

LOCAL EXPERTISE  
MEETS GLOBAL EXCELLENCE

# Analyst Conference Call

## Q1 2015 results

May 07, 2015

Dr. Wolf Schumacher, CEO – Hermann J. Merkens, CFO



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# Agenda

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- Highlights Q1 2015
- General environment Q1 2015
- Update on acquisition of Westdeutsche ImmobilienBank AG (“WestImmo”)
- Update on integration of COREALCREDIT BANK AG (“Corealcredit”)
- Q1 2015 results at a glance
- Segment performance
- B/S structure, capital & funding position
- Group figures Q1 2015
- Asset quality
- Outlook 2015
- Midterm Outlook
  
- Appendix
- Definitions and Contacts



# Highlights Q1 2015

## Aareal Bank with good start in 2015

### Highlights

- Good results in the first quarter:  
Group operating profit of € 67 mn slightly above adjusted last years figure (Q1/2014: € 65 mn, adjusted by negative goodwill of € 154 mn)
- Shareholders attributable profit of € 36 mn  
(Q1/2014: € 35 mn, adjusted by negative goodwill of € 154 mn)
- Integration of Corealcredit and acquisition of WestImmo on track
- Solid capital position and comfortable liquidity position
- Despite fragile economic development and volatile capital markets, Aareal Bank is well positioned to operate successfully and take advantage of attractive market opportunities
- Confirming short and mid-term targets



# General environment Q1 2015

## General environment

- Main drivers of macro economic environment changed since Q3/2014 (e.g. exchange rates, oil price)
- Slight world economic recovery continues but with different regional speed
- Increasing divergences in monetary policy between ECB on one side and FED/BOE on the other side
- Slightly deflation in Euro-zone and ECB's QE-program will have an impact on capital markets - especially in Europe: fighting deflation and risking asset bubbles
- Euro considerably weakening
- Regulatory environment becomes more predictable but further uncertainties (still possible challenges, e.g. additional capital requirements resulting from RWA-floors, TLAC<sup>1</sup>, etc.)

## Main takeaways



Further increasing transaction volumes and competition in our lending buckets will burden margins which can only partially be offset by lower funding costs and –structure. Early repayments of high margin loans will continue



We see moderately increasing property values and stable to slightly positive rents in the majority of European countries but further NPL inflow mainly from our Italy portfolio expected



Aareon with a slightly positive development expected but deposit business will continue to suffer on segment reporting level – deposit volume supports funding and cheapens funding costs on group level

1) Total Loss Absorbing Capacity



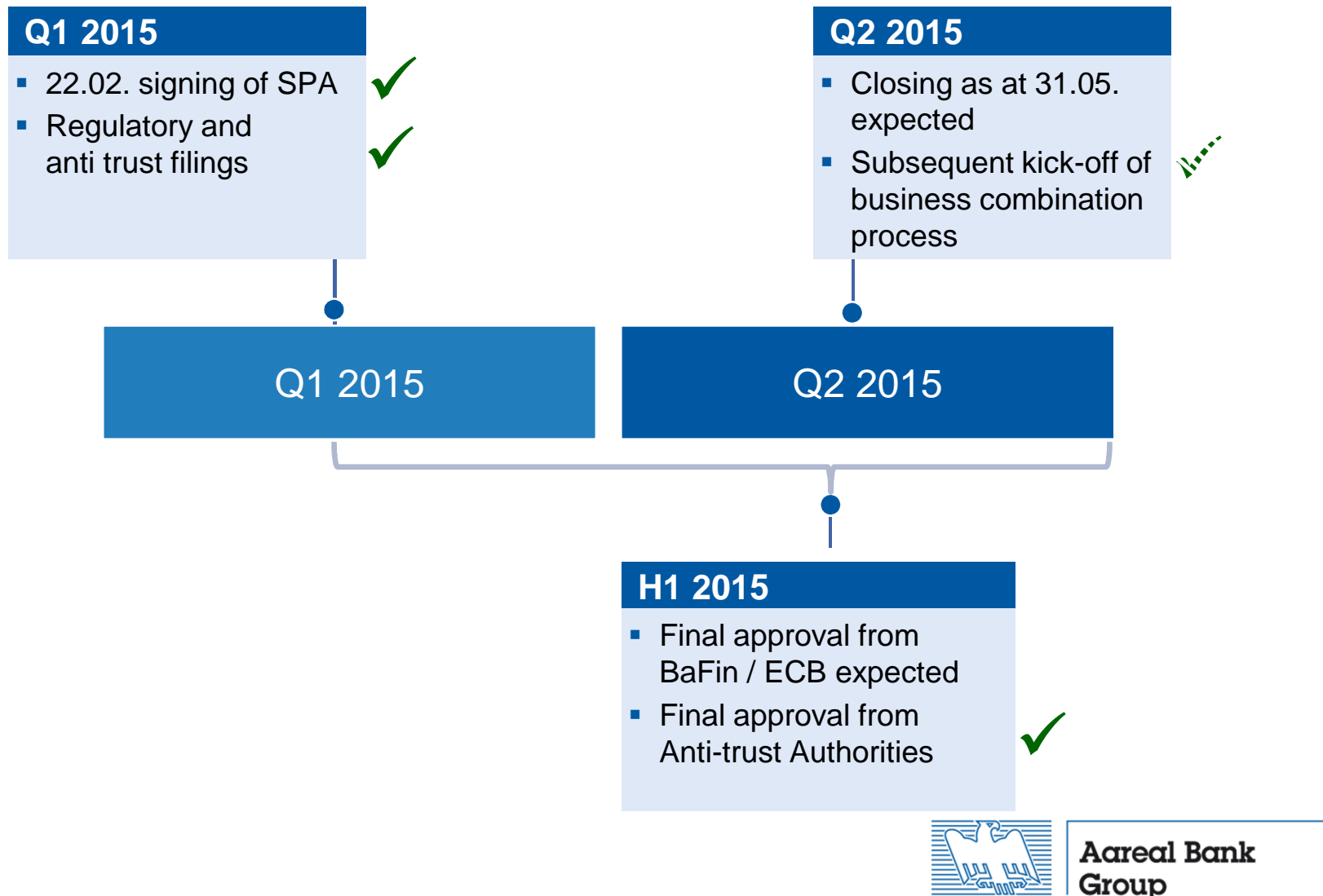
# Update on acquisition of WestImmo



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# Acquisition of WestImmo

In timeline - closing envisaged for Q2 2015



# Update on integration of Corealcredit



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# Integration of Corealcredit

## Technical integration faster than originally planned

### Update

- IT integration ahead of schedule
- Aareal Bank AG will integrate the banking operations of Corealcredit into the parent entity in Q2 2015
- Integration will not trigger any additional reduction in workforce at Corealcredit, agreement upon redundancy plan signed, costs mainly reflected in Q1
- Corealcredit's banking operations will turn into Aareal Bank's new Frankfurt branch
- Former "Corealcredit Bank AG" will turn into a subsidiary with no banking licence and therefore no origination / operative activities





# Q1 2015 results at a glance



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# Q1 2015 results at a glance

## Good start in 2015

	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Comments
€ mn						
Net interest income <i>(excl. unplanned effects from early repayments)</i>	178 (173)	194 (174)	181 (168)	169 (161)	144 (140)	NII development due to <ul style="list-style-type: none"> <li>Portfolio growth: € 4.8 bn since FY 2013 thereof Corealcredit € 2.4 bn</li> <li>Stable margins / lower funding costs</li> <li>ALM measures</li> </ul>
Net loan loss provision	18	41	36	32	37	<ul style="list-style-type: none"> <li>In line with guidance</li> <li>Additional specific allowances partly compensated by portfolio allowances</li> </ul>
Net commission income	41	48	37	39	40	<ul style="list-style-type: none"> <li>Aareon on track</li> <li>Q4 with regular seasonal effects</li> </ul>
Admin expenses	132	114	109	114	102	Q1 burdened by redundancy plan for Corealcredit and expected European bank levy for the fiscal year 2015
Negative goodwill					154 <sup>1)</sup>	Gain from initial consolidation of Corealcredit
Operating profit	67	86	66	65	219 <sup>1)</sup>	Supporting FY-guidance

1) Adjusted



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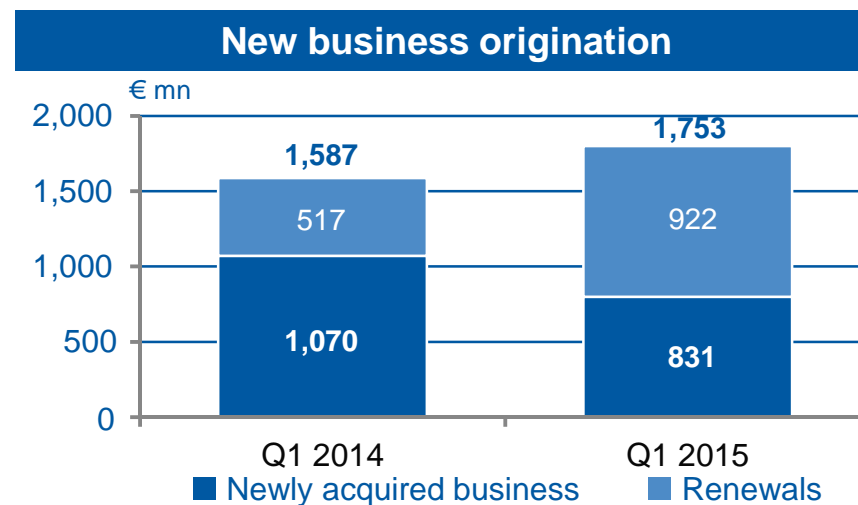
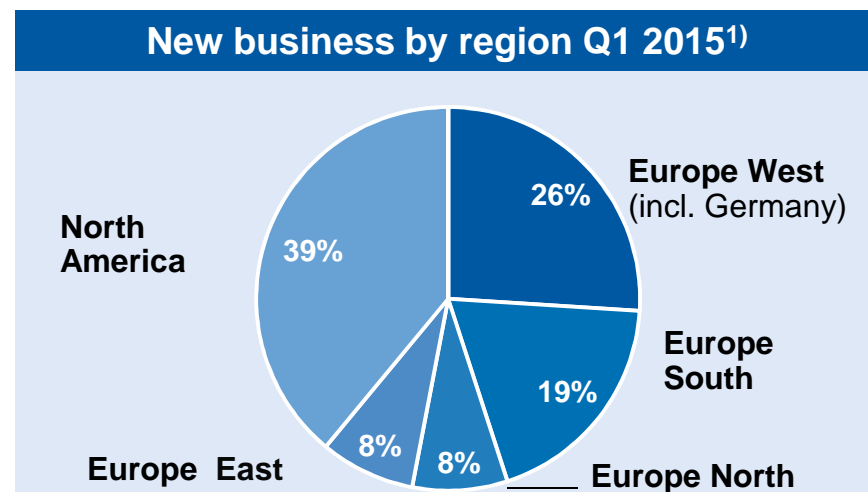
# Segment performance



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# Structured property financing

## New business in line with planning



P&L SPF Segment	Q1 '15	Q4 '14	Q3 '14	Q2 '14	Q1 '14
€ mn					
Net interest income	178	194	182	168	143
Loan loss provision	18	41	36	32	37
Net commission income	0	1	1	1	1
Net result from trading / non-trading / hedge acc.	1	7	-5	3	4
Admin expenses	84	67	64	68	56
Others	-3	-8	-4	-1	16
Negative goodwill					154 <sup>2)</sup>
<b>Operating profit</b>	<b>74</b>	<b>86</b>	<b>74</b>	<b>71</b>	<b>225<sup>2)</sup></b>

1) Incl. renewals

2) Adjusted

3) Additional effects exceeding originally planned repayments

- WestImmo acquisition + FX effects enabling very selective new business generation
- Renewal volume contractually driven
- NII includes effects from early repayments<sup>3)</sup>: Q1: € 5 mn (Q4: 20/ Q3: 13/ Q2: 8/ Q1: 4)
- Focus on attractive risk-return profile with low risk-weighting and cover pool eligible loans
- Increasing competition in core markets / for prime locations

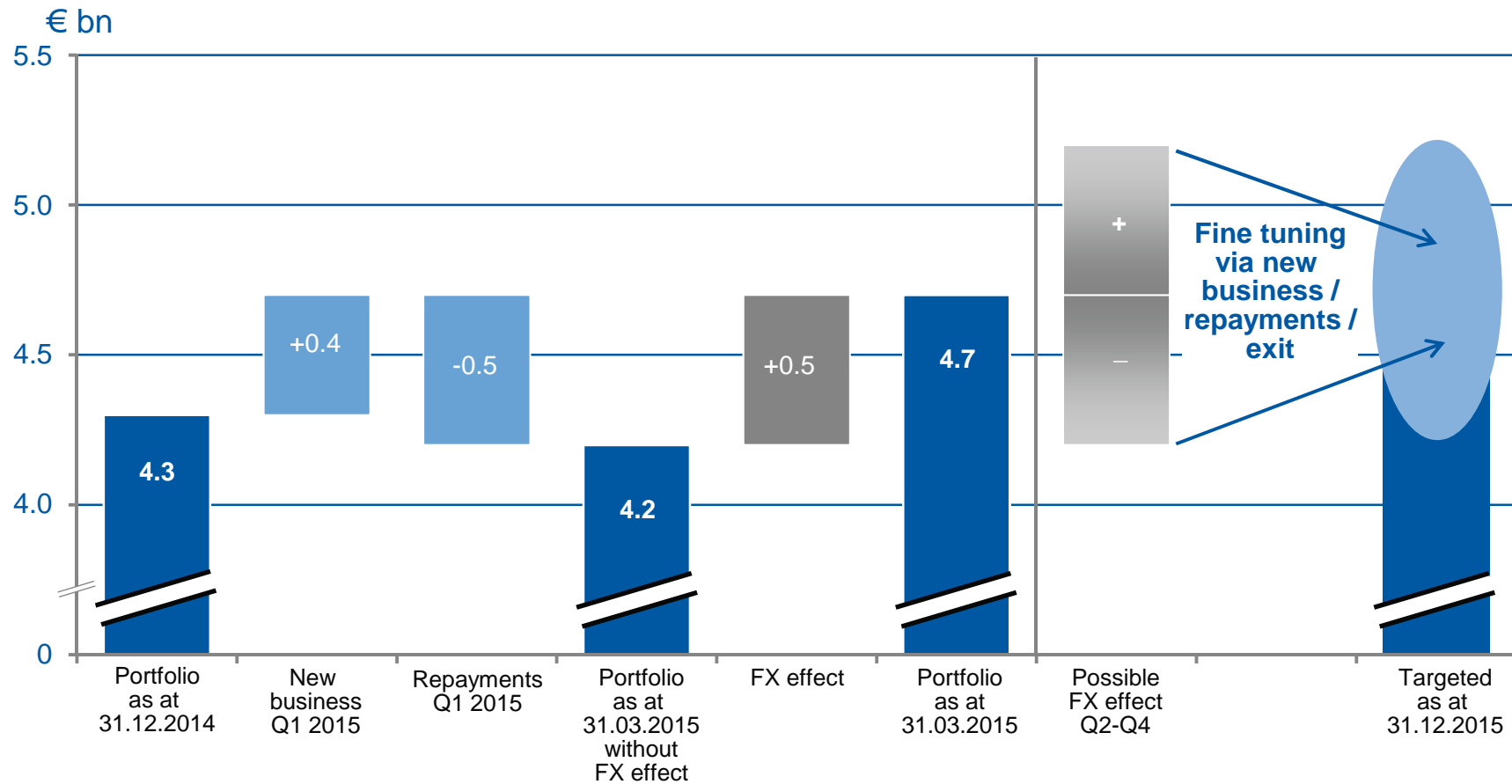


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# Portfolio impact due to FX effects

## Exemplified using US portfolio

### Schematic: FX effect fully integrated in new business planning



# Consulting / Services

Solid in IT & volumes – weak in deposit margins

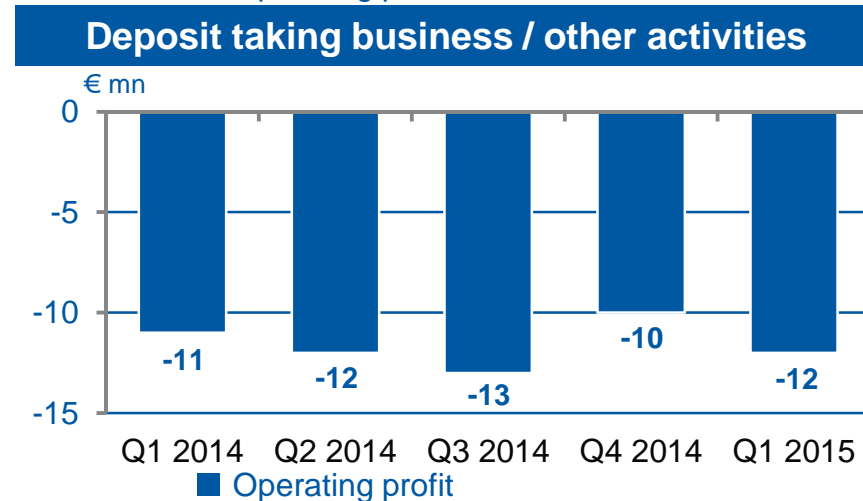
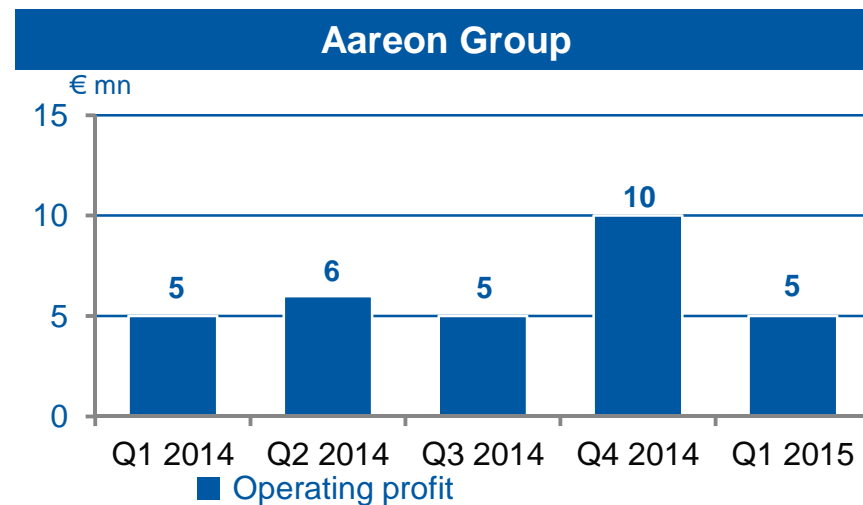
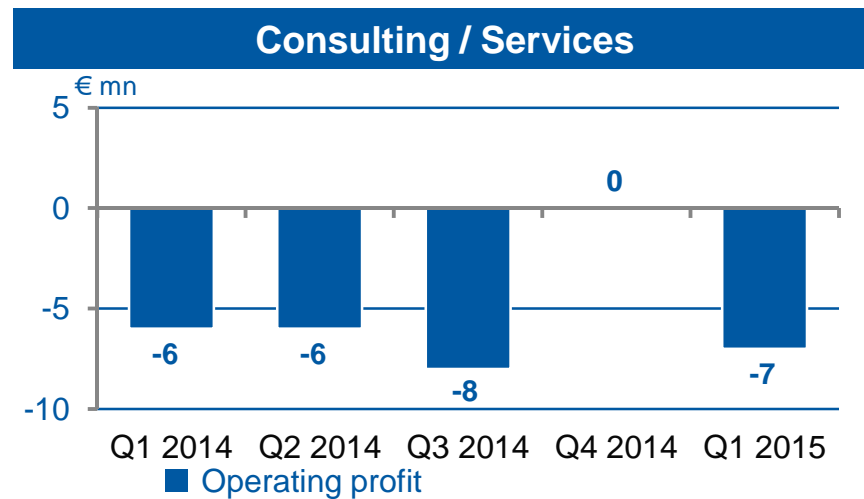
P&L C/S Segment	Q1 '15	Q4 '14	Q3 '14	Q2 '14	Q1 '14
€ mn					
Sales revenue	46	52	42	45	46
Own work capitalised	1	1	2	1	1
Changes in inventory	0	0	0	0	0
Other operating income	1	3	2	2	1
Cost of material purchased	5	5	6	5	6
Staff expenses	34	35	32	32	32
D, A, impairment losses	3	3	4	3	4
Results at equity acc. investm.	0	0	-	-	-
Other operating expenses	13	13	12	14	12
Results from interest and similar	0	0	0	0	0
<b>Operating profit</b>	<b>-7</b>	<b>0</b>	<b>-8</b>	<b>-6</b>	<b>-6</b>

- Unchanged low interest rate environment continues to burden segment results
- Deposit volume of the housing industry stabilises on high levels
  - € 9.3 bn Ø in Q1 2015
  - € 9.1 bn Ø in Q4 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



# Consulting / Services

Deposit taking business burdens segment performance



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# B/S structure, capital & funding position

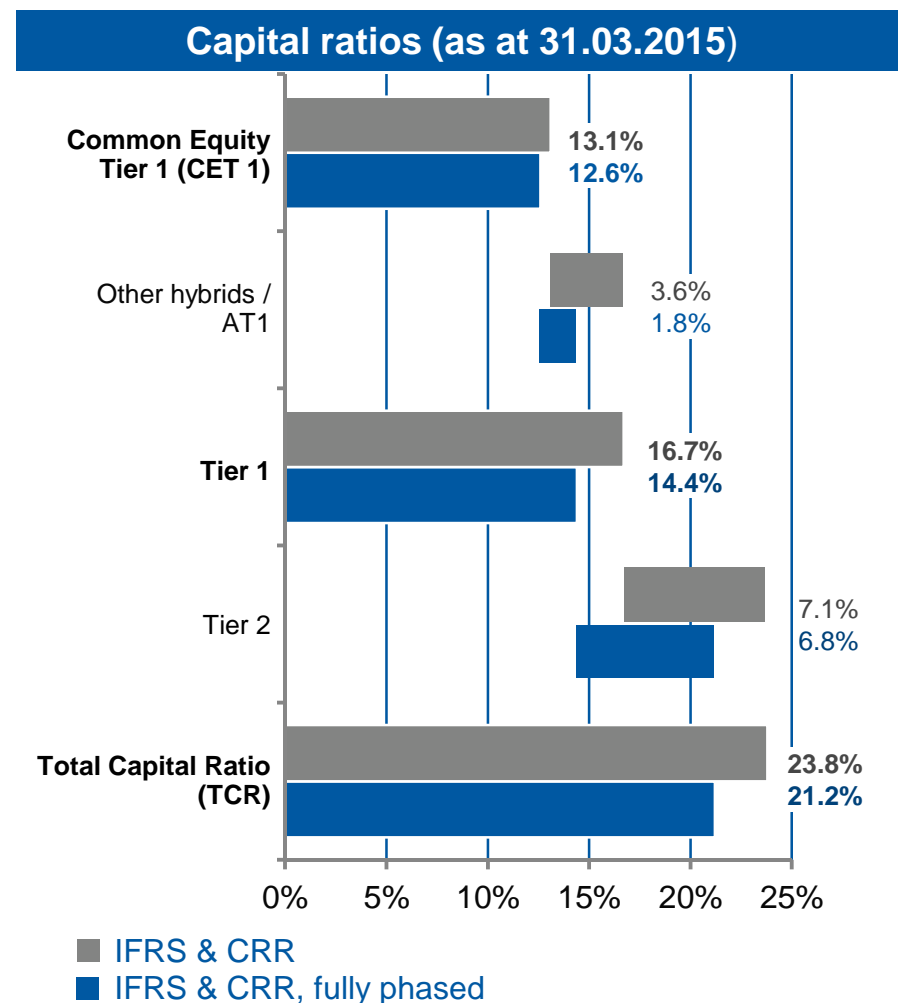


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# Strong capital ratios

## IFRS & CRR as at 31.03.2015

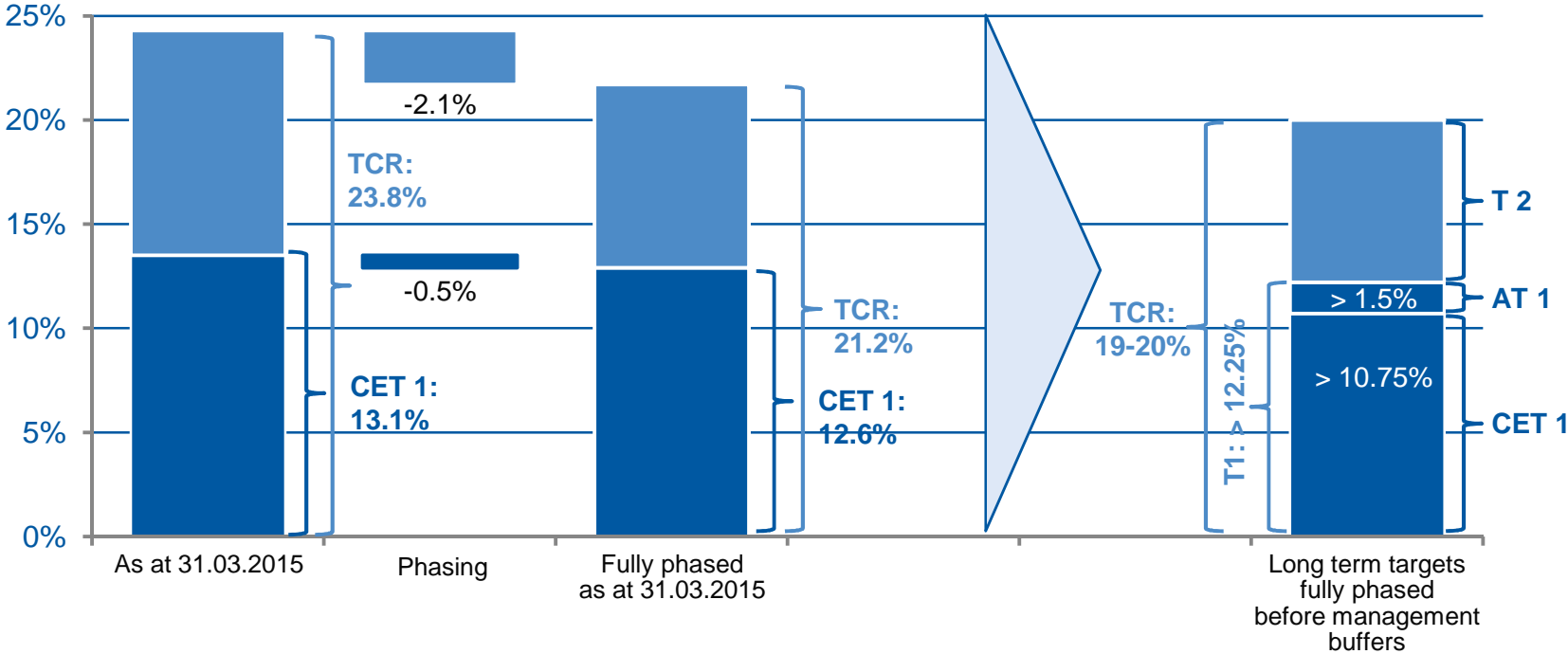


- Bail-in capital ratio (acc. to our definition): above 8%
- Strong capital ratios enable us to take new business on board
- Strong capital ratios in line with business model, company size and capital market expectations
- Leverage ratio as at 31.03.2015: 4.5% (fully phased)
- New ECB requirements in line with our capital planning



# Expected development of capital ratios<sup>1)</sup>

## IFRS & CRR as at 31.03.2015

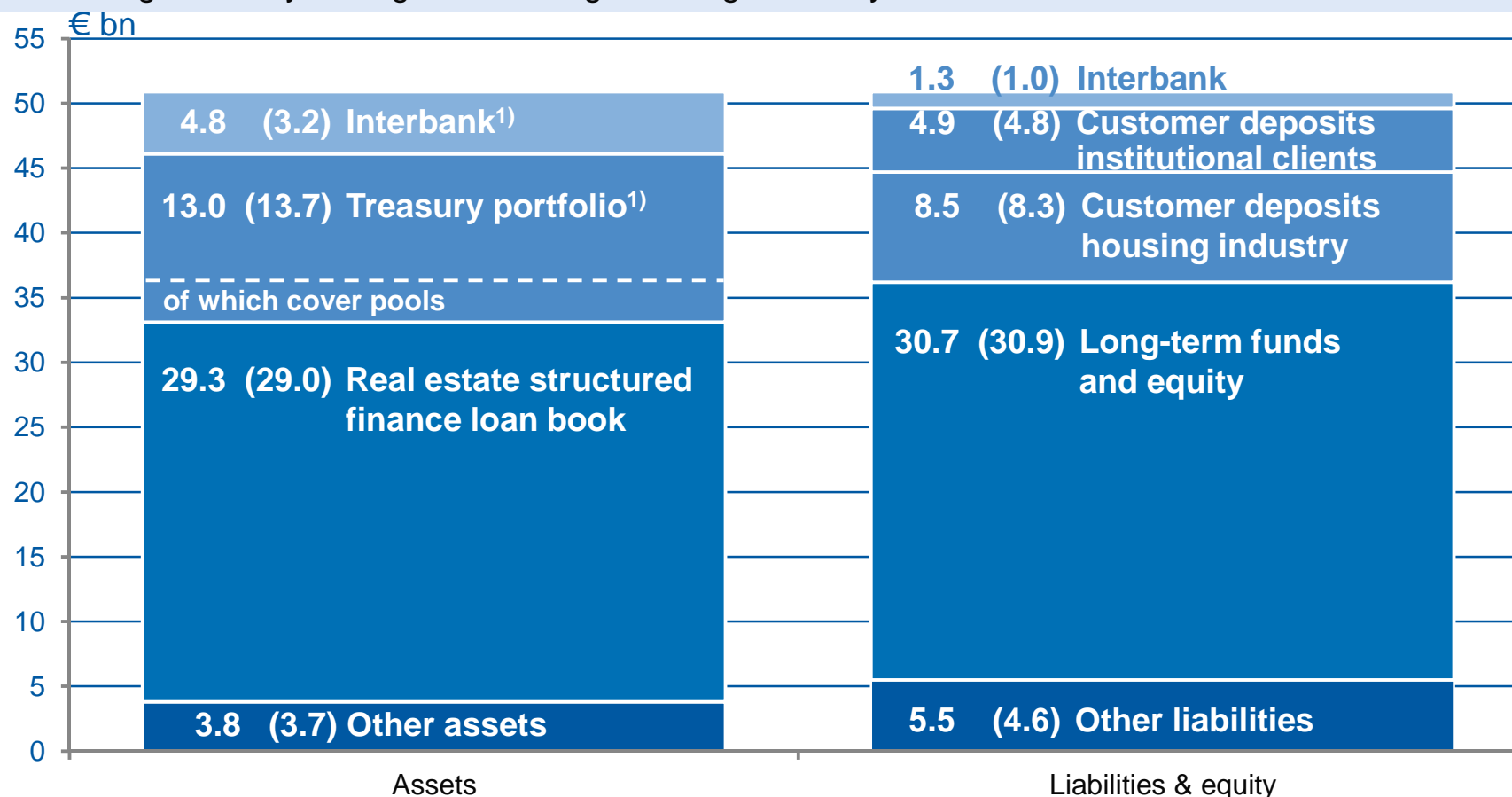


1) Actual figures may vary significantly from estimates

# Asset- / Liability structure according to IFRS

As at 31.03.2015: € 50.9 bn (31.12.2014: € 49.6 bn)

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



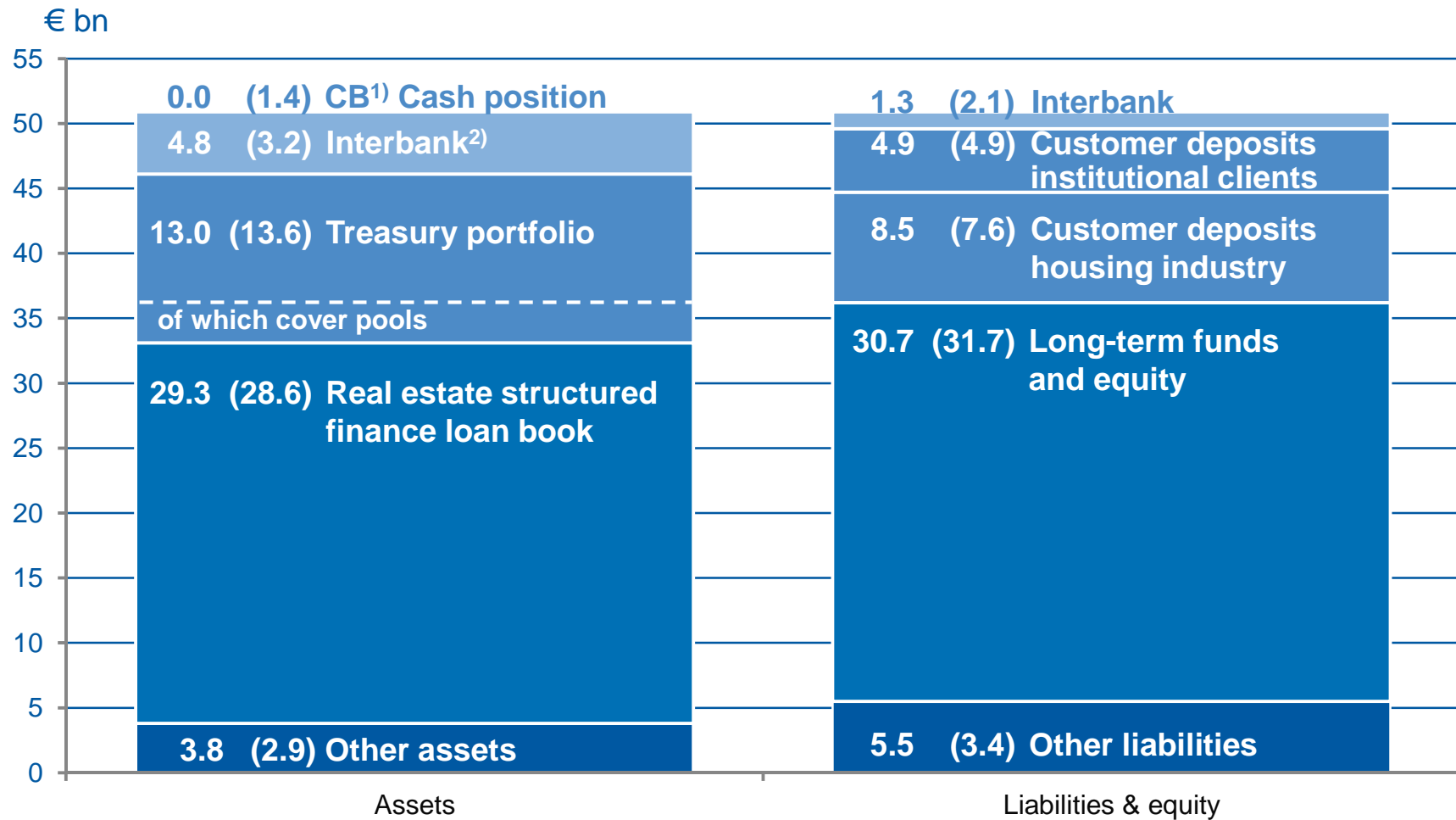
1) Interbank includes reverse repos of € 1.9 bn



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# Asset- / Liability structure according to IFRS

As at 31.03.2015: € 50.9 bn (31.03.2014: € 49.7 bn)



1) CB: Central banks

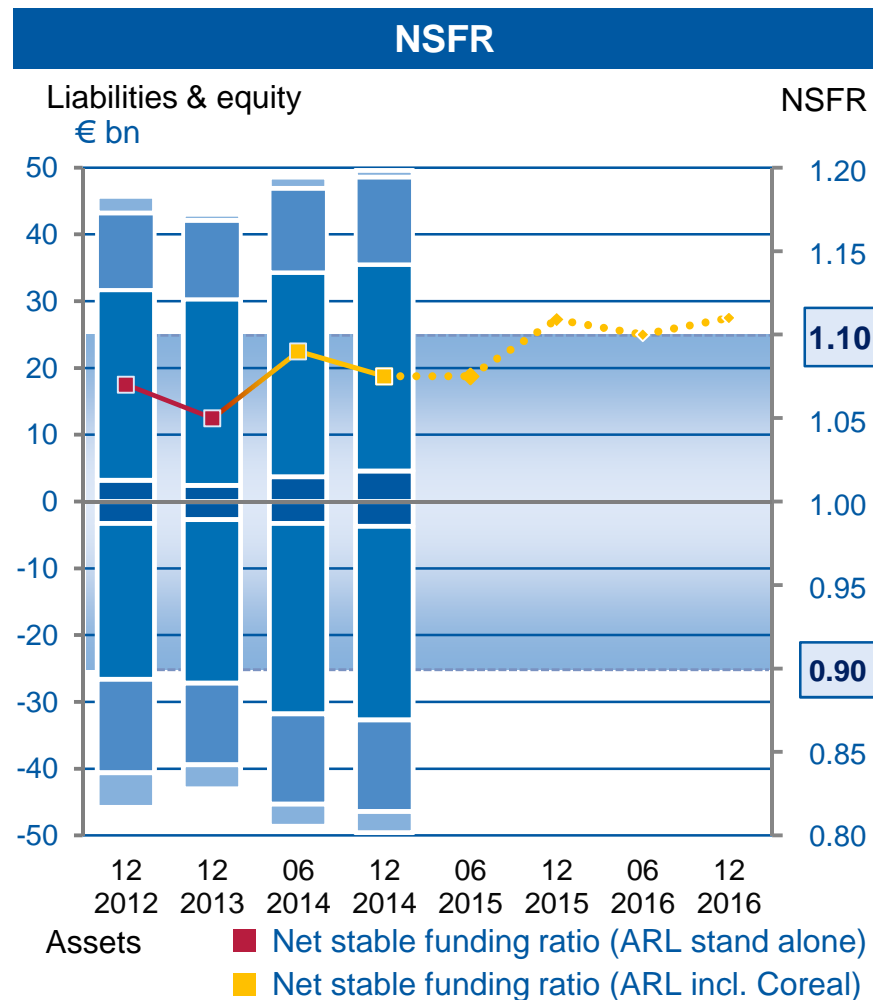
2) Interbank includes reverse repos of € 1.9 bn



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# Net stable funding- / Liquidity coverage ratio

## Fulfilling CRR requirements due to sound liquidity position

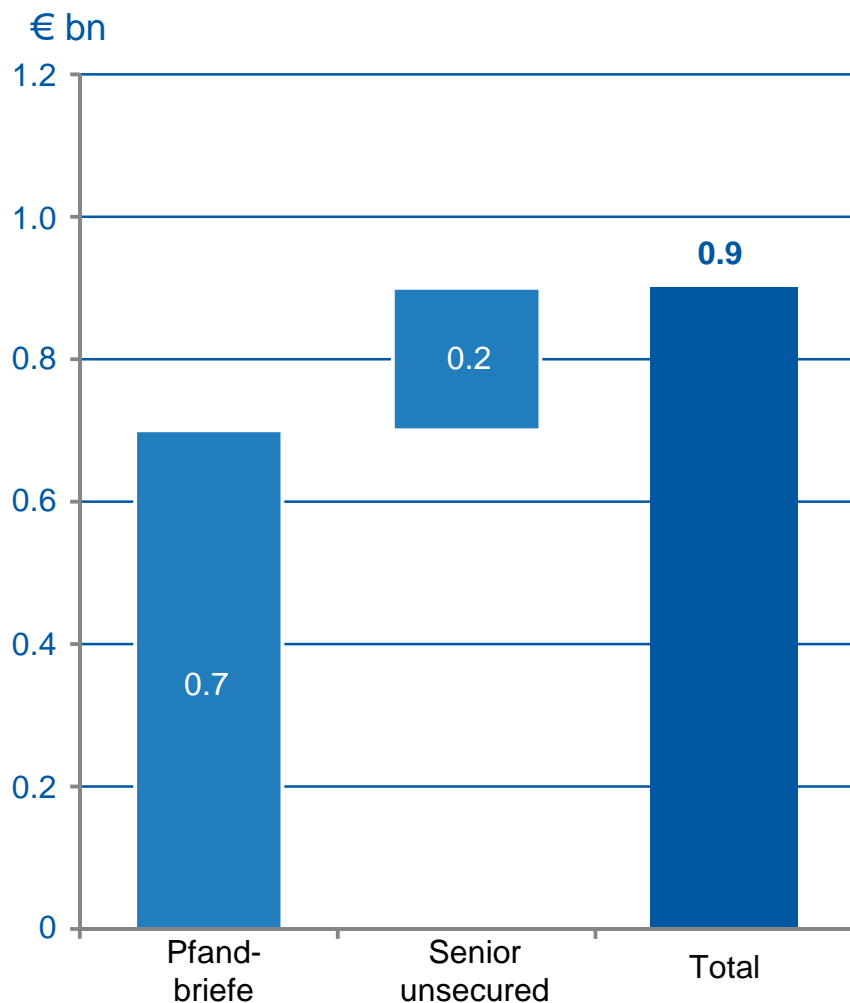


- Aareal Bank already fulfils future requirements
  - NSFR > 1.0
  - LCR >> 1.0
- Basel III and CRR require specific liquidity ratios starting end 2018
- Positive effect in 2014 due to changed weighting factors
- Additional funding requirements to come from acquisition of WestImmo easily covered by NSFR surplus



# Refinancing situation 2015

## Funding activities reflecting sound liquidity position



Total funding of € 0.9 bn in Q1 2015

- Pfandbriefe: € 0.7 bn  
thereof USD 500 mn mortgage Pfandbrief
- Senior unsecured: € 0.2 bn

Backbone of capital market funding is a loyal, granular, domestic private placement investor base

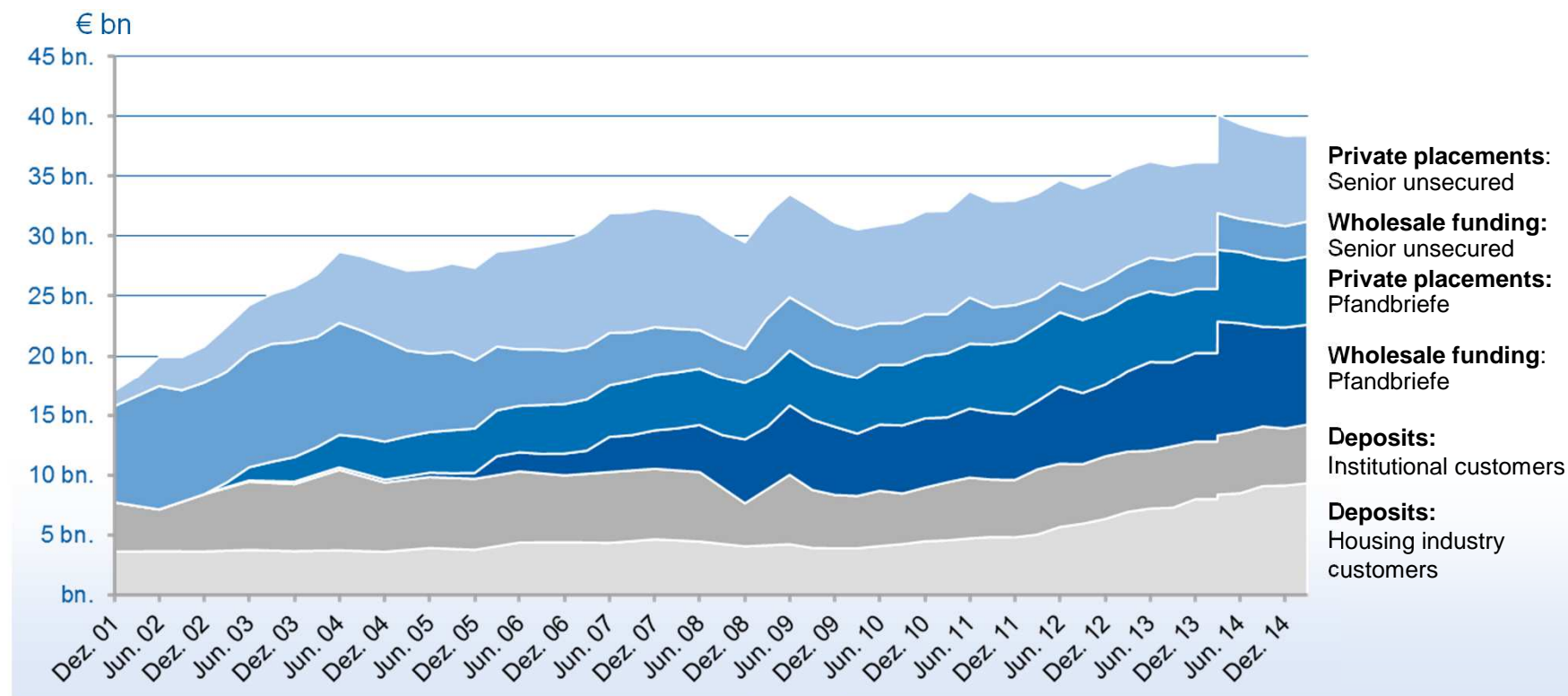
- Hold-to-maturity investors: over 600
- Average ticket size: ~ € 10 mn

Deposits of the housing industry with € 9.3 bn stabilises on a high level (€ 9.1 bn in Q4 2014)



# 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 31.03.2015, this share has fallen to ~30% (or even below 10% without Pfandbriefe)

As at 31.03.2015



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# Group figures Q1 2015

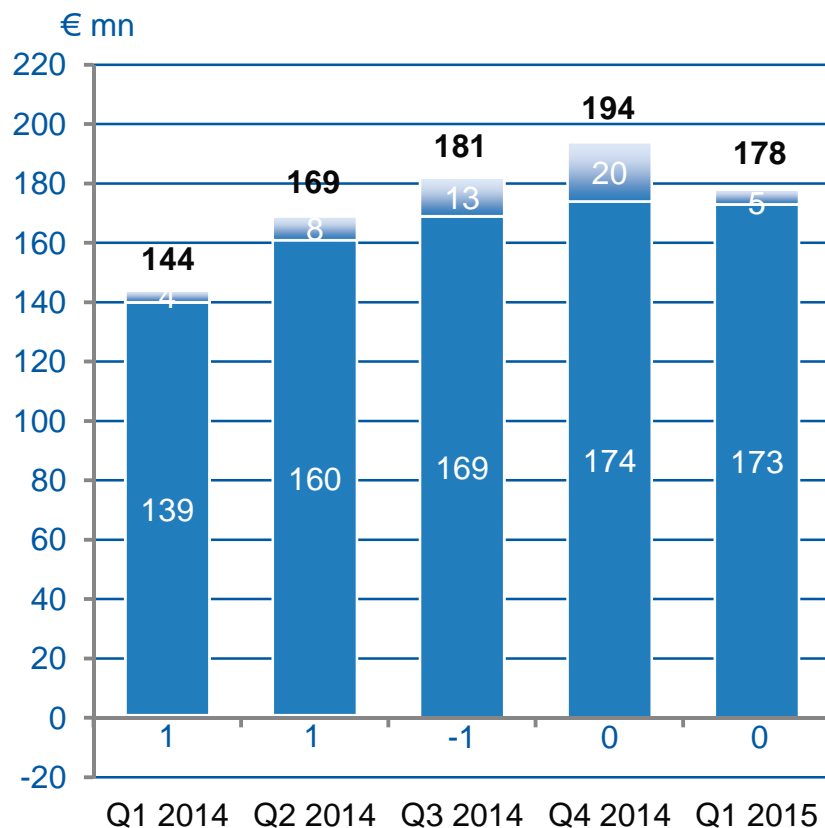


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# Net interest income

## Strong development



- NII effect from early repayments<sup>2)</sup>
- NII Structured Property Financing
- NII Consulting / Services

1) Consolidated since Q2 2014

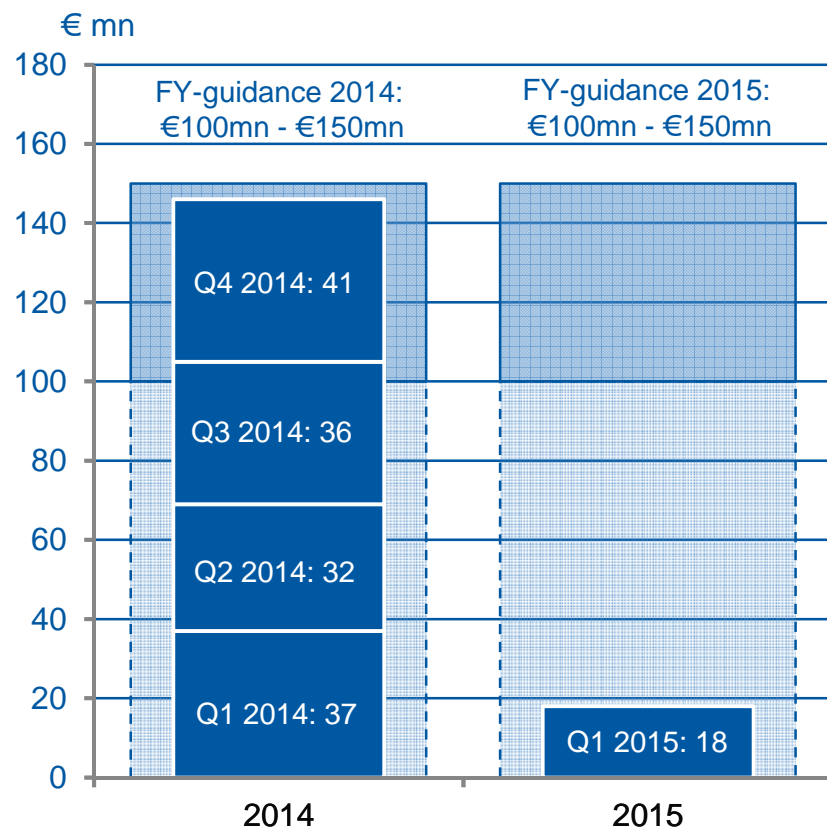
2) Additional effects exceeding originally planned repayments

- Portfolio growth of € 4.8 bn since FY 2013 (thereof € 2.4 bn Corealcredit<sup>1)</sup>)
- Still stable margins in the CRE business
- Q1 includes additional ~€ 5 mn from early repayments<sup>2)</sup> (Q4: € 20 mn, Q3: € 13 mn, Q2: € 8 mn, Q1: € 4 mn)
- Former central bank liquidity 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



# Loan loss provisions

## In line with guidance



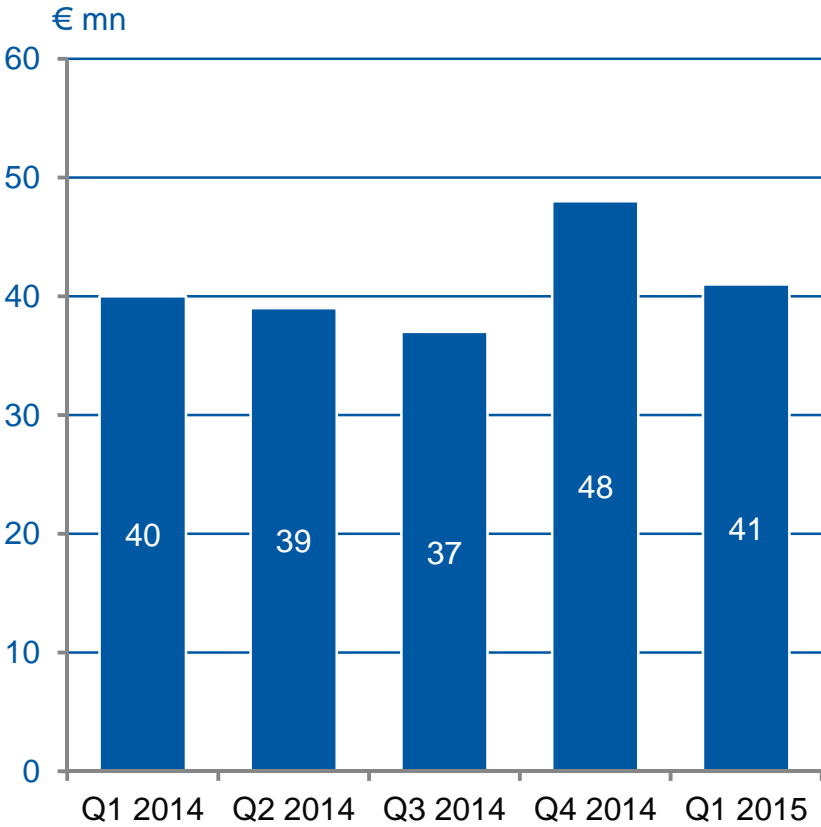
- Unchanged FY 2015 range despite a significantly larger portfolio
- Q1 2015 of € 18 mn consists of
  - € 43 mn specific allowances
  - € -25 mn portfolio allowances
- Additions in specific allowances partly compensated by corresponding reversal of portfolio allowances

■ FY guidance



# Net commission income

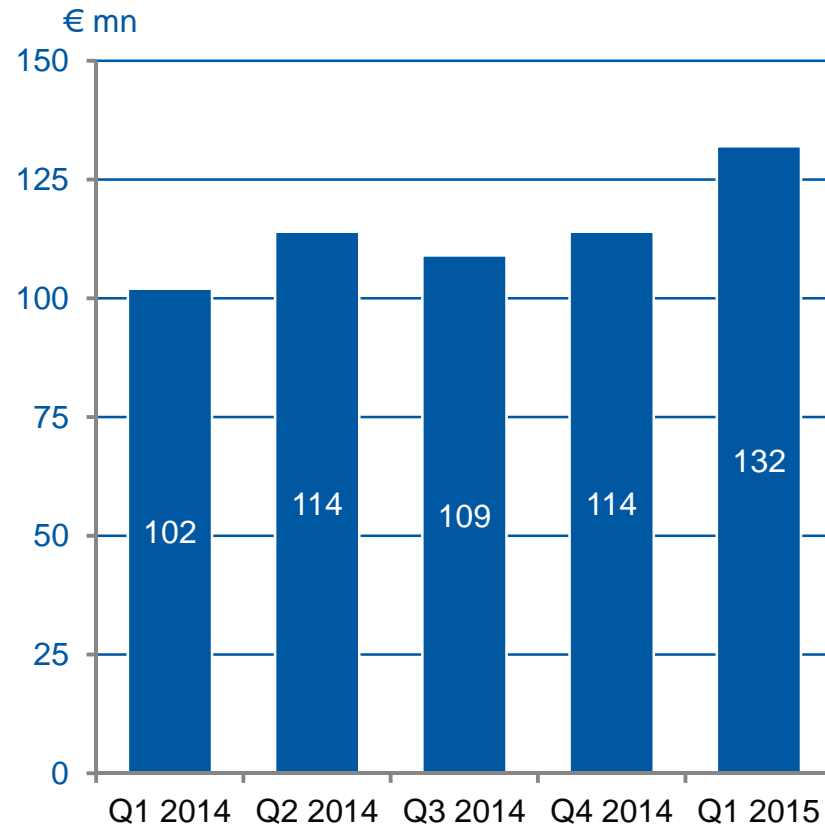
## Confirming guidance



- Aareon on track
- Strong Aareon revenue regularly pushing Q4

# Admin expenses

## Within FY-guidance



- Admin expenses in Q1 burdened by
  - € 12 mn redundancy plan for of Corealcredit
  - € 9 mn European bank levy (FY 2015)



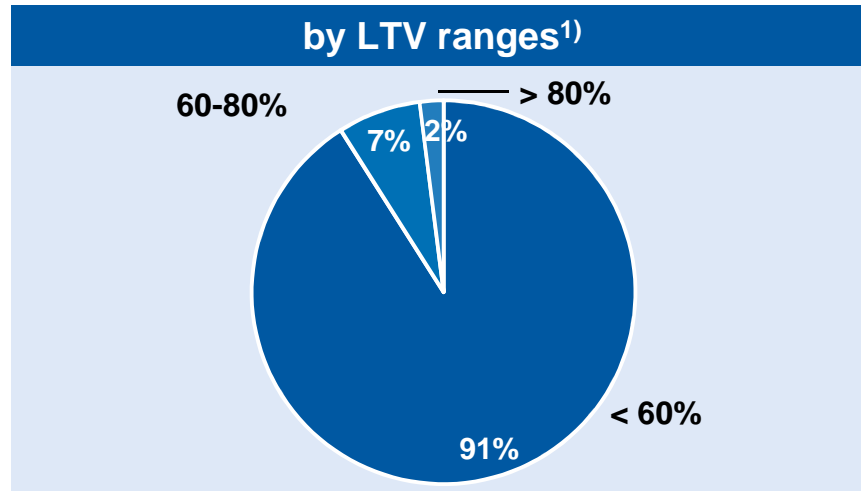
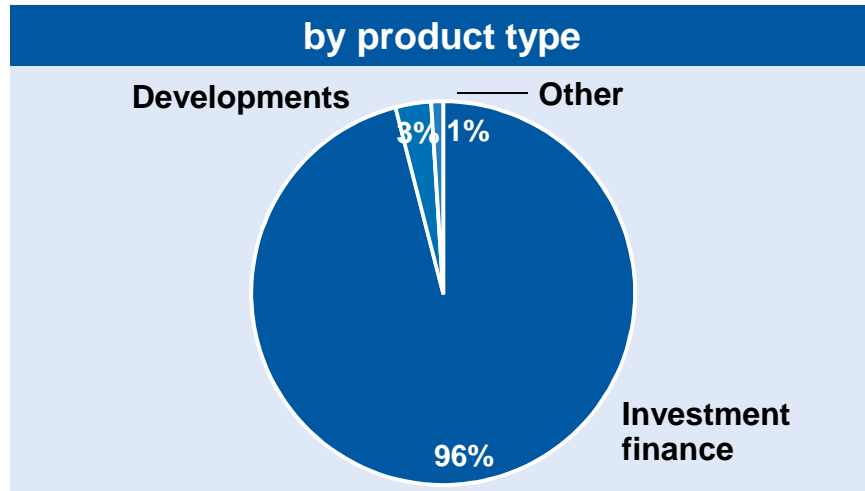
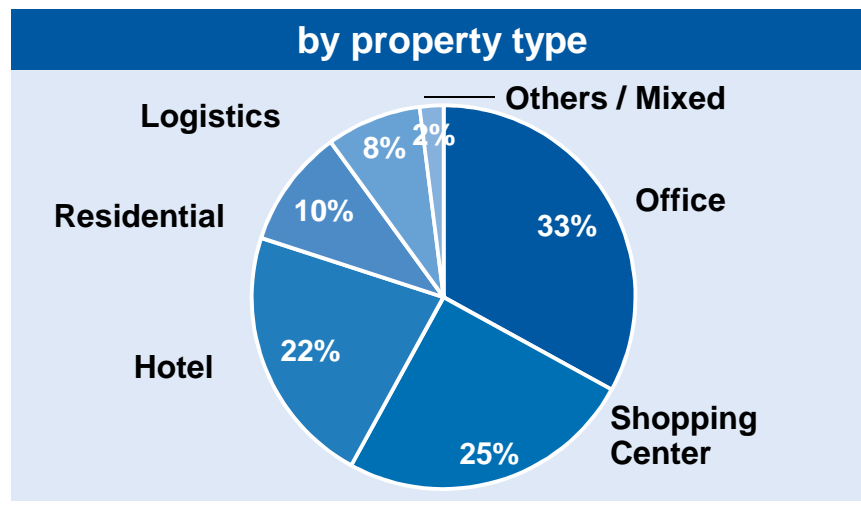
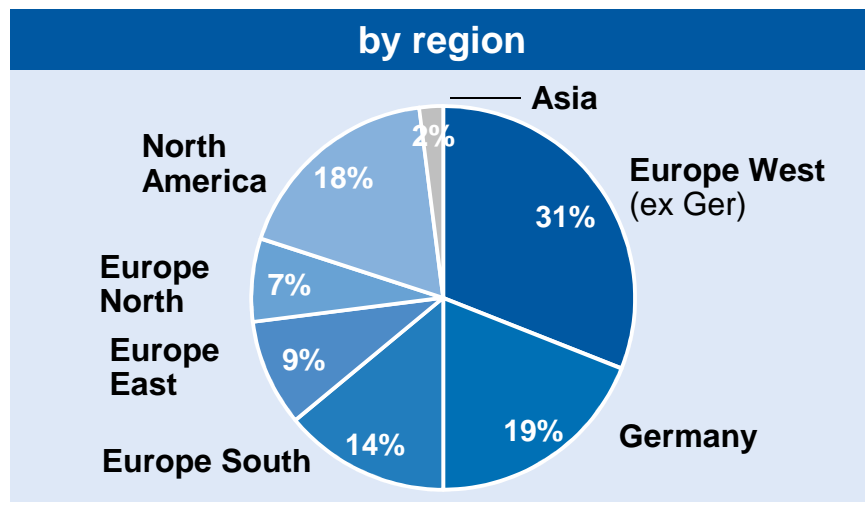
# Asset quality



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# Total property finance portfolio

€ 29.3 bn highly diversified and sound



1) Performing business only, exposure as at 31.03.2015



# Total property finance portfolio

## Continuing conservative approach

NPL- and LLP development			
€ mn	NPL Exposure <sup>1)</sup>	Specific Allowances <sup>1)</sup>	Portfolio Allowances <sup>2)</sup>
<b>Aareal Bank Group as at 31.12.2014</b>	<b>986</b>	<b>337</b>	<b>154</b>
Aareal Bank Group utilisation in Q1 '15	-15	0	0
Aareal Bank Group addition in Q1 '15	136	43	-25
<b>Aareal Bank Group as at 31.03.2015</b>	<b>1,107</b>	<b>380</b>	<b>129</b>
<b>Coverage ratio specific allowances</b>	<b>34.3%</b>		
		380	129
<b>Aareal Bank Group as at 31.03.2015</b>	<b>1,107</b>	<b>509</b>	
<b>Coverage ratio incl. portfolio allowances</b>	<b>46.0%</b>		

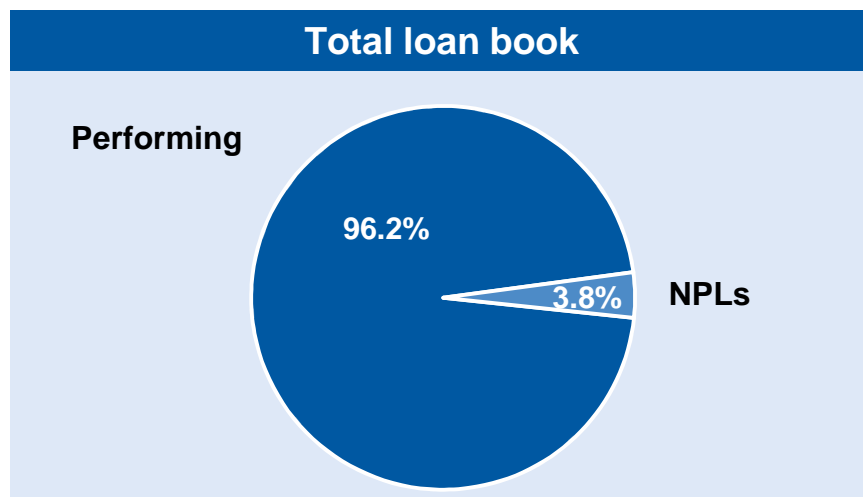
1) Incl. property finance portfolio still on DEPFA's balance sheet

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



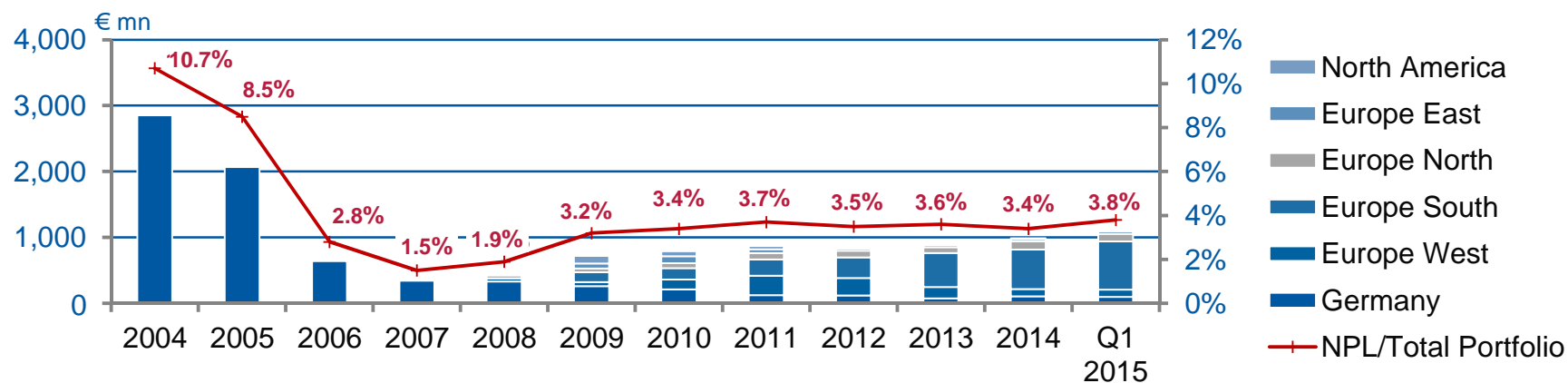
# Total property finance portfolio

€ 29.3 bn of high quality real estate assets



	Nominal (in € mn)	Average LTV	NPL (in € mn)
Greece	-	-	-
Ireland	-	-	-
Italy	3,120	72.1%	650
Portugal	-	-	-
Spain	1,075	86.3%	79

## NPL and NPL-ratio (since 12.2004)



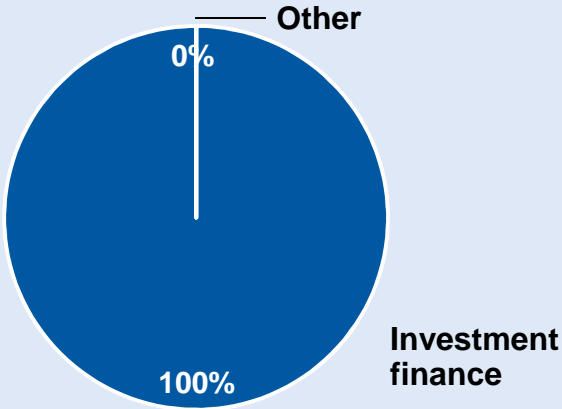
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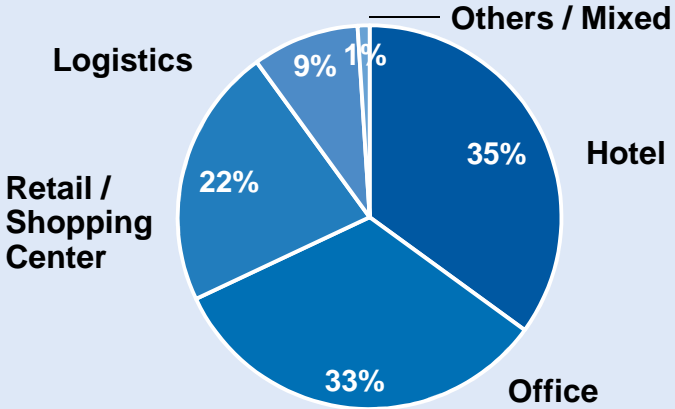
# Western Europe (ex Germany) credit portfolio

Total volume outstanding as at 31.03.2015: € 9.0 bn

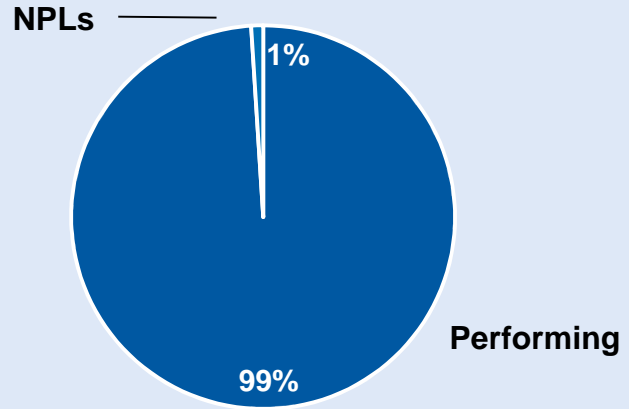
**by product type**



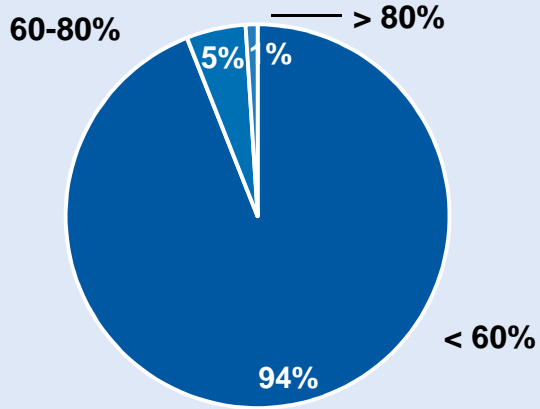
**by property type**



**by performance**



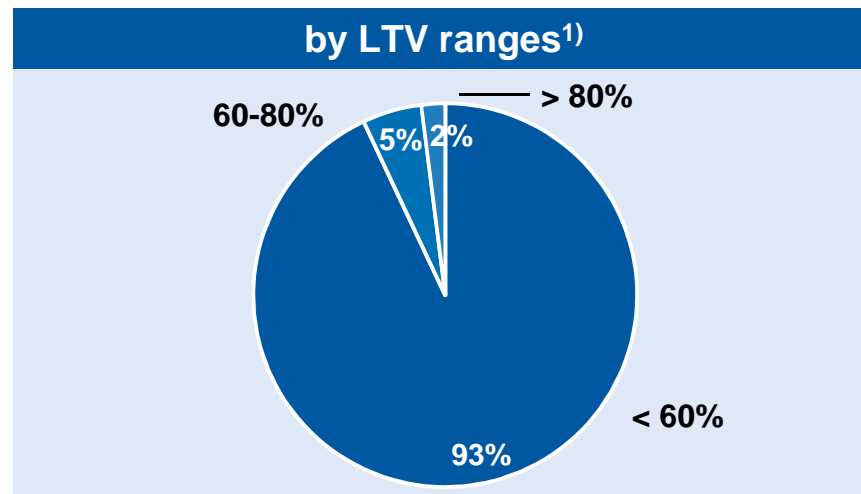
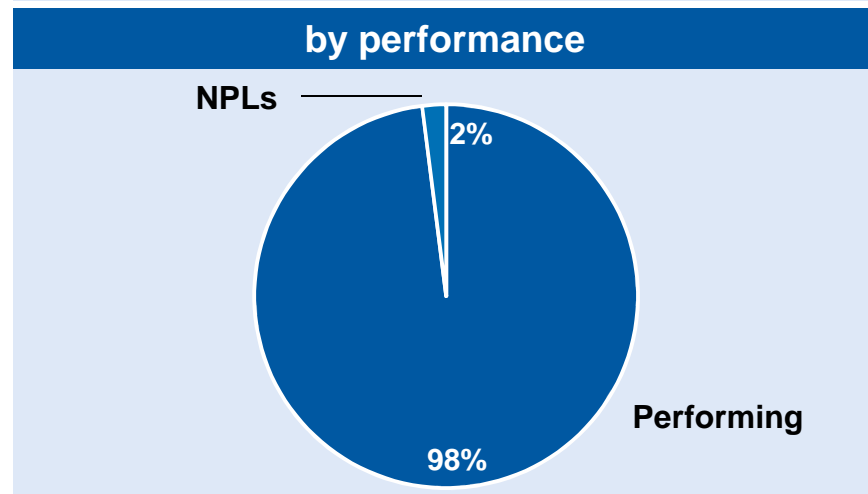
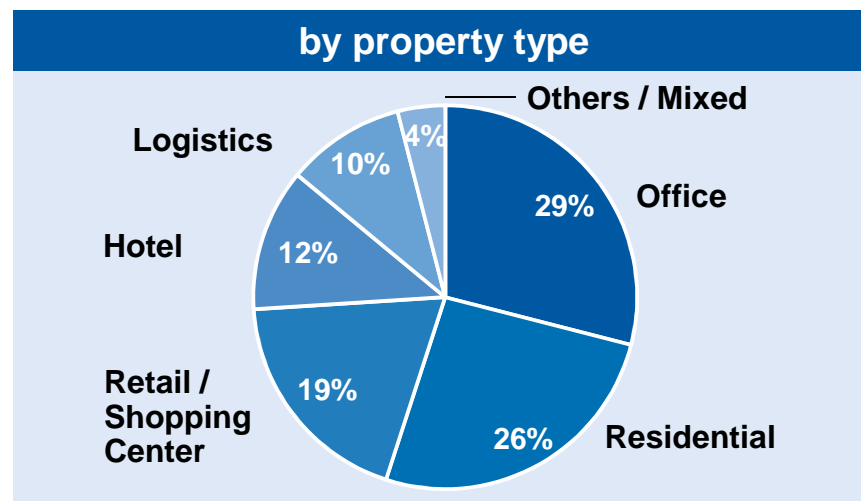
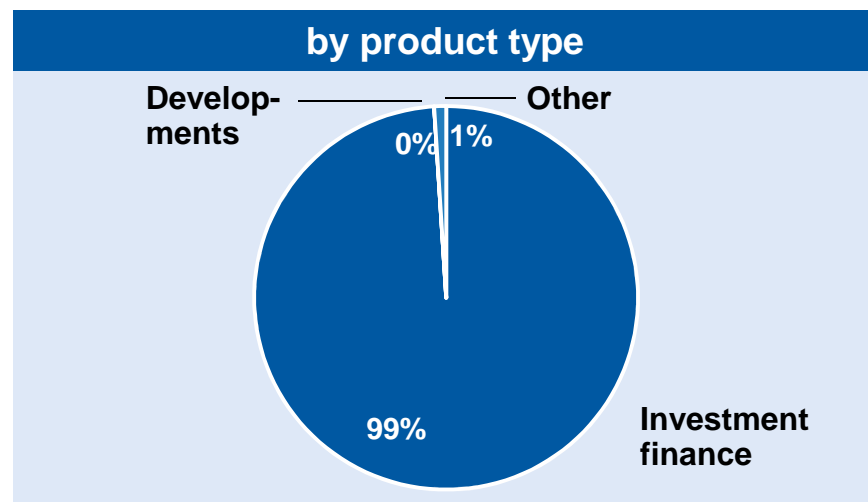
**by LTV ranges<sup>1)</sup>**



1) Performing business only, exposure as at 31.03.2015

# German credit portfolio

Total volume outstanding as at 31.03.2015: € 5.6 bn



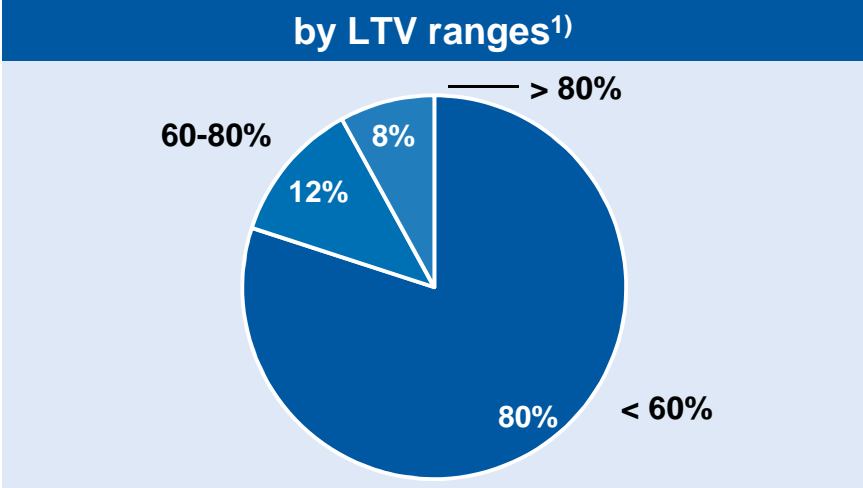
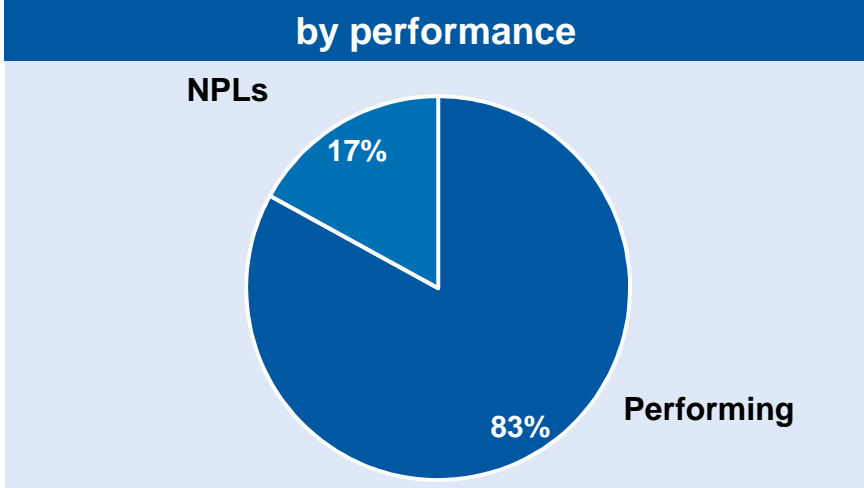
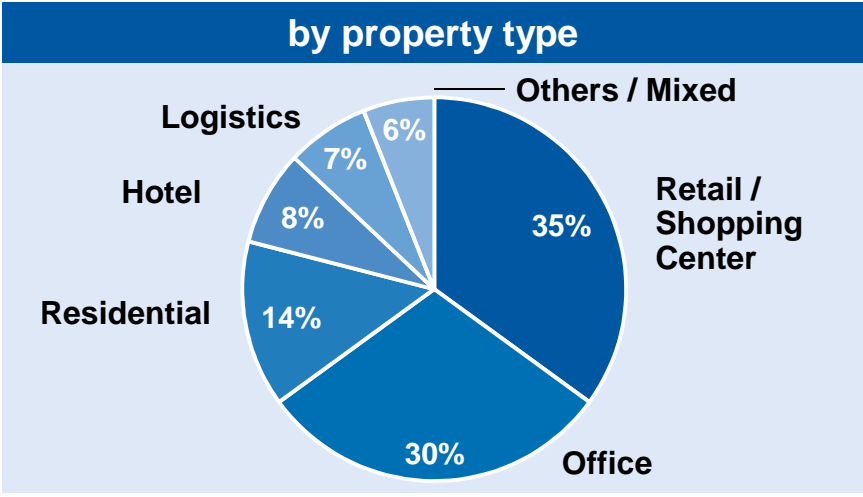
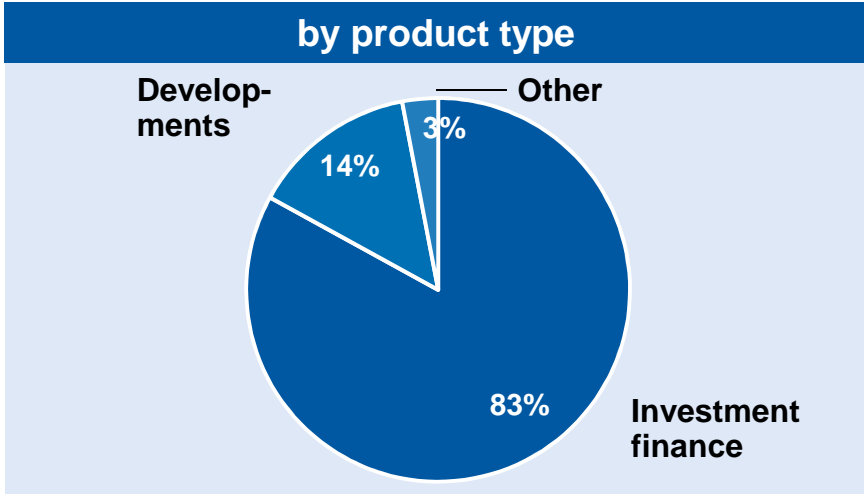
1) Performing business only, exposure as at 31.03.2015



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# Southern Europe credit portfolio

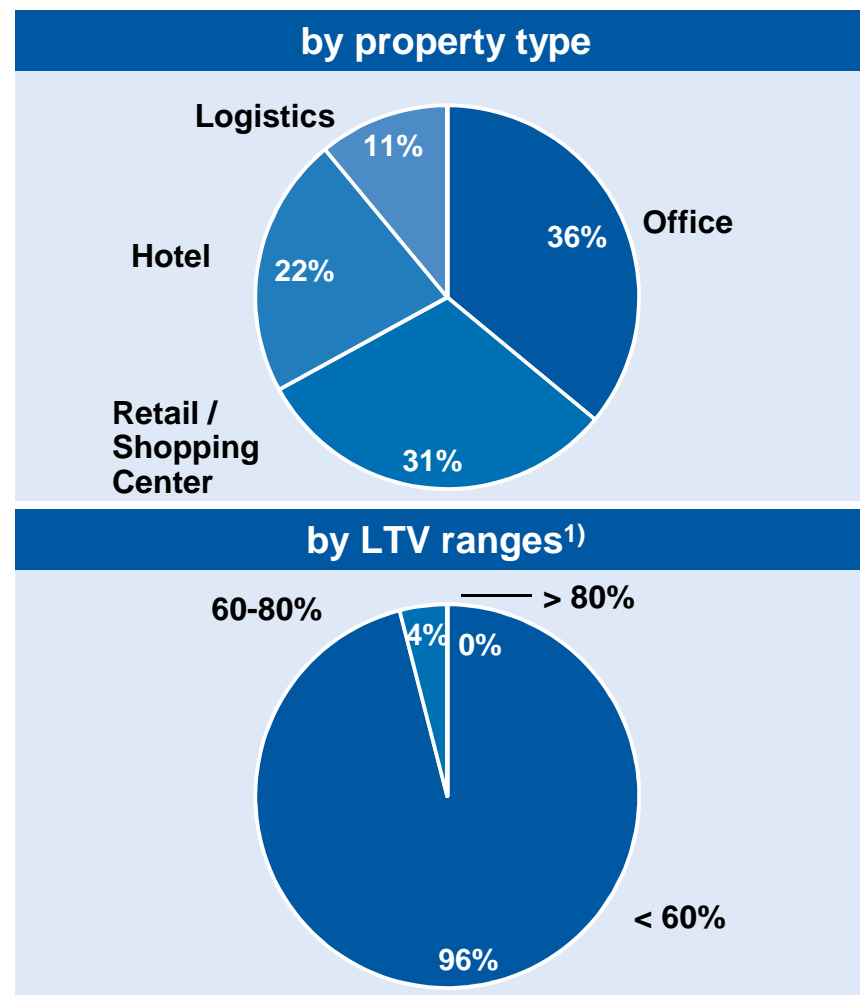
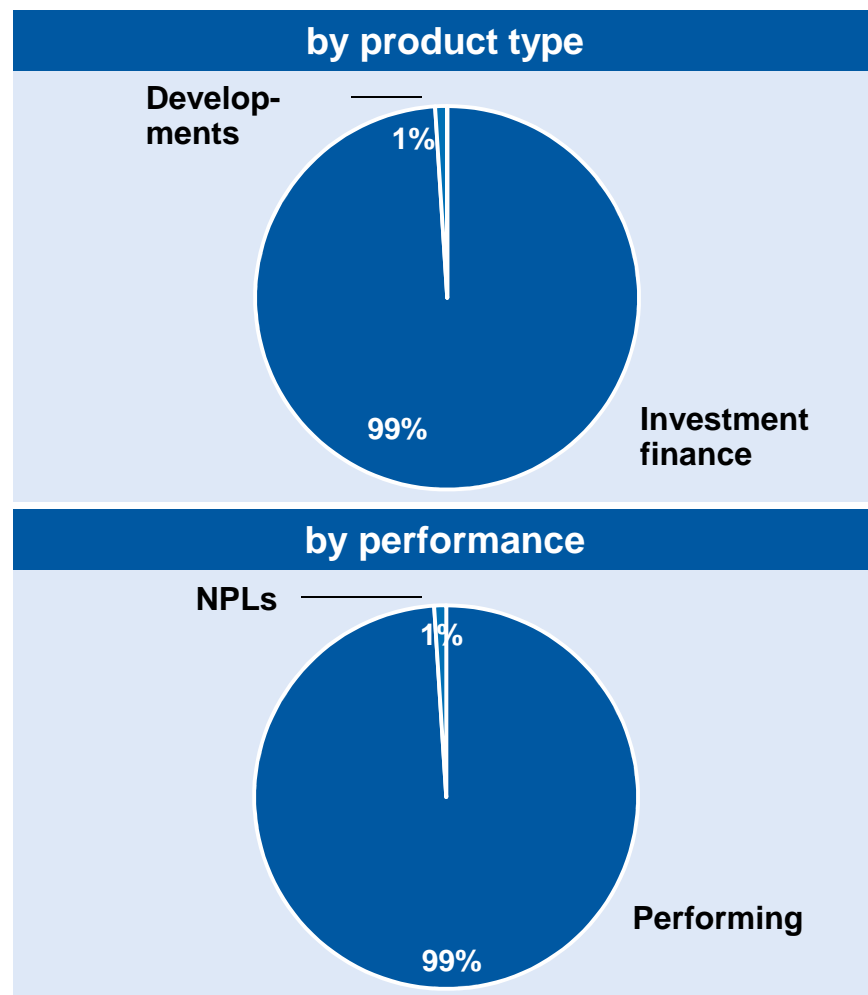
Total volume outstanding as at 31.03.2015: € 4.2 bn



1) Performing business only, exposure as at 31.03.2015

# Eastern Europe credit portfolio

Total volume outstanding as at 31.03.2015: € 2.5 bn

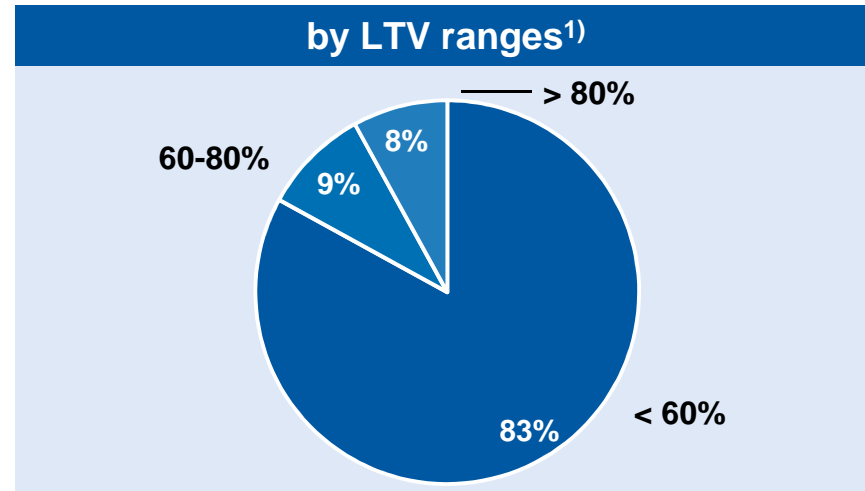
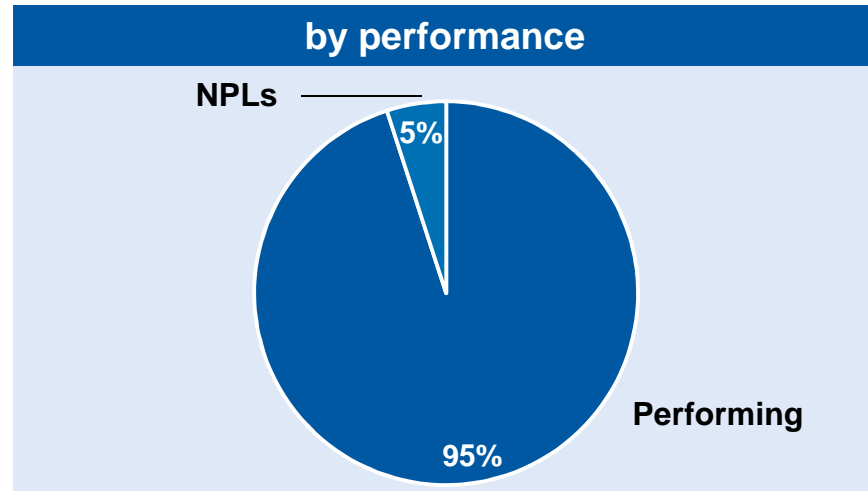
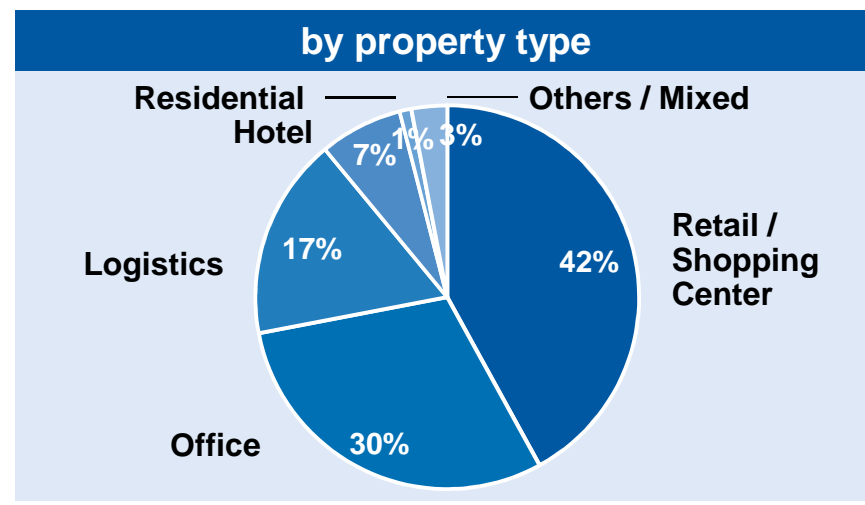
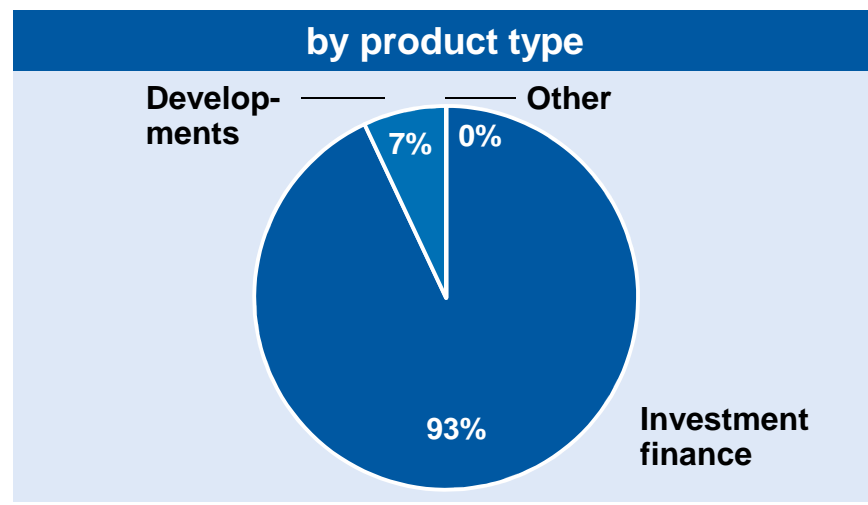


1) Performing business only, exposure as at 31.03.2015



# Northern Europe credit portfolio

Total volume outstanding as at 31.03.2015: € 2.1 bn

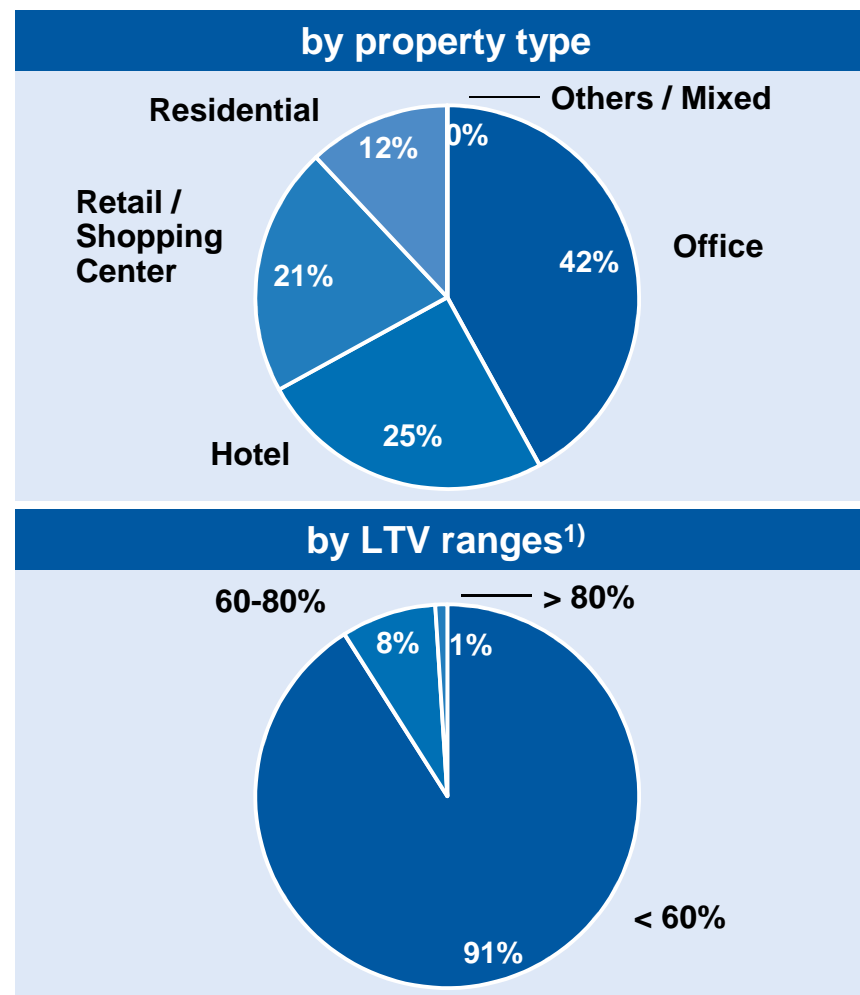
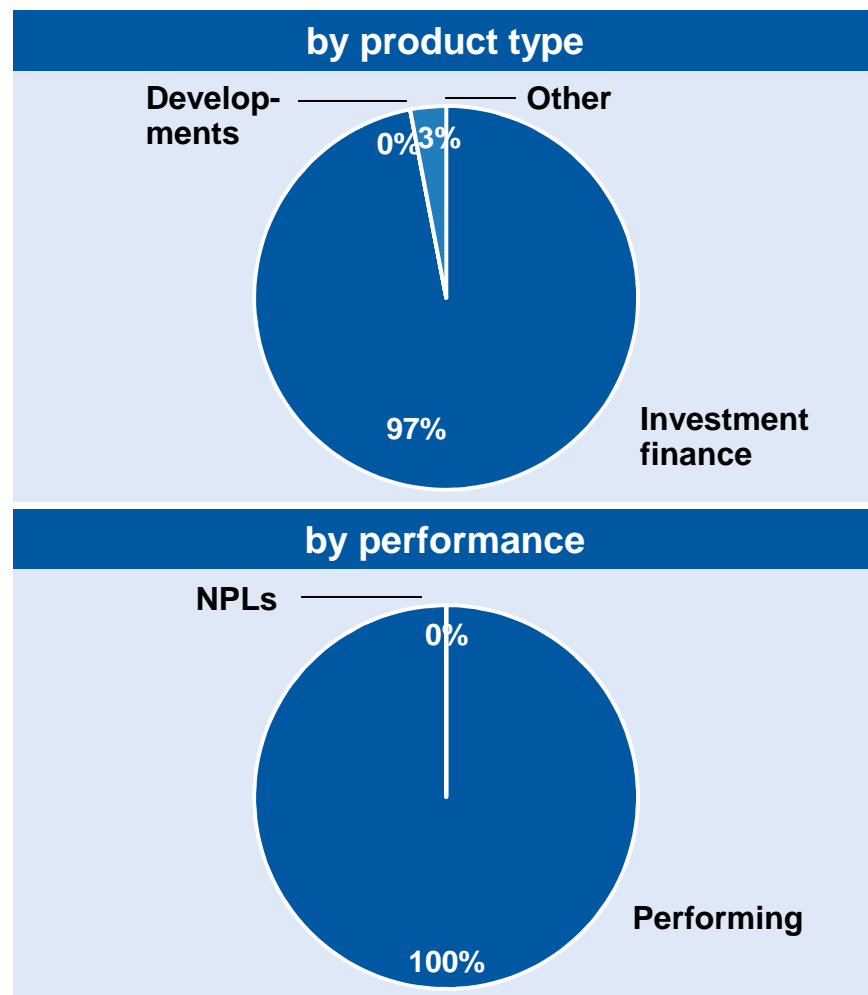


1) Performing business only, exposure as at 31.03.2015



# North America credit portfolio

Total volume outstanding as at 31.03.2015: € 5.2 bn



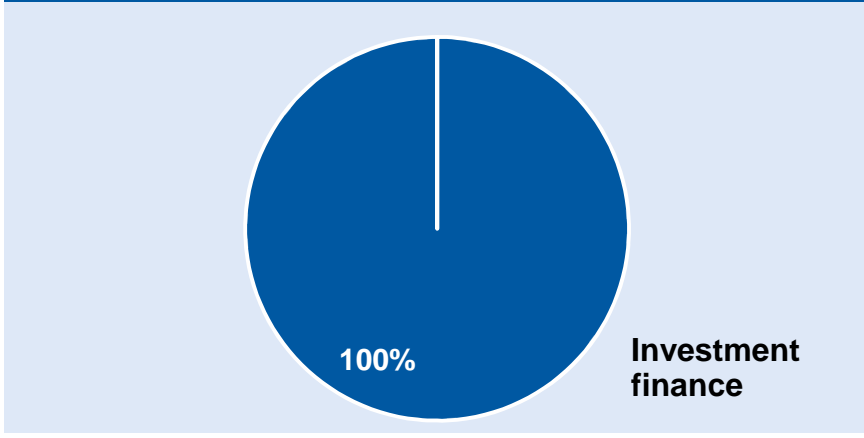
1) Performing business only, exposure as at 31.03.2015



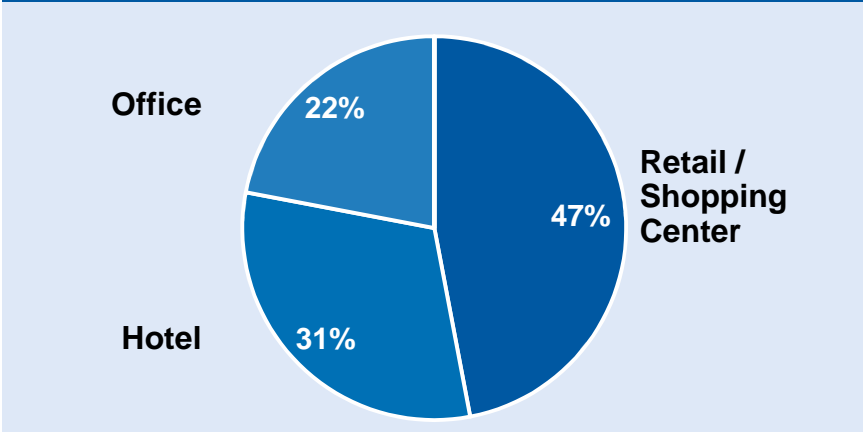
# Asia credit portfolio

Total volume outstanding as at 31.03.2015: € 0.5 bn

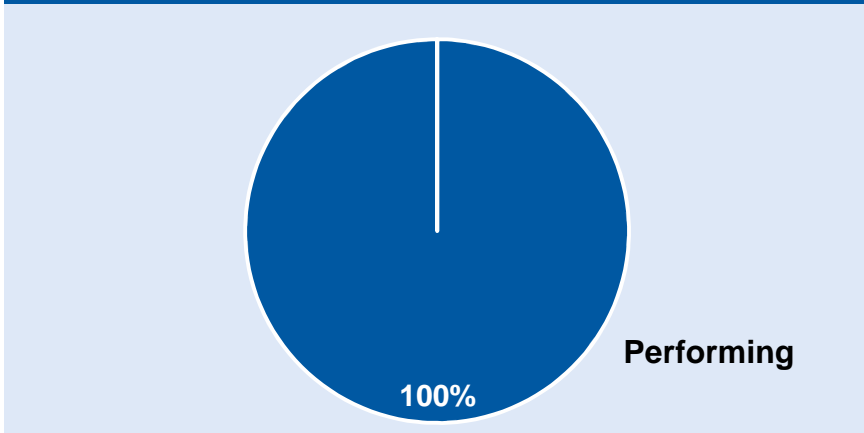
**by product type**



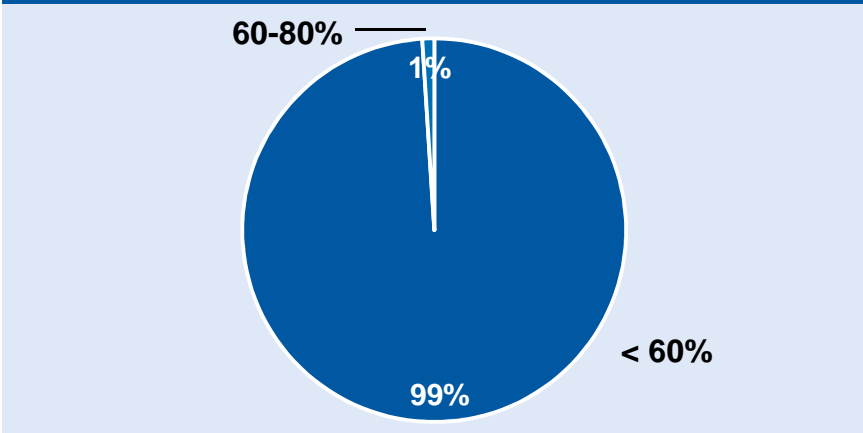
**by property type**



**by performance**



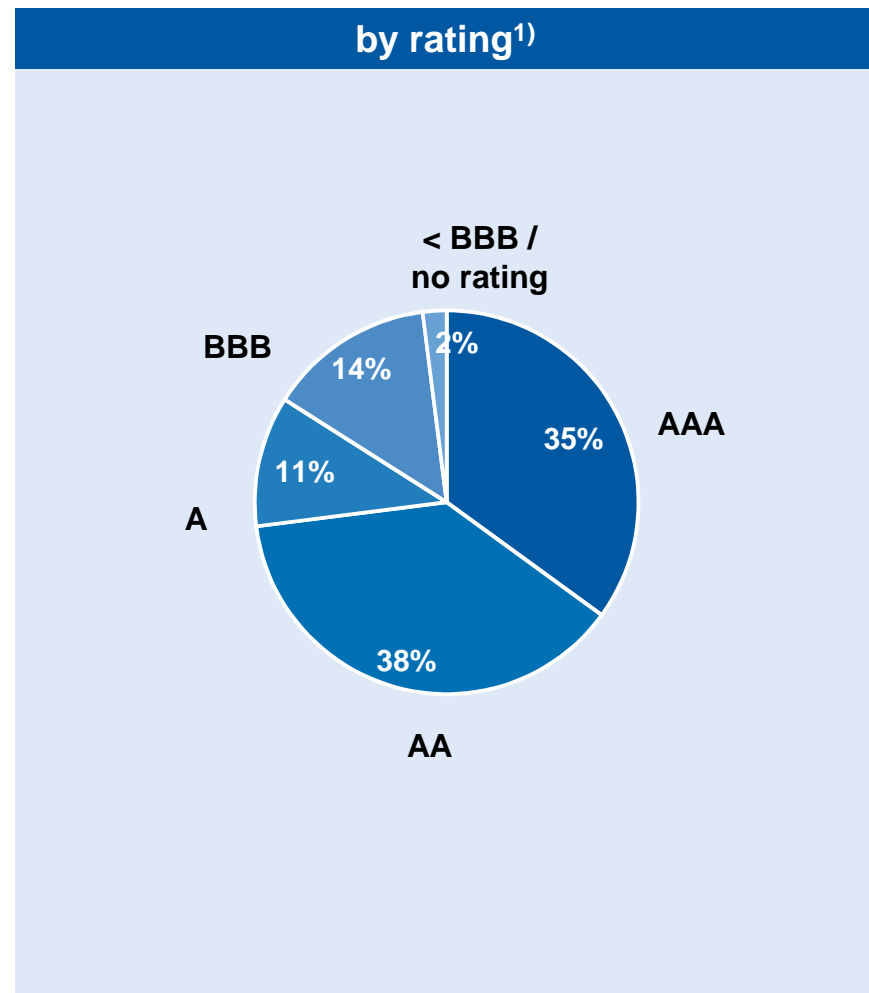
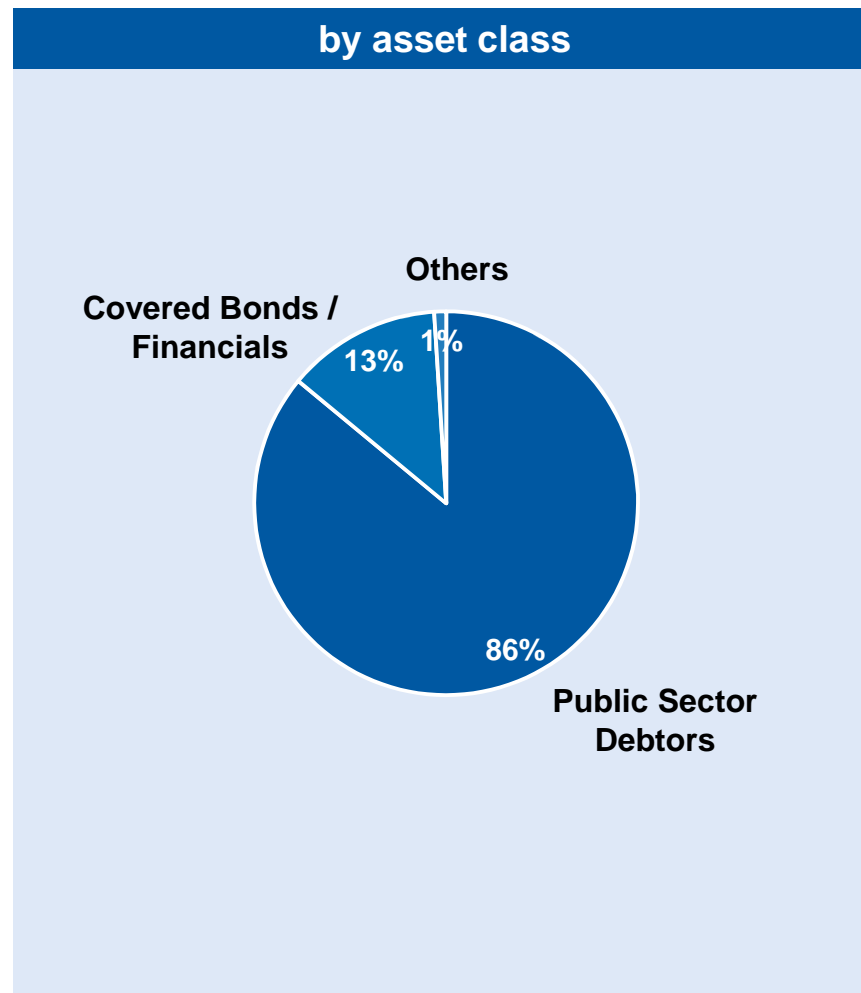
**by LTV ranges<sup>1)</sup>**



1) Performing business only, exposure as at 31.03.2015

# Total treasury portfolio

€ 10.5 bn of high quality and highly liquid assets



As at 31.03.2015 – all figures are nominal amounts  
1) Composite Rating





# Outlook 2015



**Aareal Bank  
Group**

# Outlook 2015 confirmed

Assumed closing of WestImmo adjusted to 31.05.2015

2015	
<b>Net interest income</b>	▪ € 720 mn - € 760 mn
<b>Net loan loss provisions<sup>1)</sup></b>	▪ € 100 mn - € 150 mn despite portfolio growth
<b>Net commission income</b>	▪ € 170 - € 180 mn
<b>Admin expenses</b>	▪ € 520 mn - € 550 mn incl. one-offs related to Corealcredit and WestImmo
<b>Negative goodwill</b>	▪ ~ € 150 mn
<b>Operating profit</b>	▪ € 400 mn - € 430 mn
<b>EpS<sup>2)</sup></b>	▪ € 4.80 - € 5.20 incl. negative goodwill ▪ € 2.30 - € 2.70 excl. negative goodwill
<b>Pre-tax RoE</b>	▪ ~ 16% incl. negative goodwill ▪ ~ 10% excl. negative goodwill
<b>New business origination</b>	▪ € 6 bn - € 7 bn
<b>Operating profit Aareon<sup>3)</sup></b>	▪ ~ € 27 mn

1) As in 2014, the bank cannot rule out additional allowances for credit losses

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

3) After segment adjustments



# Midterm Outlook



**Aareal Bank  
Group**

# Midterm Outlook

## Summary, prerequisites and challenges

	2017
CET1 ratio IFRS & CRR fully phased (long term target)	>10.75% (before mgmt. buffer)
CIR	~40% (SPF)
EBT margin	>17.5% (Aareon)
Pre-tax RoE	~12%
Cost of equity (net)	↓

### Prerequisites

- No Eurozone break up
- Normalised asset valuations
- Healthy world GDP growth beside some European peripherals
- Sound regulatory environment
- No additional burdens
- ECB to keep key interest rates low due to little inflation pressure – therefore short-term Euro interest rates will likely stay low as well

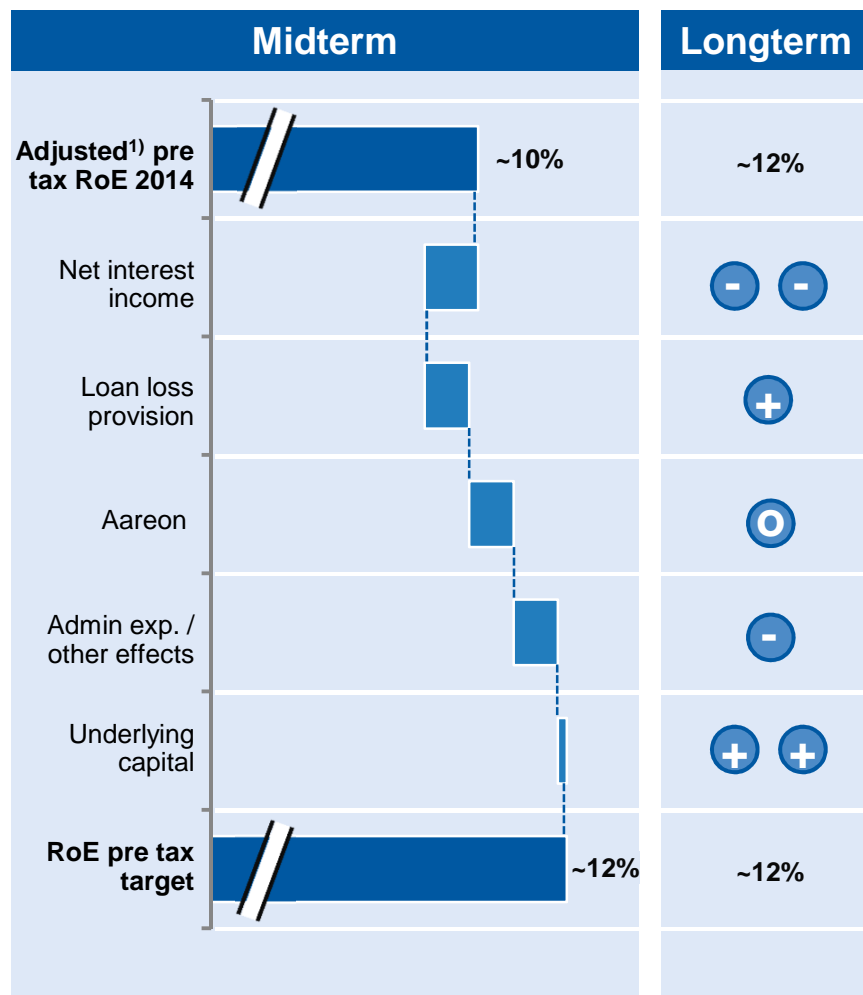
### Challenges

- ECB supervision
- Banking resolution
- Basel activities



# Midterm outlook

## Management options



1) Mainly from unplanned early repayments

### Management options

- Optimisation funding structure / liquidity portfolio
- Loan portfolio size depending on margin compression
- RWA and LTV development depending on regulation and markets
- Increase in Aareon's profit contribution
- Keep cost base under control
- Optimisation of regulatory capital structure
- Alignment or allocation of underlying capital depending on chances and challenges in the markets



# Appendix

## Key figures Q1 2015



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# Aareal Bank Group

## Key figures Q1 2015

	01.01.- 31.03.2015 € mn	01.01.- 31.03.2014 € mn	Change
<b>Profit and loss account</b>			
Net interest income	178	144	24%
Allowance for credit losses	18	37	-51%
<b>Net interest income after allowance for credit losses</b>	<b>160</b>	<b>107</b>	<b>50%</b>
Net commission income	41	40	3%
Net result on hedge accounting	11	2	450%
Net trading income / expenses	-7	2	-450%
Results from non-trading assets	-3	0	-
Results from investments accounted for at equity	0	-	-
Administrative expenses	132	102	29%
Net other operating income / expenses	-3	16	-
Negative goodwill	-	154	-
<b>Operating Profit</b>	<b>67</b>	<b>219</b>	<b>-69%</b>
Income taxes	22	20	10%
<b>Net income / loss</b>	<b>45</b>	<b>199</b>	<b>-77%</b>
<b>Allocation of results</b>			
Net income / loss attributable to non-controlling interests	5	5	0%
Net income / loss attributable to shareholders of Aareal Bank AG	40	194	-79%
<b>Earnings per share (EpS)<sup>1)</sup></b>			
Consolidated net income attributable to shareholders of Aareal Bank AG	40	189	-79%
of which: attributable to ordinary shareholders <sup>2)</sup>	36	189	-81%
of which: attributable to AT1 investors	4	-	-
Earnings per ordinary share (in €) <sup>2)3)</sup>	0.60	3.16	-81%
Earnings per ordinary AT1 unit (in €) <sup>4)</sup>	0.04	-	-

- 1) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.
- 2) SoFFin's silent participation was repaid on 30 October 2014. In order to facilitate comparability and for the purpose of an economic analysis, net interest payable on the SoFFin silent participation was deducted from the comparative figure as at 31 March 2014 (€ 5 million) in the EpS calculation.
- 3) Earnings per ordinary share are determined by dividing the earnings attributable to ordinary shareholders of Aareal Bank AG by the weighted average of ordinary shares outstanding during the financial year (59,857,221 shares). Basic earnings per ordinary share correspond to diluted earnings per ordinary share.
- 4) Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of € 3 each) are determined by dividing the earnings attributable to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Earnings per AT1 unit (basic) correspond to (diluted) earnings per AT1 unit.



**Aareal Bank  
Group**

# Aareal Bank Group

## Key figures Q1 2015 by operating units

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.01.- 31.03. 2015	01.01.- 31.03. 2014	01.01.- 31.03. 2015	01.01.- 31.03. 2014	01.01.- 31.03. 2015	01.01.- 31.03. 2014	01.01.- 31.03. 2015	01.01.- 31.03. 2014
	€ mn							
Net interest income	178	143	0	0	0	1	178	144
Allowance for credit losses	18	37					18	37
<b>Net interest income after allowance for credit losses</b>	<b>160</b>	<b>106</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>160</b>	<b>107</b>
Net commission income	0	1	41	40	0	-1	41	40
Net result on hedge accounting	11	2					11	2
Net trading income / expenses	-7	2					-7	2
Results from non-trading assets	-3	0					-3	0
Results from investments accounted for at equity			0				0	
Administrative expenses	84	56	48	46	0	0	132	102
Net other operating income / expenses	-3	16	0	0	0	0	-3	16
Negative goodwill		154						154
<b>Operating profit</b>	<b>74</b>	<b>225</b>	<b>-7</b>	<b>-6</b>	<b>0</b>	<b>0</b>	<b>67</b>	<b>219</b>
Income taxes	24	22	-2	-2			22	20
<b>Net income / loss</b>	<b>50</b>	<b>203</b>	<b>-5</b>	<b>-4</b>	<b>0</b>	<b>0</b>	<b>45</b>	<b>199</b>
<b>Allocation of results</b>								
Net income / loss attributable to non-controlling interests	4	4	1	1			5	5
Net income / loss attributable to shareholders of Aareal Bank AG	46	199	-6	-5	0	0	40	194





# Aareal Bank Group

## Key figures – quarter by quarter

	Structured Property Financing					Consulting / Services					Consolidation / Reconciliation					Aareal Bank Group				
	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Euro mn																				
Net interest income	178	194	182	168	143	0	0	0	0	0	0	0	1	1	1	178	194	181	169	144
Allowance for credit losses	18	41	36	32	37											18	41	36	32	37
<b>Net interest income after allowance for credit losses</b>	<b>160</b>	<b>153</b>	<b>146</b>	<b>136</b>	<b>106</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-1</b>	<b>1</b>	<b>1</b>	<b>160</b>	<b>153</b>	<b>145</b>	<b>137</b>	<b>107</b>
Net commission income	0	1	1	1	1	41	47	36	40	40	0	0	0	-2	-1	41	48	37	39	40
Net result on hedge accounting	11	2	0	1	2											11	2	0	1	2
Net trading income / expenses	-7	3	-5	2	2											-7	3	-5	2	2
Results from non-trading assets	-3	2	0	0	0											-3	2	0	0	0
Results from results accounted for at equity		0	0			0	0									0	0	0		
Administrative expenses	84	67	64	68	56	48	48	46	47	46	0	-1	-1	-1	0	132	114	109	114	102
Net other operating income / expenses	-3	-8	-4	-1	16	0	1	2	1	0	0	-1	0	0	0	-3	-8	-2	0	16
Negative goodwill					154 <sup>1)</sup>															154 <sup>1)</sup>
<b>Operating profit</b>	<b>74</b>	<b>86</b>	<b>74</b>	<b>71</b>	<b>225</b>	<b>-7</b>	<b>0</b>	<b>-8</b>	<b>-6</b>	<b>-6</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>67</b>	<b>86</b>	<b>66</b>	<b>65</b>	<b>219</b>
Income taxes	24	41	23	23	22	-2	-2	-2	-2	-2						22	39	21	21	20
<b>Net income / loss</b>	<b>50</b>	<b>45</b>	<b>51</b>	<b>48</b>	<b>203<sup>1)</sup></b>	<b>-5</b>	<b>2</b>	<b>-6</b>	<b>-4</b>	<b>-4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>45</b>	<b>47</b>	<b>45</b>	<b>44</b>	<b>199<sup>1)</sup></b>
<b>Allocation of results</b>																				
Net income / loss attributable to non-controlling interests	4	4	4	4	4	1	1	0	1	1						5	5	4	5	5
Net income / loss attributable to shareholders of Aareal Bank AG	46	41	47	44	199 <sup>1)</sup>	-6	1	-6	-5	-5	0	0	0	0	0	40	42	41	39	194 <sup>1)</sup>

1) Adjusted



# Appendix

## AT1: ADI of Aareal Bank AG



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# Interest payments and ADI of Aareal Bank AG

## Available Distributable Items (as of end of the relevant year)

	31.12. 2014	31.12. 2013	31.12. 2012
€ mn			
Net Retained Profit	77	50	5
▪ <i>Net income</i>	77	50	5
▪ <i>Profit carried forward from previous year</i>	-	-	-
▪ <i>Net income attribution to revenue reserves</i>	-	-	-
+ Other revenue reserves after net income attribution	715	710	705
= Total dividend potential before amount blocked <sup>1)</sup>	792	760	710
./. Dividend amount blocked under section 268 (8) of the German Commercial Code	240	156	102
= Available Distributable Items <sup>1)</sup>	552	604	608
+ Increase by aggregated amount of interest expenses relating to Distributions on Tier 1 Instruments <sup>1)</sup>	57	57	52
= Amount referred to in the relevant paragraphs of the terms and conditions of the respective Notes as being available to cover Interest Payments on the Notes and Distributions on other Tier 1 Instruments <sup>1)</sup>	609	661	661

1) Unaudited figures for information purposes only



# Appendix

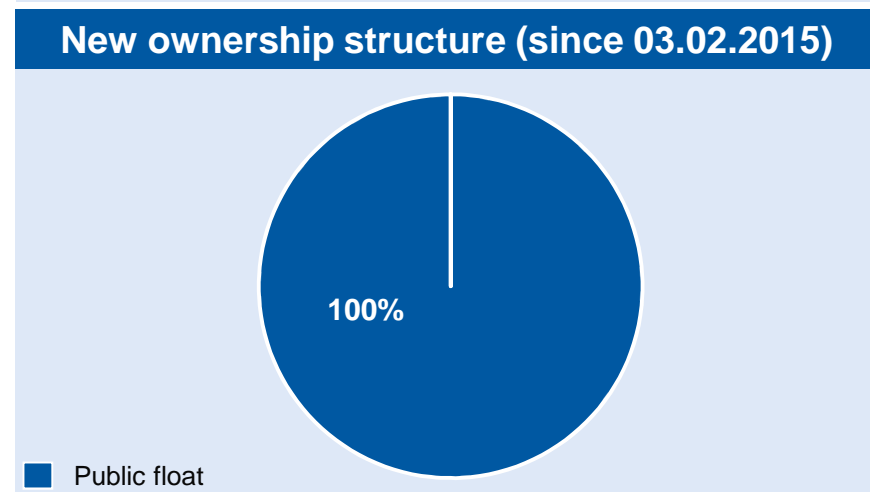
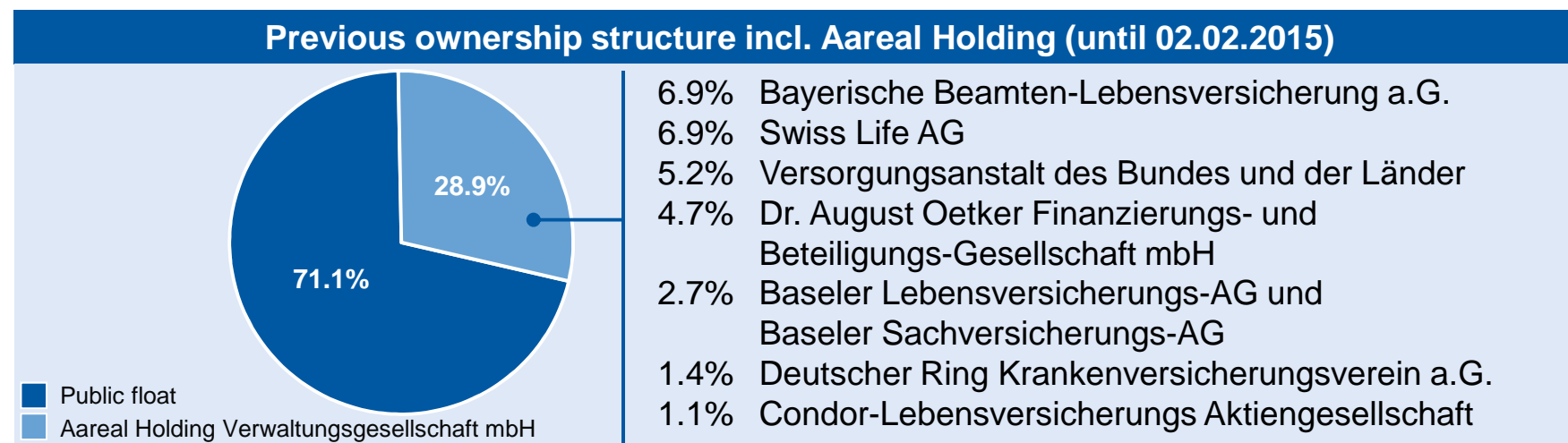
## New ownership structure



**Aareal Bank  
Group**

# Aareal's new ownership structure

## Successful placement underlines confidence in ARL



- Aareal Holding successfully completed the placement of its 28.9% stake Aareal Bank shares worth € 545 mn
- Priced at a small discount of 4.6% to the previous close
- The books were covered within 1 hour post launch - final orderbook was multiple times oversubscribed
- The transaction saw high quality demand particularly from the UK, Germany and USA



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# Appendix

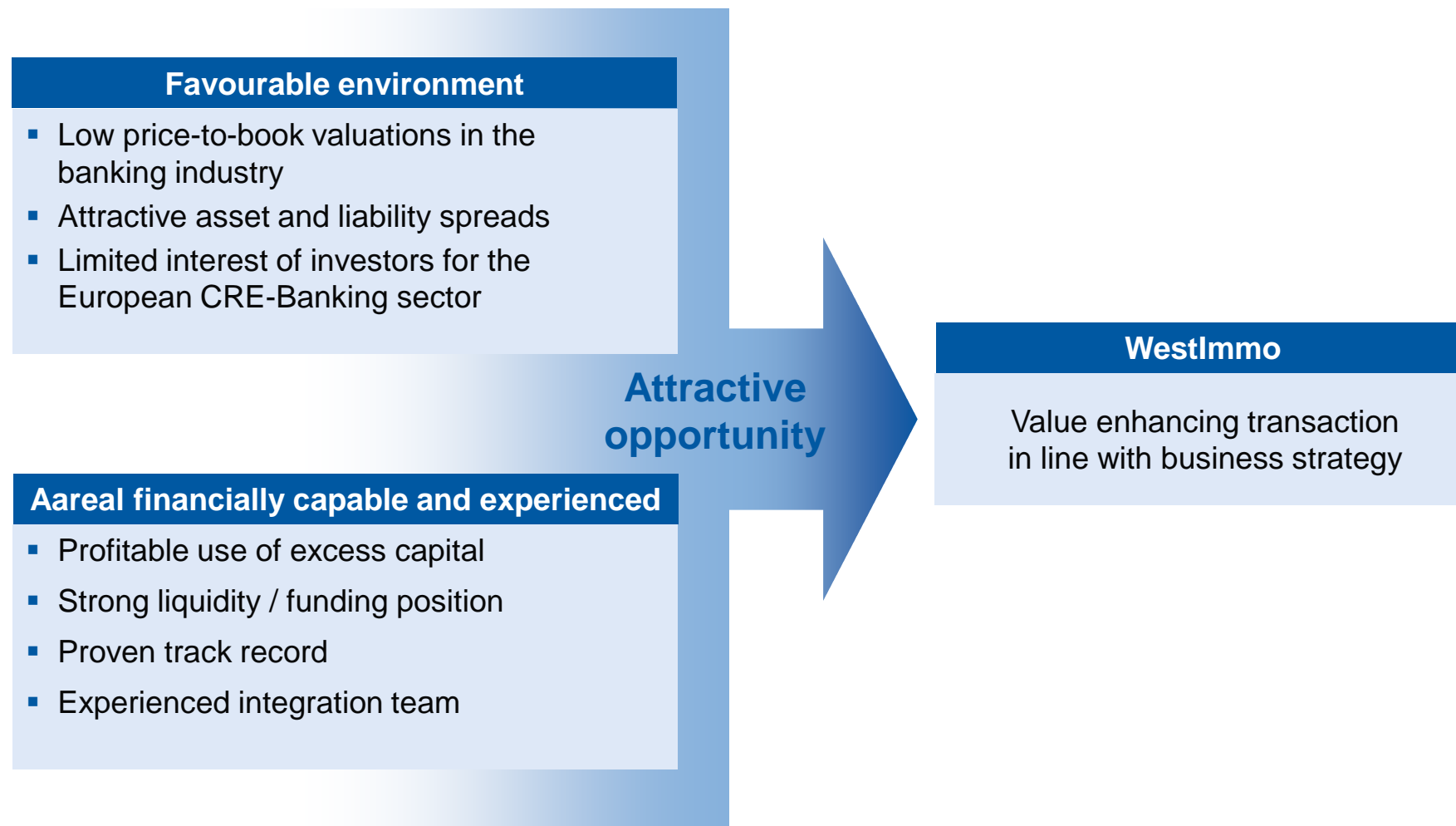
## Acquisition of WestImmo



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Group**

# Acquisition of WestImmo<sup>1)</sup>: Strategic rationale

## Attractive opportunity to pursue inorganic growth



1) As published February 22, 2015



# Acquisition of WestImmo<sup>1)</sup>: Strategic rationale

## Value enhancing transaction in line with business strategy

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

1) As published February 22, 2015





# Acquisition of WestImmo<sup>1)</sup>: Strategic rationale

## Business ability even without new business origination

### Strategy and business modell

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

### History

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

1) As published February 22, 2015



# Acquisition of WestImmo<sup>1)</sup>: Transaction structure

## Attractive terms and conditions

### Transaction

- All cash transaction to acquire 100% of the shares
- Via pre-closing carve out, all funding provided and financial guarantees given from EAA to WestImmo will be terminated.  
At the same time specific assets will be transferred from WestImmo to EAA.  
In addition Aareal Bank provides WestImmo an external credit- / liquidity-line
- Profit until closing to be paid to EAA
- Fair / conservative valuation; attractive asset and liability spreads logged in
- Extensive due diligence carried out
- Attractive purchase price of € 350 mn<sup>2)</sup>

### Closing conditions

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

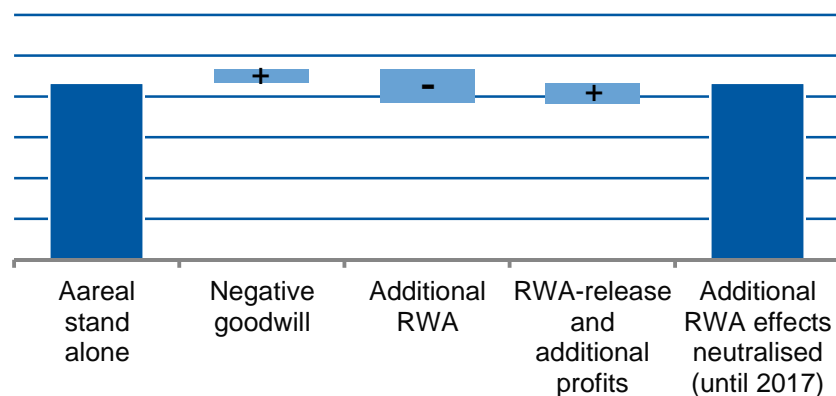
1) As published February 22, 2015  
2) Subject to further adjustments



# Acquisition of WestImmo<sup>1)</sup>: Financials

## Impact on capital ratios, EpS, and RoE<sup>2)</sup>

### Expected CET1 effects (Basel III fully phased)



### Capital ratios:

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

### EpS

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

### RoE

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

### Dividend policy

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

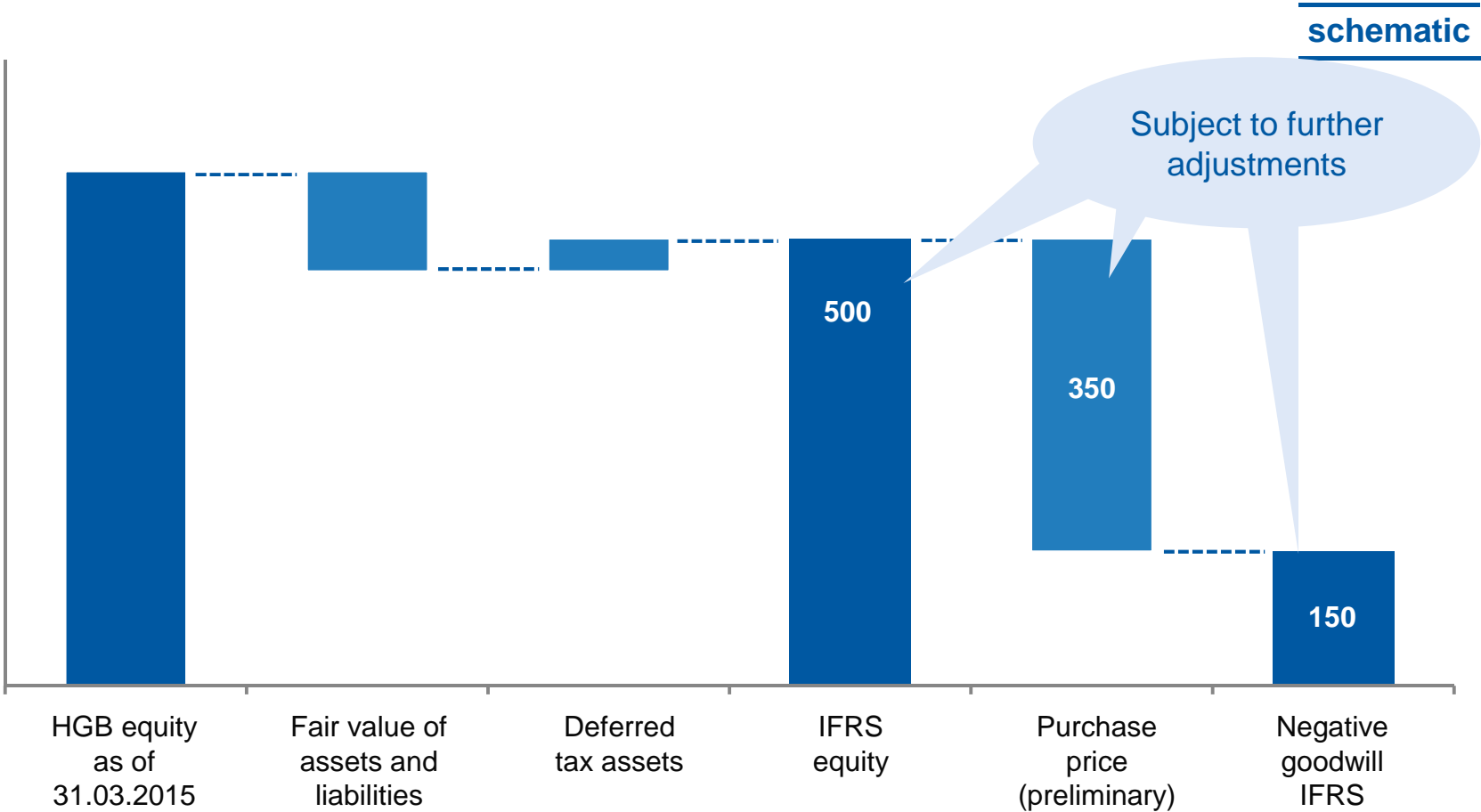
1) As published February 22, 2015

2) Pro forma extrapolated, assumed closing 31.03.2015



# Acquisition of WestImmo<sup>1)</sup>: Financials

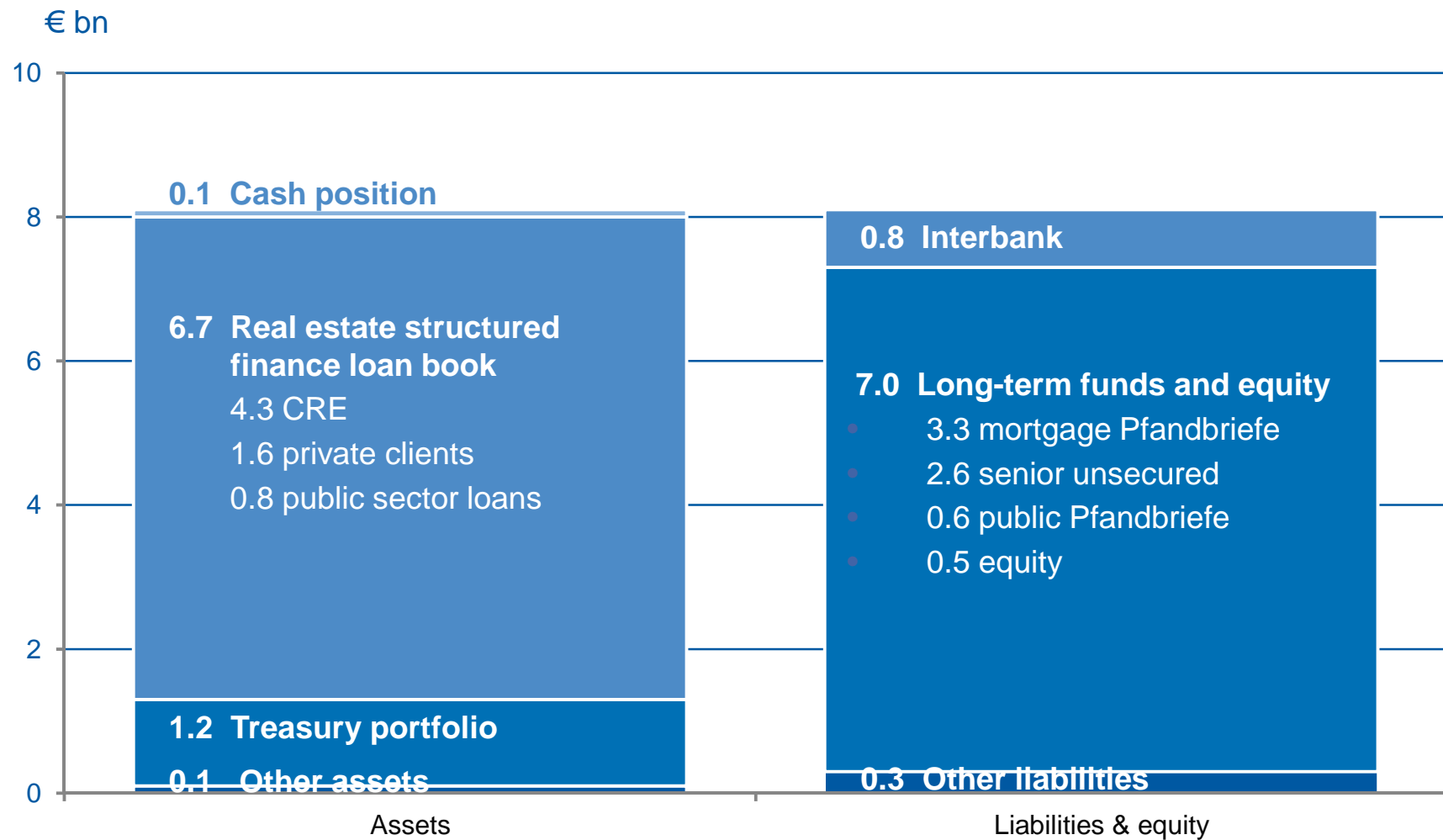
## Purchase price illustration<sup>2)</sup>



1) As published February 22, 2015  
 2) Pro forma extrapolated, assumed closing 31.03.2015

# Acquisition of WestImmo<sup>1)</sup>: ALM structure (IFRS)

Pro forma extrapolated as at 31.03.2015: € 8.1 bn



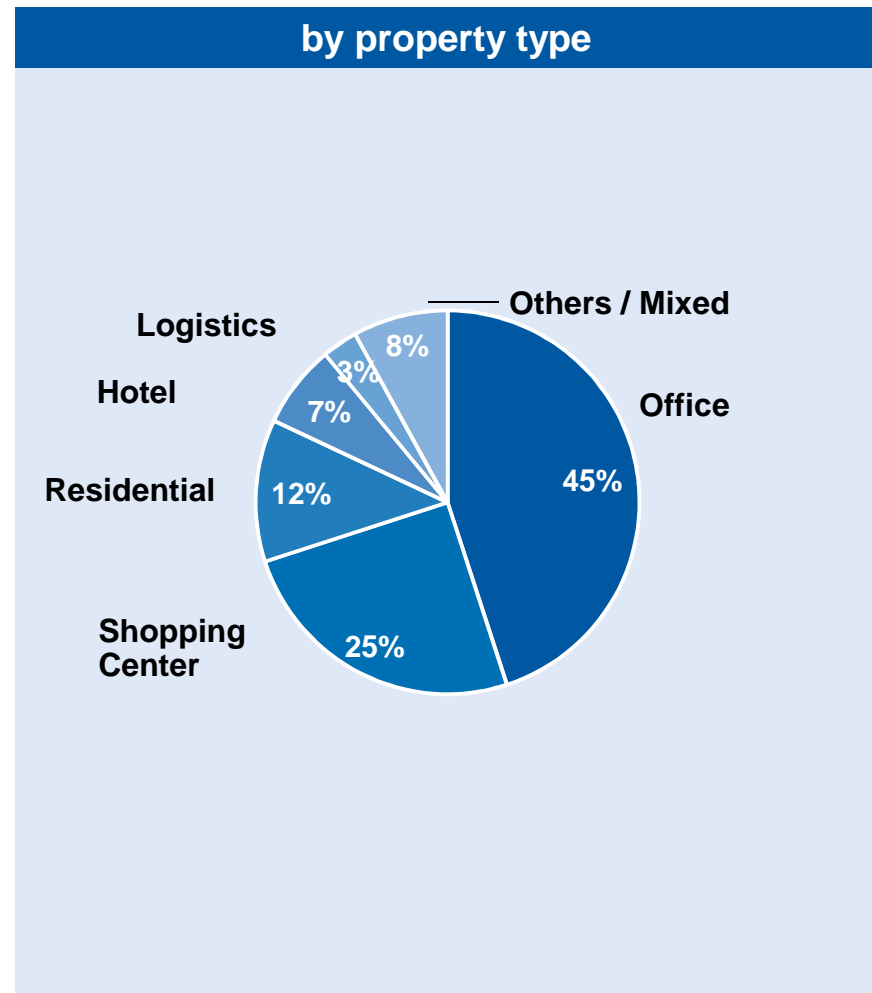
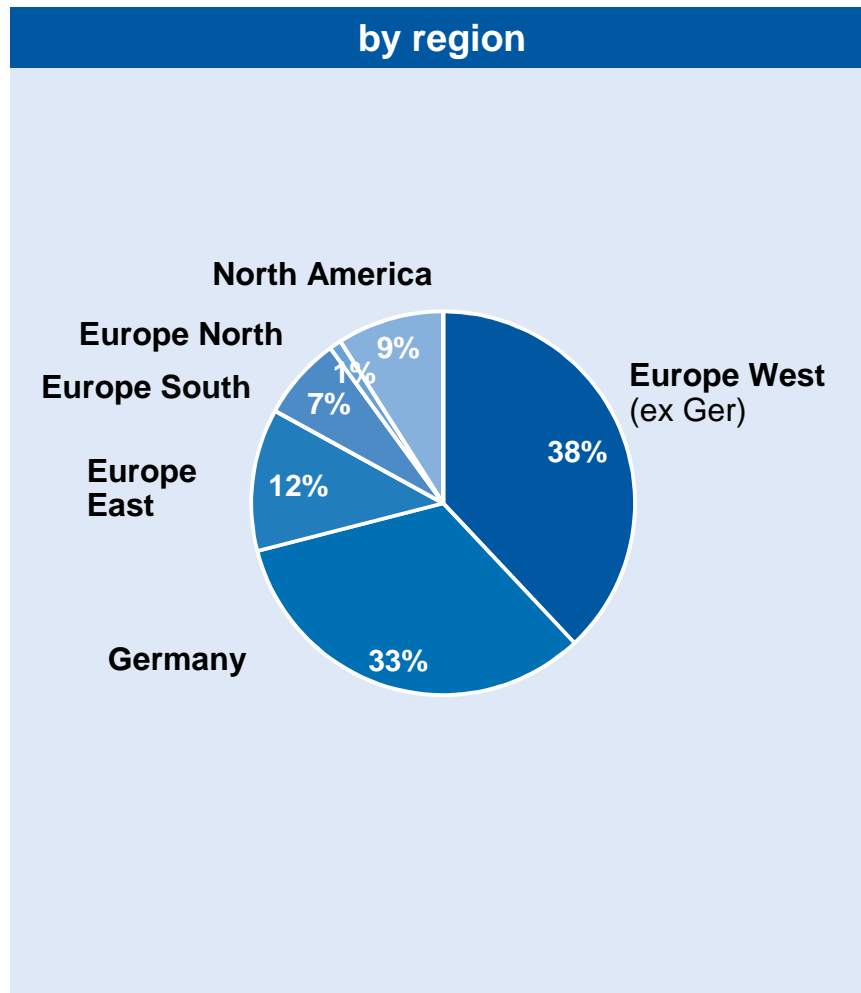
1) As published February 22, 2015



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# Acquisition of WestImmo<sup>1)</sup>: CRE lending portfolio<sup>2)</sup>

Total volume of € 4.3 bn with average LtV < 60%



1) As published February 22, 2015  
2) Pro forma extrapolated as at 31.03.2015



# Acquisition of WestImmo<sup>1)</sup>:

## Private client loans and Public sector loans<sup>2)</sup>

### Private client loans

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

### Public sector loans

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

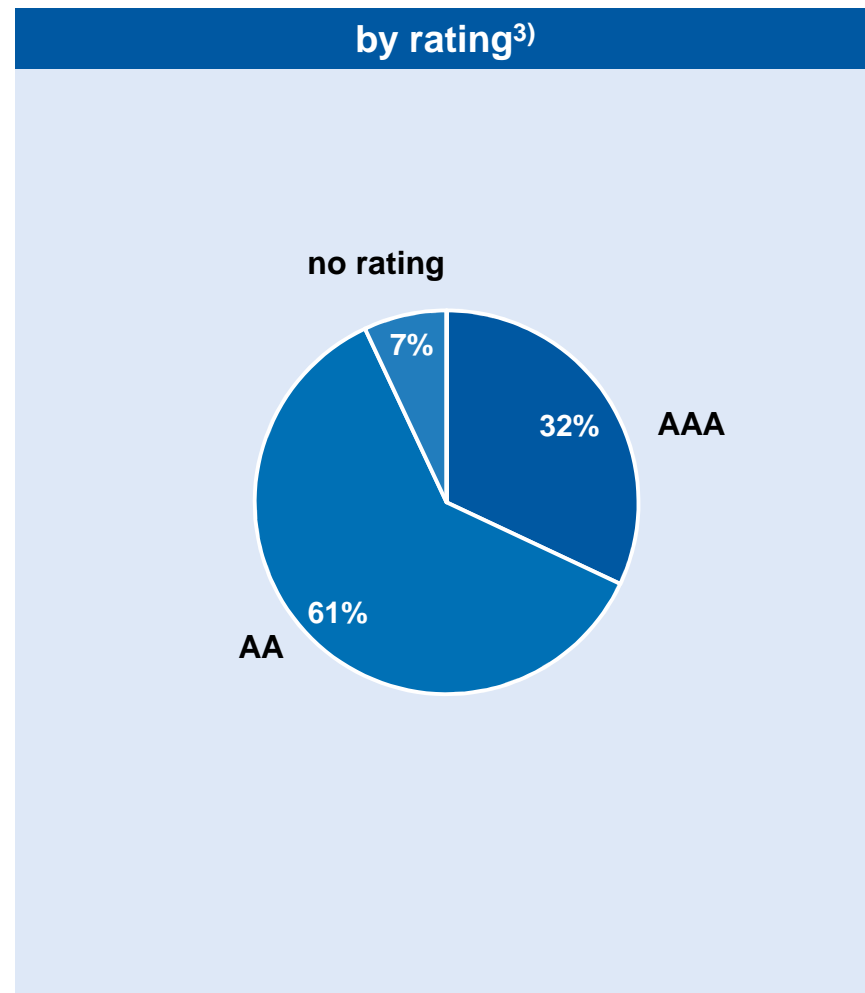
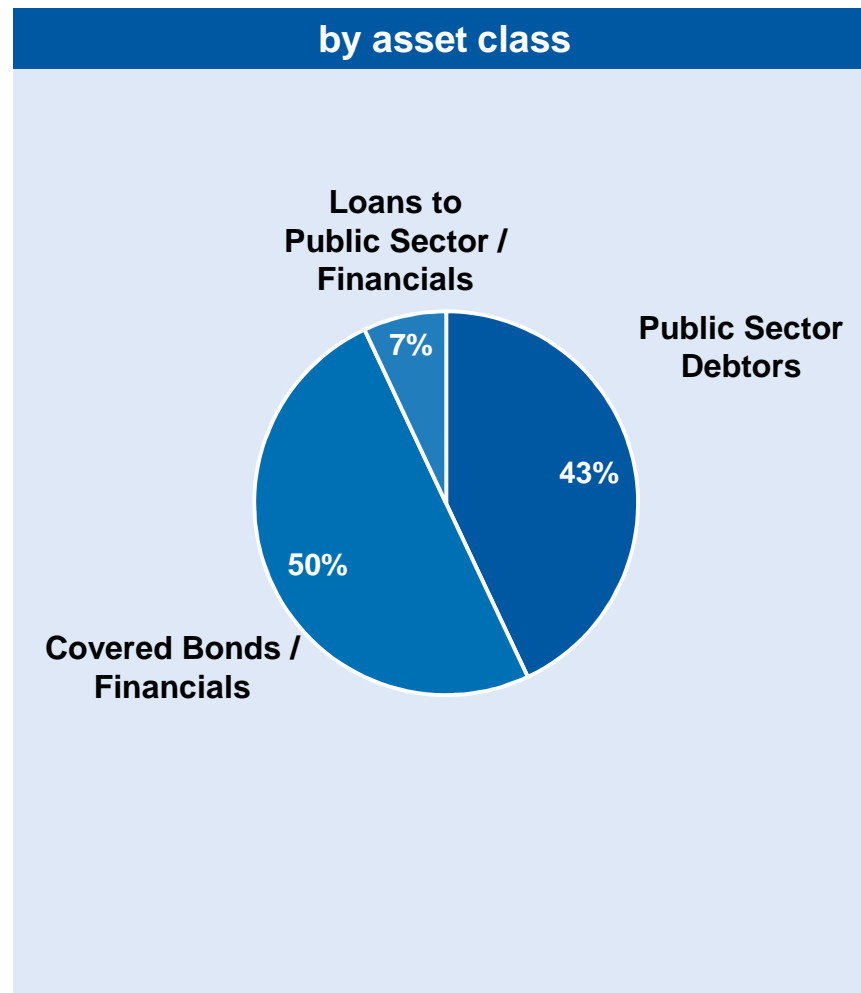
1) As published February 22, 2015

2) Pro forma extrapolated as at 31.03.2015



# Acquisition of WestImmo<sup>1)</sup>: Treasury portfolio<sup>2)</sup>

€ 1.2 bn of high quality and highly liquid assets



All figures are nominal amounts

1) As published February 22, 2015

2) Pro forma extrapolated as at 31.03.2015

3) Composite or other available rating





# Appendix

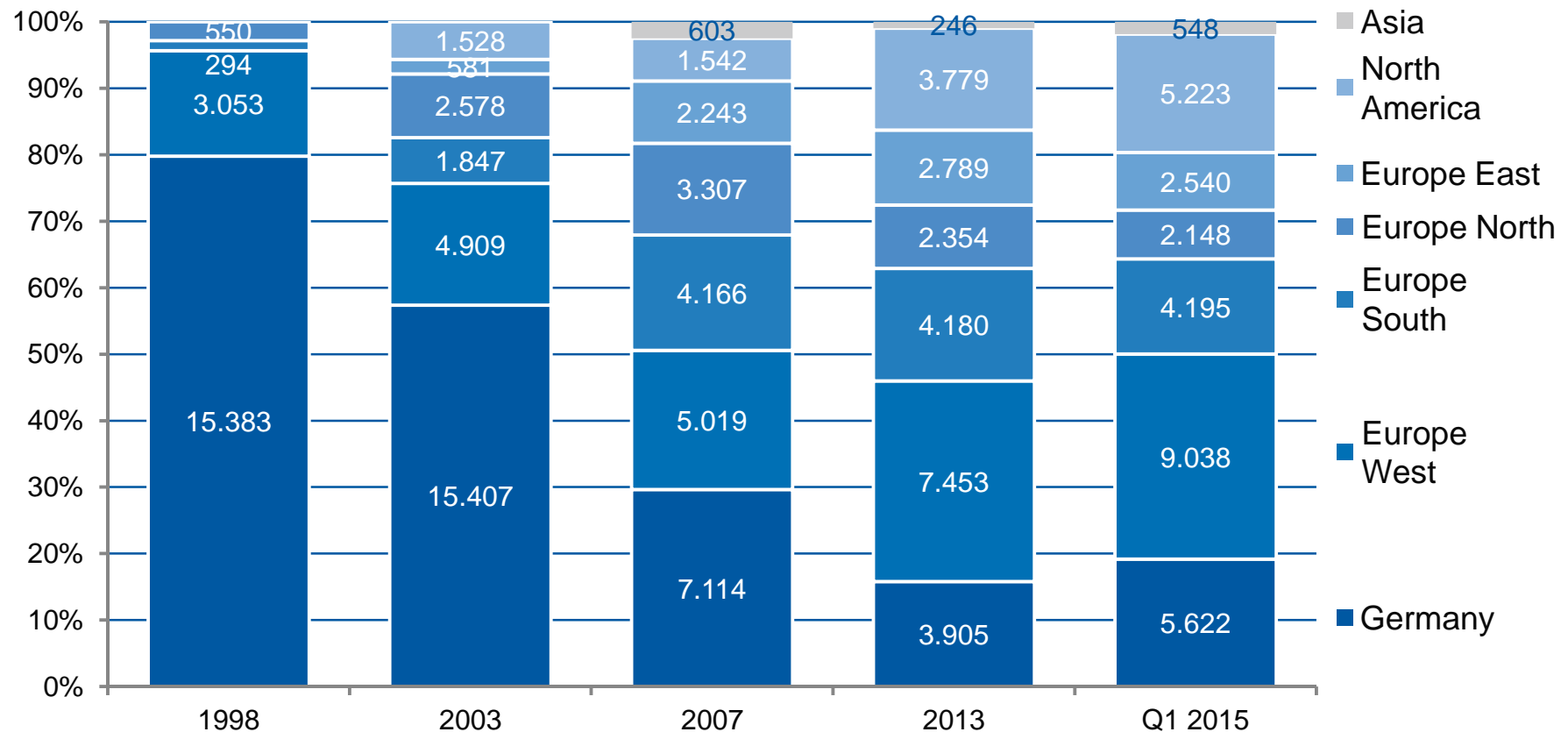
## Development property finance portfolio



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# Development property finance portfolio

Diversification continuously strengthened (in € mn)



# Appendix

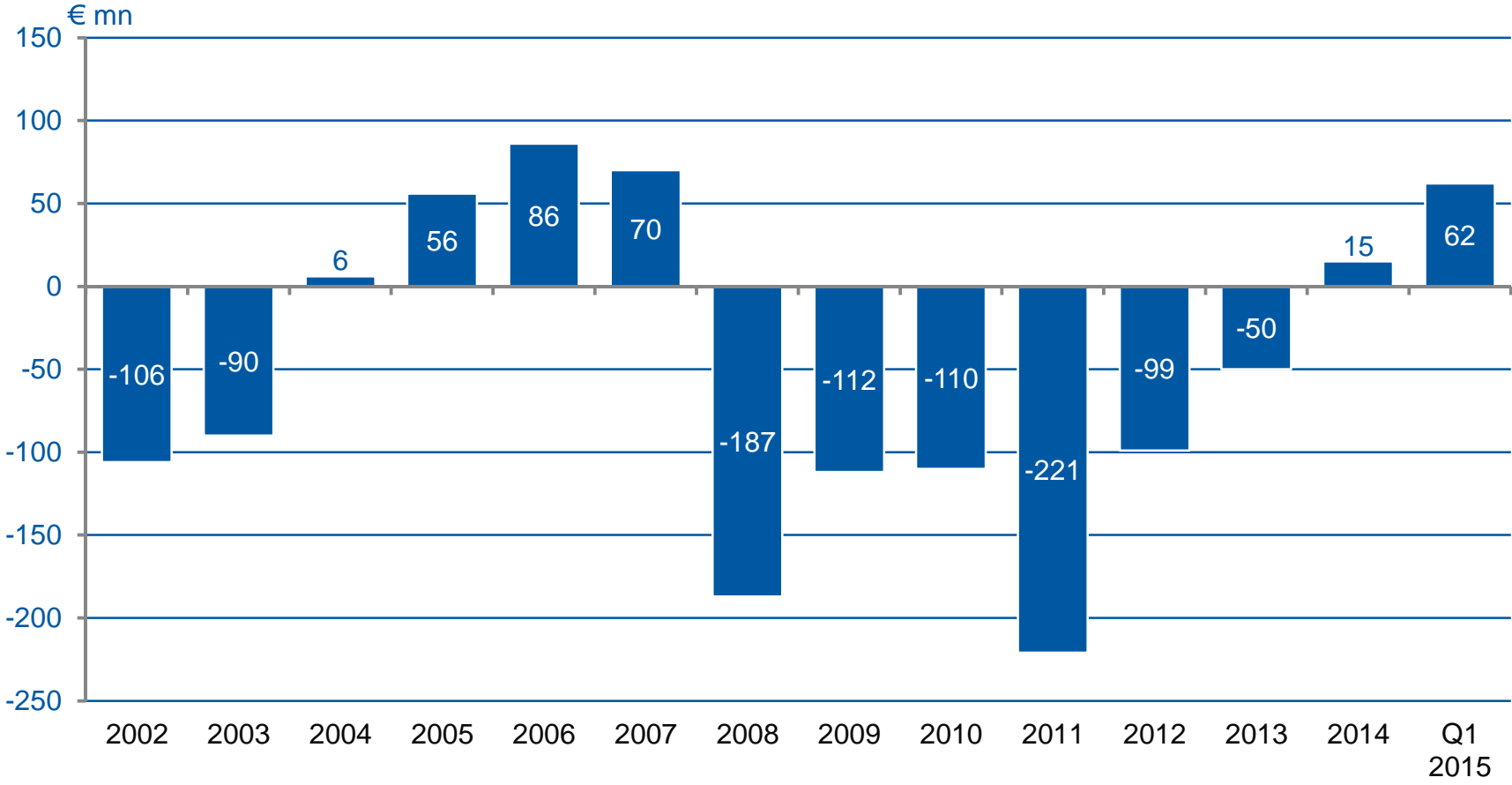
## Revaluation surplus



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# Revaluation surplus

Change mainly driven by asset spreads



# Appendix

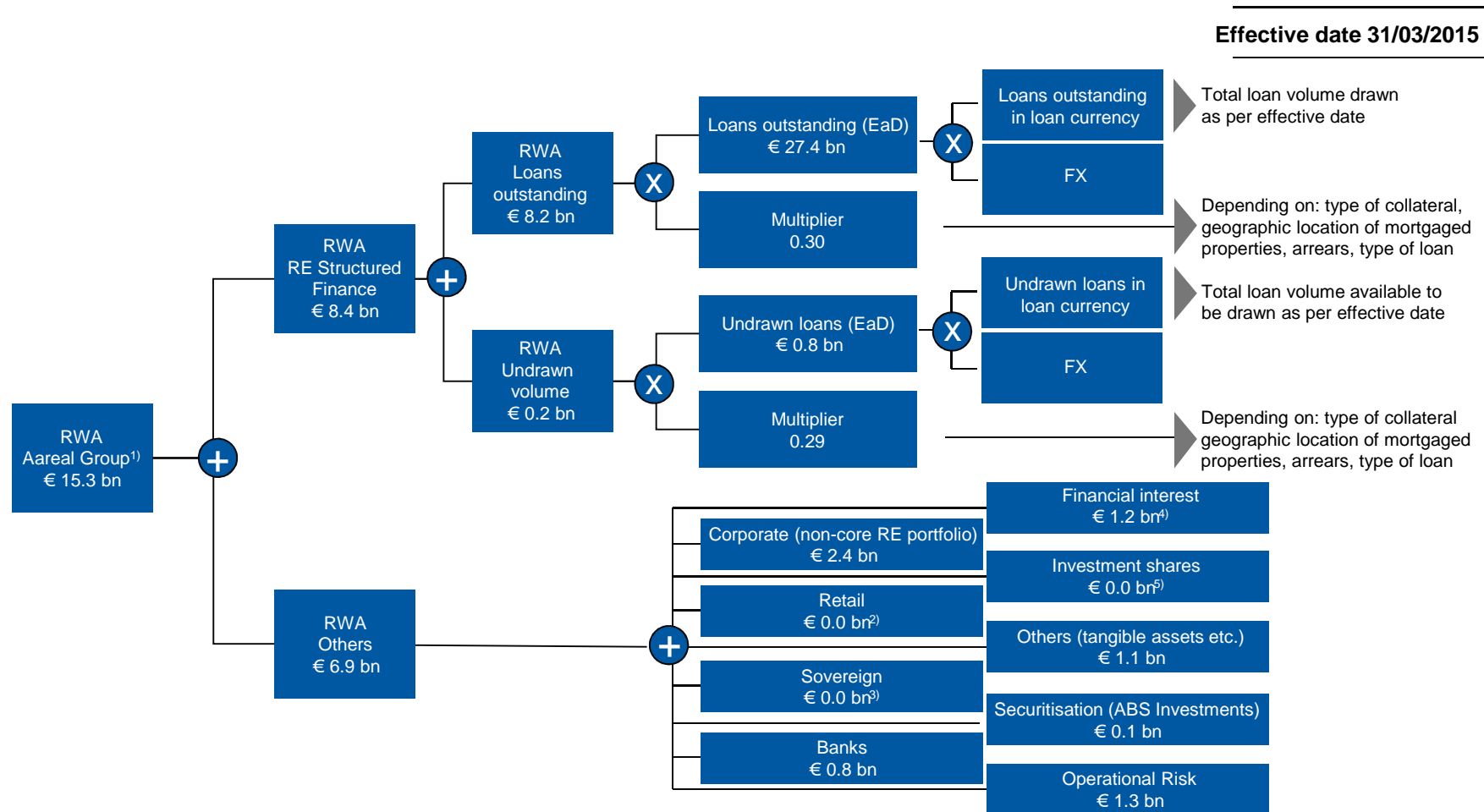
## RWA-split



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# From asset to risk weighted asset (RWA)

## Essential factors affecting volume of RWA



- 1) Excl. market risk
- 2) Exposure to Retail amounts to € 38 mn
- 3) Exposure to Sovereigns amounts to € 55 mn
- 4) Exposure to Financial Interests amounts to € 1 mn
- 5) 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
- **Common Equity Tier 1 ratio** = 
$$\frac{\text{CET1}}{\text{Risk weighted assets}}$$
- **Pre tax RoE** = 
$$\frac{\text{Operating profit } \therefore \text{ income/loss attributable to non-controlling interests } \therefore \text{ AT1 coupon}}{\text{Average IFRS equity excl. non-controlling interests, other reserves, AT1 and dividends}}$$
- **CIR** = 
$$\frac{\text{Admin expenses}}{\text{Net income}}$$
- **Net income** = net interest income + net commission income + net result on hedge accounting + net trading income + results from non-trading assets + results from investments accounted for at equity + results from investment properties + net other operating income
- **Net stable funding ratio** = 
$$\frac{\text{Available stable funding}}{\text{Required stable funding}} \geq 100\%$$
- **Liquidity coverage ratio** = 
$$\frac{\text{Total stock of high quality liquid assets}}{\text{Net cash outflows under stress}} \geq 100\%$$
- **Bail-in capital ratio** = 
$$\frac{\text{Equity + subordinated capital}}{(\text{Long + short term funding}) - (\text{Equity + subordinated capital})}$$
- **Earnings per share** = 
$$\frac{\text{operating profit } \therefore \text{ income taxes } \therefore \text{ income/loss attributable to non controlling interests } \therefore \text{ net AT1 coupon}}{\text{Number of ordinary shares}}$$





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