

LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

Analyst Conference Call

Q2 2015 results

August 11, 2015
Dr. Wolf Schumacher, CEO – Hermann J. Merkens, CFO



**Aareal Bank
Group**

Agenda

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

- Appendix
- Definitions and Contacts



Highlights

Aareal Bank stays on track

Highlights

- Consolidated operating profit of € 233 mn (including negative goodwill from the acquisition of WestImmo) on a new record level – adjusted figure rises to € 79 mn (Q2 2014: € 65 mn)
- Net interest income - incl. one-offs - rises to € 191 mn (Q2 2014: € 169 mn)
- Acquisition of WestImmo completed, integration according to plan, Corealcredit's operational business successfully integrated
- Full-year outlook for 2015 affirmed:
Consolidated operating profit of between € 400 mn and € 430 mn expected (including negative goodwill)



General environment

General environment

- Slight world economic recovery continues with different regional speed: US economic recovery is speeding up vs. a slowing down of the Chinese economy which is burdening (local) stock markets
- Discussions about possible “Grexit” burdened Europe, tensions towards Russia still unsolved
- Increasing divergences in monetary policy between ECB on one side and FED/BOE on the other side
- ECB’s QE programme have an enormous impact on capital markets - especially in Europe but turns slight deflation into slight inflation while risking asset bubbles
- Regulatory environment becomes more predictable but further uncertainties (still possible challenges, e.g. additional capital requirements resulting from RWA-floors, TLAC¹⁾, etc.)

Main takeaways



Further increasing transaction volumes and competition in our lending business burdens margins, funding costs are bottoming out.

WestImmo acquisition enabling very selective new business generation.
Early repayments of high margin loans will continue



Moderately increasing property values and stable to slightly positive rents in the majority of European countries but further NPL inflow mainly from our Southern European 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.

1) Total Loss Absorbing Capacity



Update on WestImmo & Corealcredit



**Aareal Bank
Group**

Acquisition of WestImmo

Closing as at 31.05.2015 - Integration on track

Update

- Acquisition of WestImmo completed effective 31 May 2015 completed Initial consolidation Q2 2015
- Preliminary purchase price: € 336 mn
preliminary negative goodwill: € 154 mn
- Controlling and profit transfer agreement effective 1 June 2015
- New composition of Supervisory Board
- Technical integration until end of 2015 planned, preparations on track
- Reorganisation of overlapping international branch network until end of 2015
WestImmo will close Madrid, Paris, London, Warsaw and New York
- Maintenance of business operations in Mainz for at least 3 years,
WestImmo has initiated the examination of displacement of business functions from Münster to Mainz



Integration of Corealcredit

Operational banking business successfully merged

Update

- Corealcredit's operational banking business split off and successfully merged into Aareal Bank (June 2015),
- Corealcredits Frankfurt office turned into Aareal Bank's new Frankfurt branch
- Remaining non-operational part renamed into Aareal Beteiligungen AG, controlling and profit transfer agreement with Aareal Bank stays in place



Group results at a glance



**Aareal Bank
Group**

Group results at a glance

Strong operating profit due to WestImmo take over

	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Comments
€ mn						
Net interest income <i>(excl. unplanned effects from early repayments)</i>	191 (181)	178 (173)	194 (174)	181 (168)	169 (161)	NII development driven by <ul style="list-style-type: none"> ▪ Portfolio growth due to WestImmo ▪ Larger than expected early repayments ▪ ALM measures
Allow. for credit losses	31	18	41	36	32	In line with guidance
Net commission income	42	41	48	37	39	<ul style="list-style-type: none"> ▪ Aareon on track ▪ Q4 with regular seasonal effects
Admin expenses	136	132	114	109	114	<ul style="list-style-type: none"> ▪ Burdened by integration costs for Corealcredit and WestImmo ▪ Adjusted expectations regarding total amount of European bank levy 2015
Negative goodwill	154					Gain from initial consolidation of WestImmo
Operating profit	233	67	86	66	65	Strong operating profit due to WestImmo take-over
Earnings per share [€]	3.35 ¹⁾ 0.77 ²⁾	0.60	0.55	0.58	0.58	In line with guidance

1) Earnings per ordinary share, incl. negative goodwill, tax rate of ~31% assumed

2) Earnings per ordinary share, excl. negative goodwill, tax rate of ~31% assumed



**Aareal Bank
Group**

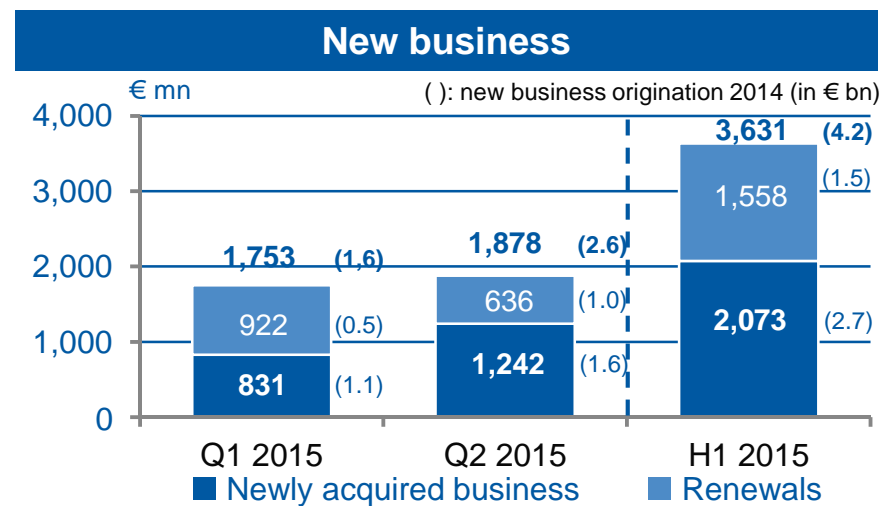
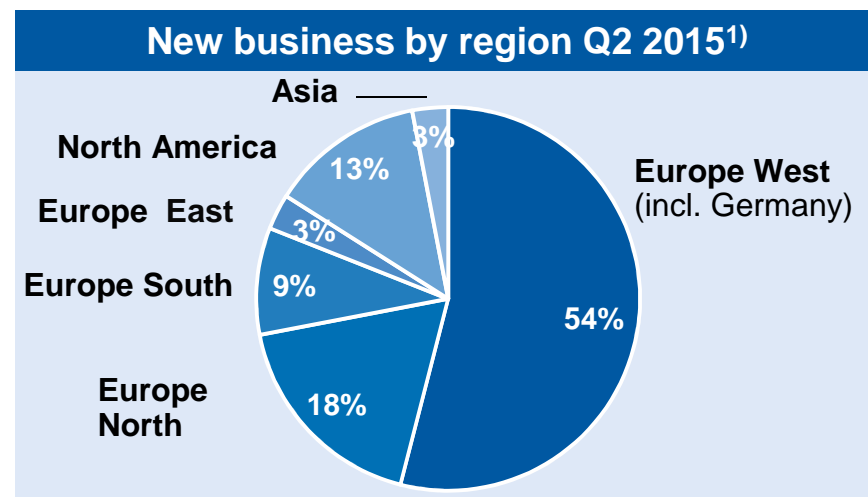
Segment performance



**Aareal Bank
Group**

Structured property financing

New business in line with planning



P&L SPF Segment	Q2 '15	Q1 '15	Q4 '14	Q3 '14	Q2 '14
€ mn					
Net interest income	192	178	194	182	168
Allow. for credit losses	31	18	41	36	32
Net commission income	2	0	1	1	1
Net result from trading / non-trading / hedge acc.	0	1	7	-5	3
Admin expenses	89	84	67	64	68
Others	12	-3	-8	-4	-1
Negative goodwill	154				
Operating profit	240	74	86	74	71

1) Incl. renewals

2) Additional effects exceeding originally planned repayments

- Increasing competition in core markets / for prime locations
- WestImmo acquisition enabling very selective new business generation
- Margin pressure in new business noticeable but not yet reflected in the NII
- NII includes effects from early repayments²⁾: Q2: € 10 mn (Q1: 5/ Q4: 20/ Q3: 13/ Q2: 8)
- Main Triangel sold



**Aareal Bank
Group**

Consulting / Services

Solid in IT & volumes – weak in deposit margins

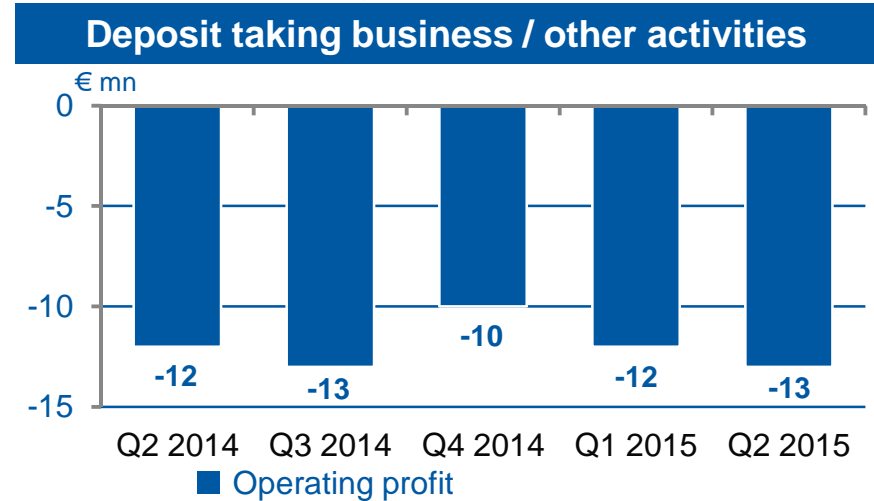
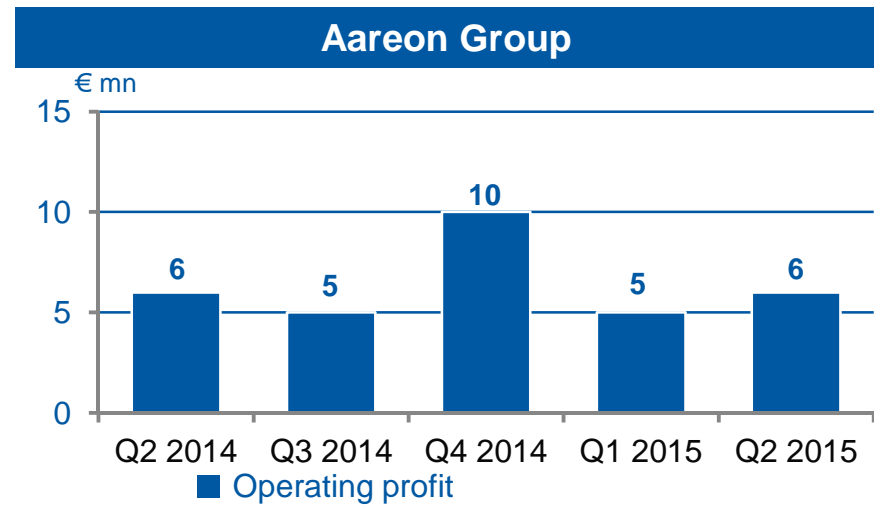
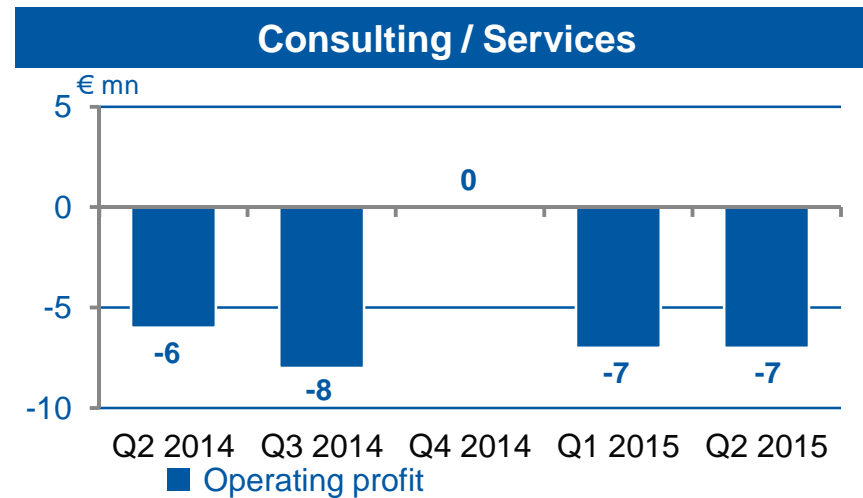
P&L C/S Segment	Q2 '15	Q1 '15	Q4 '14	Q3 '14	Q2 '14
€ mn					
Sales revenue	47	46	52	42	45
Own work capitalised	1	1	1	2	1
Changes in inventory	0	0	0	0	0
Other operating income	2	1	3	2	2
Cost of material purchased	7	5	5	6	5
Staff expenses	33	34	35	32	32
D, A, impairment losses	3	3	3	4	3
Results at equity acc. investm.	0	0	0	-	-
Other operating expenses	14	13	13	12	14
Results from interest and similar	0	0	0	0	0
Operating profit	-7	-7	0	-8	-6

- Unchanged low interest rate environment continues to burden segment results
- Deposit volume of the housing industry on a high level
 - € 9.2 bn Ø in Q2 2015
 - € 9.3 bn Ø in Q1 2015
- 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



**Aareal Bank
Group**

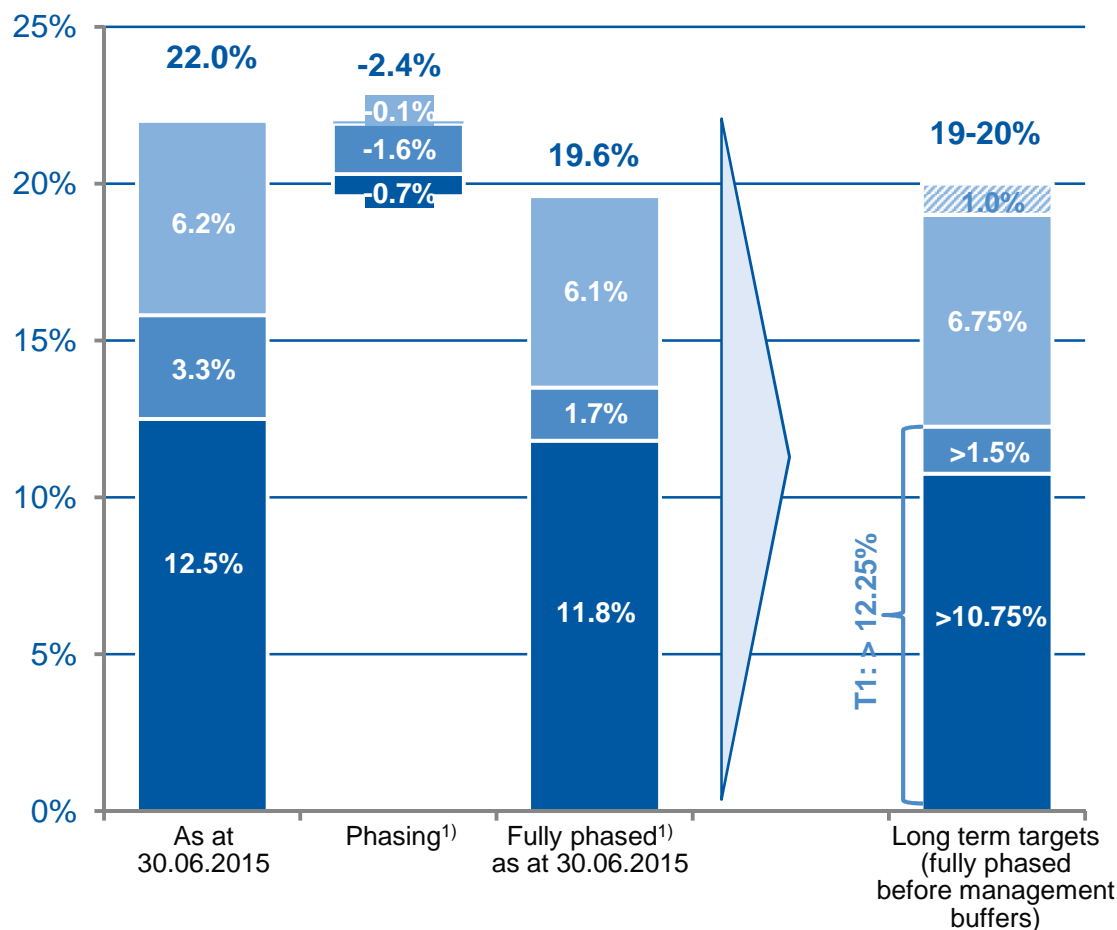
B/S structure, capital & funding position



**Aareal Bank
Group**

Capital ratios

Strong despite WestImmo takeover



- Strong capital ratios in line with business model, company size and capital market expectations
- New ECB requirements in line with capital planning
- Bail-in capital ratio (acc. to our definition): above 8%
- Leverage ratio as at 30.06.2015: 4.4% (fully phased)

- ▨ Target range
- Tier 2 (T2)
- Additional Tier 1 (AT1)
- Common Equity Tier 1 (CET1)

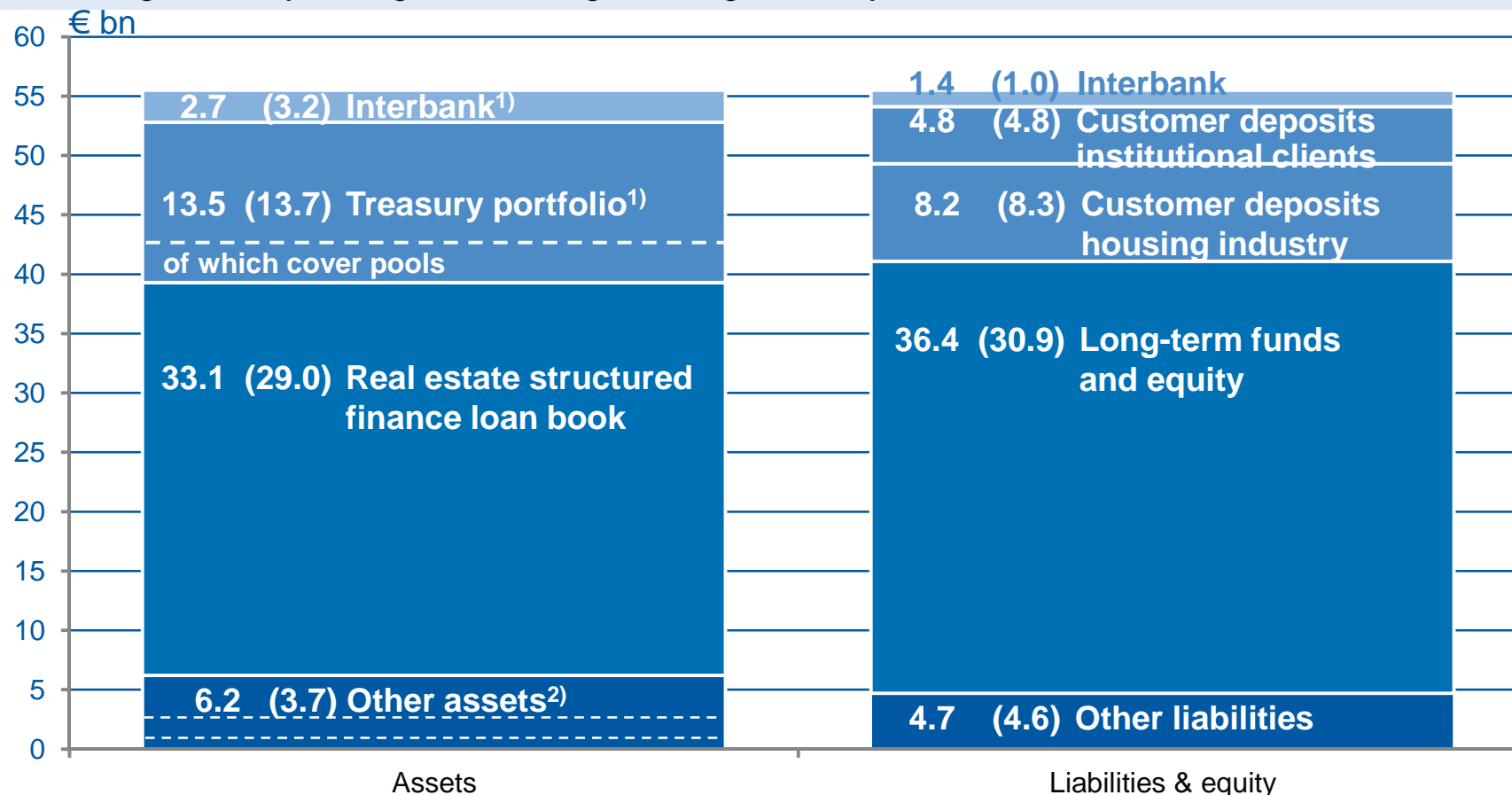


Aareal Bank Group

Asset- / Liability structure according to IFRS

As at 30.06.2015: € 55.5 bn (31.12.2014: € 49.6 bn ex. WB)

- 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 € 0.8 bn

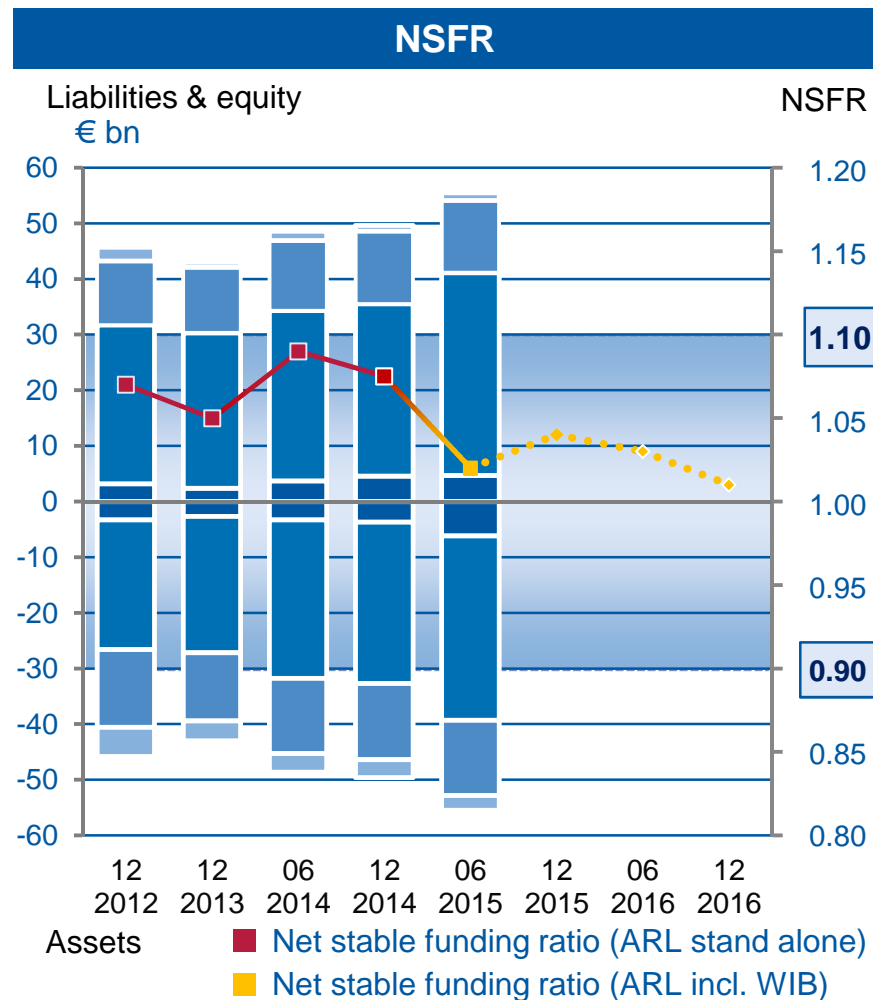
2) Other assets includes € 1.6 bn private client portfolio and € 0.8 bn public sector loans



Aareal Bank Group

Net stable funding- / Liquidity coverage ratio

Sound liquidity position despite WestImmo takeover

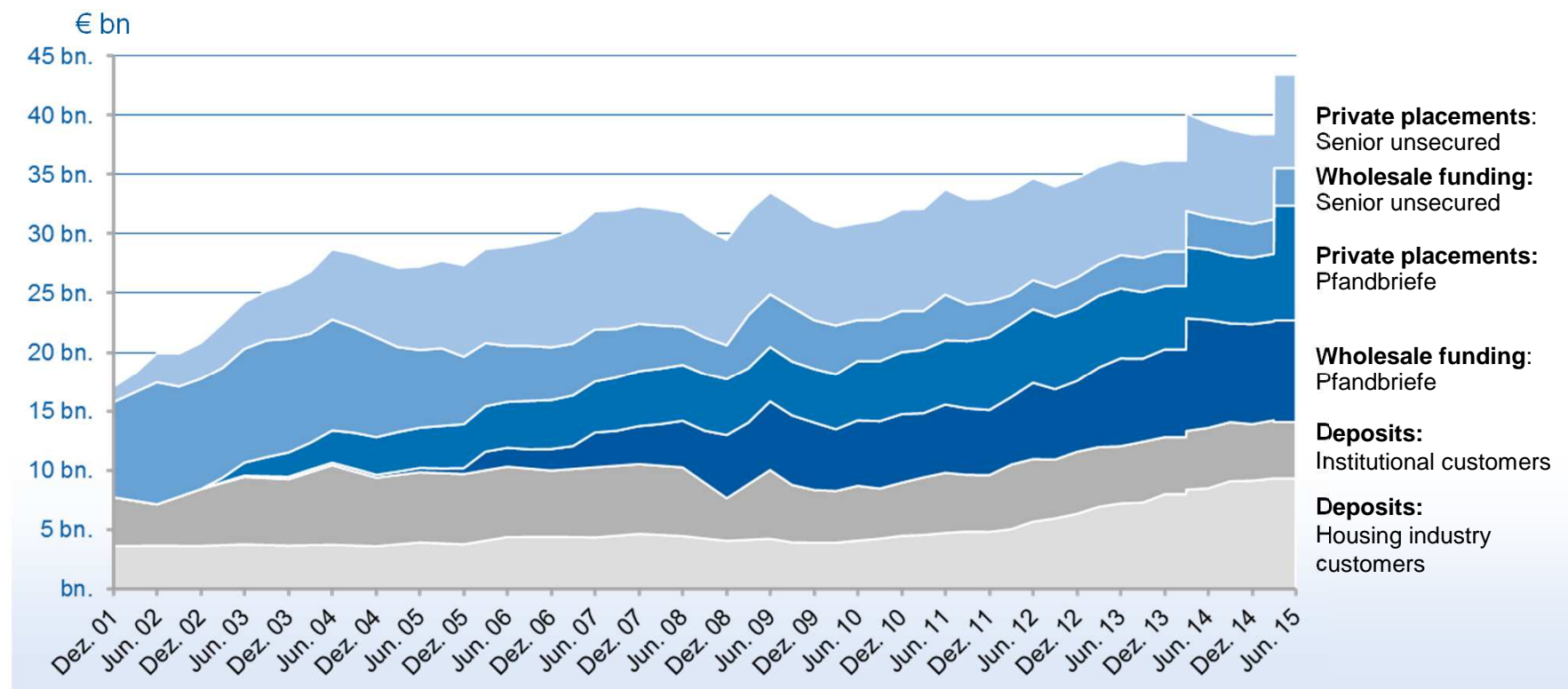


- Aareal Bank already fulfils future requirements
 - NSFR > 1.0
 - LCR >> 1.0
- Basel III and CRR require specific liquidity ratios starting end 2018
- Positive effect in 2014 due to changed weighting factors
- Additional funding requirements from acquisition of WestImmo easily covered by NSFR surplus
- Strong liquidity position:
Funding needs 2015 already fulfilled (as of today)



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 30.06.2015, this share has fallen below 30% (or even below 10% without Pfandbriefe)

As at 30.06.2015



**Aareal Bank
Group**

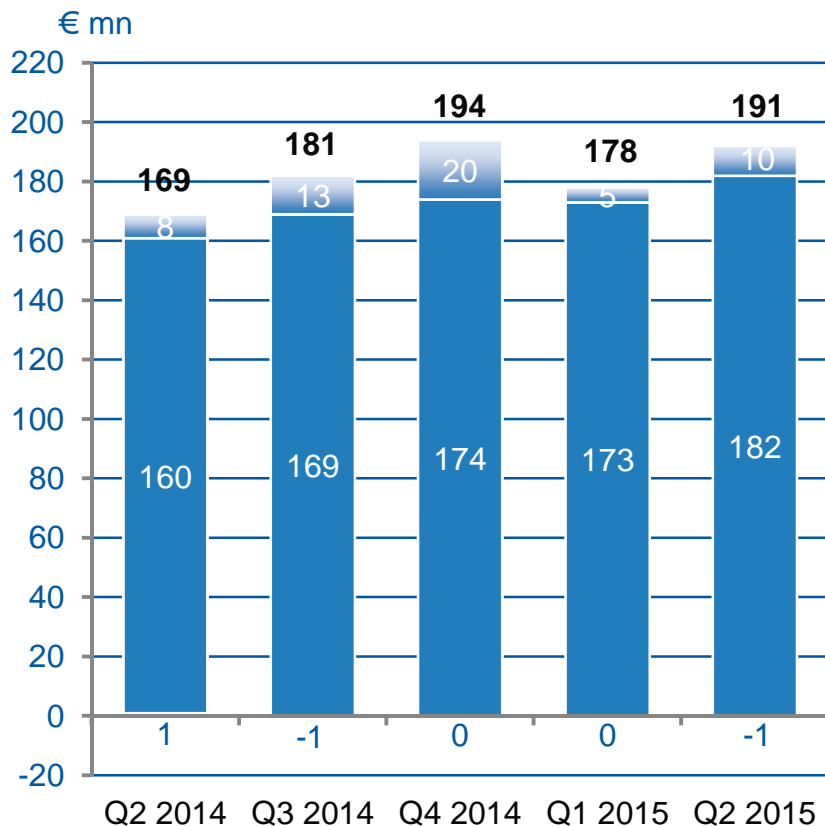
Group results



**Aareal Bank
Group**

Net interest income

Margin pressure in the CRE business not yet reflected in NII



- NII effect from early repayments¹⁾
- NII Structured Property Financing
- NII Consulting / Services

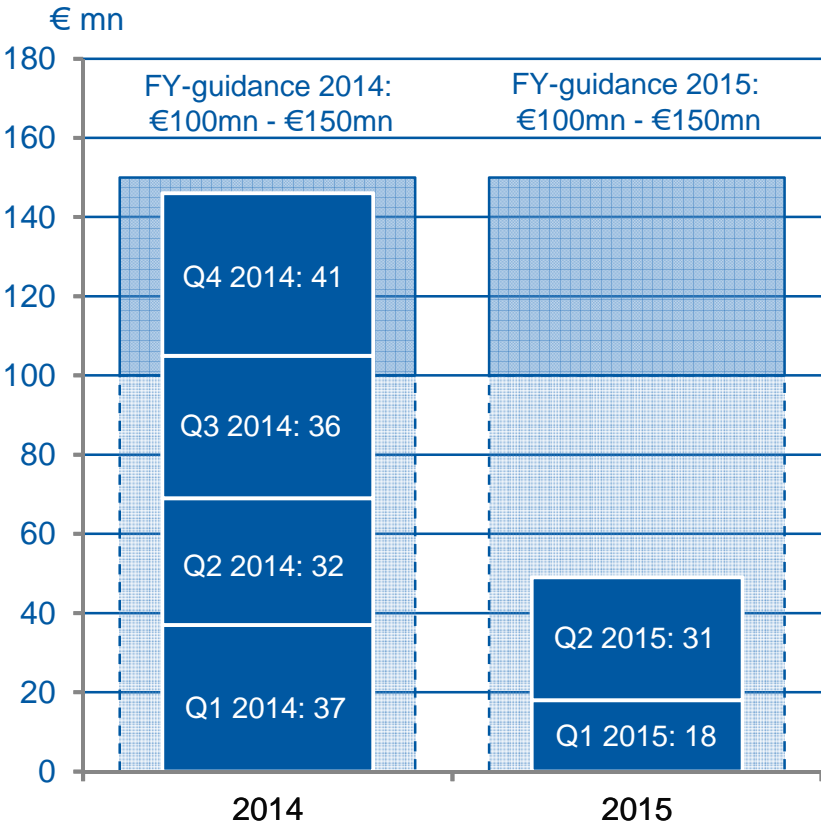
1) Additional effects exceeding originally planned repayments

- Larger portfolio due to closing of WestImmo acquisition
- Q2 includes additional ~€ 10 mn from early repayments¹⁾
(Q1: € 5 mn, Q4 '14: € 20 mn, Q3 '14: € 13 mn, Q2 '14: € 8 mn, Q1 '14: € 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



Allowances for credit losses (LLP)

In line with guidance

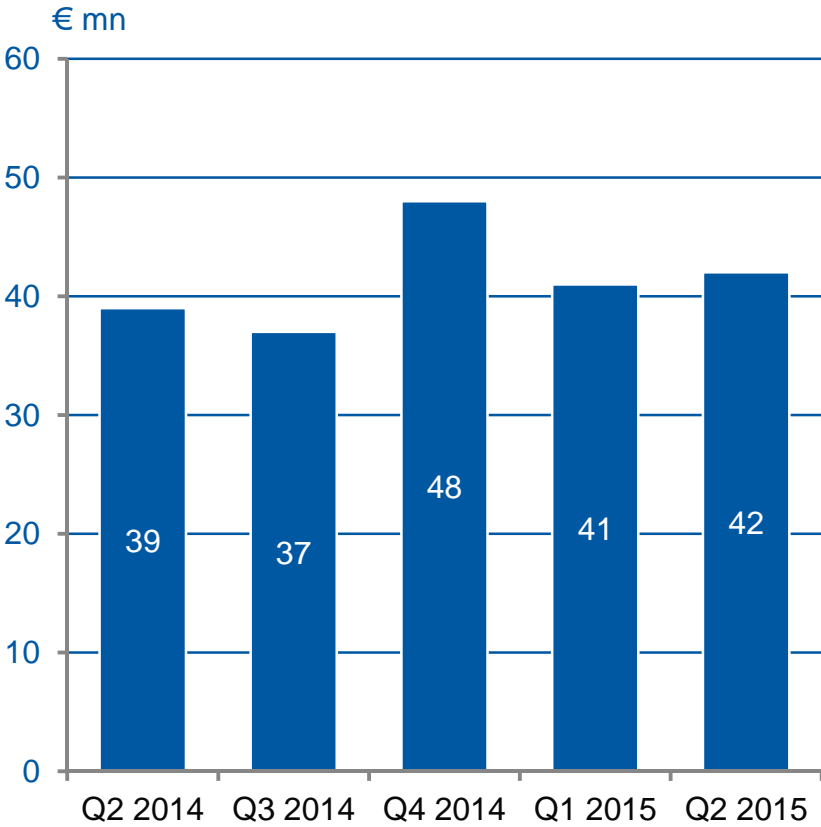


- Unchanged guidance (2015 vs. 2014) despite a significantly larger portfolio

■ FY guidance

Net commission income

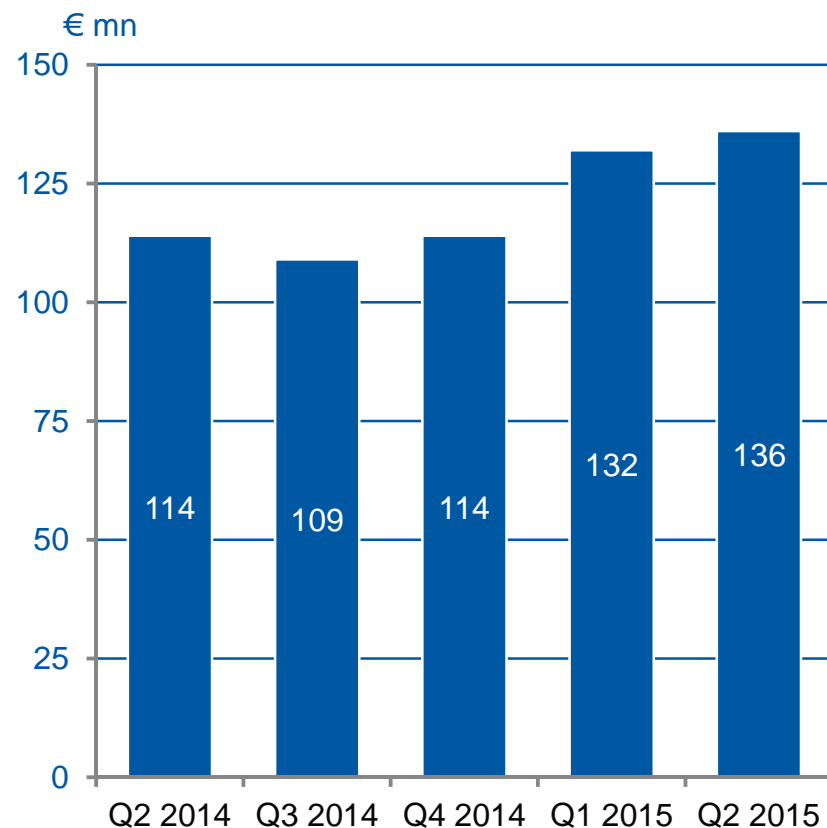
Confirming guidance



- Aareon on track
- Strong Aareon revenue regularly pushing Q4

Admin expenses

Within FY-guidance



- WestImmo related “operating” admin expenses will regularly increase admin expenses on group level
- Admin expenses in Q2 further include
 - € 12 mn integration cost for WestImmo and Corealcredit
 - Additional € 7 mn European bank levy (due to an updated assessment base)
- Admin expenses in Q1 burdened by
 - € 12 mn redundancy plan for Corealcredit
 - € 9 mn European bank levy

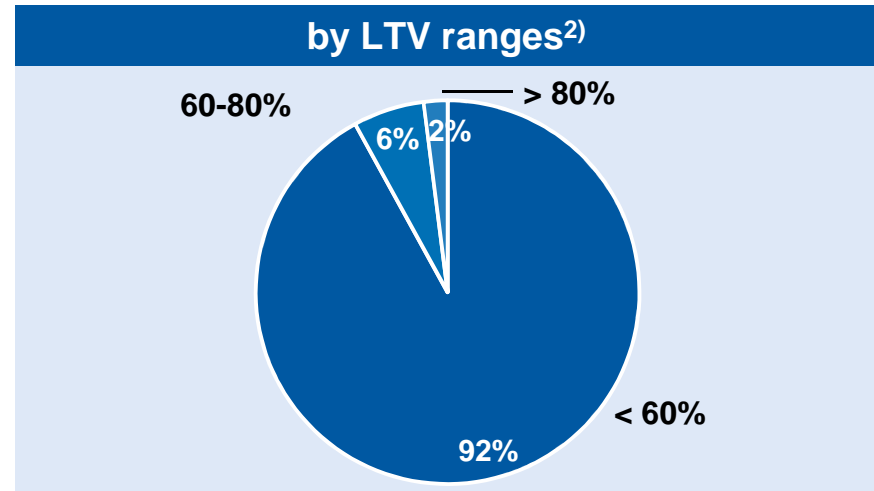
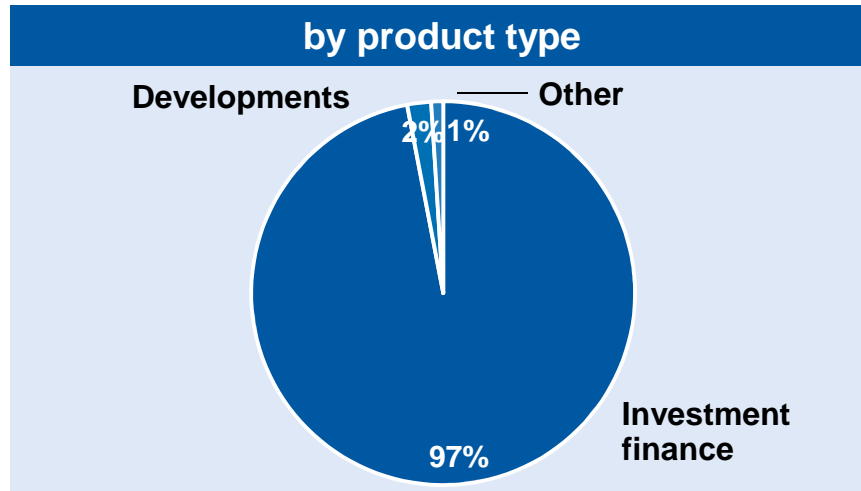
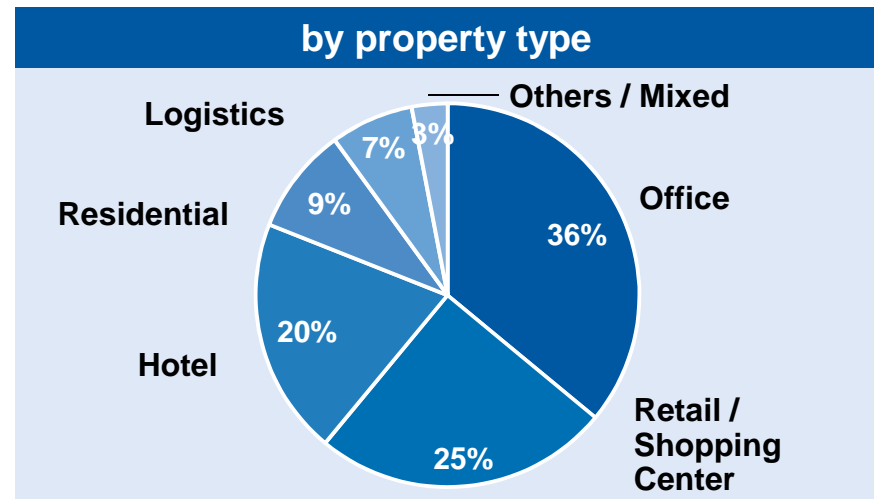
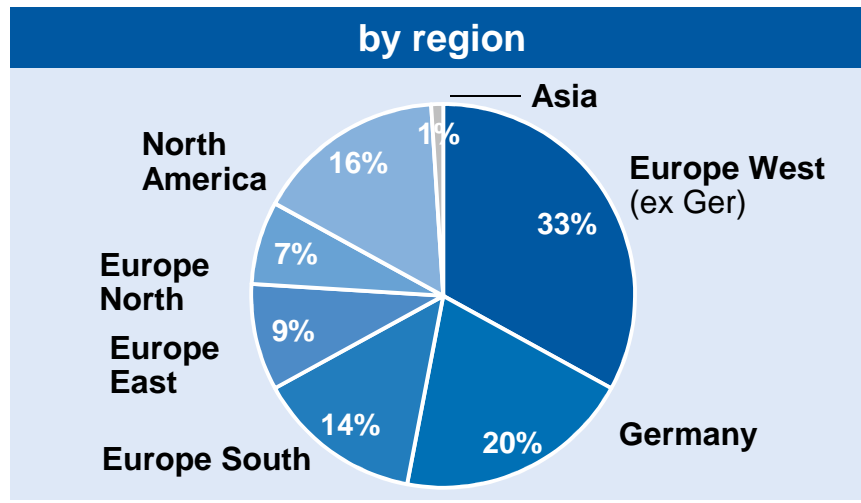
Asset quality



**Aareal Bank
Group**

Total property finance portfolio¹⁾

€ 33.1 bn highly diversified and sound



1) CRE business only, WIB's private client business (€ 1.6 bn) and public finance (€ 0.8 bn) not included
 2) Performing business only, exposure as at 30.06.2015

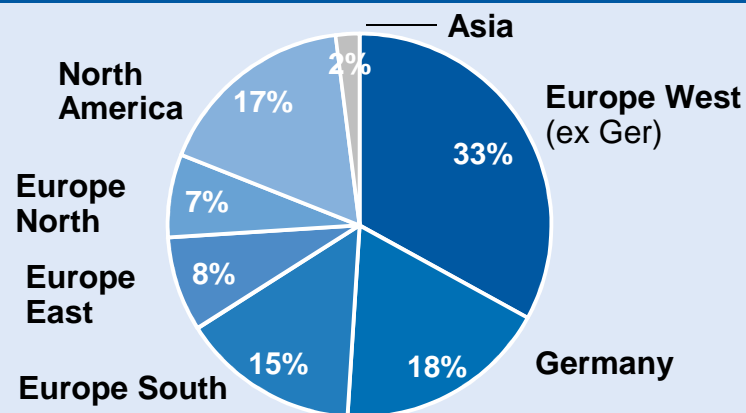


Aareal Bank Group

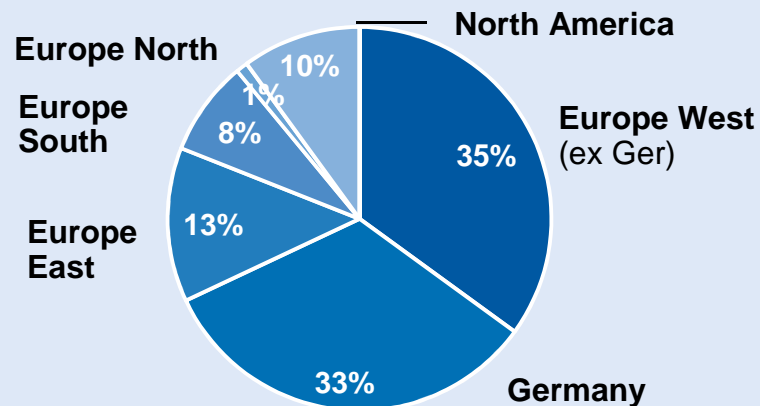
Total property finance portfolio

€ 33.1 bn highly diversified and sound

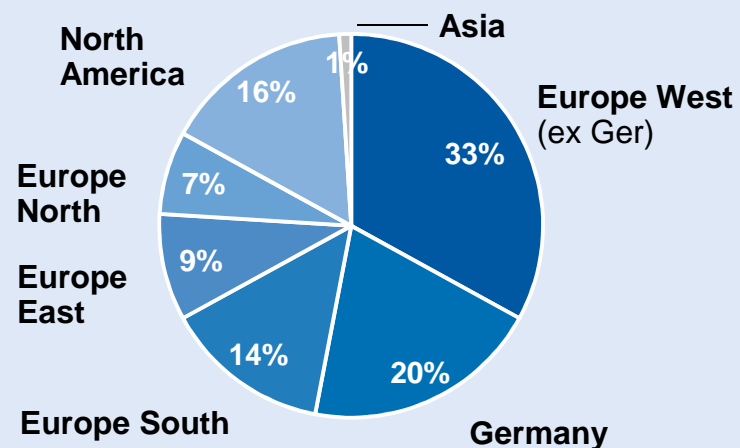
Aareal (total volume: € 29.0 bn)



Westimmo (total volume: € 4.1 bn¹⁾)



Combined portfolio¹⁾ by region



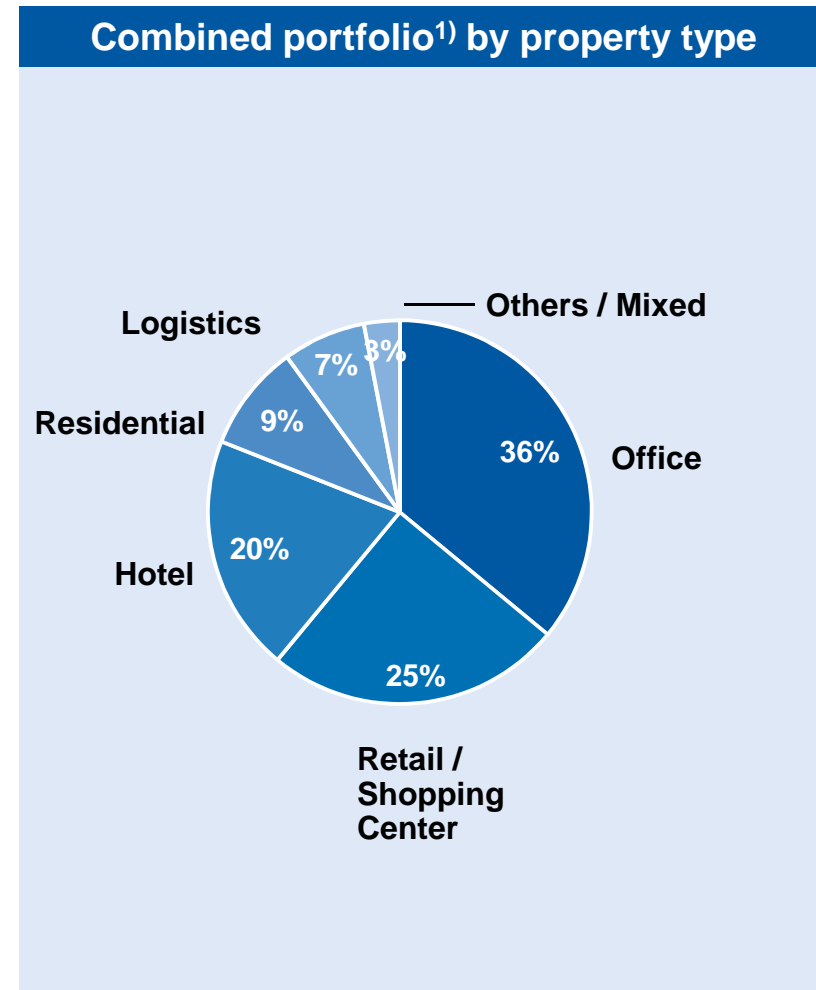
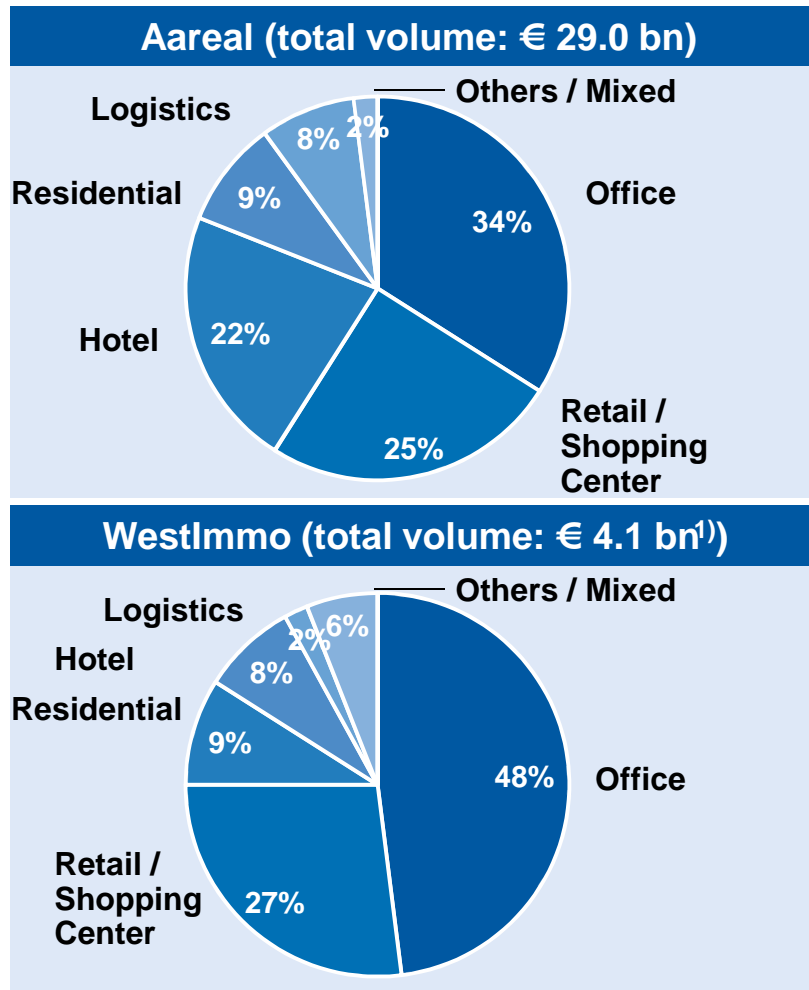
1) CRE business only, WIB's private client business (€ 1.6 bn) and public finance (€ 0.8 bn) not included



**Aareal Bank
Group**

Total property finance portfolio

€ 33.1 bn highly diversified and sound



1) CRE business only, WIB's private client business (€ 1.6 bn) and public finance (€ 0.8 bn) not included



Aareal Bank Group

Total property finance portfolio

Continuing conservative approach

NPL- and LLP development			
€ mn	NPL Exposure ¹⁾	Specific Allowances ¹⁾	Portfolio Allowances ²⁾
ARL / CCB as at 31.03.2015	1,107	380	129
ARL / CCB utilisation in Q2 2015	-45	-14	0
ARL / CCB addition in Q2 2015	106	56	-25
Westlmmo net as at 30.06.2015 ³⁾	76	0	24 ⁴⁾
<i>Westlmmo gross as at 30.06.2015</i>	<i>137</i>	<i>61⁴⁾</i>	<i>24⁴⁾</i>
Aareal Bank Group as at 30.06.2015	1,245	422	128
Coverage ratio specific allowances	33.9%		
		422	128
Aareal Bank Group as at 30.06.2015	1,245	550	
Coverage ratio incl. portfolio allowances	44.2%		

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

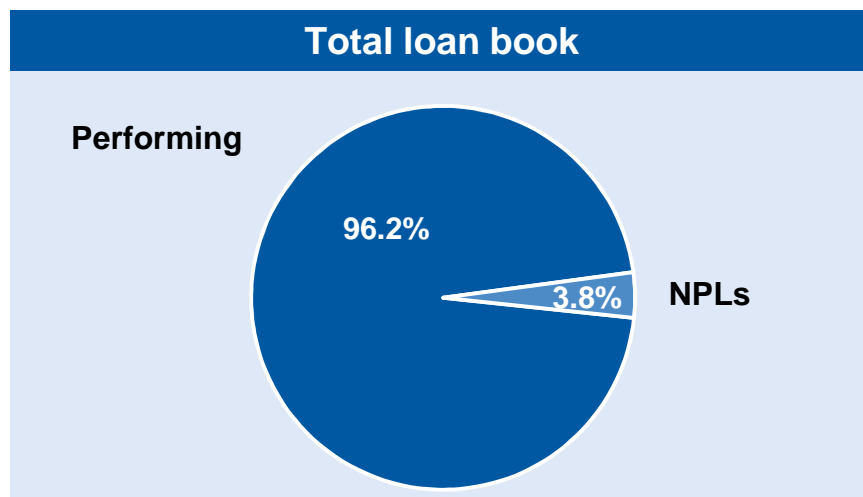
3) NPL-Exposure net acc. to IFRS3

4) Allowances allocated in the course of purchase price allocation (PPA)



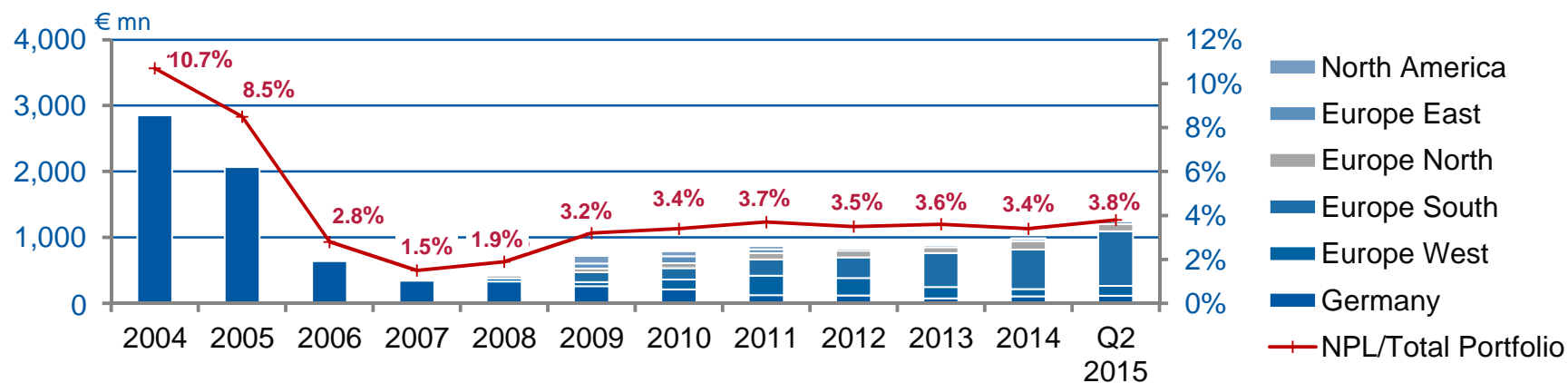
Total property finance portfolio

€ 33.1 bn of high quality real estate assets



	Nominal (in € mn)	Average LTV ¹⁾	NPL (in € mn)
Italy	3,166	71.6%	692
Spain	1,402	77.8%	134
Germany	6,484	60.4%	118

NPL and NPL-ratio (since 12.2004)



1) Performing business only

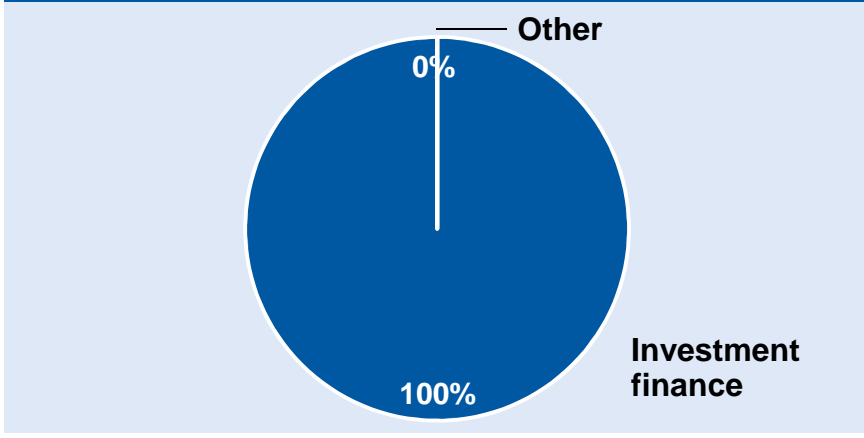


**Aareal Bank
Group**

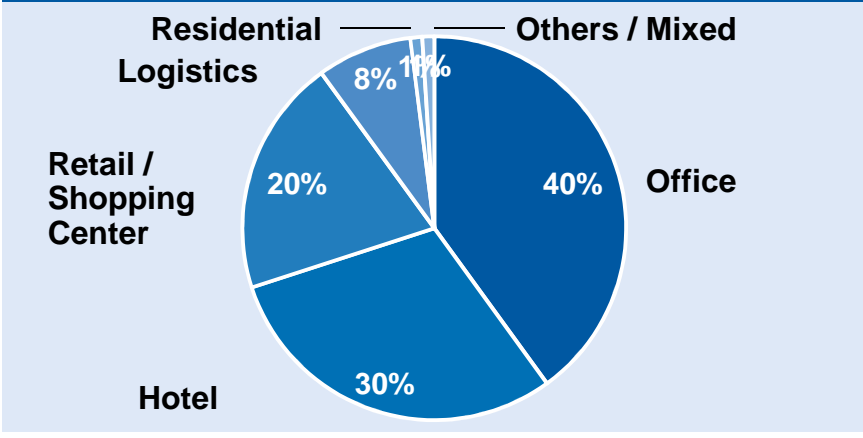
Western Europe (ex Germany) credit portfolio

Total volume outstanding as at 30.06.2015: € 11.0 bn

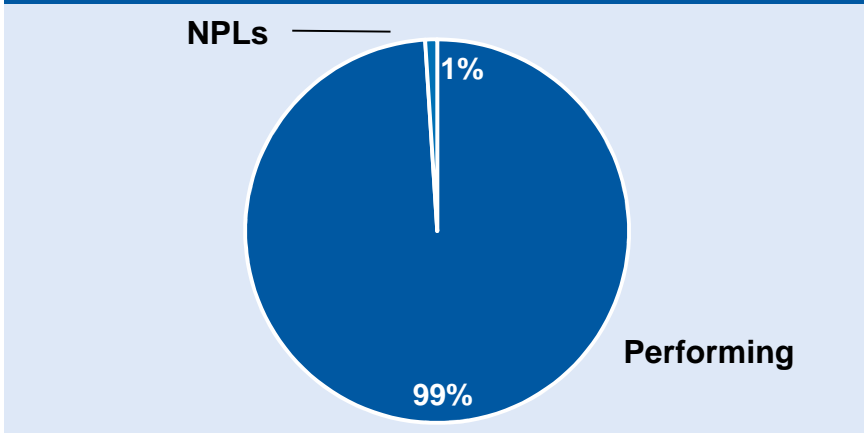
by product type



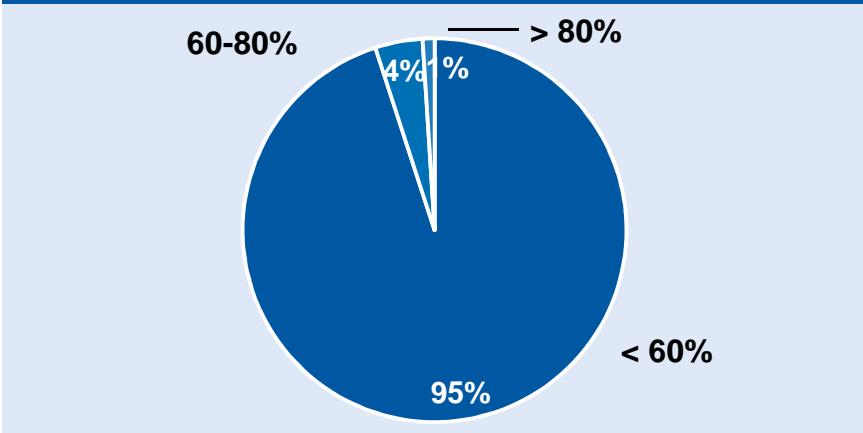
by property type



by performance



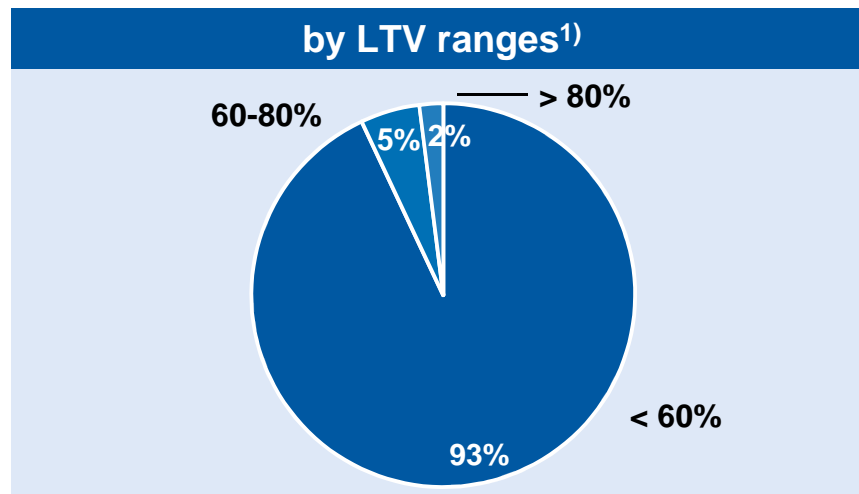
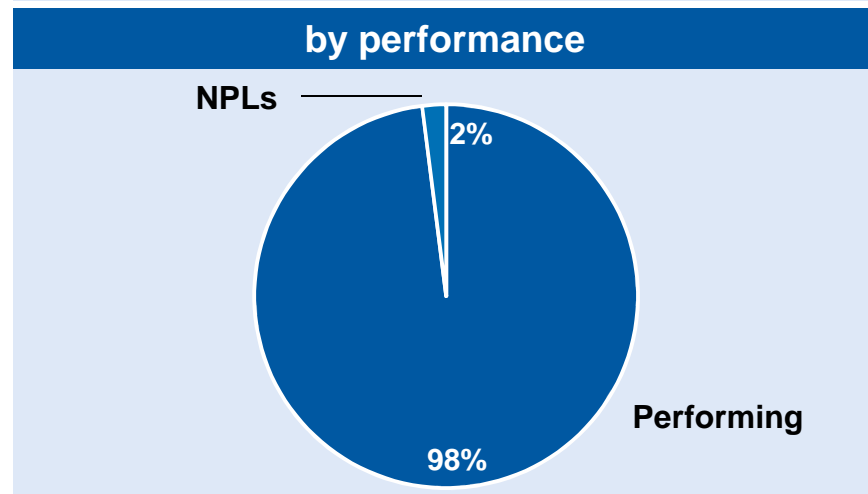
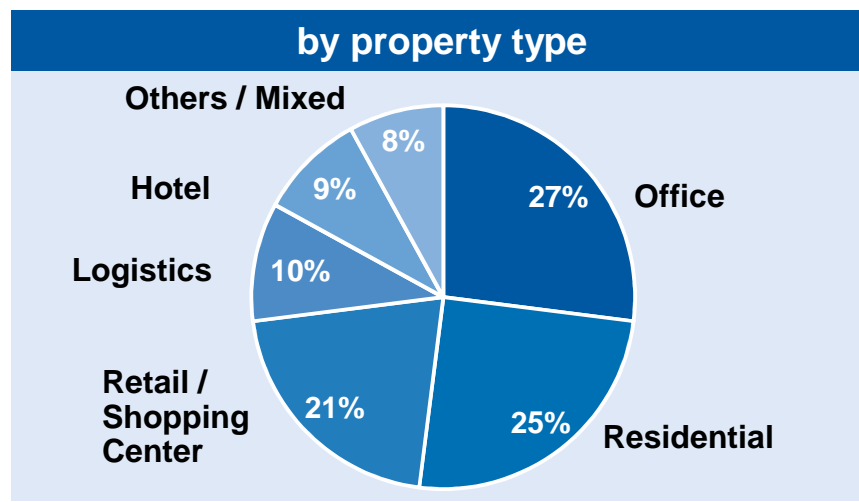
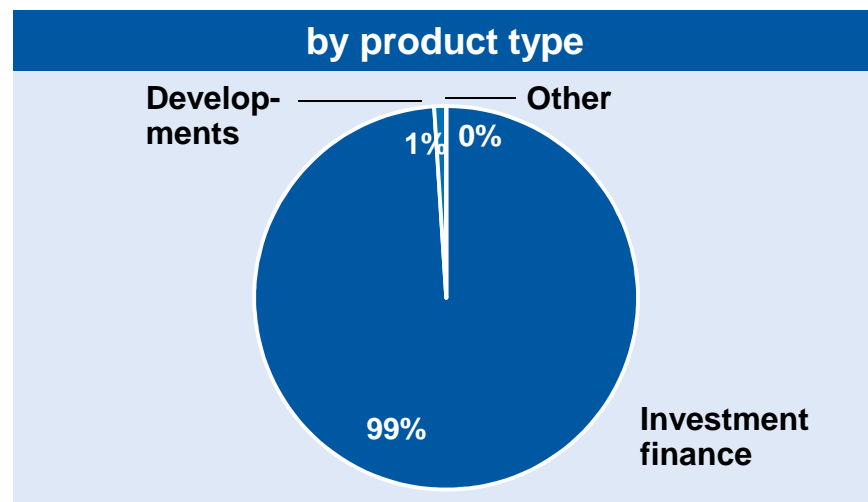
by LTV ranges¹⁾



1) Performing business only, exposure as at 30.06.2015

German credit portfolio

Total volume outstanding as at 30.06.2015: € 6.5 bn



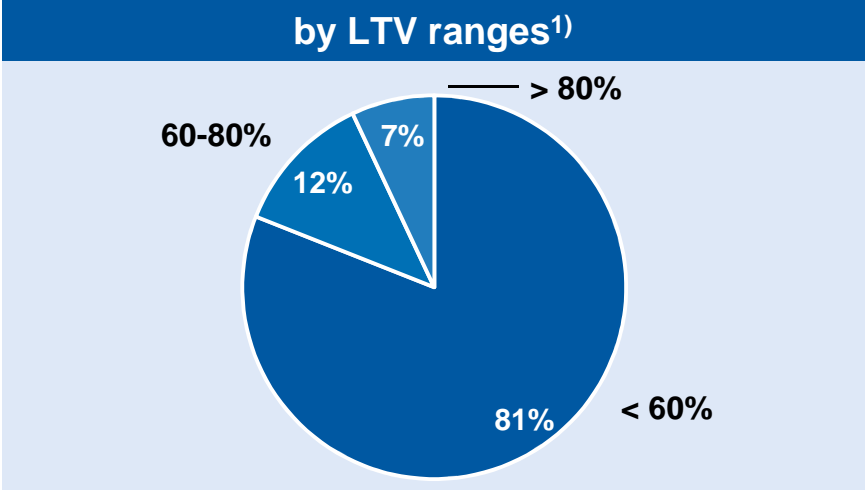
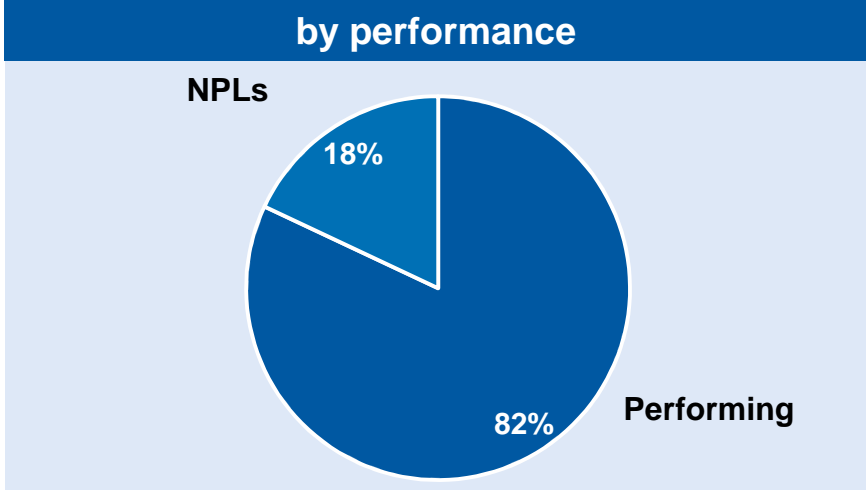
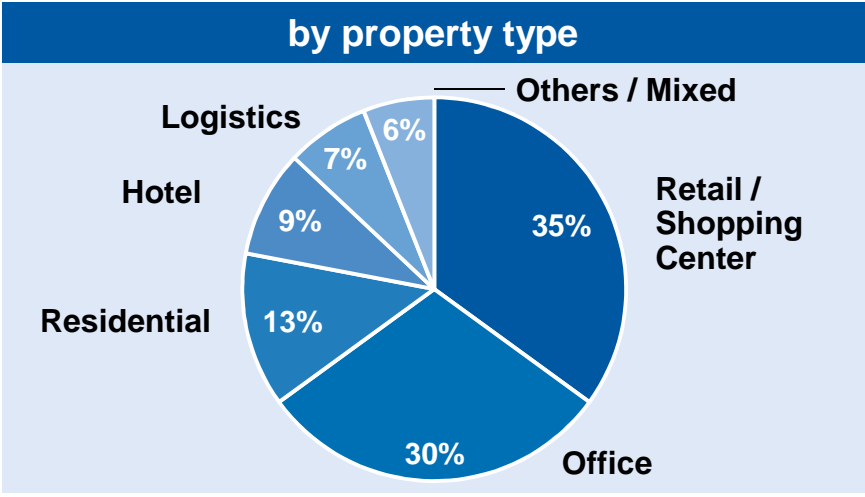
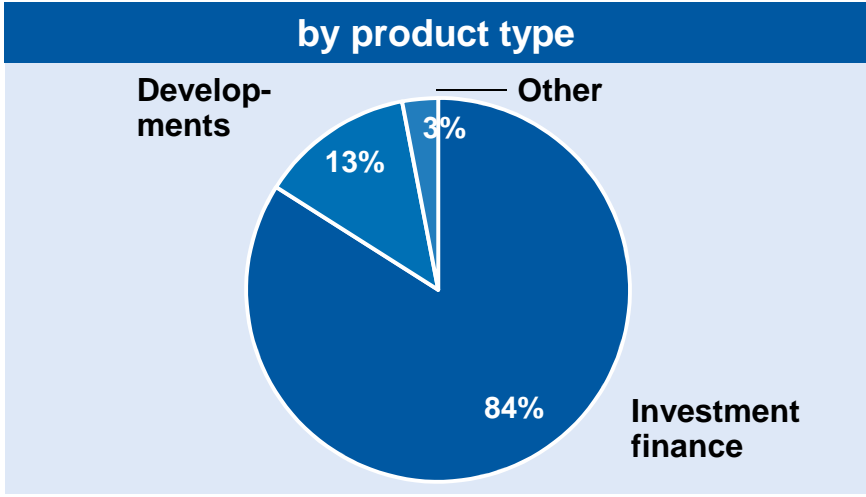
1) Performing business only, exposure as at 30.06.2015



Aareal Bank Group

Southern Europe credit portfolio

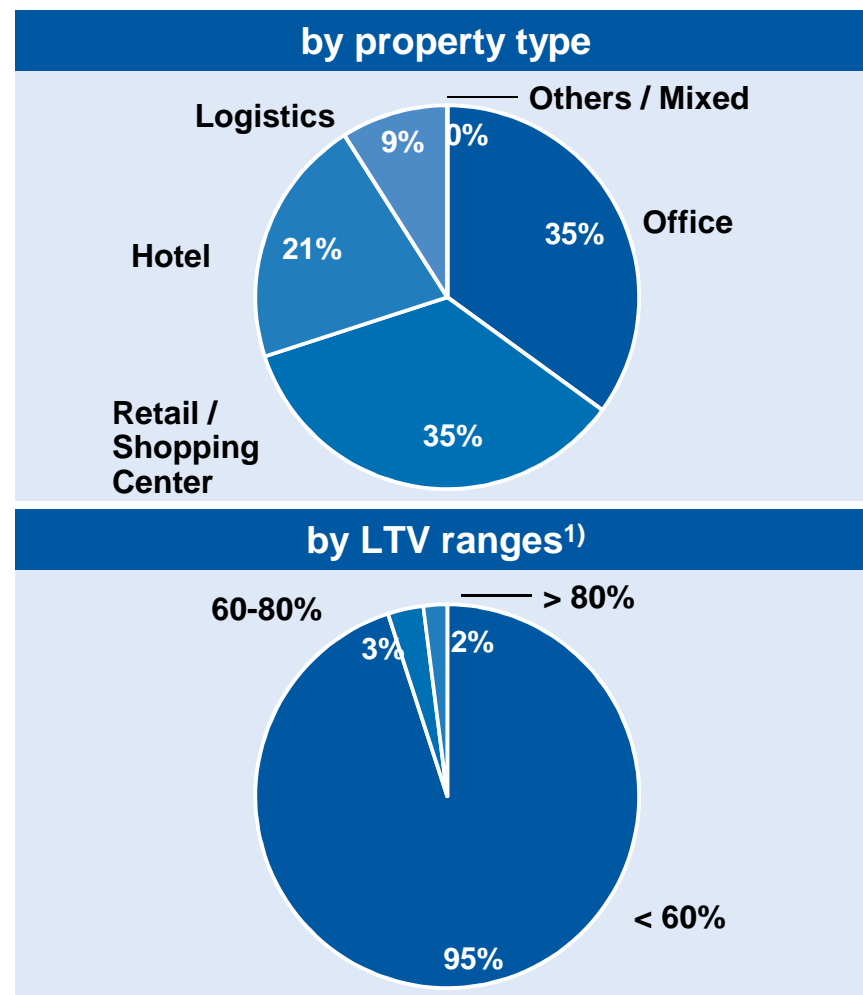
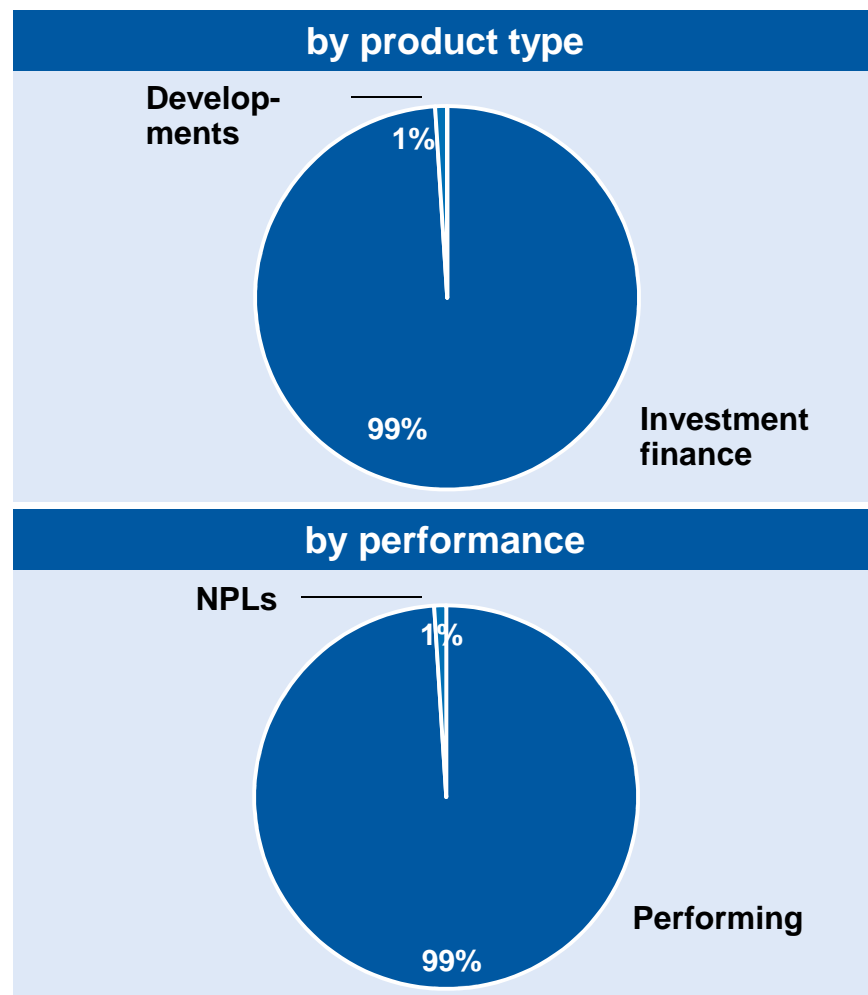
Total volume outstanding as at 30.06.2015: € 4.6 bn



1) Performing business only, exposure as at 30.06.2015

Eastern Europe credit portfolio

Total volume outstanding as at 30.06.2015: € 3.0 bn

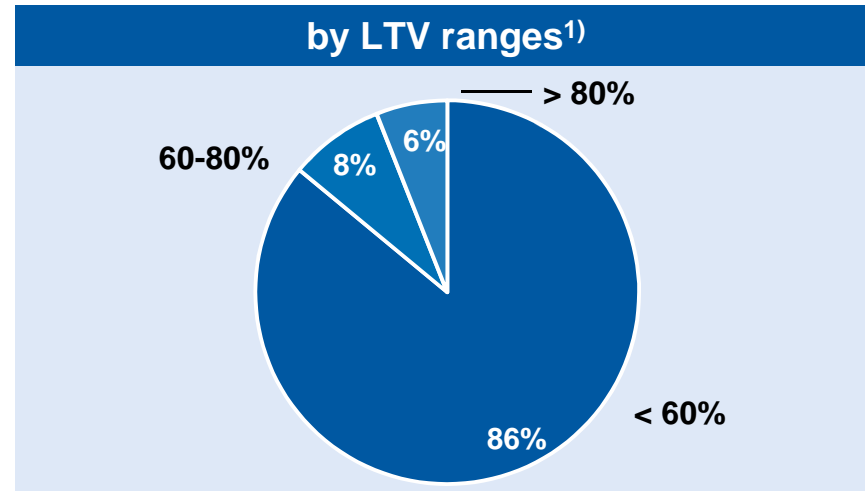
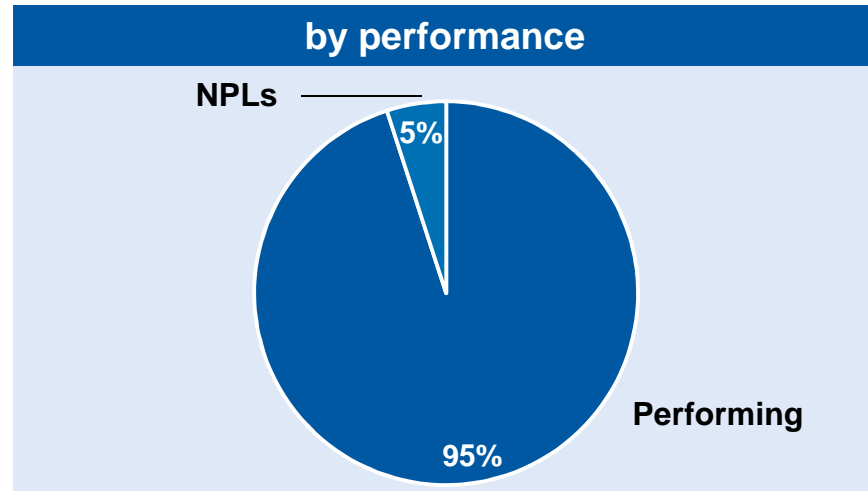
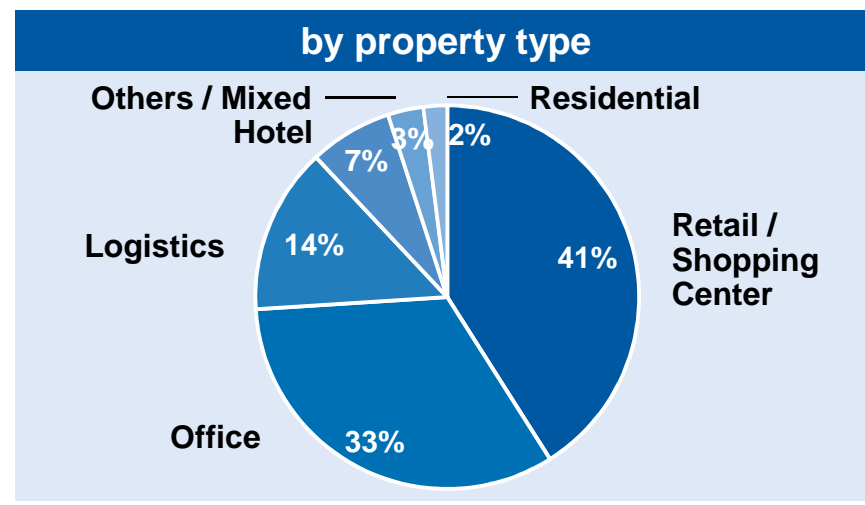
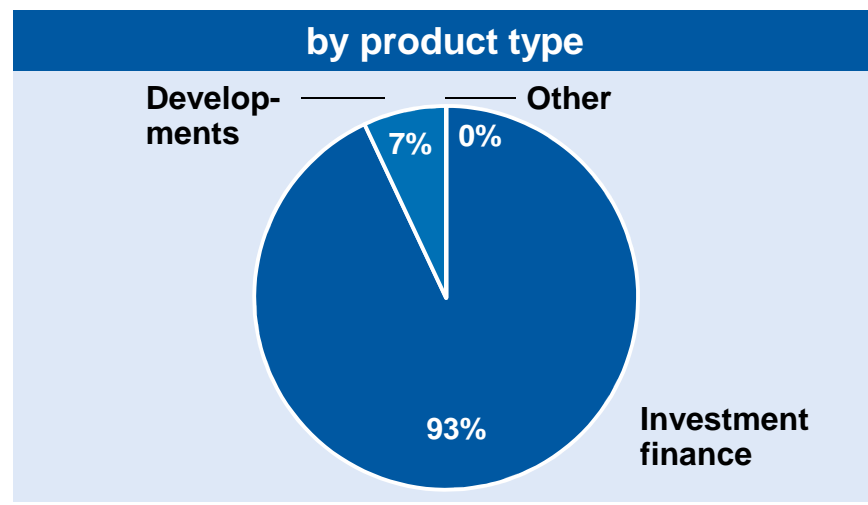


1) Performing business only, exposure as at 30.06.2015



Northern Europe credit portfolio

Total volume outstanding as at 30.06.2015: € 2.2 bn

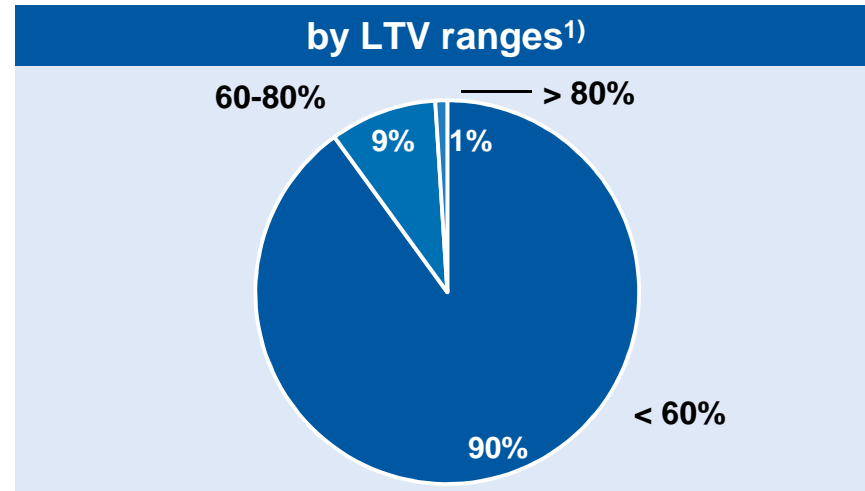
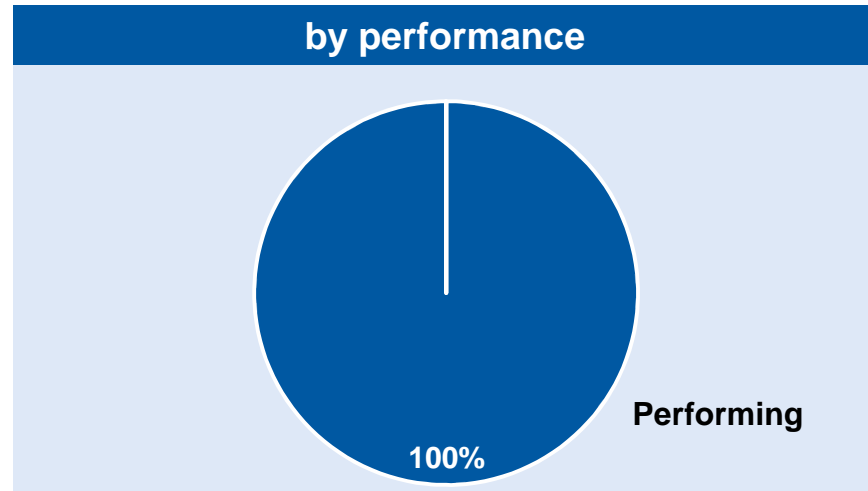
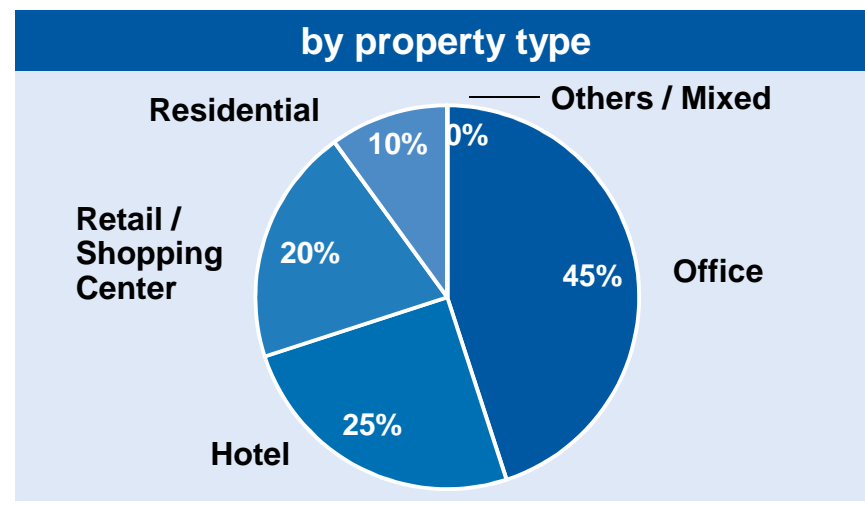
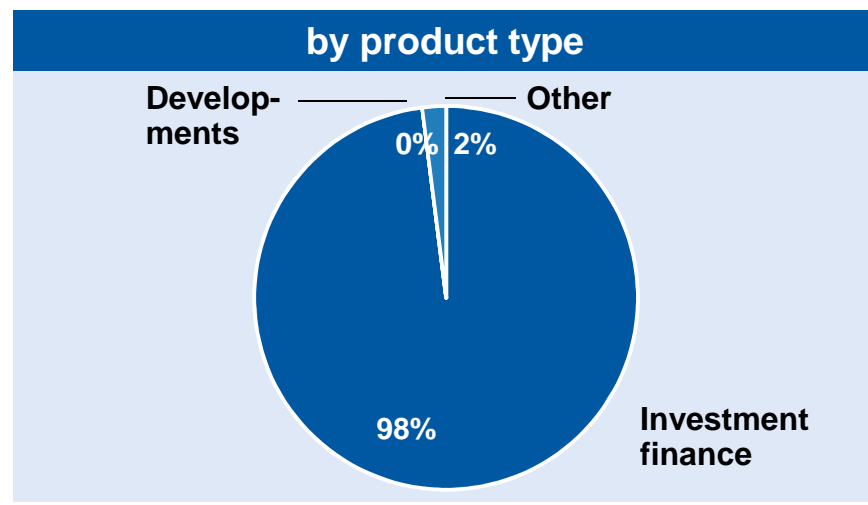


1) Performing business only, exposure as at 30.06.2015



North America credit portfolio

Total volume outstanding as at 30.06.2015: € 5.2 bn



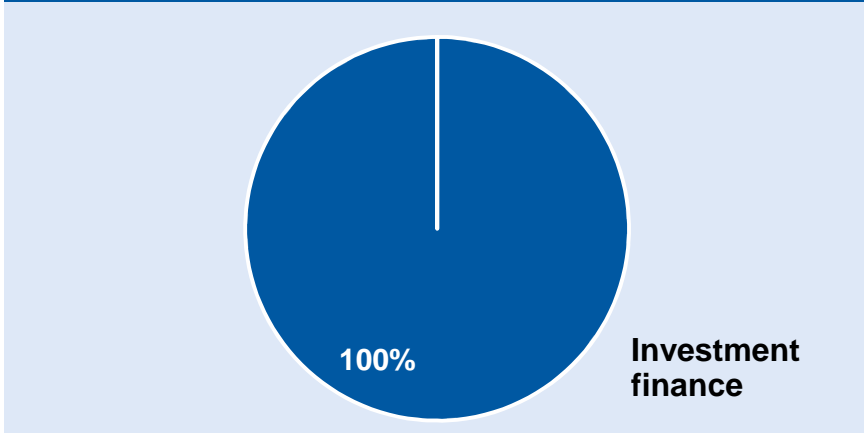
1) Performing business only, exposure as at 30.06.2015



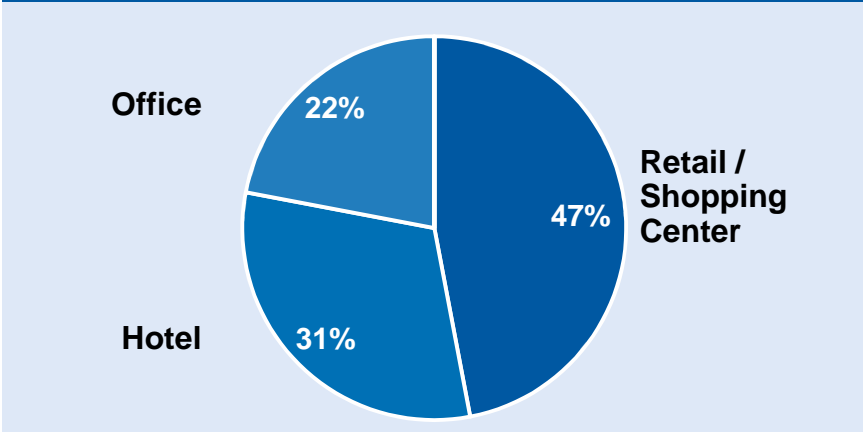
Asia credit portfolio

Total volume outstanding as at 30.06.2015: € 0.5 bn

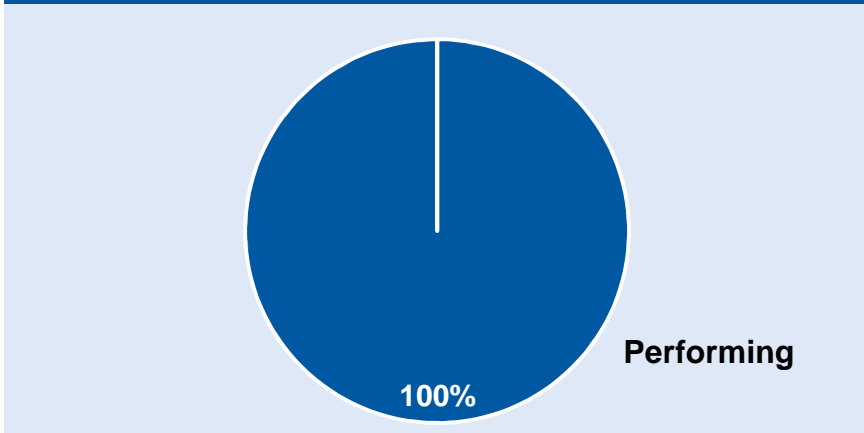
by product type



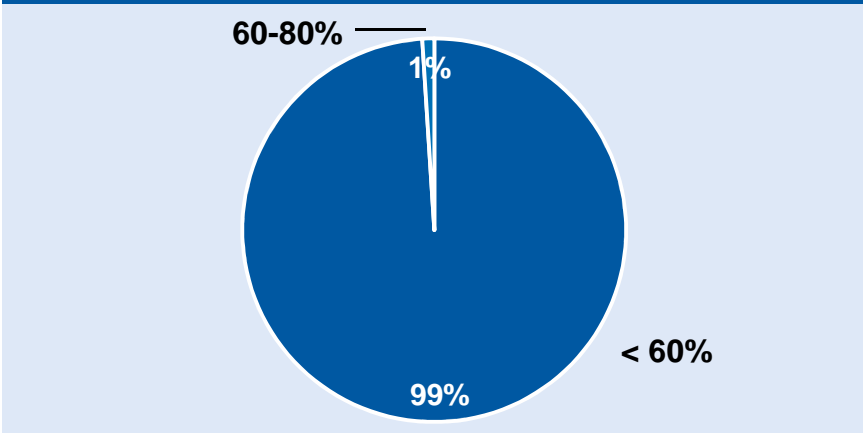
by property type



by performance



by LTV ranges¹⁾

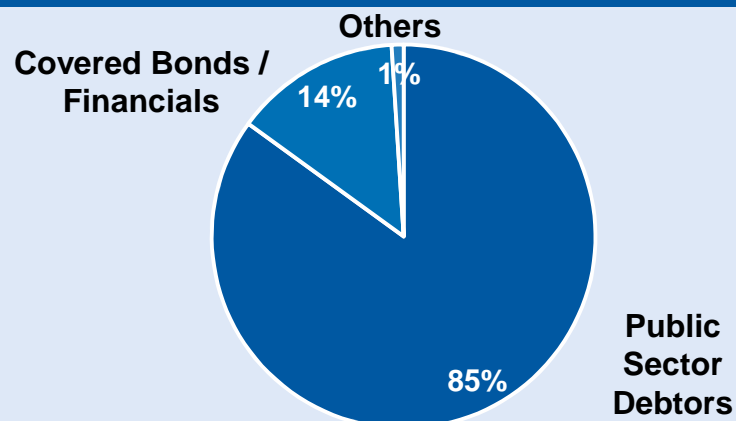


1) Performing business only, exposure as at 30.06.2015

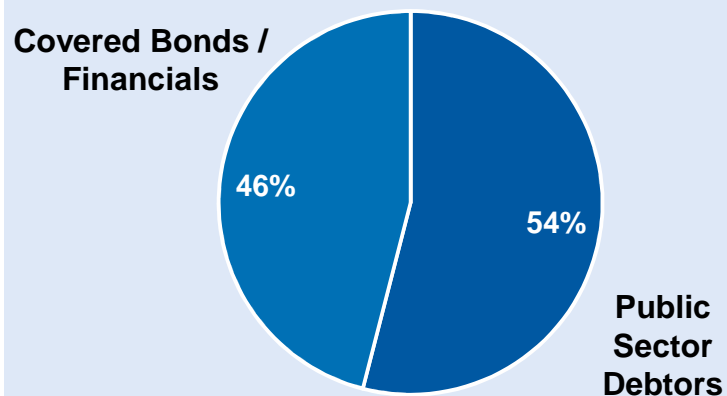
Total treasury portfolio

€ 11.5 bn of high quality and highly liquid assets

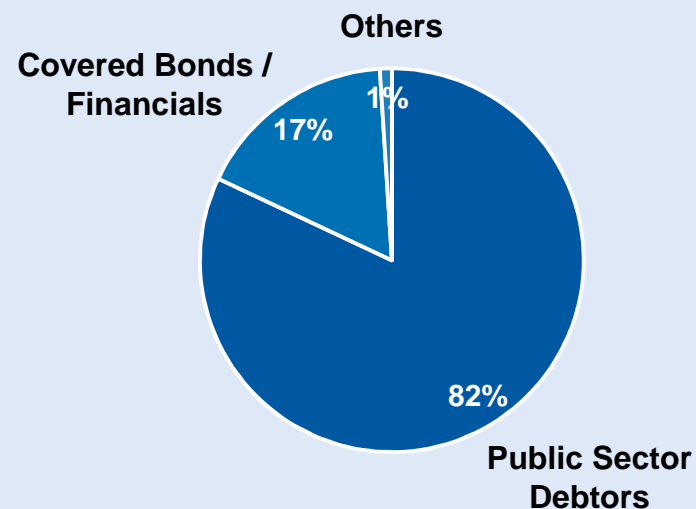
Aareal (total volume: € 10.4 bn)



WestImmo (total volume: € 1.1 bn)



Combined portfolio by asset class



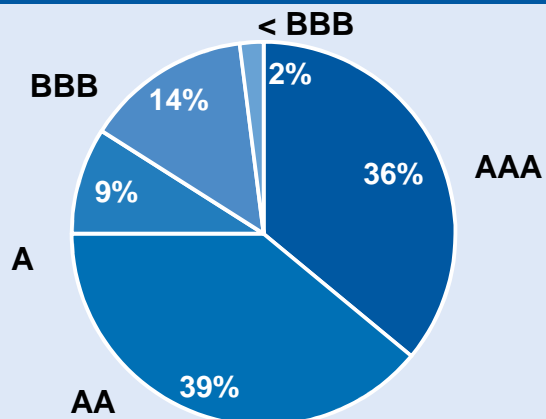
As at 30.06.2015 – all figures are nominal amounts



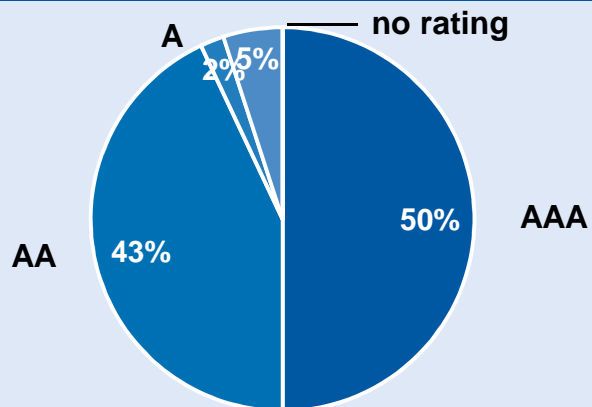
Total treasury portfolio

€ 11.5 bn of high quality and highly liquid assets

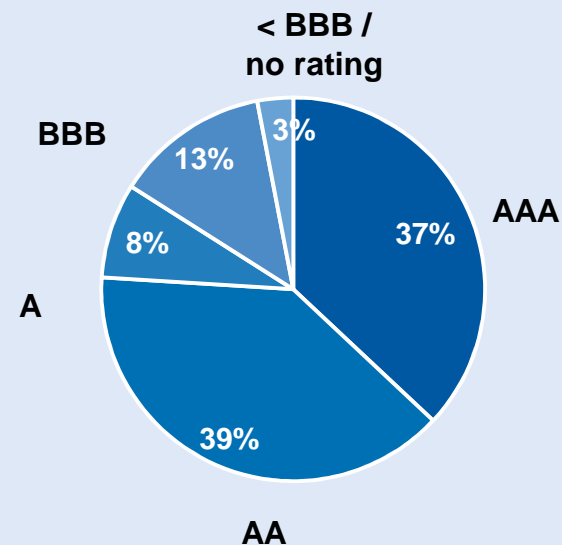
Aareal (total volume¹⁾: € 10.4 bn)



Westimmo (total volume¹⁾: € 1.1 bn)



Combined portfolio by rating¹⁾



As at 30.06.2015 – all figures are nominal amounts
1) Composite Rating



Outlook 2015



**Aareal Bank
Group**

Outlook 2015 confirmed

Closing of WestImmo as at 31.05.2015 considered

2015	
Net interest income	▪ € 720 mn - € 760 mn
Allow. for credit losses¹⁾	▪ € 100 mn - € 150 mn despite portfolio growth
Net commission income	▪ € 170 - € 180 mn
Admin expenses	▪ € 520 mn - € 550 mn incl. one-offs related to Corealcredit and WestImmo
Negative goodwill	▪ € 154 mn as at 30.06.2015 ²⁾
Operating profit	▪ € 400 mn - € 430 mn
EpS³⁾	▪ € 4.80 - € 5.20 incl. negative goodwill ▪ € 2.30 - € 2.70 excl. negative goodwill
Pre-tax RoE	▪ ~ 16% incl. negative goodwill ▪ ~ 10% excl. negative goodwill
New business origination	▪ € 6 bn - € 7 bn
Operating profit Aareon⁴⁾	▪ ~ € 27 mn

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

2) Preliminary, further adjustments possible

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

4) 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

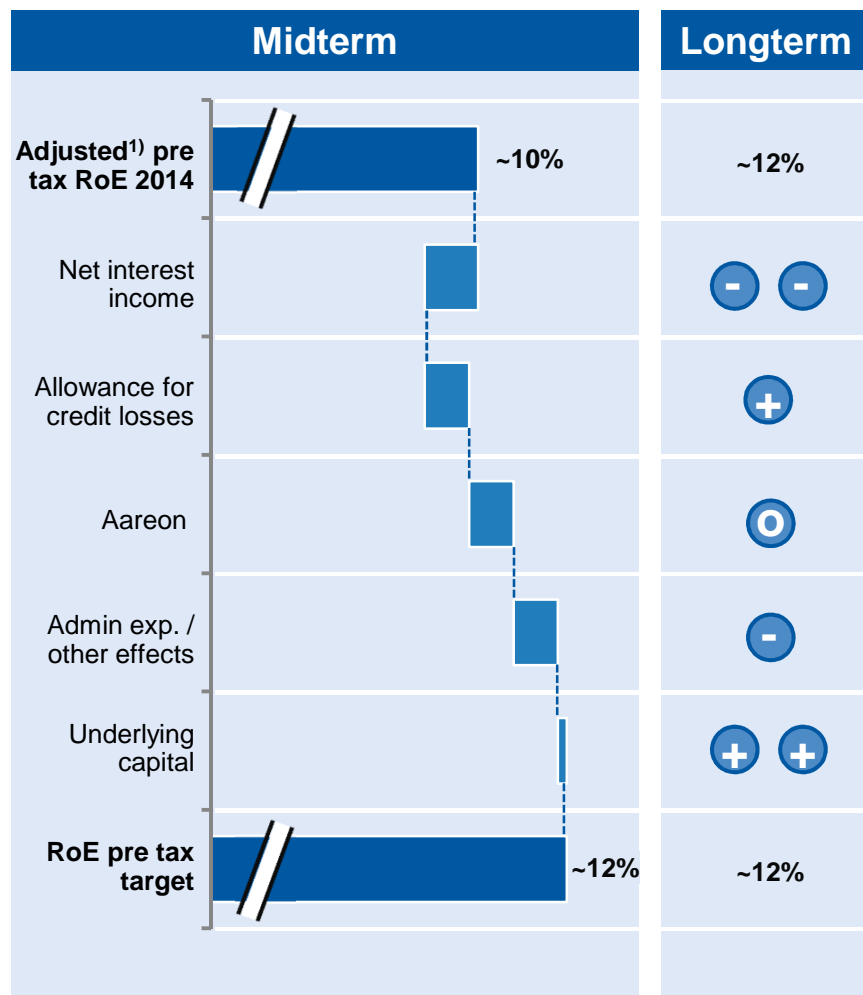
Challenges

- 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

Group results



**Aareal Bank
Group**

Aareal Bank Group

Results Q2 2015

	01.04.- 30.06.2015 € mn	01.04.- 30.06.2014 € mn	Change
Profit and loss account			
Net interest income	191	169	13%
Allowance for credit losses	31	32	-3%
Net interest income after allowance for credit losses	160	137	17%
Net commission income	42	39	3%
Net result on hedge accounting	-3	1	-400%
Net trading income / expenses	2	2	0%
Results from non-trading assets	1	0	-
Results from investments accounted for at equity	0		-
Administrative expenses	136	114	19%
Net other operating income / expenses	13	0	-
Negative goodwill	154		-
Operating Profit	233	65	258%
Income taxes	24	21	14%
Net income / loss	209	44	375%
Allocation of results			
Net income / loss attributable to non-controlling interests	5	5	0%
Net income / loss attributable to shareholders of Aareal Bank AG	204	39	423%
Earnings per share (EpS)¹⁾			
Consolidated net income attributable to shareholders of Aareal Bank AG	204	34	500%
of which: attributable to ordinary shareholders ²⁾	200	34	488%
of which: attributable to AT1 investors	4	-	-
Earnings per ordinary share (in €) ²⁾³⁾	3,35	0,58	478%
Earnings per ordinary AT1 unit (in €) ⁴⁾	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 30 June 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

Results Q2 2015 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.04.- 30.06. 2015	01.04.- 30.06. 2014	01.04.- 30.06. 2015	01.04.- 30.06. 2014	01.04.- 30.06. 2015	01.04.- 30.06. 2014	01.04.- 30.06. 2015	01.04.- 30.06. 2014
€ mn								
Net interest income	192	168	0	0	-1	1	191	169
Allowance for credit losses	31	32					31	32
Net interest income after allowance for credit losses	161	136	0	0	-1	1	160	137
Net commission income	2	1	40	40	0	-2	42	39
Net result on hedge accounting	-3	1					-3	1
Net trading income / expenses	2	2					2	2
Results from non-trading assets	1	0					1	0
Results from investments accounted for at equity			0				0	
Administrative expenses	89	68	48	47	-1	-1	136	114
Net other operating income / expenses	12	-1	1	1	0	0	13	0
Negative goodwill	154						154	
Operating profit	240	71	-7	-6	0	0	233	65
Income taxes	26	23	-2	-2			24	21
Net income / loss	214	48	-5	-4	0	0	209	44
Allocation of results								
Net income / loss attributable to non-controlling interests	4	4	1	1			5	5
Net income / loss attributable to shareholders of Aareal Bank AG	210	44	-6	-5	0	0	204	39



Aareal Bank Group

Results H1 2015

	01.01.- 30.06.2015 € mn	01.01.- 30.06.2014 € mn	Change
Profit and loss account			
Net interest income	369	313	18%
Allowance for credit losses	49	69	-29%
Net interest income after allowance for credit losses	320	244	31%
Net commission income	83	79	5%
Net result on hedge accounting	8	3	167%
Net trading income / expenses	-5	4	-225%
Results from non-trading assets	-2	0	-
Results from investments accounted for at equity	0		-
Administrative expenses	268	216	24%
Net other operating income / expenses	10	16	-38%
Negative goodwill	154	154	-
Operating Profit	300	284	6%
Income taxes	46	41	12%
Net income / loss	254	243	5%
Allocation of results			
Net income / loss attributable to non-controlling interests	10	10	0%
Net income / loss attributable to shareholders of Aareal Bank AG	244	233	5%
Earnings per share (EpS)¹⁾			
Consolidated net income attributable to shareholders of Aareal Bank AG	244	223	9%
of which: attributable to ordinary shareholders ²⁾	236	223	6%
of which: attributable to AT1 investors	8	-	-
Earnings per ordinary share (in €) ²⁾³⁾	3,95	3,74	6%
Earnings per ordinary AT1 unit (in €) ⁴⁾	0,08	-	

- 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 30 June 2014 (€ 10 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

Results H1 2015 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.01.- 30.06. 2015	01.01.- 30.06. 2014	01.01.- 30.06. 2015	01.01.- 30.06. 2014	01.01.- 30.06. 2015	01.01.- 30.06. 2014	01.01.- 30.06. 2015	01.01.- 30.06. 2014
€ mn								
Net interest income	370	311	0	0	-1	2	369	313
Allowance for credit losses	49	69					49	69
Net interest income after allowance for credit losses	321	242	0	0	-1	2	320	244
Net commission income	2	2	81	80	0	-3	83	79
Net result on hedge accounting	8	3					8	3
Net trading income / expenses	-5	4					-5	4
Results from non-trading assets	-2	0					-2	0
Results from investments accounted for at equity			0				0	
Administrative expenses	173	124	96	93	-1	-1	268	216
Net other operating income / expenses	9	15	1	1	0	0	10	16
Negative goodwill	154	154					154	154
Operating profit	314	296	-14	-12	0	0	300	284
Income taxes	50	45	-4	-4			46	41
Net income / loss	264	251	-10	-8	0	0	254	243
Allocation of results								
Net income / loss attributable to non-controlling interests	8	8	2	2			10	10
Net income / loss attributable to shareholders of Aareal Bank AG	256	243	-12	-10	0	0	244	233



Aareal Bank Group

Results – quarter by quarter

	Structured Property Financing					Consulting / Services					Consolidation / Reconciliation					Aareal Bank Group				
	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Euro mn																				
Net interest income	192	178	194	182	168	0	0	0	0	0	-1	0	0	1	1	191	178	194	181	169
Allowance for credit losses	31	18	41	36	32											31	18	41	36	32
Net interest income after allowance for credit losses	161	160	153	146	136	0	0	0	0	0	-1	0	0	-1	1	160	160	153	145	137
Net commission income	2	0	1	1	1	40	41	47	36	40	0	0	0	0	-2	42	41	48	37	39
Net result on hedge accounting	-3	11	2	0	1											-3	11	2	0	1
Net trading income / expenses	2	-7	3	-5	2											2	-7	3	-5	2
Results from non-trading assets	1	-3	2	0	0											1	-3	2	0	0
Results from results accounted for at equity			0	0		0	0	0								0	0	0	0	
Administrative expenses	89	84	67	64	68	48	48	48	46	47	-1	0	-1	-1	-1	136	132	114	109	114
Net other operating income / expenses	12	-3	-8	-4	-1	1	0	1	2	1	0	0	-1	0	0	13	-3	-8	-2	0
Negative goodwill	154															154				
Operating profit	240	74	86	74	71	-7	-7	0	-8	-6	0	0	0	0	0	233	67	86	66	65
Income taxes	26	24	41	23	23	-2	-2	-2	-2	-2						24	22	39	21	21
Net income / loss	214	50	45	51	48	-5	-5	2	-6	-4	0	0	0	0	0	209	45	47	45	44
Allocation of results																				
Net income / loss attributable to non-controlling interests	4	4	4	4	4	1	1	1	0	1						5	5	5	4	5
Net income / loss attributable to shareholders of Aareal Bank AG	210	46	41	47	44	-6	-6	1	-6	-5	0	0	0	0	0	204	40	42	41	39



Appendix

AT1: ADI of Aareal Bank AG



**Aareal Bank
Group**

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 ¹⁾	792	760	710
./. Dividend amount blocked under section 268 (8) of the German Commercial Code	240	156	102
= Available Distributable Items ¹⁾	552	604	608
+ Increase by aggregated amount of interest expenses relating to Distributions on Tier 1 Instruments ¹⁾	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 ¹⁾	609	661	661

1) Unaudited figures for information purposes only



Appendix

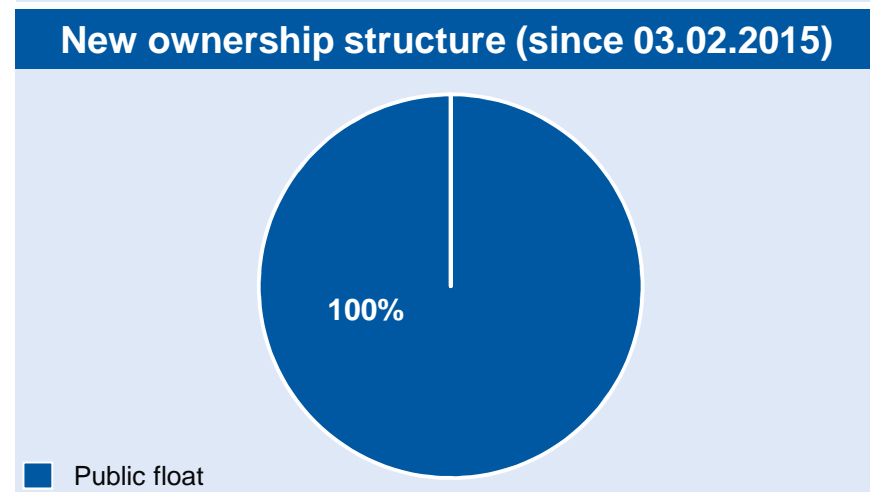
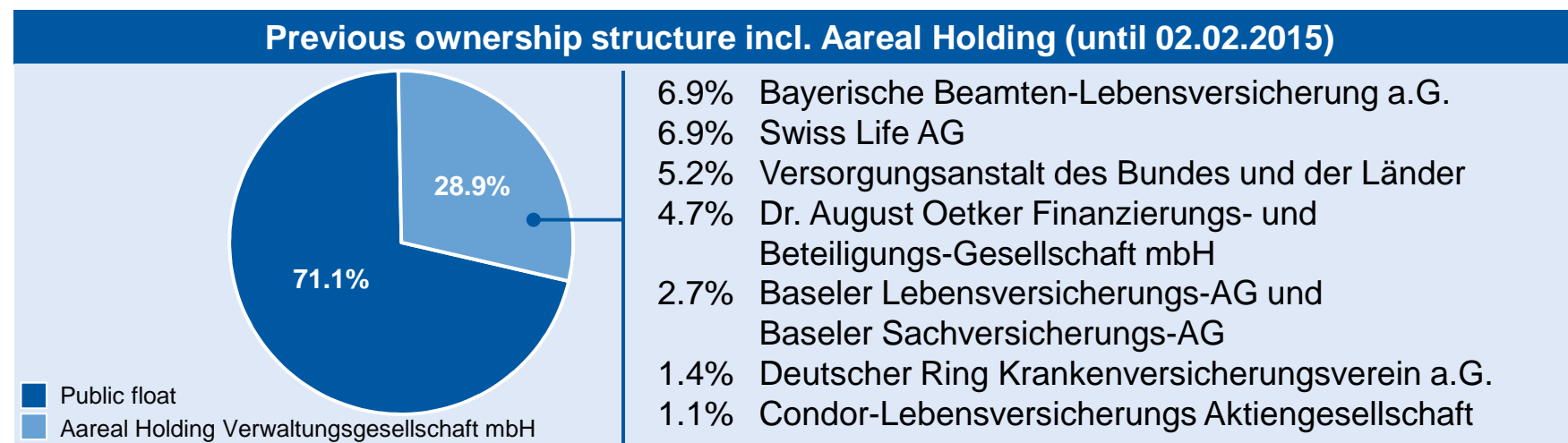
New ownership structure



**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



**Aareal Bank
Group**

Appendix

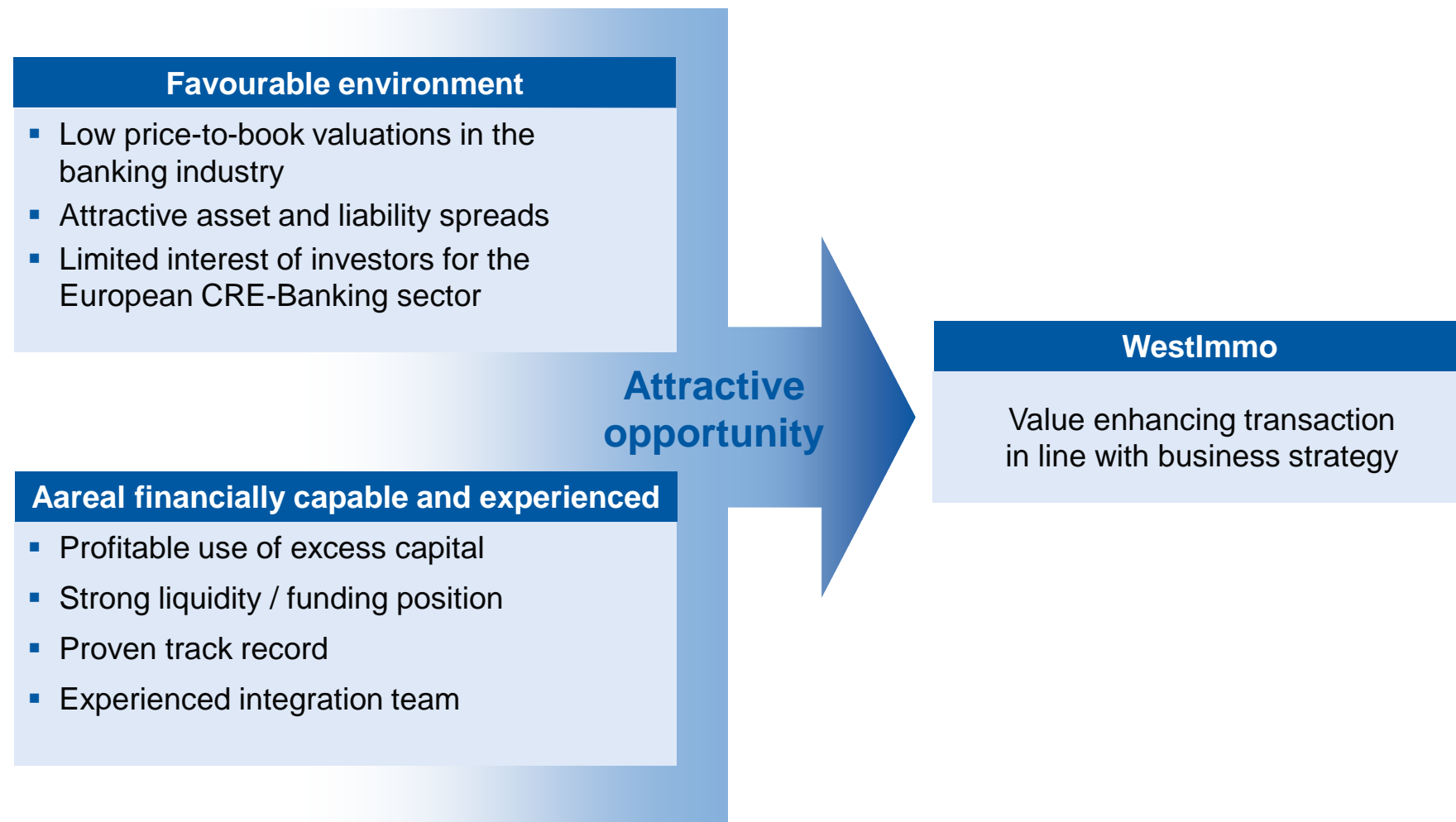
Acquisition of WestImmo



**Aareal Bank
Group**

Acquisition of WestImmo¹⁾: Strategic rationale

Attractive opportunity to pursue inorganic growth



1) As published February 22, 2015



Acquisition of WestImmo¹⁾: 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 WestImmo¹⁾: 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 WestImmo¹⁾: 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 mn²⁾

Closing conditions

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

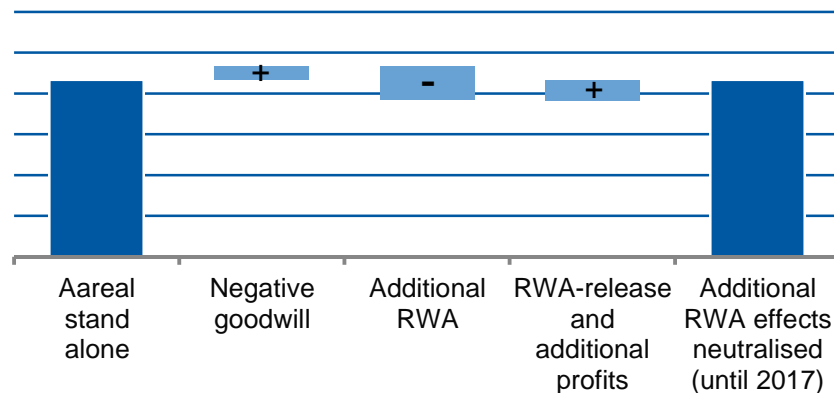
1) As published February 22, 2015
2) Subject to further adjustments



Acquisition of WestImmo¹⁾: Financials

Impact on capital ratios, EpS, and RoE²⁾

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)

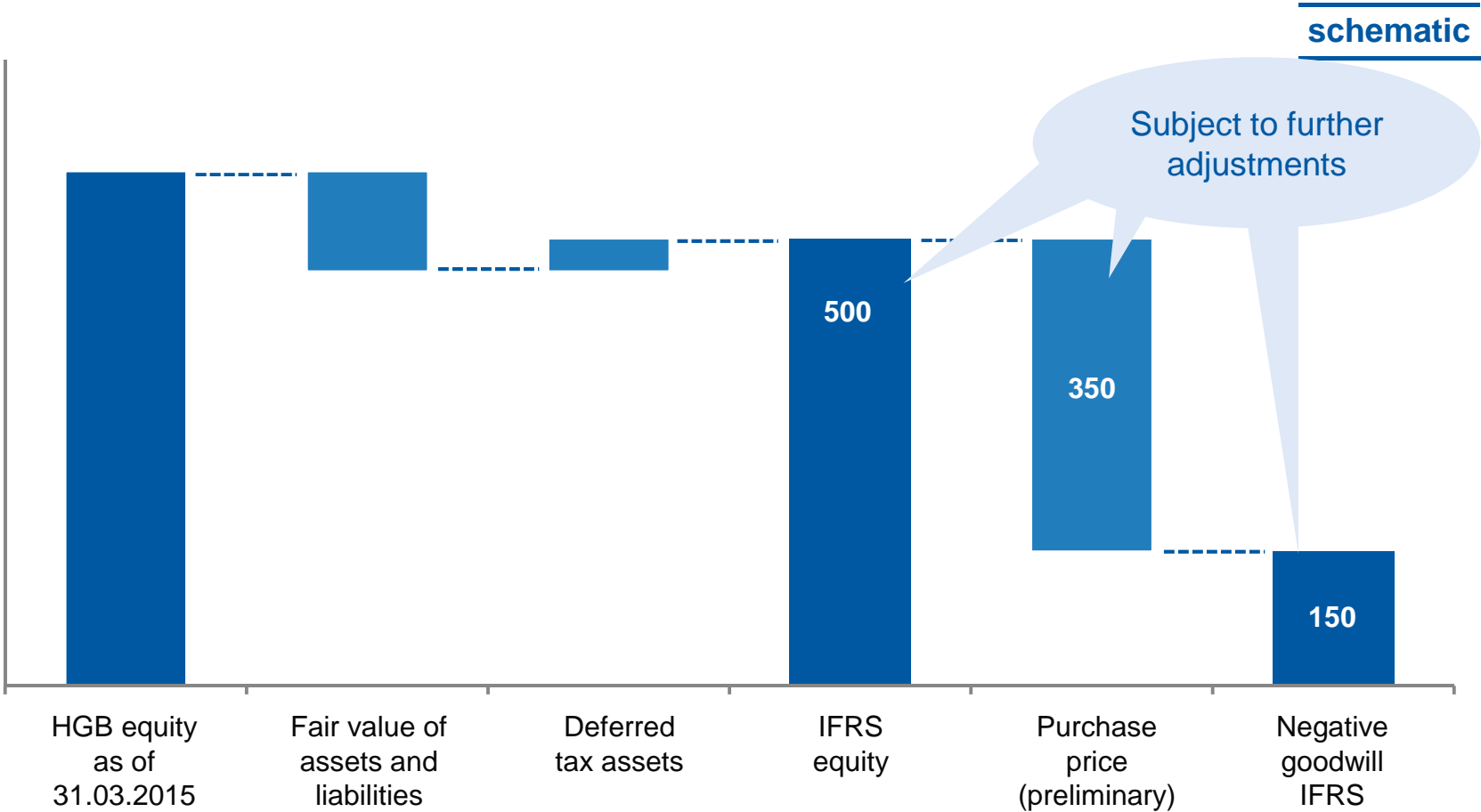
1) As published February 22, 2015

2) Pro forma extrapolated, assumed closing 31.03.2015



Acquisition of WestImmo¹⁾: Financials

Purchase price illustration²⁾



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

Acquisition of WestImmo¹⁾: Private client loans and Public sector loans²⁾

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



Appendix

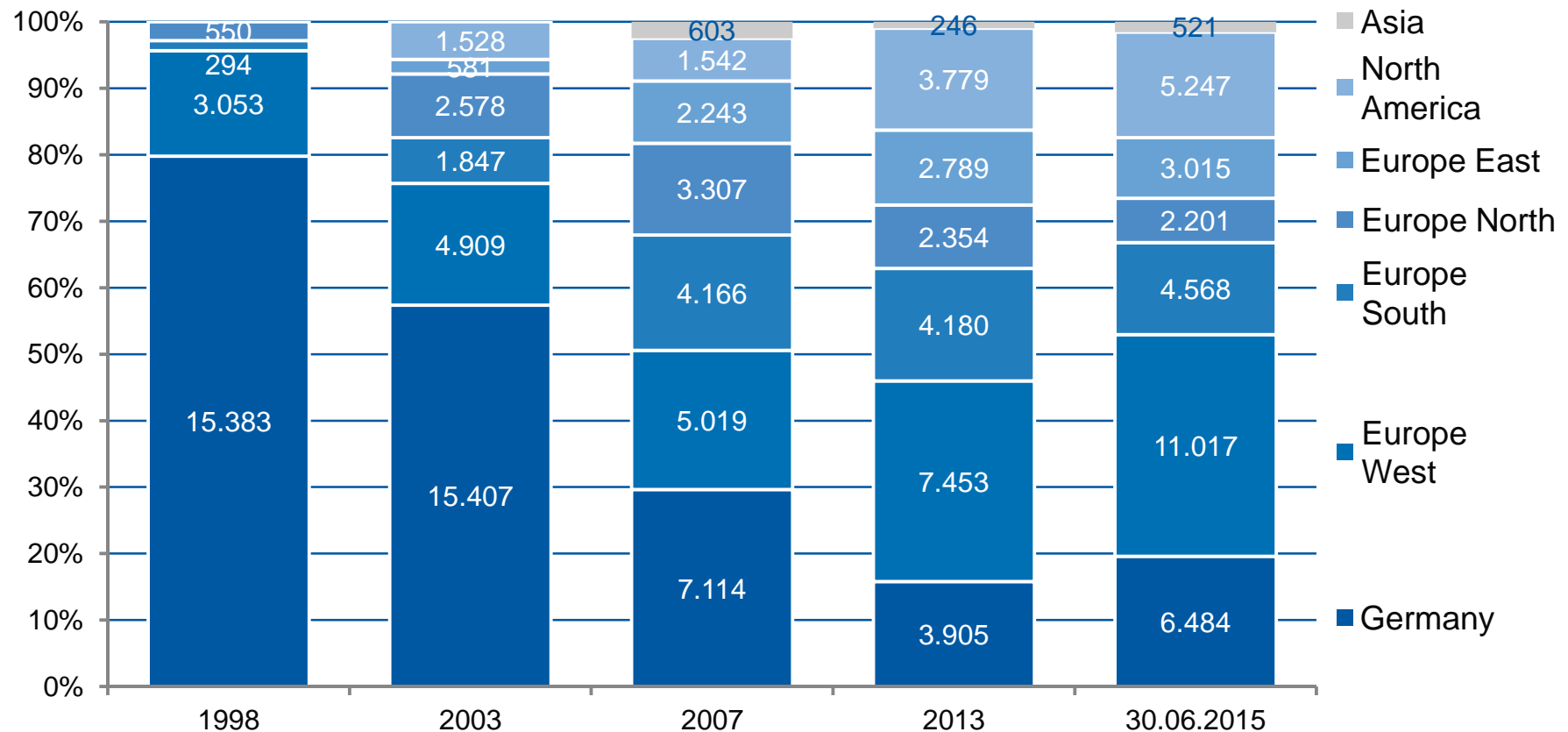
Development property finance portfolio



**Aareal Bank
Group**

Development property finance portfolio

Diversification continuously strengthened (in € mn)



Appendix

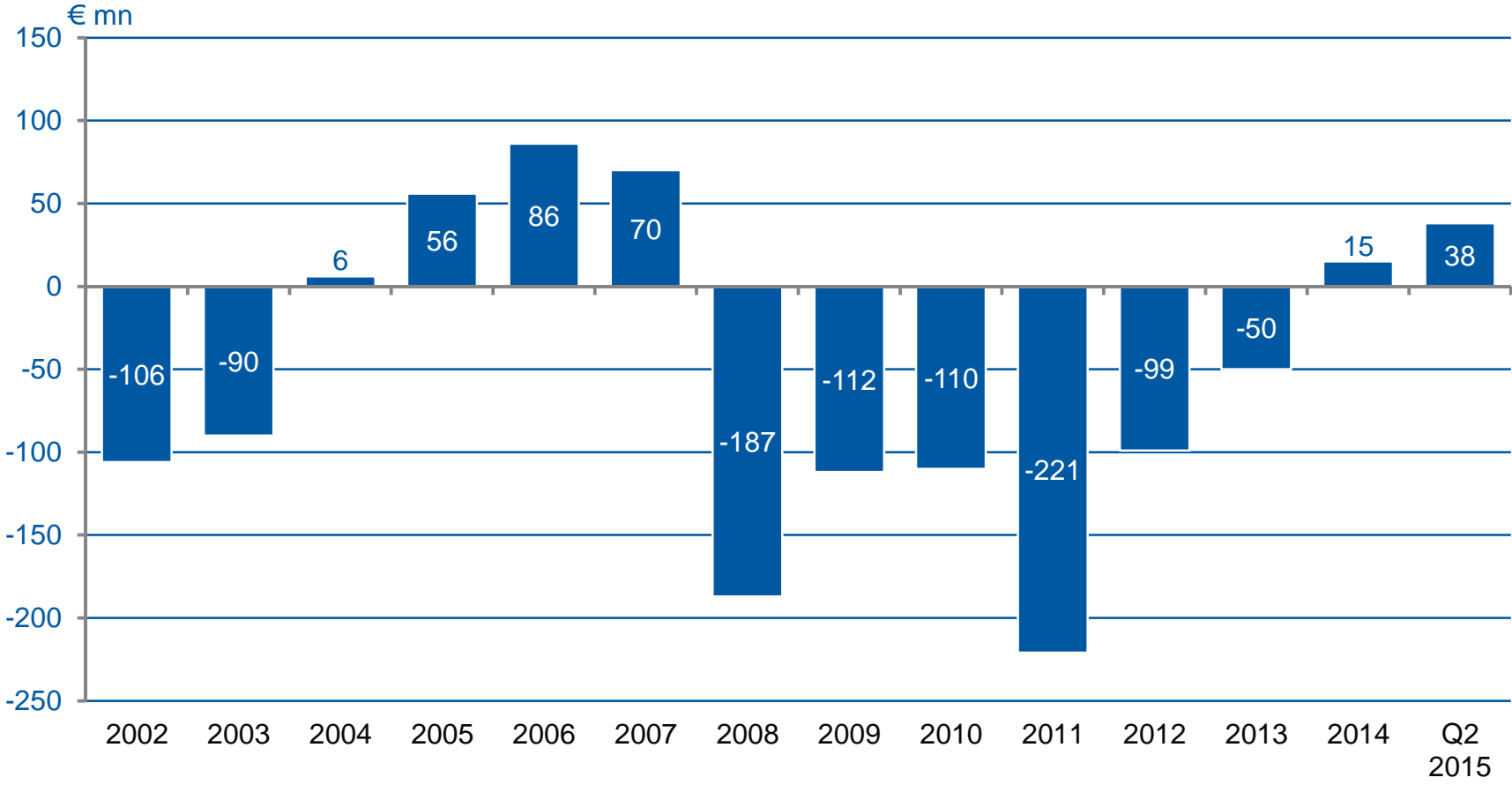
Revaluation surplus



**Aareal Bank
Group**

Revaluation surplus

Change mainly driven by asset spreads



Appendix

RWA-split

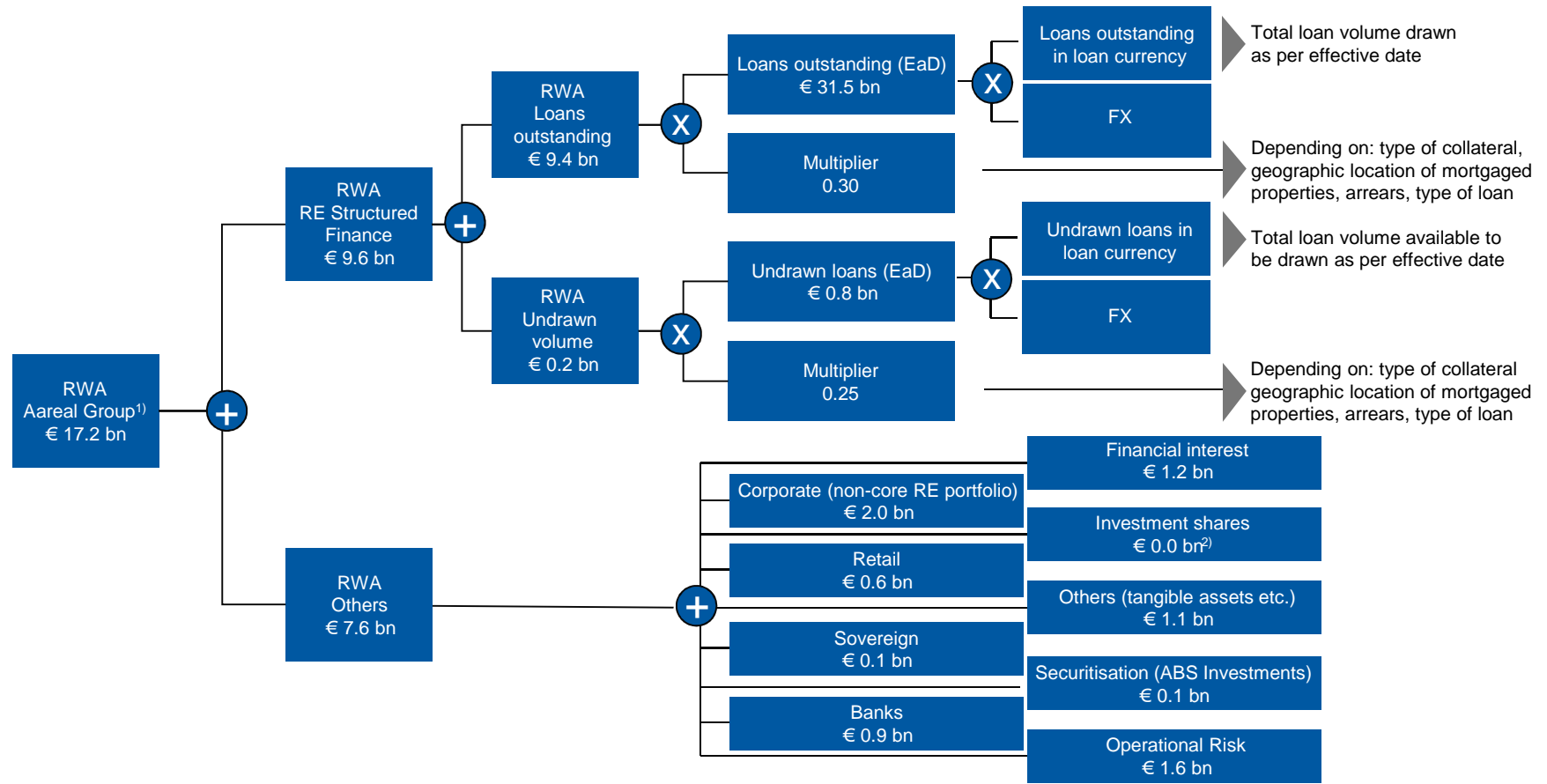


**Aareal Bank
Group**

From asset to risk weighted asset (RWA)

Essential factors affecting volume of RWA

Effective date 30/06/2015



1) Excl. market risk
 2) Exposure to investment shares amounts to € 4 mn

Definitions and contacts



**Aareal Bank
Group**

Definitions

- **Structured Property Financing Portfolio** = Paid-out financings on balance sheet
- **New Business** = Newly acquired business incl. renewals + Contract is signed by customer + Fixed loan value and margin
- **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** =
$$\frac{\text{operating profit } \therefore \text{ income taxes } \therefore \text{ income/loss attributable to non controlling interests } \therefore \text{ net AT1 coupon}}{\text{Number of ordinary shares}}$$



Contacts

- **Jürgen Junginger**
Managing Director Investor Relations
Phone: +49 611 348 2636
juergen.junginger@aareal-bank.com
- **Carsten Schäfer**
Director Investor Relations
Phone: +49 611 348 3616
carsten.schaefer@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



Disclaimer

© 2015 Aareal Bank AG. All rights reserved.

- This document has been prepared by Aareal Bank AG, exclusively for the purposes of a corporate presentation by Aareal Bank AG. The presentation is intended for professional and institutional customers only.
- It must not be modified or disclosed to third parties without the explicit permission of Aareal Bank AG. Any persons who may come into possession of this information and these documents must inform themselves of the relevant legal provisions applicable to the receipt and disclosure of such information, and must comply with such provisions. This presentation may not be distributed in or into any jurisdiction where such distribution would be restricted by law.
- This presentation is provided for general information purposes only. It does not constitute an offer to enter into a contract on the provision of advisory services or an offer to purchase securities. Aareal Bank AG has merely compiled the information on which this document is based from sources considered to be reliable – without, however, having verified it. The securities of Aareal Bank AG are not registered in the United States of America and may not be offered or sold except under an exemption from, or pursuant to, registration under the United States Securities Act of 1933, as amended. Therefore, Aareal Bank AG does not give any warranty, and makes no representation as to the completeness or correctness of any information or opinion contained herein. Aareal Bank AG accepts no responsibility or liability whatsoever for any expense, loss or damages arising out of, or in any way connected with, the use of all or any part of this presentation. The securities of Aareal Bank AG are not registered in the United States of America and may not be offered or sold except under an exemption from, or pursuant to, registration under the United States Securities Act of 1933, as amended.
- This presentation may contain forward-looking statements of future expectations and other forward-looking statements or trend information that are based on current plans, views and/or assumptions and subject to known and unknown risks and uncertainties, most of them being difficult to predict and generally beyond Aareal Bank AG's control. This could lead to material differences between the actual future results, performance and / or events and those expressed or implied by such statements.
- Aareal Bank AG assumes no obligation to update any forward-looking statement or any other information contained herein.

