

LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

Analyst Conference Call

Q2 2013 results

TRUSTED
SINCE 1923
90
YEARS

August 13, 2013
Dr. Wolf Schumacher, CEO – Hermann J. Merkens, CFO



**Aareal Bank
Group**

Agenda

- Environment Q2 2013
 - Q2 2013 results at a glance
 - Segment performance
 - B/S structure, capital & funding position
 - Group figures Q2 2013
 - Asset quality
 - Outlook 2013
 - Midterm outlook

 - Appendix
 - Definitions and Contacts
-



Environment Q2 2013

Expectations unchanged

Environment Q2 2013

- Different speed of recovery in Europe
- Southern European economies are still struggling – watch out for the Netherlands / France
- North American economic recovery faster than in Europe: fundamental or driven by FED's liquidity?
- Asian economies keep growing, China's development more uncertain
- Sovereign crisis will only occasionally affect markets
- Central Banks still lender of last resort
- Continued very low interest rate levels will help to stabilise sovereign crisis and European economies but burdening deposit margins

- **As CRE-lending business is “the” remaining segment for high margins, competition is increasing in stable markets**
- **Institutional housing industry remains stable**



Q2 2013 results at a glance



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Q2 2013 results at a glance

Solid development in 2013

	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Comments
€ mn						
Net interest income	126	121	116	119	122	<ul style="list-style-type: none"> ▪ NII turnaround despite still high cash position: Ø Q2'13: € 4.5 bn (Ø Q1'13: € 4.4 bn) (Ø Q2'12: € 4.6 bn)
Net loan loss provisions	28	17	39	30	25	<ul style="list-style-type: none"> ▪ Within normal quarterly variation ▪ Reiterating FY-guidance
Net commission income	39	38	50	39	40	<ul style="list-style-type: none"> ▪ Aareon's regular seasonal effects in Q4
Net result from trading/ non-trading/ hedge accounting	0	2	13	5	-5	<ul style="list-style-type: none"> ▪ Reflecting market volatility
Admin expenses	90	92	88	90	89	<ul style="list-style-type: none"> ▪ Within guided range
Operating profit	45	47	46	42	45	<ul style="list-style-type: none"> ▪ Solid development in 2013 despite challenging environment



Segment performance

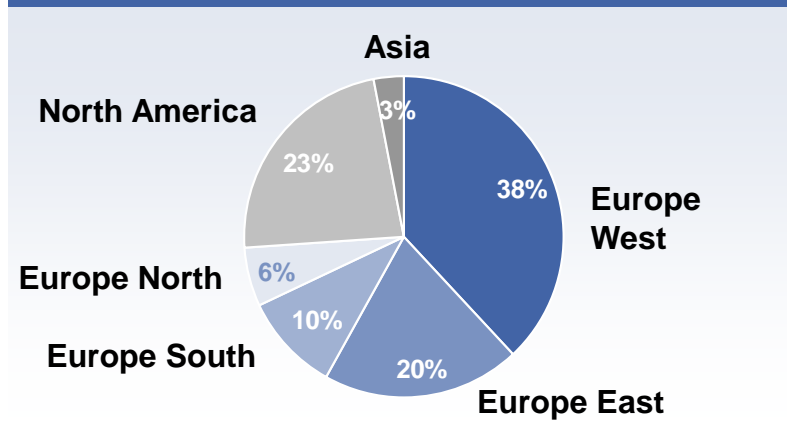


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Structured property financing

New business origination compensating high repayments

New business by region H1 2013



New business origination



P&L SPF Segment	Q2 '13	Q1 '13	Q4 '12	Q3 '12	Q2 '12
€ mn					
Net interest income	124	118	113	114	115
Loan loss provision	28	17	39	30	25
Net commission income	3	2	5	6	6
Net result from trading / non-trading / hedge accounting	0	2	13	5	-5
Admin expenses	47	50	44	51	47
Others	-2	-4	-4	-2	0
Operating profit	50	51	44	42	44

- € 7- 8 bn possible (FY target range: € 6 - 7 bn)
- Higher repayments driven by more liquidity in the markets are compensated by higher new business origination
- Increasing competition in core markets / for prime locations
- Targeted CRE book at the end of 2013: ~ € 25 bn



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Consulting / Services

Solid in IT & volumes – weak in deposit margins

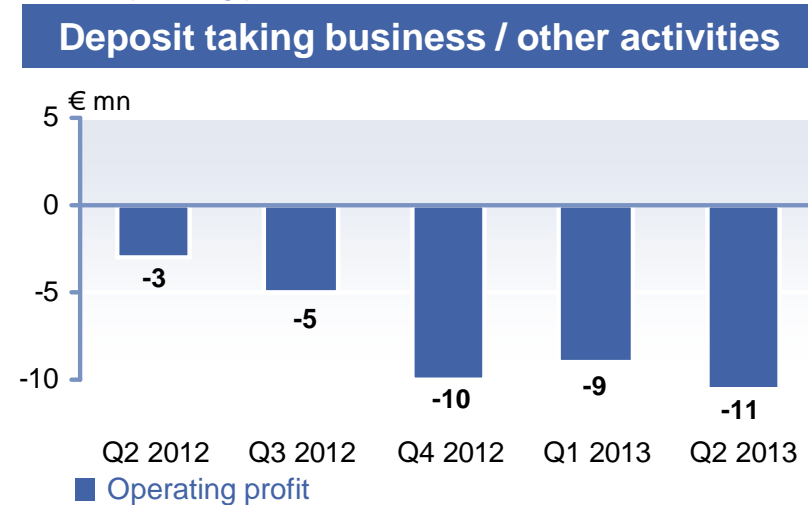
P&L C/S Segment (industry format)	Q2 '13	Q1 '13	Q4 '12	Q3 '12	Q2 '12
€ mn					
Sales revenue	44	44	54	44	47
Own work capitalised	1	1	1	0	1
Changes in inventory	0	0	0	0	0
Other operating income	1	0	1	1	3
Cost of material purchased	5	5	5	5	6
Staff expenses	29	29	31	27	28
D, A, impairment losses	4	3	4	3	3
Results at equity acc. investm.	-	-	-	-	-
Other operating expenses	13	12	14	10	13
Results from interest and similar	0	0	0	0	0
Operating profit	-5	-4	2	0	1

- Performance of Aareon within guidance
- Interest rate environment burdens segment results
- Deposit volume of the housing industry further increased:
 - Ø Q2 '13: € 7.2 bn
 - Ø Q1 '13: € 6.7 bn
 - Ø Q2 '12: € 5.5 bn
- 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



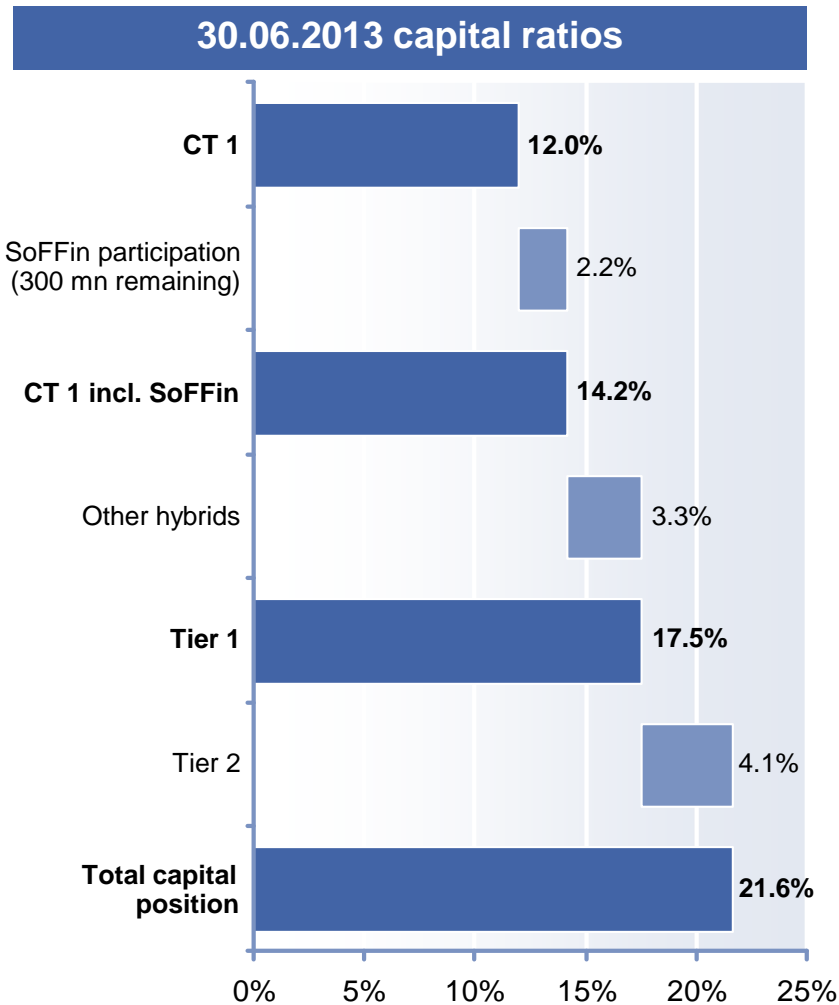
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B/S structure, capital & funding position



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Strong capital ratios & stable capital structure



- 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 further capital increase
- Total capital position incl. § 340f (HGB¹⁾-reserve recognised as Tier II helping to absorb potential intra-year adverse market development of GIIPS countries.

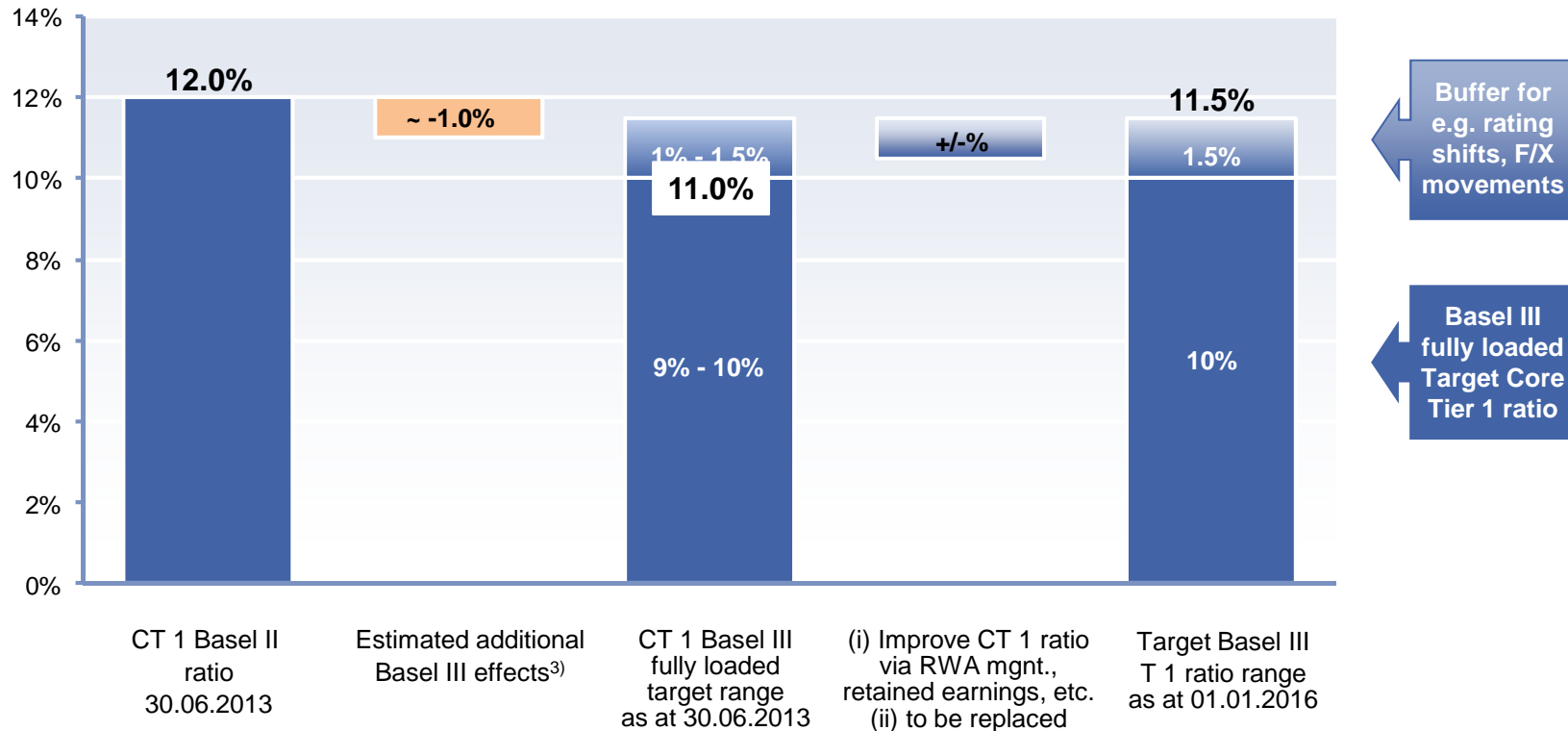
1) HGB (Handelsgesetzbuch) = German-GAAP



Core Tier 1 under Basel III fully loaded¹⁾

Target Tier 1 as at 01.01.2016: 11,5%

Simulation: estimated Basel III effects per 30.06.2013²⁾



1) ex SoFFin and ex Basel II-hybrids

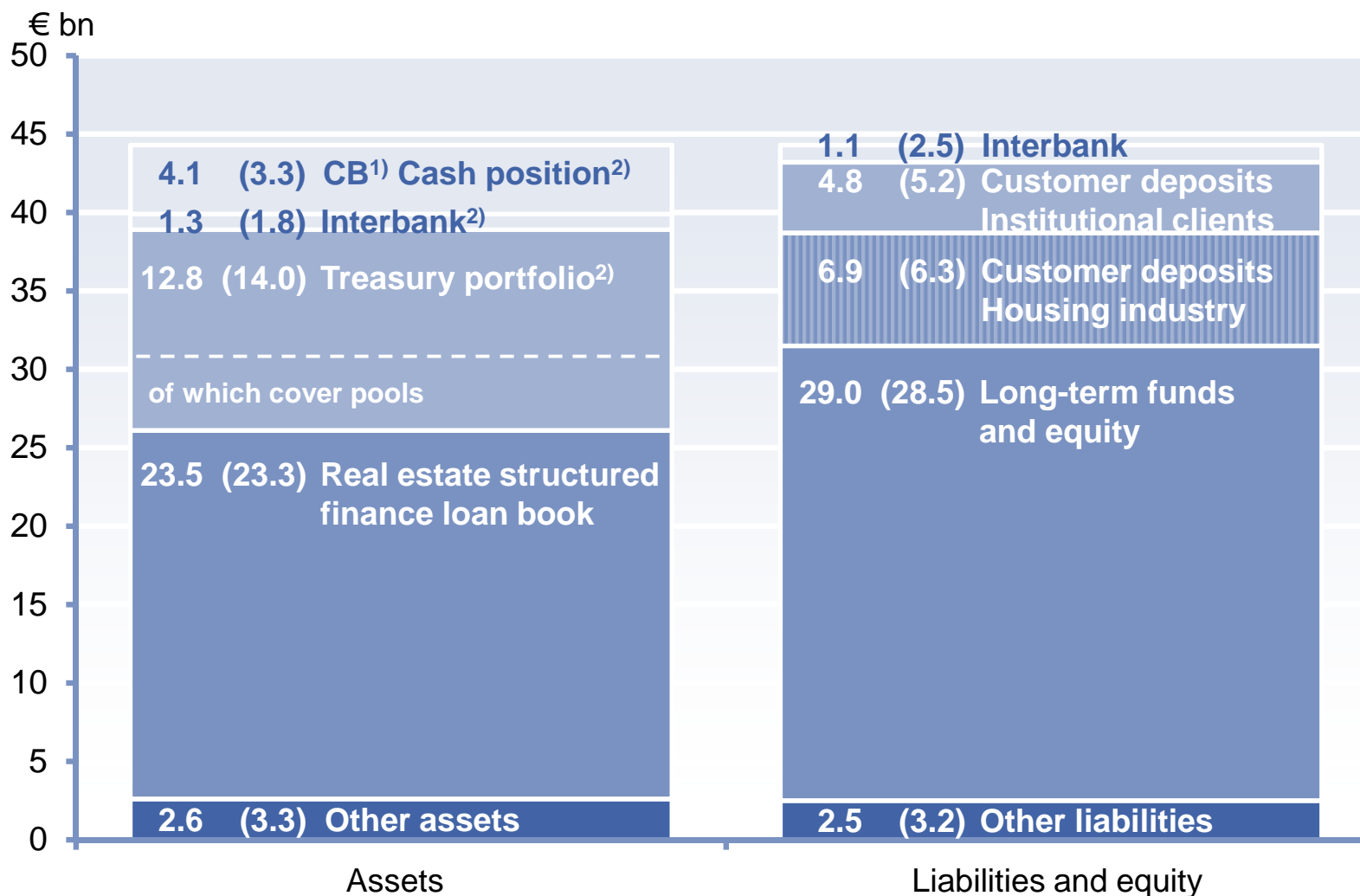
2) Actual figures may vary significantly from estimates

3) Estimated impact of Basel III implementation due to capital deductions and counterparty credit risk



Asset- / Liability structure according to IFRS

As at 30.06.2013: € 44.3 bn (31.12.2012: € 45.7 bn)



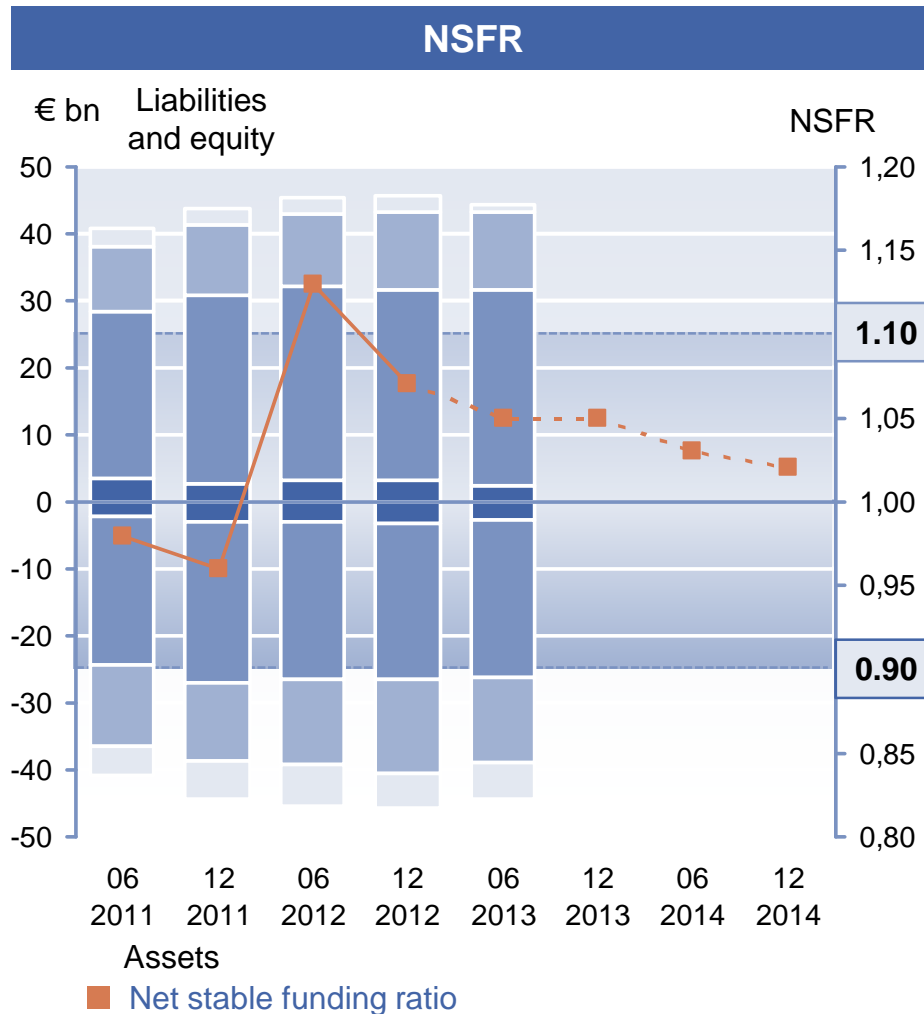
1) CB: Central banks

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



Net stable funding- / Liquidity coverage ratio

Fulfilling Basel III requirements



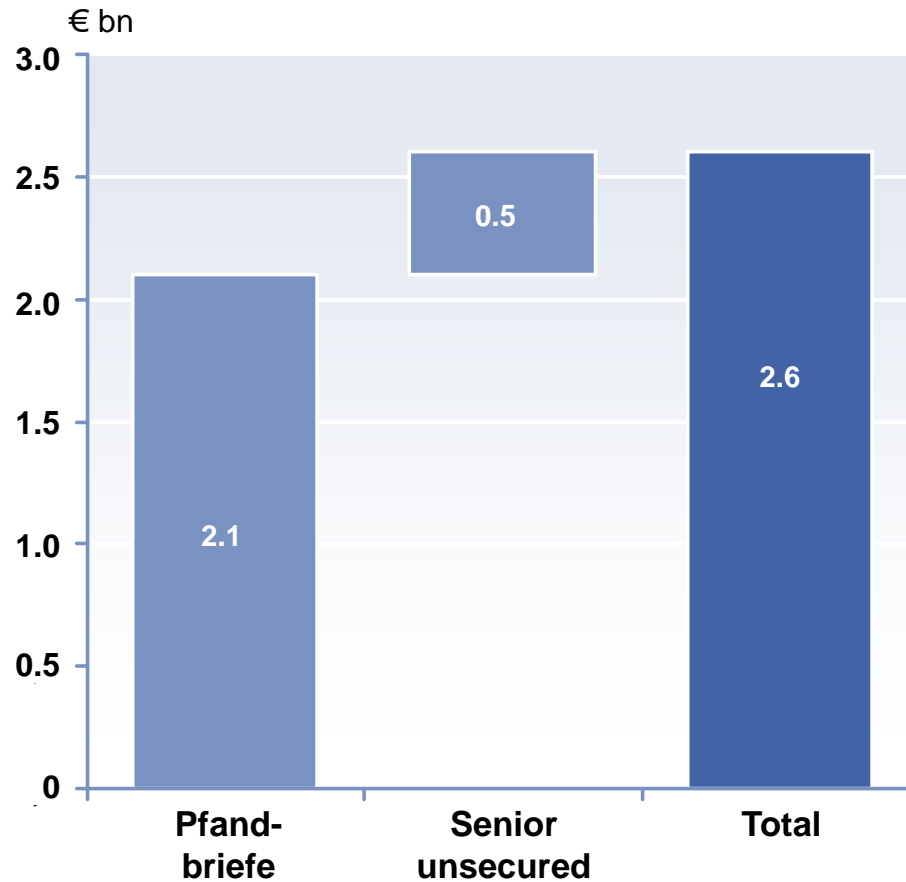
- Aareal Bank already fulfils future requirements
 - NSFR > 1.0
 - LCR >> 1.0
- Basel III and CRD IV require specific liquidity ratios starting end 2018
- NSFR (net stable funding ratio) reflects long term funding situation
- LCR (liquidity coverage ratio) reflects short term liquidity
- High NSFR ratio reflects successful funding activities



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Refinancing situation 2013

Successful funding activities



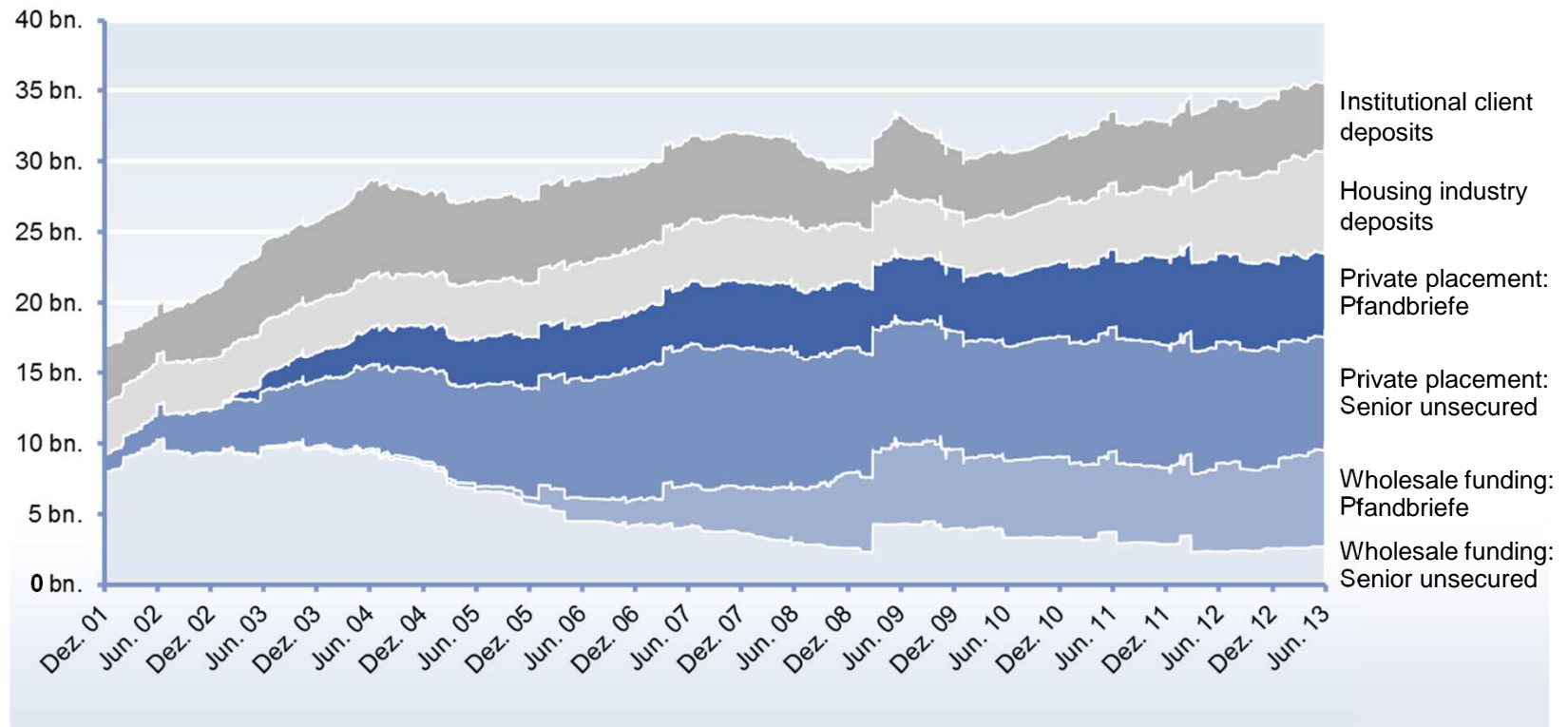
Total funding of € 2.6 bn in H1 2013

- Pfandbriefe:
 - € 2.1 bn
 - thereof two benchmark mortgage Pfandbriefe:
 - € 625 mn and € 500 mn
 - thereof one foreign currency mortgage Pfandbrief:
 - £ 200 mn
- Senior unsecured:
 - € 0.5 bn
- Additional subordinated debt (LT2):
 - € 45 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 30.06.2013, this share has fallen below 28% (or even below 10% without Pfandbriefe)

As at 30.06.2013



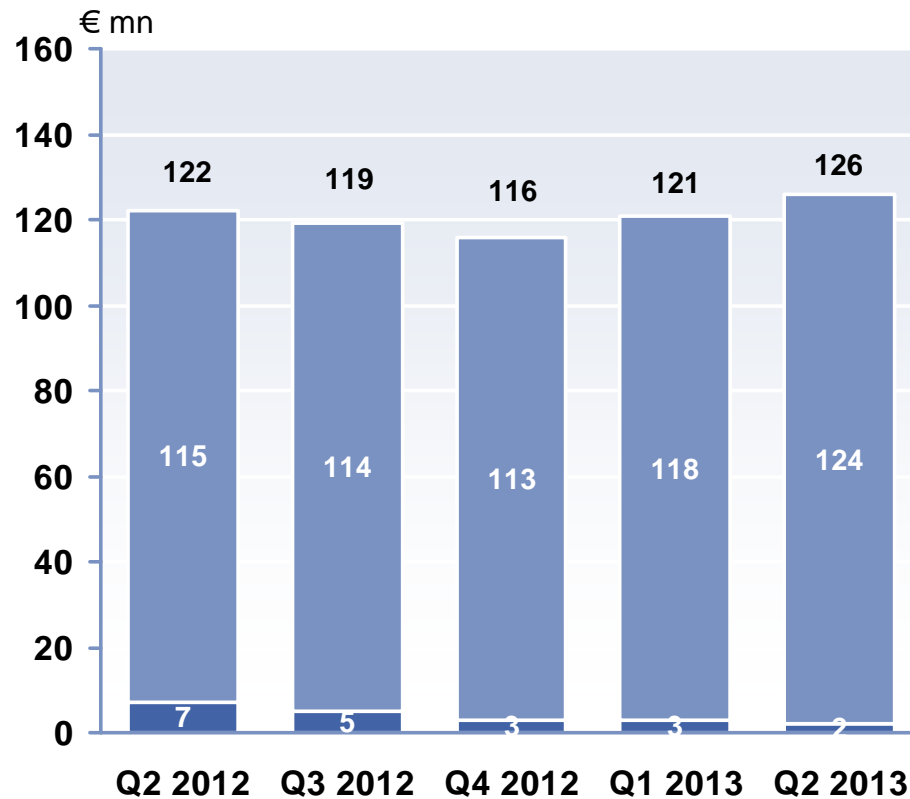
Group figures Q2 2013



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Net interest income

NII picking up further



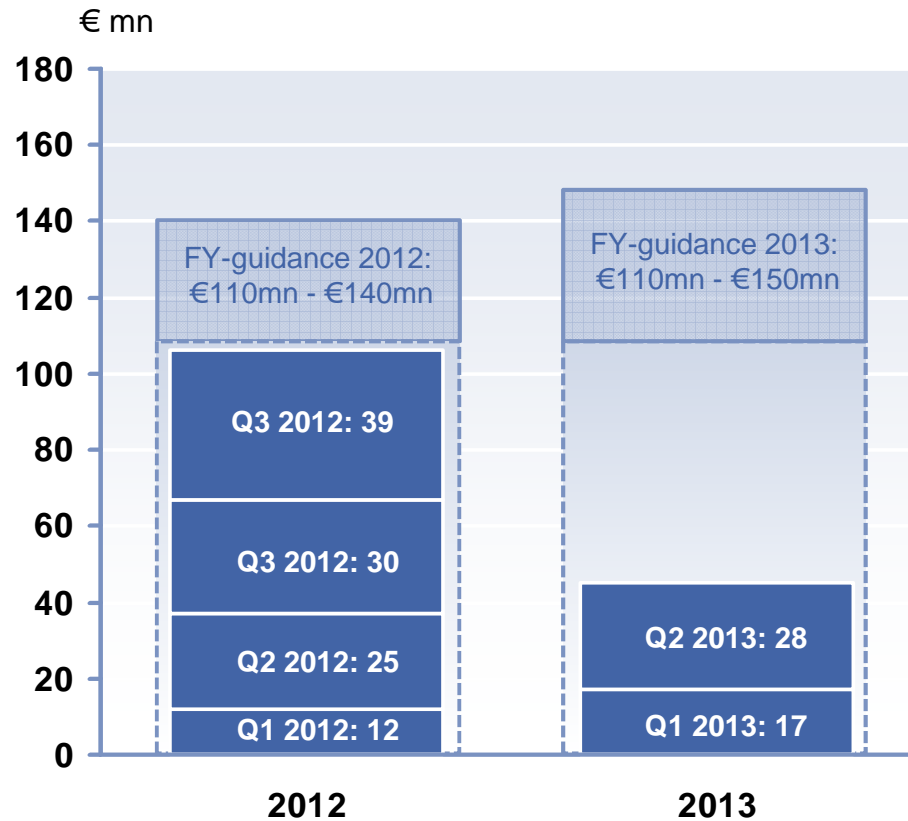
■ NII Structured Property Financing
 ■ NII Consulting / Services

- NII turnaround due to higher margins from the CRE business overcompensating the burden from the low interest rate environment
- Due to market volatility and only very limited investment opportunities a considerable part of liquidity is still parked with central banks (Ø Q2: € 4.5 bn)
- NII Consulting / Services further burdened by interest rate environment
- Aareal Bank already fulfils future NSFR / LCR requirements



Loan loss provisions

Within normal quarterly variation



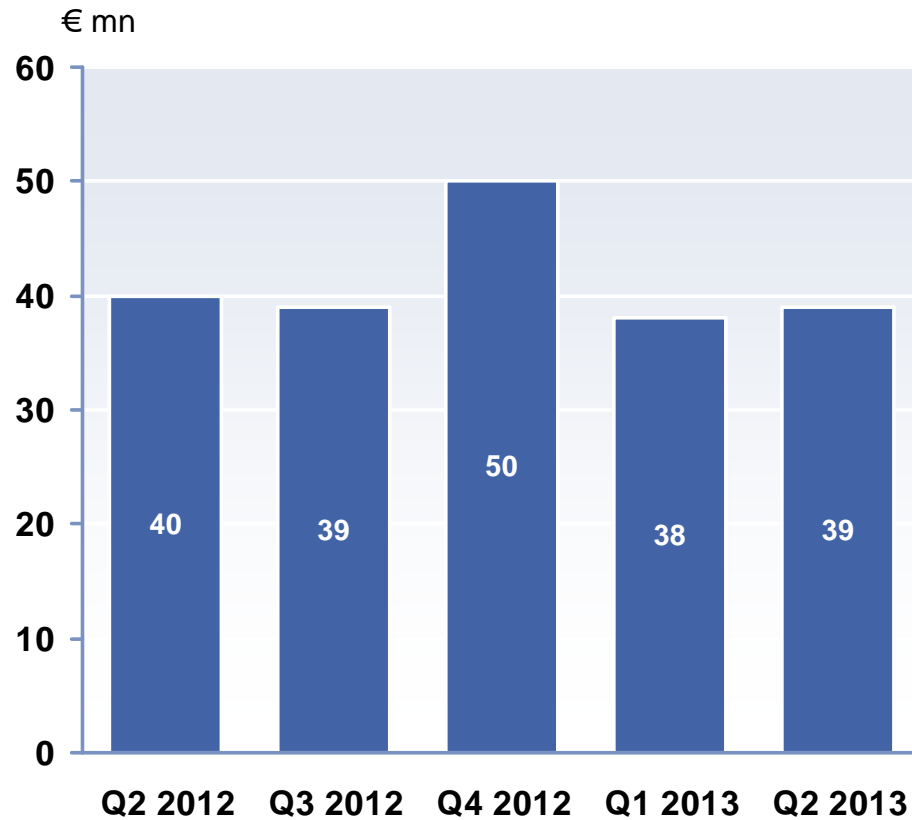
- Close monitoring of the loan portfolio and successful restructuring efforts resulted in only 44 bp risk costs on average loan book in 2012
- € 28 mn LLP in Q2 2013 proves high portfolio quality
- Wider FY-range due to expected portfolio growth and recessive economies: € 110 mn - € 150 mn

■ FY guidance



Net commission income

Within normal quarterly variation

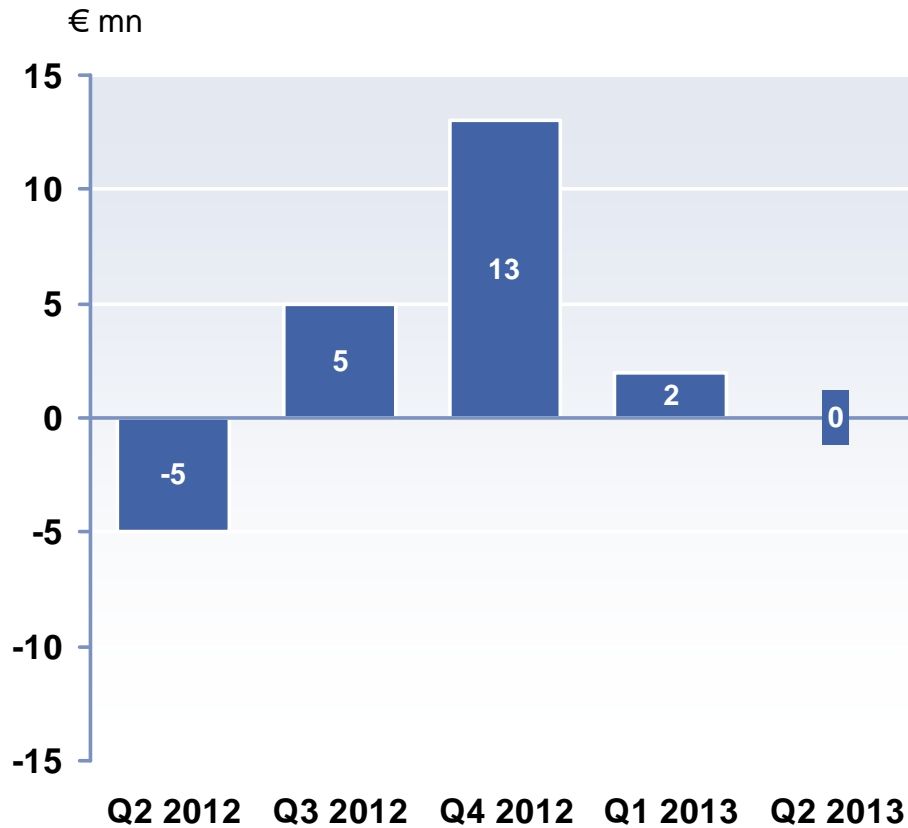


■ Strong Aareon revenue regularly pushing Q4



Net result: trading/non trading/hedge accounting

Result reflects volatile markets

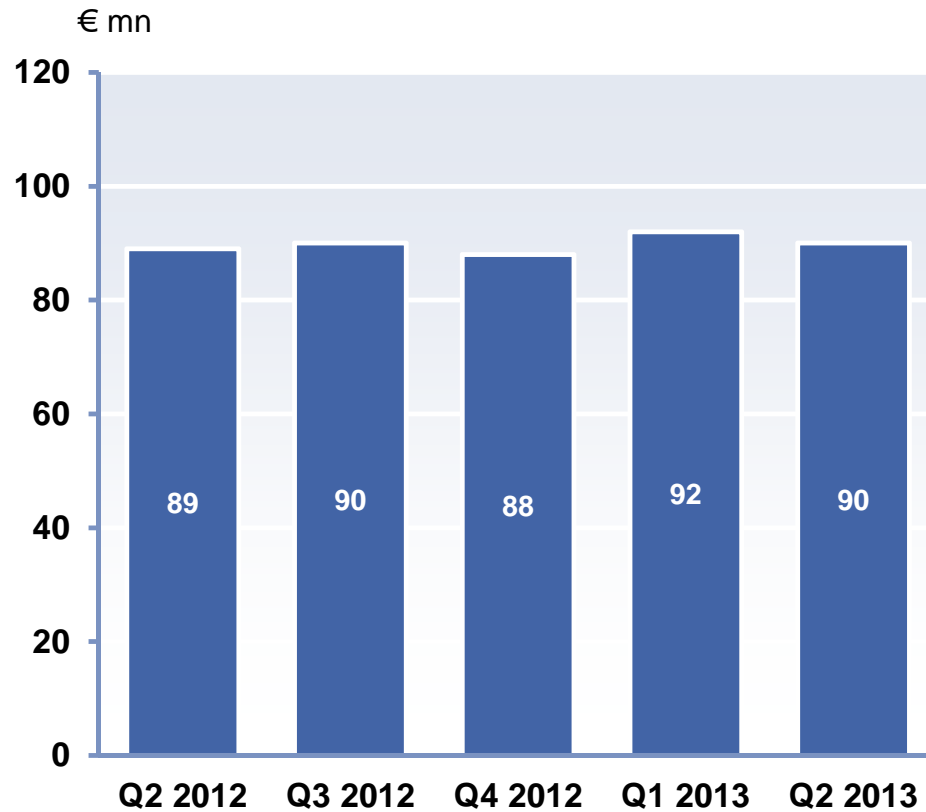


- High market volatility reflected in net result from trading, non-trading and hedge accounting



Admin expenses

Within guided range



- Forecasted slightly rising admin expenses reflect
 - Positive effects from efficiency measures (carried out in the previous years) keeping admin expenses on a constant level
 - Regulatory projects
 - Inflation



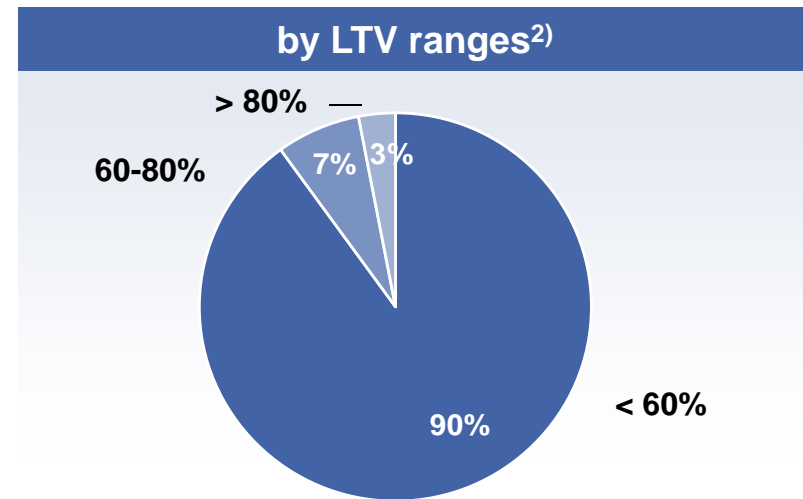
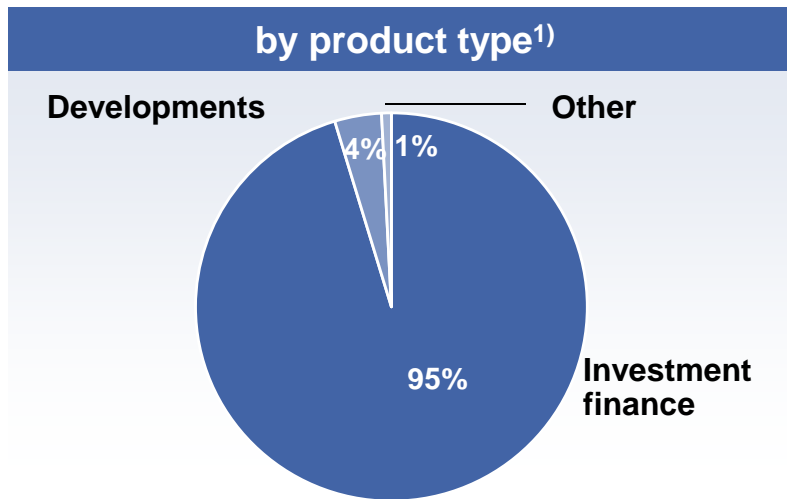
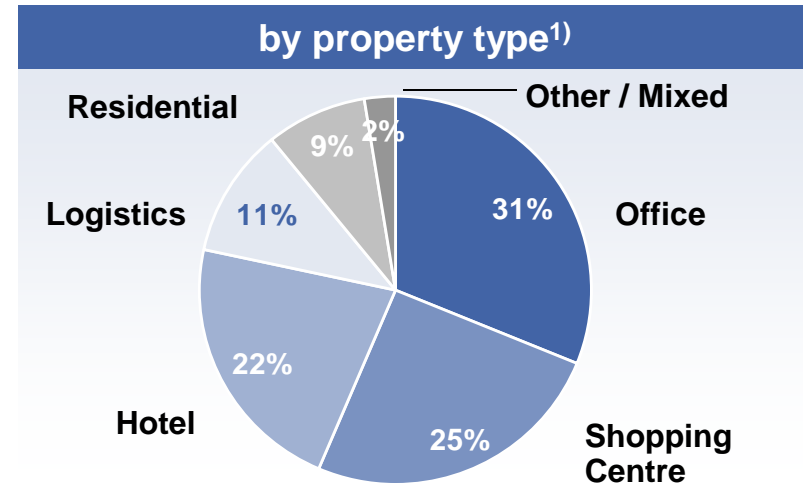
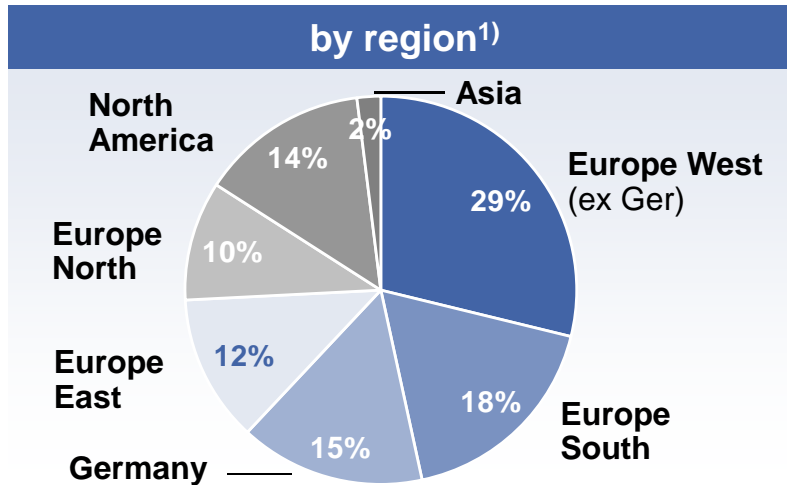
Asset quality



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Total property finance portfolio

High diversification and sound asset quality



1) Total volume under management: € 23.7 bn as at 30.06.2013
(consisting of € 23.5 bn Structured Property Financing portfolio of Aareal Bank AG
and € 0.2 bn property loans managed on behalf of Deutsche Pfandbriefbank AG)

2) Performing business only, exposure as at 30.06.2013



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Total property finance portfolio

Continuing conservative approach

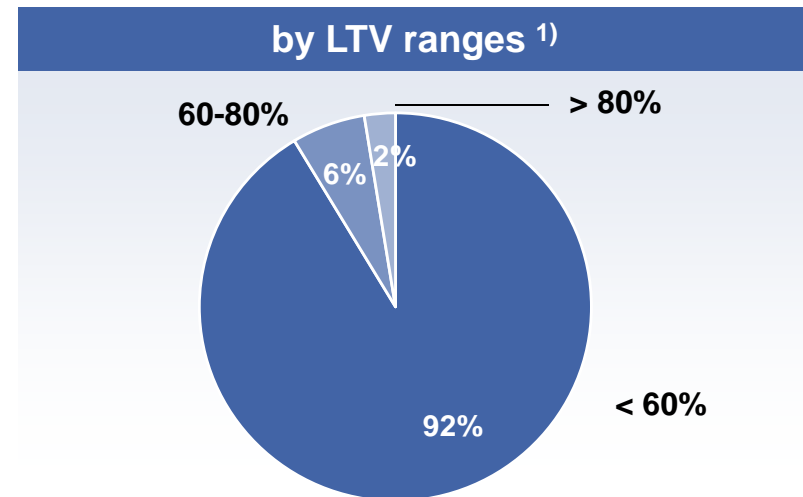
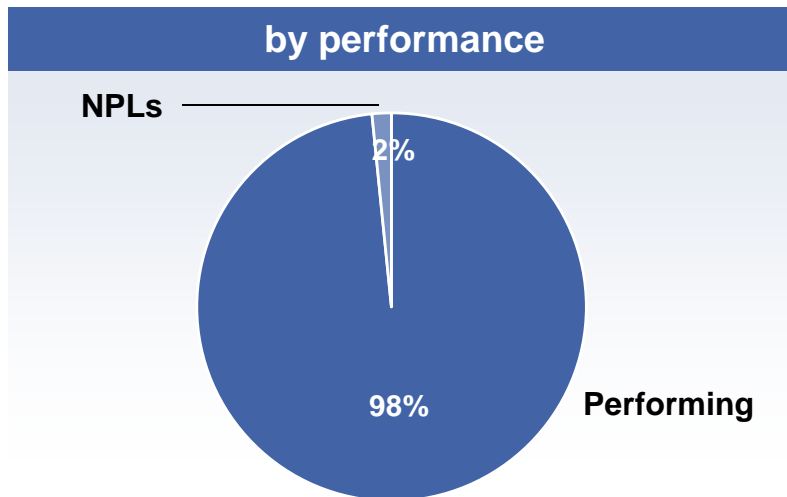
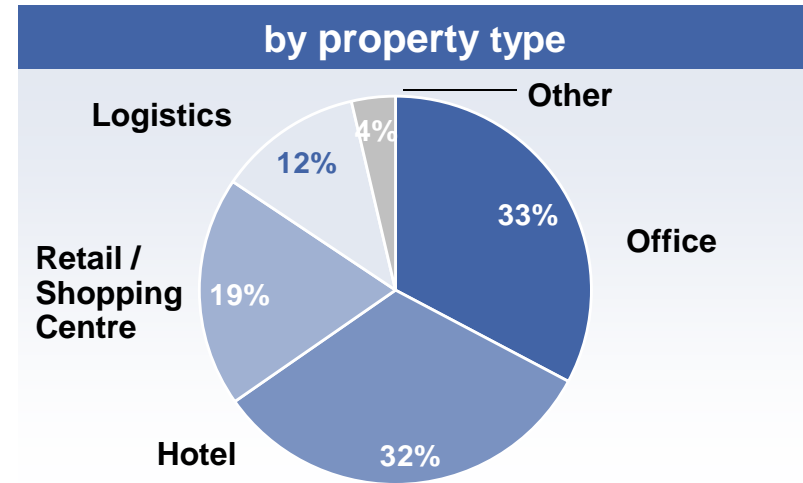
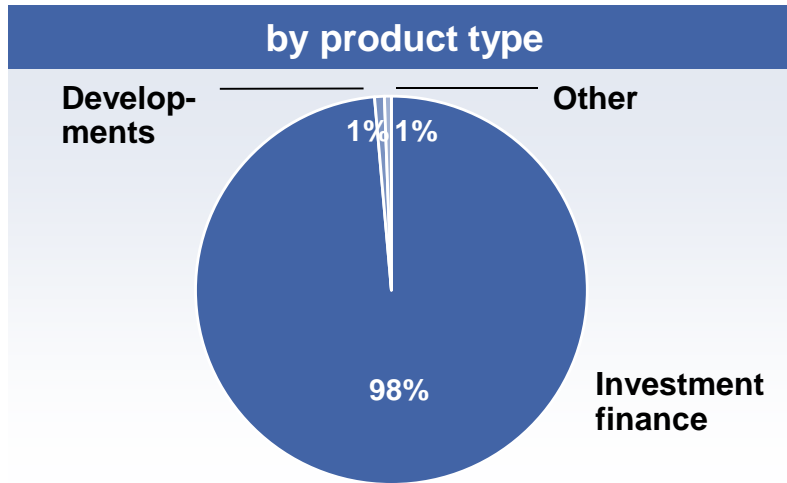
NPL- and LLP development			
	NPL Exposure ¹⁾	Specific Allowances ¹⁾	Portfolio Allowances ²⁾
€ mn			
As at 31.12.2012	827	227	91
Utilisation H1 2013	-221	-51	-
Addition H1 2013	69	45	-
As at 30.06.2013	675	221	91
Coverage ratio specific allowances		32.7%	
		221	91
As at 30.06.2013	675	312	
Coverage ratio incl. portfolio allowances		46.2%	

- 1) Incl. property finance portfolio still on DEPFA's balance sheet
 2) Portfolio allowances mainly reflect Basel II expected losses which are calculated on the bases of specific loans in most cases



Western Europe (ex Ger) credit portfolio

Total volume outstanding as at 30.06.2013: € 6.9 bn

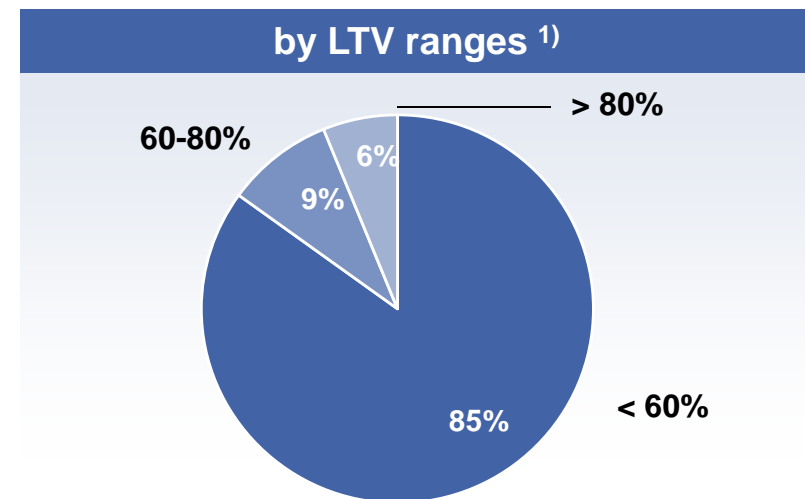
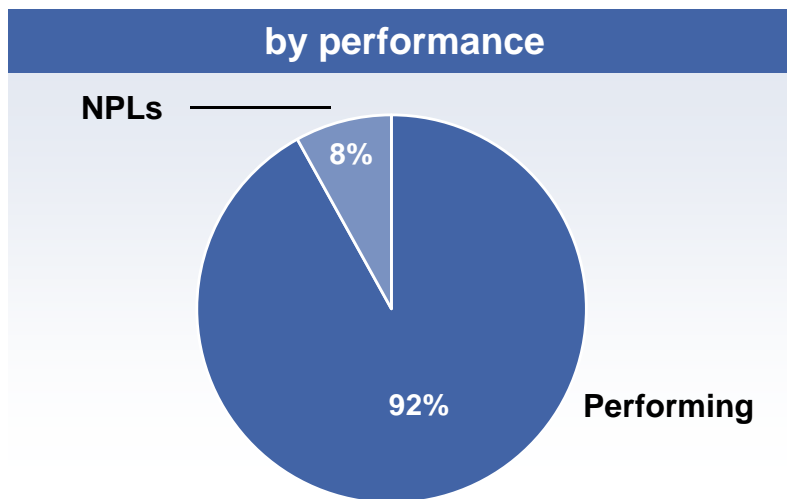
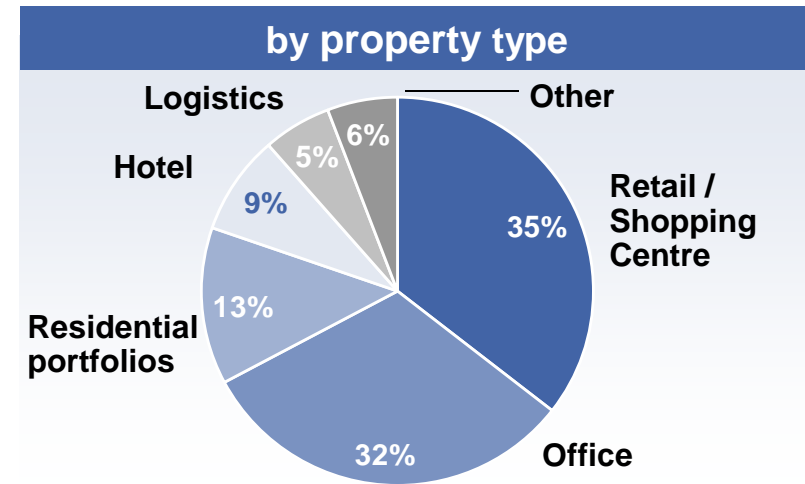
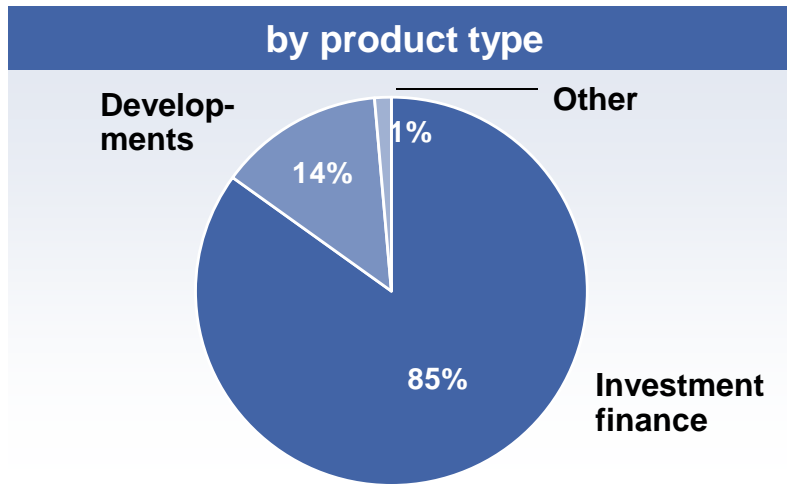


1) Performing business only, exposure



Southern Europe credit portfolio

Total volume outstanding as at 30.06.2013: € 4.2 bn

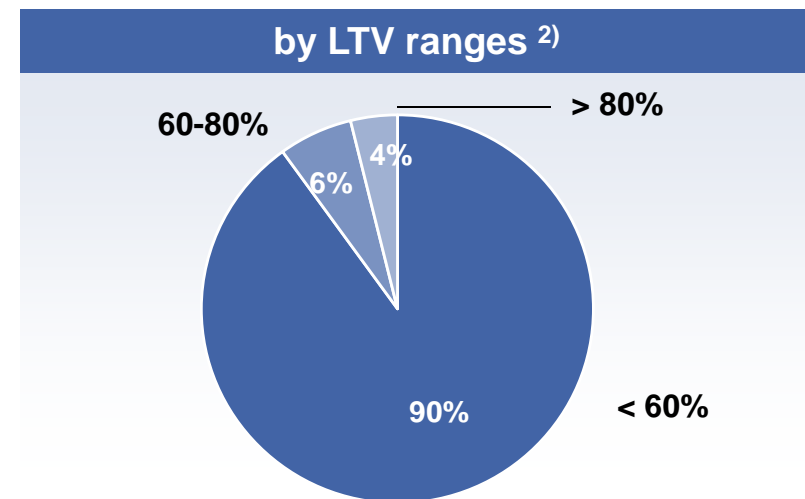
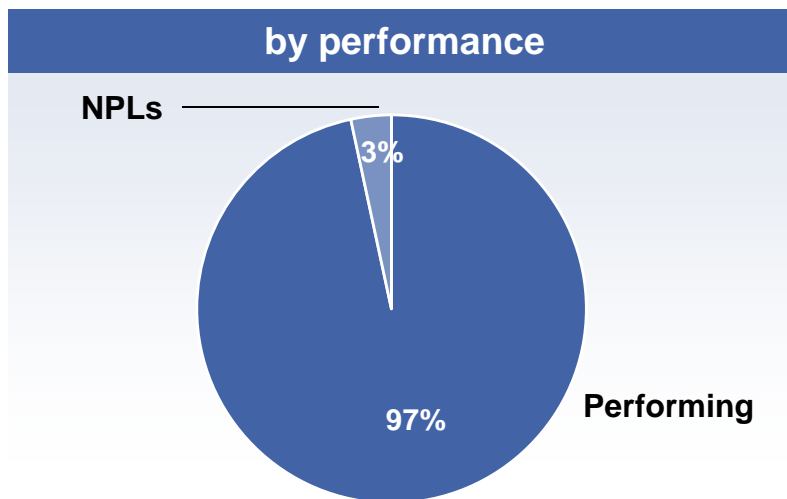
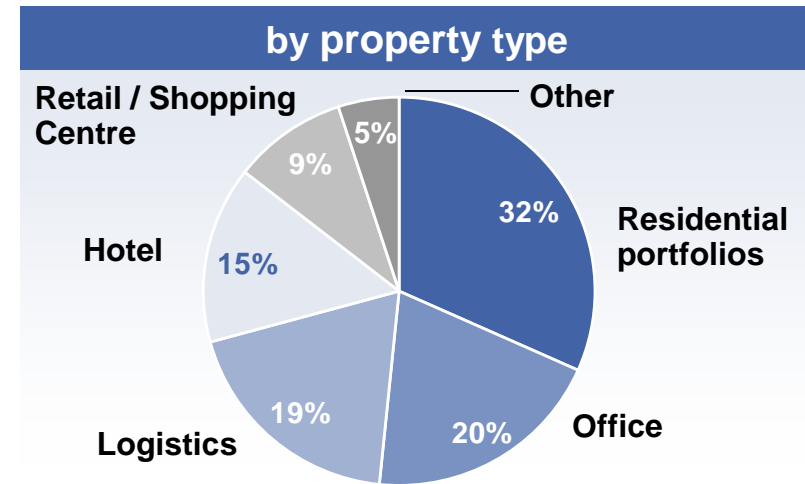
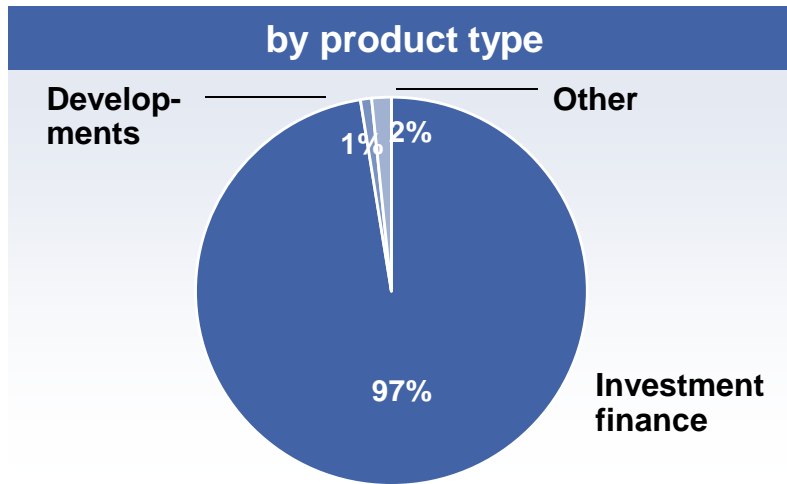


1) Performing business only, exposure



German credit portfolio

Total volume outstanding as at 30.06.2013: € 3.6 bn¹⁾

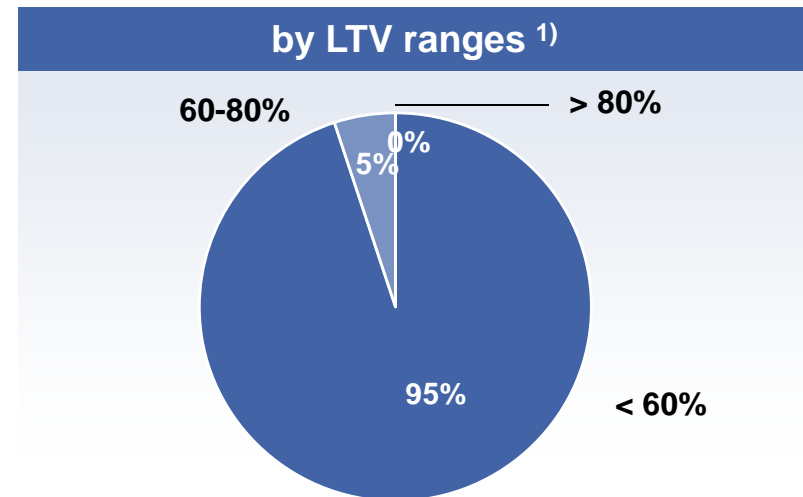
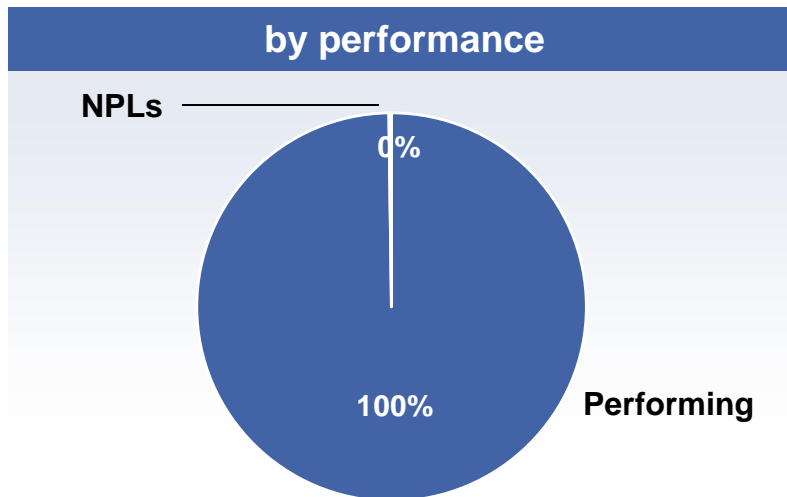
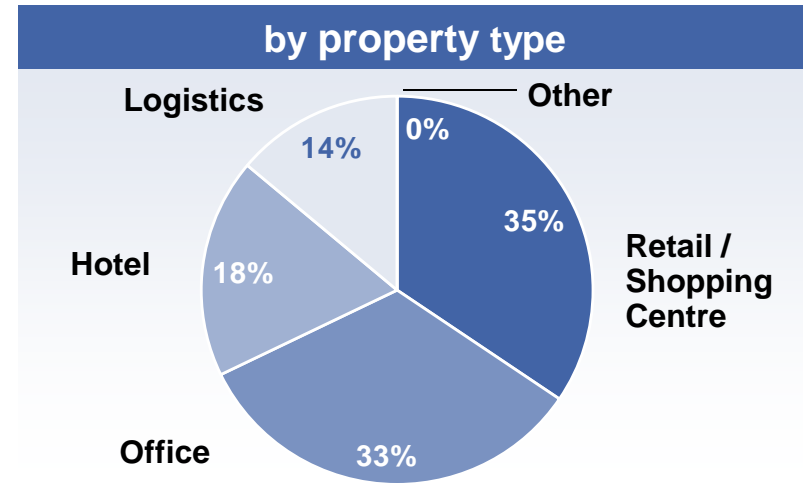
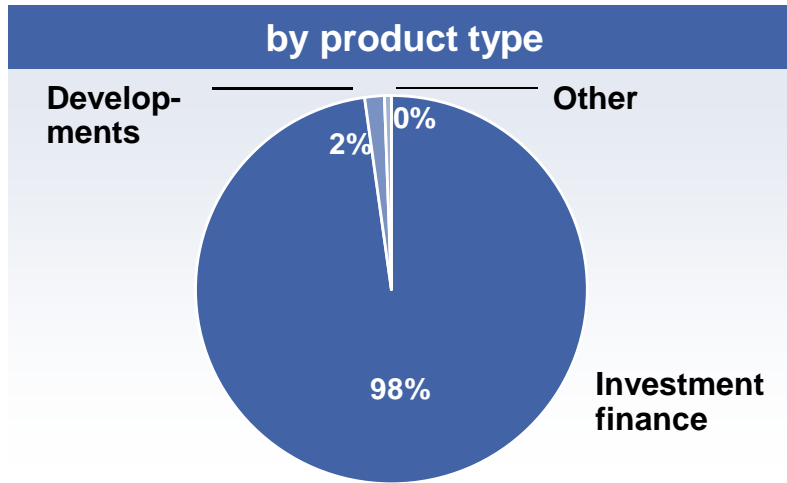


1) Including € 0.2 bn property loans managed on behalf of Deutsche Pfandbriefbank AG
 2) Performing business only, exposure



Eastern Europe credit portfolio

Total volume outstanding as at 30.06.2013: € 2.9 bn

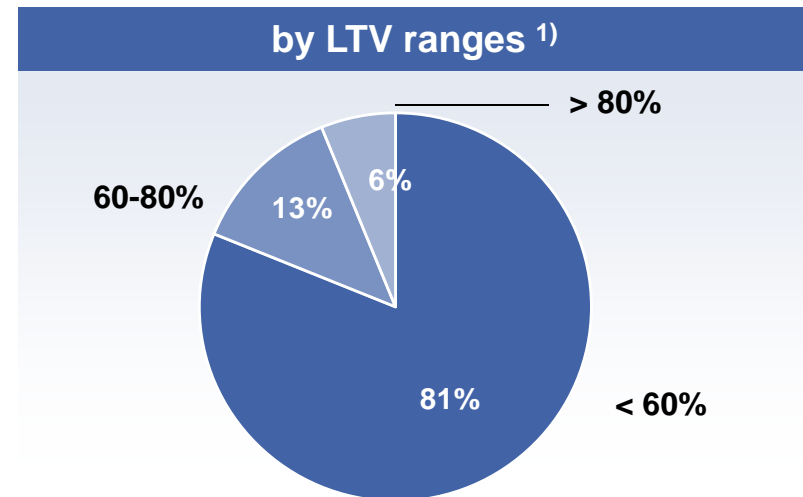
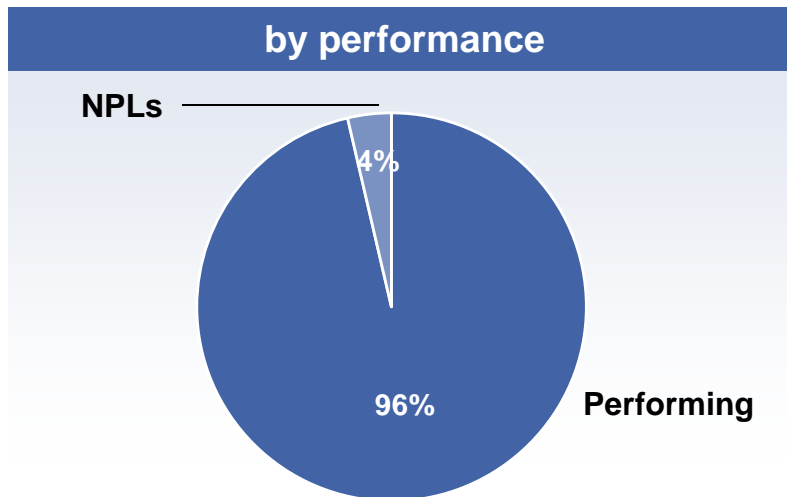
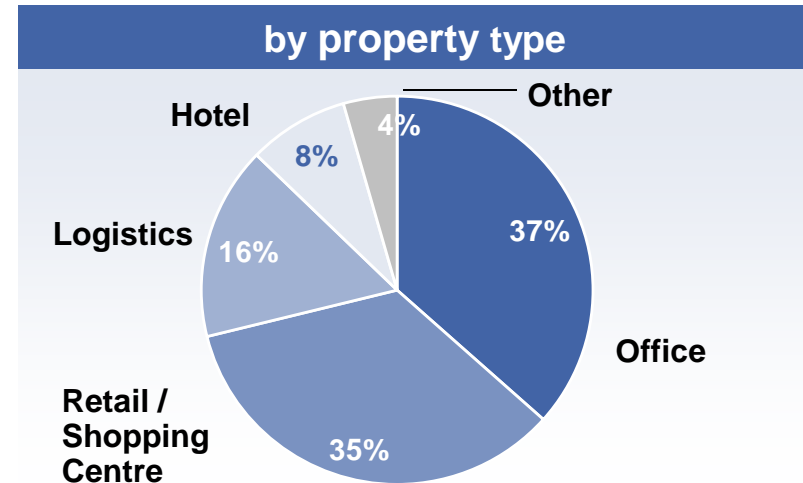
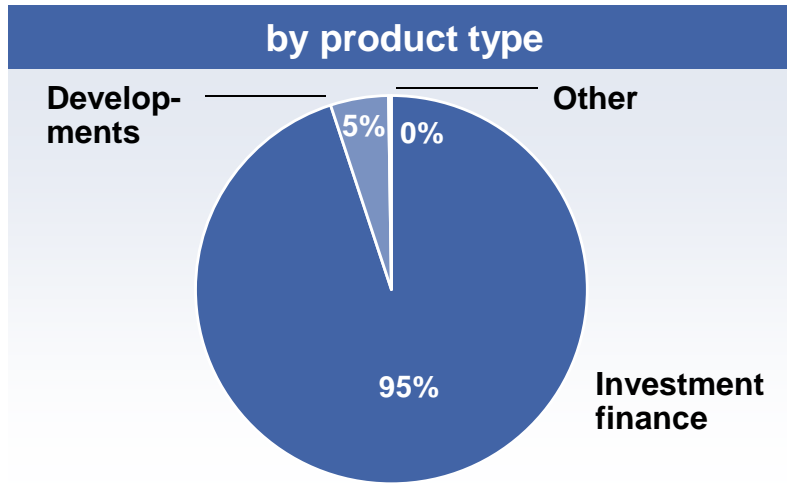


1) Performing business only, exposure



Northern Europe credit portfolio

Total volume outstanding as at 30.06.2013: € 2.4 bn

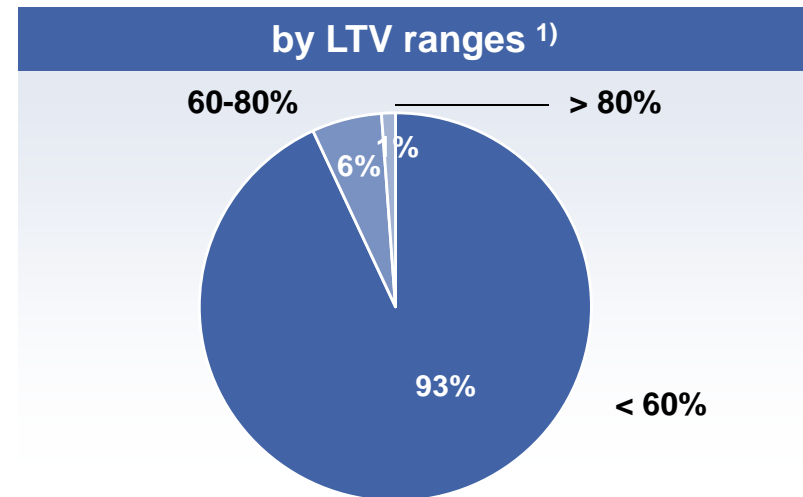
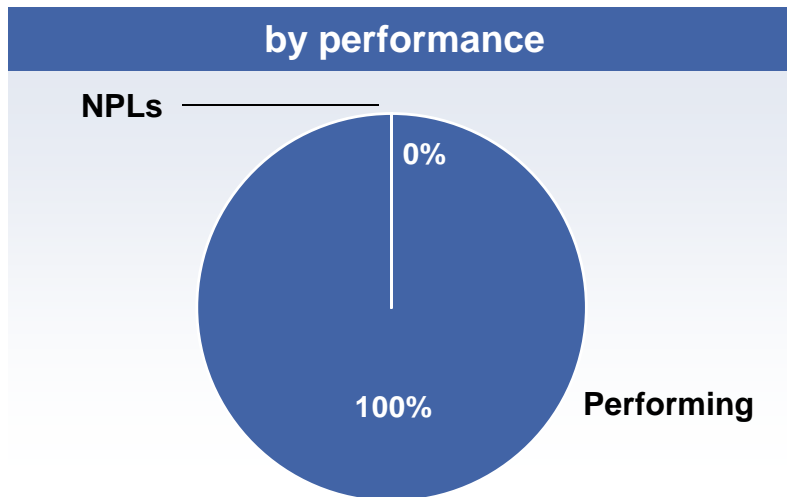
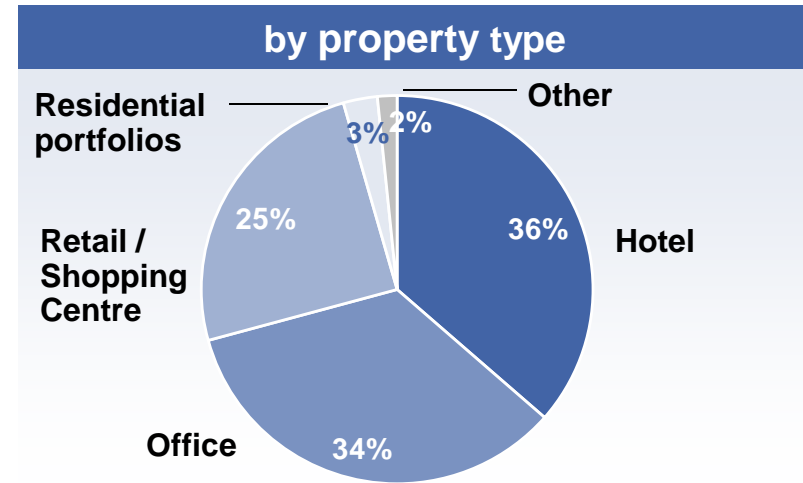
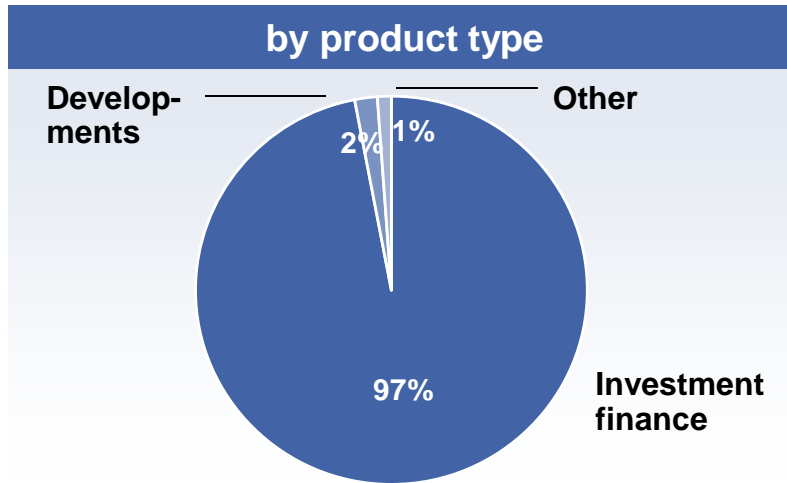


1) Performing business only, exposure



North America credit portfolio

Total volume outstanding as at 30.06.2013: € 3.2 bn

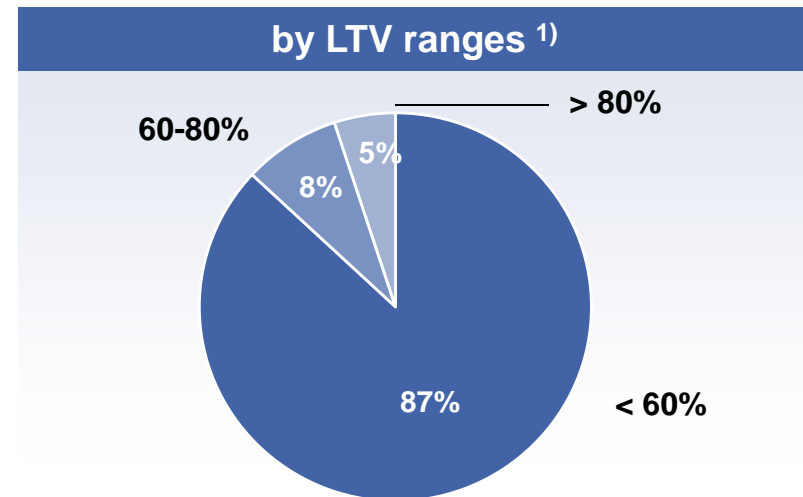
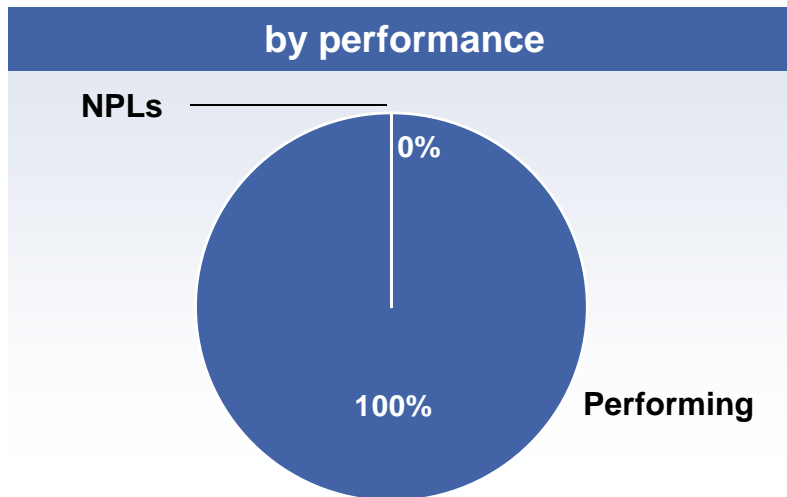
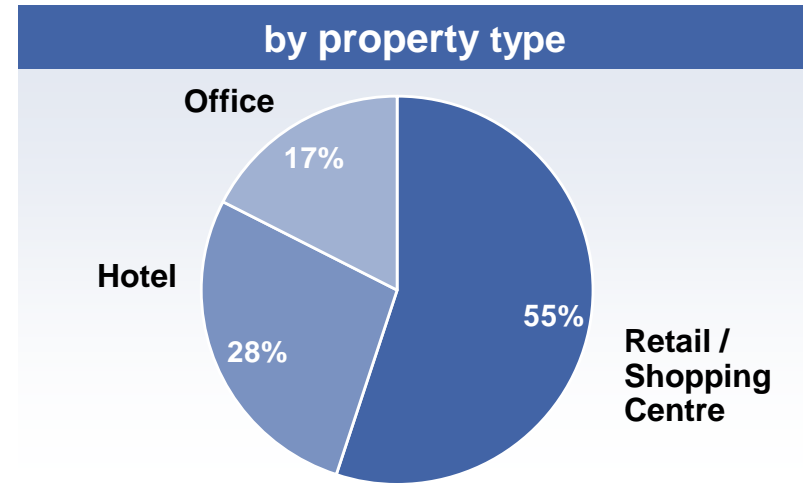
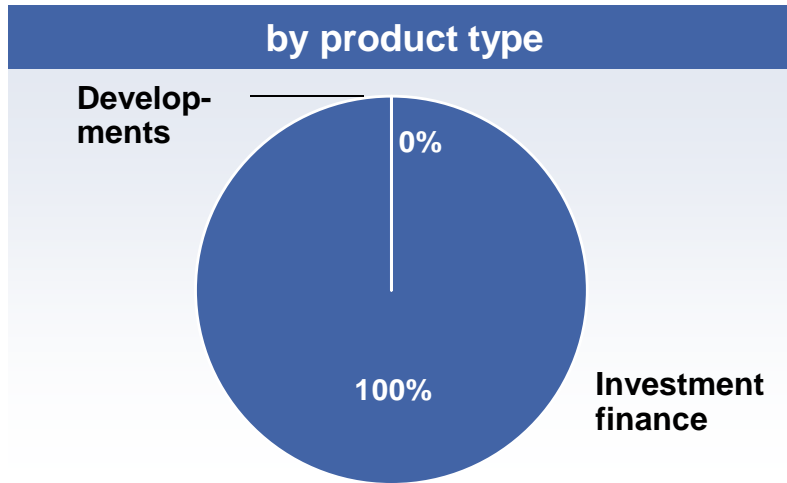


1) Performing business only, exposure



Asia credit portfolio

Total volume outstanding as at 30.06.2013: € 0.5 bn

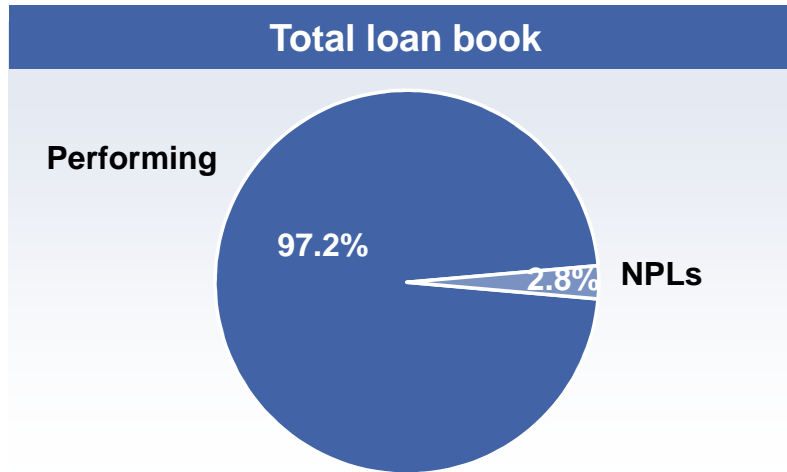


1) Performing business only, exposure



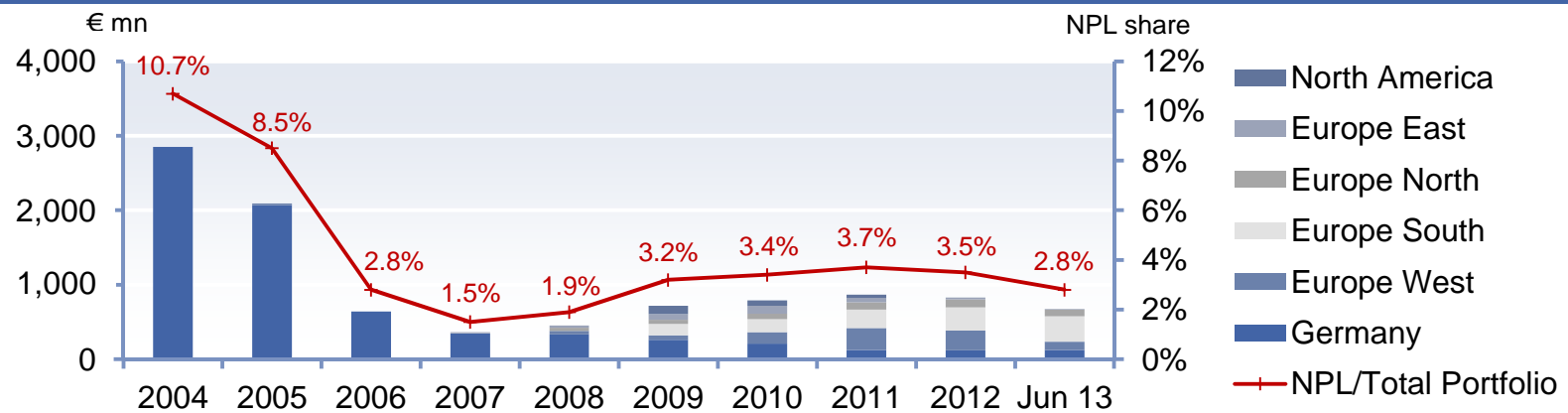
Total property finance portfolio

€ 23.7 bn of high quality real estate assets



	Nominal (in mn €)	Average LTV	NPLs (in mn €)
Greece	-	-	-
Ireland	-	-	-
Italy	3,146	64,2%	284
Portugal	-	-	-
Spain	1,064	87,7%	58

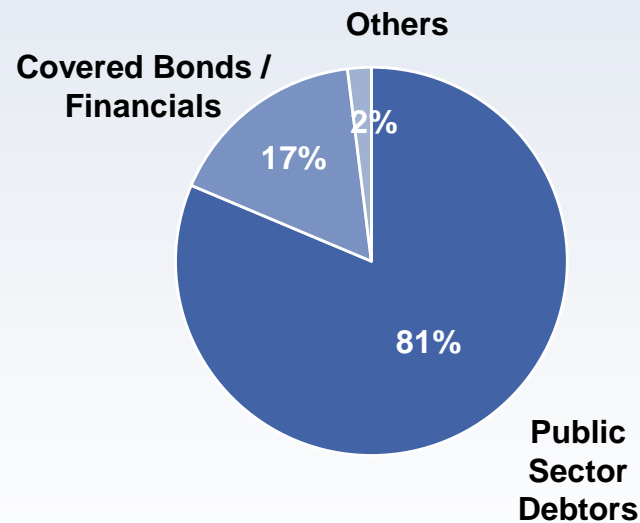
NPL and NPL-ratio (since 12.2004)



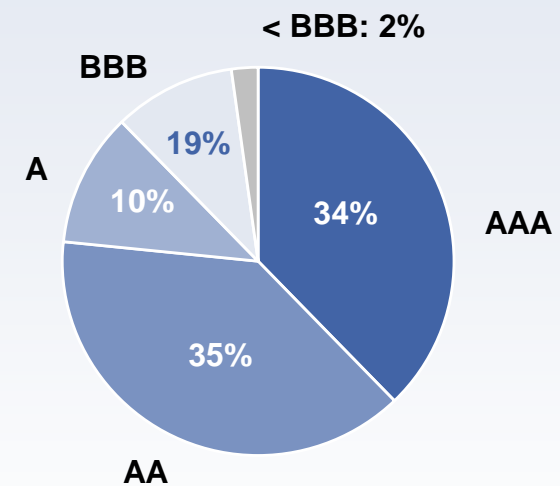
Treasury portfolio

€ 11.3 bn of high quality and highly liquid assets

by asset class



by rating ¹⁾



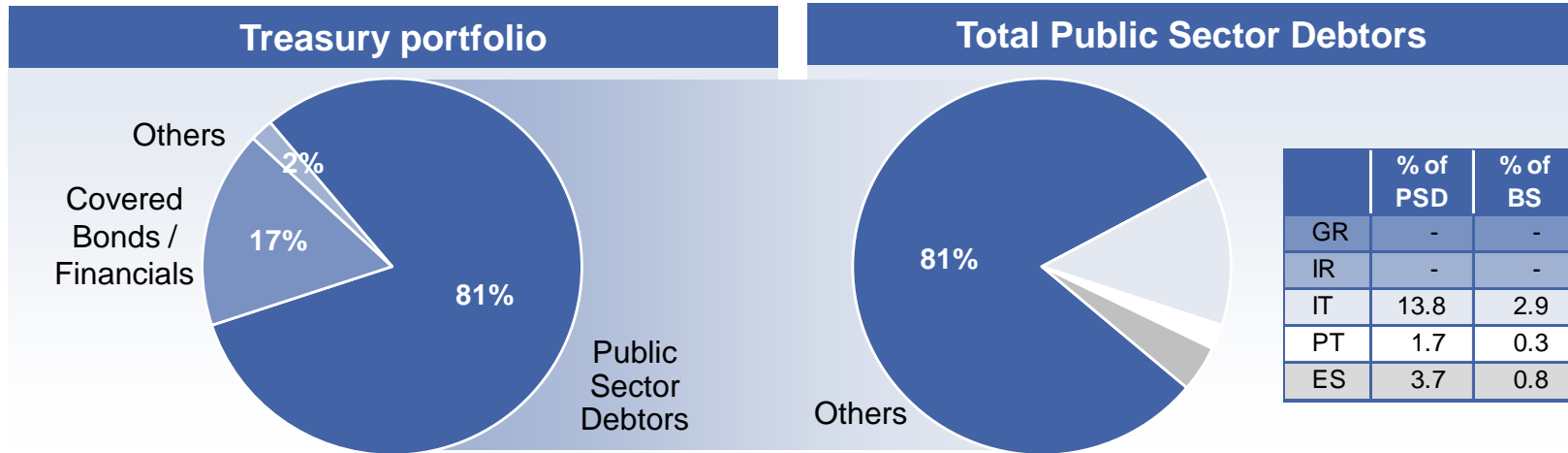
As at 30.06.2013 – all figures are nominal amounts

1) Composite Rating



Treasury portfolio

€ 9.2 bn Public Sector Debtors



Sovereign			
€ mn	Nominal	Revaluation reserve ²⁾	Hidden reserves / burdens ³⁾
Greece	-	-	-
Ireland	-	-	-
Italy	1,269	-76	-165
Portugal	100	-11	-
Spain	-	-	-

Sub-Sovereign ¹⁾			
€ mn	Nominal	Revaluation reserve ²⁾	Hidden reserves / burdens ³⁾
Greece	-	-	-
Ireland	-	-	-
Italy	-	-	-
Portugal	55	0	-14
Spain	337	1	-64

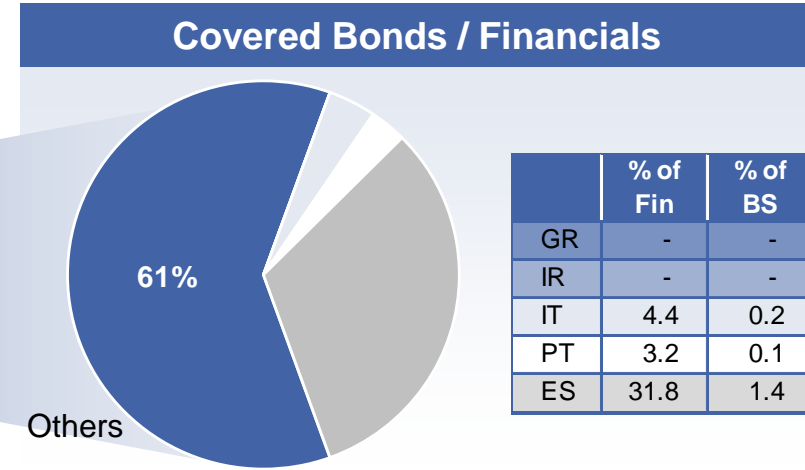
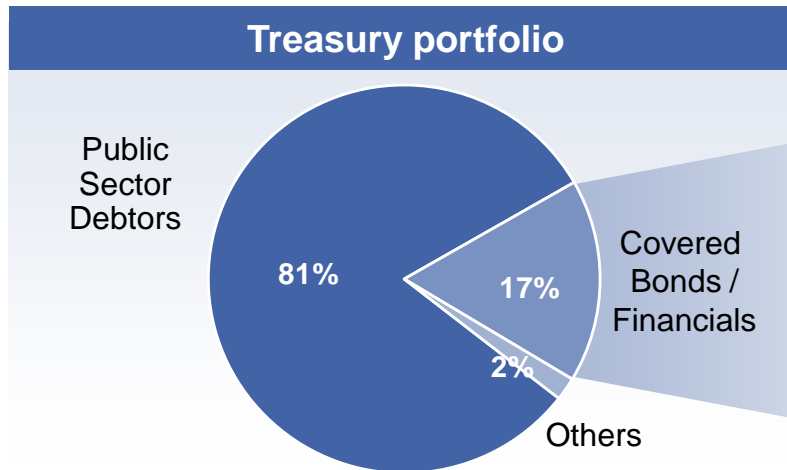
- 34
- 1) Incl. exposure of € 50 mn which is additionally guaranteed by the Sovereign
 - 2) Incl. securities of the AfS- and the LaR-category after tax
 - 3) Incl. securities of the LaR-category after tax



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Treasury portfolio

€ 1.9 bn Financials



Covered Bonds

€ mn	Nominal	Revaluation reserve ¹⁾	Hidden reserves / burdens ²⁾
Greece	-	-	-
Ireland	-	-	-
Italy	70	0	-
Portugal	60	-6	-
Spain	601	-5	-6

Senior Unsecured

€ mn	Nominal	Revaluation reserve ¹⁾	Hidden reserves / burdens ²⁾
Greece	-	-	-
Ireland	-	-	-
Italy	13	0	-
Portugal	-	-	-
Spain	-	-	-

1) Incl. securities of the AfS- and the LaR-category after tax
 2) Incl. securities of the HiM- and the LaR-category after tax



Outlook



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Outlook 2013

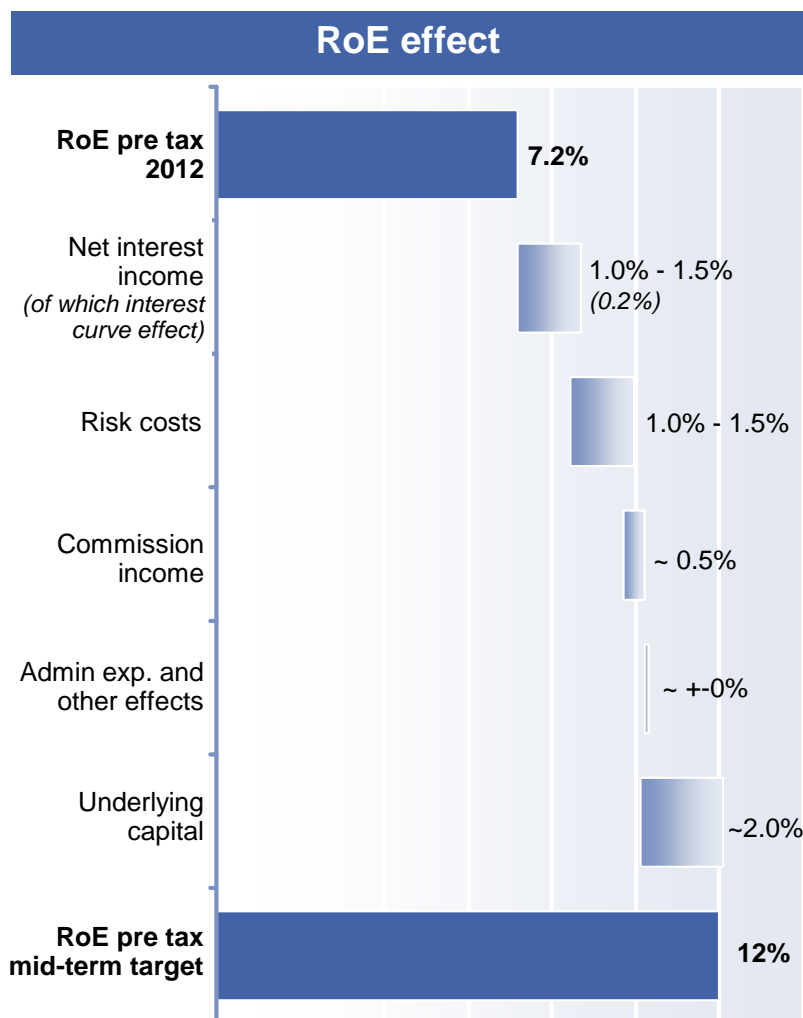
Chances to achieve operating profit on 2011 level

2013	
Net interest income	▪ Slightly above 2012 level
Net loan loss provisions	▪ Staying with the previous cautious guidance, due to portfolio growth and recessive economies: € 110 mn - € 150 mn ¹⁾
Net commission income	▪ € 165 mn - € 175 mn
Net result from trading / non-trading / hedge accounting	▪ Unpredictable / no impairments from non-trading assets expected / possibly moderate loss realisation
Admin expenses	▪ Upper end of given range of € 360 mn - € 370 mn expected
Operating profit	▪ On 2012 level / chances to achieve 2011 level (despite assumption of continuously challenging environment and necessary adaptations to a “New Normal”)
New business origination	▪ € 7 - 8 bn possible (FY-target range: € 6 - 7 bn)
Operating profit Aareon	▪ On 2012 level

1) As in 2012, the bank cannot rule out additional allowances for credit losses



Key RoE drivers from Aareal's action plan



Aareal action plan

- Optimisation funding structure / liquidity portfolio **1.**
- Slight loan portfolio growth **2.**
- *Expected Euribor increase* **3.**
- Reduction of average LTVs and risk weightings **2.**
- Increase in Aareon revenues via organic and inorganic growth **4.**
- Keep cost base under control **5.**
- Reduction of average risk weighting resulting in reduction of relative underlying capital **2.**
- Optimisation of regulatory capital structure **6.**
- Alignment or allocation of underlying capital **7.**



Appendix



**Aareal Bank
Group**

Aareal Bank Group

Key figures Q2 2013

	Quarter 2 2013	Quarter 2 2012	Change
	Euro mn	Euro mn	
Profit and loss account			
Net interest income	126	122	3%
Allowance for credit losses	28	25	12%
Net interest income after allowance for credit losses	98	97	1%
Net commission income	39	40	-3%
Net result on hedge accounting	0	5	-
Net trading income / expenses	5	-7	-
Results from non-trading assets	-5	-3	-
Results from companies accounted for at equity			-
Results from investment properties	0	2	-100%
Administrative expenses	90	89	1%
Net other operating income / expenses	-2	0	-
Impairment of goodwill	0	0	-
Operating Profit	45	45	0%
Income taxes	14	11	27%
Net income / loss	31	34	-9%
Allocation of results			
Net income / loss attributable to non-controlling interests	5	5	0%
Net income / loss attributable to shareholders of Aareal Bank AG	26	29	-10%
Appropriation of profits			
Silent partnership contribution by SoFFin	5	5	0%
Consolidated retained profit / accumulated loss	21	24	-13%



**Aareal Bank
Group**

Aareal Bank Group: Segment Reporting

Key figures Q2 2013 by operating units

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.04.- 30.06. 2013	01.04.- 30.06. 2012	01.04.- 30.06. 2013	01.04.- 30.06. 2012	01.04.- 30.06. 2013	01.04.- 30.06. 2012	01.04.- 30.06. 2013	01.04.- 30.06. 2012
	Euro mn							
Net interest income	124	115	0	0	2	7	126	122
Allowance for credit losses	28	25					28	25
Net interest income after allowance for credit losses	96	90	0	0	2	7	98	97
Net commission income	3	6	39	41	-3	-7	39	40
Net result on hedge accounting	0	5					0	5
Net trading income / expenses	5	-7					5	-7
Results from non-trading assets	-5	-3					-5	-3
Results from companies accounted for at equity								
Results from investment properties	0	2					0	2
Administrative expenses	47	47	44	42	-1	0	90	89
Net other operating income / expenses	-2	-2	0	2	0	0	-2	0
Impairment of goodwill	0	0					0	0
Operating profit	50	44	-5	1	0	0	45	45
Income taxes	15	11	-1	0			14	11
Net income / loss	35	33	-4	1	0	0	31	34
Allocation of results								
Net income / loss attributable to non-controlling interests	5	4	0	1			5	5
Net income / loss attributable to shareholders of Aareal Bank AG	30	29	-4	0	0	0	26	29



Aareal Bank Group

Key figures H1 2013

	01.01.- 30.06.2013	01.01.- 30.06.2012	Change
	Euro mn	Euro mn	
Profit and loss account			
Net interest income	247	251	-2%
Allowance for credit losses	45	37	22%
Net interest income after allowance for credit losses	202	214	-6%
Net commission income	77	80	-4%
Net result on hedge accounting	-3	-5	-
Net trading income / expenses	11	-23	-
Results from non-trading assets	-6	-3	-
Results from companies accounted for at equity			-
Results from investment properties	0	5	-100%
Administrative expenses	182	180	1%
Net other operating income / expenses	-7	0	-
Impairment of goodwill	0		-
Operating Profit	92	88	5%
Income taxes	29	23	26%
Net income / loss	63	65	-3%
Allocation of results			
Net income / loss attributable to non-controlling interests	10	10	0%
Net income / loss attributable to shareholders of Aareal Bank AG	53	55	-4%
Appropriation of profits			
Silent partnership contribution by SoFFin	10	10	0%
Consolidated retained profit / accumulated loss	43	45	-4%



**Aareal Bank
Group**

Aareal Bank Group: Segment Reporting

Key figures H1 2013 by operating units

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.01.- 30.06. 2013	01.01.- 30.06. 2012	01.01.- 30.06. 2013	01.01.- 30.06. 2012	01.01.- 30.06. 2013	01.01.- 30.06. 2012	01.01.- 30.06. 2013	01.01.- 30.06. 2012
Euro mn								
Net interest income	242	236	0	0	5	15	247	251
Allowance for credit losses	45	37					45	37
Net interest income after allowance for credit losses	197	199	0	0	5	15	202	214
Net commission income	5	10	78	85	-6	-15	77	80
Net result on hedge accounting	-3	-5					-3	-5
Net trading income / expenses	11	-23					11	-23
Results from non-trading assets	-6	-3					-6	-3
Results from companies accounted for at equity								
Results from investment properties	0	5					0	5
Administrative expenses	97	96	86	84	-1	0	182	180
Net other operating income / expenses	-6	-3	-1	3	0	0	-7	0
Impairment of goodwill	0						0	
Operating profit	101	84	-9	4	0	0	92	88
Income taxes	31	22	-2	1			29	23
Net income / loss	70	62	-7	3	0	0	63	65
Allocation of results								
Net income / loss attributable to non-controlling interests	9	8	1	2			10	10
Net income / loss attributable to shareholders of Aareal Bank AG	61	54	-8	1	0	0	53	55



Aareal Bank Group: Segment Reporting

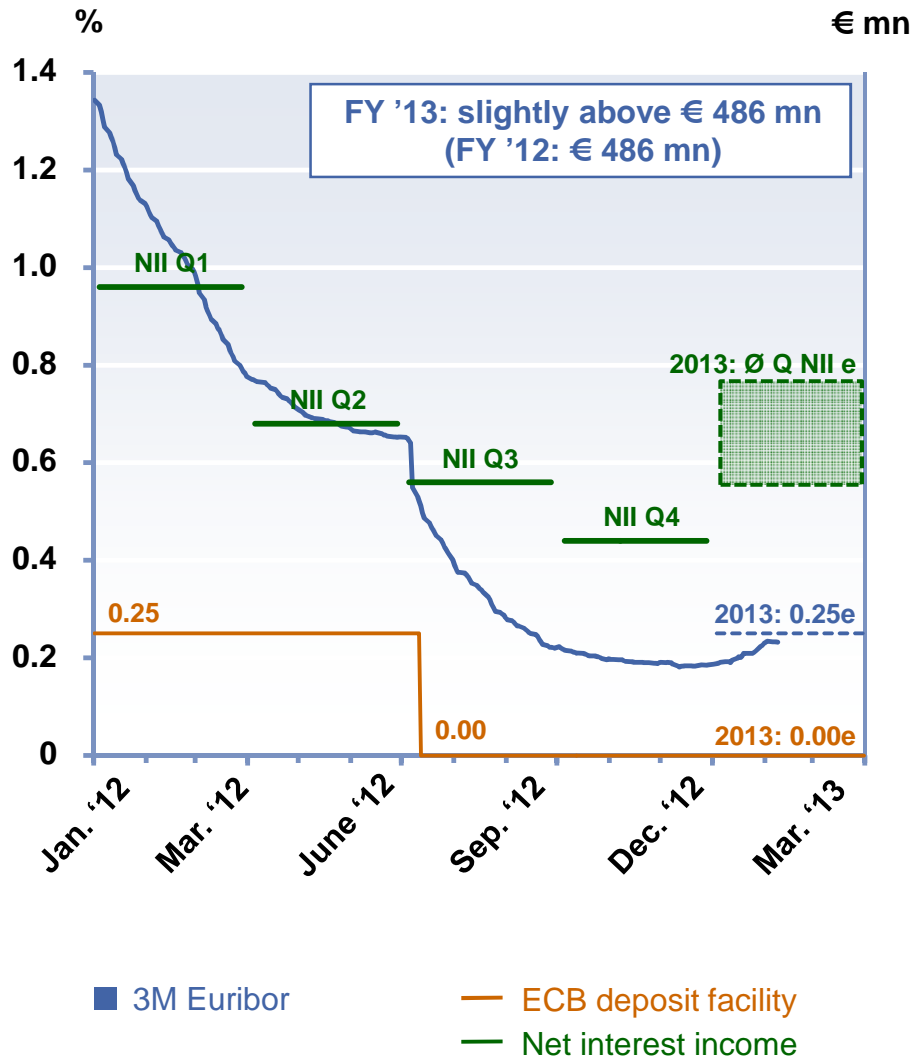
Key figures - quarter by quarter

	Structured Property Financing					Consulting / Services					Consolidation / Reconciliation					Aareal Bank Group				
	Q2	Q1	Q4	Q3	Q2	Q2	Q1	Q4	Q3	Q2	Q2	Q1	Q4	Q3	Q2	Q2	Q1	Q4	Q3	Q2
	2013	2013	2012	2012	2012	2013	2013	2012	2012	2012	2013	2013	2012	2012	2012	2013	2013	2012	2012	2012
Euro mn																				
Net interest income	124	118	113	114	115	0	0	0	0	0	2	3	3	5	7	126	121	116	119	122
Allowance for credit losses	28	17	39	30	25											28	17	39	30	25
Net interest income after allowance for credit losses	96	101	74	84	90	0	0	0	0	0	2	3	3	5	7	98	104	77	89	97
Net commission income	3	2	5	6	6	39	39	49	39	41	-3	-3	-4	-6	-7	39	38	50	39	40
Net result on hedge accounting	0	-3	3	-2	5											0	-3	3	-2	5
Net trading income / expenses	5	6	7	6	-7											5	6	7	6	-7
Results from non-trading assets	-5	-1	3	1	-3											-5	-1	3	1	-3
Results from companies accounted for at equity			0															0		
Results from investment properties	0	0	0	0	2											0	0	0	0	2
Administrative expenses	47	50	44	51	47	44	42	45	40	42	-1	0	-1	-1	0	90	92	88	90	89
Net other operating income / expenses	-2	-4	-4	-2	-2	0	-1	-2	1	2	0	0	0	0	0	-2	-5	-6	-1	0
Impairment of goodwill	0	0			0											0	0			0
Operating profit	50	51	44	42	44	-5	-4	2	0	1	0	0	0	0	45	47	46	42	45	
Income taxes	15	16	19	10	11	-1	-1	0	0	0						14	15	19	10	11
Net income / loss	35	35	25	32	33	-4	-3	2	0	1	0	0	0	0	31	32	27	32	34	
Allocation of results																				
Net income / loss attributable to non-controlling interests	5	4	4	5	4	0	1	0	0	1						5	5	4	5	5
Net income / loss attributable to shareholders of Aareal Bank AG	30	31	21	27	29	-4	-4	2	0	0	0	0	0	0	26	27	23	27	29	



Net interest income-snapshot

CRE margin overcompensate EURIBOR/ECB rate decline



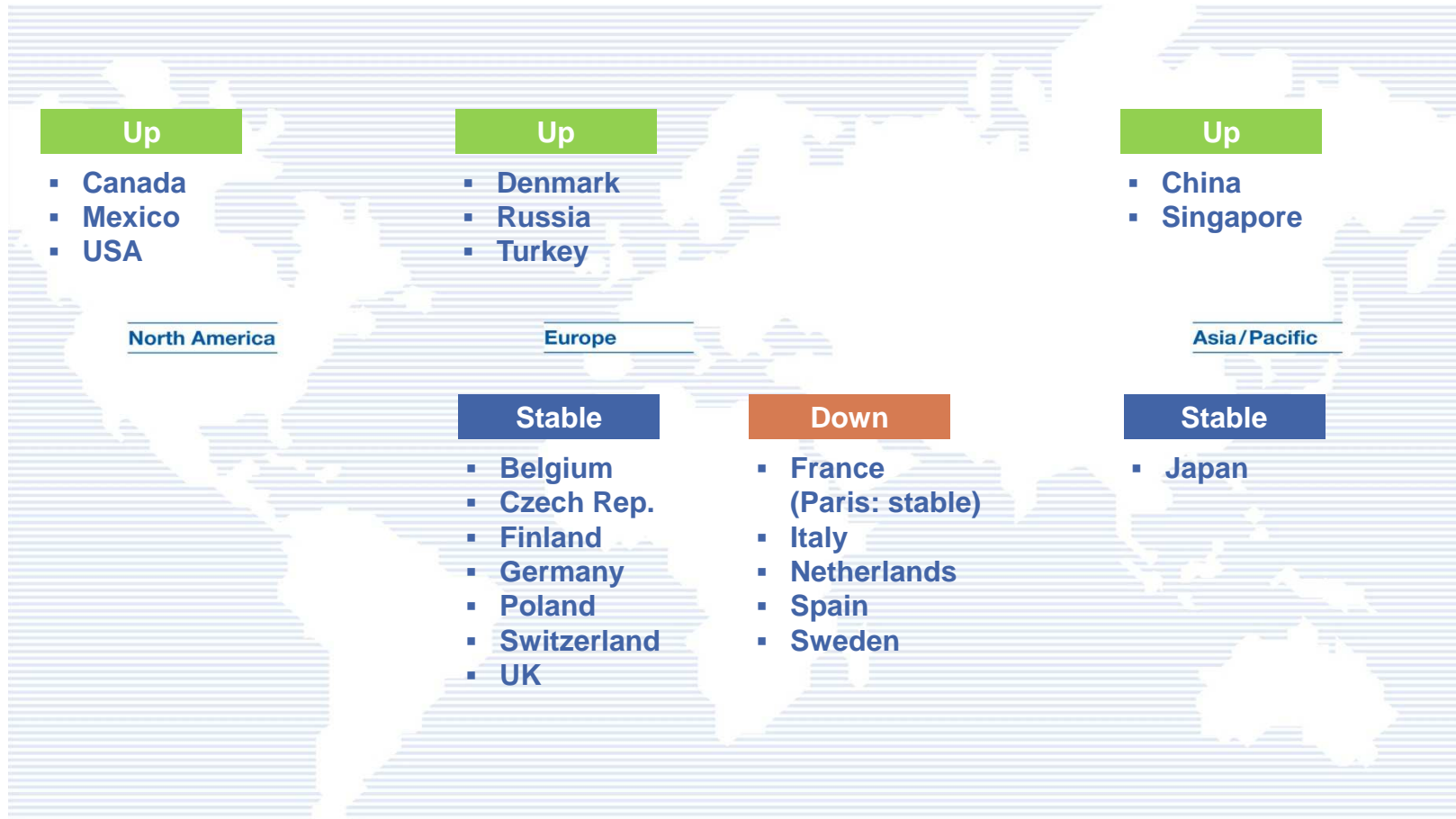
- Relatively low exposure to interest rate changes
- Hence predominant part of our assets are EURIBOR based
- Deposit margins are at their bottom
- Spreads between deposit rate and EURIBOR / ECB rate turned negative
- Additionally lower returns on investments of residual non interest bearing liabilities

Higher CRE margins overcompensate these effects so that net interest income 2013 will be “slightly above 2012 level”



Loan loss provisions-snapshot (1)

Expected market value changes¹⁾ to be reflected in portfolio allowances in 2013²⁾



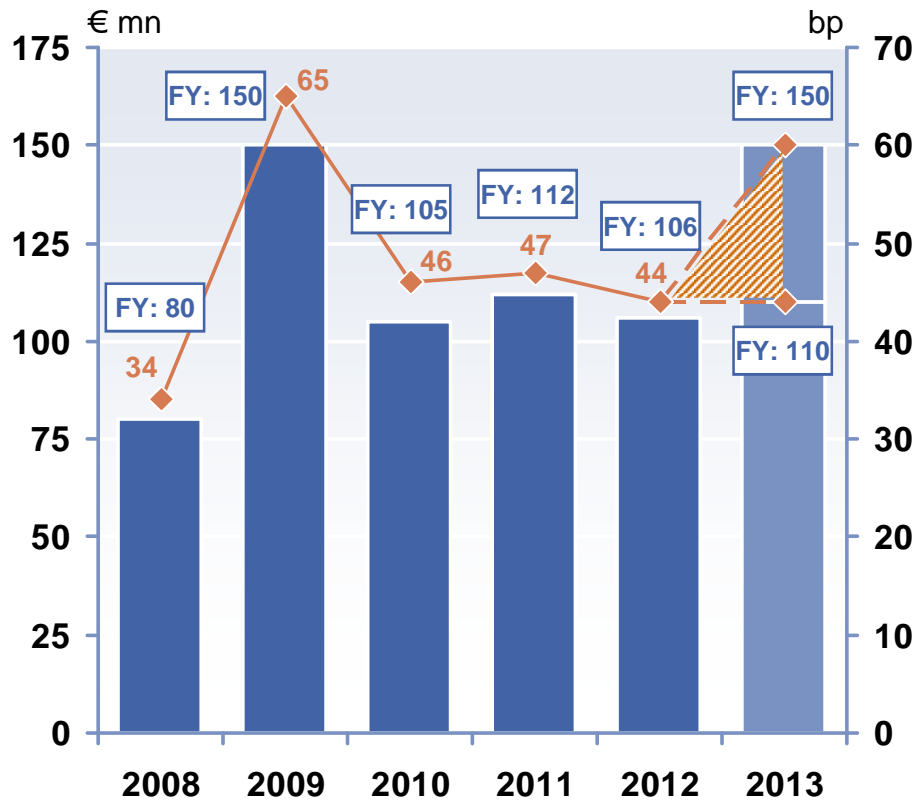
1) Here shown average market value changes across all property types and regions

2) The individual market value of a single property may vary, change end 2012 to end 2013



Loan loss provisions-snapshot (2)

Staying with previous cautious guidance, due to portfolio growth and recessive economies: € 110 mn - € 150 mn



- Slightly wider range of € 110 mn – € 150 mn due to expected portfolio growth and recessive economies
- Lower end translates to approx. 44bps, upper end to approx. 60bps (< peak in 2009)

■ Loan loss provisions —◆— Average risk costs
■ LLP guidance 2013 - - - Average risk costs guidance 2013



Admin expenses-snapshot

€ 360 mn - € 370 mn

€ mn		2011	2012	2013e
SPF	Staff exp. <i>(of which one-off)</i>	132 <i>(10)</i>	109	↘
	Other exp. <i>(of which one-off)</i>	85	82	↗
C/S	Staff exp. <i>(of which one-off)</i>	112 <i>(2)</i>	112	↗
	Other exp. <i>(of which one-off)</i>	55	57	↑
Cons.	Other exp.	-2	-2	
Total	Admin exp. <i>(of which one-off)</i>	382 <i>(12)</i>	358	360 - 370

- Efficiency measures paying off

- Basel III-projects postponed ('12 → '13)
- 2012 includes ~ € 13 mn costs for external projects

- Acquisition of 1st Touch
- Investment in consulting capacities
- Partly compensated by efficiency measures

- Acquisition of 1st Touch
- Investments in product range
- Further internationalisation strategy



Current environment and a “New Normal” for CRE banks

Environment

- Southern European economies will not be able to catch up, different speed of recovery in the rest of Europe, North America and Asia
- Sovereign crisis will only occasionally affect markets
- Continued very low interest rate levels will help to stabilise sovereign crisis and European economies but hurting deposit margins
- Clearer regulatory frame but lack of technical details
- Banks will have to manage the “New Normal”

The “New Normal” for CRE banks

1. Competition and loan margins:

- Loan margins have increased significantly from unsustainably low pre-crisis level
- Competition and loan margins expected to remain on a healthy level

2. Capital, funding and liquidity:

- Higher capital and liquidity requirements
- Trend towards more conservative balance sheets
- Increased competition for deposits and Pfandbrief cover pool eligible assets

3. Return on equity

- Achievable sustainable RoE has decreased compared to the “Old Normal”



Perspective until 2015 / 2016

Report of achievements

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 lower RWA consumption and higher CB-funding share
- 3. Origination capacity:**
Strengthen client relationships by leveraging new business through stronger cooperation via club deals and syndication
- 4. Aareon:**
Enhance profit contribution
- 5. Cost base:**
Continue cost discipline
- 6. Capital structure:**
Optimise capital structure once technical regulatory guidelines are in place and markets are pricing instruments adequately
- 7. Dividends:**
Plan to start active dividend policy in 2014 (for FY 2013, depending on market conditions)
- 8. RoE:**
Pre-tax RoE target of approx.12% in 2015 / 2016



Aareal Bank's action plan in detail (1/3)

1

Funding strategy

- Increase deposits from the institutional housing industry from ~ € 6 bn 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%), despite ability to place € 1-2 bn p.a. throughout the financial crisis this volume will likely not be required in 2013 and 2014

2 3

CRE business

- Keep originating new business with max. 60%-70% LTV
- Target av. new business with 60-65% 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 in detail (2/3)

4 Aareon business

- 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

5 Cost discipline

- Challenges ahead through higher regulatory costs
- Keep the costs in balance
 - Adjustments following portfolio changes and back office workflow efficiency increases
 - Further measures concerning non-personnel costs to be implemented
- Target CIR for SPF segment close to 40% in 2015



Aareal Bank's action plan in detail (3/3)

6

Regulation and capital requirements

- Continuing successful risk-averse liquidity management
 - LCR and NSFR > 1
- Continue to fulfil the upcoming Basel III capital requirements
 - Tier 1 (ex SoFFin) including buffers: ~11.5 % (Minimum 10%)
- Strong total capital ratio is key for unsecured investors
- Total capital ratio including buffers: ~19% (Minimum 16%)

7 - 8

Profitability

- Improve balance sheet structure to offset low interest environment
- Start to manage Basel III Tier I ratio of 11,5% more efficiently (once technical regulatory guidelines are in place and markets start to price instruments adequately)
 - Plan to swap up to 1.5%-points Basel III T1 ratio from core capital to additional Tier 1 capital.
Based on the assumption that regulators see 9% CT 1 as minimum required level and markets 10% as acceptable level.
- Plan to start active dividend policy in 2014 (for FY 2013, depending on market conditions)
- Target pre-tax ROE level of ~12% in 2015 / 2016 matching cost of equity



Summary and Prerequisites

	2013	2015 / 2016
Tier 1 ratio Basel III fully loaded	10.3% (CT 1)	11.5%
CIR	~40% (SPF)	~40% (SPF)
EBIT margin	~16% (Aareon)	>17.5% (Aareon)
Pre-tax ROE	>7%	~12%
Cost of equity (net)	10 – 11%	↓

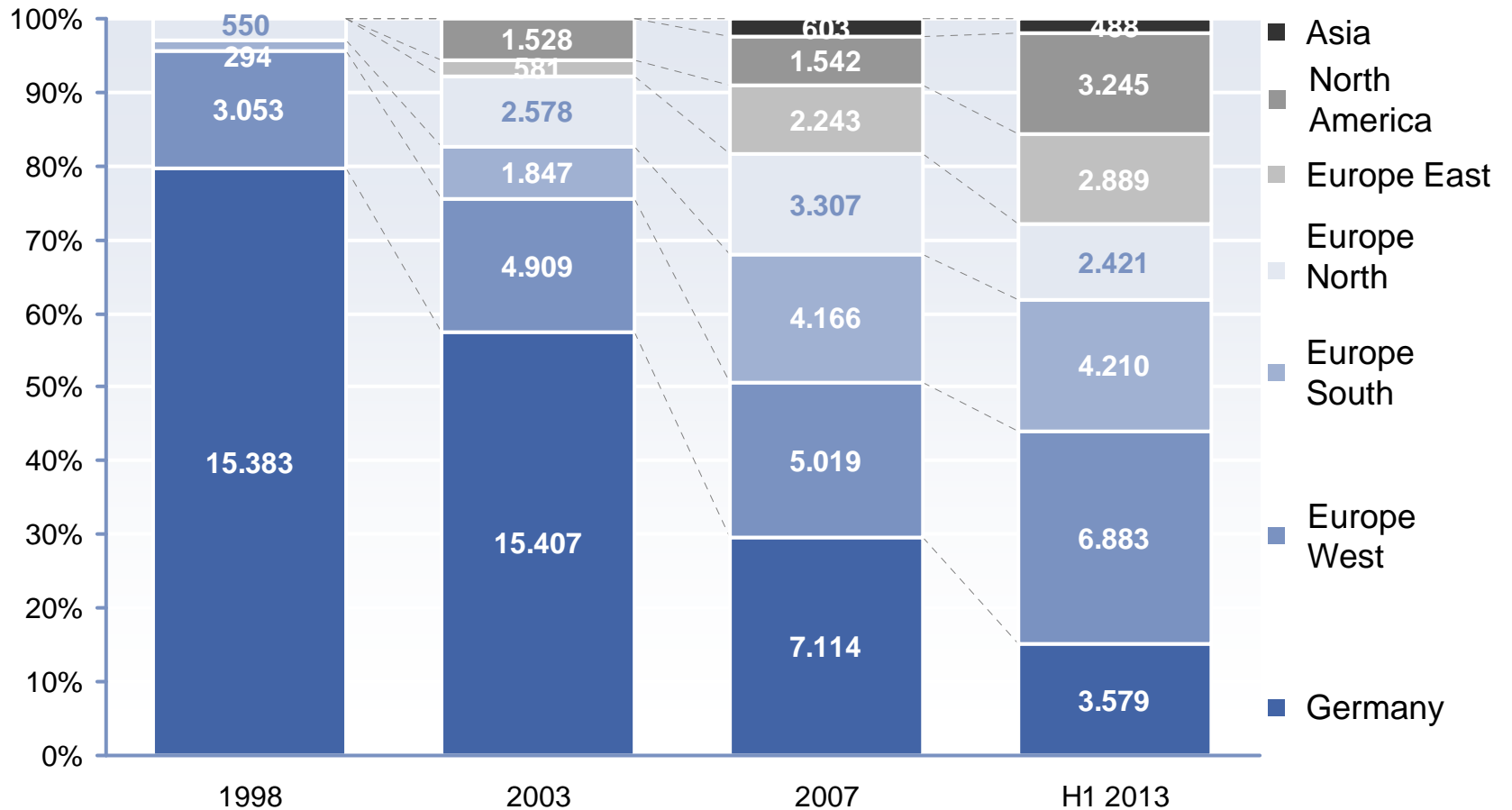
Prerequisites

- 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
- No additional burdens
- Interest rate environment starts to reflect the recovery with moderate increase



Development property finance portfolio

Diversification continuously strengthened (in € mn)

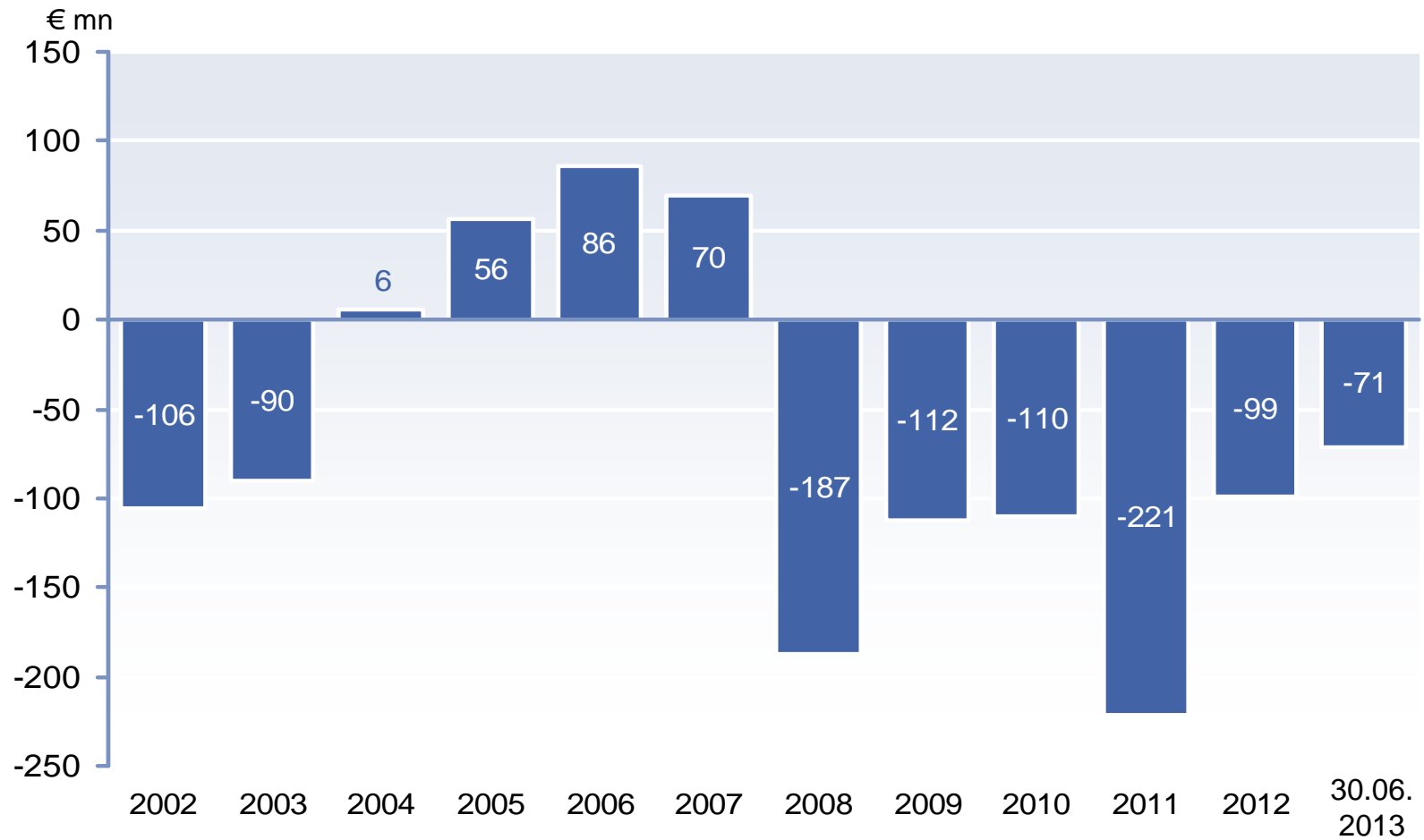


Property finance under management



Revaluation surplus

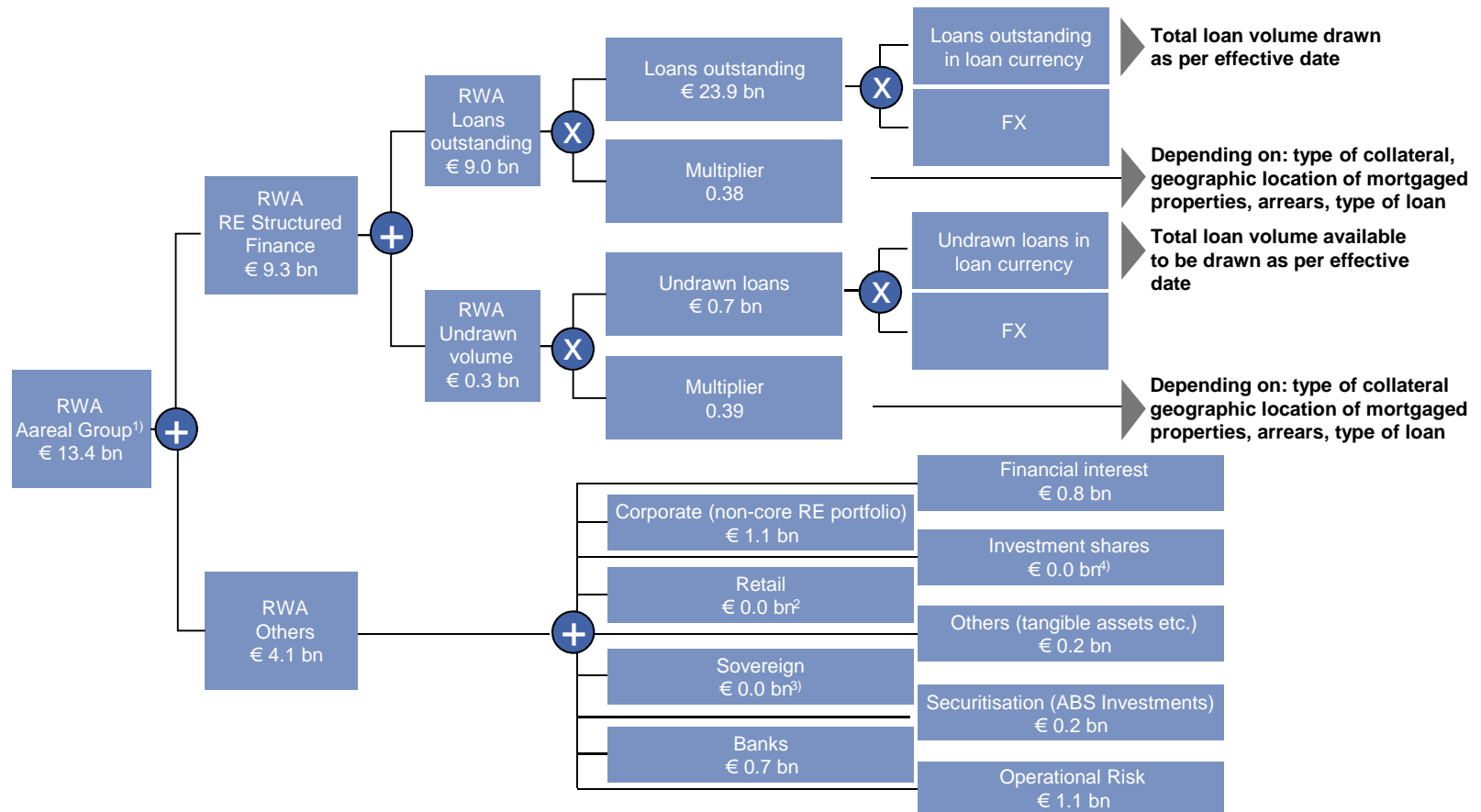
Change mainly driven by asset spreads



From asset to risk weighted asset (RWA)

Essential factors affecting volume of RWA

Effective date 30/06/2013



- 1) Excl. of market risk
- 2) Exposure to Retail amounts to € 21 mn
- 3) Exposure to Sovereigns amounts to € 17 mn
- 4) Exposure to investment shares amounts to € 14 mn



Definitions and contacts



**Aareal Bank
Group**

Definitions

- **Structured Property Financing Portfolio**
 - Paid-out financings on balance sheet
 - Incl. remaining property loans on DEPFA books
- **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** = $\frac{\text{Total stock of high quality liquid assets}}{\text{Net cash outflows under stress}} \geq 100\%$



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