

LOCAL EXPERTISE  
MEETS GLOBAL EXCELLENCE

# Annual Analyst Conference

## Preliminary 2012 results

TRUSTED  
SINCE 1923  
**90**  
YEARS

February 20, 2013  
Dr. Wolf Schumacher, CEO – Hermann J. Merkens, CFO



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# Agenda

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- Environment 2012
  - Preliminary 2012 results at a glance
  - Segment performance
  - B/S structure, capital & funding position
  - Preliminary group figures 2012
  - Asset quality
  - Outlook 2013
  - Midterm outlook
  
  - Appendix
  - Definitions and Contacts
- 



# Environment 2012

## Our assumptions became reality

Assumptions for guidance 2012		Reality 2012	
Macro-economic	<ul style="list-style-type: none"> <li>Deteriorating economic outlook</li> </ul>	Macro-economic	<ul style="list-style-type: none"> <li>Deteriorating economic outlook</li> <li>Recession in Europe</li> <li>On-going discussions about the situation in Greece / Spain</li> </ul>
Regulatory	<ul style="list-style-type: none"> <li>Uncertain cumulative effects of the different reform proposals on banks and real economy</li> </ul>	Regulatory	<ul style="list-style-type: none"> <li>Uncertainty regarding the cumulative effects of the different reform proposals on banks and real economy continues</li> </ul>
Political	<ul style="list-style-type: none"> <li>Uncertain political and regulatory framework</li> </ul>	Political	<ul style="list-style-type: none"> <li>Decisions regarding political and regulatory framework postponed</li> </ul>



# Preliminary 2012 results at a glance



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# 2012 at a glance

## Strong results in volatile markets

Targets	Guidance	9M-Guidance	Preliminary
▪ Net interest income	Considerable < € 547 mn	Considerable < € 547 mn	➔ € 486 mn
▪ Net loan loss provisions	€ 110 - 140 mn	€ 110 - 140 mn (lower end)	➔ € 106 mn
▪ Net commission income	€ 150 - 160 mn	€ 150 - 160 mn	➔ € 169 mn
▪ Administrative expenses	€ 350 - 360 mn	€ 350 - 360 mn	➔ € 358 mn
▪ Operating profit	Slightly < € 185 mn	Slightly < € 185 mn	➔ € 176 mn
▪ New business origination	€ 4.5 – 5.5 bn	€ 4.5 – 5.5 bn (upper end)	➔ € 6.3 bn
▪ Op. profit C/S segment	€ 22 mn (2011 clean operating level)	< € 20 mn (below 2011-level)	➔ € 6 mn
<b>Capitalisation and Funding</b>			
▪ Solid capital position	<ul style="list-style-type: none"> <li>▪ Tier 1 ratio: 16.7% (AIRBA)<sup>1)</sup></li> <li>▪ Core Tier 1 ratio (excl. SoFFin / hybrids): 11.6% (AIRBA)</li> </ul>		
▪ Solid refinancing and liquidity situation	<ul style="list-style-type: none"> <li>▪ € 4.5 bn raised; flexible use of secured and unsecured funding</li> <li>▪ Liquidity position clearly exceeds 15% of total balance sheet</li> </ul>		

1) Advanced internal ratings-based approach (advanced IRBA)



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# 2012 results at a glance

## Strong Q4 operating profit despite environment

	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Comments
€ mn						
Net interest income	116	119	122	129	146	<ul style="list-style-type: none"> <li>Strong H1-funding activities</li> <li>Bulk of new business in late Q4</li> <li>Market volatility still high</li> <li>Euribor decreased further</li> <li>→ Ø Q4-position with central banks: € 4.1 bn</li> </ul>
Net loan loss provisions	39	30	25	12	34	<ul style="list-style-type: none"> <li>FY-LLP under guided range</li> <li>Within normal quarterly variation</li> <li>Q4 incl. € 10 mn General LLP</li> </ul>
Net commission income	50	39	40	40	45	<ul style="list-style-type: none"> <li>Strong Aareon revenue in Q4</li> </ul>
Net result from trading/ non-trading/ hedge accounting	13	5	-5	-26	-7	<ul style="list-style-type: none"> <li>Reflecting market volatility</li> </ul>
Admin expenses	88	90	89	91	102	<ul style="list-style-type: none"> <li>Efficiency measures paying off</li> </ul>
Operating profit	46	42	45	43	47	<ul style="list-style-type: none"> <li>Solid development despite environment</li> </ul>



# Segment performance



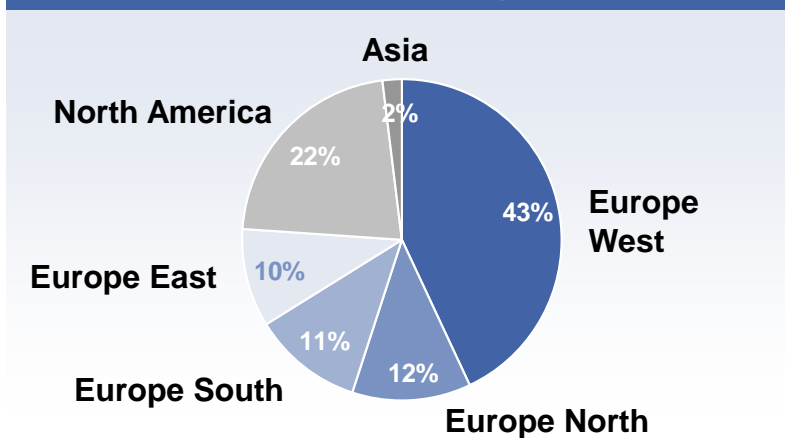
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# Structured property financing

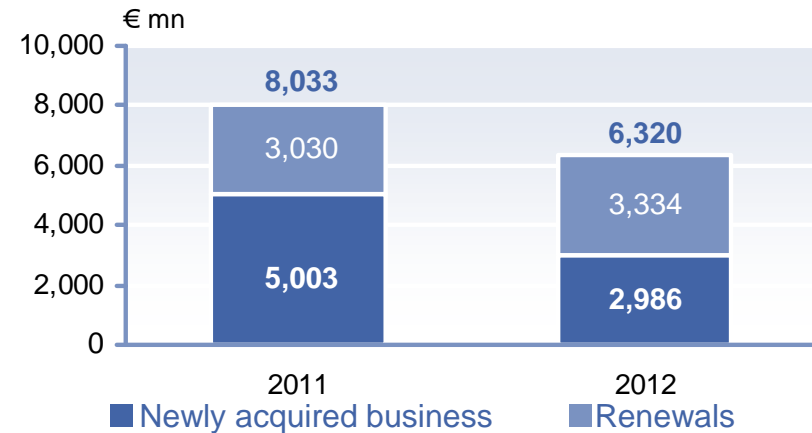
## New business with attractive risk-return profile

New business by region 2012



P&L SPF Segment	2012	2011	Change
€ mn			
Net interest income	463	508	-9%
Loan loss provision	106	112	-5%
Net commission income	21	2	>100%
Net result from trading / non-trading / hedge accounting	-13	-9	-
Admin expenses	191	217	-12%
Others	-4	-7	-
<b>Operating profit</b>	<b>170</b>	<b>165</b>	<b>3%</b>

New business origination



- New business origination 2011 was positively influenced due to the capital increase in Q2 2011
- 2012 focus on attractive risk-return profile with low risk-weighting
- Preference for Pfandbrief cover pool eligible loans

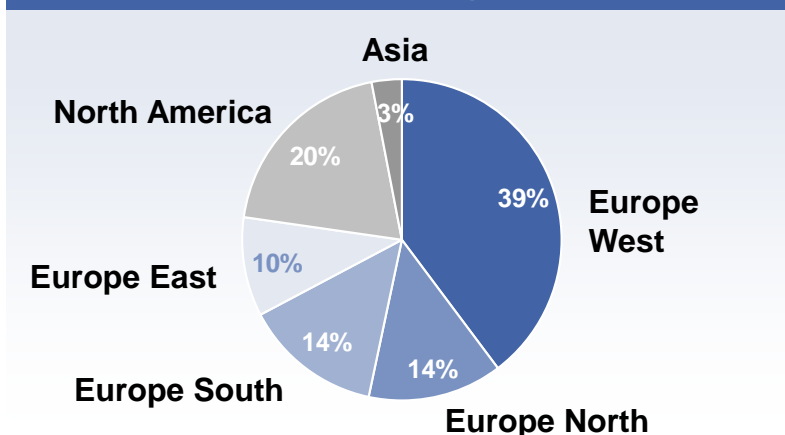




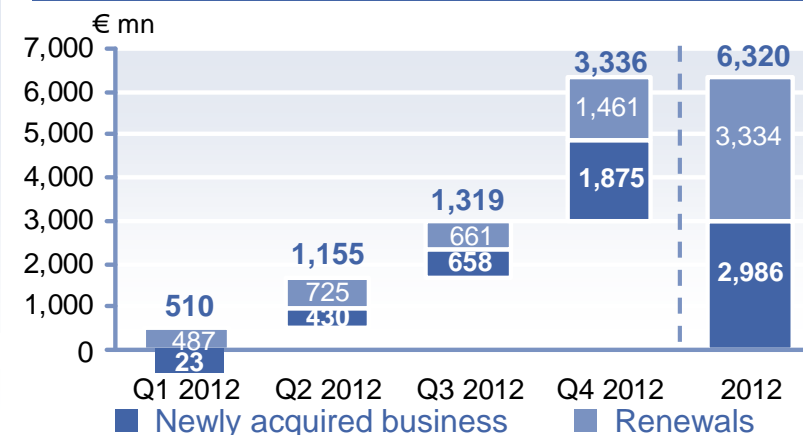
# Structured property financing

## New business target overachieved

New business by region Q4 2012



New business origination



P&L SPF Segment	Q4 '12	Q3 '12	Q2 '12	Q1 '12	Q4 '11
€ mn					
Net interest income	113	114	115	121	136
Loan loss provision	39	30	25	12	34
Net commission income	5	6	6	4	5
Net result from trading / non-trading / hedge accounting	13	5	-5	-26	-7
Admin expenses	44	51	47	49	58
Others	-4	-2	0	2	-3
<b>Operating profit</b>	<b>44</b>	<b>42</b>	<b>44</b>	<b>40</b>	<b>39</b>

- Newly acquired business constantly increased over the year as planned
- Taking advantage of new business opportunities
- FY-target range of € 4.5 bn to € 5.5 bn overachieved

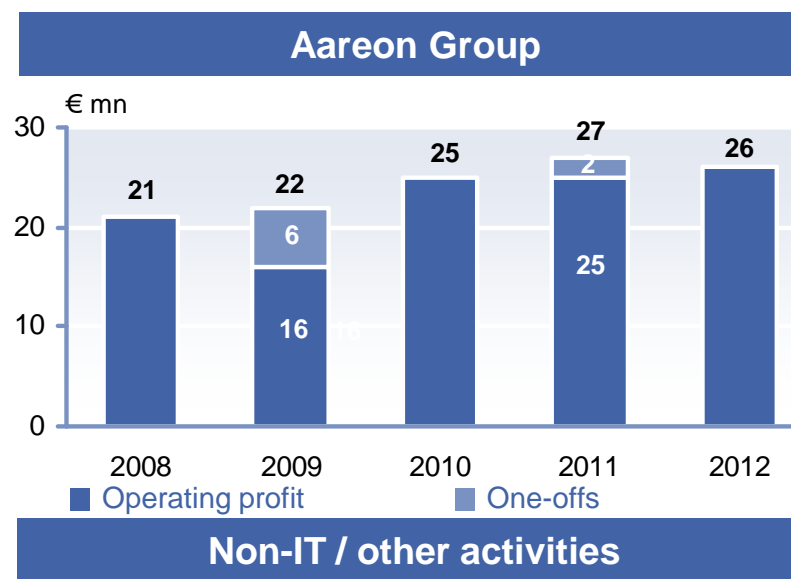


# Consulting / Services

Solid in IT & volumes – weak in deposit margins

P&L C/S Segment (industry format)	2012	2011	Change
€ mn			
Sales revenue	194	203	-4%
Own work capitalised	2	2	-
Other operating income	7	8	-13%
Cost of material purch.	21	20	5%
Staff expenses	114	112	2%
D, A, impairment losses	13	13	-
Other op. expenses	49	49	-
Others	0	1	-100%
<b>Operating profit</b>	<b>6</b>	<b>20</b>	<b>-70%</b>

- Aareon improved over the last years, sales revenue increased from € 160 mn in 2011 to € 165 mn in 2012
- Aareon EBIT margin stable at ~16%
- Housing industry deposits generate a stable funding base, crisis-proof
- Low interest environment burdens segment results



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# Consulting / Services

Aareon within plan – deposit taking business burdened



# Consulting / Services

## Solid in IT & volumes – weak in deposit margins

P&L C/S Segment (industry format)	Q4 '12	Q3 '12	Q2 '12	Q1 '12	Q4 '11
€ mn					
Sales revenue	54	44	47	49	56
Own work capitalised	1	0	1	0	1
Changes in inventory	0	0	0	0	0
Other operating income	1	1	3	2	3
Cost of material purchased	5	5	6	5	5
Staff expenses	31	27	28	28	29
D, A, impairment losses	4	3	3	3	4
Results at equity acc. investm.	-	-	-	-	-
Other operating expenses	14	10	13	12	14
Results from interest and similar	0	0	0	0	0
<b>Operating profit</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>3</b>	<b>8</b>

- Performance of Aareon within guidance
- Lower than expected interest rate environment burdens segment results
- Deposit volume of the housing industry has increased to
  - € 5.6 bn on average in '12 (Ø € 4.7 bn in 2011)
  - € 6.2 bn on average Q4 '12 (Ø € 4.9 bn in Q4 2011)
- The strategic importance of the housing industry deposits as an additional source of funding exceeds the importance of the margins shown in the segment



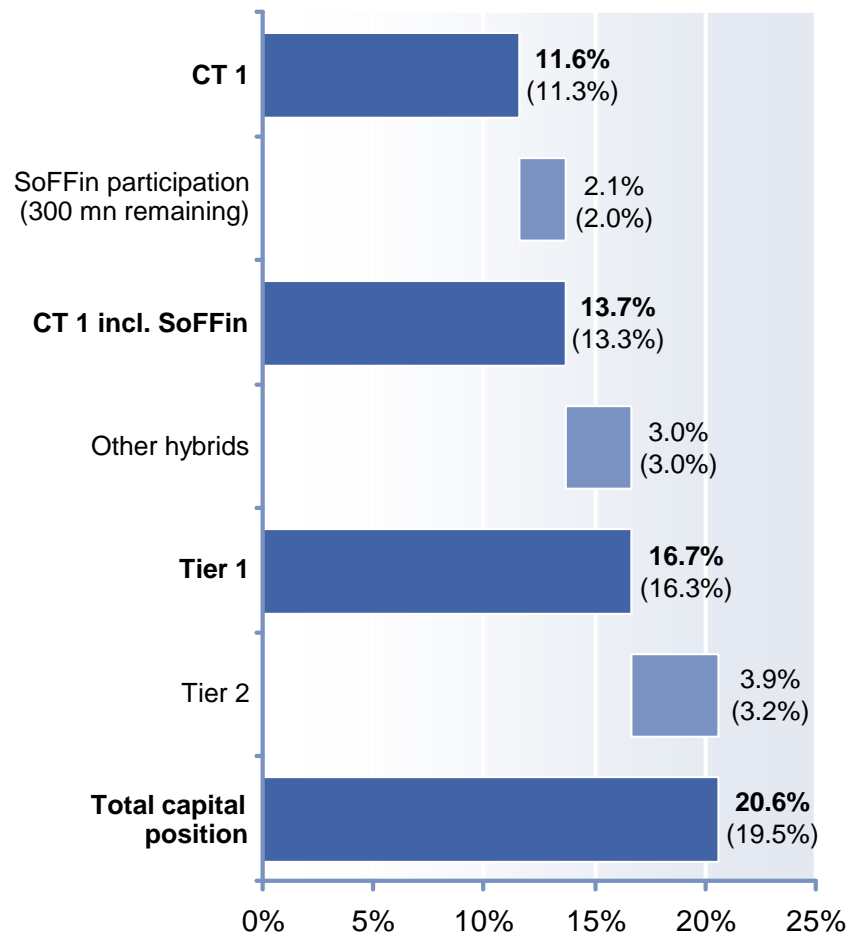
# B/S structure, capital & funding position



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# Strong capital ratios & stable capital structure

## 31.12.2012 capital ratios (vs. 31.12.2011)



- Strong capital ratios enable us to take new business on board
- Strong capital ratios in line with business model, company size and capital market expectations
- Full repayment of remaining SoFFin silent participation possible without further capital increase
- § 340f (HGB<sup>1</sup>)-reserve recognised as Tier II improves total capital position and helps to absorb potential intra-year adverse market development of GIIPS countries. The majority of the § 340f-reserve retained in 2012 reflects the reversal of mark-to-market losses accounted for in the revaluation reserve according to IFRS.
  - ➔ As a result HGB and IFRS total capital ratios are aligned and will show parallel development in the future

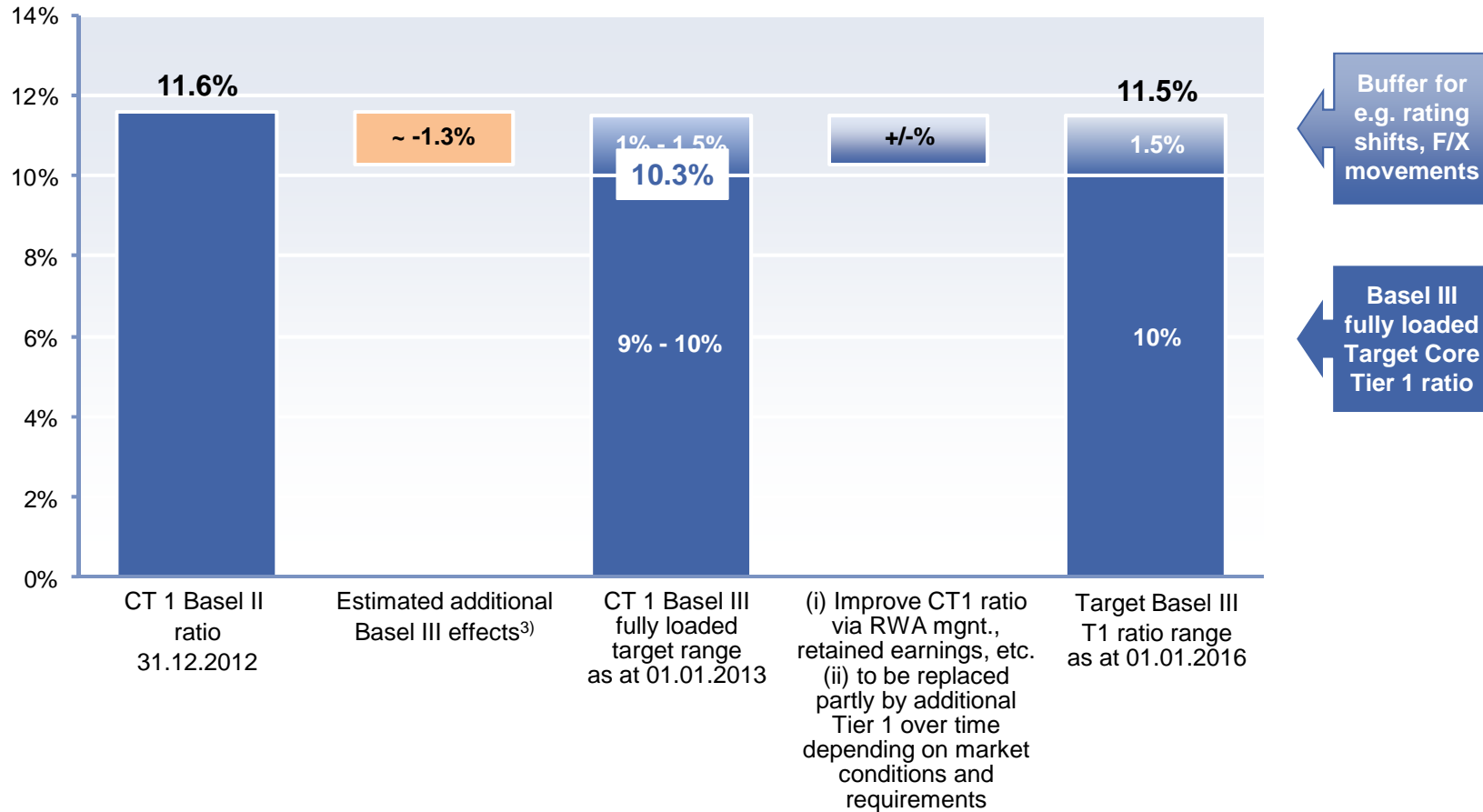
1) HGB (Handelsgesetzbuch) = German-GAAP



# Core Tier 1 under Basel III fully loaded<sup>1)</sup>

## Target 01.01.2016: Tier1 11,5%

Simulation: estimated Basel III effects per 31.12.2012<sup>2)</sup>



1) ex SoFFin and ex Basel II-hybrids

2) Actual figures may vary significantly from estimates

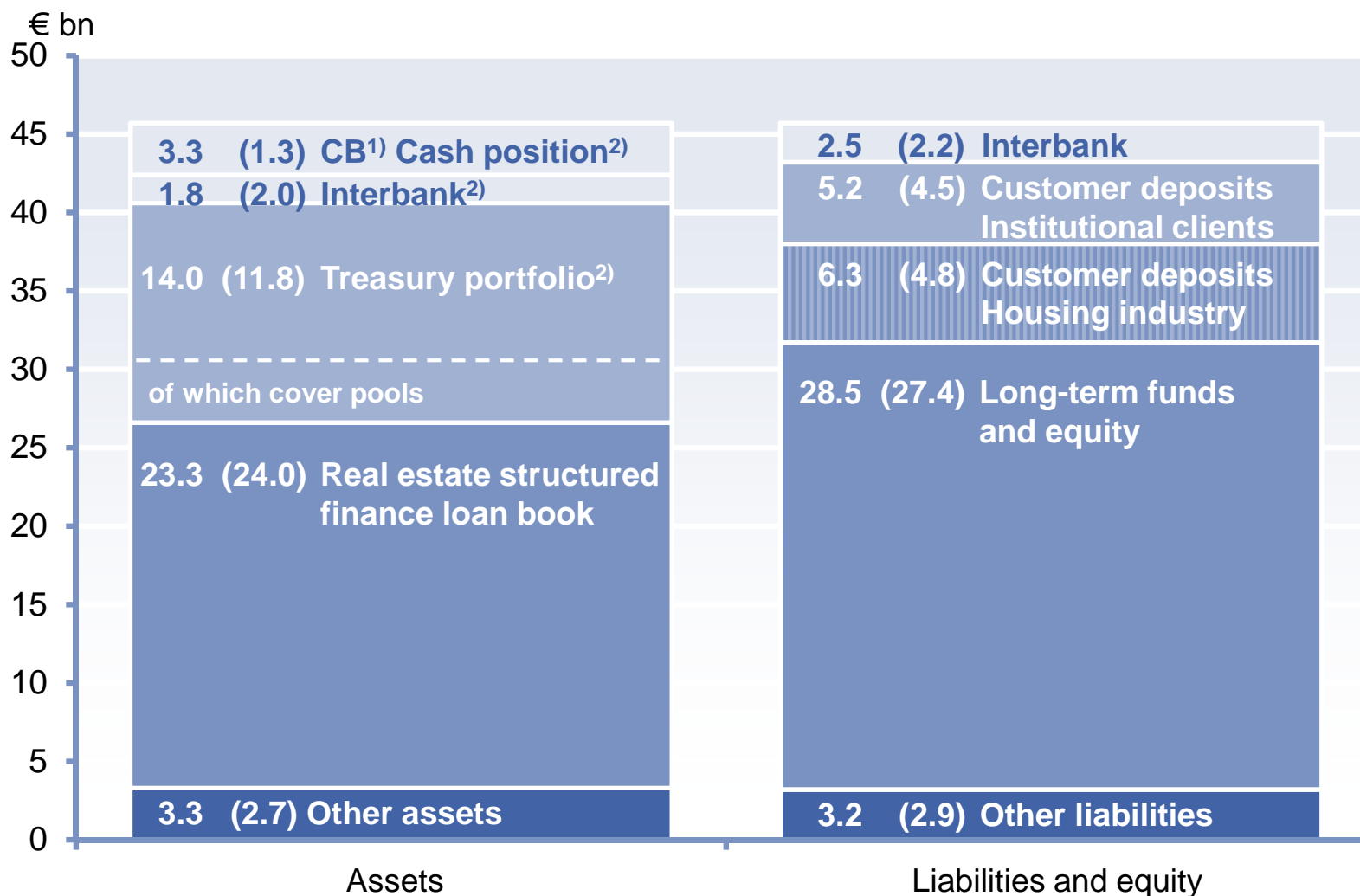
3) Estimated impact of Basel III implementation due to capital deductions and counterparty credit risk





# Asset- / Liability structure according to IFRS

As at 31.12.2012: € 45.7 bn (31.12.2011: € 41.8 bn)



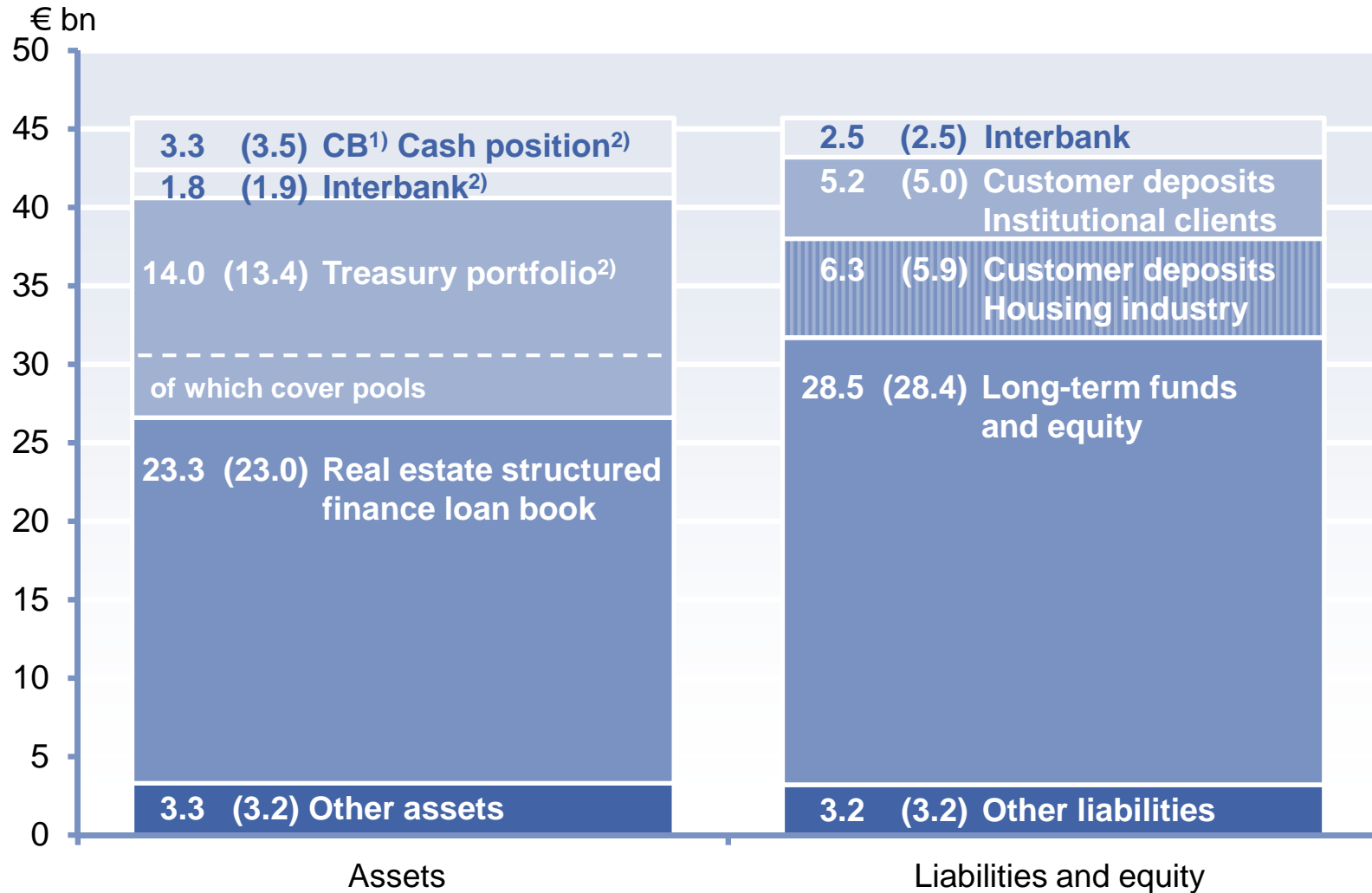
1) CB: Central banks

2) Liquidity position clearly exceeds 15% of the total balance sheet. This includes unencumbered ECB-eligible assets, available excess cash at other banks as well as highly liquid government securities



# Asset- / Liability structure according to IFRS

As at 31.12.2012: € 45.7 bn (30.09.2012: € 45.0 bn)



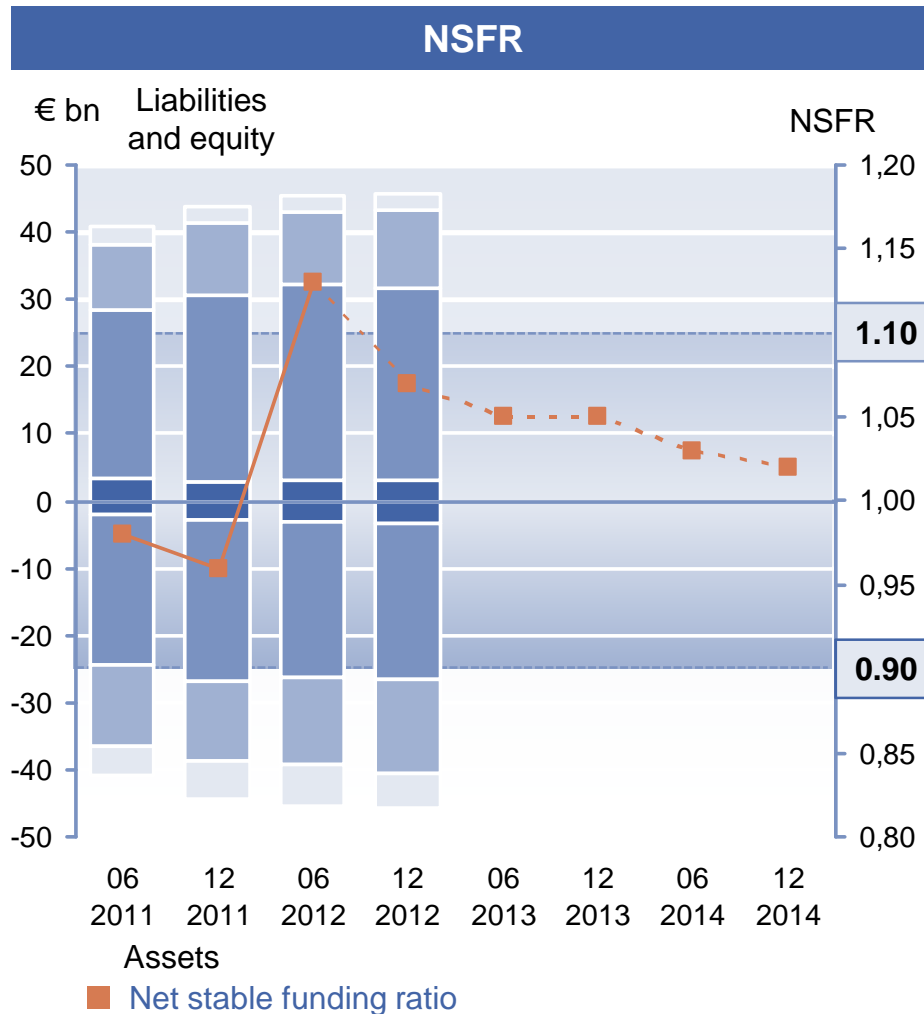
1) CB: Central banks

2) Liquidity position clearly exceeds 15% of the total balance sheet. This includes unencumbered ECB-eligible assets, available excess cash at other banks as well as highly liquid government securities



# Net stable funding- / Liquidity coverage ratio

## Fulfilling Basel III requirements

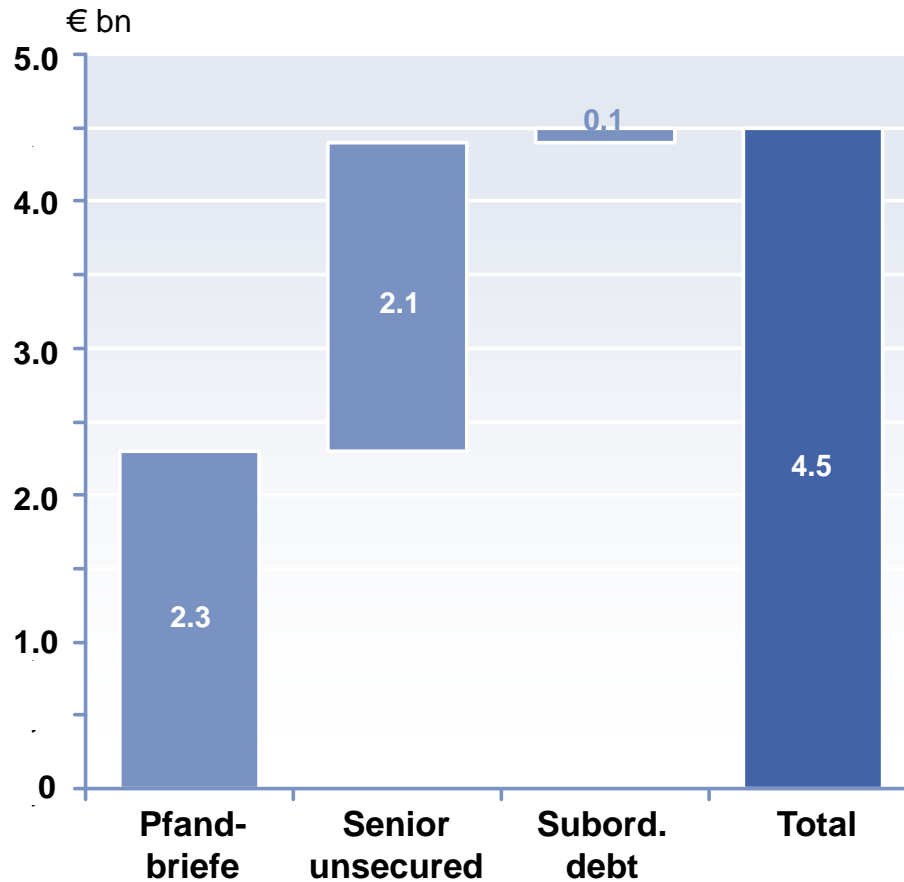


- Aareal Bank already fulfils future requirements
  - NSFR > 1.0
  - LCR >> 1.0
- Basel III and CRD IV require specific liquidity ratios starting end 2018 (still not agreed on CRD IV)
- NSFR (net stable funding ratio) reflects long term funding situation
- LCR (liquidity coverage ratio) reflects short term liquidity
- High NSFR ratio due to successful funding activities in H1
- NSFR 12/2012 including repayment of € 1 bn LTRO



# Refinancing situation 2012

## Successful funding activities



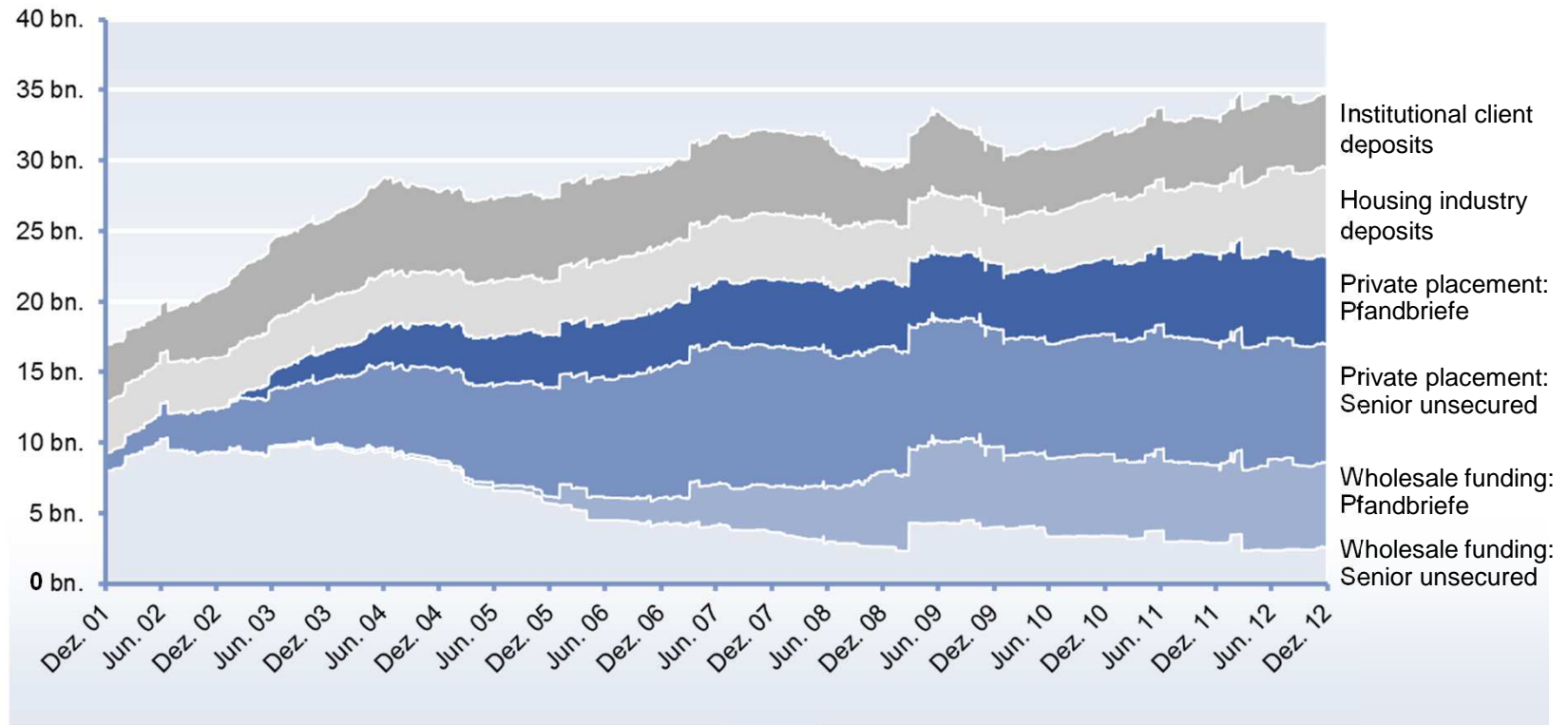
### Total funding of € 4.5 bn in 2012

- Pfandbriefe:  
€ 2.3 bn  
thereof two € 500 mn benchmark mortgage Pfandbriefe
- Senior unsecured:  
€ 2.1 bn  
thereof one € 500 mn Senior unsecured benchmark
- Subordinated debt (LT2):  
€ 0.1 bn
- Fitch confirmed the AAA-rating of our covered bonds even after significant changes of the rating methodology



# 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 31.12.2012, this share has fallen to 25% (or even below 10% without Pfandbriefe)

As at 31.12.2012



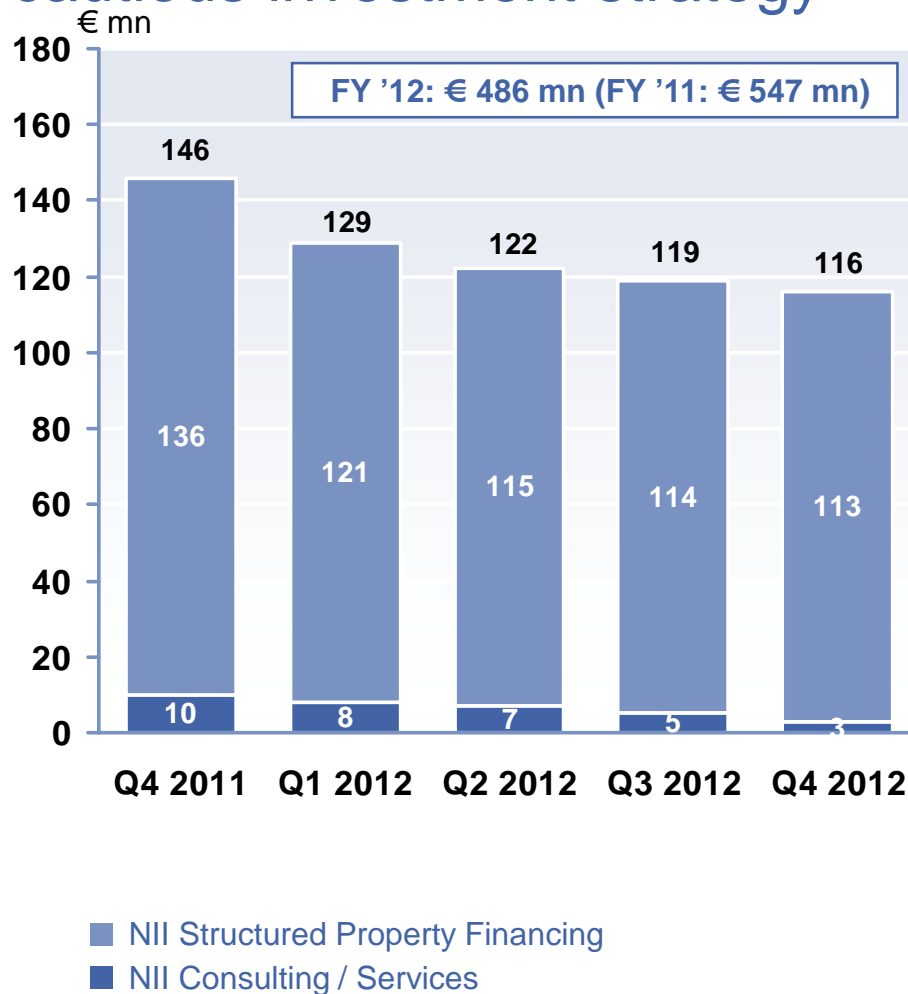
# Preliminary group figures 2012



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# Net interest income

Reflecting low interest rate environment as well as cautious investment strategy



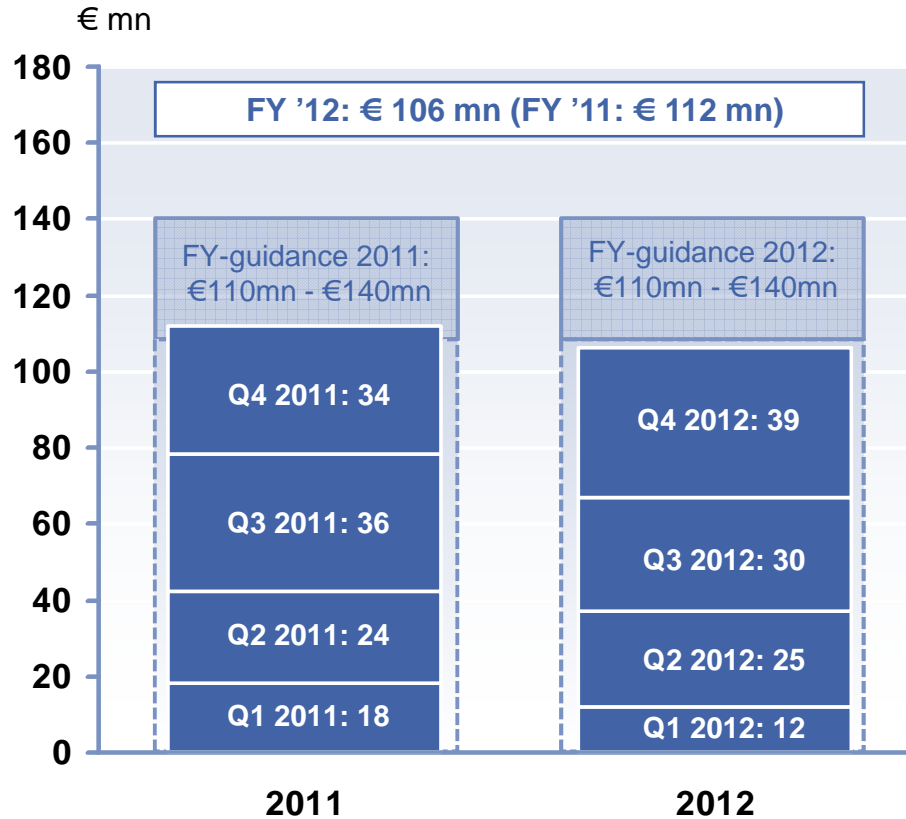
- 2012 development reflects cautious investment strategy and low interest rate environment – offsetting higher margins from CRE business
- Payout of 2012 new business partly in 2013
- Aareal Bank already fulfils future NSFR / LCR requirements
- Due to market volatility a considerable part of liquidity is still parked with central banks (Ø Q4-position: € 4.1 bn) instead of being invested into new business and treasury assets
- NII Consulting / Services burdened by lower than expected interest rate environment
- One-offs:
  - Q1 2012: positive € 2 mn impact
  - Q4 2011: boosted by € 9 mn





# Loan loss provisions

## FY 2012-LLP below guided range



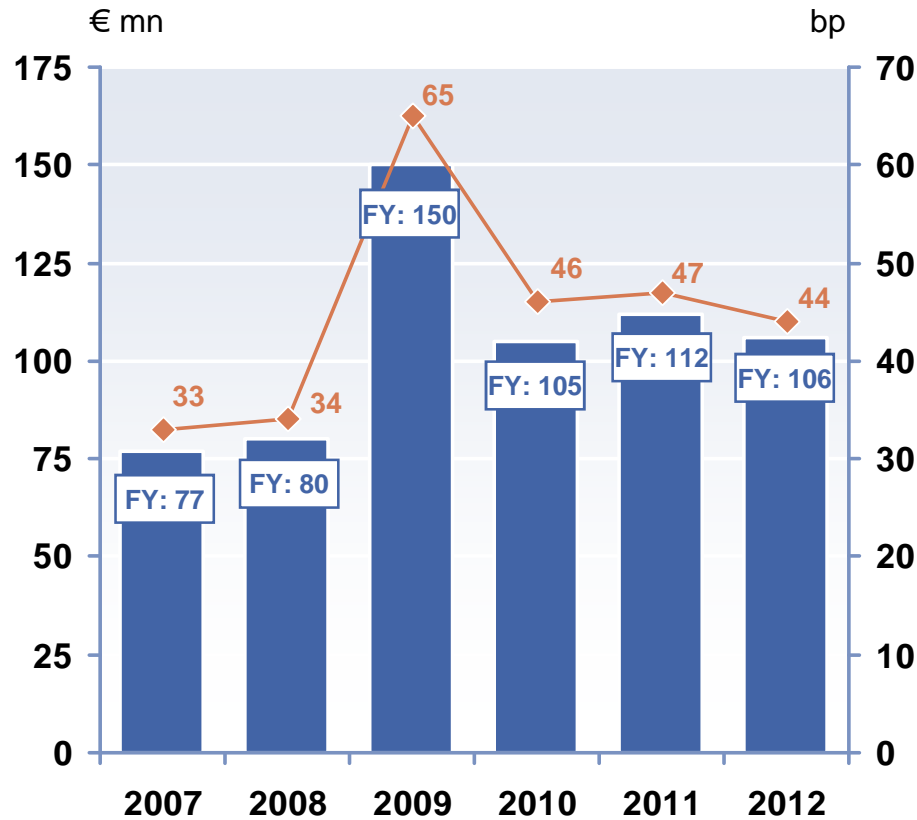
- Full year result of € 106 mn below guided range of € 110 mn to € 140 mn proves high portfolio quality
- € 39 mn LLP in Q4 2012 within normal quarterly variation during the year, Q4 2012 incl. € 10 mn general loan loss provisions
- Close monitoring of our loan portfolio and successful restructuring efforts resulted in only 44 bp risk costs on average loan book in 2012

■ FY guidance



# Loan loss provisions

## Manageable loan loss provisions during the crisis



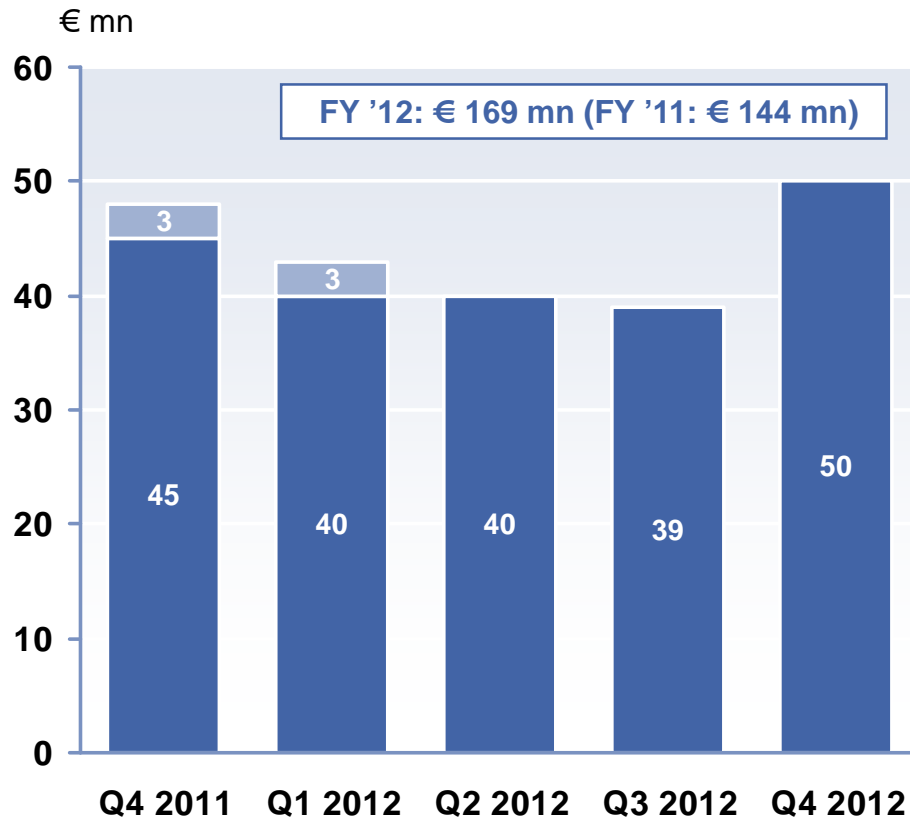
- Very moderate LLP-peak at 65 bps at the height of the crisis in the CRE business in 2009
- Despite ongoing challenging environment LLP is down to 44 bps in 2012

■ Loan loss provisions    — Average risk costs



# Net commission income

## Relief from costs of SoFFin guarantees



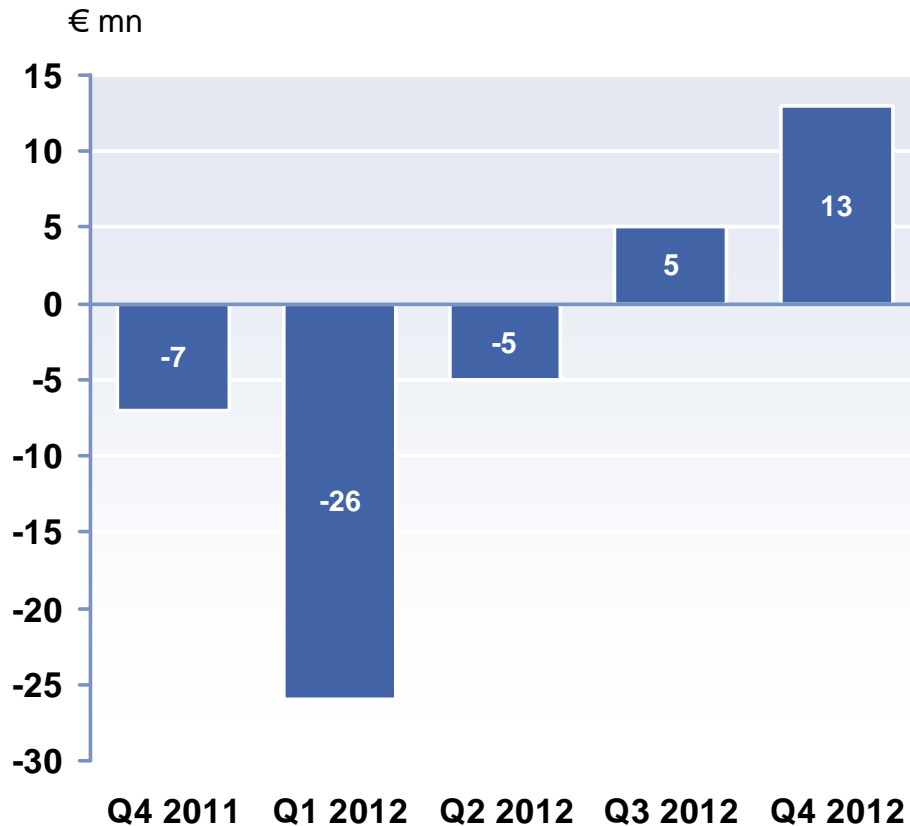
- Last guarantee fee payments of € 3 mn made in Q1 2012
- No more burdens from SoFFin guaranteed bonds from Q2 2012 onwards

■ Total net commission income  
 ■ Burden from fees paid for Soffin guarantees



# Net result: trading/non trading/hedge accounting

## Result reflects volatile markets

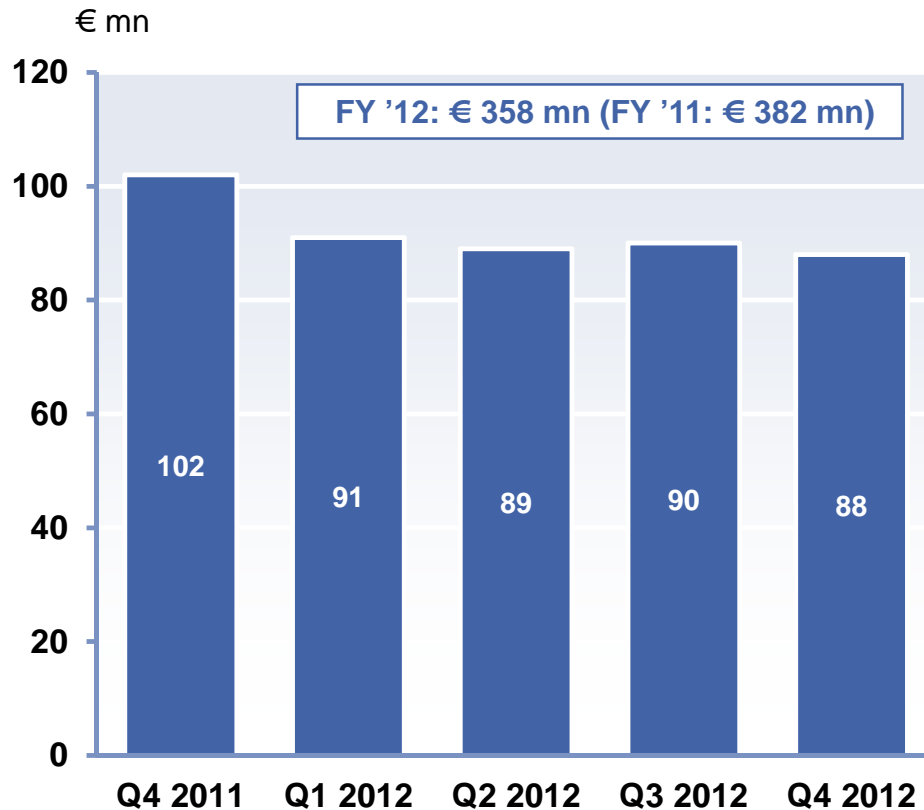


- High market volatility reflected in net result from trading, non-trading and hedge accounting
- Q1 2012: positive market development results in tightening basis spreads of the derivatives used to hedge interest and currency risks



# Admin expenses

## Benefits from efficiency measures throughout 2012



- Q4 2011 includes € 12 mn one-off costs for efficiency measures
- Positive effects from efficiency measures throughout the year
- 2012 includes ~ € 13 mn costs for external projects:
  - ~ € 5 mn due diligence costs e.g. portfolios analyses, sale of own properties, etc.
  - ~ € 5 mn for regulatory projects
  - ~ € 3 mn others



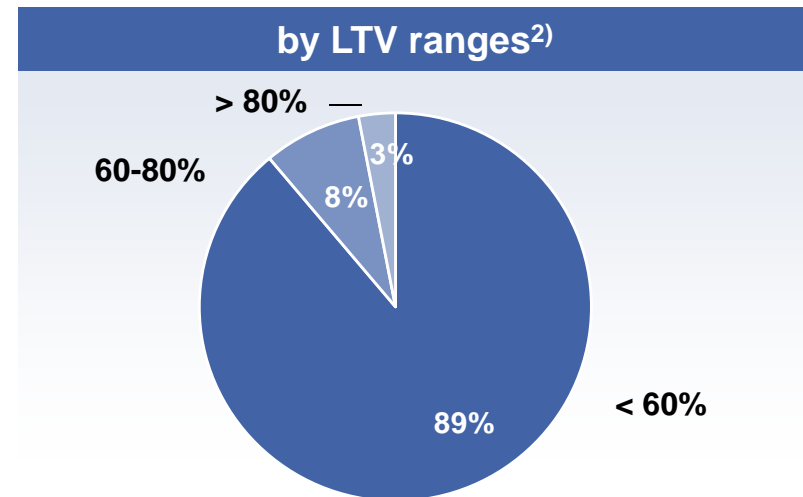
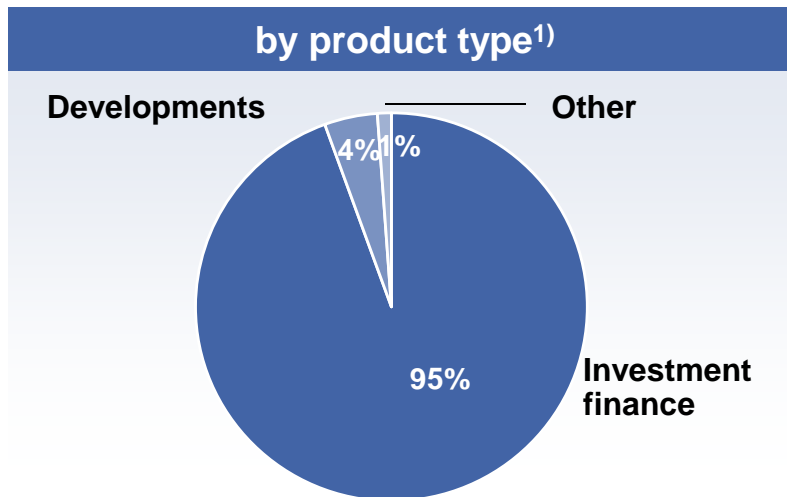
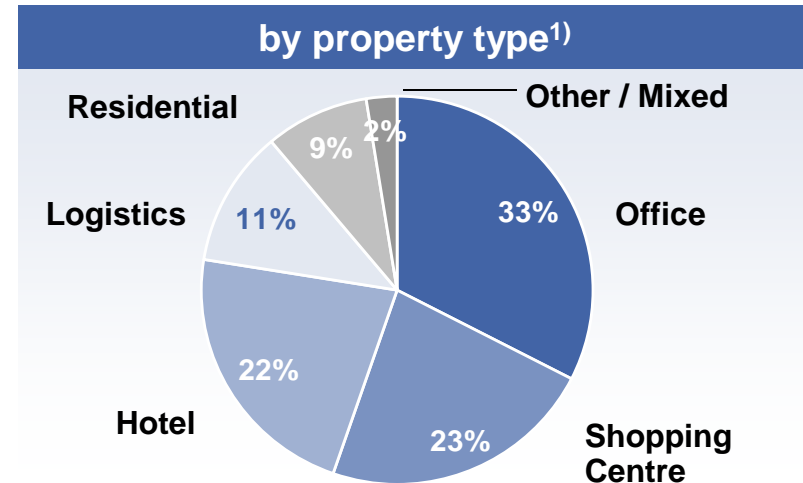
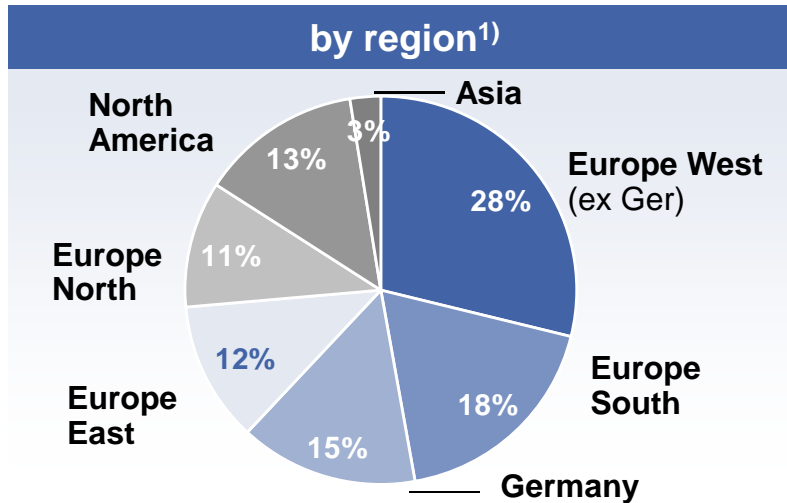
# Asset quality



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# Total property finance portfolio

## High diversification and sound asset quality



1) Total volume under management: € 23.5 bn as at 31.12.2012  
(consisting of € 23.3 bn Structured Property Financing portfolio of Aareal Bank AG  
and € 0.2 bn property loans managed on behalf of Deutsche Pfandbriefbank AG)

2) Performing business only; values as at 31.12.2012  
Note: All 2012 figures preliminary and unaudited



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# Total property finance portfolio

## Continuing conservative approach

### LLP- and NPL development

	NPL Exposure <sup>1)</sup>	Specific Allowances <sup>1)</sup>	Portfolio Allowances <sup>2)</sup>
€ mn			
As at 31.12.2011	898	252	80
Utilisation 2012	-387	-120	-
Addition 2012	316	95	11
As at 31.12.2012	827	227	91
<b>Coverage ratio specific allowances</b>		<b>27.4%</b>	
		227	91
As at 31.12.2012	827	318	
<b>Coverage ratio incl. portfolio allowances</b>		<b>38.5%</b>	

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

29

Note: All 2012 figures preliminary and unaudited

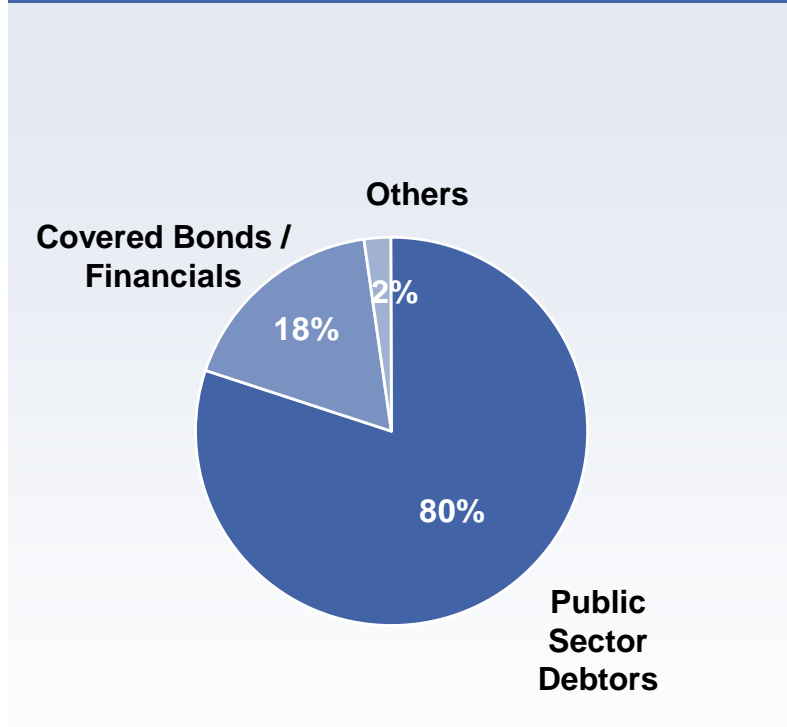


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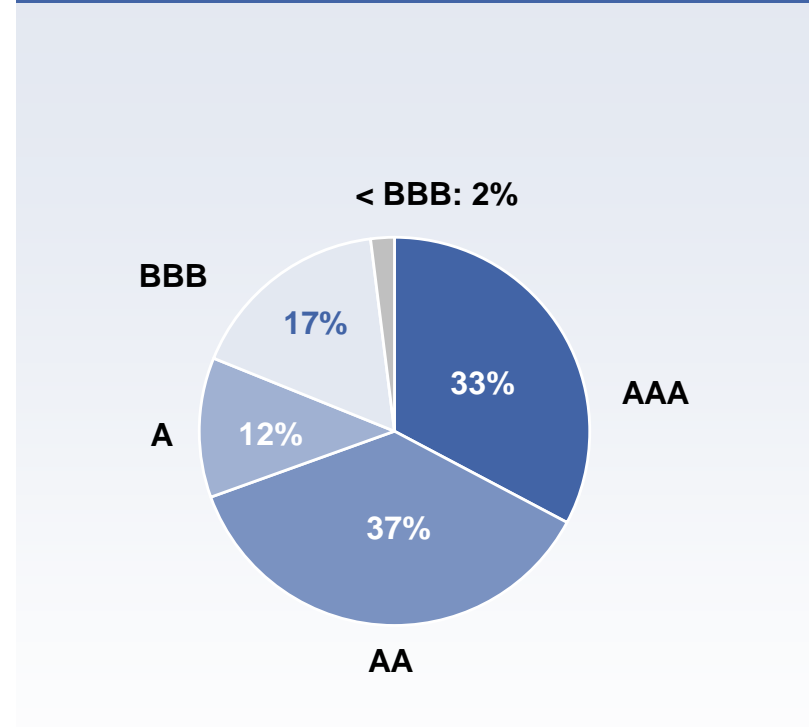
# Treasury portfolio

€ 12.1 bn of high quality and highly liquid assets

by asset class



by rating <sup>1)</sup>



As at 31.12.2012 – all figures are nominal amounts

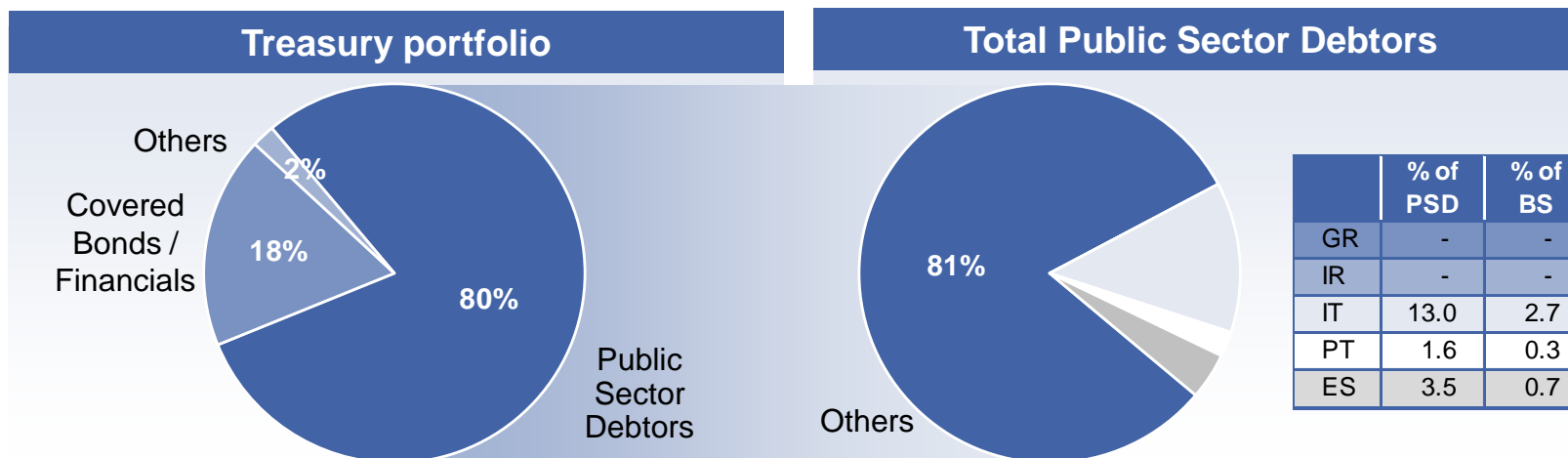
1) Composite Rating

Note: All 2012 figures preliminary and unaudited



# Treasury portfolio

## € 9.6 bn Public Sector Debtors



Sovereign			
€ mn	Nominal	Revaluation reserve <sup>2)</sup>	Hidden reserves / burdens <sup>3)</sup>
Greece	-	-	-
Ireland	-	-	-
Italy	1,249	-86	-219
Portugal	100	-14	-
Spain	-	-	-

Sub-Sovereign <sup>1)</sup>			
€ mn	Nominal	Revaluation reserve <sup>2)</sup>	Hidden reserves / burdens <sup>3)</sup>
Greece	-	-	-
Ireland	-	-	-
Italy	-	-	-
Portugal	55	-1	-17
Spain	337	-1	-80

1) Incl. exposure of € 50 mn which is additionally guaranteed by the Sovereign

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

3) Incl. securities of the LaR-category after tax

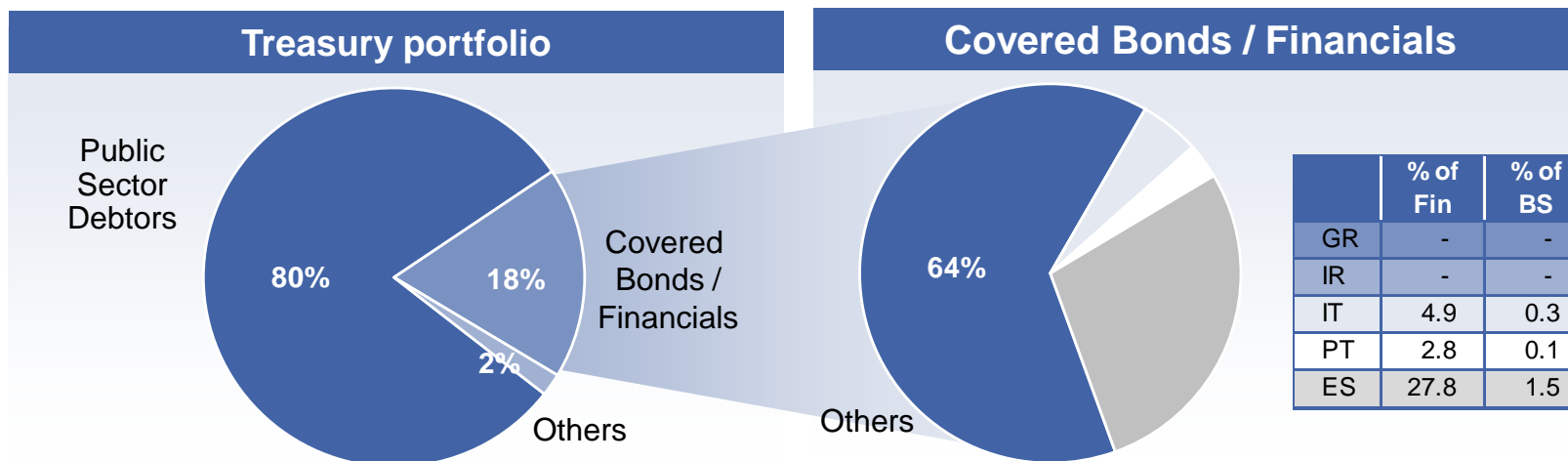
Note: All 2012 figures preliminary and unaudited



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# Treasury portfolio

## € 2.2 bn Financials



Covered Bonds			
€ mn	Nominal	Revaluation reserve <sup>1)</sup>	Hidden reserves / burdens <sup>2)</sup>
Greece	-	-	-
Ireland	-	-	-
Italy	70	-1	-
Portugal	60	-11	-
Spain	601	-7	-17

Senior Unsecured			
€ mn	Nominal	Revaluation reserve <sup>1)</sup>	Hidden reserves / burdens <sup>2)</sup>
Greece	-	-	-
Ireland	-	-	-
Italy	36	0	0
Portugal	-	-	-
Spain	-	-	-

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

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



# Outlook 2013



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# Outlook 2013

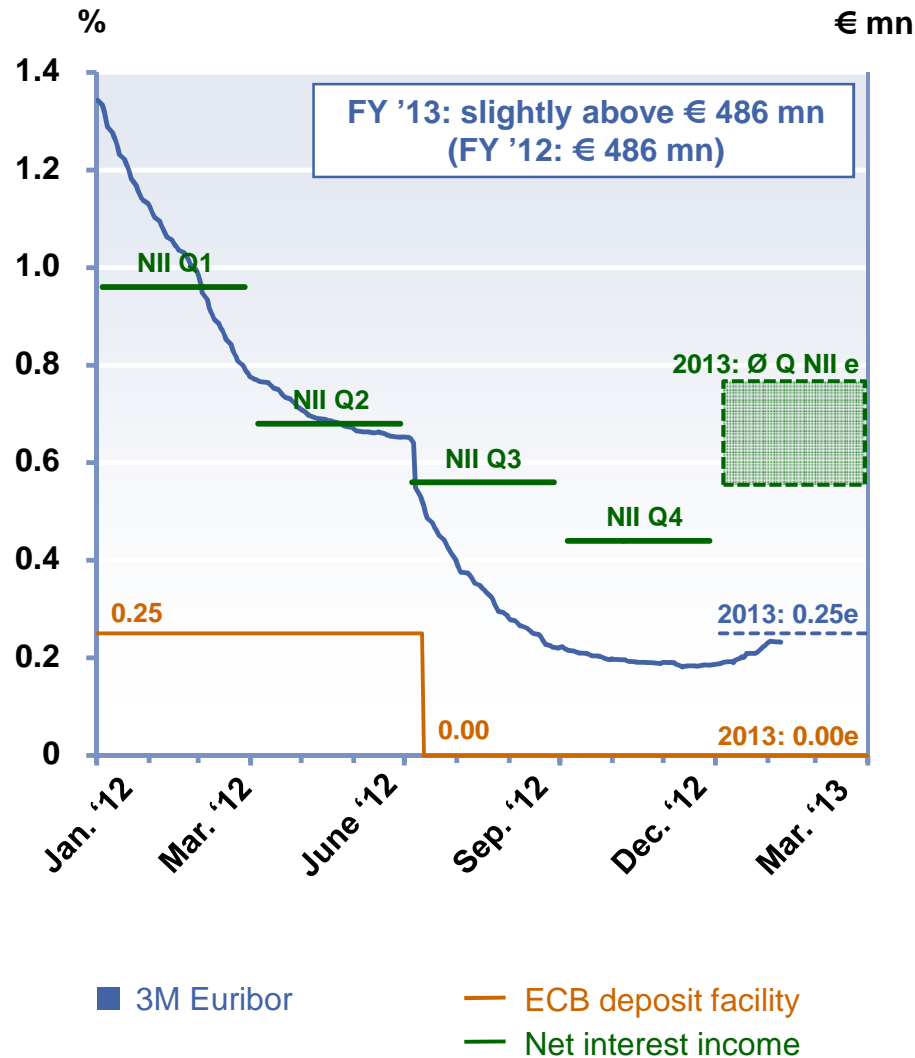
2013	
<b>Net interest income</b>	▪ Slightly above 2012 level
<b>Net loan loss provisions</b>	▪ Staying with the previous cautious guidance, due to portfolio growth and recessive economies: € 110 mn - € 150 mn <sup>1)</sup> From today's perspective, we expect the lower end of this range
<b>Net commission income</b>	▪ € 165 mn - € 175 mn
<b>Net result from trading / non-trading / hedge accounting</b>	▪ Unpredictable / no impairments from non-trading assets expected / possibly moderate loss realisation
<b>Admin expenses</b>	▪ € 360 mn - € 370 mn
<b>Operating profit</b>	▪ <b>On 2012 level despite assumption of continuously challenging environment and necessary adaptations to a "New Normal"</b>
<b>New business origination</b>	▪ € 6 bn - € 7 bn
<b>Operating profit Aareon</b>	▪ ~ € 27 mn

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



# Net interest income-snapshot

## CRE margin overcompensate EURIBOR/ECB rate decline



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

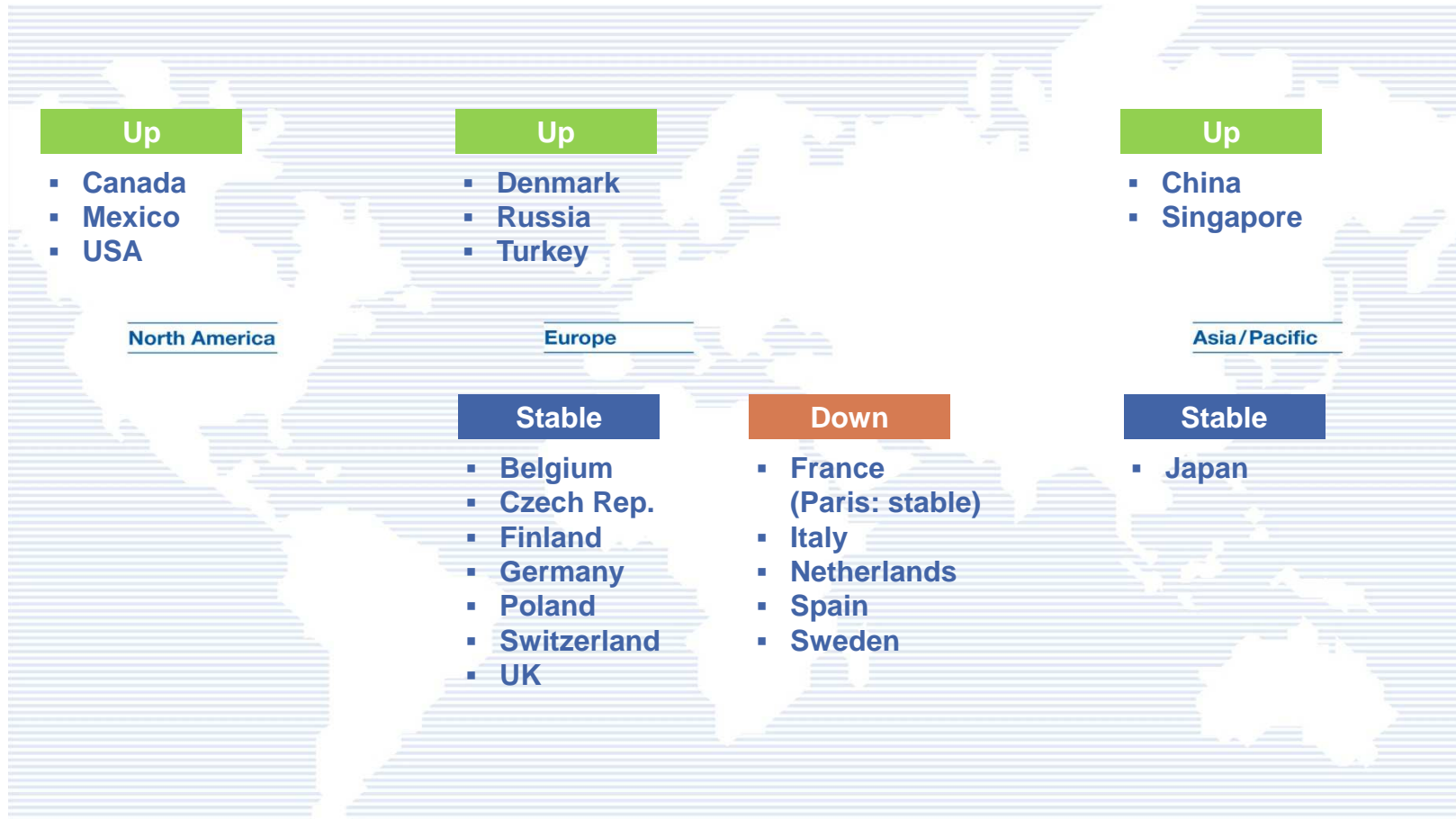
Higher CRE margins overcompensate these effects so that net interest income 2013 will be “slightly above 2012 level”





# Loan loss provisions-snapshot (1)

Expected market value changes<sup>1)</sup> to be reflected in portfolio allowances in 2013<sup>2)</sup>



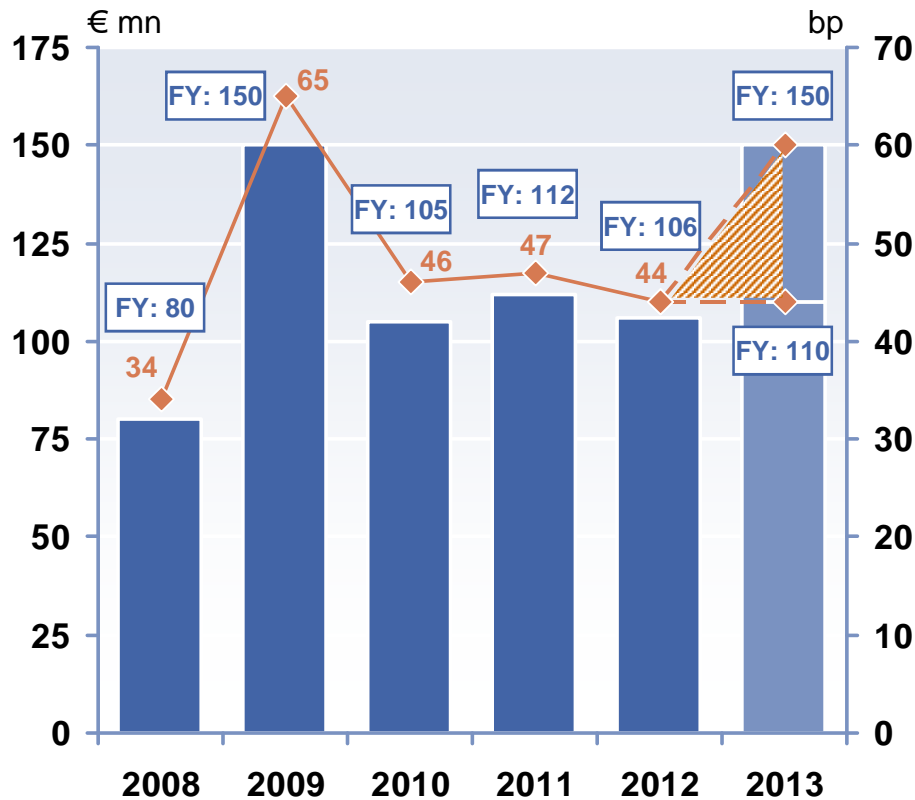
1) Here shown average market value changes across all property types and regions

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



## Loan loss provisions-snapshot (2)

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



- Loan loss provisions
- Average risk costs
- LLP guidance 2013
- Average risk costs guidance 2013

- Slightly wider range of € 110 mn – € 150 mn due to portfolio growth and recessive economies
- Lower end translates to approx. 44bps, upper end to approx. 60bps (< peak in 2009)
- From today's perspective expected at the lower end of this range



# Admin expenses-snapshot

€ 360 mn - € 370 mn

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

- Efficiency measures paying off

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

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

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



# Midterm Outlook



**Aareal Bank  
Group**

# Current environment and a “New Normal” for CRE banks

## Environment

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

## The “New Normal” for CRE banks

### 1. Competition and loan margins:

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

### 2. Capital, funding and liquidity:

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

### 3. Return on equity

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



## Perspective until 2015 / 2016

### Aareal Bank's action plan

- 1. Funding strategy:**  
Improve deposit ratio and covered bond (CB) ratio further avoiding capital market dependency
- 2. CRE new business:**  
Focus on markets with LTV ratios of 60-70%, resulting in lower RWA consumption and higher CB-funding share
- 3. Origination capacity:**  
Strengthen client relationships by leveraging new business through stronger cooperation via club deals and syndication
- 4. Aareon:**  
Enhance profit contribution
- 5. Cost base:**  
Continue cost discipline
- 6. Capital structure:**  
Optimise capital structure once technical regulatory guidelines are in place and markets are pricing instruments adequately
- 7. Dividends:**  
Plan to start active dividend policy in 2014 (for FY 2013, depending on market conditions)
- 8. RoE:**  
Pre-tax RoE target of approx.12% in 2015 / 2016



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

1

## Funding strategy

- Increase deposits from the institutional housing industry from ~ € 6 bn to ~ € 7 bn until 2015
- CB-funding share of new business will increase over time, limited to max. 50% cover pool / total assets ratio
- Senior unsecured wholesale funding / total assets ratio will temporarily go down further and will stay below 10% (31.12.2012: ~6%), despite ability to place € 1-2 bn p.a. throughout the financial crisis this volume will likely not be required in 2013 and 2014

2 3

## CRE business

- Keep originating new business with max. 60%-70% LTV
- Target av. new business with 60-65% LTV and 200bps gross margin after FX costs
- Three continent approach, focus on markets with short-termed or low negative swings throughout the financial crisis and at least a stable midterm outlook resulting in low RWA consumption
- Long term run-down of portfolios with higher LTVs or negative outlook will result in a decreasing RWA / exposure ratio and will free up equity
- Strengthen client relationships by leveraging new business through stronger cooperation via club deals and syndication to produce a higher origination capacity for our clients



## Aareal Bank's action plan in detail (2/3)

### 4 Aareon business

- Close tracking of the transition from GES to Wodis Sigma as an in-house or cloud solution
- Ongoing investments in new or existing byproducts to keep and expand the product portfolio on latest technology level
- Explore further business opportunities
- Improve EBIT and EBIT margin

### 5 Cost discipline

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





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

6

### Regulation and capital requirements

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

7 - 8

### Profitability

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



## Summary and Prerequisites

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

### Prerequisites

- No Eurozone break up
- Normalised asset valuations
- Healthy world GDP growth beside some European peripherals
- Regulation will be introduced according to today's timeline and framework
- No additional burdens
- Interest rate environment starts to reflect the recovery with moderate increase



# Appendix



**Aareal Bank  
Group**

# Aareal Bank Group

## Key figures 2012

	01.01.- 31.12.2012	01.01.- 31.12.2011	Change
	Euro mn	Euro mn	
<b>Profit and loss account</b>			
Net interest income	486	547	-11%
Allowance for credit losses	106	112	-5%
<b>Net interest income after allowance for credit losses</b>	<b>380</b>	<b>435</b>	<b>-13%</b>
Net commission income	169	144	17%
Net result on hedge accounting	-4	6	-
Net trading income / expenses	-10	14	-
Results from non-trading assets	1	-29	-
Results from companies accounted for at equity	0	1	-
Results from investment properties	5	10	-50%
Administrative expenses	358	382	-6%
Net other operating income / expenses	-7	-14	-
Impairment of goodwill	-	0	-
<b>Operating Profit</b>	<b>176</b>	<b>185</b>	<b>-5%</b>
Income taxes	52	52	0%
<b>Net income / loss</b>	<b>124</b>	<b>133</b>	<b>-7%</b>
<b>Allocation of results</b>			
Net income / loss attributable to non-controlling interests	19	19	0%
Net income / loss attributable to shareholders of Aareal Bank AG	105	114	-8%
<b>Appropriation of profits</b>			
Silent partnership contribution by SoFFin	20	21	-5%
<b>Consolidated retained profit / accumulated loss</b>	<b>85</b>	<b>93</b>	<b>-9%</b>



# Aareal Bank Group: Segment Reporting

## Key figures 2012 by operating units

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.01.- 31.12. 2012	01.01.- 31.12. 2011	01.01.- 31.12. 2012	01.01.- 31.12. 2011	01.01.- 31.12. 2012	01.01.- 31.12. 2011	01.01.- 31.12. 2012	01.01.- 31.12. 2011
	Euro mn							
Net interest income	463	508	0	0	23	39	486	547
Allowance for credit losses	106	112					106	112
<b>Net interest income after allowance for credit losses</b>	<b>357</b>	<b>396</b>	<b>0</b>	<b>0</b>	<b>23</b>	<b>39</b>	<b>380</b>	<b>435</b>
Net commission income	21	2	173	183	-25	-41	169	144
Net result on hedge accounting	-4	6					-4	6
Net trading income / expenses	-10	14					-10	14
Results from non-trading assets	1	-29					1	-29
Results from companies accounted for at equity	0	0		1			0	1
Results from investment properties	5	10					5	10
Administrative expenses	191	217	169	167	-2	-2	358	382
Net other operating income / expenses	-9	-17	2	3	0	0	-7	-14
Impairment of goodwill		0						0
<b>Operating profit</b>	<b>170</b>	<b>165</b>	<b>6</b>	<b>20</b>	<b>0</b>	<b>0</b>	<b>176</b>	<b>185</b>
Income taxes	51	46	1	6			52	52
<b>Net income / loss</b>	<b>119</b>	<b>119</b>	<b>5</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>124</b>	<b>133</b>
<b>Allocation of results</b>								
Net income / loss attributable to non-controlling interests	17	17	2	2			19	19
Net income / loss attributable to shareholders of Aareal Bank AG	102	102	3	12	0	0	105	114



# Aareal Bank Group

## Key figures Q4 2012

	Quarter 4 2012	Quarter 4 2011	Change
	Euro mn	Euro mn	
<b>Profit and loss account</b>			
Net interest income	116	146	-21%
Allowance for credit losses	39	34	15%
<b>Net interest income after allowance for credit losses</b>	<b>77</b>	<b>112</b>	<b>-31%</b>
Net commission income	50	45	11%
Net result on hedge accounting	3	4	-25%
Net trading income / expenses	7	0	-
Results from non-trading assets	3	-11	-
Results from companies accounted for at equity	0	0	-
Results from investment properties	0	3	-
Administrative expenses	88	102	-14%
Net other operating income / expenses	-6	-4	-
Impairment of goodwill	-	0	-
<b>Operating Profit</b>	<b>46</b>	<b>47</b>	<b>-2%</b>
Income taxes	19	13	46%
<b>Net income / loss</b>	<b>27</b>	<b>34</b>	<b>-21%</b>
<b>Allocation of results</b>			
Net income / loss attributable to non-controlling interests	4	5	-20%
Net income / loss attributable to shareholders of Aareal Bank AG	23	29	-21%
<b>Appropriation of profits</b>			
Silent partnership contribution by SoFFin	5	5	0%
<b>Consolidated retained profit / accumulated loss</b>	<b>18</b>	<b>24</b>	<b>-25%</b>



# Aareal Bank Group: Segment Reporting

## Key figures Q4 2012 by operating units

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.10.- 31.12. 2012	01.10.- 31.12. 2011	01.10.- 31.12. 2012	01.10.- 31.12. 2011	01.10.- 31.12. 2012	01.10.- 31.12. 2011	01.10.- 31.12. 2012	01.10.- 31.12. 2011
	Euro mn							
Net interest income	113	136	0	0	3	10	116	146
Allowance for credit losses	39	34					39	34
<b>Net interest income after allowance for credit losses</b>	<b>74</b>	<b>102</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>10</b>	<b>77</b>	<b>112</b>
Net commission income	5	5	49	51	-4	-11	50	45
Net result on hedge accounting	3	4					3	4
Net trading income / expenses	7	0					7	0
Results from non-trading assets	3	-11		0			3	-11
Results from companies accounted for at equity	0	0					0	0
Results from investment properties	0	3					0	3
Administrative expenses	44	58	45	45	-1	-1	88	102
Net other operating income / expenses	-4	-6	-2	2	0	0	-6	-4
Impairment of goodwill		0						0
<b>Operating profit</b>	<b>44</b>	<b>39</b>	<b>2</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>46</b>	<b>47</b>
Income taxes	19	10	0	3			19	13
<b>Net income / loss</b>	<b>25</b>	<b>29</b>	<b>2</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>27</b>	<b>34</b>
<b>Allocation of results</b>								
Net income / loss attributable to non-controlling interests	4	5	0	0			4	5
Net income / loss attributable to shareholders of Aareal Bank AG	21	24	2	5	0	0	23	29



# Aareal Bank Group: Segment Reporting

## Key figures - quarter by quarter

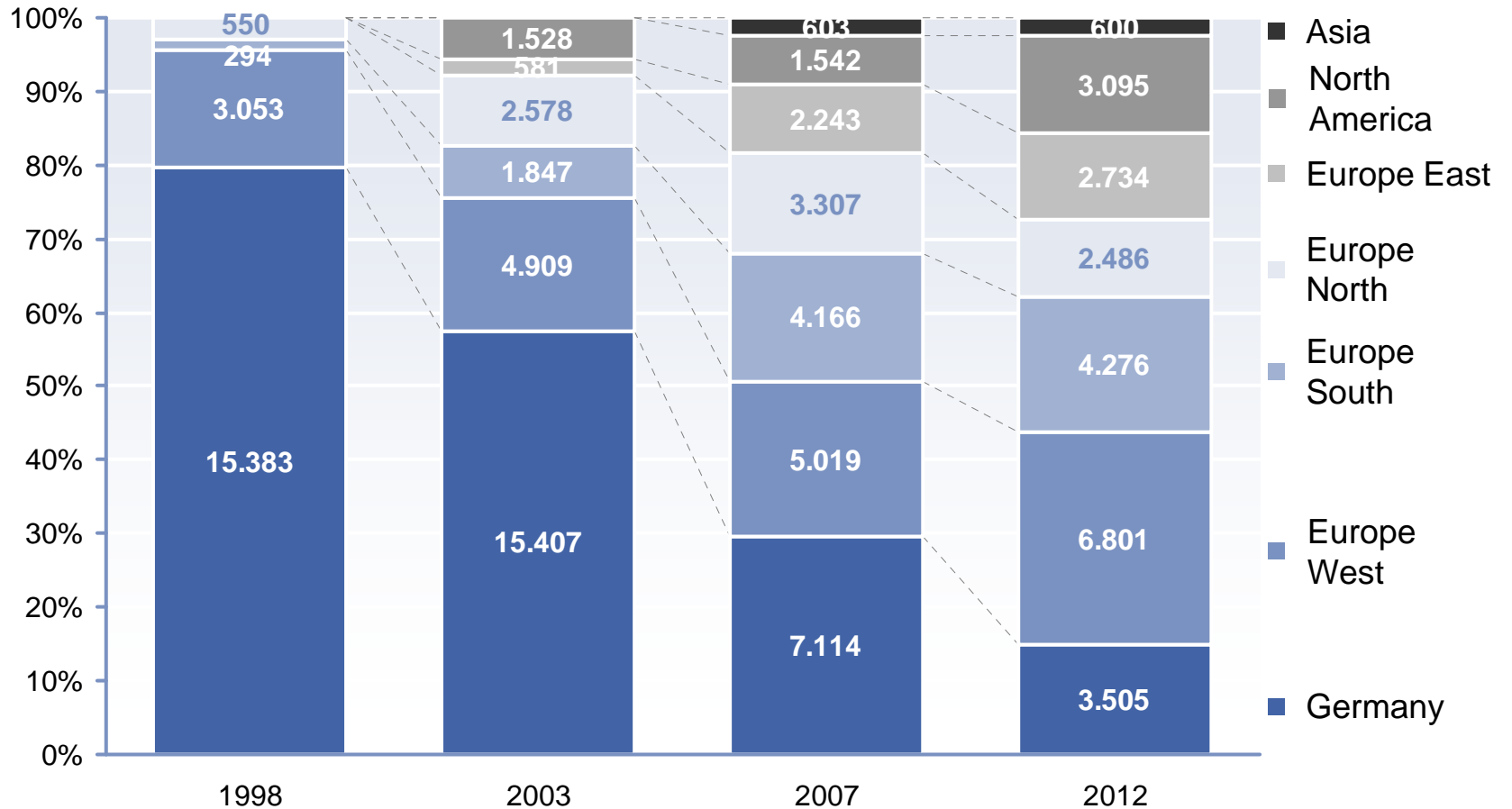
	Structured Property Financing					Consulting / Services					Consolidation / Reconciliation					Aareal Bank Group				
	Q4	Q3	Q2	Q1	Q4	Q4	Q3	Q2	Q1	Q4	Q4	Q3	Q2	Q1	Q4	Q4	Q3	Q2	Q1	Q4
	2012	2012	2012	2012	2011	2012	2012	2012	2012	2011	2012	2012	2012	2012	2011	2012	2012	2012	2012	2011
Euro mn																				
Net interest income	113	114	115	121	136	0	0	0	0	0	3	5	7	8	10	116	119	122	129	146
Allowance for credit losses	39	30	25	12	34											39	30	25	12	34
<b>Net interest income after allowance for credit losses</b>	<b>74</b>	<b>84</b>	<b>90</b>	<b>109</b>	<b>102</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>5</b>	<b>7</b>	<b>8</b>	<b>10</b>	<b>77</b>	<b>89</b>	<b>97</b>	<b>117</b>	<b>112</b>
Net commission income	5	6	6	4	5	49	39	41	44	51	-4	-6	-7	-8	-11	50	39	40	40	45
Net result on hedge accounting	3	-2	5	-10	4											3	-2	5	-10	4
Net trading income / expenses	7	6	-7	-16	0											7	6	-7	-16	0
Results from non-trading assets	3	1	-3	0	-11					0						3	1	-3	0	-11
Results from companies accounted for at equity	0				0											0				0
Results from investment properties	0	0	2	3	3											0	0	2	3	3
Administrative expenses	44	51	47	49	58	45	40	42	42	45	-1	-1	0	0	-1	88	90	89	91	102
Net other operating income / expenses	-4	-2	-2	-1	-6	-2	1	2	1	2	0	0	0	0	0	-6	-1	0	0	-4
Impairment of goodwill			0	0	0													0	0	0
<b>Operating profit</b>	<b>44</b>	<b>42</b>	<b>44</b>	<b>40</b>	<b>39</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>3</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>46</b>	<b>42</b>	<b>45</b>	<b>43</b>	<b>47</b>
Income taxes	19	10	11	11	10	0	0	0	1	3						19	10	11	12	13
<b>Net income / loss</b>	<b>25</b>	<b>32</b>	<b>33</b>	<b>29</b>	<b>29</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>27</b>	<b>32</b>	<b>34</b>	<b>31</b>	<b>34</b>
<b>Allocation of results</b>																				
Net income / loss attributable to non-controlling interests	4	5	4	4	5	0	0	1	1	0						4	5	5	5	5
Net income / loss attributable to shareholders of Aareal Bank AG	21	27	29	25	24	2	0	0	1	5	0	0	0	0	0	23	27	29	26	29





# Development property finance portfolio

## Diversification continuously strengthened (in € mn)

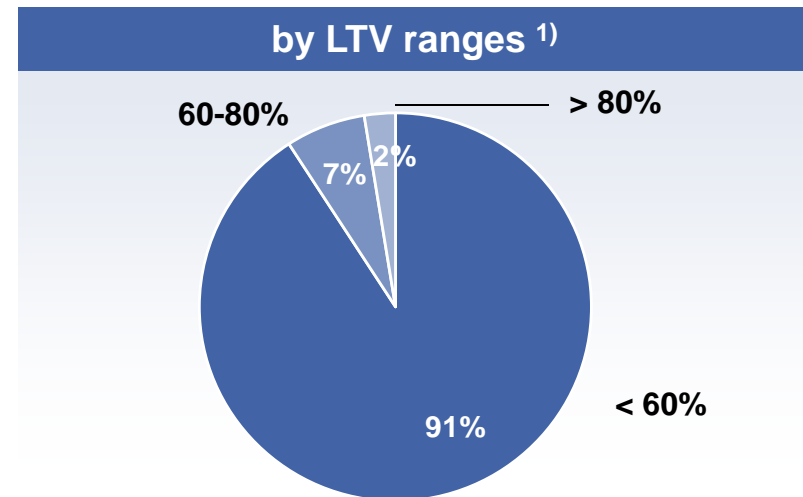
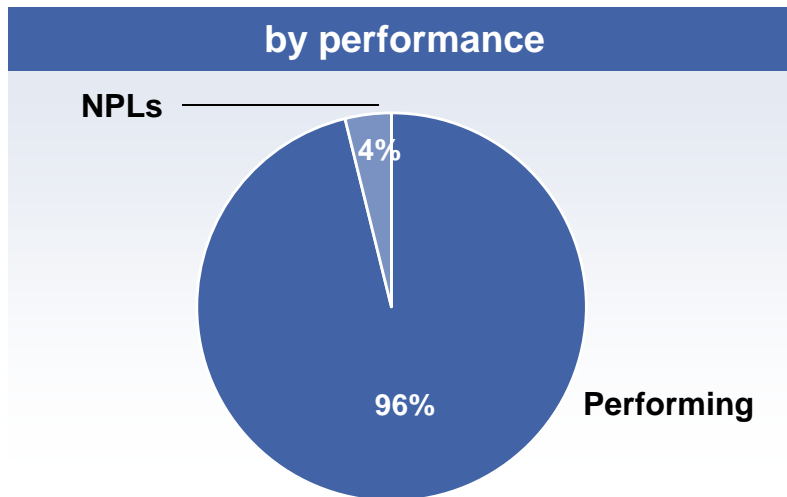
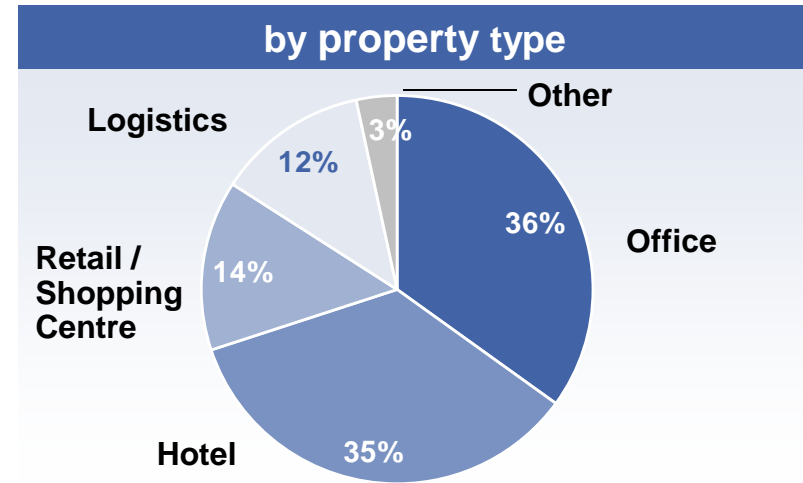
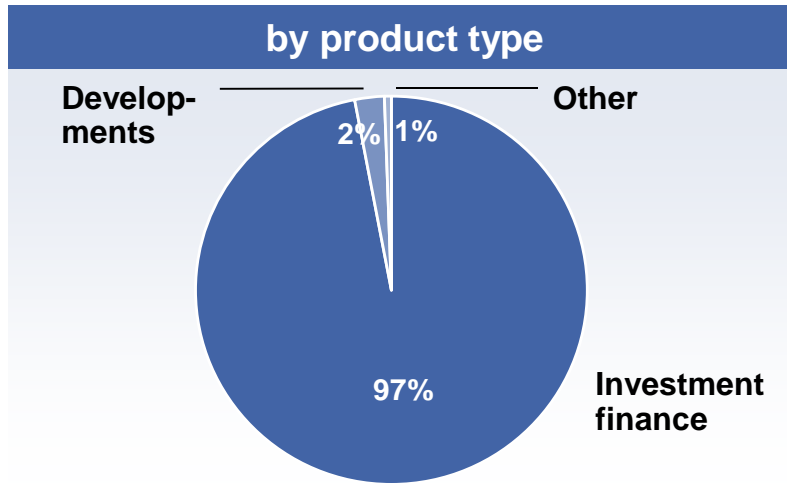


Property finance under management



# Western Europe (ex Ger) credit portfolio

Total volume outstanding as at 31.12.2012: € 6.8 bn

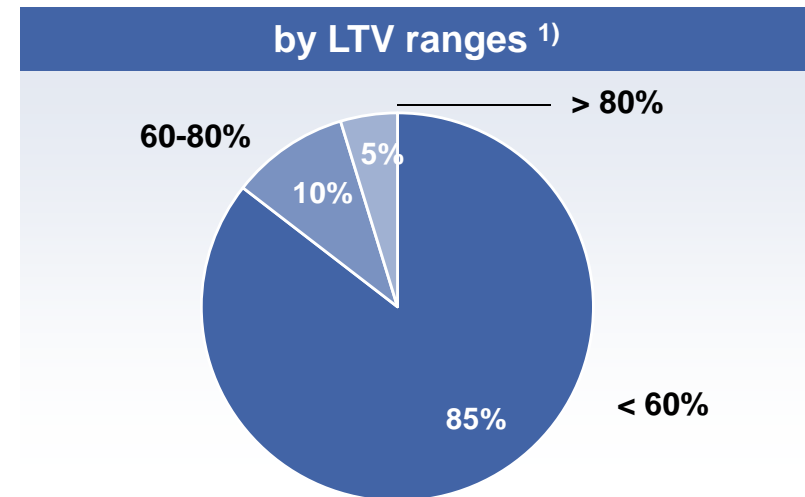
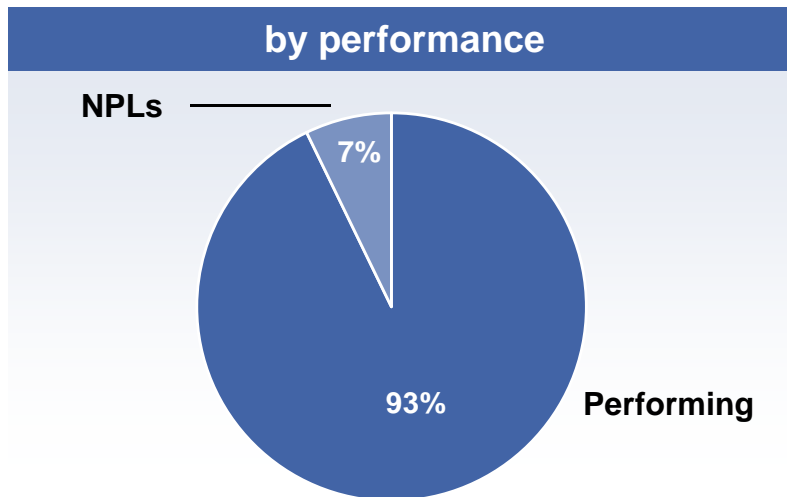
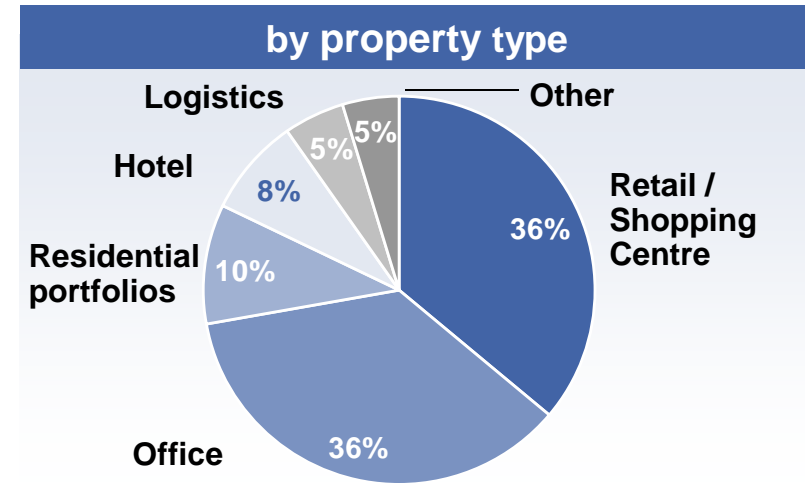
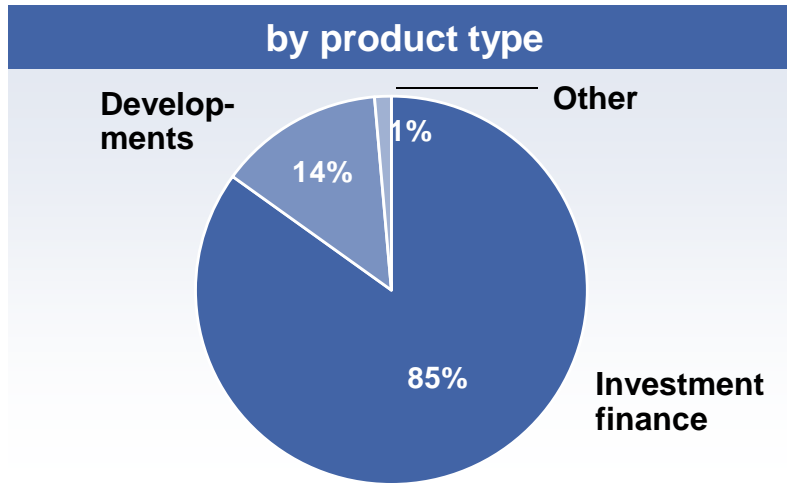


1) Performing business only



# Southern Europe credit portfolio

Total volume outstanding as at 31.12.2012: € 4.3 bn

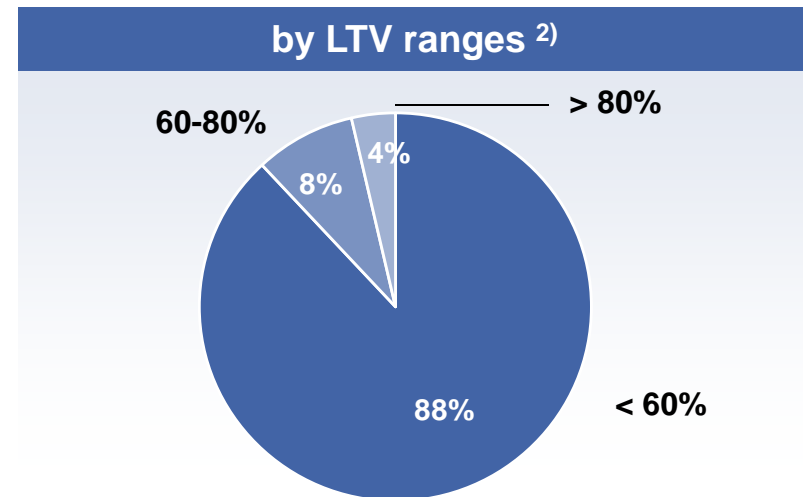
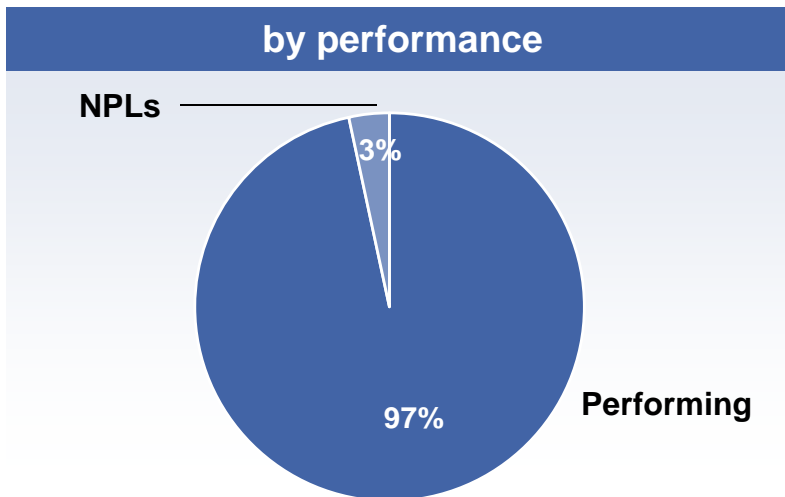
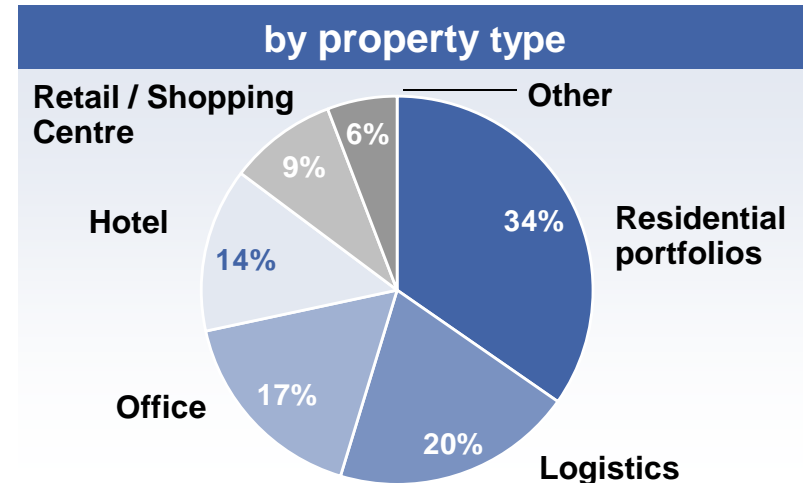
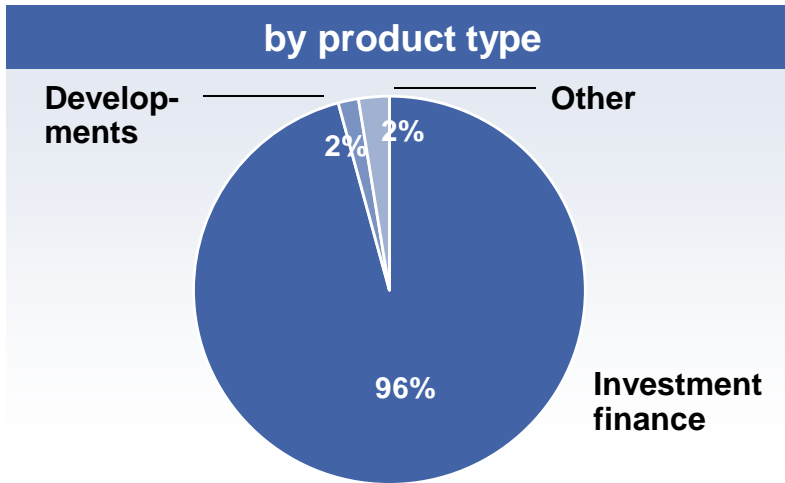


1) Performing business only



# German credit portfolio

Total volume outstanding as at 31.12.2012: € 3.5 bn<sup>1)</sup>



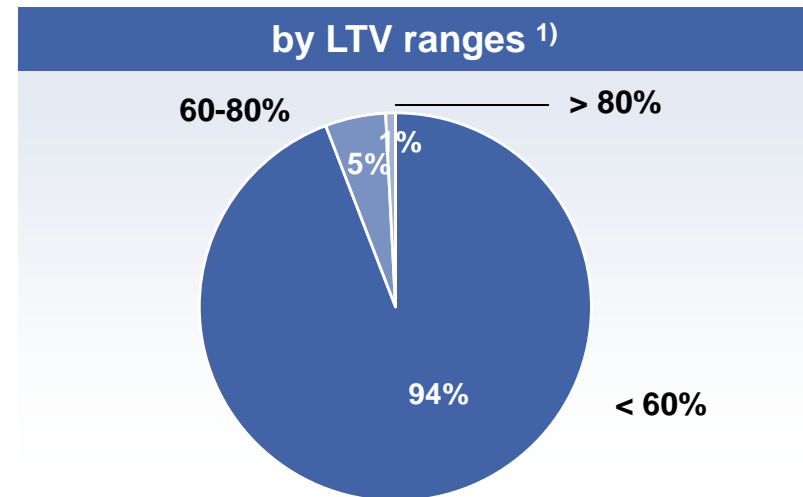
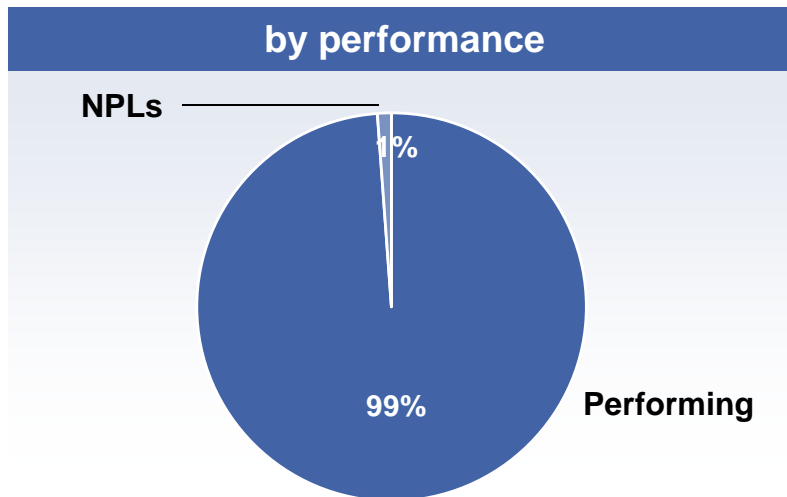
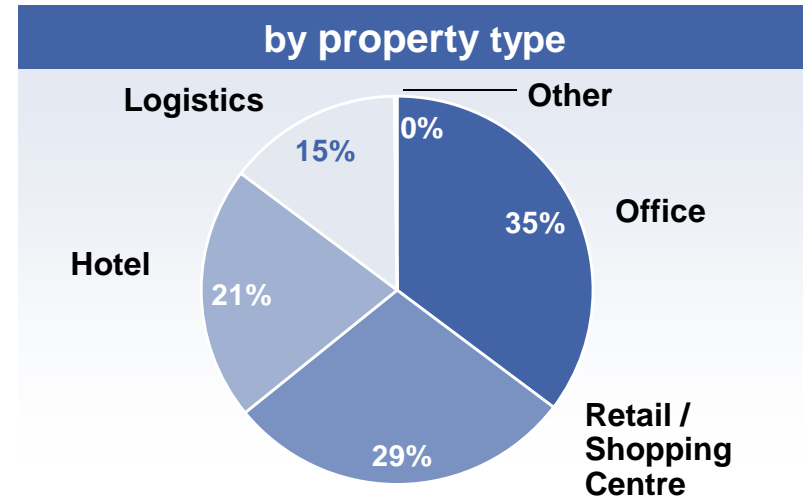
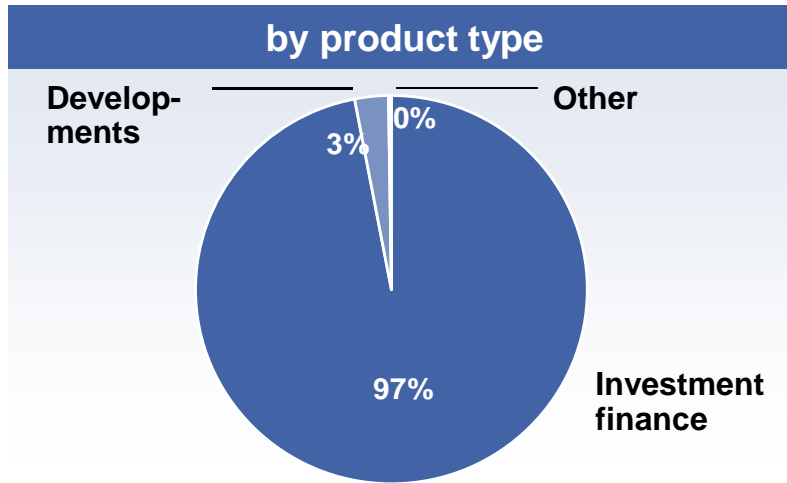
1) Including € 0.2 bn property loans managed on behalf of Deutsche Pfandbriefbank AG

2) Performing business only



# Eastern Europe credit portfolio

Total volume outstanding as at 31.12.2012: € 2.7 bn

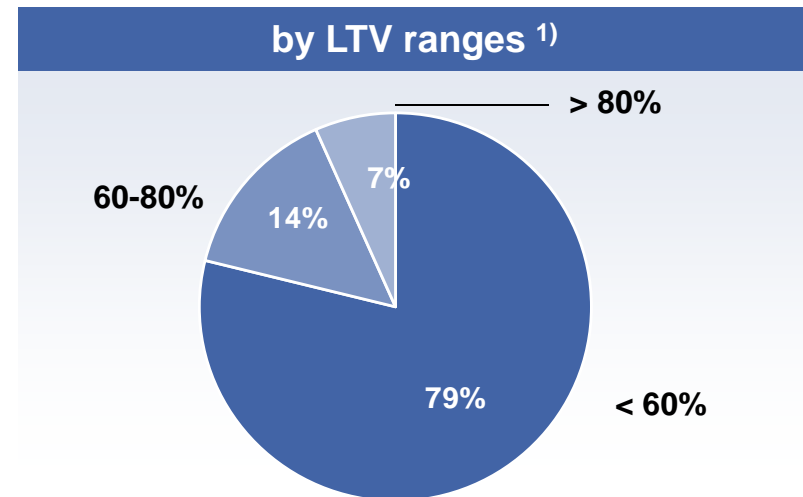
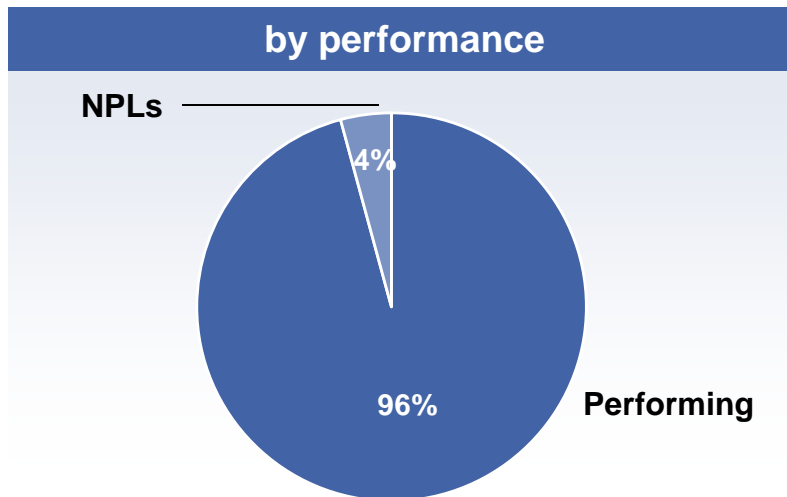
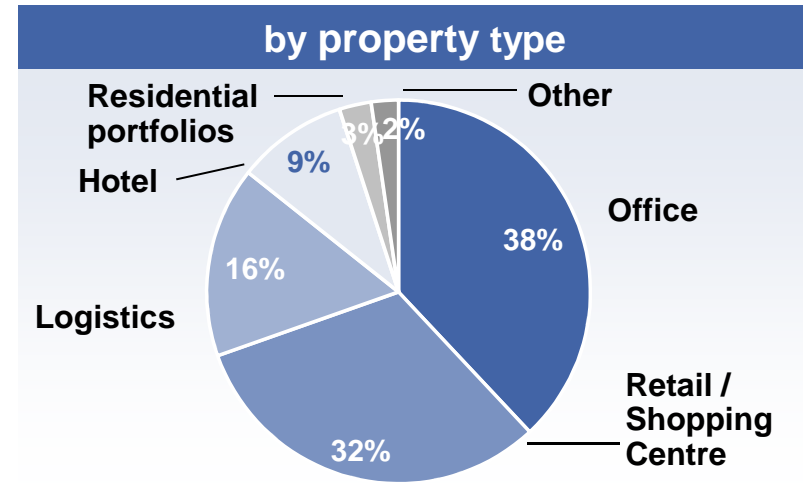
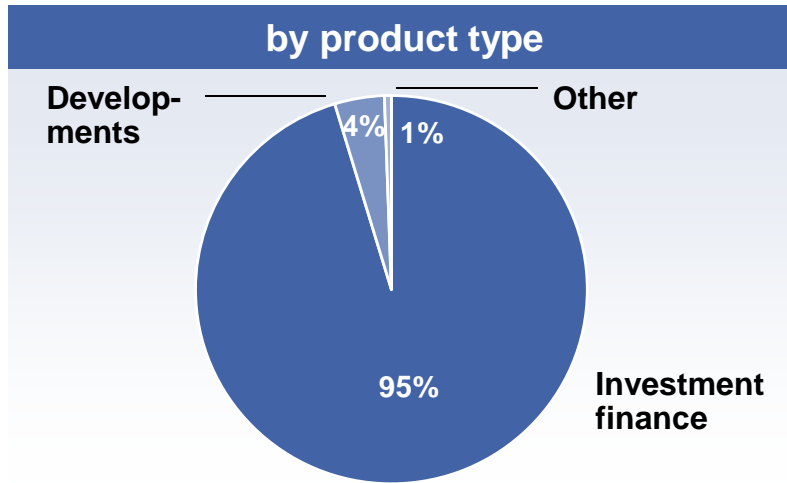


1) Performing business only



# Northern Europe credit portfolio

Total volume outstanding as at 31.12.2012: € 2.5 bn

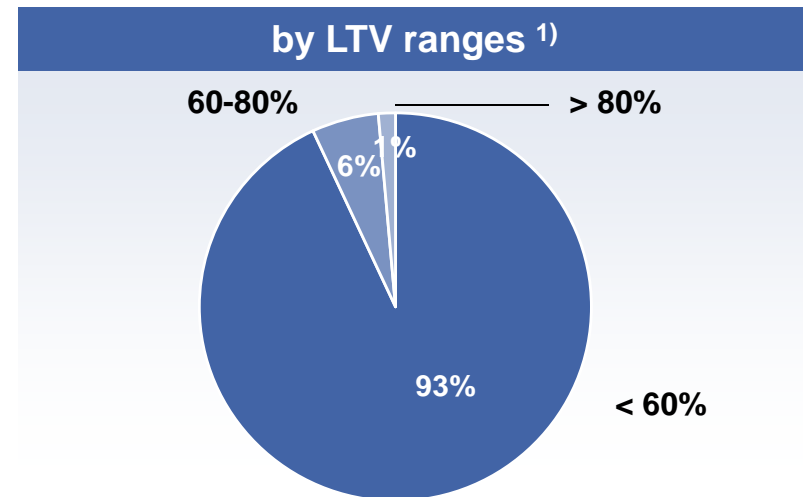
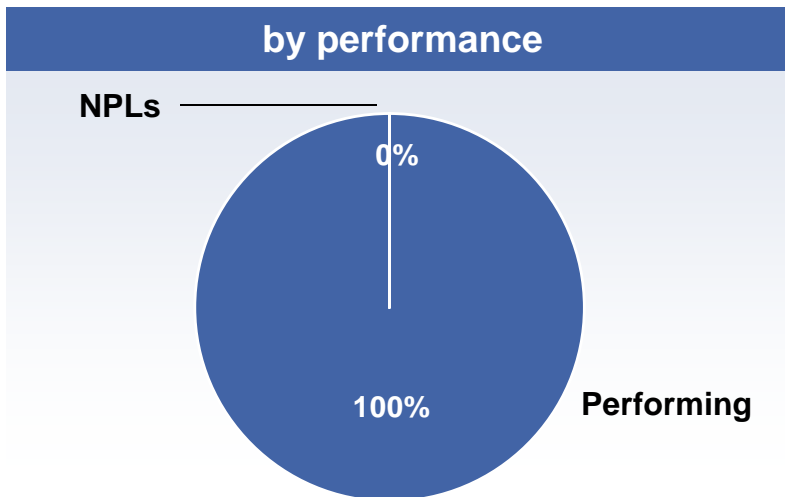
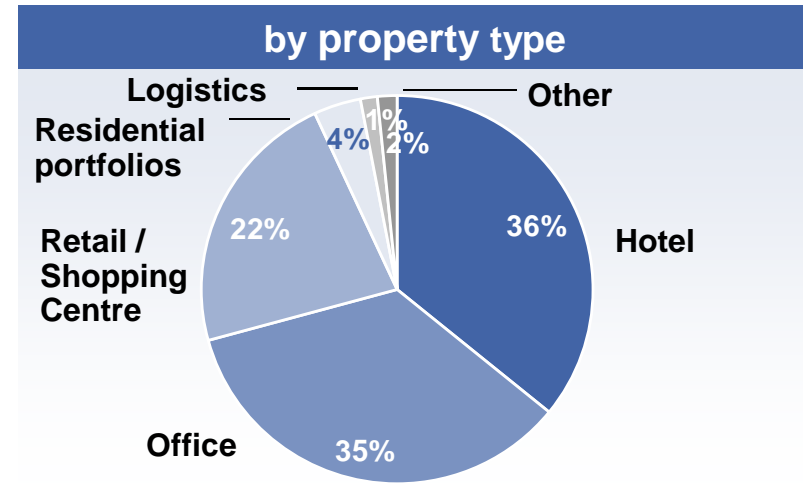
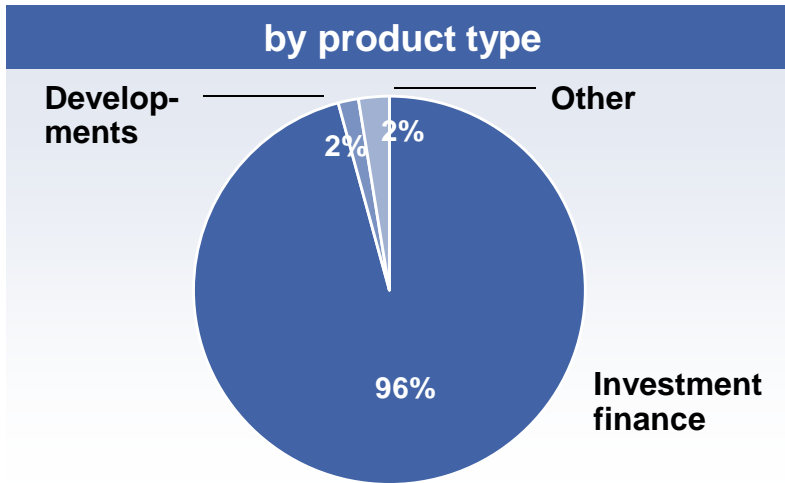


1) Performing business only



# North America credit portfolio

Total volume outstanding as at 31.12.2012: € 3.1 bn

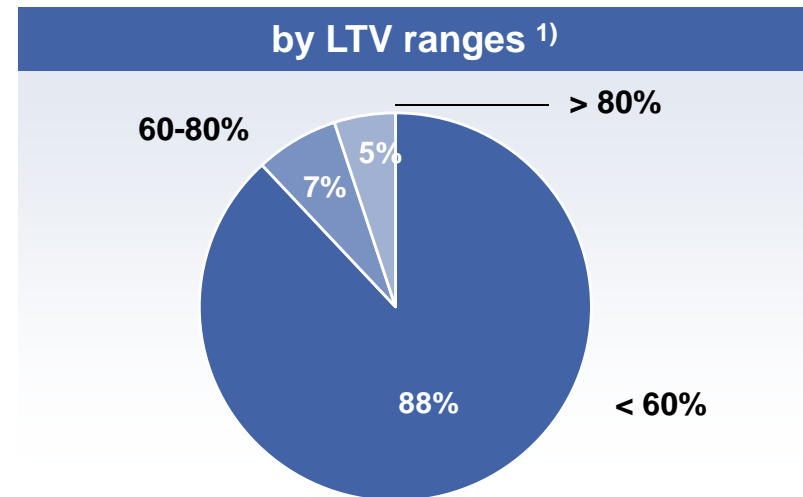
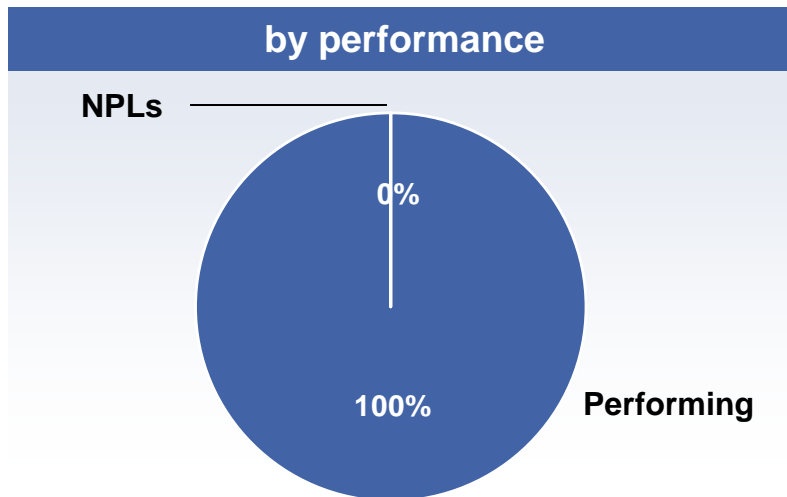
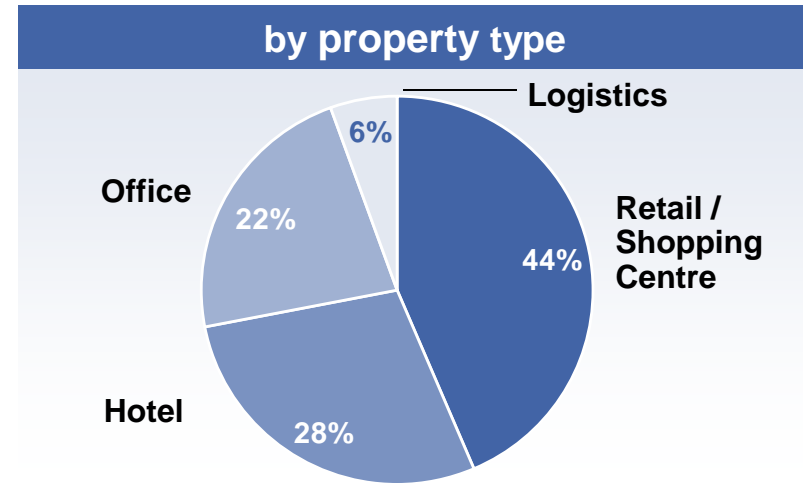
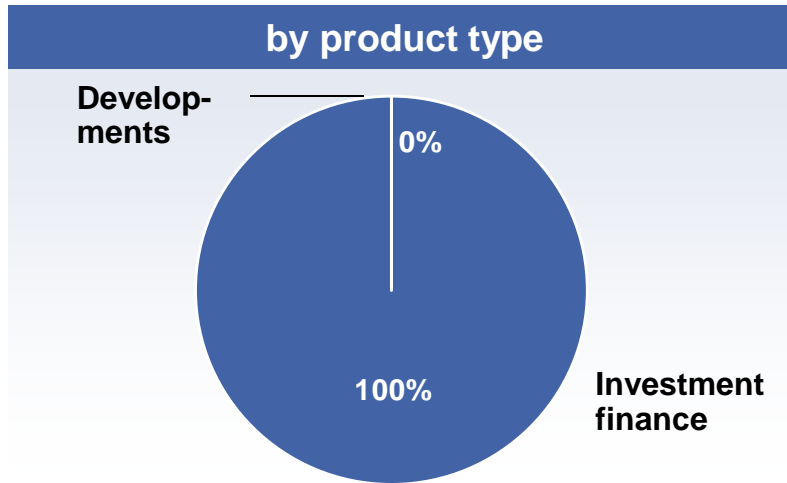


1) Performing business only



# Asia credit portfolio

Total volume outstanding as at 31.12.2012: € 0.6 bn



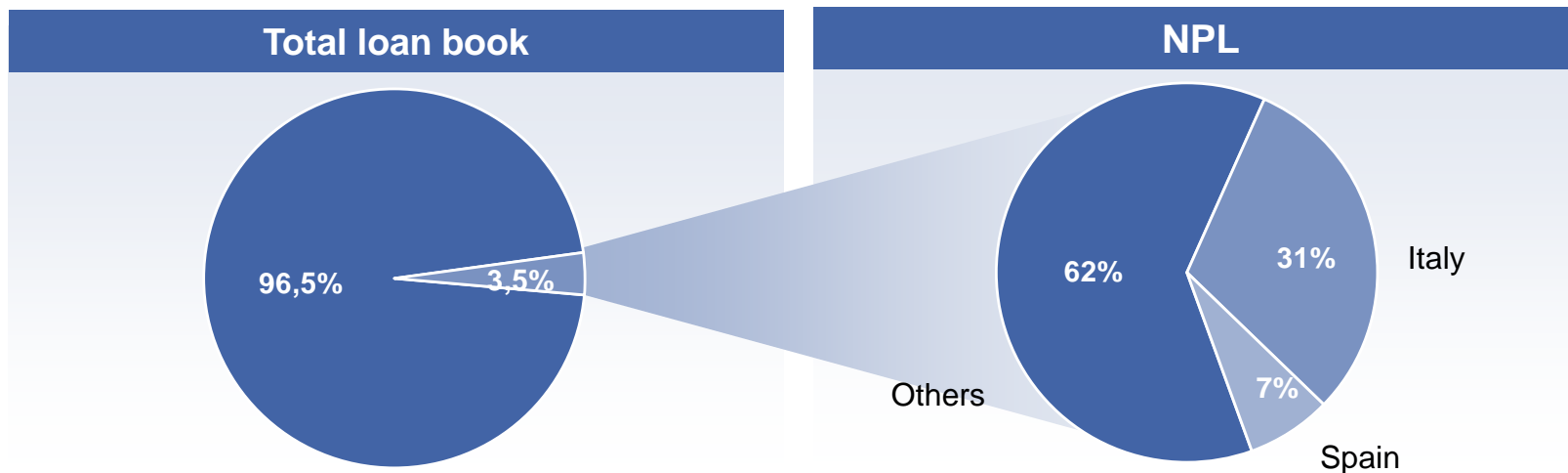
1) Performing business only





# Total Structured Property Financing Portfolio

€ 24.2 bn of high quality real estate assets

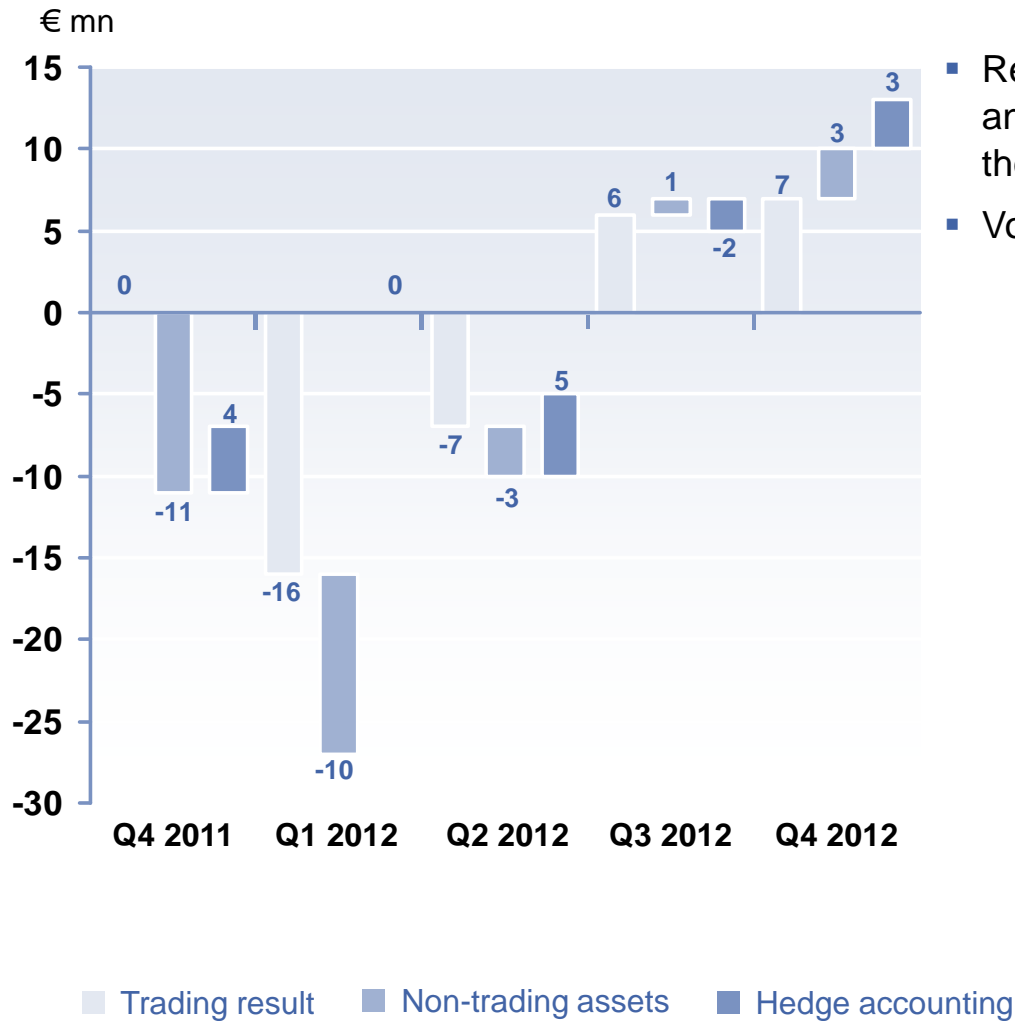


	Nominal (in mn €)	Average LTV	NPLs (in mn €)
Greece	-	-	-
Ireland	-	-	-
Italy	3,208	62.7%	255
Portugal	-	-	-
Spain	1,068	85.3%	59



# Trading, non trading and hedge accounting

## Result reflects volatile markets

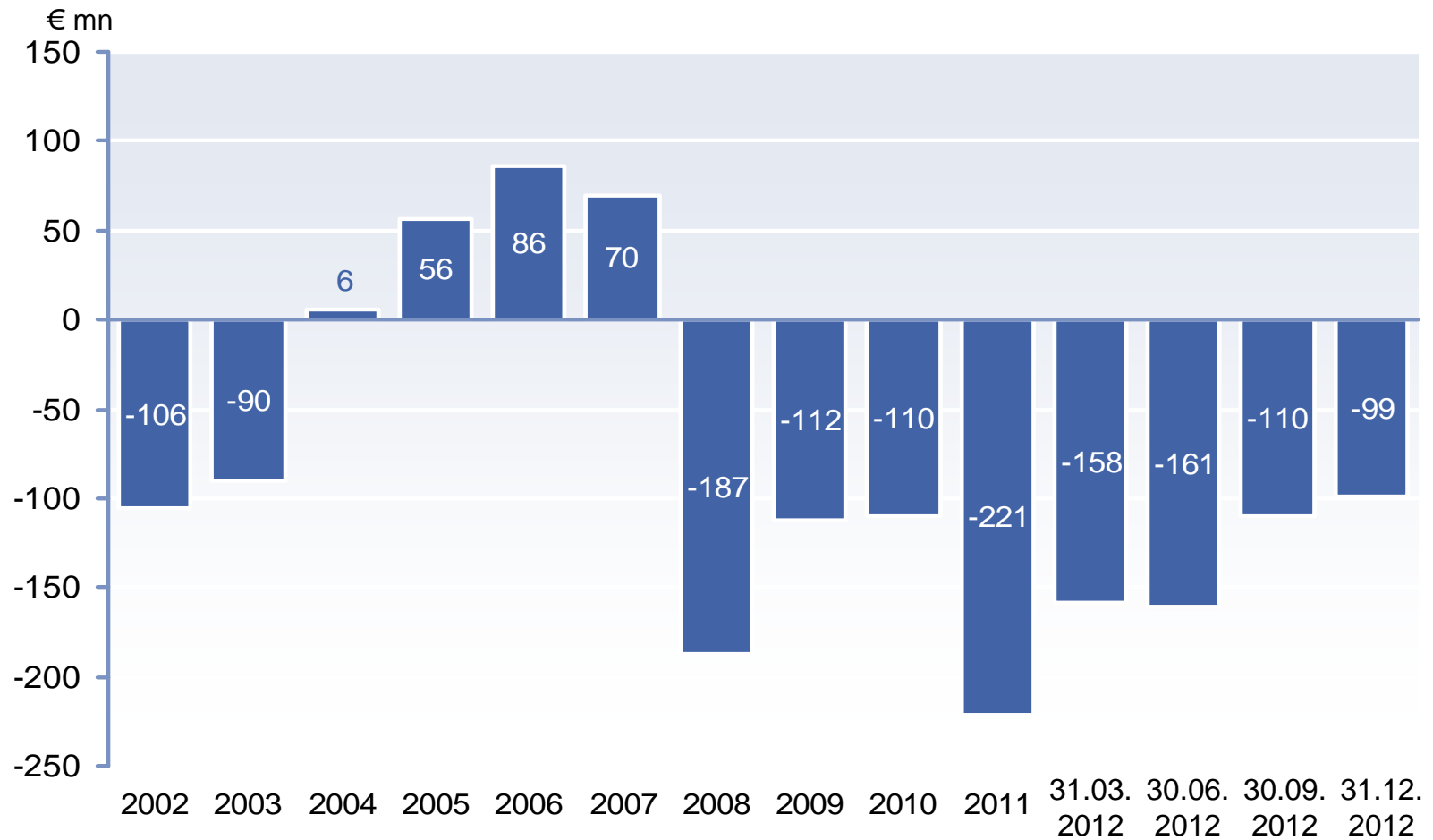


- Respective high volatility in trading and non-trading assets throughout the year
- Volatility 2012 on a manageable level



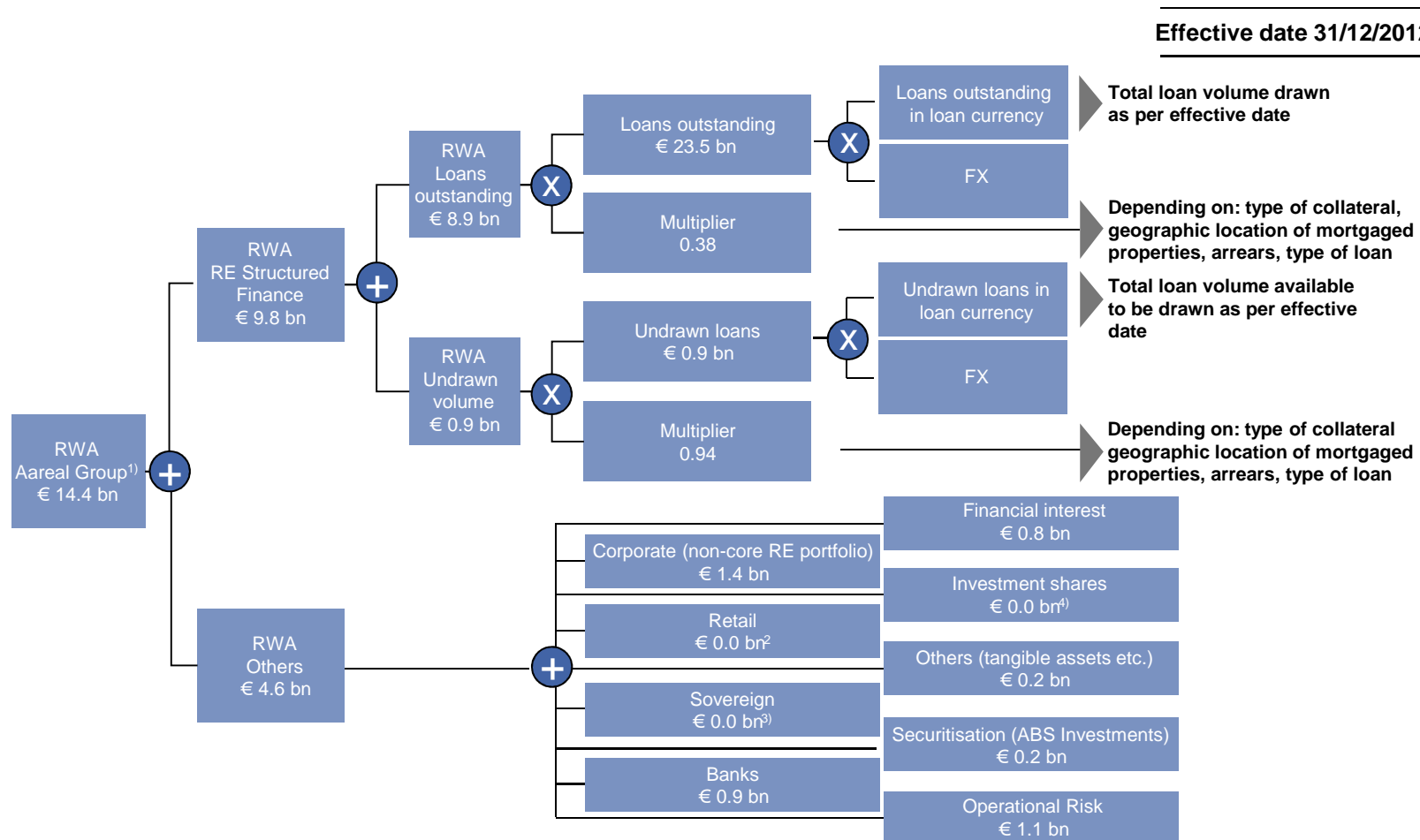
# Revaluation surplus

## Change mainly driven by asset spreads



# From asset to risk weighted asset (RWA)

## Essential factors affecting volume of RWA



- 1) Excl. of market risk
- 2) Exposure to Retail amounts to € 23 mn
- 3) Exposure to Sovereigns amounts to € 18 mn
- 4) Exposure to investment shares amounts to € 14 mn

Note: All 2012 figures preliminary and unaudited



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# Definitions and contacts



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# Definitions

- **Structured Property Financing Portfolio**
  - Paid-out financings on balance sheet
  - Incl. remaining property loans on DEPFA books
- **New Business**
  - Newly acquired business incl. renewals
  - Contract is signed by customer
  - Fixed loan value and margin
- **Core Tier I Ratio** = 
$$\frac{\text{Tier 1 capital} \text{ ./. hybrids} \text{ ./. SoFFin silent participation}}{\text{Risk weighted assets}}$$
- **Pre tax RoE** = 
$$\frac{\text{Operating profit} \text{ ./. Net income/loss attributable to non-controlling interests}}{\text{Allocated (average) equity}}$$
- **Allocated Equity**

Average of:

  - Equity (excluding minorities and revaluation surplus but including silent participation by SoFFin) start of period less dividends and
  - Equity (excluding minorities and revaluation surplus but including silent participation by SoFFin) end of period less expected dividends
- **CIR** = 
$$\frac{\text{Admin expenses}}{\text{Net income}}$$
- **Net income**
  - net interest income + net commission income + net result on hedge accounting + net trading income + results from non-trading assets + results from investments accounted for at equity + results from investment properties + net other operating income
- **Net stable funding ratio** = 
$$\frac{\text{Available stable funding}}{\text{Required stable funding}} \geq 100\%$$
- **Liquidity coverage ratio** = 
$$\frac{\text{Total stock of high quality liquid assets}}{\text{Net cash outflows under stress}} \geq 100\%$$



## Contacts

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