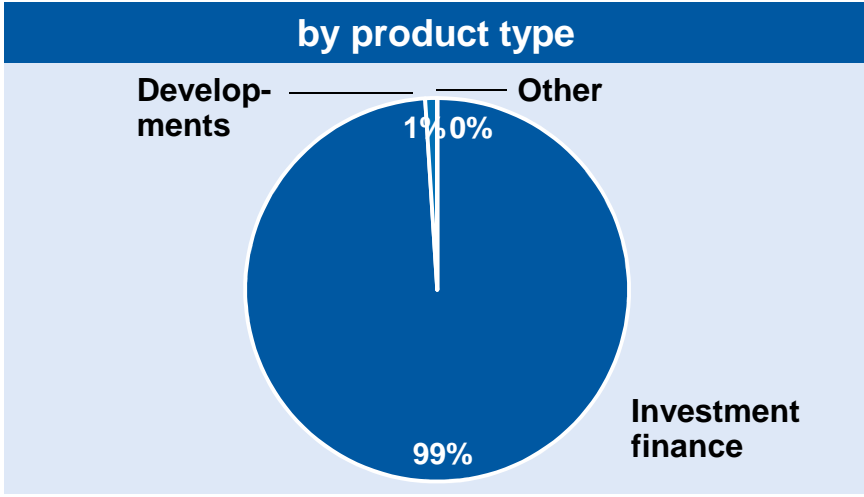
NPL and NPL-ratio (since 12.2004)



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Western Europe (ex Germany) credit portfolio

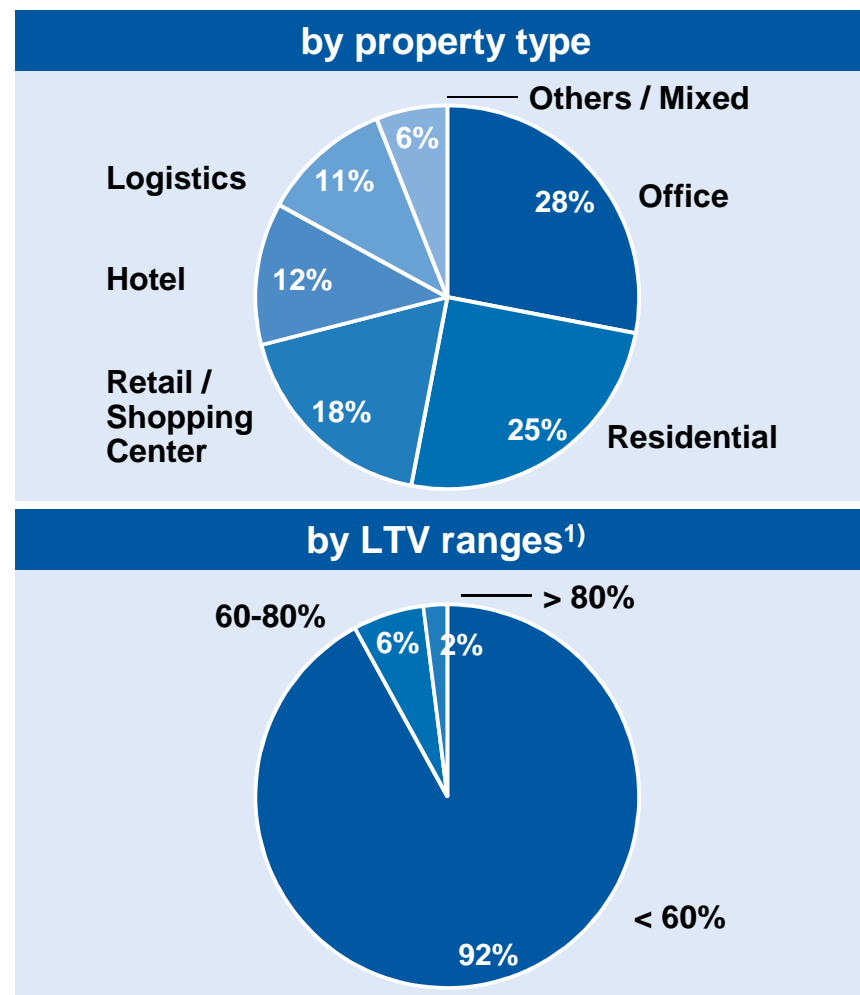
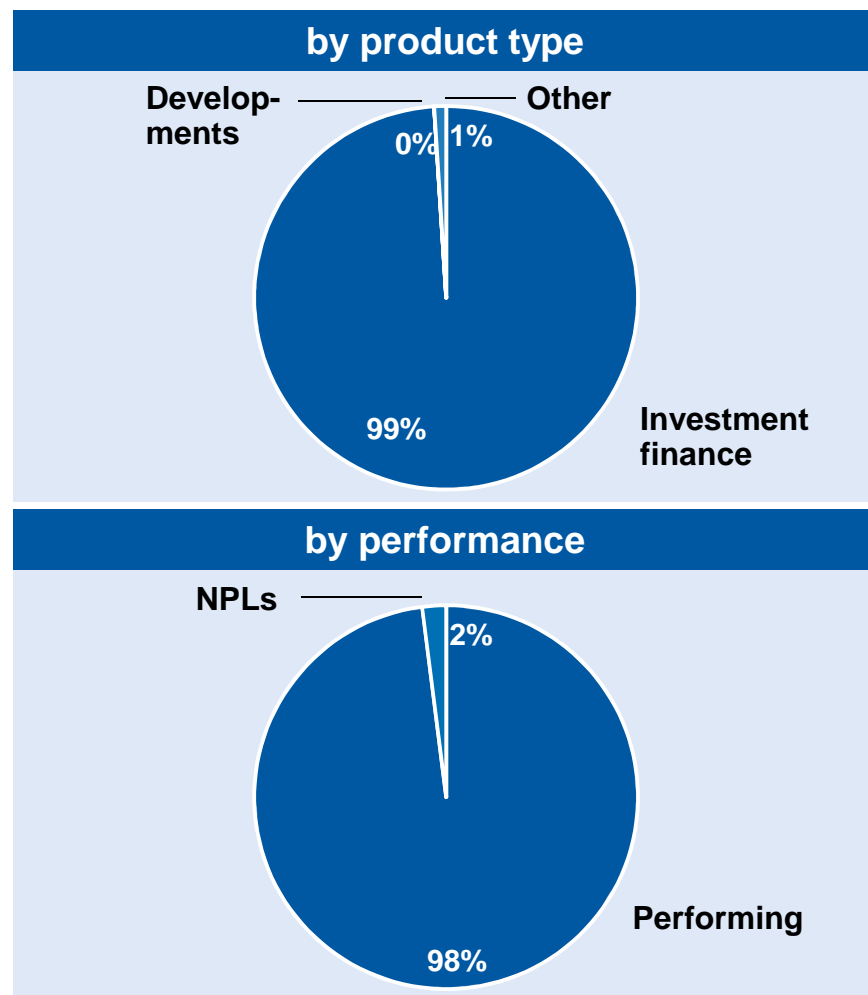
Total volume outstanding as at 30.06.2014: € 8.3 bn



1) Performing business only, exposure as at 30.06.2014

German credit portfolio

Total volume outstanding as at 30.06.2014: € 6.9 bn

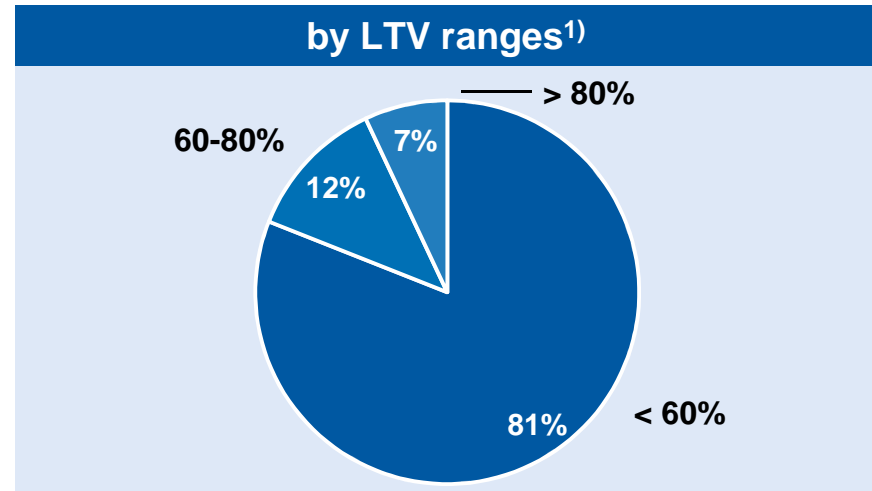
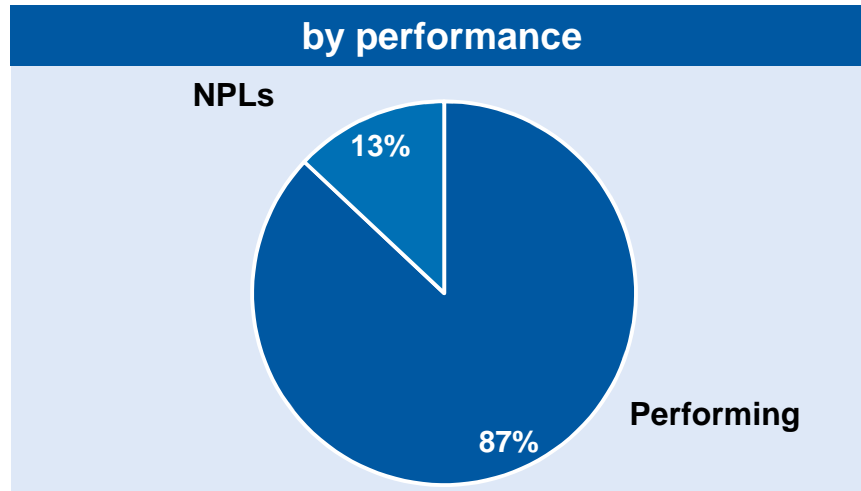
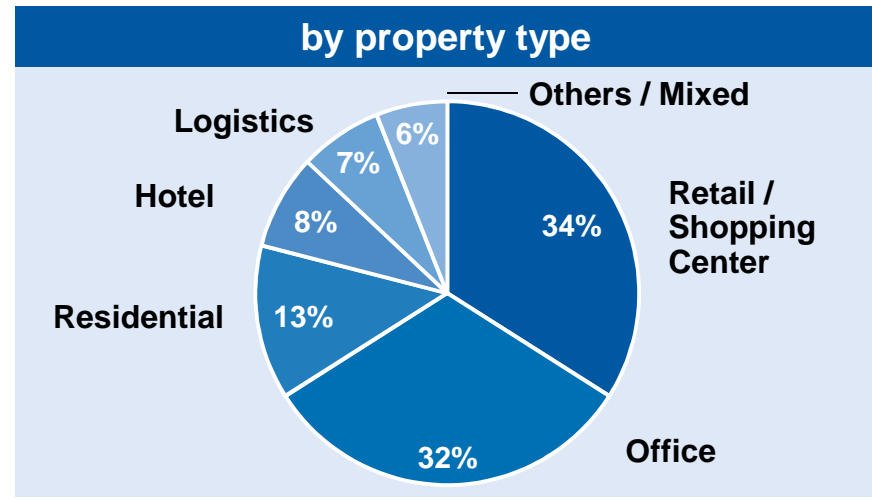
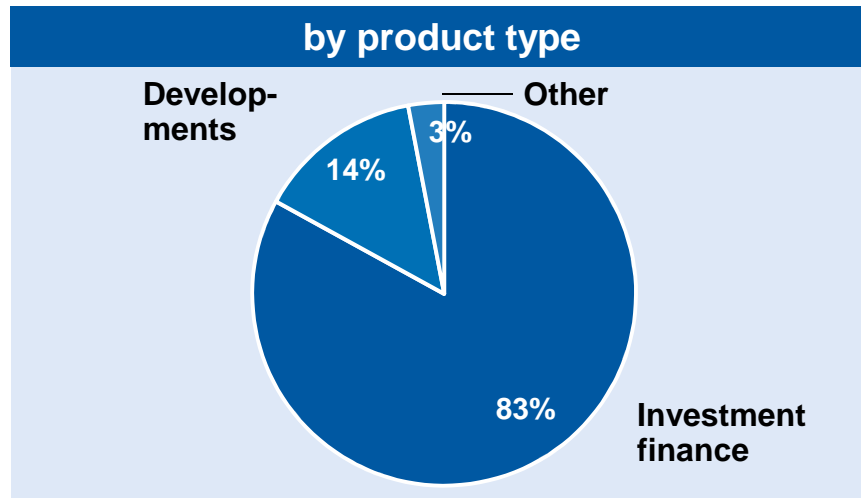


1) Performing business only, exposure as at 30.06.2014



Southern Europe credit portfolio

Total volume outstanding as at 30.06.2014: € 4.1 bn

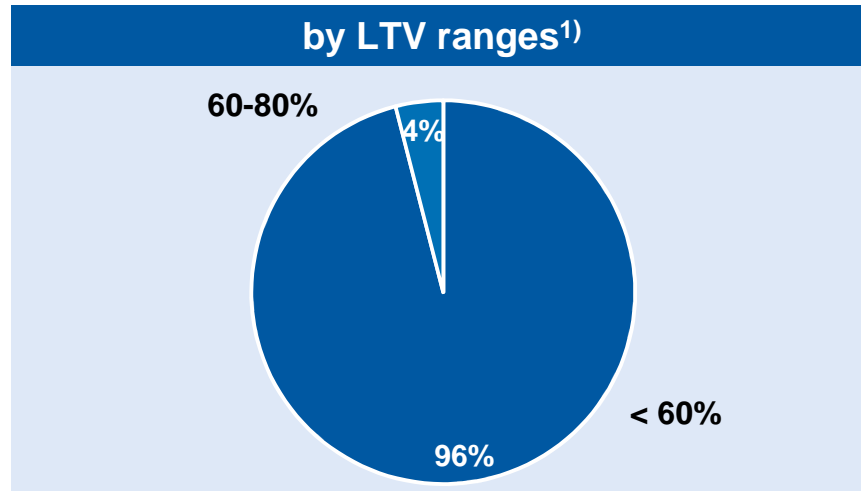
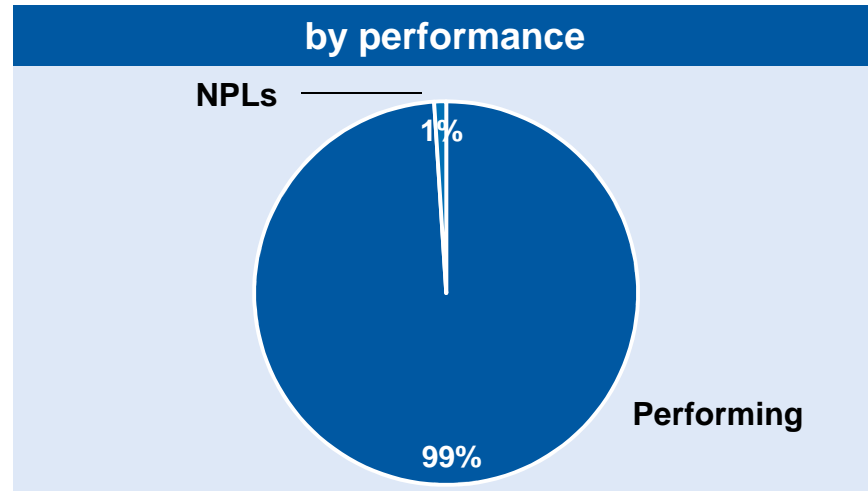
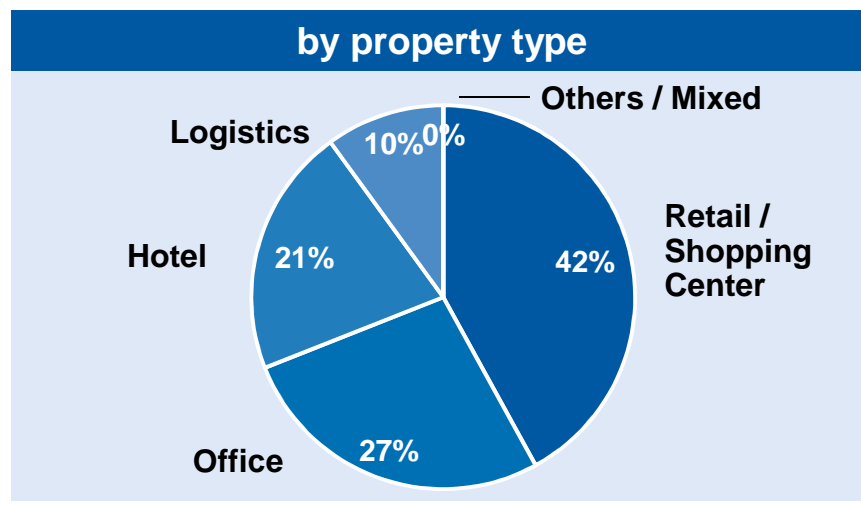
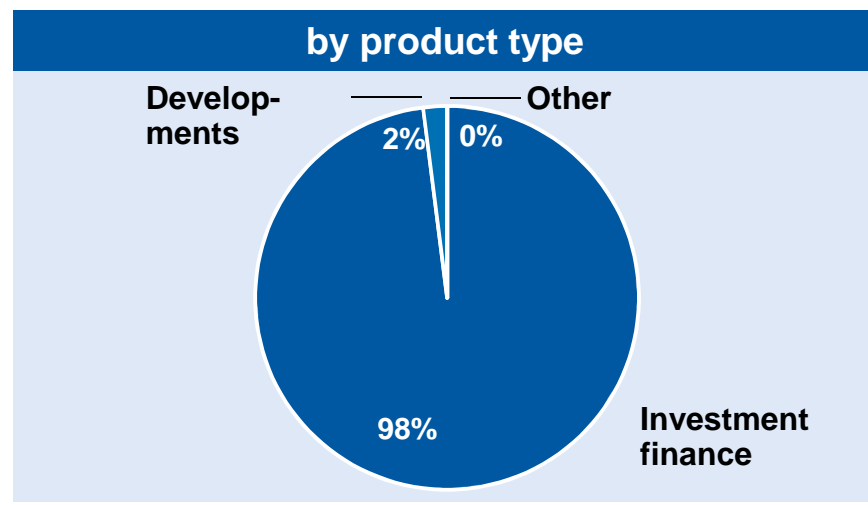


1) Performing business only, exposure as at 30.06.2014



Eastern Europe credit portfolio

Total volume outstanding as at 30.06.2014: € 2.6 bn



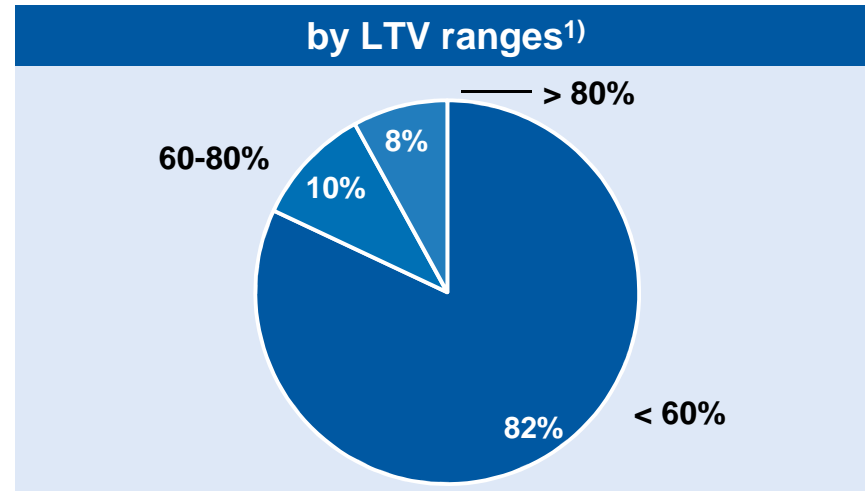
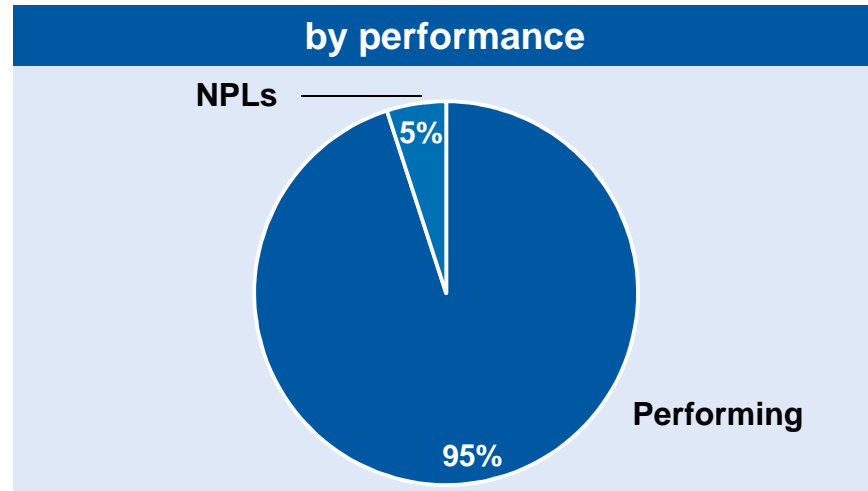
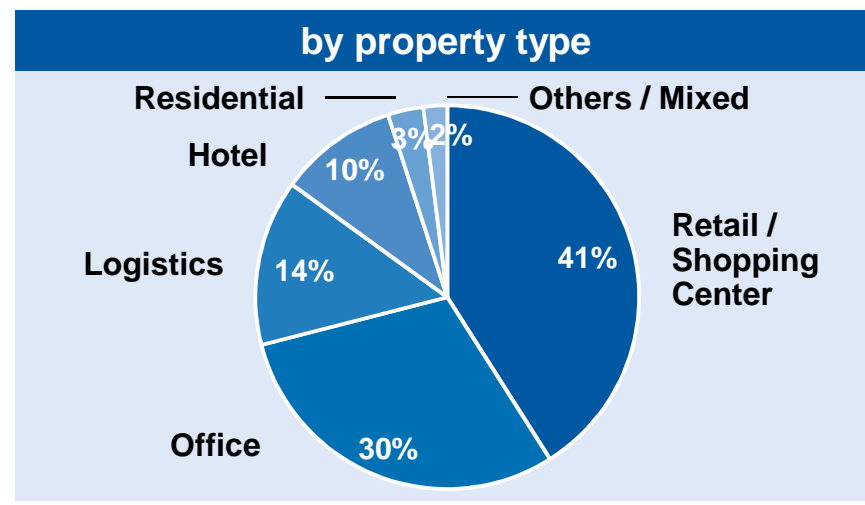
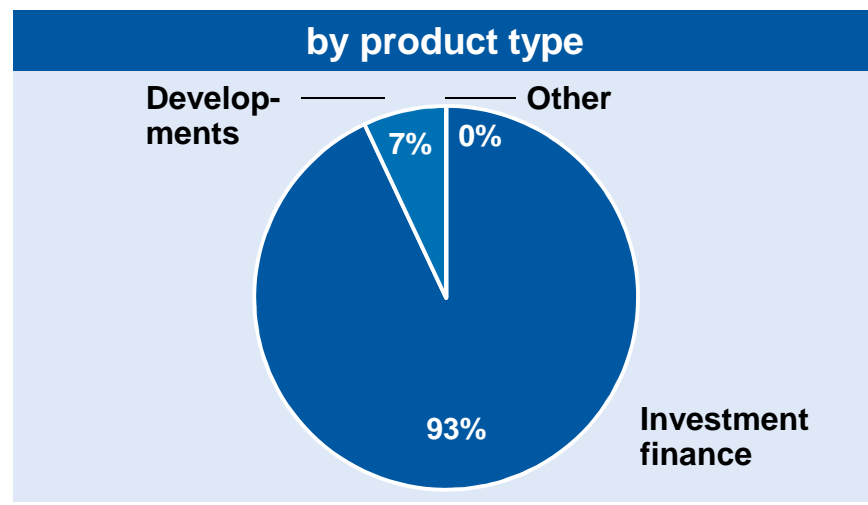
1) Performing business only, exposure as at 30.06.2014



Aareal Bank Group

Northern Europe credit portfolio

Total volume outstanding as at 30.06.2014: € 2.2 bn

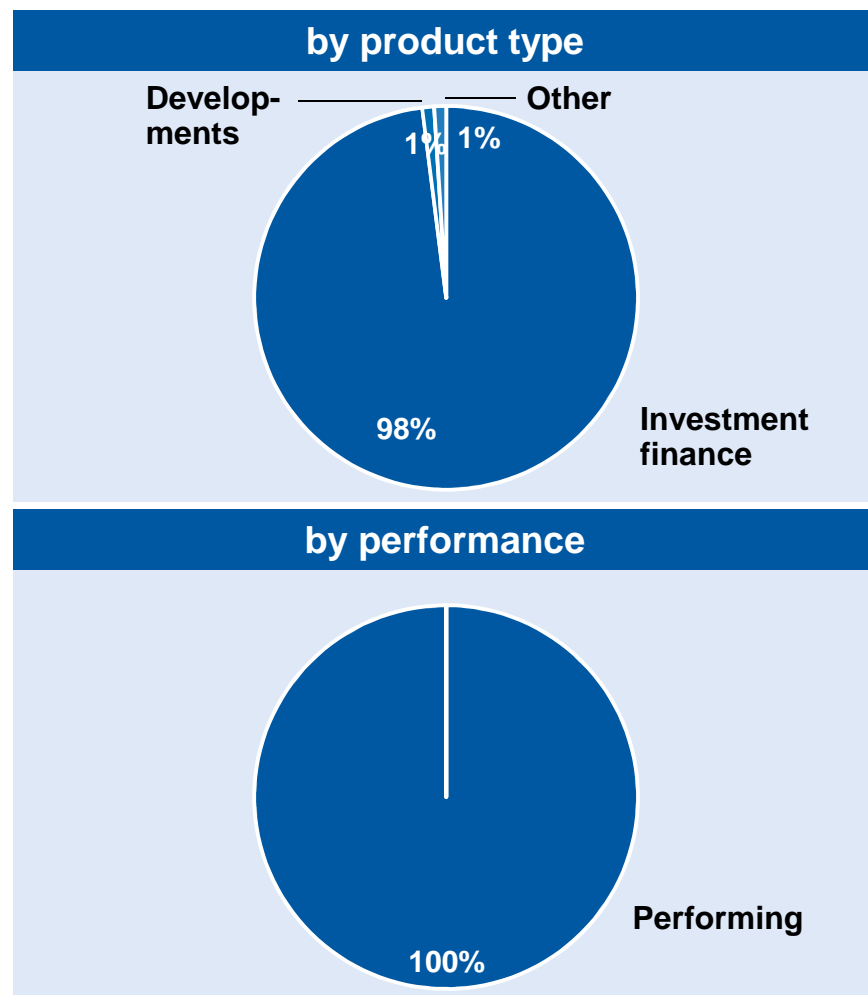


1) Performing business only, exposure as at 30.06.2014

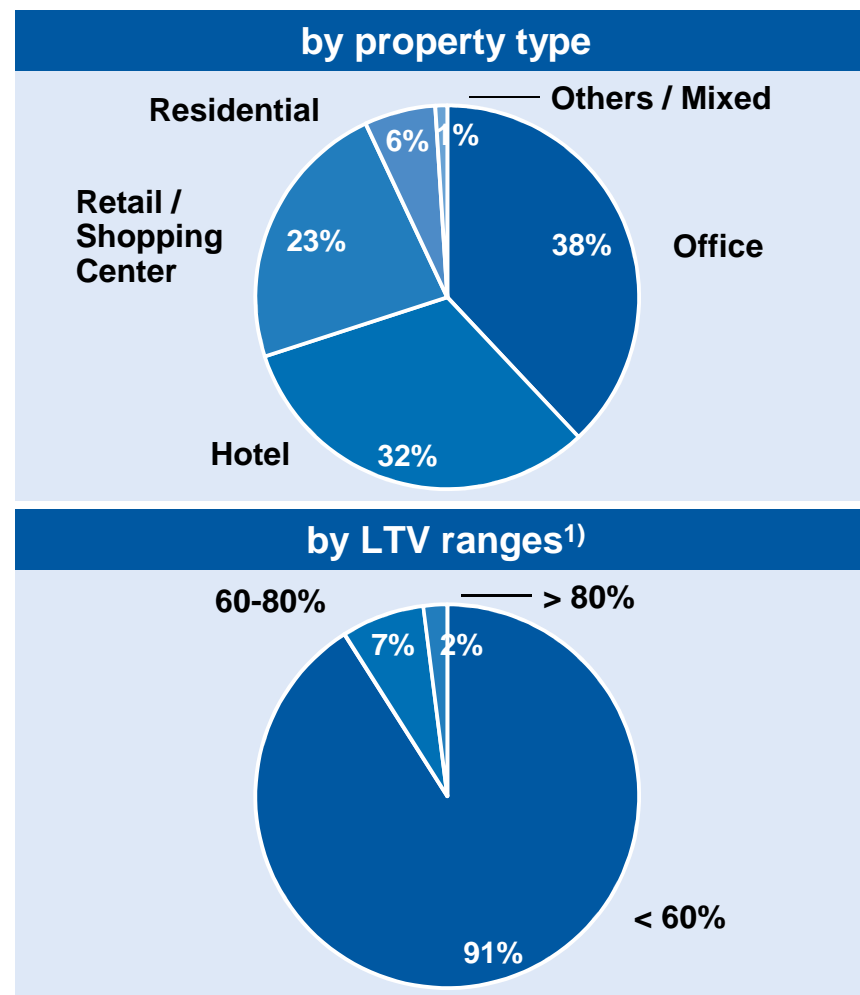


North America credit portfolio

Total volume outstanding as at 30.06.2014: € 4.0 bn



1) Performing business only, exposure as at 30.06.2014

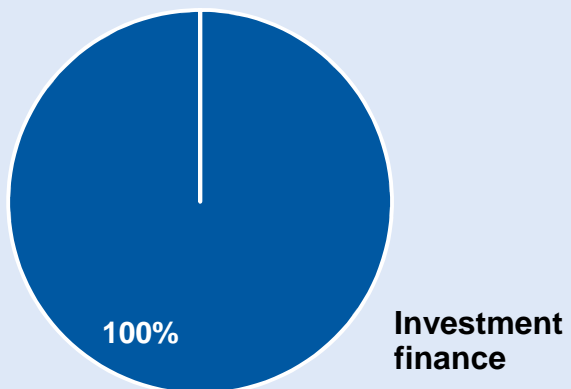


Aareal Bank Group

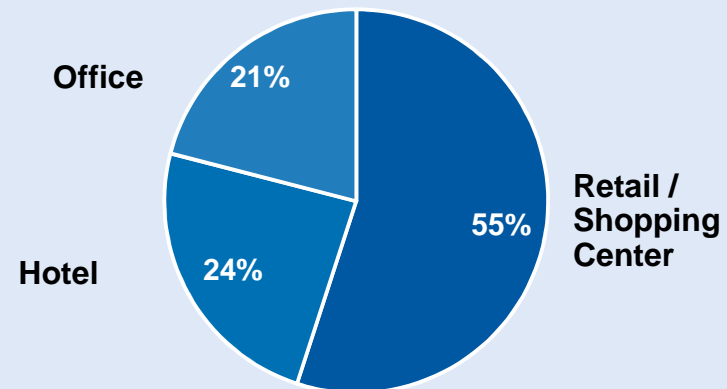
Asia credit portfolio

Total volume outstanding as at 30.06.2014: € 0.4 bn

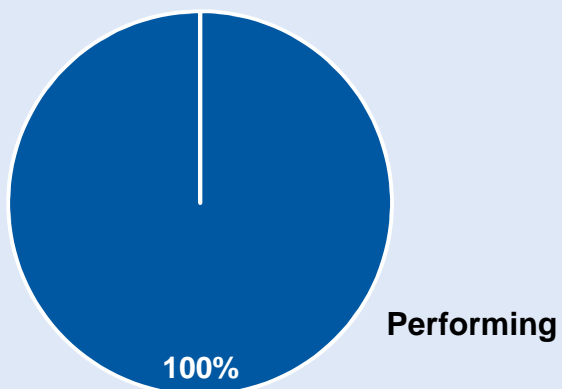
by product type



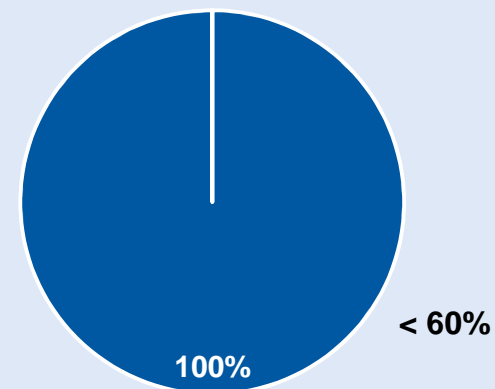
by property type



by performance



by LTV ranges¹⁾

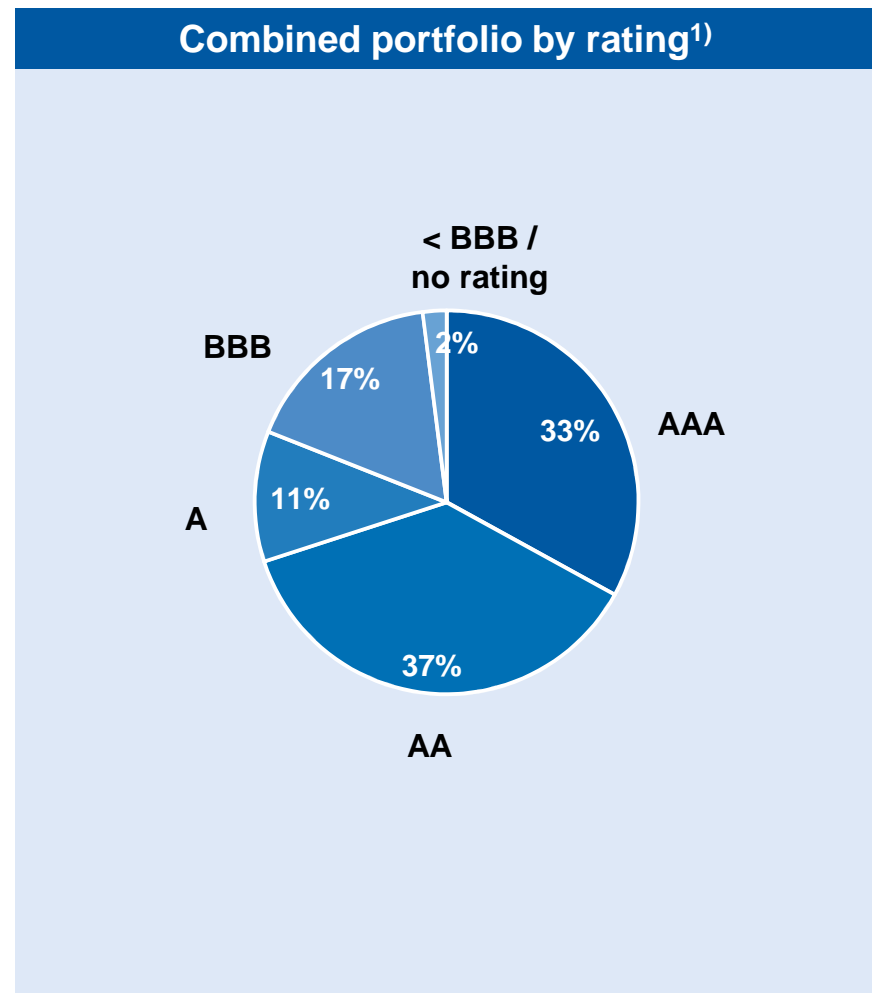
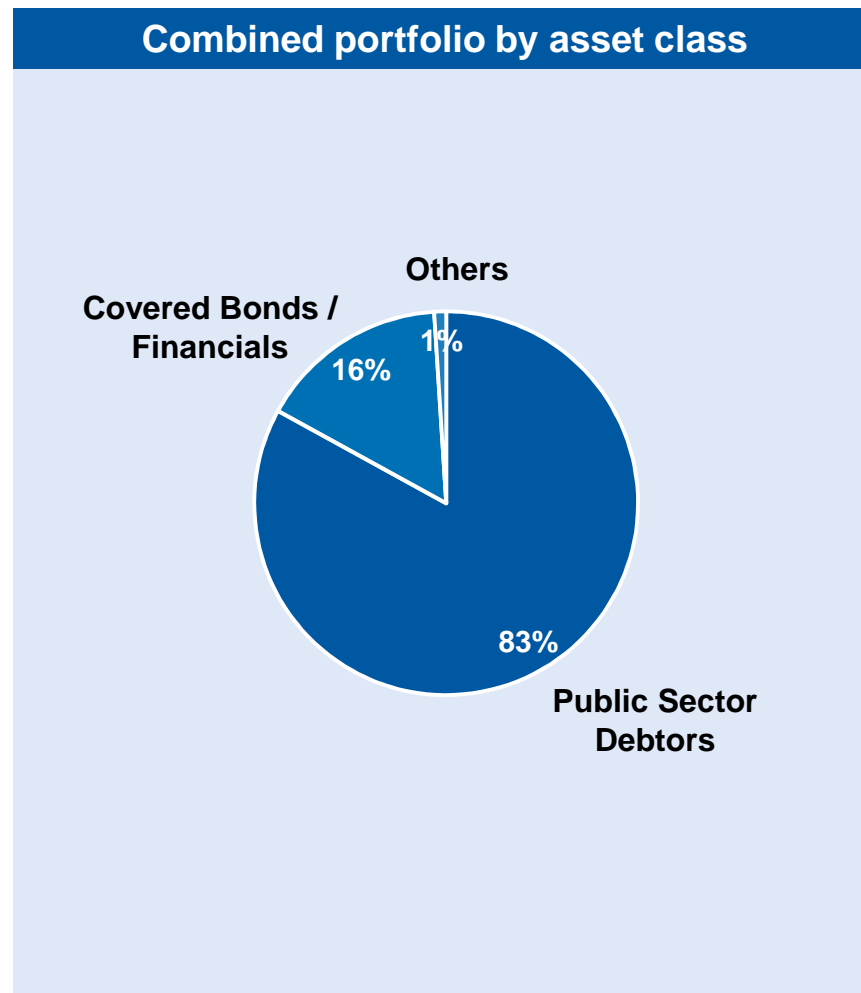


1) Performing business only, exposure as at 30.06.2014



Total treasury portfolio

€ 11.6 bn of high quality and highly liquid assets



As at 30.06.2014 – all figures are nominal amounts
1) Composite Rating



Outlook 2014



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Outlook 2014

Operating profit target raised

2014	
Net interest income	<ul style="list-style-type: none"> Upper end of given range (€ 610 mn - € 640 mn¹⁾) expected
Net loan loss provisions	<ul style="list-style-type: none"> € 100 mn - € 150 mn²⁾ - despite portfolio growth Upper half of given range expected due to adjustment to more conservative LIP factor 1
Net commission income	<ul style="list-style-type: none"> € 170 mn - € 180 mn
Admin expenses	<ul style="list-style-type: none"> € 430 mn - € 450 mn incl. one-offs related to acquisition of Corealcredit
Negative goodwill	<ul style="list-style-type: none"> ~ € 152 mn³⁾
Operating profit⁴⁾	<ul style="list-style-type: none"> Target raised: € 380 mn - € 400 mn (vs. € 370 mn - € 390 mn) Upper end of given range expected
Pre-tax RoE	<ul style="list-style-type: none"> ~ 9% excl. negative goodwill
New business origination	<ul style="list-style-type: none"> € 8 bn - € 9 bn Upper end of given range expected
Operating profit Aareon	<ul style="list-style-type: none"> ~ € 28 mn

- 1) Recognition of interest payments for AT1 in the course of H2 2014
- 2) As in 2013, the bank cannot rule out additional allowances for credit losses
- 3) Adjusted
- 4) Incl. negative goodwill of € 152 mn



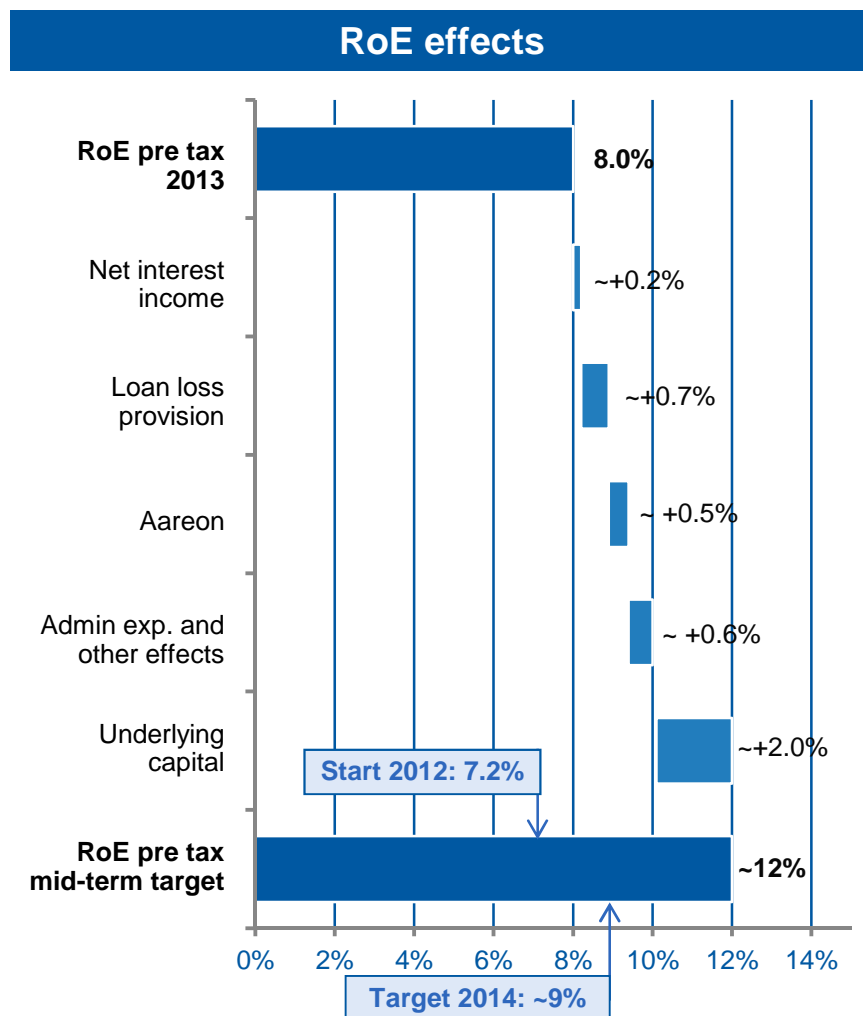
Midterm Outlook



**Aareal Bank
Group**

Aareal Bank's action plan

Key RoE drivers



Measures in Aareal's action plan

1. Optimisation funding structure / liquidity portfolio
2. Slight loan portfolio growth – but margin compression
2. Stable RWA & LTVs
Lower risk costs (but development in Southern Europe uncertain)
3. Increase in Aareon EBIT
4. Keep cost base under control, lower project and one-off costs – as well as other items
5. Optimisation of regulatory capital structure
Alignment or allocation of underlying capital (e.g. Coreal)



Aareal Bank's action plan

Measures

Aareal Bank's action plan

1. Funding strategy:

Improve deposit ratio and covered bond (CB) ratio further avoiding capital market dependency

2. CRE new business:

Focus on markets with LTV ratios of 60-70%, resulting in stable RWA and LtVs, higher CB-funding share, lower risk costs (but development in Southern Europe uncertain)
Strengthen client relationships by leveraging new business through stronger cooperation via club deals and syndication

3. Aareon:

Enhance profit contribution

4. Cost base:

Continue cost discipline, but temporarily effected by project costs etc.

5. Capital structure:

Optimise capital structure once regulatory guidelines are in place and markets are pricing instruments adequately



Aareal Bank's action plan

Measures in detail (1/2)

1

Funding strategy

- Increase deposits from the institutional housing industry from ~€ 6 bn in 2012 to > € 7 bn until 2015
- CB-funding share of new business will increase over time, limited to max. 50% cover pool / total assets ratio
- Senior unsecured wholesale funding / total assets ratio will temporarily go down further and will stay below 10% (31.12.2012: ~6%)

2

CRE new business

- Keep originating new business with max. 60%-70% LTV
- Target average new business with ~65% LTV and 200bps gross margin after FX costs
- Three continent approach, focus on markets with short-termed or low negative swings throughout the financial crisis and at least a stable midterm outlook resulting in low RWA consumption
- Long term run-down of portfolios with higher LTVs or negative outlook will result in a decreasing RWA / exposure ratio and will free up equity
- Strengthen client relationships by leveraging new business through stronger cooperation via club deals and syndication to produce a higher origination capacity for our clients



Aareal Bank's action plan

Measures plan in detail (2/2)

3

Aareon

- Close tracking of the transition from GES to Wodis Sigma as an in-house or cloud solution
- Ongoing investments in new or existing byproducts to keep and expand the product portfolio on latest technology level
- Explore further business opportunities
- Improve EBIT and EBIT margin

4

Cost base

- Challenges ahead through higher regulatory costs
- Keep the costs in balance, but temporarily effected by project costs etc.
- Target CIR for SPF segment close to 40% in 2015

5

Capital structure

- Optimise capital structure once technical regulatory guidelines, tax and legal treatment are in place and markets are pricing instruments adequately



Outlook 2014 & Midterm Outlook

Summary and Prerequisites

	2014	2015 / 2016
Tier 1 ratio IFRS & CRD IV fully phased	14.0 - 15.0% (as reported, incl. mgmt. buffer)	Long term target: >12.25% (before mgmt. buffer)
CIR	~40% (SPF)	~40% (SPF)
EBIT margin	~16% (Aareon)	>17.5% (Aareon)
Pre-tax ROE	~9%	~12%
Cost of equity (net)	9 - 10 %	↘

Prerequisites

- No Eurozone break up
- Normalised asset valuations
- Healthy world GDP growth beside some European peripherals
- Regulation will be introduced according to today's timeline and framework
- Regulatory environment more predictable, but still possible challenges, e.g. additional capital requirements
- No additional burdens
- Due to little inflation pressure, we expect ECB to keep key interest rates low and to start alternative measures - therefore short-term Euro interest rates will likely stay low as well



Appendix



**Aareal Bank
Group**

Aareal Bank Group

Key figures Q2 2014

	01.04.- 30.06.2014	01.04.- 30.06.2013	Change
	€ mn	€ mn	
Profit and loss account			
Net interest income	169	126	34%
Allowance for credit losses	32	28	14%
Net interest income after allowance for credit losses	137	98	40%
Net commission income	39	39	0%
Net result on hedge accounting	1	0	-
Net trading income / expenses	2	5	-60%
Results from non-trading assets	0	-5	-
Results from companies accounted for at equity			-
Administrative expenses	114	90	27%
Net other operating income / expenses	0	-2	-
Negative goodwill			-
Operating Profit	65	45	44%
Income taxes	21	14	50%
Net income / loss	44	31	42%
Allocation of results			
Net income / loss attributable to non-controlling interests	5	5	-
Net income / loss attributable to shareholders of Aareal Bank AG	39	26	50%
Appropriation of profits			
Silent partnership contribution by SoFFin	5	5	0%
Consolidated retained profit / accumulated loss	34	21	62%



Aareal Bank Group

Key figures Q2 2014 by operating units

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.04.- 30.06. 2014	01.04.- 30.06. 2013	01.04.- 30.06. 2014	01.04.- 30.06. 2013	01.04.- 30.06. 2014	01.04.- 30.06. 2013	01.04.- 30.06. 2014	01.04.- 30.06. 2013
	€ mn							
Net interest income	168	124	0	0	1	2	169	126
Allowance for credit losses	32	28					32	28
Net interest income after allowance for credit losses	136	96	0	0	1	2	137	98
Net commission income	1	3	40	39	-2	-3	39	39
Net result on hedge accounting	1	0					1	0
Net trading income / expenses	2	5					2	5
Results from non-trading assets	0	-5					0	-5
Results from companies accounted for at equity								
Administrative expenses	68	47	47	44	-1	-1	114	90
Net other operating income / expenses	-1	-2	1	0	0	0	0	-2
Negative goodwill								
Operating profit	71	50	-6	-5	0	0	65	45
Income taxes	23	15	-2	-1			21	14
Net income / loss	48	35	-4	-4	0	0	44	31
Allocation of results								
Net income / loss attributable to non-controlling interests	4	5	1	0			5	5
Net income / loss attributable to shareholders of Aareal Bank AG	44	30	-5	-4	0	0	39	26



Aareal Bank Group

Key figures H1 2014

	01.01.- 30.06.2014	01.01.- 30.06.2013	Change
	€ mn	€ mn	
Profit and loss account			
Net interest income	313	247	27%
Allowance for credit losses	69	45	53%
Net interest income after allowance for credit losses	244	202	21%
Net commission income	79	77	3%
Net result on hedge accounting	3	-3	-
Net trading income / expenses	4	11	-64%
Results from non-trading assets	0	-6	-
Results from companies accounted for at equity			-
Administrative expenses	216	182	19%
Net other operating income / expenses	16	-7	-
Negative goodwill	152		-
Operating Profit	282	92	207%
Income taxes	41	29	41%
Net income / loss	241	63	283%
Allocation of results			
Net income / loss attributable to non-controlling interests	10	10	-
Net income / loss attributable to shareholders of Aareal Bank AG	231	53	336%
Appropriation of profits			
Silent partnership contribution by SoFFin	10	10	0%
Consolidated retained profit / accumulated loss	221	43	414%



Aareal Bank Group

Key figures H1 2014 by operating units

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.01.-	01.01.-	01.01.-	01.01.-	01.01.-	01.01.-	01.01.-	01.01.-
	30.06.	30.06.	30.06.	30.06.	30.06.	30.06.	30.06.	30.06.
	2014	2013	2014	2013	2014	2013	2014	2013
€ mn								
Net interest income	311	242	0	0	2	5	313	247
Allowance for credit losses	69	45					69	45
Net interest income after allowance for credit losses	242	197	0	0	2	5	244	202
Net commission income	2	5	80	78	-3	-6	79	77
Net result on hedge accounting	3	-3					3	-3
Net trading income / expenses	4	11					4	11
Results from non-trading assets	0	-6					0	-6
Results from companies accounted for at equity								
Administrative expenses	124	97	93	86	-1	-1	216	182
Net other operating income / expenses	15	-6	1	-1	0	0	16	-7
Negative goodwill	152						152	
Operating profit	294	101	-12	-9	0	0	282	92
Income taxes	45	31	-4	-2			41	29
Net income / loss	249	70	-8	-7	0	0	241	63
Allocation of results								
Net income / loss attributable to non-controlling interests	8	9	2	1			10	10
Net income / loss attributable to shareholders of Aareal Bank AG	241	61	-10	-8	0	0	231	53



Aareal Bank Group

Key figures – quarter by quarter

	Structured Property Financing					Consulting / Services					Consolidation / Reconciliation					Aareal Bank Group				
	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013
Euro mn																				
Net interest income	168	143	146	131	124	0	0	0	0	0	1	1	1	2	2	169	144	147	133	126
Allowance for credit losses	32	37	39	29	28											32	37	39	29	28
Net interest income after allowance for credit losses	136	106	107	102	96	0	0	0	0	0	1	1	1	2	2	137	107	108	104	98
Net commission income	1	1	3	2	3	40	40	47	40	39	-2	-1	-2	-2	-3	39	40	48	40	39
Net result on hedge accounting	1	2	-3	0	0											1	2	-3	0	0
Net trading income / expenses	2	2	4	3	5											2	2	4	3	5
Results from non-trading assets	0	0	0	-2	-5											0	0	0	-2	-5
Results from companies accounted for at equity								0										0		
Administrative expenses	68	56	54	50	47	47	46	47	44	44	-1	0	-2	0	-1	114	102	99	94	90
Net other operating income / expenses	-1	16	-1	-3	-2	1	0	2	0	0	0	0	-1	0	0	0	16	0	-3	-2
Negative goodwill		152 ¹⁾															152 ¹⁾			
Operating profit	71	223¹⁾	56	52	50	-6	-6	2	-4	-5	0	0	0	0	0	65	217¹⁾	58	48	45
Income taxes	23	22	18	16	15	-2	-2	0	-1	-1						21	20	18	15	14
Net income / loss	48	201¹⁾	38	36	35	-4	-4	2	-3	-4	0	0	0	0	0	44	197¹⁾	40	33	31
Allocation of results																				
Net income / loss attributable to non-controlling interests	4	4	3	4	5	1	1	1	1	0						5	5	4	5	5
Net income / loss attributable to shareholders of Aareal Bank AG	44	197 ¹⁾	35	32	30	-5	-5	1	-4	-4	0	0	0	0	0	39	192 ¹⁾	36	28	26

1) Adjusted



Strategic rationale for acquisition of Corealcredit¹⁾

Value enhancing transaction in line with current strategy

-  The transaction represents an attractive opportunity for Aareal Bank Group to pursue inorganic growth as it is creating shareholder value and EpS accretive from day one
-  Aareal Bank Group acquires Coreal, which has been successfully realigned and refocused on its core business by its previous owner, in a favourable market environment at a conservative price
-  Coreal is a well digestible addition to Aareal Bank Group. Legacy risks have been conservatively evaluated and comprehensively ring-fenced
-  Our mid-term targets and our goal to resume an active dividend policy remain unchanged
-  With the acquisition of Coreal, Aareal Bank Group further strengthens its position as a leading commercial real estate lender
-  The acquisition of Coreal from existing excess capital demonstrates the strength and strategic capacity of Aareal Bank Group

1) As published December 2013



Acquisition of Corealcredit¹⁾

Impact on P&L, B/S, Capital ratios, EpS, and RoE



P&L and balance sheet:

- Initial consolidation at 31.03.2014: all balance sheet items are inclusive of Corealcredit
- The negative goodwill (gain from initial consolidation) reflected in Q1 P&L
- Operating results of Corealcredit will be included in Q2 P&L and onwards



Capital ratios:

- All cash transaction: RWA increase on group level compensated via negative goodwill and allocation of excess capital
- Target range of Tier 1 (11.5-12%)²⁾ before mgmt. buffer and total capital (19%-20%)²⁾ unaffected
- Bail in capital ratio expected above target (> 8%)



EpS:

- Transaction is EpS accretive from day one
- Present value of cumulative EPS for the next three years > € 3³⁾
- Capital currently absorbed by acquired RWA to free up until 2016 for alternative utilisation (allocation or alignment)



RoE:

- Transaction in line with mid-term RoE target: midterm pre-tax RoE target confirmed at ~12%

1) As published December 2013

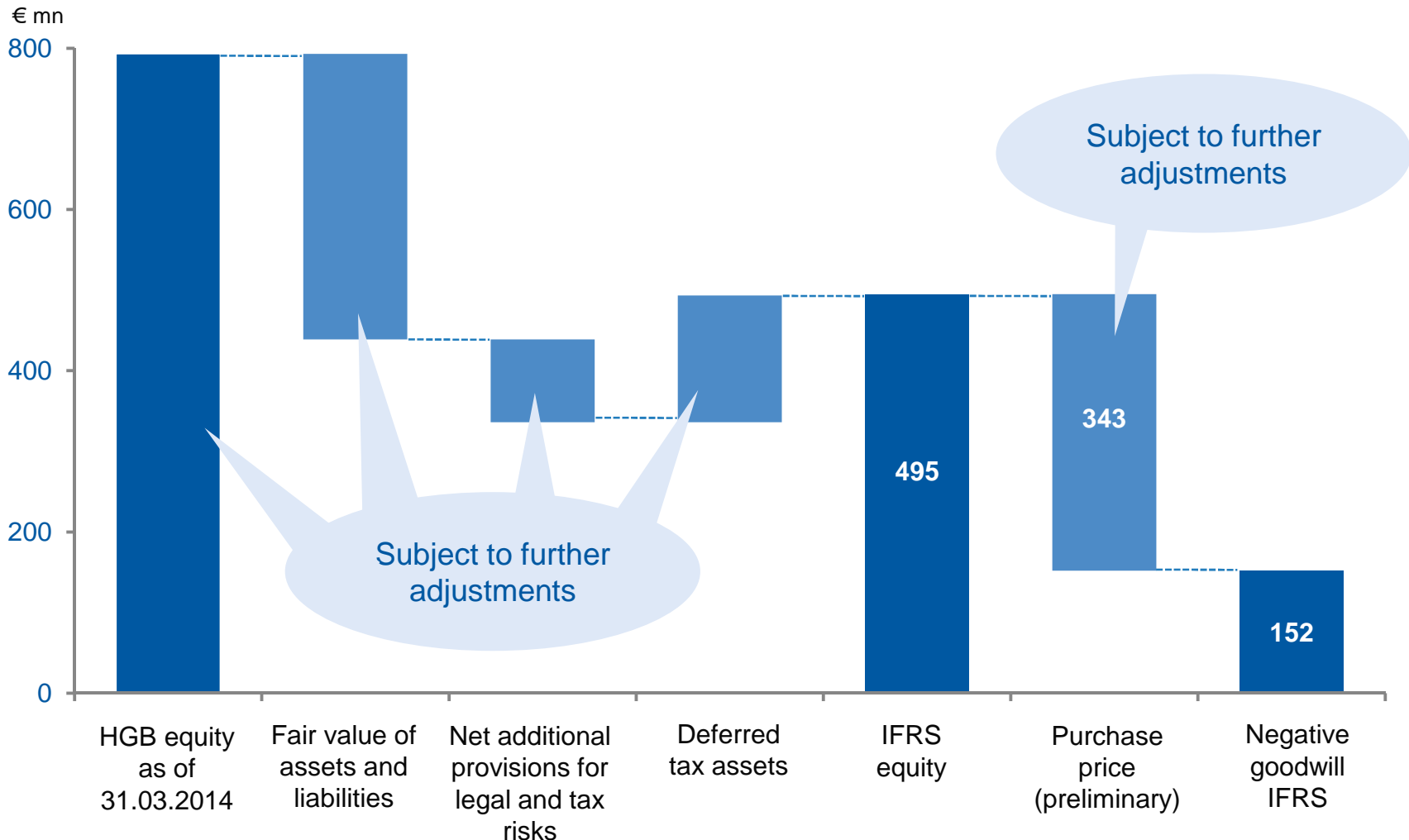
2) Fully phased incl. IFRS and CRD IV

3) Negative goodwill and additional net income until 2016 including ppa amortisation



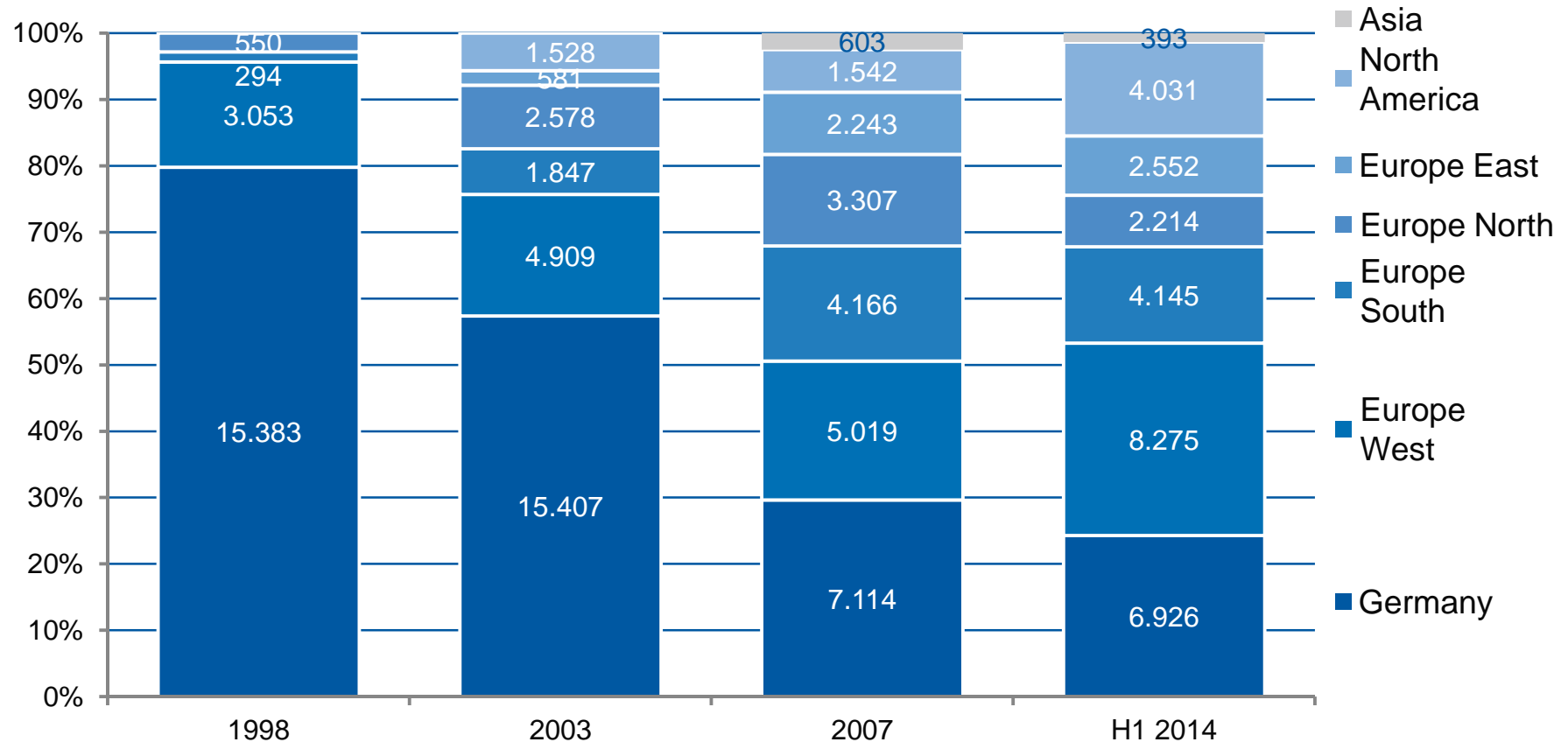
Corealcredit purchase price determination

Closing date 31.03.2014



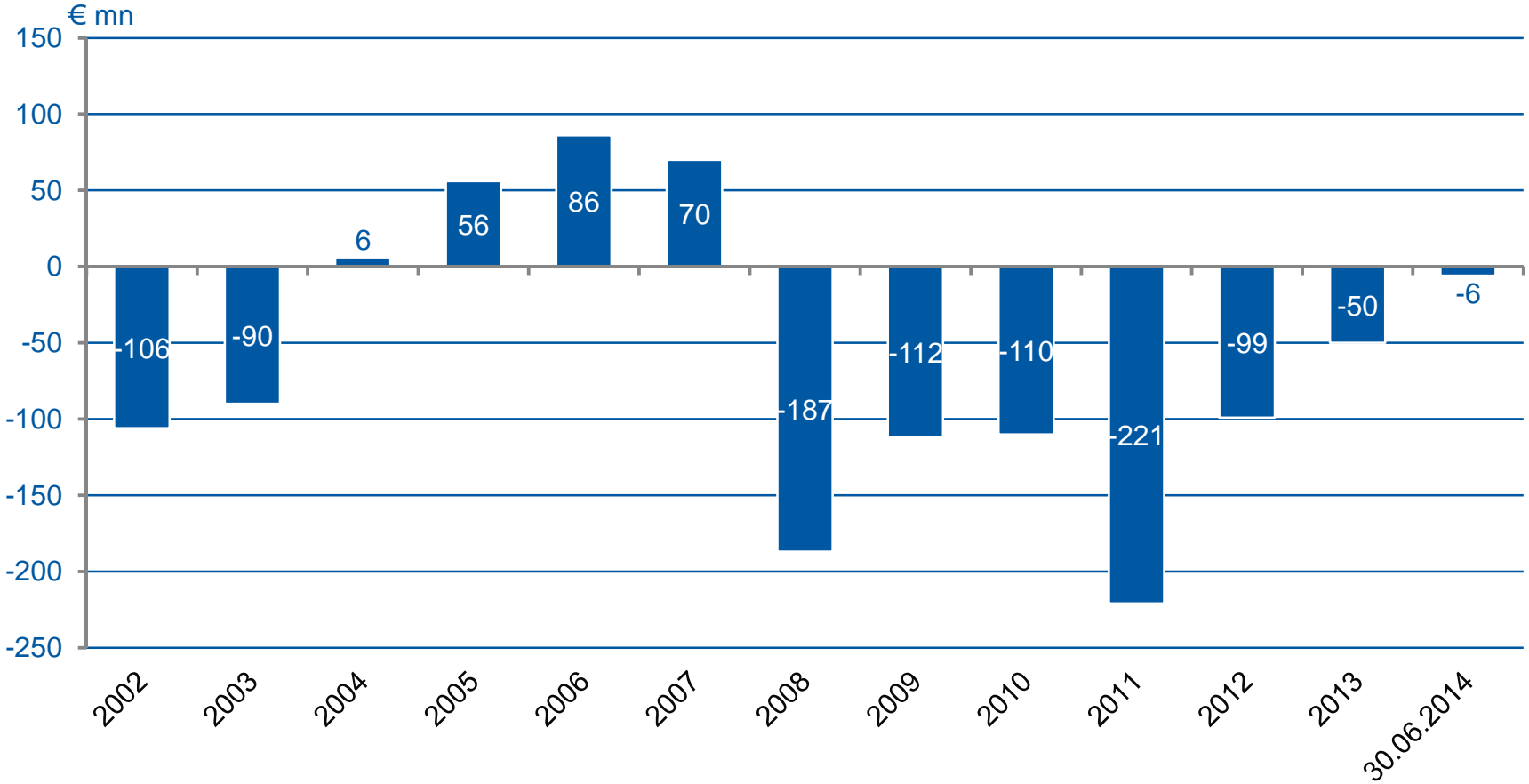
Development property finance portfolio

Diversification continuously strengthened (in € mn)



Revaluation surplus

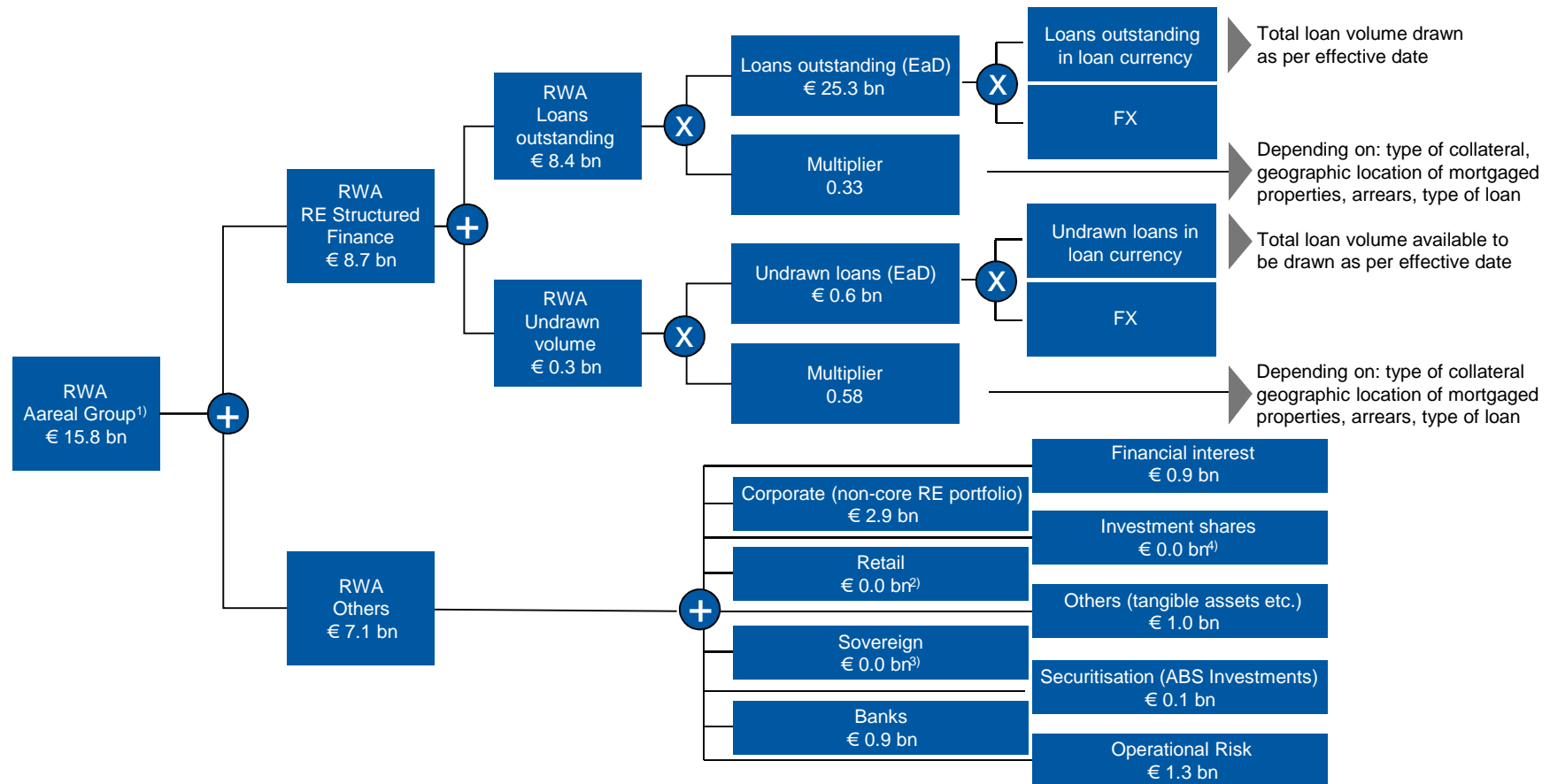
Change mainly driven by asset spreads



From asset to risk weighted asset (RWA)

Essential factors affecting volume of RWA

Effective date 30/06/2014



- 1) Excl. market risk
- 2) Exposure to Retail amounts to € 22 mn
- 3) Exposure to Sovereigns amounts to € 15 mn
- 4) Exposure to investment shares amounts to € 17 mn



Definitions and contacts



**Aareal Bank
Group**

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

- **Core Tier I Ratio** =
$$\frac{\text{Tier 1 capital ./. hybrids ./. SoFFin silent participation}}{\text{Risk weighted assets}}$$

- **Pre tax RoE** =
$$\frac{\text{Operating profit ./. Net income/loss attributable to non-controlling interests}}{\text{Allocated (average) equity}}$$

- **Allocated Equity**
Average of:
 - Equity (excluding minorities and revaluation surplus but including silent participation by SoFFin) start of period less dividends and
 - Equity (excluding minorities and revaluation surplus but including silent participation by SoFFin) end of period less expected 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** =
$$\frac{\text{Equity + subordinated capital}}{(\text{Long + short term funding}) - (\text{Equity + subordinated capital})}$$



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