LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

Analyst Conference Call
Q3 2014 results

November 11, 2014
Dr. Wolf Schumacher, CEO – Hermann J. Merkens, CFO

Aareal Bank Group

Highlights Q3 2014

Aareal Bank successfully on track

Highlights

- Q3 Group Operating Profit further improved to € 66 mn
  main driver: significant increase of Net Interest Income to € 181 mn
  - FY 2014 guidance increased after strong Q3
  - If strong business trend materialises further:
    Range for Group Operating Profit of € 420 – 430 mn achievable
    - ⇨ translates in € 72 mn - € 82 mn Q4 EBT
- New business target increased to approx. € 10 bn
- ECB reviews confirmed Aareal Bank's capital and financial strength
- Aareal Bank repaid SoFFin silent participation in full

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Agenda

- Environment Q3 2014
- Q3 2014 results at a glance
- Segment performance
- B/S structure, capital & funding position
- Group figures Q3 2014
- Asset quality
- Outlook 2014

- Appendix
- Definitions and Contacts

Environment Q3 2014

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Environment Q3 2014

General environment

- In Q3 capital markets - especially in Europe - turned more cloudy
- Existing geo-political risks are not yet fully reflected in the markets
- Ongoing quantitative easing: very low short-term / negative interest rates expected to challenge further – fighting deflation but risking asset bubbles. Growing downside potential therefore
- The slight world economic recovery continued in Q3 but slowed down 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 resulting from RWA-floors, TLAC[1], etc.)
- Published AQR and stress test results brought more transparency to the European banking sector

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 moderately increasing property values and stable to slightly increasing 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

1) Total Loss Absorbing Capacity

Q3 2014 results at a glance

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Q3 2014 results at a glance

Positive development continued

€ mn	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Comments
Net interest income	181	169	144	147	133	Strong NII development due to ▪ Portfolio growth: € 5.7bn since Q3'13 thereof Corealcredit € 3 bn ▪ Early repayment effects[1] (in € mn): Q3: 13 / Q2: 8 / Q1: 4 / Q4: 10 ▪ Lower funding costs / ALM measures
Net loan loss provisions	36	32	37	39	29	▪ Q3-LLP in line with guidance ▪ Q1-LLP of € 37 mn due to adjustment to more conservative LIP factor 1: ▫ € 6 mn specific allowances ▫ € 31 mn portfolio allowances,
Net commission income	37	39	40	48	40	▪ Q4 with regular seasonal effects
Admin expenses	109	114	102	99	94	▪ Burdened by regulatory projects and one-off integration costs of Corealcredit
Negative goodwill			152[2]			▪ Gain from initial consolidation
Operating profit	66	65	217[2]	58	48	▪ Positive development continued

1) Additional effects exceeding originally planned repayments
2) Adjusted

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Segment performance

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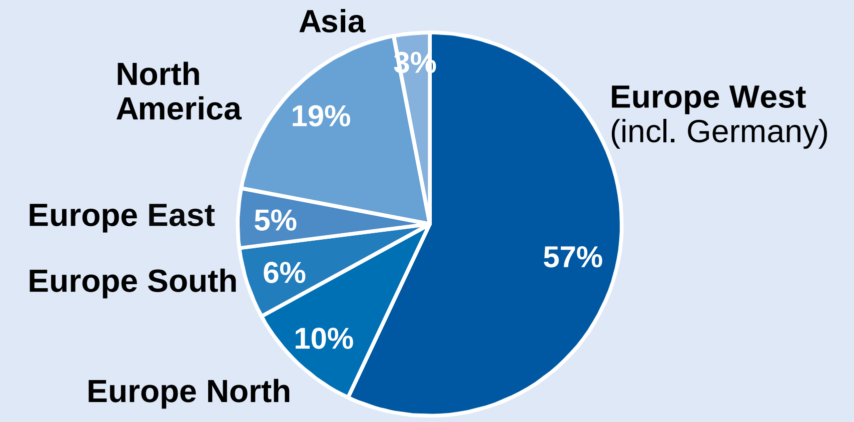
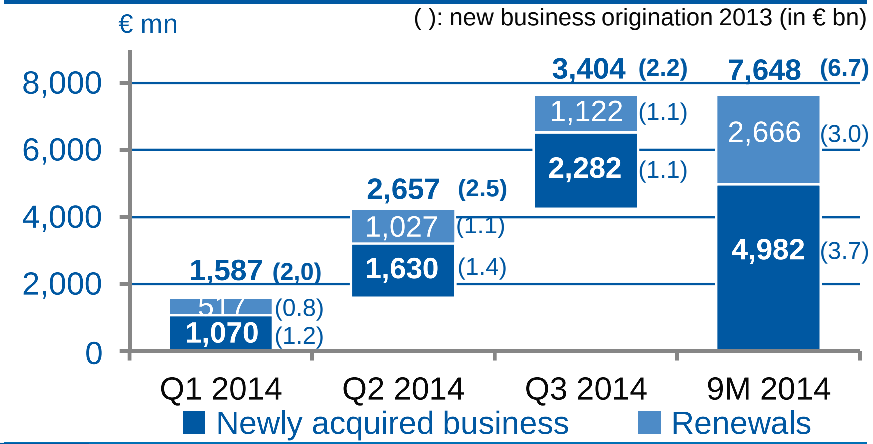
Structured property financing
Outperforming new business guidance

New business by region 9M 2014[1]



New business origination



P&L SPF Segment	**Q3 '14**	**Q2 '14**	**Q1 '14**	**Q4 '13**	**Q3 '13**
€ mn					
Net interest income	182	168	143	146	131
Loan loss provision	36	32	37	39	29
Net commission income	1	1	1	3	2
Net result from trading / non-trading / hedge acc.	-5	3	4	1	1
Admin expenses	64	68	56	54	50
Others	*-4*	*-1*	*16*	*-1*	*-3*
Negative goodwill			152[2)]		
Operating profit	**74**	**71**	**223[2)]**	**56**	**52**

- New business origination reflects higher transaction volume in our markets
- Renewal volume contractually driven
- NII includes effects from early repayments[3)]: Q3: € 13 mn (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

1) Incl. renewals
2) Adjusted
3) Additional effects exceeding originally planned repayments

Consulting / Services

Solid in IT & volumes – weak in deposit margins

P&L C/S Segment	Q3 '14	Q2 '14	Q1 '14	Q4 '13	Q3 '13
€ mn					
Sales revenue	42	45	46	53	46
Own work capitalised	2	1	1	1	1
Changes in inventory	0	0	0	0	0
Other operating income	2	2	1	4	1
Cost of material purchased	6	5	6	6	6
Staff expenses	32	32	32	34	30
D, A, impairment losses	4	3	4	3	4
Results at equity acc. investm.	-	-	-	0	-
Other operating expenses	12	14	12	13	12
Results from interest and similar	0	0	0	0	0
Operating profit	**-8**	**-6**	**-6**	**2**	**-4**

- Unchanged low interest rate environment continues to burden segment results
- Deposit volume of the housing industry has increased to
  - € 8.7 bn Ø in Q3 2014
  - € 8.5 bn Ø in Q2 2014
- The strategic importance of the housing industry deposits as an additional source of funding exceeds the importance of the margins reflected in the segment performance

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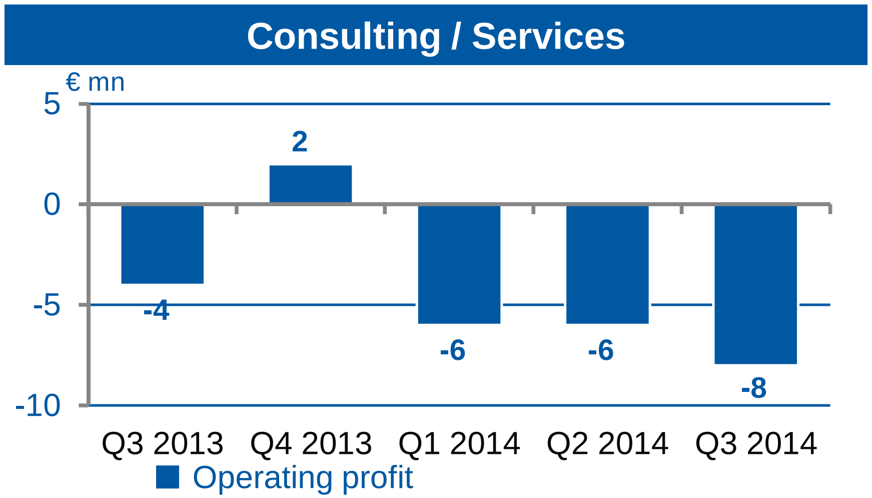
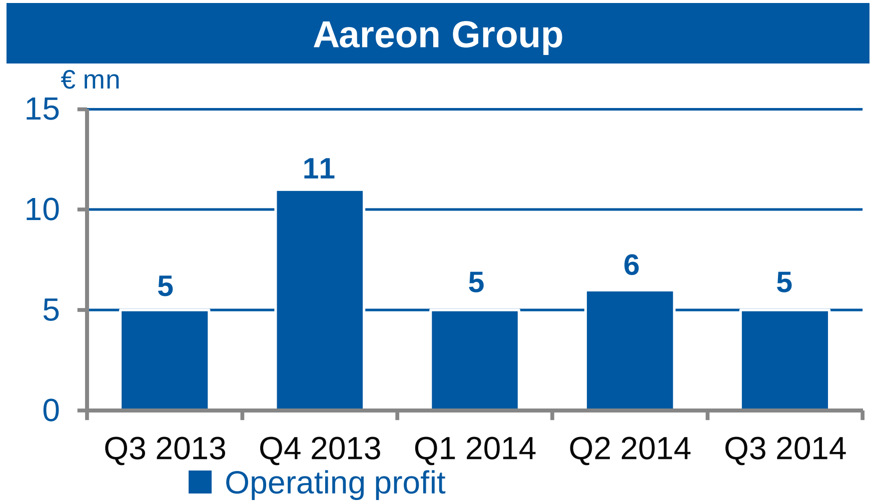
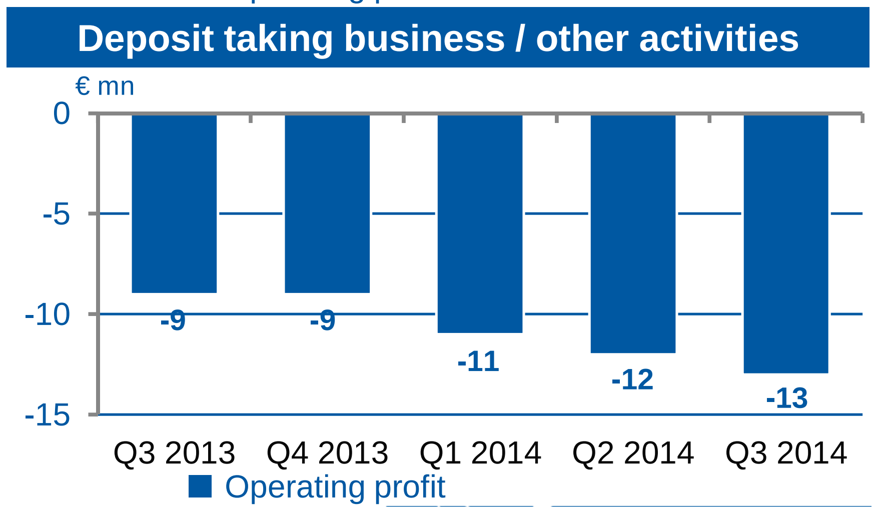
Consulting / Services
Deposit taking business burdens segment performance







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B/S structure, capital & funding position

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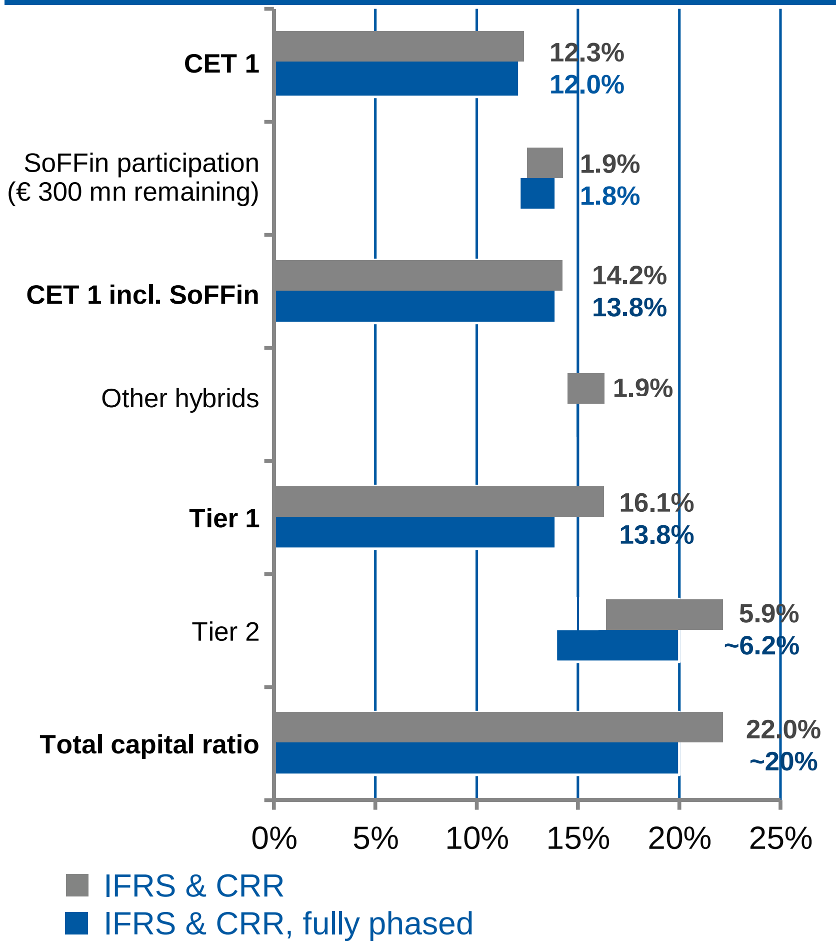
Strong capital ratios & stable capital structure
(IFRS, CRR as at 30.09.2014)

Capital ratios (as at 30.09.2014)



- 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
- Remaining SoFFin silent participation fully repaid without capital increase
- AT 1 to be raised depending on market conditions
- Leverage ratio as at 30.09.2014
  - 3.9% (CET 1 excl. SoFFin)
  - 4.4% (CET 1 incl. SoFFin)

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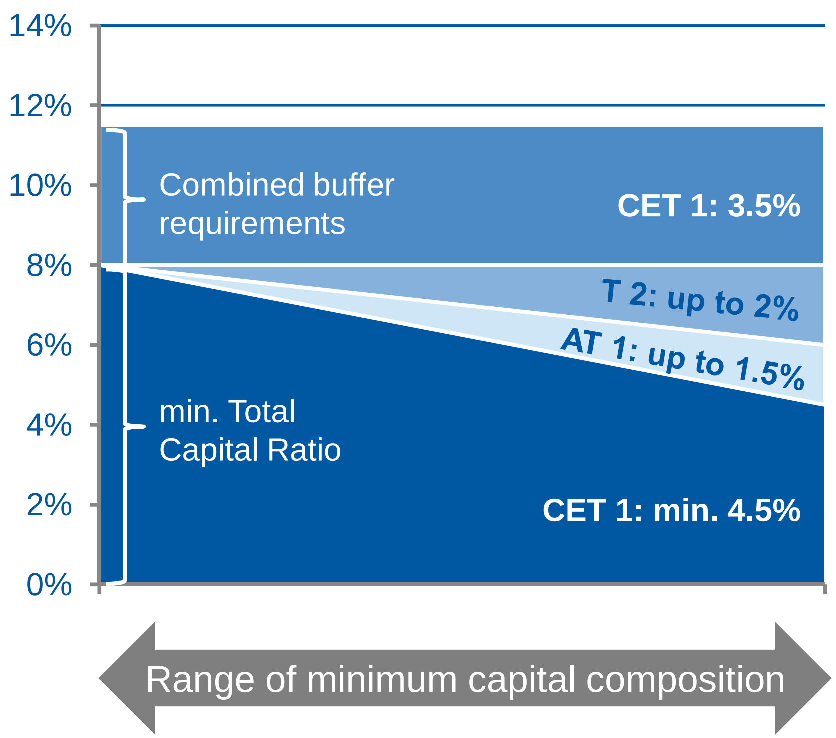
Regulatory requirements of future capital structure
Possible CRR capital composition

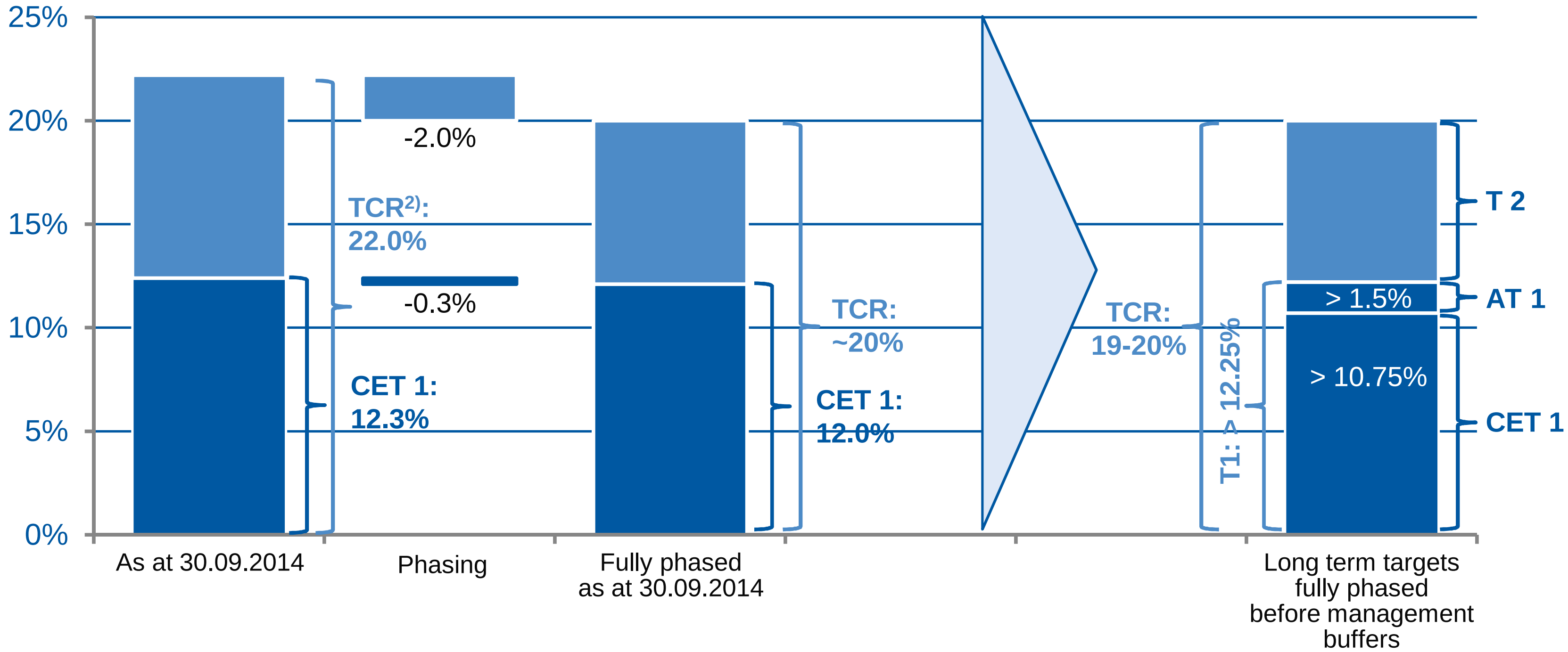


- According CRR minimum TCR of 8% (as from 2019):
  - min. 4.5% CET1
  - up to 1.5% AT1
  - up to 2.0% T2
- Additional combined CET1 buffer[1)]:
  - 2.5% capital conservation buffer
  - 1.0% other estimated buffers
- Restrictions:
  Upon breach of 11.5% (TCR incl. buffer) restrictions will be placed 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 targeted depending on market conditions

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 buffer
=> We assume that a 1% O-SII risk buffer will apply to Aareal

Expected development of capital ratios[1)]

IFRS & CRR as at 30.09.2014



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

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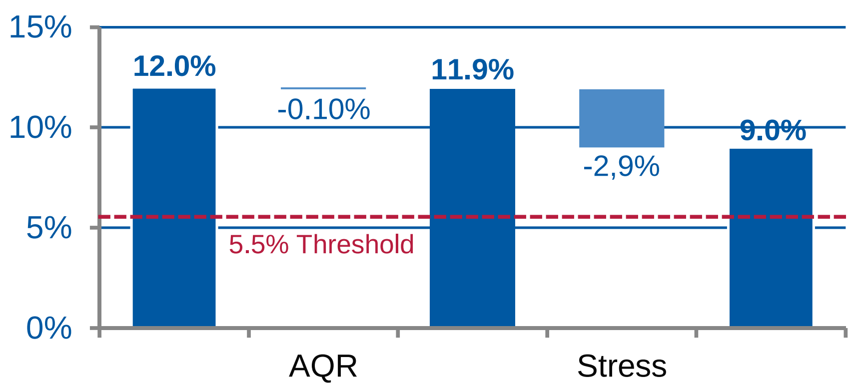
Stress Test
Results of simulation

CET1 simulation as at 30.09.2014



Assumptions

- Pro forma fully phased figures as at 30.09.2014
- Excluding SoFFin
- Including Corealcredit portfolio

We tried to replicate the ECB test with our Corealcredit portfolio to the best of our knowledge but we can not rule out that the stress test results would vary if the Corealcredit portfolio would have been part of the original stress test.

Based on current capital structure

Aareal Bank's CET1 above the respective threshold and the envisaged trigger for a potential AT1 issue

Even after

- Repayment of the SoFFin capital of € 300 mn
- Under Basel III fully phased
- Dividend payments

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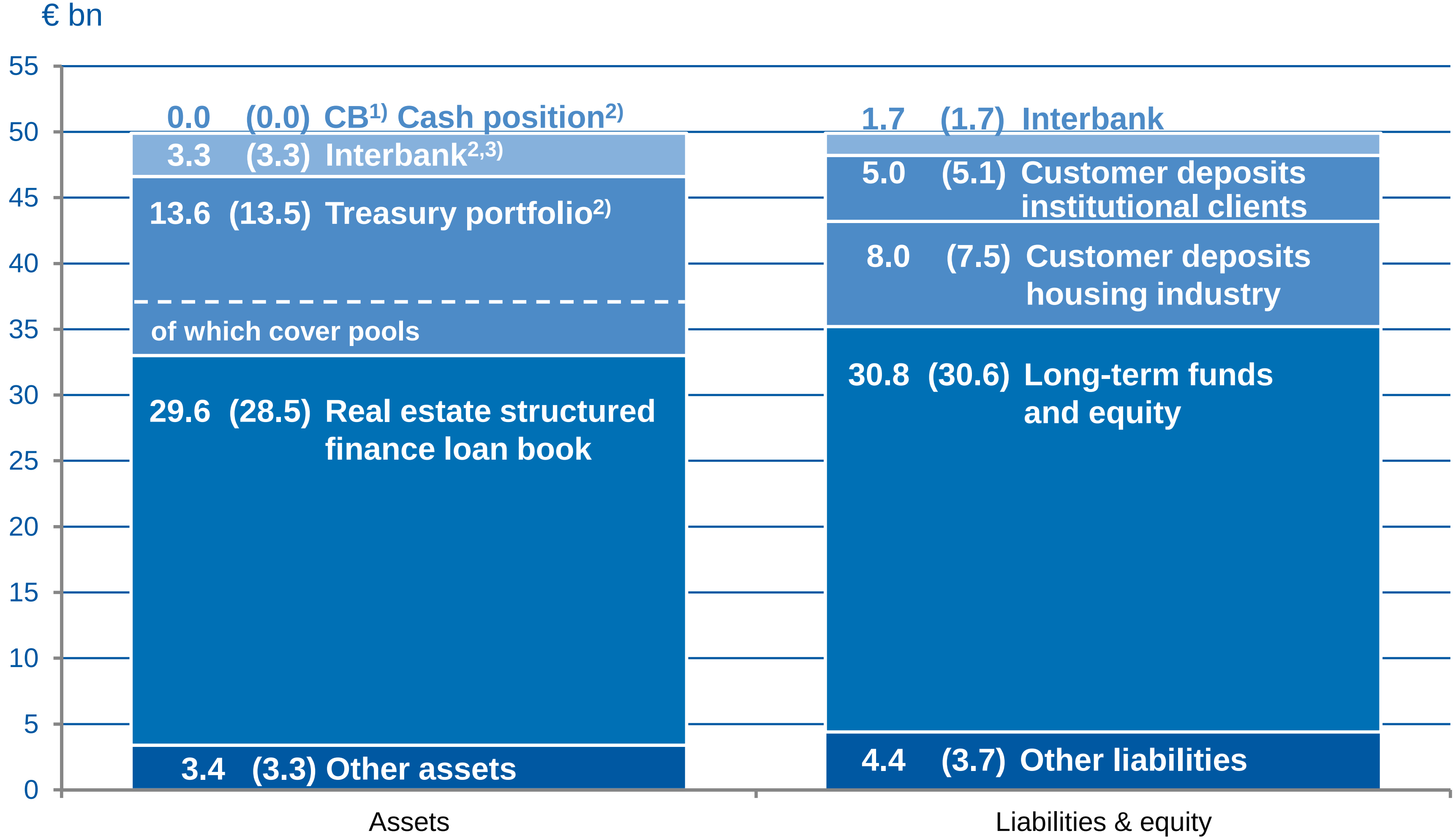
Asset- / Liability structure according to IFRS

As at 30.09.2014: € 49.9 bn (30.06.2014: € 48.6 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 € 1.6 bn

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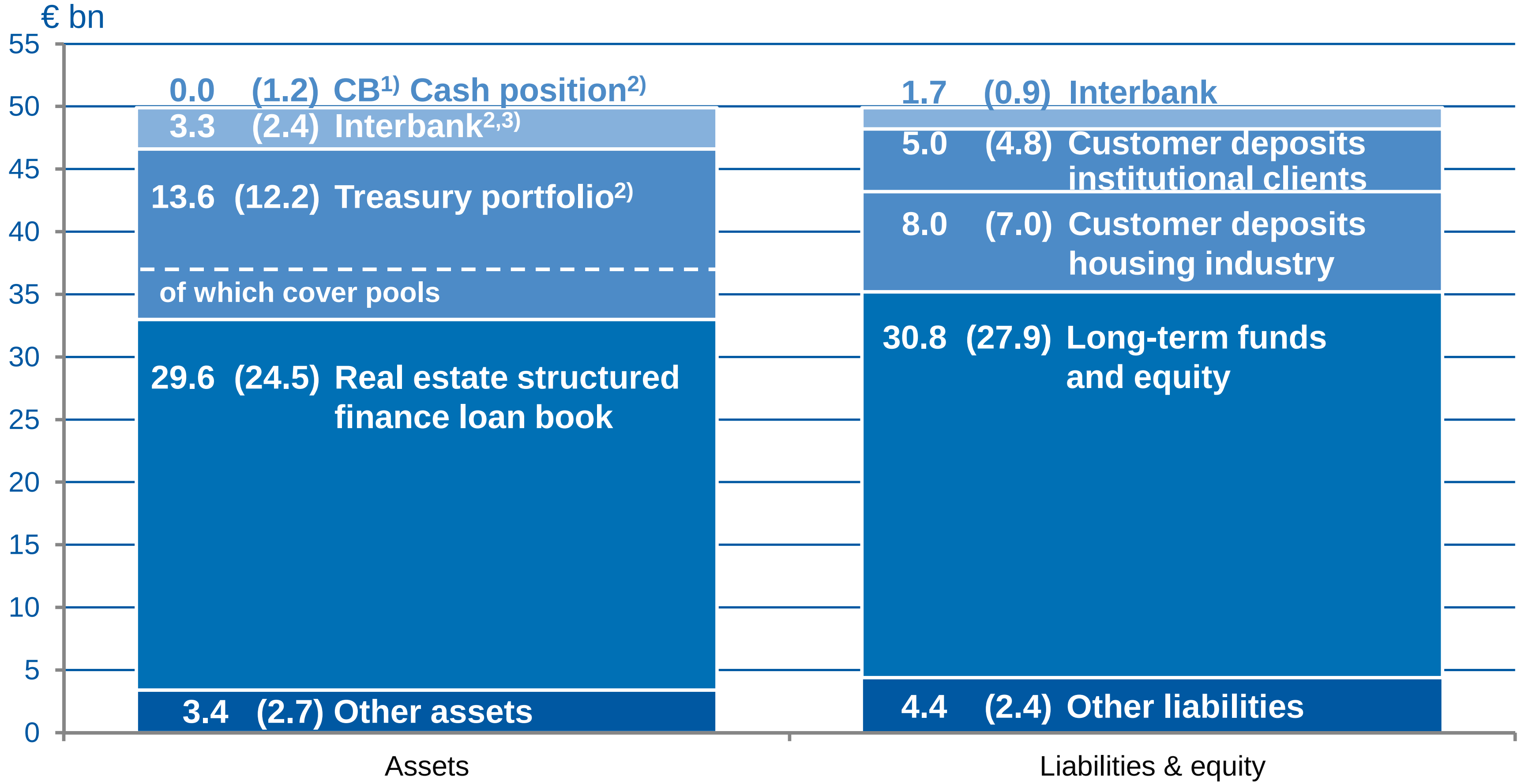
Asset- / Liability structure according to IFRS

As at 30.09.'14: € 49.9 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
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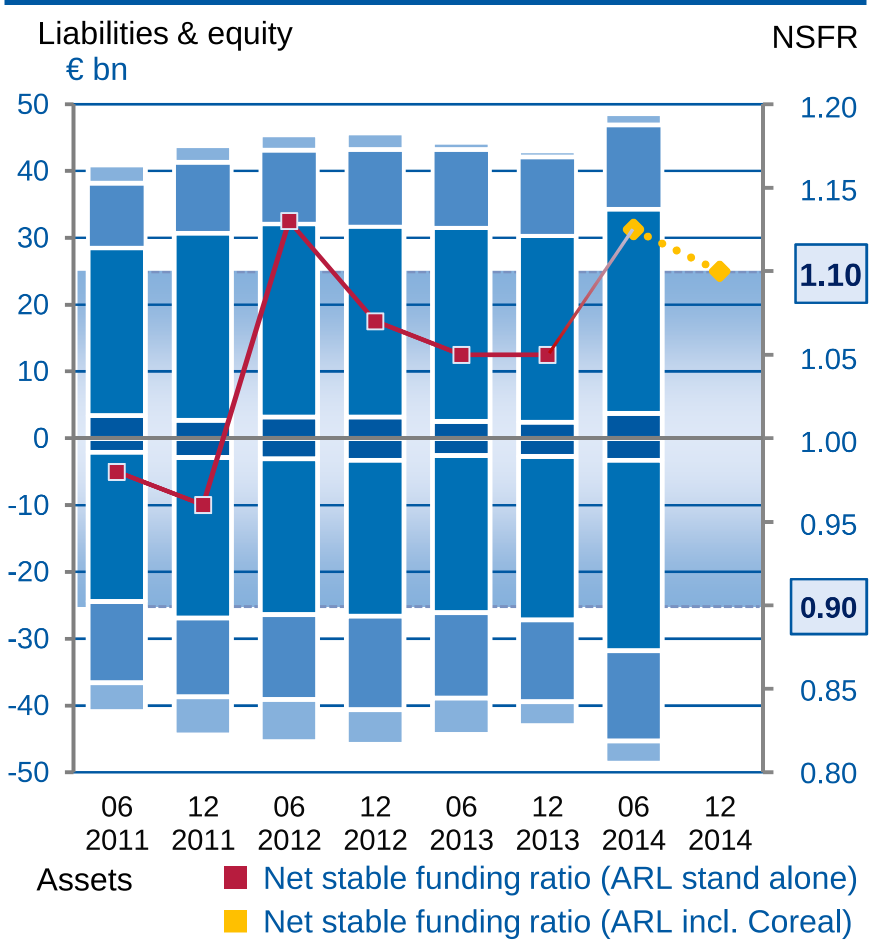
Net stable funding- / Liquidity coverage ratio
Fulfilling CRR requirements

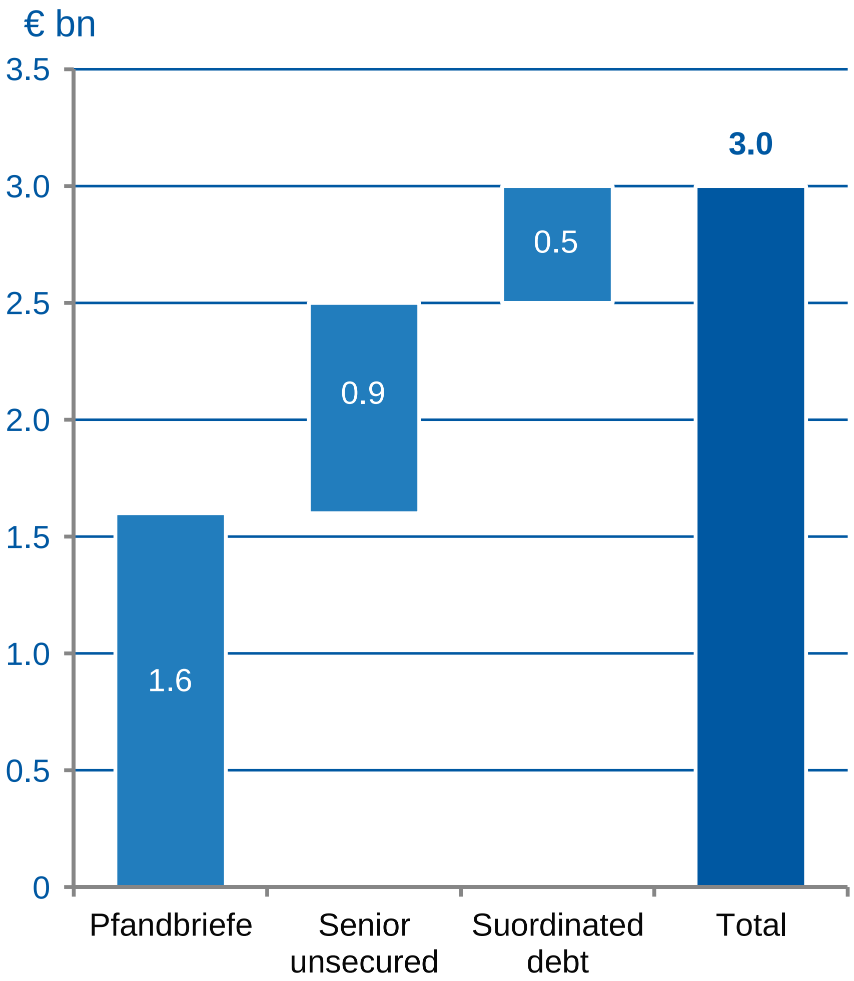
NSFR



- Aareal Bank already fulfils future requirements
  - NSFR > 1.0
  - LCR >> 1.0
- Basel III and CRR require specific liquidity ratios starting end 2018
- Positive effect in 2014 due to changed weighting factors

Refinancing situation 9M 2014

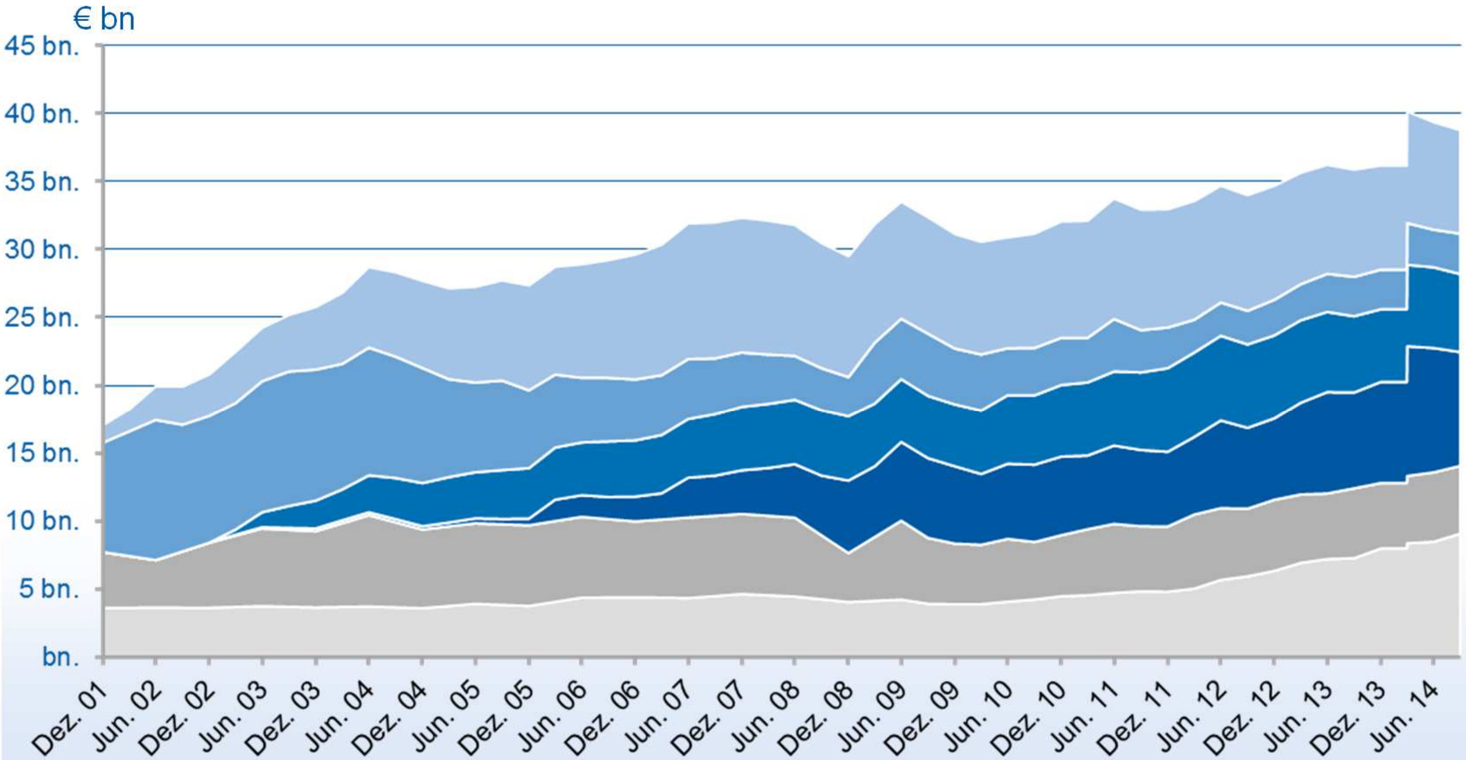
Successful funding activities



Total funding of € 3.0 bn in 9M 2014

- Pfandbriefe: € 1.6 bn
- Senior unsecured: € 0.9 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 30.09.2014, this share has fallen to ~30% (or even below 10% without Pfandbriefe)

As at 30.09.2014

Group figures Q3 2014

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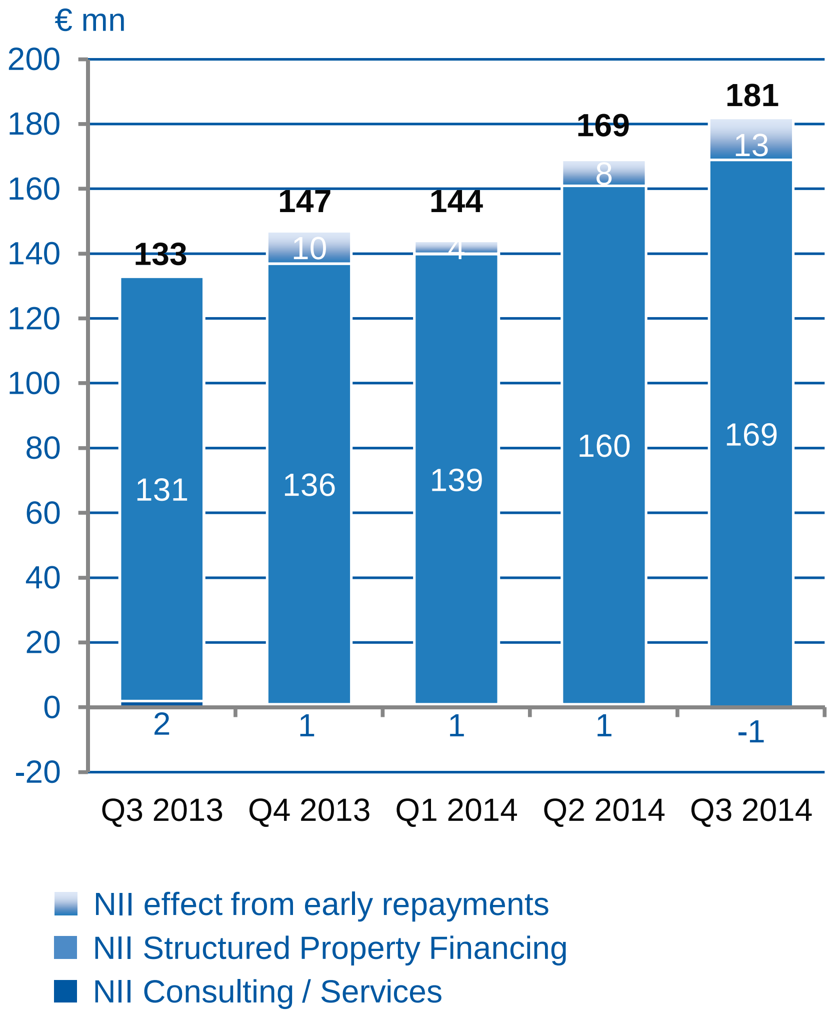
Net interest income

Strong development



1) Consolidated since Q2 2014
2) Additional effects exceeding originally planned repayments

- Portfolio growth of € 5.7 bn since Q3 2013 (thereof € 3.0 bn Corealcredit[1)]) and still stable margins from the CRE business
- Q3 includes additional ~€ 13 mn from early repayments[2)] (Q2: ~€ 8 mn, Q1: ~€ 4 mn, Q4 '13: ~€ 10 mn)
- Continued decreasing funding costs
- Former central bank liquidity now used for strategic ALM measures according to our long term plan, residual amounts switched to reverse repos
- NII Consulting / Services further burdened by interest rate environment
- Aareal Bank already fulfils future NSFR / LCR requirements

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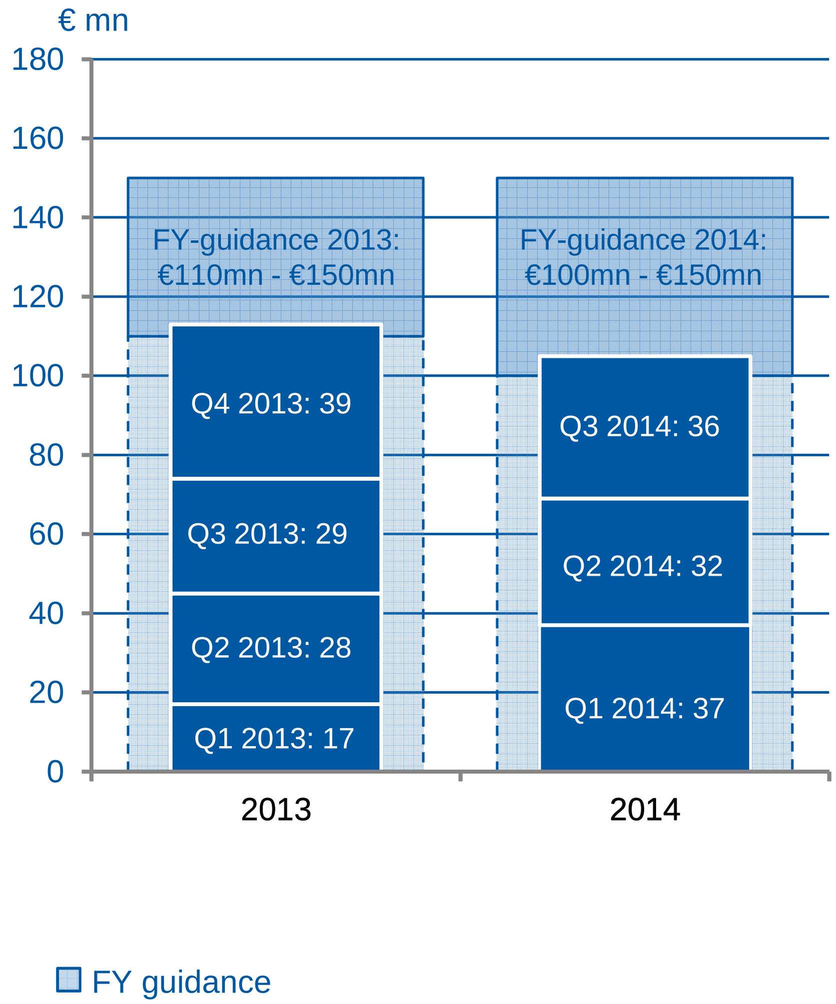
Loan loss provisions

Q3-LLP in line with guidance



- Q3-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
- Original guidance of € 100 mn to € 150 mn equals to 36 bp to 54 bp risk costs (on originally planned weighted average portfolio)

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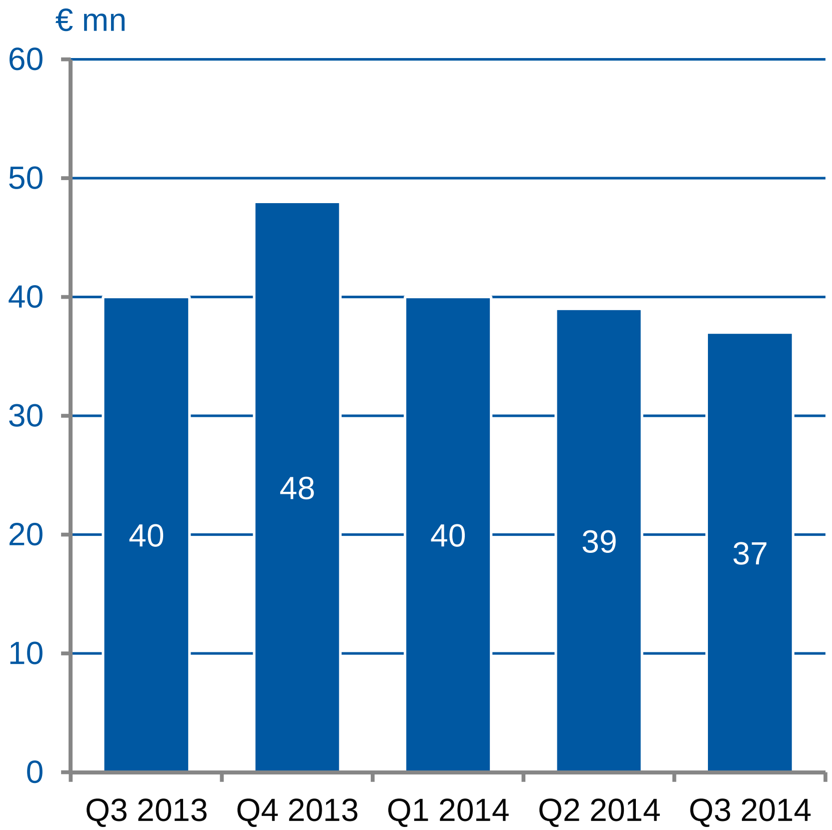
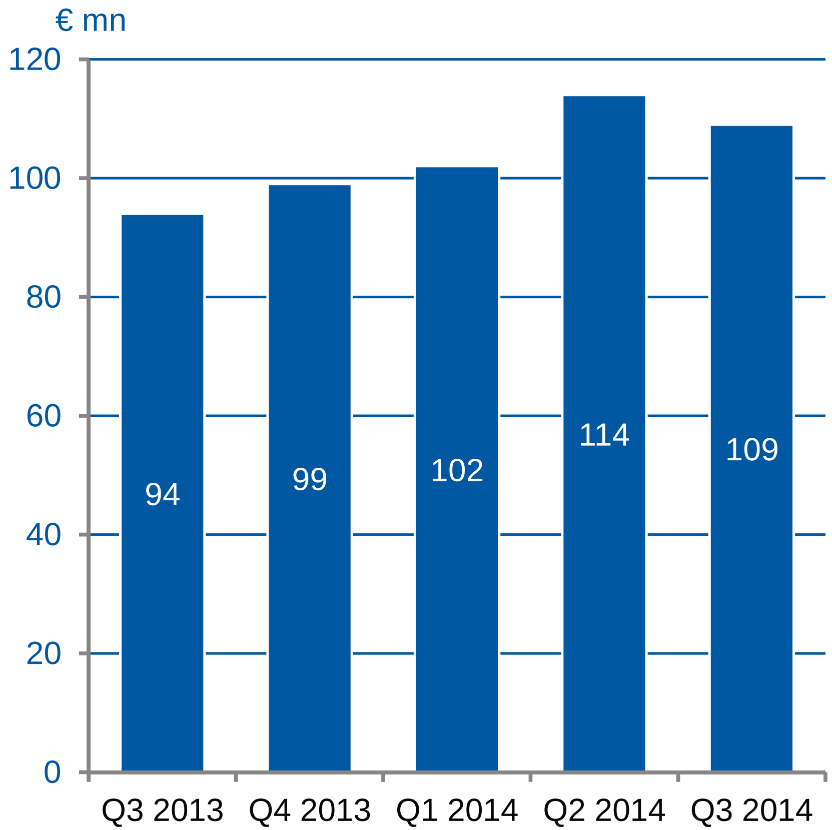
Net commission income

In line with expectations



- Strong Aareon revenue regularly pushing Q4

Admin expenses
Confirming guidance

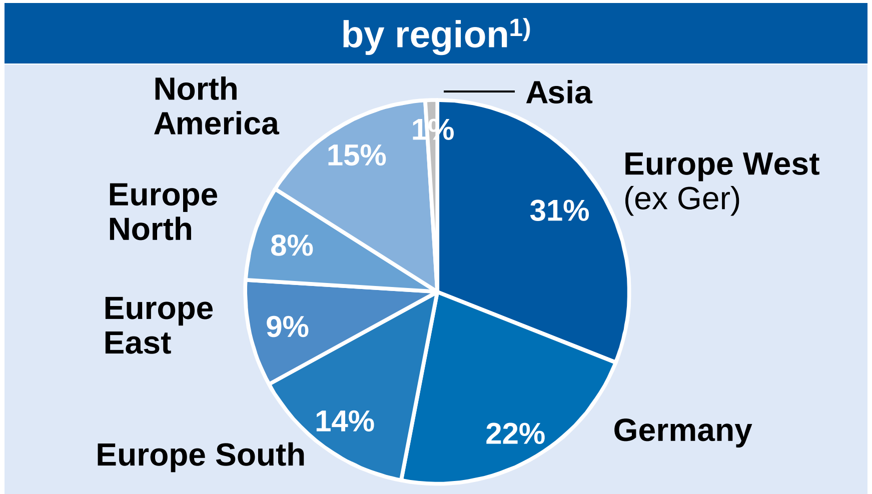


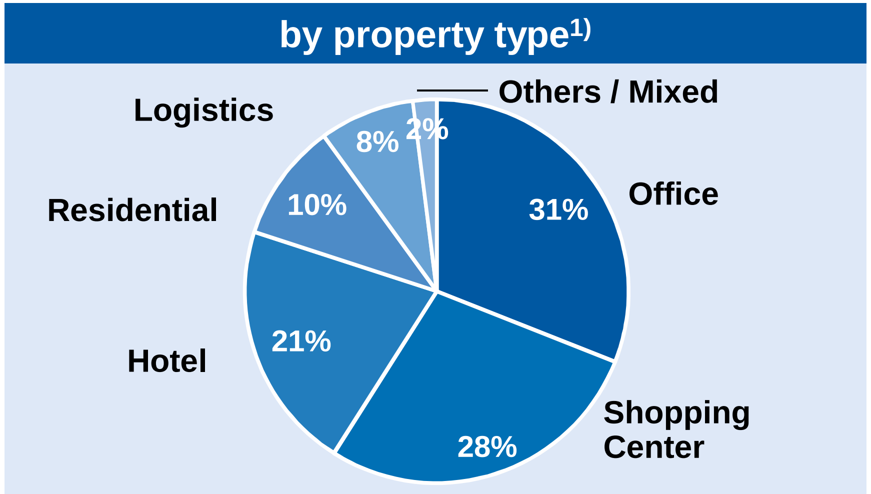
- Additional burden by
  - Integration of Corealcredit
  - Regulatory projects
- Admin expenses will stabilise on a higher level due to acquisition of Corealcredit

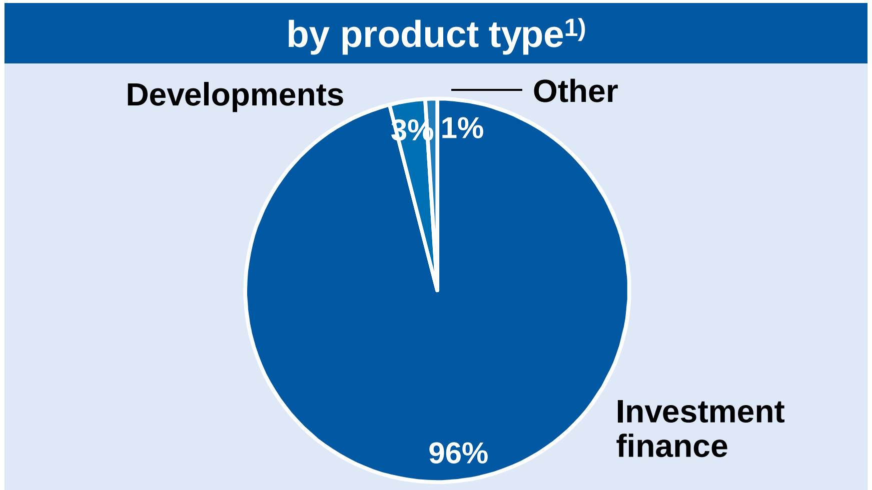
Asset quality

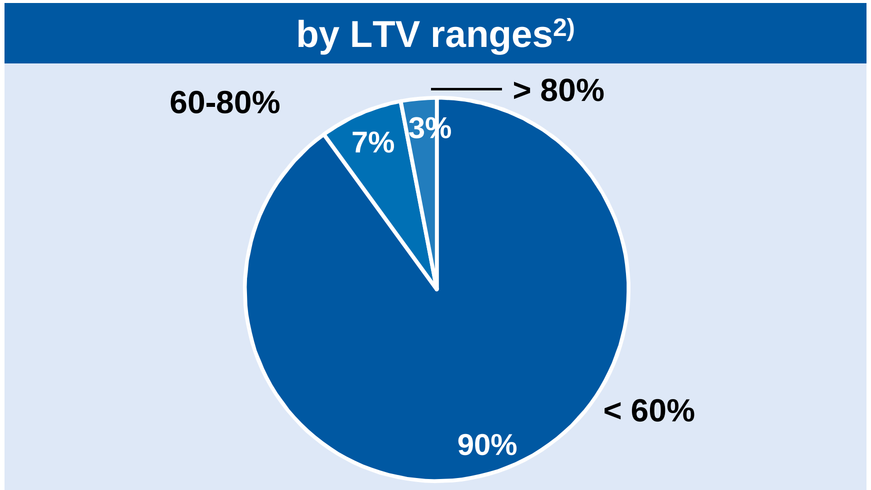
Total property finance portfolio

High diversification and sound asset quality









1) Total volume: € 29.6 bn as at 30.09.2014
2) Performing business only, exposure as at 30.09.2014

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 30.06.2014	**931**	**309**	**116**
Aareal Bank Group utilisation in Q3 '14	-21	-8	0
Aareal Bank Group addition in Q3 '14	53	33	3
Aareal Bank Group as at 30.09.2014	**963**	**334**	**119**
Coverage ratio specific allowances	**34,7%**		

		334	119
Aareal Bank Group as at 30.09.2014	**963**	**453**	
Coverage ratio incl. portfolio allowances	**47,0%**		

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

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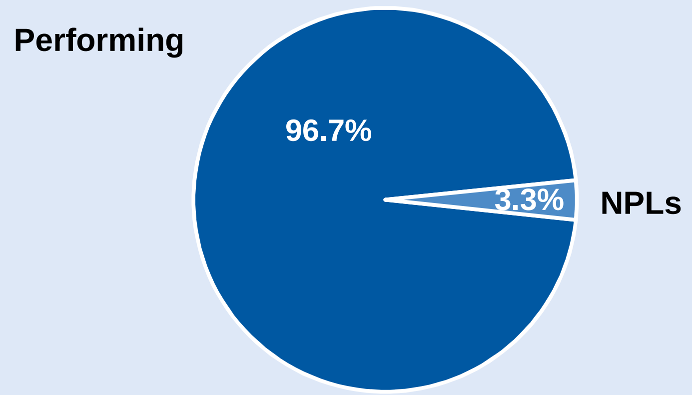
Total property finance portfolio

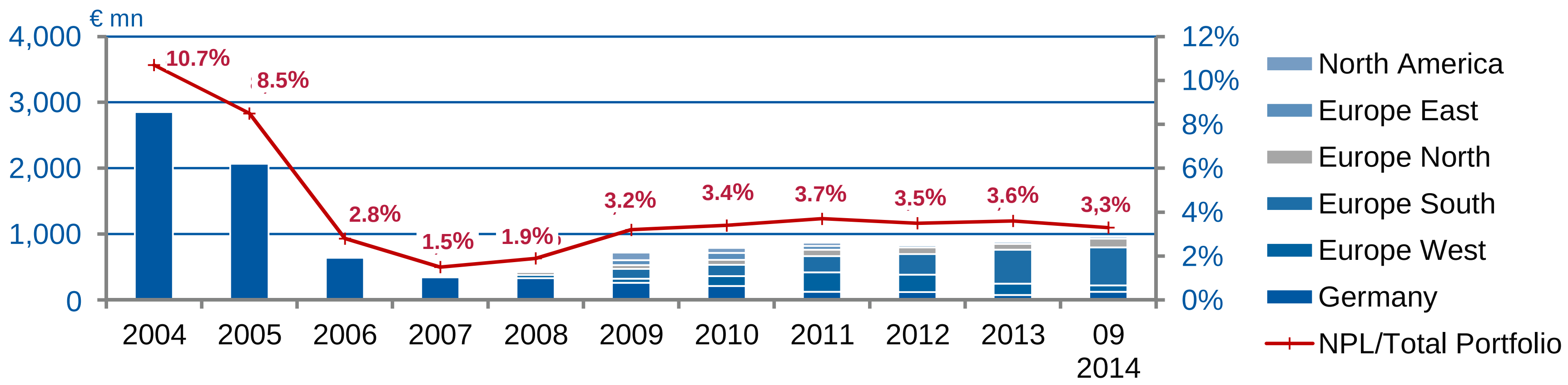
€ 29.6 bn of high quality real estate assets

Total loan book



	Nominal (in € mn)	Average LTV	NPL (in € mn)
Greece	-	-	-
Ireland	-	-	-
Italy	3,133	72.1%	500
Portugal	-	-	-
Spain	1,067	88.0%	79

NPL and NPL-ratio (since 12.2004)



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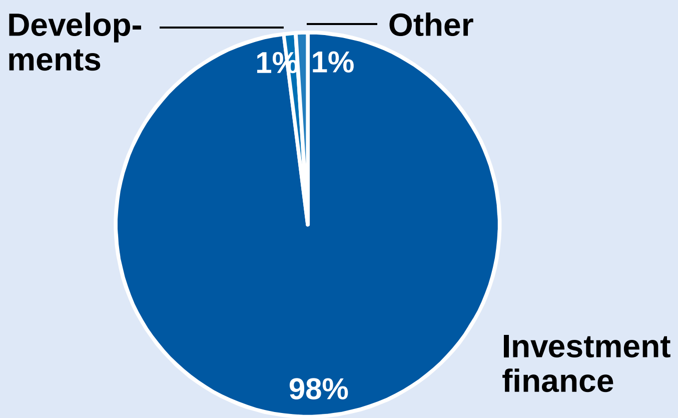
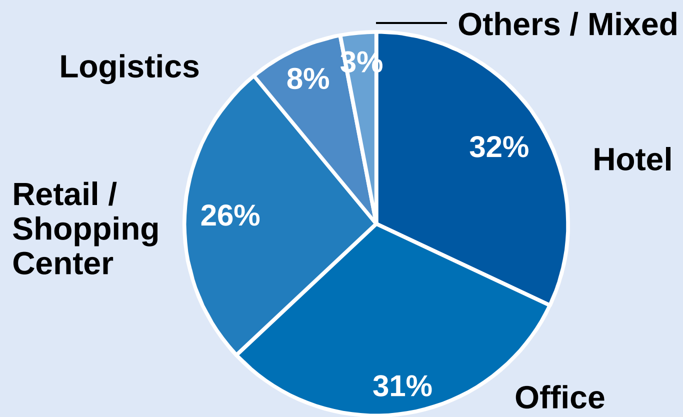
Western Europe (ex Germany) credit portfolio

Total volume outstanding as at 30.09.2014: € 9.2 bn

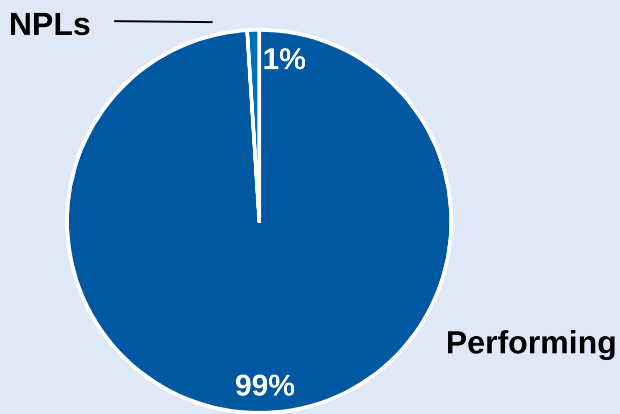
by product type



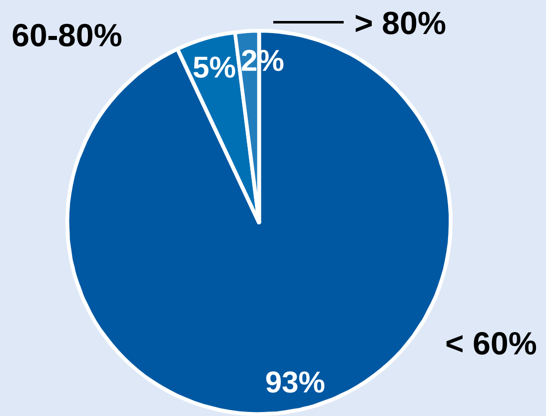
by property type



by performance



by LTV ranges[1)]



1) Performing business only, exposure as at 30.09.2014

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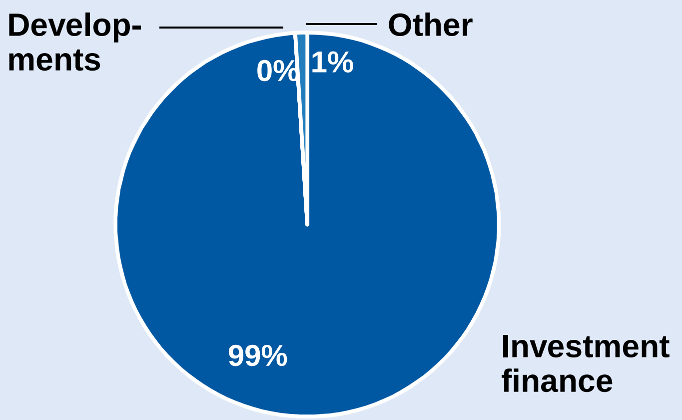
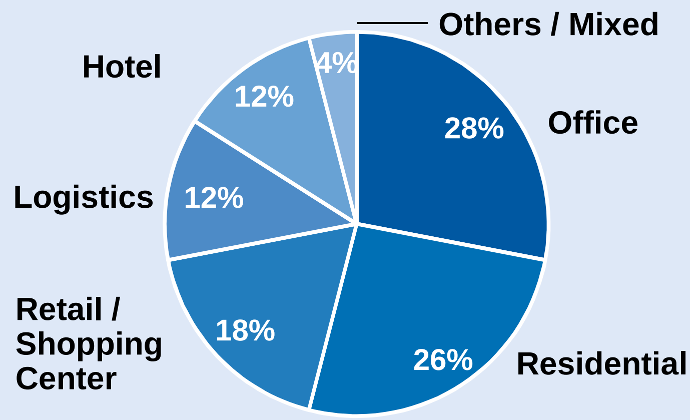
German credit portfolio

Total volume outstanding as at 30.09.2014: € 6.6 bn

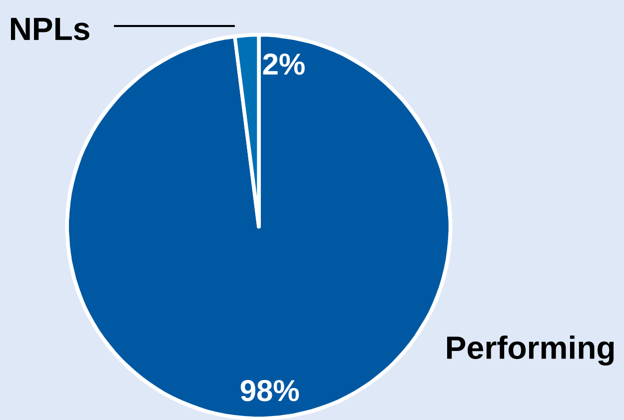
by product type



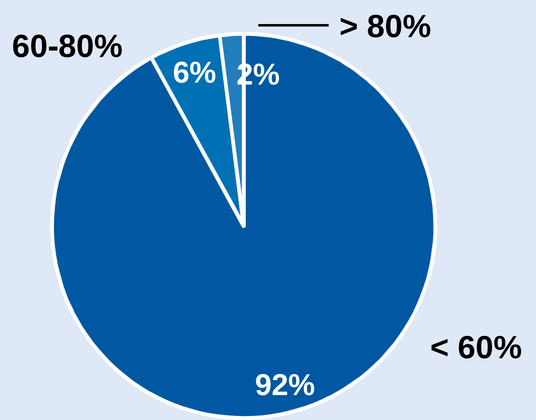
by property type



by performance



by LTV ranges[1)]



1) Performing business only, exposure as at 30.09.2014

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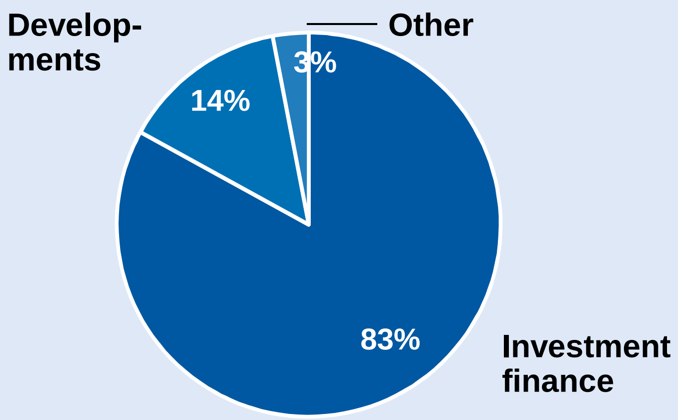
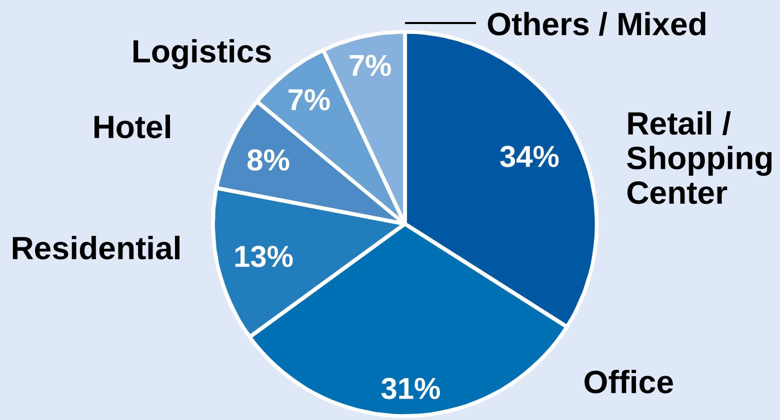
Southern Europe credit portfolio

Total volume outstanding as at 30.09.2014: € 4.2 bn

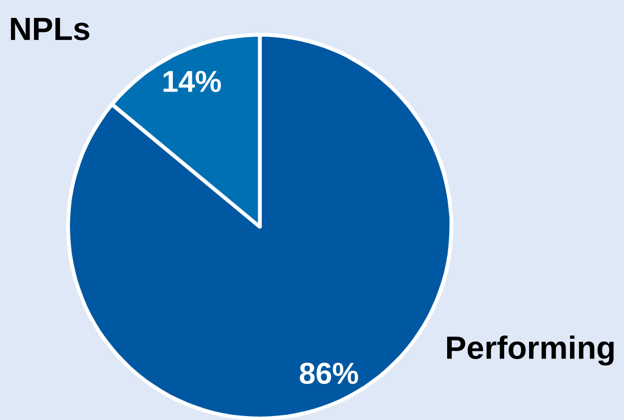
by product type



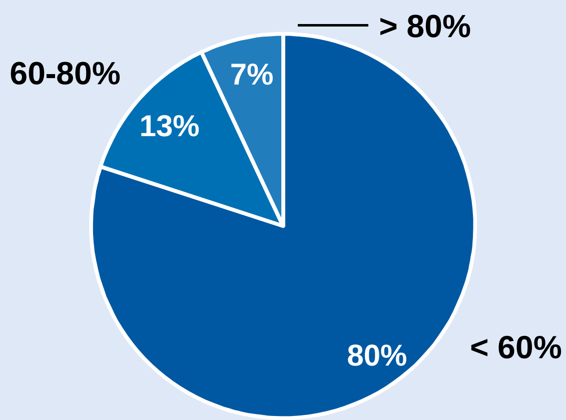
by property type



by performance



by LTV ranges[1)]

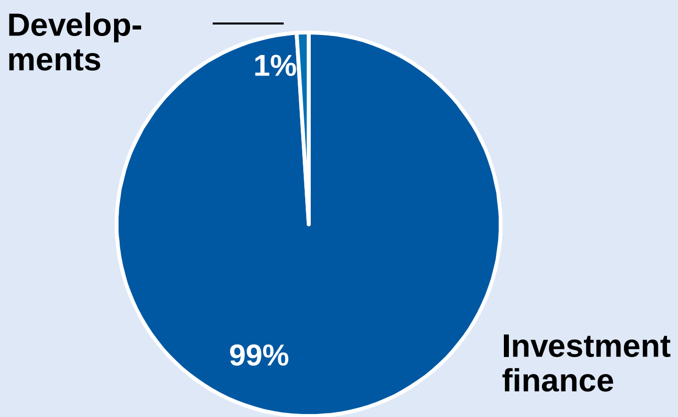


1) Performing business only, exposure as at 30.09.2014

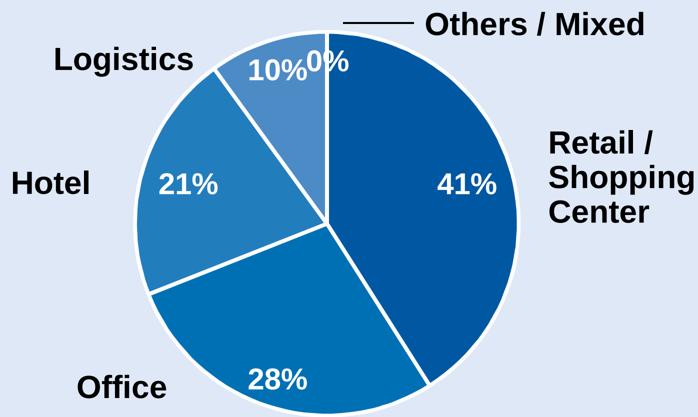
Eastern Europe credit portfolio

Total volume outstanding as at 30.09.2014: € 2.6 bn

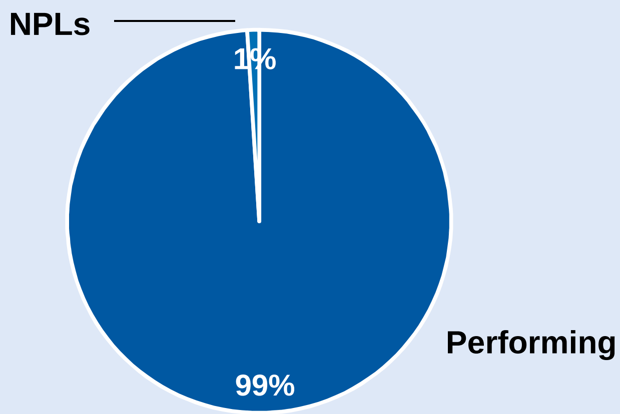
by product type



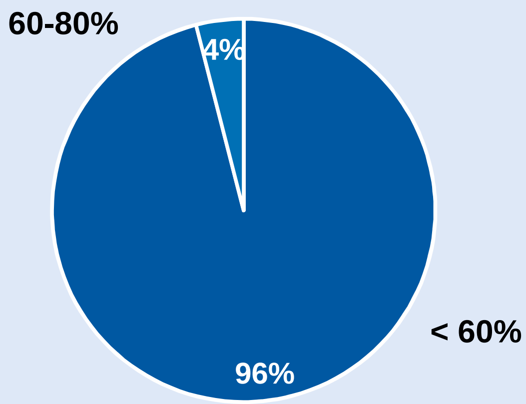
by property type



by performance



by LTV ranges[1)]



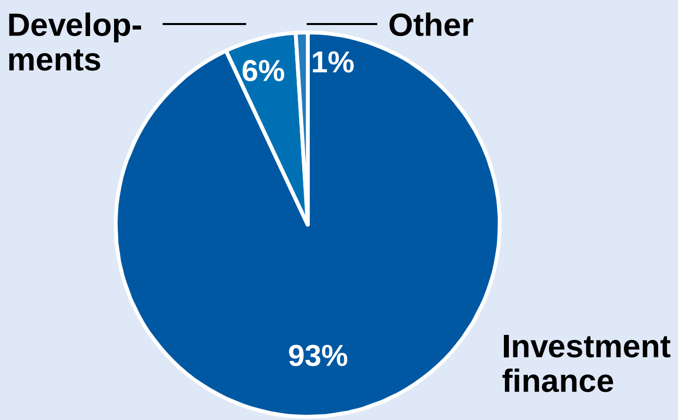
1) Performing business only, exposure as at 30.09.2014

Aareal Bank Group

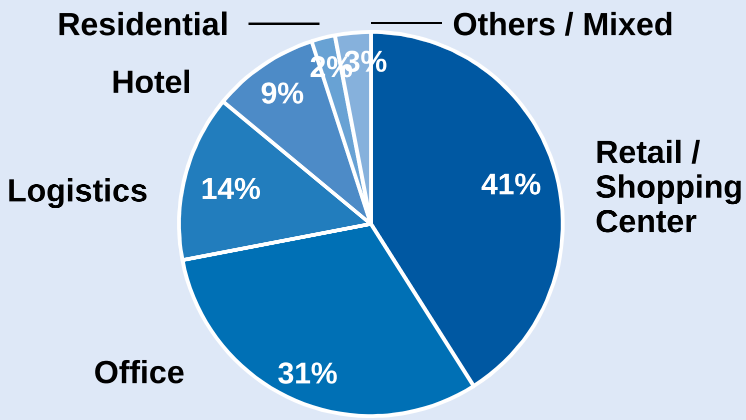
Northern Europe credit portfolio

Total volume outstanding as at 30.09.2014: € 2.2 bn

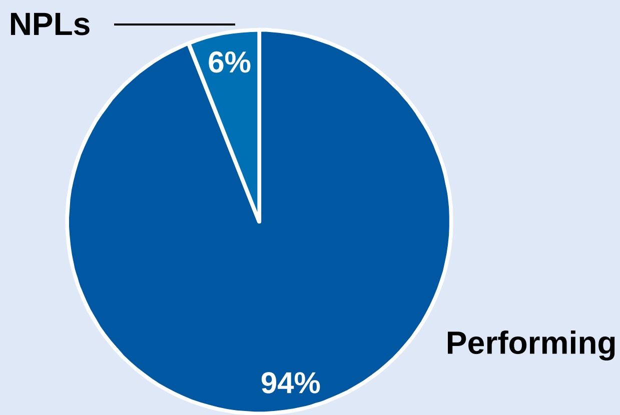
by product type



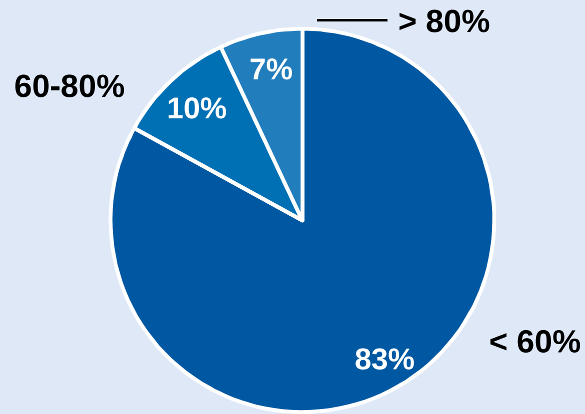
by property type



by performance



by LTV ranges[1)]



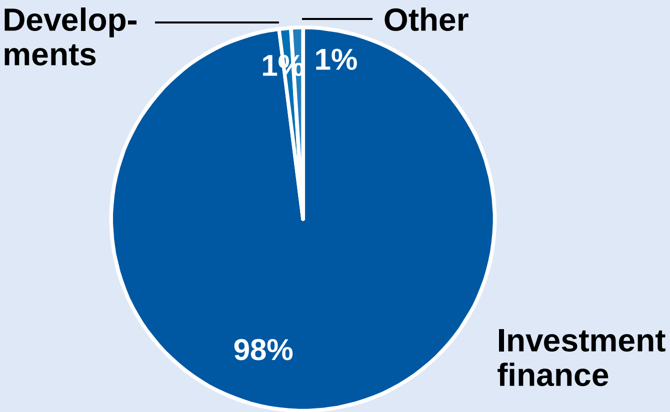
1) Performing business only, exposure as at 30.09.2014

Aareal Bank Group

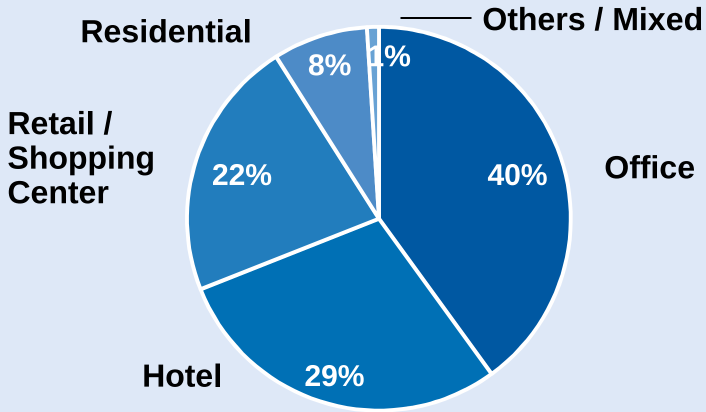
North America credit portfolio

Total volume outstanding as at 30.09.2014: € 4.4 bn

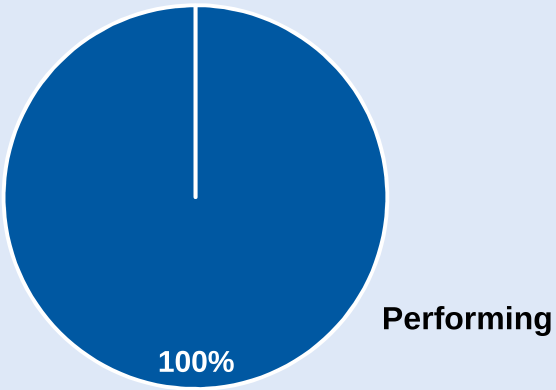
by product type



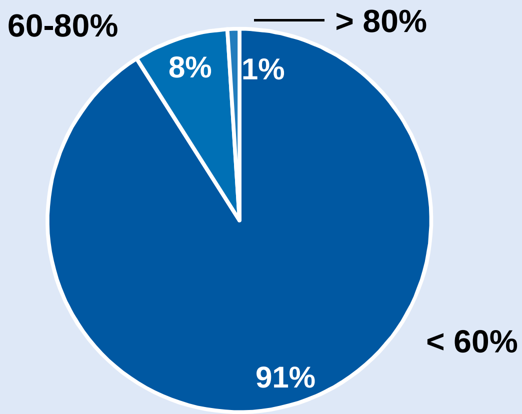
by property type



by performance



by LTV ranges[1)]



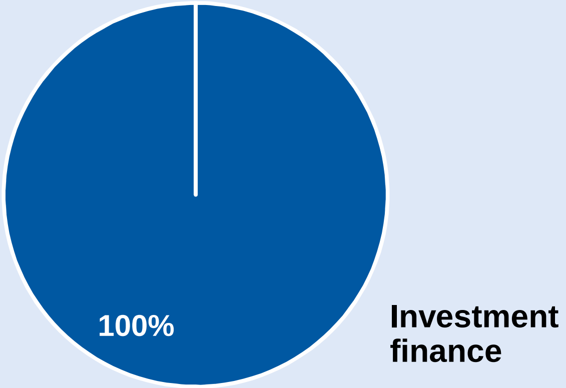
1) Performing business only, exposure as at 30.09.2014

Aareal Bank Group

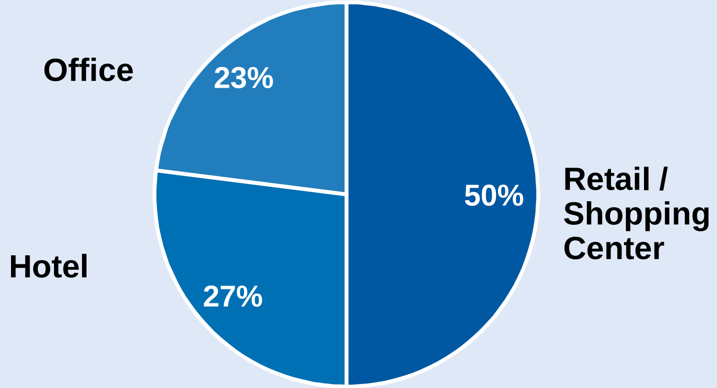
Asia credit portfolio

Total volume outstanding as at 30.09.2014: € 0.4 bn

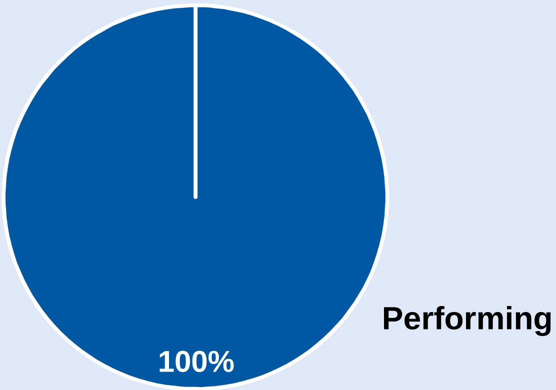
by product type



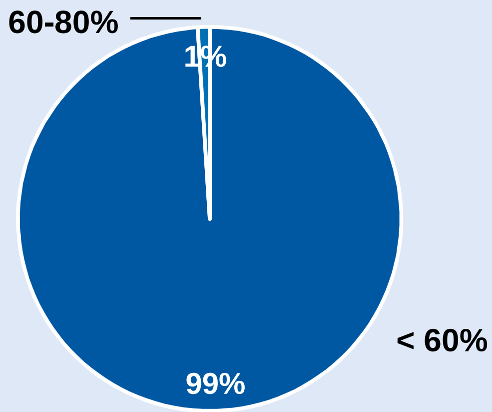
by property type



by performance



by LTV ranges[1)]

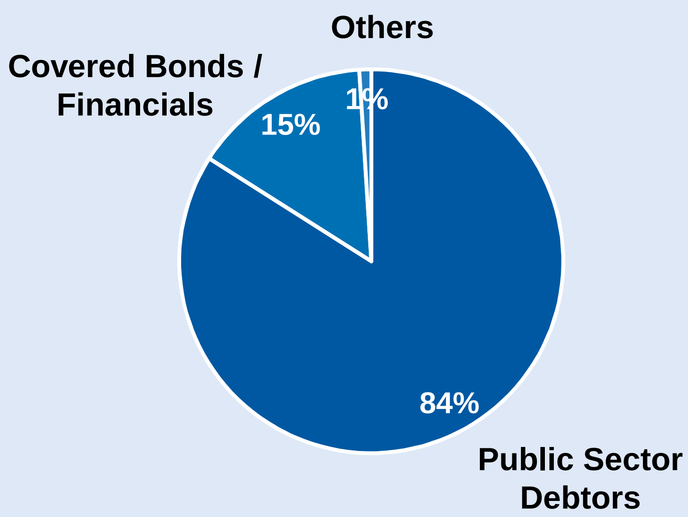


1) Performing business only, exposure as at 30.09.2014

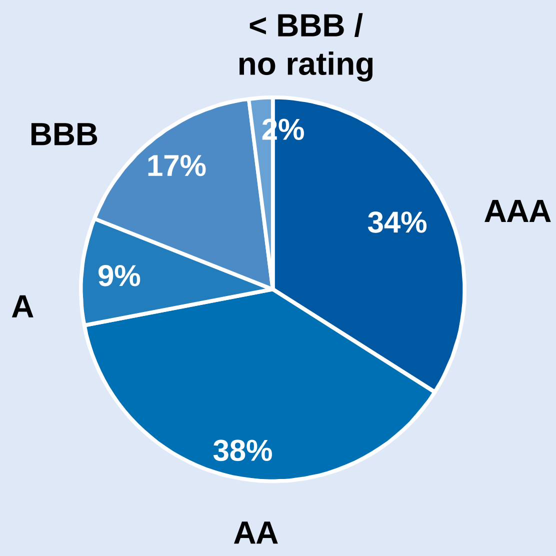
Total treasury portfolio

€ 11.5 bn of high quality and highly liquid assets

Combined portfolio by asset class



Combined portfolio by rating[1)]



As at 30.09.2014 – all figures are nominal amounts
1) Composite Rating

Outlook 2014

Aareal Bank Group

Outlook 2014

Operating profit target raised again

	2014
Net interest income	▪ Increased to € 650 mn - € 680 mn[1)] (from € 610 mn - € 640 mn[2)])
Net loan loss provisions	▪ Unchanged at € 100 mn - € 150 mn[3)] - despite portfolio growth ▪ Upper half of given range expected due to adjustment to more conservative LIP factor 1
Net commission income	▪ Slightly lower expectations: € 160 - € 170 mn (from € 170 mn - € 180 mn)
Admin expenses	▪ Unchanged at € 430 mn - € 450 mn incl. one-offs related to acquisition of Corealcredit
Negative goodwill	▪ ~ € 152 mn[4)]
Operating profit[5)]	**If strong business trend materialises further:** ▪ **€ 420 mn - € 430 mn achievable** **→ Q4: ~€ 72 mn - ~€ 82 mn**
Pre-tax RoE	▪ Now ~ 10% excl. negative goodwill (from ~ 9%)
New business origination	▪ Target raised: ~ € 10 bn (from € 8 bn - € 9 bn)
Operating profit Aareon	▪ ~ € 26 mn

1) No recognition of interest payments for AT1
2) Including recognition of interest payments for AT1 in the course of H2 2014
3) As in 2013, the bank cannot rule out additional allowances for credit losses
4) Adjusted
5) Incl. negative goodwill of € 152 mn

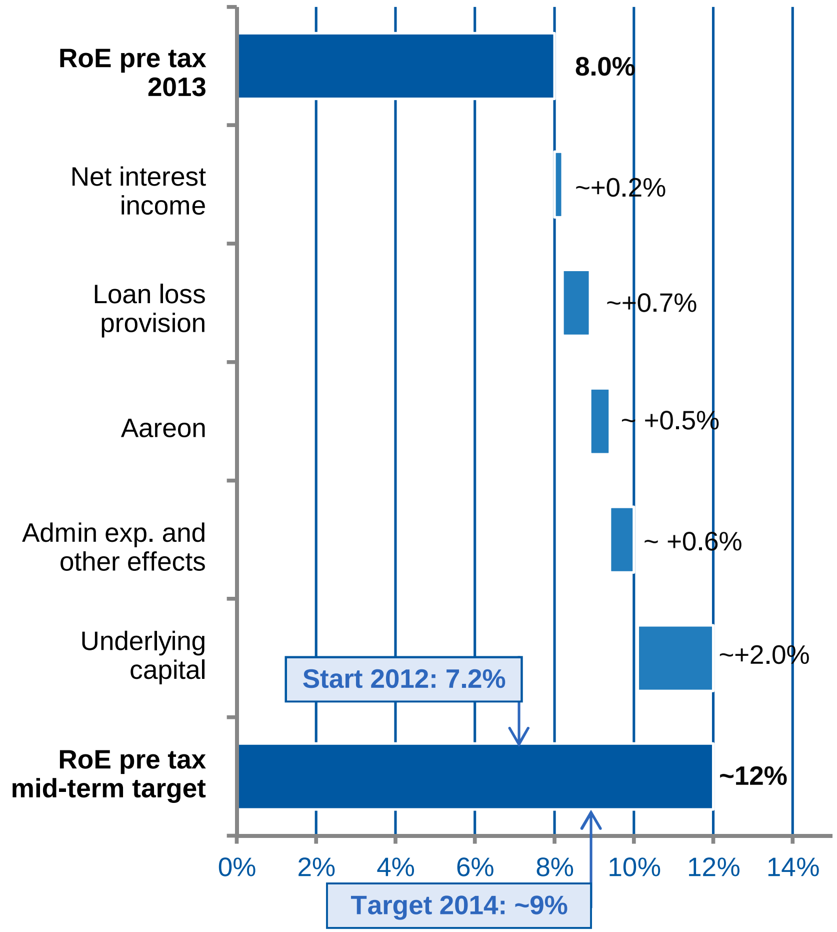
Midterm Outlook

Aareal Bank Group

Aareal Bank's action plan

Key RoE drivers (as published February 2014)

RoE effects



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. Coreacreditl)

Aareal Bank Group

Aareal Bank's action plan

Measures (as published February 2013)

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[1)]
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 200 bps 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

1) As published February 2013

Aareal Bank's action plan[1)]

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

1) As published February 2013

Outlook 2014 & Midterm Outlook

Summary and Prerequisites

	2014	2015 / 2016
Tier 1 ratio IFRS & CRR 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	~14% (Aareon)	>17.5% (Aareon)
Pre-tax ROE	~10%	~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 like RWA-floors, TLAC[1], etc.
- 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

1) Total Loss Absorbing Capacity

Appendix

Aareal Bank Group

Aareal Bank Group
Key figures Q3 2014

	Quarter 3 2014 € mn	Quarter 3 2014 € mn	Change
Profit and loss account			
Net interest income	181	133	36%
Allowance for credit losses	36	29	24%
Net interest income after allowance for credit losses	**145**	**104**	**39%**
Net commission income	37	40	-8%
Net result on hedge accounting	0	0	-
Net trading income / expenses	-5	3	-
Results from non-trading assets	0	-2	-
Results from investments accounted for at equity	0		-
Administrative expenses	109	94	16%
Net other operating income / expenses	-2	-3	-33%
Negative goodwill			-
Operating Profit	**66**	**48**	**38%**
Income taxes	21	15	40%
Net income / loss	**45**	**33**	**36%**
Allocation of results			
Net income / loss attributable to non-controlling interests	4	5	-
Net income / loss attributable to shareholders of Aareal Bank AG	41	28	46%
Appropriation of profits			
Silent partnership contribution by SoFFin	5	5	0%
Consolidated retained profit / accumulated loss	**36**	**23**	**57%**

Aareal Bank Group

Aareal Bank Group

Key figures Q3 2014 by operating units

€ mn	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.07.- 30.09. 2014	01.07.- 30.09. 2013	01.07.- 30.09. 2014	01.07.- 30.09. 2013	01.07.- 30.09. 2014	01.07.- 30.09. 2013	01.07.- 30.09. 2014	01.07.- 30.09. 2013
Net interest income	182	131	0	0	-1	2	181	133
Allowance for credit losses	36	29					36	29
Net interest income after allowance for credit losses	**146**	**102**	**0**	**0**	**-1**	**2**	**145**	**104**
Net commission income	1	2	36	40	0	-2	37	40
Net result on hedge accounting	0	0					0	0
Net trading income / expenses	-5	3					-5	3
Results from non-trading assets	0	-2					0	-2
Results from investments accounted for at equity	0						0	
Administrative expenses	64	50	46	44	-1	0	109	94
Net other operating income / expenses	-4	-3	2	0	0	0	-2	-3
Negative goodwill								
Operating profit	**74**	**52**	**-8**	**-4**	**0**	**0**	**66**	**48**
Income taxes	23	16	-2	-1			21	15
Net income / loss	**51**	**36**	**-6**	**-3**	**0**	**0**	**45**	**33**
Allocation of results								
Net income / loss attributable to non-controlling interests	4	4	0	1			4	5
Net income / loss attributable to shareholders of Aareal Bank AG	47	32	-6	-4	0	0	41	28

Aareal Bank Group

Key figures 9M 2014

	01.01.-30.09.2014 € mn	01.01.-30.09.2013 € mn	Change
Profit and loss account			
Net interest income	494	380	30%
Allowance for credit losses	105	74	42%
Net interest income after allowance for credit losses	**389**	**306**	**27%**
Net commission income	116	117	-1%
Net result on hedge accounting	3	-3	-
Net trading income / expenses	-1	14	-
Results from non-trading assets	0	-8	-
Results from investments accounted for at equity	0		-
Administrative expenses	325	276	18%
Net other operating income / expenses	14	-10	-
Negative goodwill	152		-
Operating Profit	**348**	**140**	**149%**
Income taxes	62	44	41%
Net income / loss	**286**	**96**	**198%**
Allocation of results			
Net income / loss attributable to non-controlling interests	14	15	-7%
Net income / loss attributable to shareholders of Aareal Bank AG	272	81	236%
Appropriation of profits			
Silent partnership contribution by SoFFin	15	15	0%
Consolidated retained profit / accumulated loss	**257**	**66**	**289%**

Aareal Bank Group

Aareal Bank Group

Key figures 9M 2014 by operating units

€ mn	Structured Property Financing 01.01.-30.09.2014	Structured Property Financing 01.01.-30.09.2013	Consulting / Services 01.01.-30.09.2014	Consulting / Services 01.01.-30.09.2013	Consolidation/ Reconciliation 01.01.-30.09.2014	Consolidation/ Reconciliation 01.01.-30.09.2013	Aareal Bank Group 01.01.-30.09.2014	Aareal Bank Group 01.01.-30.09.2013
Net interest income	493	373	0	0	1	7	494	380
Allowance for credit losses	105	74					105	74
Net interest income after allowance for credit losses	**388**	**299**	**0**	**0**	**1**	**7**	**389**	**306**
Net commission income	3	7	116	118	-3	-8	116	117
Net result on hedge accounting	3	-3					3	-3
Net trading income / expenses	-1	14					-1	14
Results from non-trading assets	0	-8					0	-8
Results from investments accounted for at equity	0						0	
Administrative expenses	188	147	139	130	-2	-1	325	276
Net other operating income / expenses	11	-9	3	-1	0	0	14	-10
Negative goodwill	152						152	
Operating profit	**368**	**153**	**-20**	**-13**	**0**	**0**	**348**	**140**
Income taxes	68	47	-6	-3			62	44
Net income / loss	**300**	**106**	**-14**	**-10**	**0**	**0**	**286**	**96**
Allocation of results								
Net income / loss attributable to non-controlling interests	12	13	2	2			14	15
Net income / loss attributable to shareholders of Aareal Bank AG	288	93	-16	-12	0	0	272	81

Aareal Bank Group

Key figures – quarter by quarter

	Structured Property Financing					Consulting / Services					Consolidation / Reconciliation					Aareal Bank Group				
	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Euro mn																				
Net interest income	182	168	143	146	131	0	0	0	0	0	-1	1	1	1	2	181	169	144	147	133
Allowance for credit losses	36	32	37	39	29											36	32	37	39	29
Net interest income after allowance for credit losses	**146**	**136**	**106**	**107**	**102**	**0**	**0**	**0**	**0**	**0**	**-1**	**1**	**1**	**1**	**2**	**145**	**137**	**107**	**108**	**104**
Net commission income	1	1	1	3	2	36	40	40	47	40	0	-2	-1	-2	-2	37	39	40	48	40
Net result on hedge accounting	0	1	2	-3	0											0	1	2	-3	0
Net trading income / expenses	-5	2	2	4	3											-5	2	2	4	3
Results from non-trading assets	0	0	0	0	-2											0	0	0	0	-2
Results from results accounted for at equity	0			0												0			0	
Administrative expenses	64	68	56	54	50	46	47	46	47	44	-1	-1	0	-2	0	109	114	102	99	94
Net other operating income / expenses	-4	-1	16	-1	-3	2	1	0	2	0	0	0	0	-1	0	-2	0	16	0	-3
Negative goodwill			152[1]															152[1]		
Operating profit	**74**	**71**	**223**[1]	**56**	**52**	**-8**	**-6**	**-6**	**2**	**-4**	**0**	**0**	**0**	**0**	**0**	**66**	**65**	**217**[1]	**58**	**48**
Income taxes	23	23	22	18	16	-2	-2	-2	0	-1						21	21	20	18	15
Net income / loss	**51**	**48**	**201**[1]	**38**	**36**	**-6**	**-4**	**-4**	**2**	**-3**	**0**	**0**	**0**	**0**	**0**	**45**	**44**	**197**[1]	**40**	**33**
Allocation of results																				
Net income / loss attributable to non-controlling interests	4	4	4	3	4	0	1	1	1	1						4	5	5	4	5
Net income / loss attributable to shareholders of Aareal Bank AG	47	44	197[1]	35	32	-6	-5	-5	1	-4	0	0	0	0	0	41	39	192[1]	36	28

1) Adjusted

Aareal Bank Group

SoFFin: full repayment of silent participation

Support to Aareal Bank has come to an end

Objective for SoFFin support

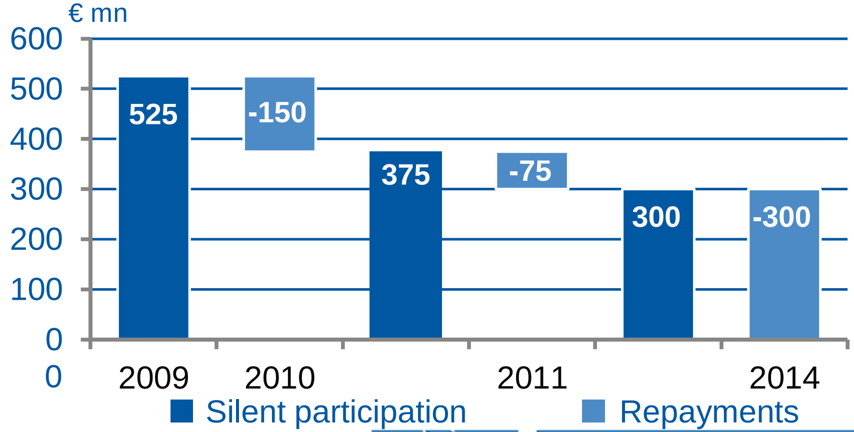
- At the at the height of the financial crisis in early 2009 Aareal had drawn on support available within the scope of a government package to stabilise the financial services sector.
- The objective was to protect the Aareal's sustainably profitable business in what was a very difficult market environment at the time.
- Aareal paid a total of approximately € 237 mn to date in interest and guarantee fees to SoFFin.

Government guarantee facility

- Volume: € 4 bn
  - First bond:
    € 2 bn fully placed in 03/2009,
    € 800 mn partially tendered in 07/2011
    € 1.2 bn matured 03/2012
  - Second bond:
    € 2 bn onto own book 07/2010
    early redemption 04/2011
    (originally maturing 05.06.2013)

Silent participation

- Original volume: € 525 mn
- Coupon: 9% (tax deductible)
- Grandfathered as CET1 capital until end of 2017
- No dividend payments during 2009 and 2010 for preceding years
- Additional remuneration: coupon increases on a pro rata basis by 0.5 pp for each ~0.18 € DpS[1)]
- Repaid in three trances 2010, 2011 and 10/2014



1) Adjusted relative to the capital increase

Aareal Bank Group

Comprehensive assessment[1)]

AQR and Stress Test

Definitions

- "**The comprehensive assessment** is a financial health check of 130 banks in the euro area (including Lithuania), covering approximately 85% of total bank assets. It is being carried out by the ECB together with the national supervisors. The exercise started in November 2013..."

- The comprehensive assessment comprises two main pillars:
  - an **Asset Quality Review** (**AQR**) – to enhance the transparency of bank exposures, including the adequacy of asset and collateral valuation and related provisions
  - a **Stress Test** – to examine the resilience of banks' balance sheets to stress scenarios, performed in close cooperation with the European Banking Authority (EBA)

- **Join-up:** The quality-assured stress test results have been integrated with the AQR results in a process known as the "join-up". The join-up is what sets the comprehensive assessment apart from any other previous European exercise. It connects and reinforces the point-in-time AQR and the forward-looking stress test, strengthening the overall exercise. Full AQR results are incorporated into stress test results for all banks by adjusting the starting balance sheet positions.

Source: ECB webpage

1) As published October 27, 2014

Aareal Bank Group

Results of the AQR and the Stress Test[1)]

Capital ratios significantly above thresholds

Results

- **AQR**
  - Confirms Aareal Bank's asset quality
  - Marginal adjustments (10 bp) mainly due to haircuts; not considering possible reversal of allowances identified in the course of the review
  - No reclassifications from performing loans into non-performing loans
- **Join-up**
  - No Join-up effect → incorporation of the AQR results into the stress test leads to no adjustments
- **Stress test**
  - In all the years under review Aareal Bank generates positive results
  - In all the years under review Aareal Bank will be able to pay dividends
  - CET1 declines by ~28% or 453 bp from 16.29% to 11.76%
    (which includes 63 bp from dividends to be distributed)

In all stress scenarios capital ratios are significantly above the respective thresholds

1) As published October 27, 2014

Simulation / Extrapolation of Stress Test results[1)]

Three scenarios

Pro forma assumptions / parameters of the model

- The original stress test is calculated on 31.12.2013 / 1.1.2014 basis
- The next slide is presenting results of an exercise run by Aareal and therefore is neither authorized nor checked by the ECB in order to translate the stress test results in the following scenarios

1. Pro forma fully phased figures as of 31.12.2013/01.01.2014 excluding SoFFin (capital - € 300 mn) based on the original stress test

2. Pro forma fully phased figures as of 30.06.2014 excluding SoFFin but including Corealcredit portfolio. We tried to replicate the ECB test with our Corealcredit portfolio to the best of our knowledge but we can not rule out that the stress test results would vary if the Corealcredit portfolio would have been part of the original stress test.

3. Pro forma fully phased midterm target figures excluding SoFFin based on internal assumptions about midterm capital, RWA and portfolio development.
   Hence those figures include management assumptions about the future development of the company and are not based an a static balance sheet used in the ECB stress test.

1) As published October 27, 2014

Explanation of the bp deduction variance[1)]

Pro forma assumptions / parameters of the model

- The **original ECB Stress Test led** to a CET deduction of 453 bp. This reduction is driven by an RWA increase of 33% and a CET decrease of 3.8% at the same time.
  CET decrease during stress horizon is caused by phase outs, unrealised losses in the AfS portfolio and AIRB shortfall of credit risk adjustments to expected losses.
  The calculation of the percentage change in CET capital is:
  1-((1:1.33)*(1-0.038)) = 28% and 28% * 16.29% = **453 bp**

1. Original starting RWA and original RWA increase (33%) is used. CET is reduced by € 300 mn SoFFin participation. In addition we calculated on a fully phased basis: the starting CET ratio is already fully phased. All other items remain the same. Same mathematics with an CET decrease of 3.0%, which is below 3.8% because no phase outs have to be calculated: **27% CET decrease or** 359 **bp reduction.**

2. Pro forma fully phased numbers as of 30.06.2014 excluding SoFFin but including Corealcredit portfolio. We tried to replicate the ECB test with our Corealcredit portfolio to the best of our knowledge but we can not rule out that the stress test results would vary if the Corealcredit portfolio would have been part of the original stress test. Lower RWA increase mainly driven by the fact that Corealcredit still applies the standard approach: **25% CET decrease** leads to a **294 bp reduction**.

1) As published October 27, 2014

Aareal Bank Group

Explanation of the bp deduction variance[1)]

Pro forma assumptions / parameters of the model

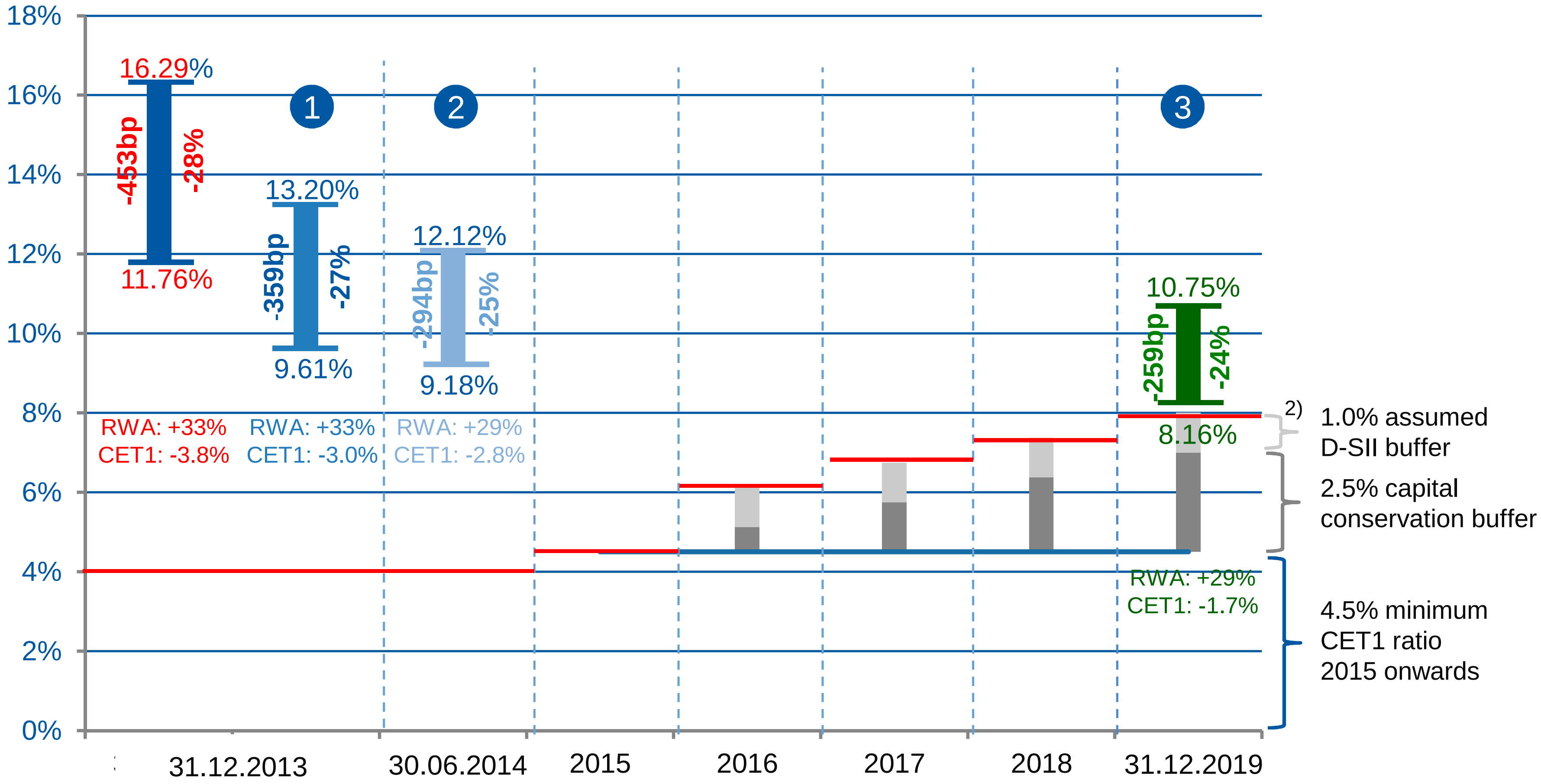
3 Pro forma fully phased midterm target figures excluding SoFFin based on internal assumptions about midterm capital, RWA and portfolio development.
Hence those figures:
(a) include management assumptions about the future development of the company and
(b) are not based an a static balance sheet used in the ECB stress test.

We tried to replicate the ECB test with a portfolio end 2016 to the best of our knowledge but we can not rule out that the results of a stress test with that portfolio as an input would lead to other results than the **24% CET decrease** leading to a **259 bp reduction**.

In general, the nominal bp reduction is mainly driven by the ingoing CET ratio whereby a lower ratio leads to a lower nominal bp reduction even if the percentage result is the same. The percentage change of the CET ratio as the stress test result is the better indicator than the nominal bp deduction.

1) As published October 27, 2014

Results of the simulation / extrapolation[1)]



1) As published October 27, 2014
2) 8% CET requirements is assuming a full utilisation of 1,5% AT1 and 2% T2 bucket and 1% D-SII buffer and 0% systemic risk buffer

Conclusion[1)]

Based on current and future capital structure

Aareal Bank's CET1 will be above all the respective thresholds and the envisaged trigger for a potential AT1 issue

Even after

- Repayment of the € 300 mn SoFFin silent participation
- Under Basel III fully phased
- After potential future capital optimization

1) As published October 27, 2014

Strategic rationale for acquisition of Corealcredit[1)]

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

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Acquisition of Corealcredit[1)]

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 > € 3[3)]
- Capital currently absorbed by acquired RWA to free up until 2016 for alternative utilisation (allocation or alignment)

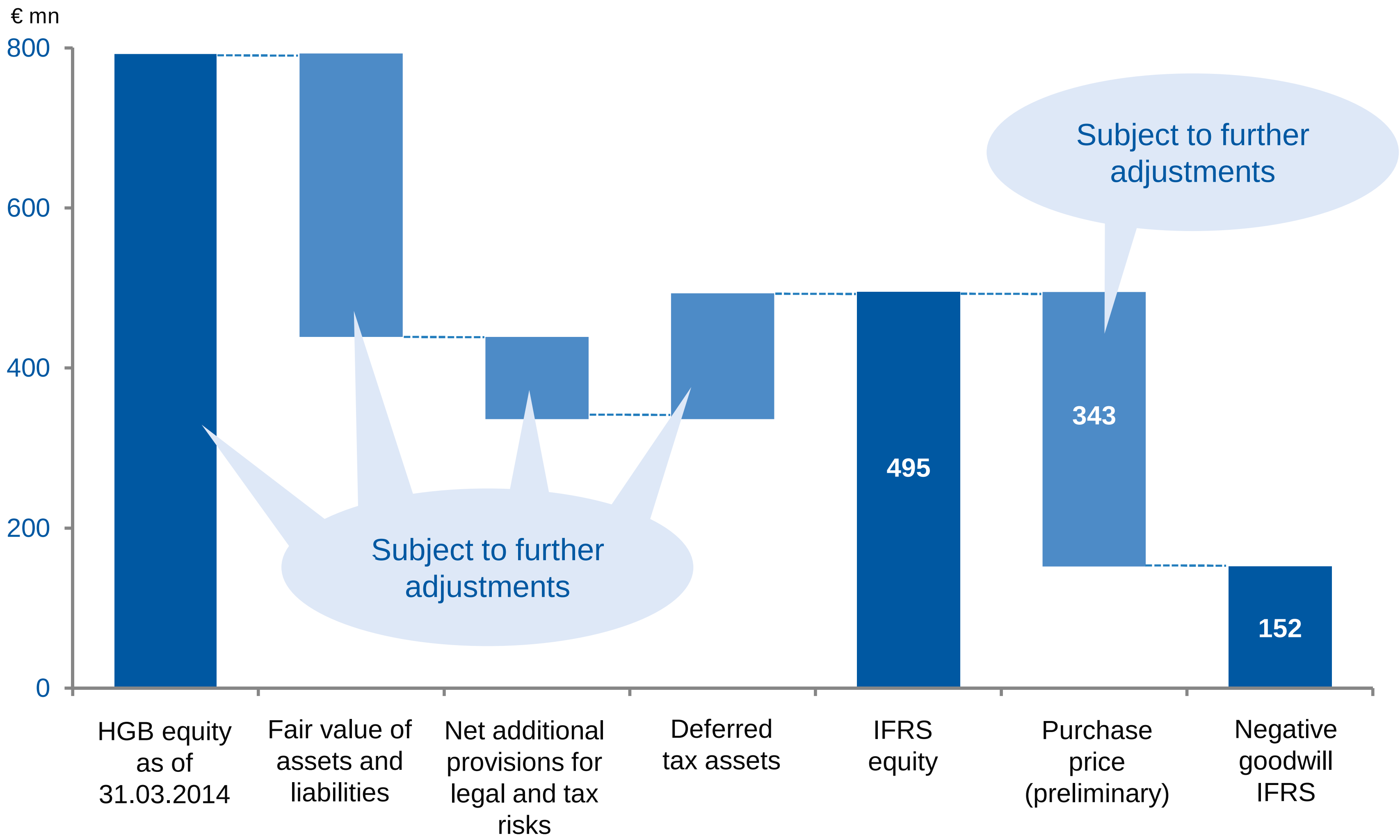
RoE:

- 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



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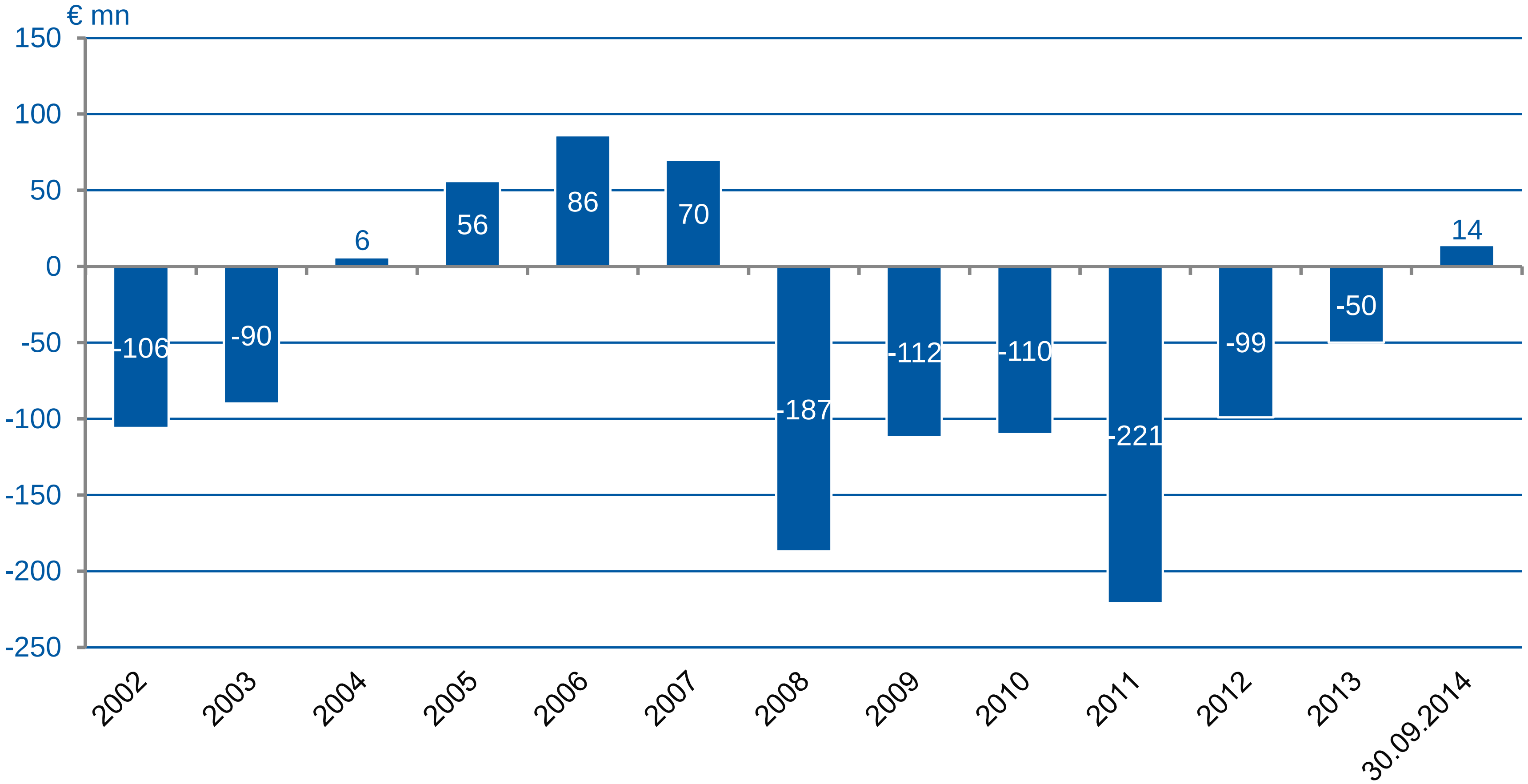
Revaluation surplus

Change mainly driven by asset spreads



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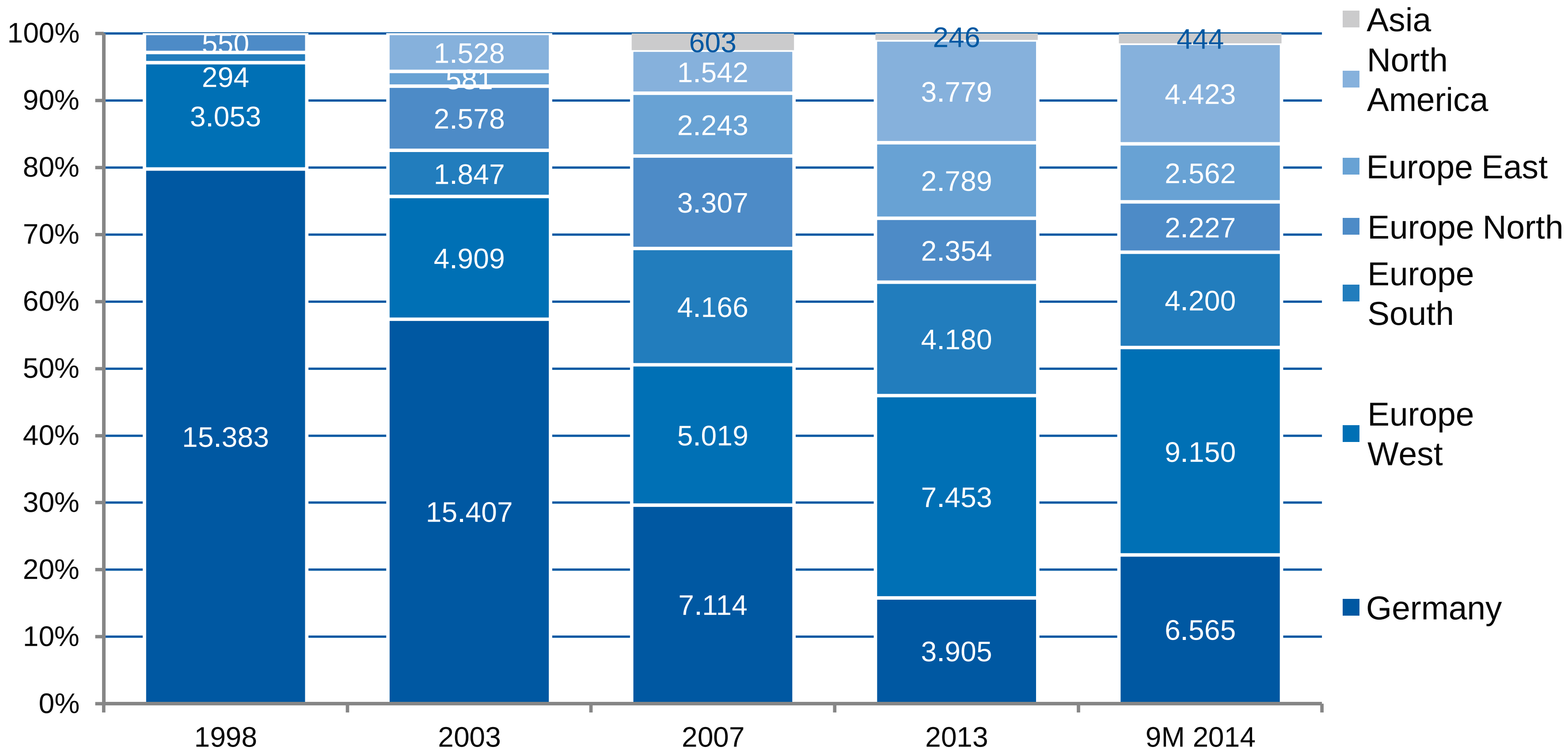
Development property finance portfolio

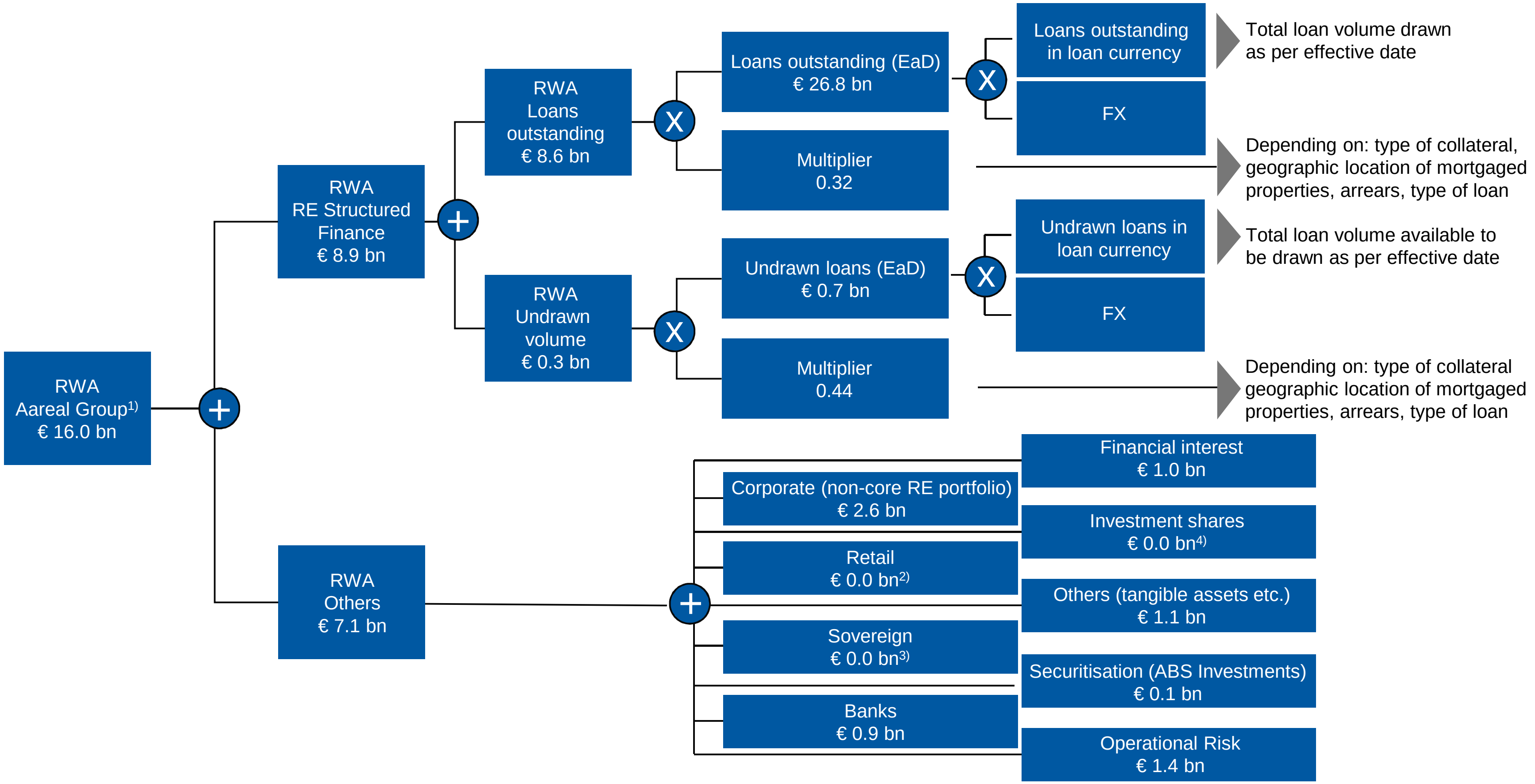
Diversification continuously strengthened (in € mn)



From asset to risk weighted asset (RWA)

Essential factors affecting volume of RWA

Effective date 30/09/2014



1) Excl. market risk
2) Exposure to Retail amounts to € 18 mn
3) Exposure to Sovereigns amounts to € 15 mn
4) Exposure to investment shares amounts to € 4 mn

Definitions and contacts

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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 =** $\frac{\text{Equity + subordinated capital}}{\text{(Long + short term funding) – (Equity + subordinated capital)}}$

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Contacts

- **Jürgen Junginger**
Managing Director Investor Relations
Phone: +49 611 348 2636
juergen.junginger@aareal-bank.com

- **Sebastian Götzken**
Senior Manager Investor Relations
Phone: +49 611 348 3337
sebastian.goetzken@aareal-bank.com

- **Karin Desczka**
Investor Relations
Phone: +49 611 348 3009
karin.desczka@aareal-bank.com

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