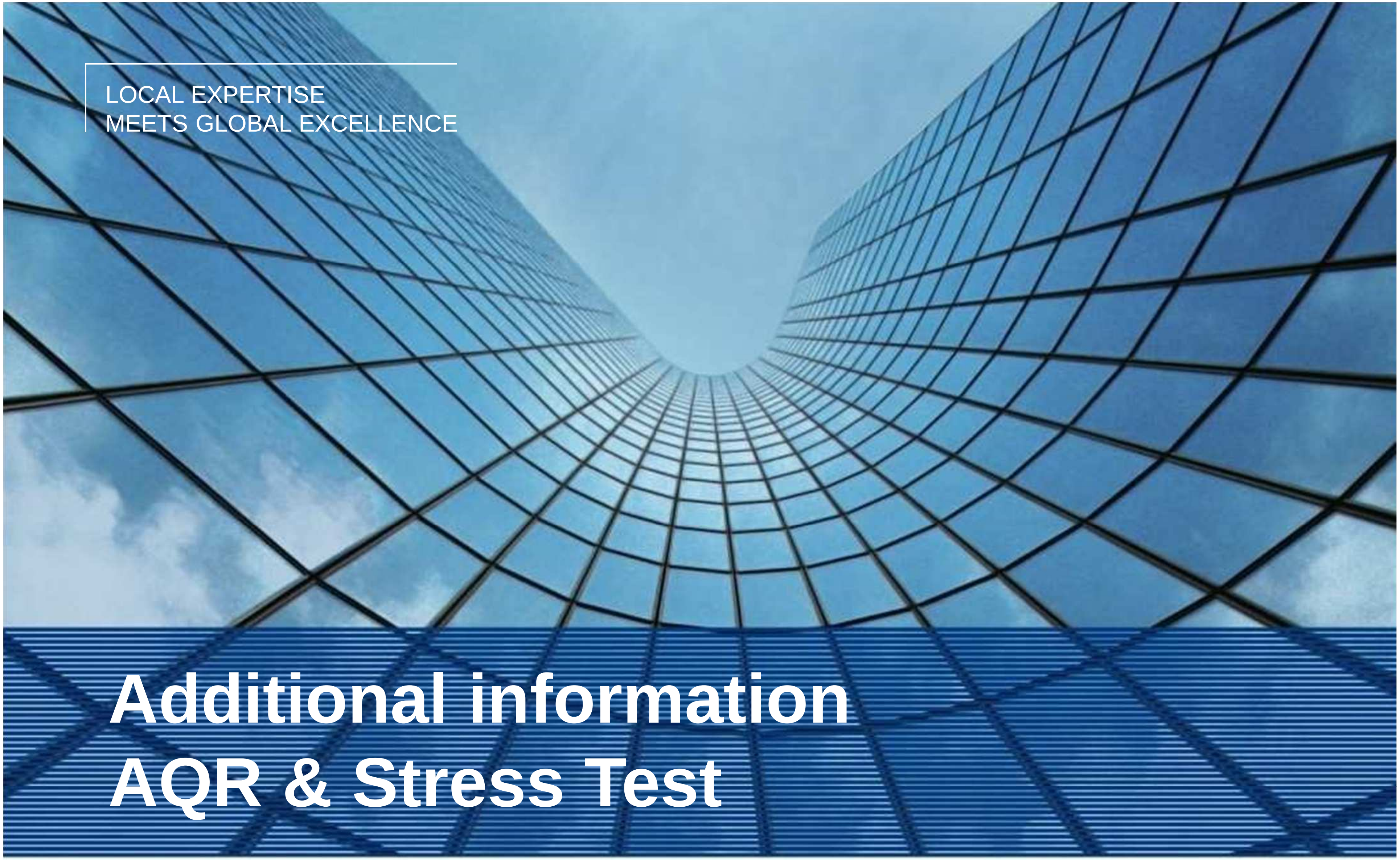


LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

Additional information
AQR & Stress Test

October 26, 2014

Aareal Bank Group

Comprehensive assessment: 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

Results of the AQR and the Stress Test

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 results 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 ~ 28% or 453 bp (which includes 63bp from dividends to be distributed)

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

Simulation / Extrapolation of Stress Test results

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.

Explanation of the bp deduction variance

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**.

Explanation of the bp deduction variance

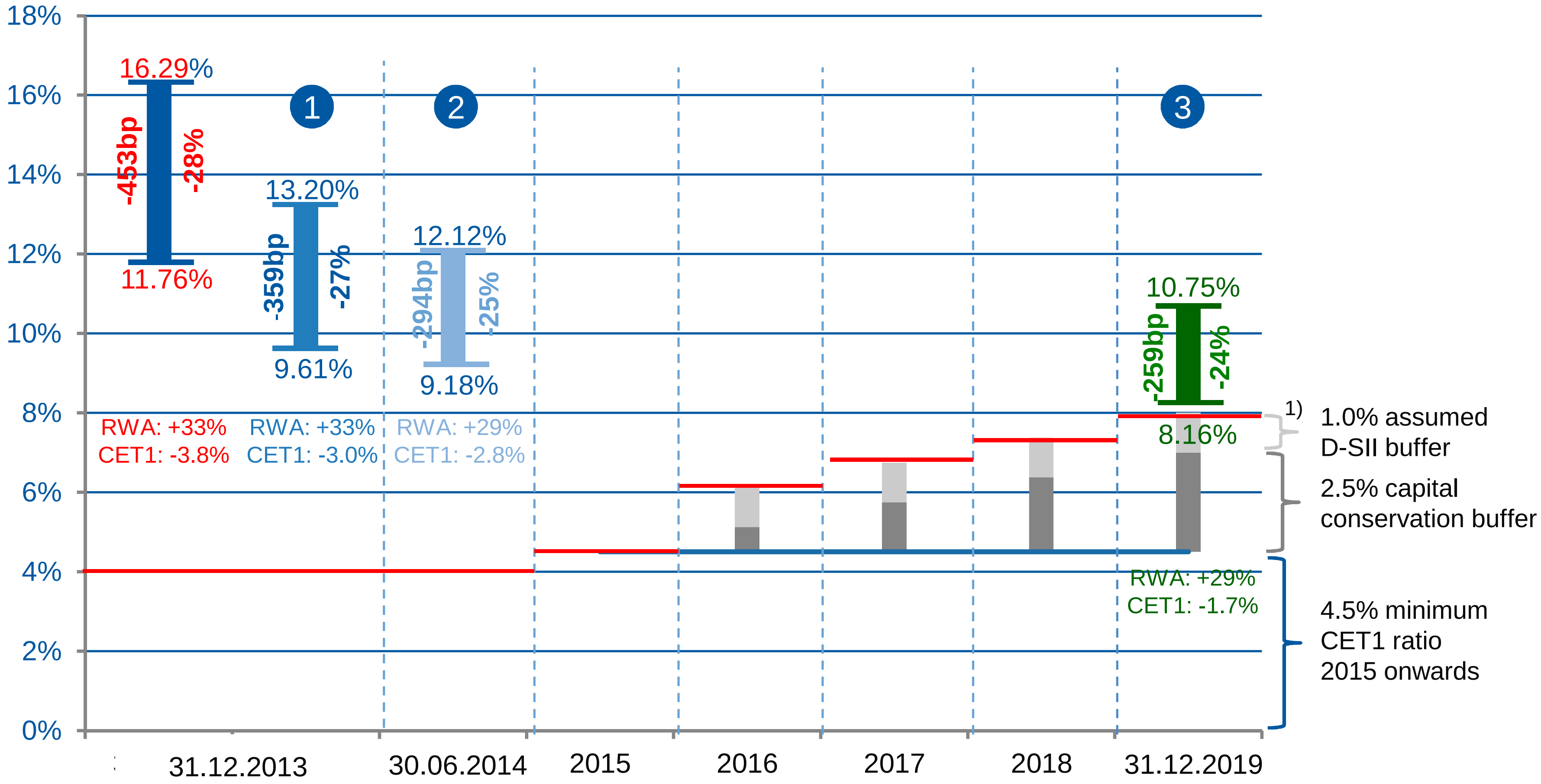
Pro forma assumptions / parameters of the model

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.

Results of the simulation / extrapolation



1) 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

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Conclusion

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

Even after a potential repayment of SoFFin, under Basel III fully phased, and after potential future capital optimization.

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Contacts & Disclaimer

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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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