

**QUALITY**®  
made by **AAREAL**

# Analyst Conference Call

## Q1 2016 results

May 10, 2016  
Hermann J. Merkens, CEO

**Aareal**

# Agenda

---

- Highlights
- General environment
- Group results Q1 2016 at a glance
- Segment performance
- Group results Q1 2016
- B/S structure, capital & funding position
- Asset quality
- Outlook 2016
  
- Appendix
- Definitions and Contacts

# Highlights

## Successful start into the financial year

### Key facts and figures at a glance

- Consolidated operating profit increased to € 87 million, up by almost 30% vs. Q1/2015 in challenging competitive environment
- Successful development in both segments:
  - Robust net interest income and low risk costs in the Structured Property Financing segment
  - Increasing net commission income due to Aareon's positive development gives proof of the Consulting / Services segment's attractiveness and potential
- Reduction of non-core portfolio proceeding according to plan
- "Aareal 2020" future program launched successfully

# General environment

## Our actions adjusted to general developments

### Expected environment 2016

- US-recovery is on the way, Europe stuck close to deflation, China's growth rate is shrinking
- Ongoing geopolitical risks and tensions e.g. in Russia and Turkey
- Increasing divergences in monetary policy between ECB and FED: but no major weakening of the EUR expected
- ECB has broadened QE, further steps possible: enormous impact on capital markets - risking asset bubbles and therefore risks from LTVs partly based on extreme low cap rates
- High liquidity on property market, but decreasing transaction volumes in Q1 2016, stable to moderately increasing property values and rents in most European countries as well as in North America
- Margins under pressure in particular in Europe, while signs for a stabilizing trend in the US
- Uncertainties about regulatory requirements
- ECB indicated to develop macro economic prudential steering tools

### Main takeaways

- ➔ Main focus for new business in markets with attractive risk/return profile like North America
- ➔ In Turkey and Russia only renewals
- ➔ Partly tightened requirements for new business regarding LTV
- ➔ Regulatory projects in progress



# Group results Q1 2016 at a glance

**Aareal**

## Q1 2016 at a glance

### Strong results despite very challenging environment

	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Comments
€ mn						
Net interest income <i>(excl. unplanned effects from early repayments)</i>	180 (180)	198 (183)	214 (192)	191 (181)	178 (173)	NII decrease mainly due to <ul style="list-style-type: none"> <li>Run down of NCA (as planned)</li> <li>Lower effects from early repayments (vs. Q4), FY-expectations of € 35 mn (vs. € 23 mn '15)</li> </ul>
Allow. for credit losses	2	42	37	31	18	Within seasonal variation
Net commission income	46	52	40	42	41	Strong Q1-performance of Aareon supporting its FY-target
Admin expenses	146	138	147	136	132	Includes <ul style="list-style-type: none"> <li>€ 17 mn for European bank levy</li> <li>€ 10 mn one-offs from integrations as well as from project / investment costs</li> <li>Operating admin expenses for WestImmo, phi-Consulting and Square DMS</li> </ul>
Operating profit	87	92	82	229 <sup>1)</sup> 79	67	Strong operating profit characterised by low risk costs
Earnings per share [€]	0.85	1.01	0.78	3.27 <sup>1)</sup> 0.77	0.60	

1) Including negative goodwill from WestImmo takeover, adjusted

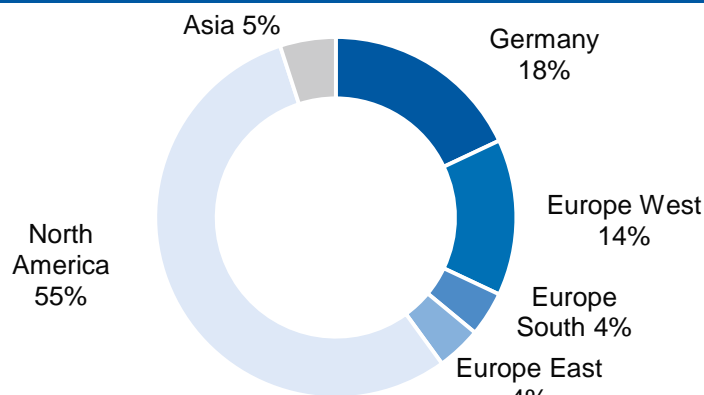


# Segment performance

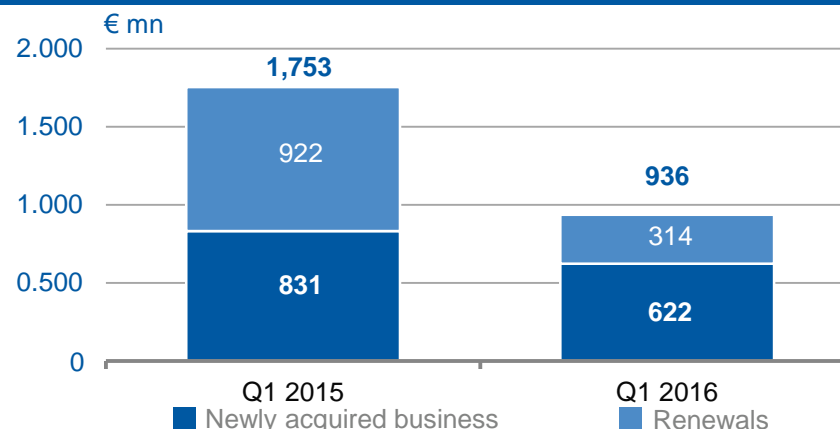
# Structured property financing

## New business with focus on US market

New business in Q1 2016 by region<sup>1)</sup>



New business origination



P&L SPF Segment	Q1 '16	Q4 '15	Q3 '15	Q2 '15	Q1 '15
€ mn					
Net interest income	182	199	214	192	178
Loan loss provision	2	42	37	31	18
Net commission income	2	2	2	2	0
Net result from trading / non-trading / hedge acc.	10	6	-3	0	1
Admin expenses	95	85	101	89	84
Others	-1	14	14	12	-3
Negative goodwill				150 <sup>2)</sup>	
<b>Operating profit</b>	<b>96</b>	<b>94</b>	<b>89</b>	<b>236<sup>2)</sup></b>	<b>74</b>

1) Incl. renewals

2) Adjusted

- Gross margins in Q1 2016 at ~270 bps (~230 bps after FX costs) vs. FY-plan of ~220 bps due to new business allocation towards the US market
- Very selective new business activities in Europe
- No spill-over effects from 2015
- Renewals contractually driven and effected by high early prolongations in 2015
- Effects from early repayments slowing down but still on Q1 2015-level
- Promising deal pipeline
- Confirming new business target 2016
- Closing Aquatrium / Fatburen in April 2016



## Consulting / Services

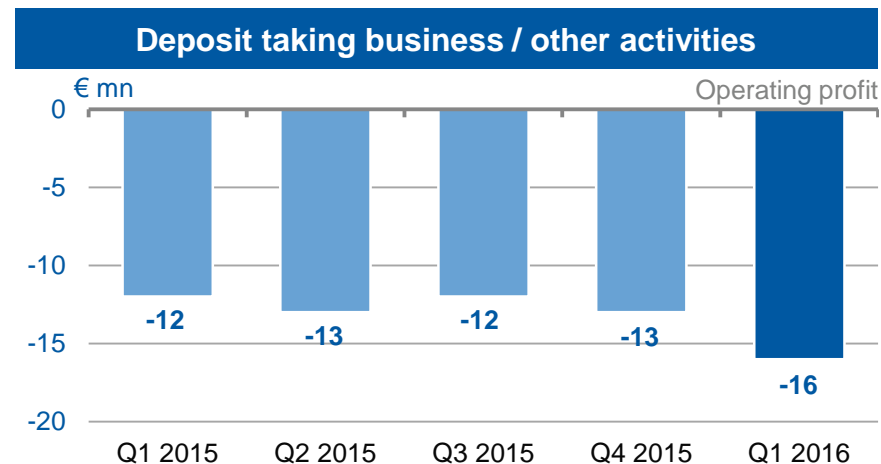
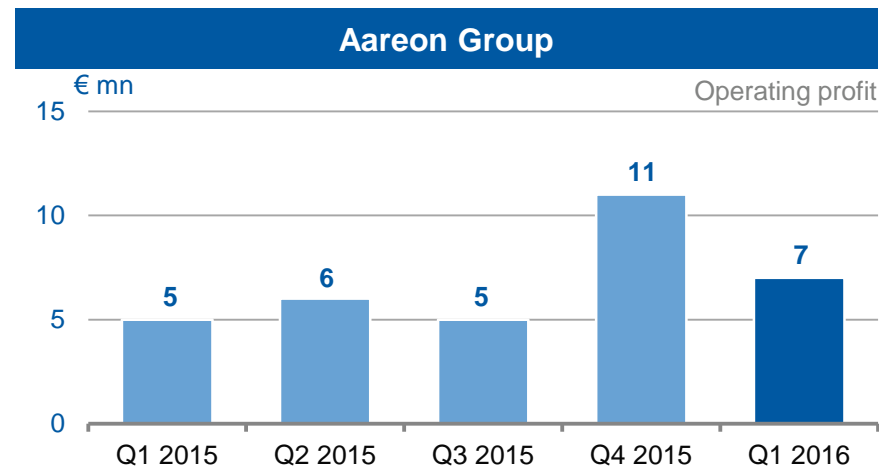
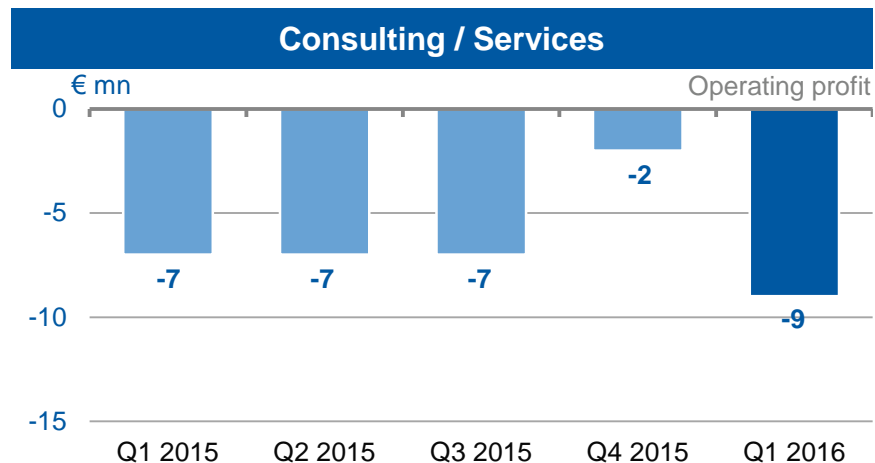
### Aareon with increasing EBIT

P&L C/S Segment	Q1 '16	Q4 '15	Q3 '15	Q2 '15	Q1 '15
€ mn					
Sales revenue	49	56	44	47	46
Own work capitalised	1	0	2	1	1
Changes in inventory	0	0	0	0	0
Other operating income	1	4	2	2	1
Cost of material purchased	7	7	5	7	5
Staff expenses	36	37	35	33	34
D, A, impairment losses	3	3	3	3	3
Results at equity acc. investm.	0	0	0	0	0
Other operating expenses	14	15	12	14	13
Results from interest and similar	0	0	0	0	0
<b>Operating profit</b>	<b>-9</b>	<b>-2</b>	<b>-7</b>	<b>-7</b>	<b>-7</b>

- Aareon sales revenues of € 50 mn clearly above Q1 2015 (€ 45 mn)
- Aareon EBIT margin at ~14% in line with expectations, reflecting seasonal variation
- Deposit volume from housing industry of Ø € 9.3 bn on a high level (€ 9.0 bn Ø in Q4/2015)
- Deposit margins further burden segment result due to even lower interest environment
- Housing industry deposits generate a stable funding base, crisis-proven
- Various initiatives and projects with and for our clients of the institutional housing industry

# Consulting / Services

Aareon with increasing EBIT (vs. Q1 2015)



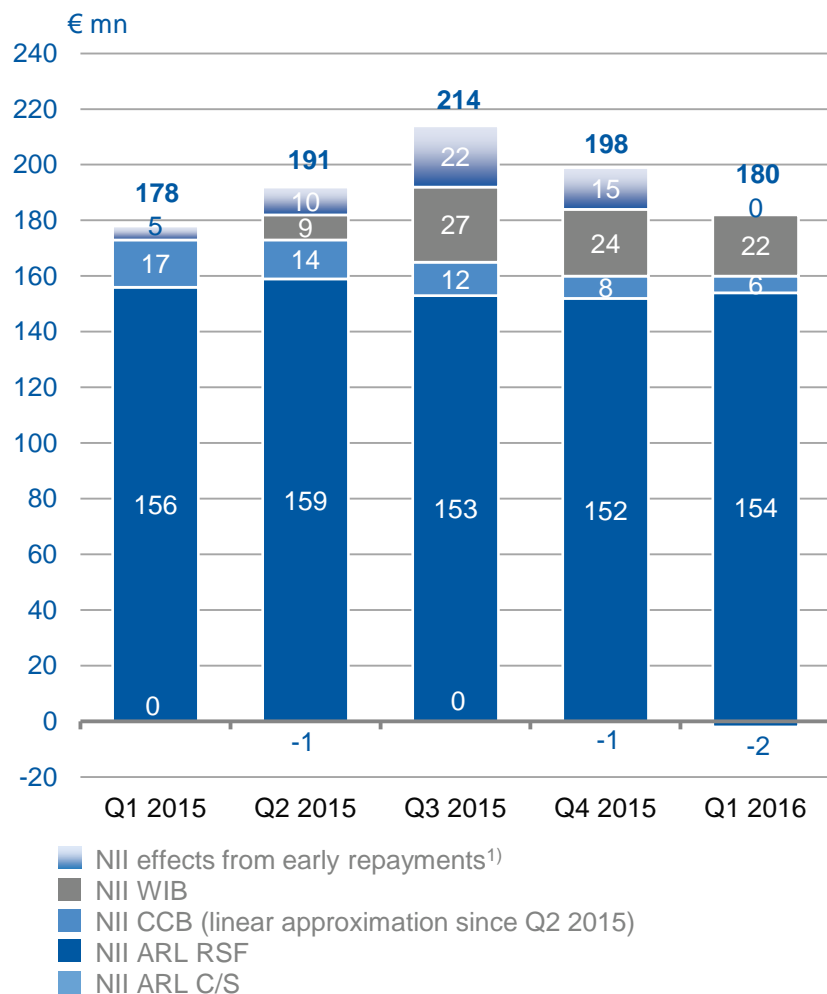


# Group results Q1 2016

**Aareal**

# Net interest income

## Margin pressure defied by flexible new business allocation

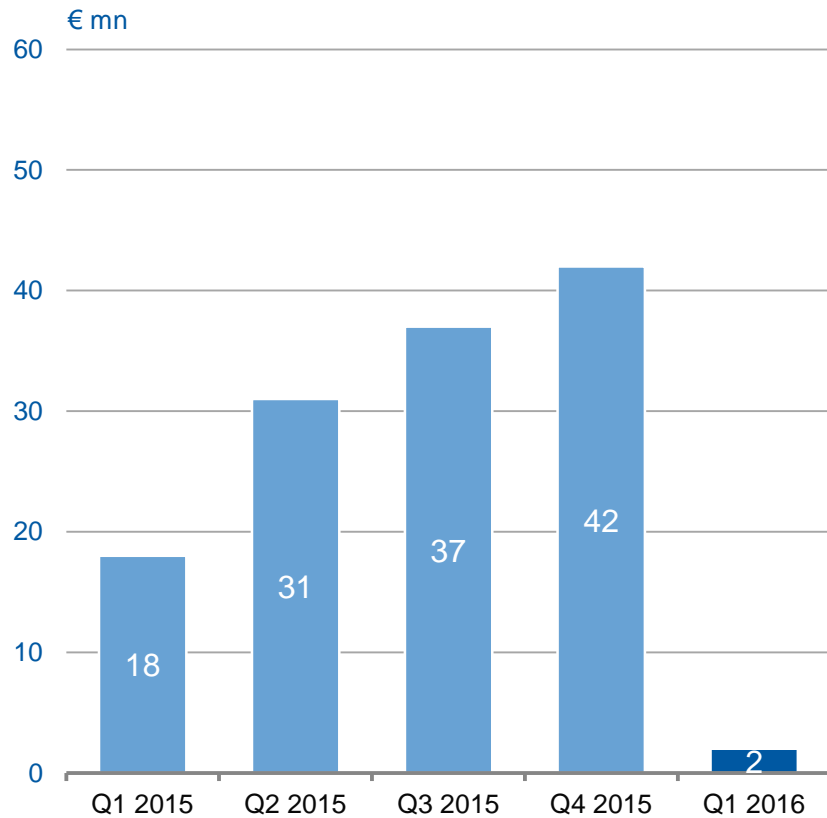


1) Additional effects exceeding originally planned repayments

- Gross margins in Q1 2016 at ~270 bps (~230 bps after FX costs) vs. FY-plan of ~220 bps due to new business allocation towards the US market
- NII effected by run down of NCA (as planned) and lower effects from early repayments (FY-expectations of € 35 mn vs. € 23 mn in 2015)
- Q1-portfolio of € 30.1 bn (Q4 2015: € 30.9 bn), thereof € 25.9 bn “ARL stand alone” portfolio in line with 2016-portfolio target of € 25 - 27 bn (Q4 2015: € 26.3 bn)
- Run down of credit portfolio as planned:
  - CCB: € 1.1 bn (Q4 2015: € 1.3 bn)
  - WIB: € 3.1 bn (Q4 2015: € 3.3 bn)
- Full contribution of WestImmo since Q3/2015
- NII Consulting / Services still burdened by interest rate environment
- Aareal Bank already fulfils future NSFR / LCR requirements

# Allowance for credit losses (LLP)

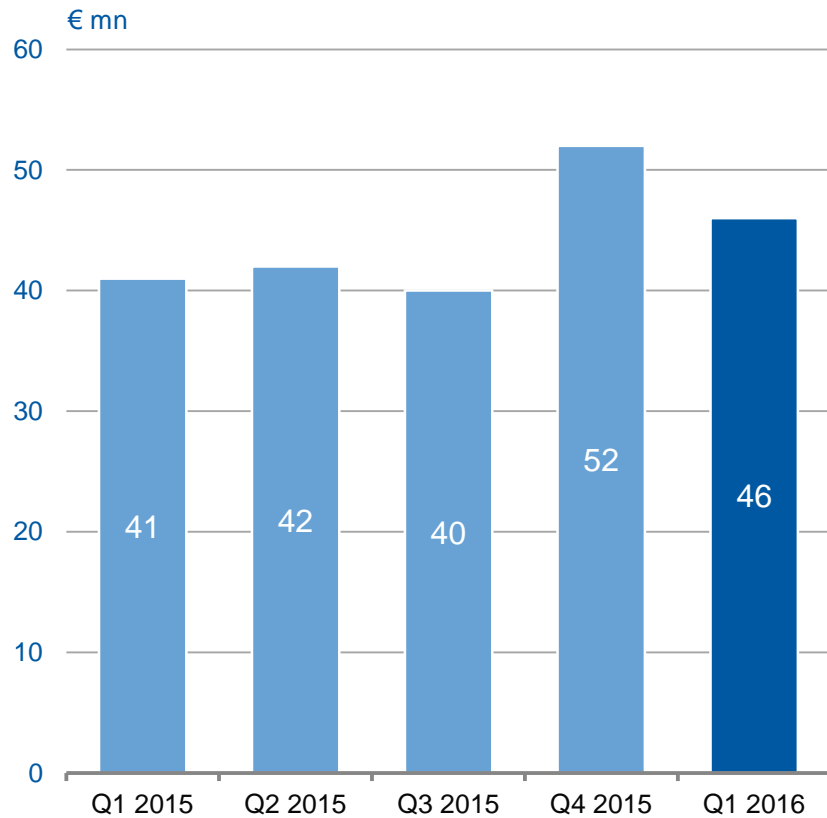
## Within seasonal variation



- LLP with seasonal effects
- LLP in line with reduced FY-guidance
- No additional burden from Italian portfolio

# Net commission income

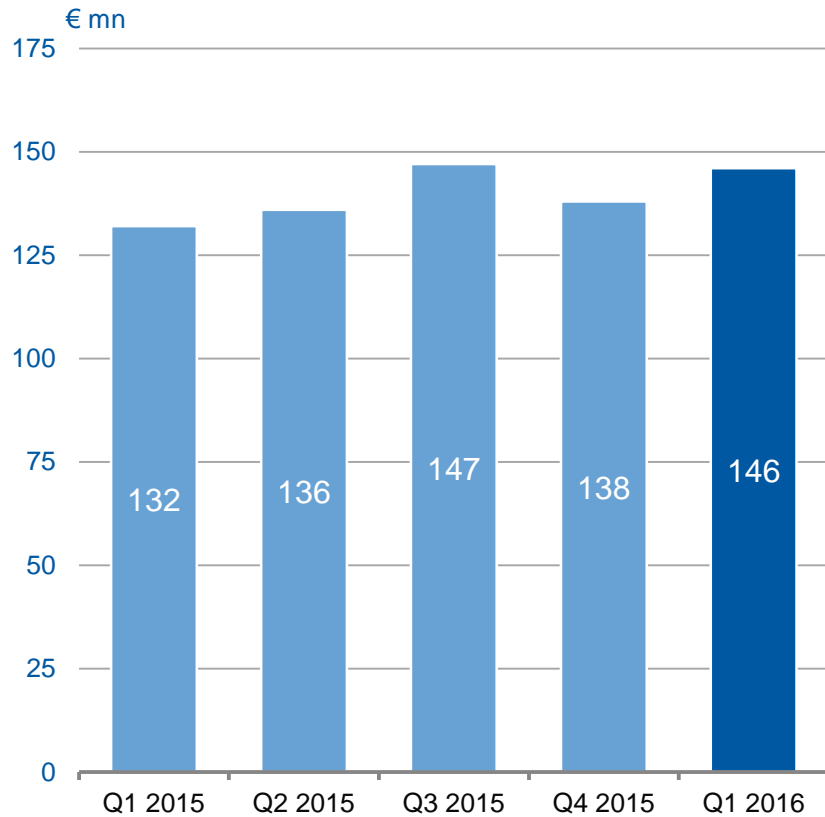
## Aareon with strong performance in Q1



- Aareon in line with guidance
- Q4/2015 with seasonal effects
- First time consolidation of Aareon's new acquisitions in Q4 2015 (phi-Consulting, Square DMS)

# Admin expenses

## Burdened by FY European bank levy



- Q1 figures include € 17 mn for the European bank levy for the fiscal year 2016 (€ 9 mn in Q1/2015; € 14 mn for FY 2015)
- Admin expenses include
  - € 10 mn one-offs from integrations as well as from project / investment costs
  - Operating admin expenses for Aareon's new acquisitions phi-Consulting and Square DMS (since Q4/2015)



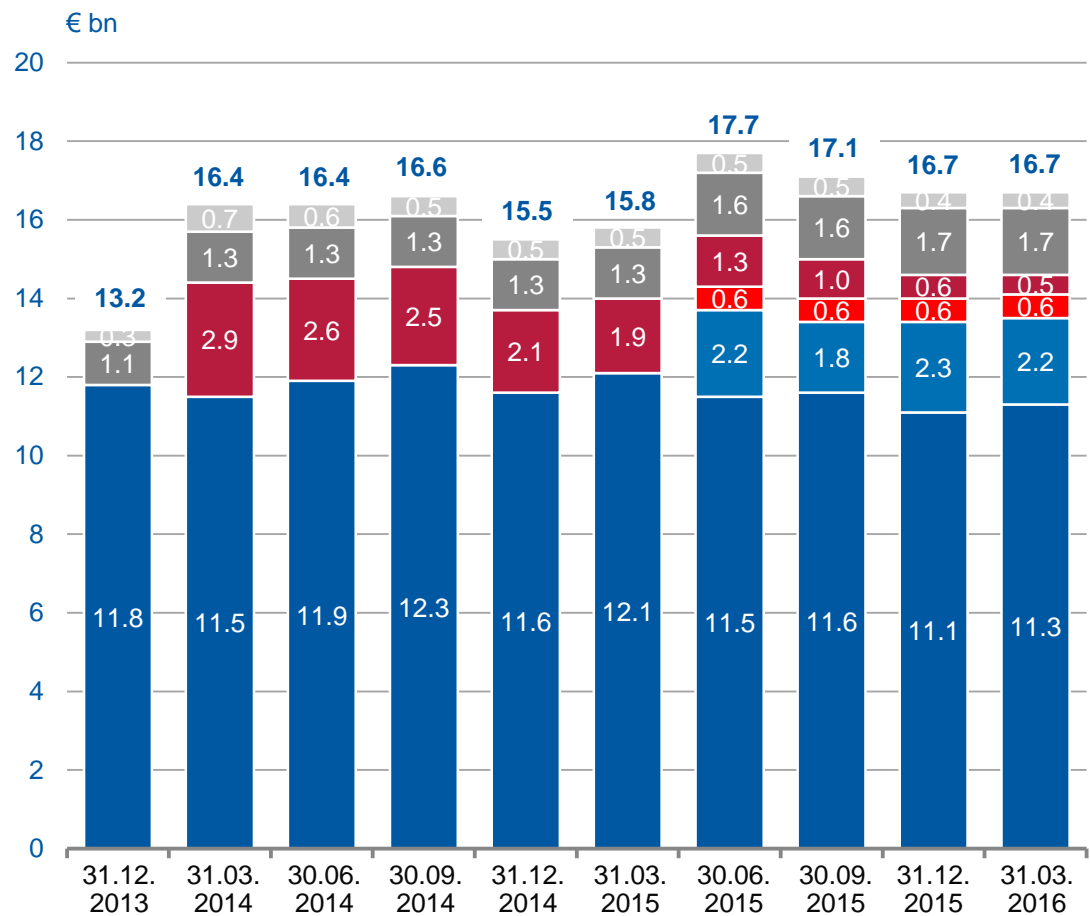
B/S structure, capital & funding position

**Aareal**

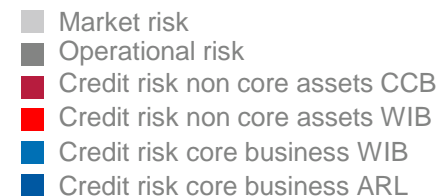


# RWA development

## Successful run down of non core assets

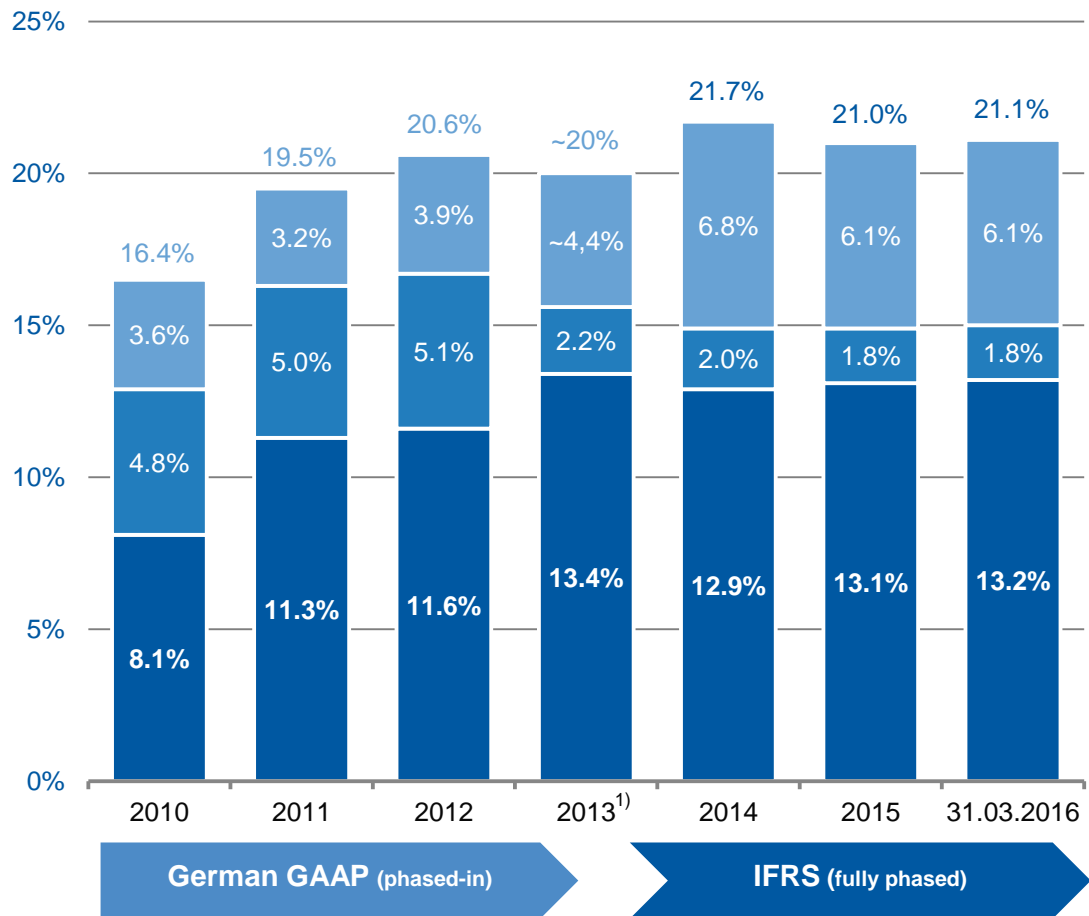


- Decreasing RWA from planned NCA reduction
- Increasing RWA partly from higher portfolio risks (e.g. Turkey)



# Capital ratios

## Strong development



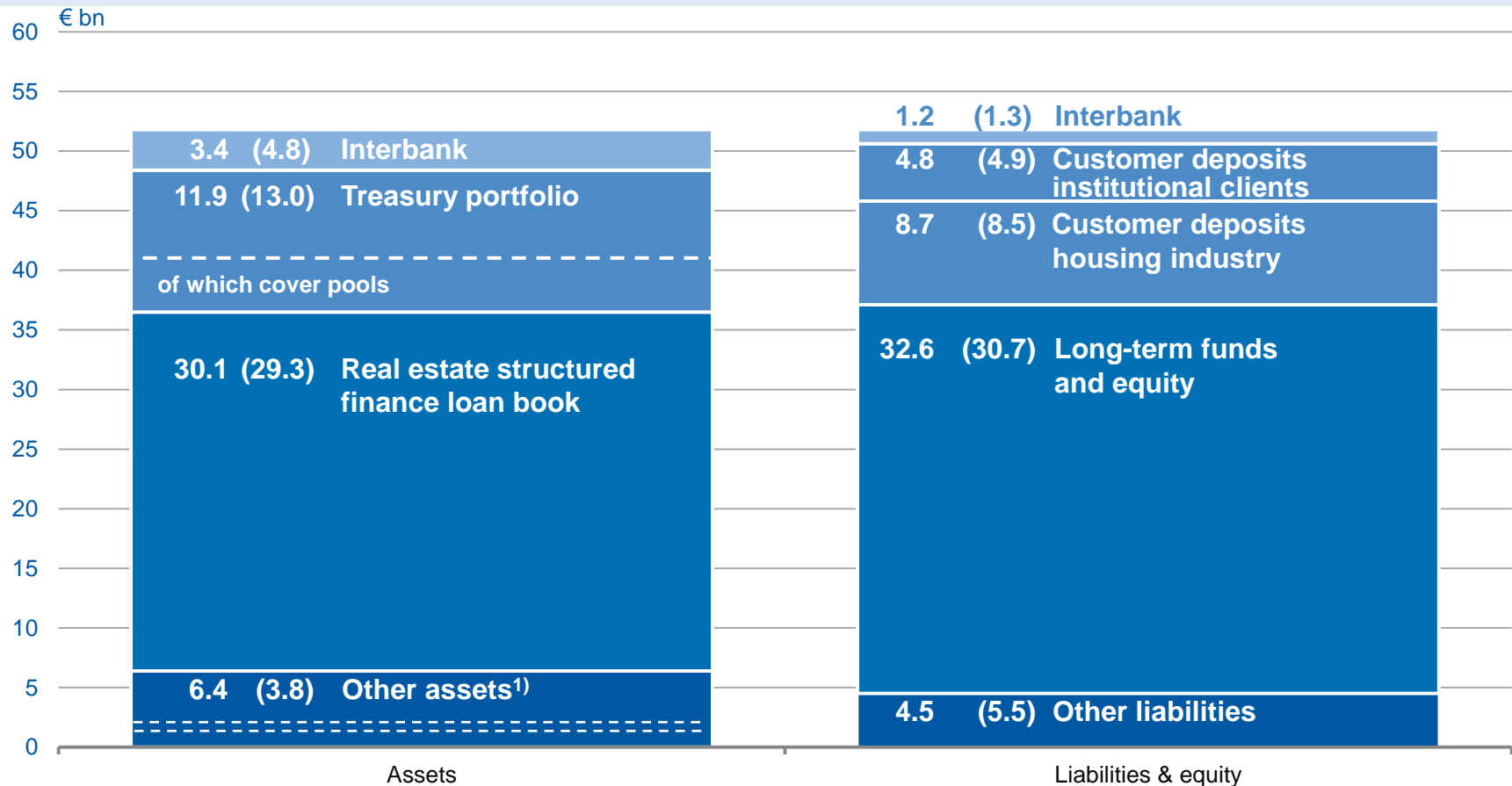
- Regulatory uncertainties buffered by very strong capital ratios
- Instruments assumed to mature 2018 (planning period) are excluded from the fully phased ratios
- Bail-in capital ratio (acc. to our definition): above 8%
- T1-Leverage ratio as at 31.03.2016: 5.1% (fully phased)

1) As at 01.01.2014, published 20.02.2014

# Asset- / Liability structure according to IFRS

As at 31.03.2016: € 51.8 bn (31.03.2015: € 50.9 bn ex. WIB)

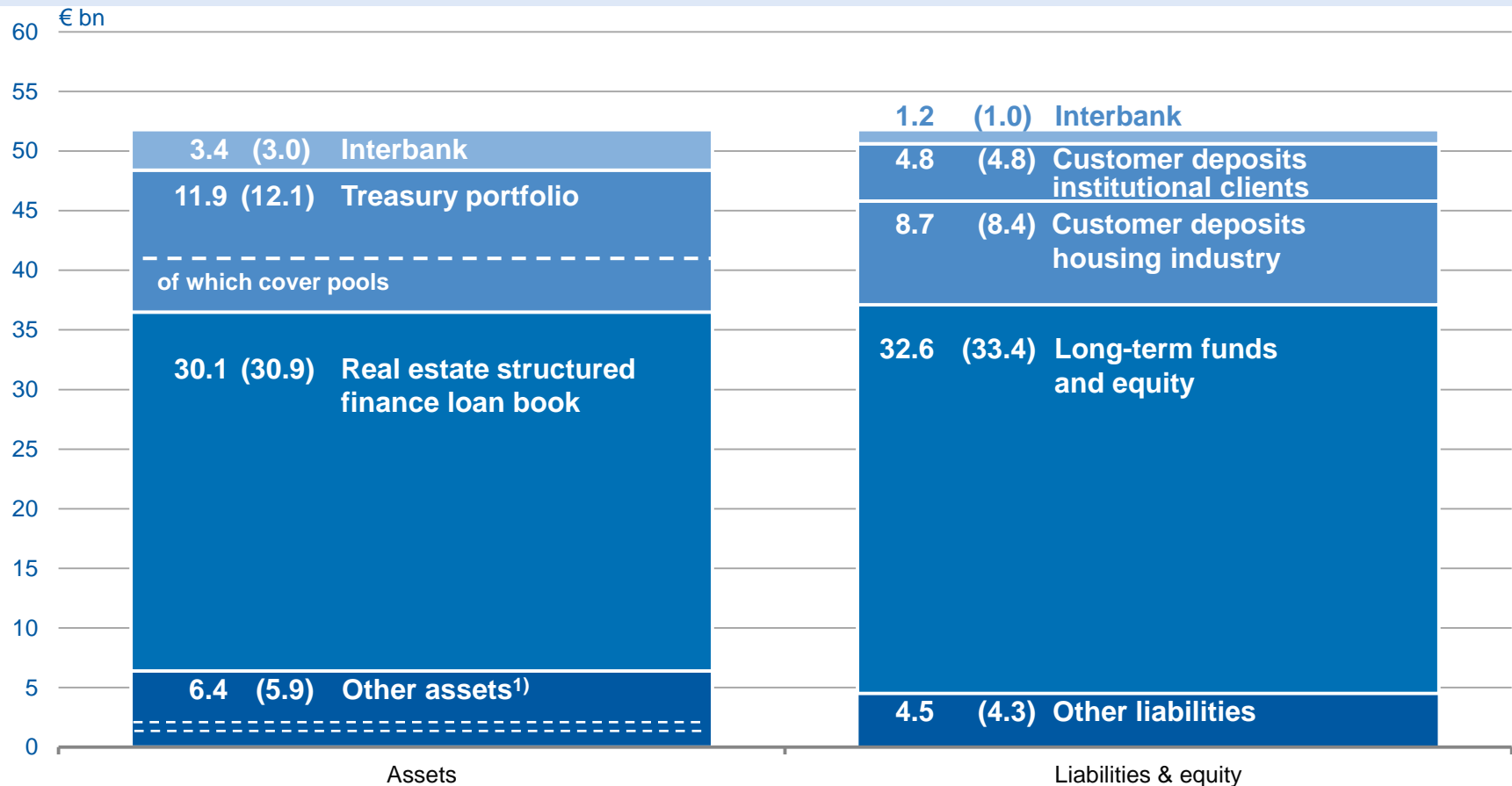
- Conservative balance sheet with structural over borrowed position
- Average maturity of long term funding > average maturity of RSF loans



# Asset- / Liability structure according to IFRS

As at 31.03.2016: € 51.8 bn (31.12.2015: € 51.9 bn incl. WIB)

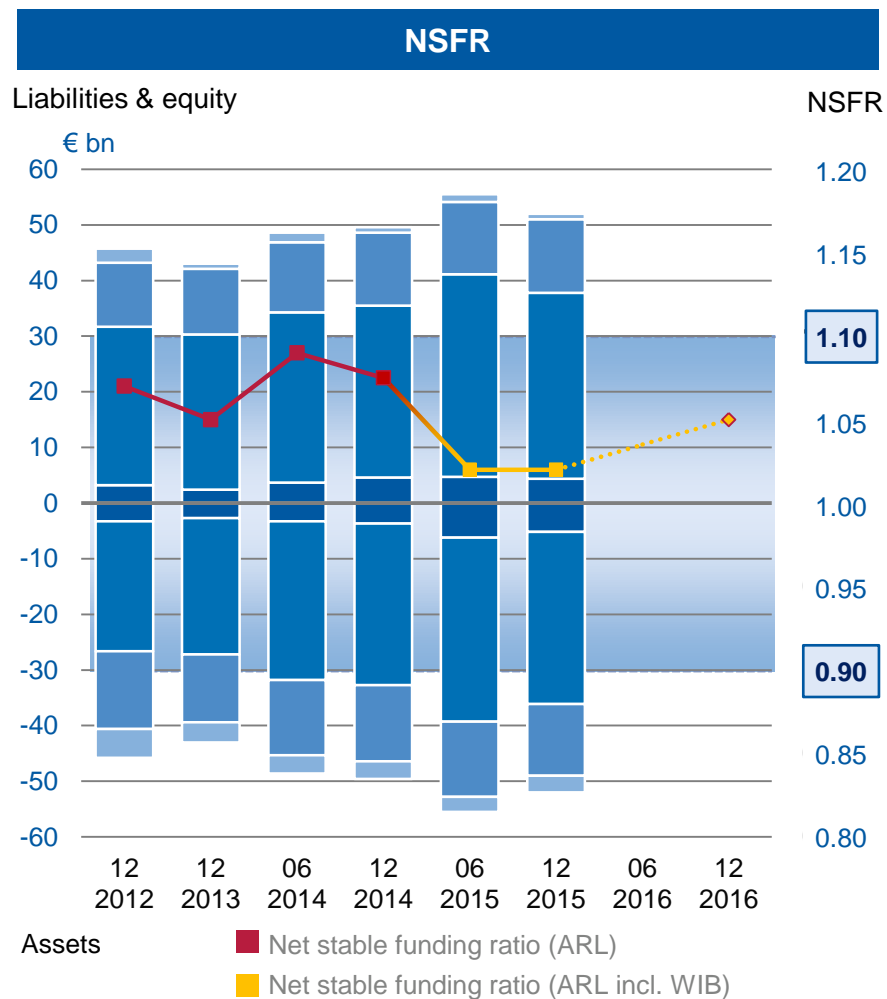
- Conservative balance sheet with structural over borrowed position
- Average maturity of long term funding > average maturity of RSF loans



1) Other assets includes € 1.4 bn private client portfolio and WIB's € 0.6 bn public sector loans

# Net stable funding- / liquidity coverage ratio

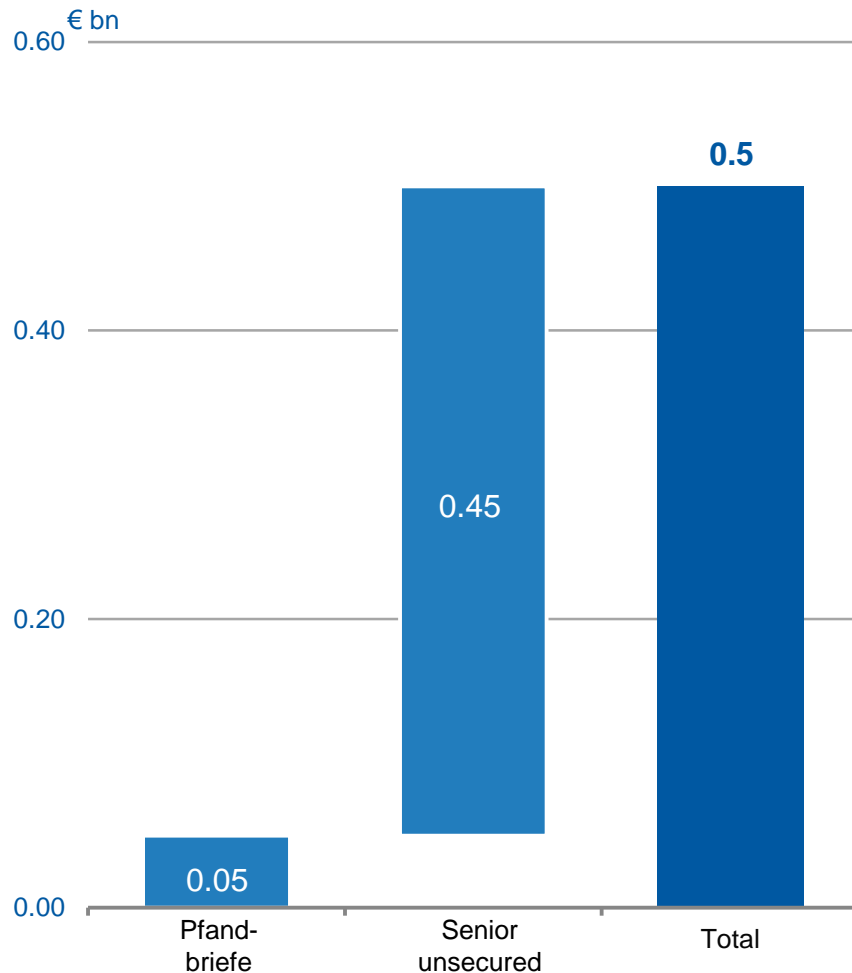
## Sound liquidity position despite WestImmo takeover



- Aareal Bank already fulfils future requirements
  - NSFR > 1.0
  - LCR >> 1.0
- Basel III and CRR require adherence of specific liquidity ratios starting end 2018
- As intended, additional funding requirements from acquisition of WestImmo covered by NSFR surplus

# Refinancing situation Q1 2016

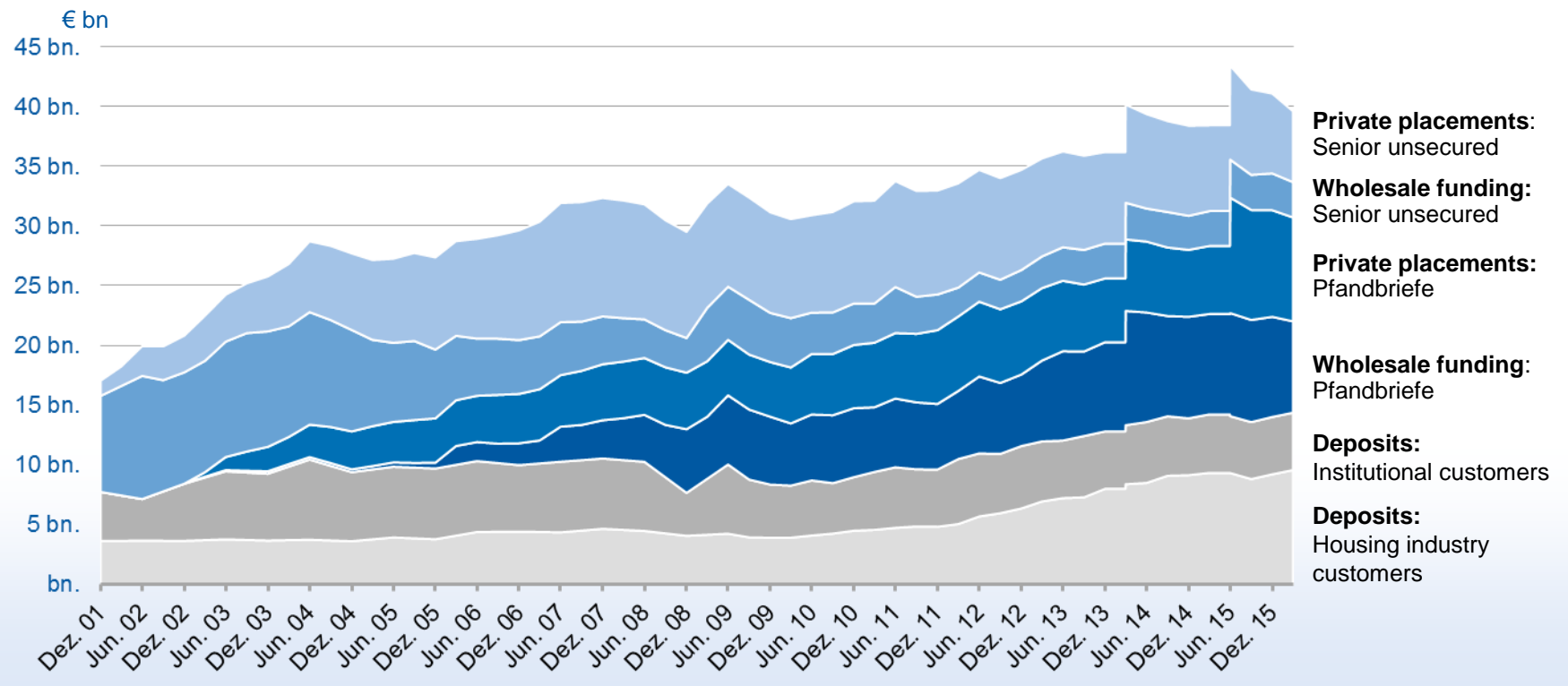
## Successful funding activities



- Total funding of € 0.5 bn in Q1 2016: mainly senior unsecured (€ 450 mn)
- Low Pfandbrief issuance due to acquisition of WestImmo
- Backbone of capital market funding is a loyal, granular, domestic private placement investor base
  - Hold-to-maturity investors: over 600
  - Ticket size: € 10 mn - € 50 mn

# Refinancing situation

## Diversified funding sources and distribution channels



- Aareal Bank has clearly reduced its dependency on wholesale funding
- 2002 long term wholesale funding accounted for 47% of overall funding volumes – by 31.03.2016, this share has fallen below 30% (or even below 10% without Pfandbriefe)

As at 31.03.2016



Asset quality

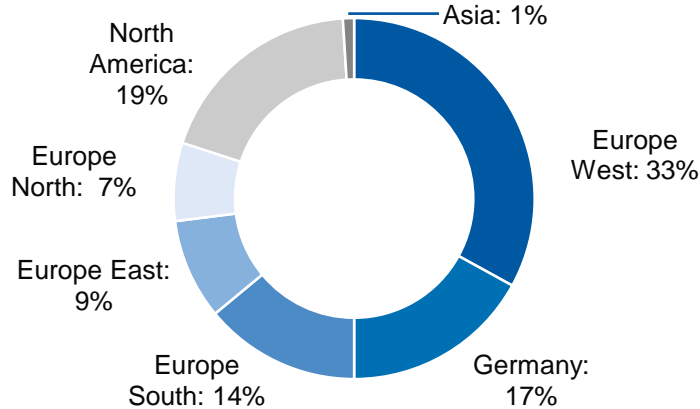
**Aareal**



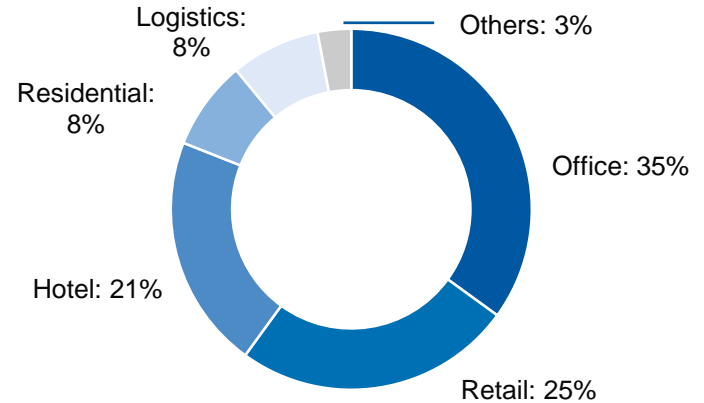
# Property finance portfolio<sup>1)</sup>

€ 30.1 bn highly diversified and sound

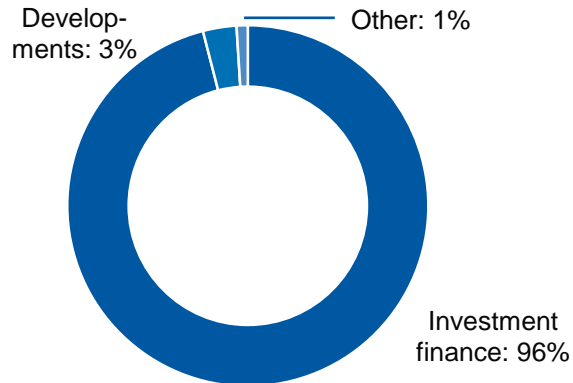
Portfolio by region



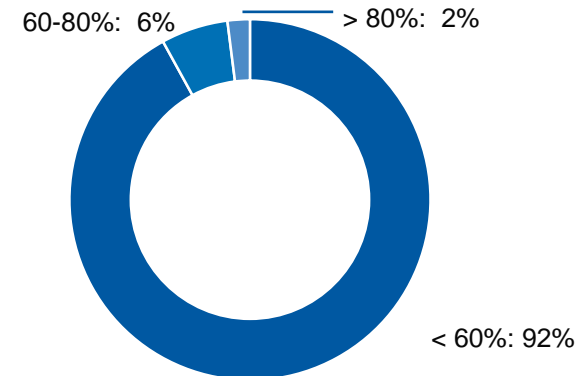
Portfolio by property type



Portfolio by product type



Portfolio by LTV ranges<sup>2)</sup>



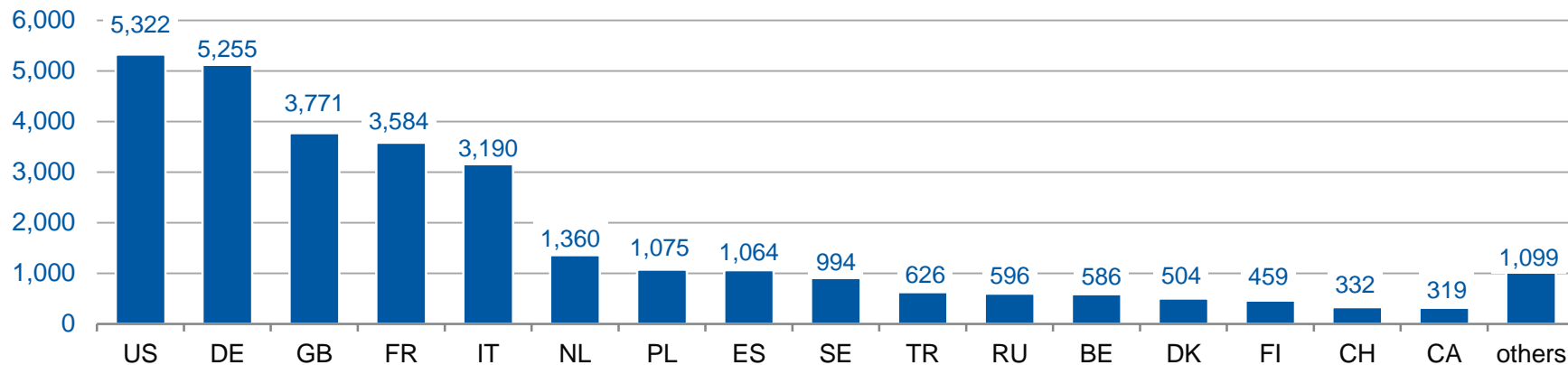
1) CRE business only, private client business (€ 1.4 bn) and WIB's public sector loans (€ 0.6 bn) not included

2) Performing business only, exposure as at 31.03.2016

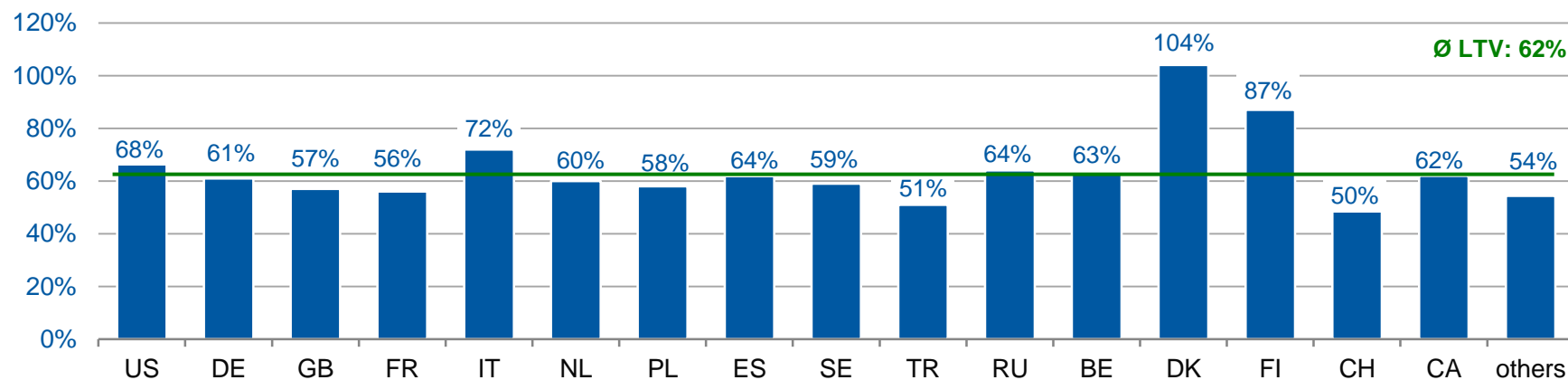
# Property finance portfolio<sup>1)</sup>

## Portfolio details

Total property finance portfolio by country (€ mn)



LTV by country<sup>2)</sup>



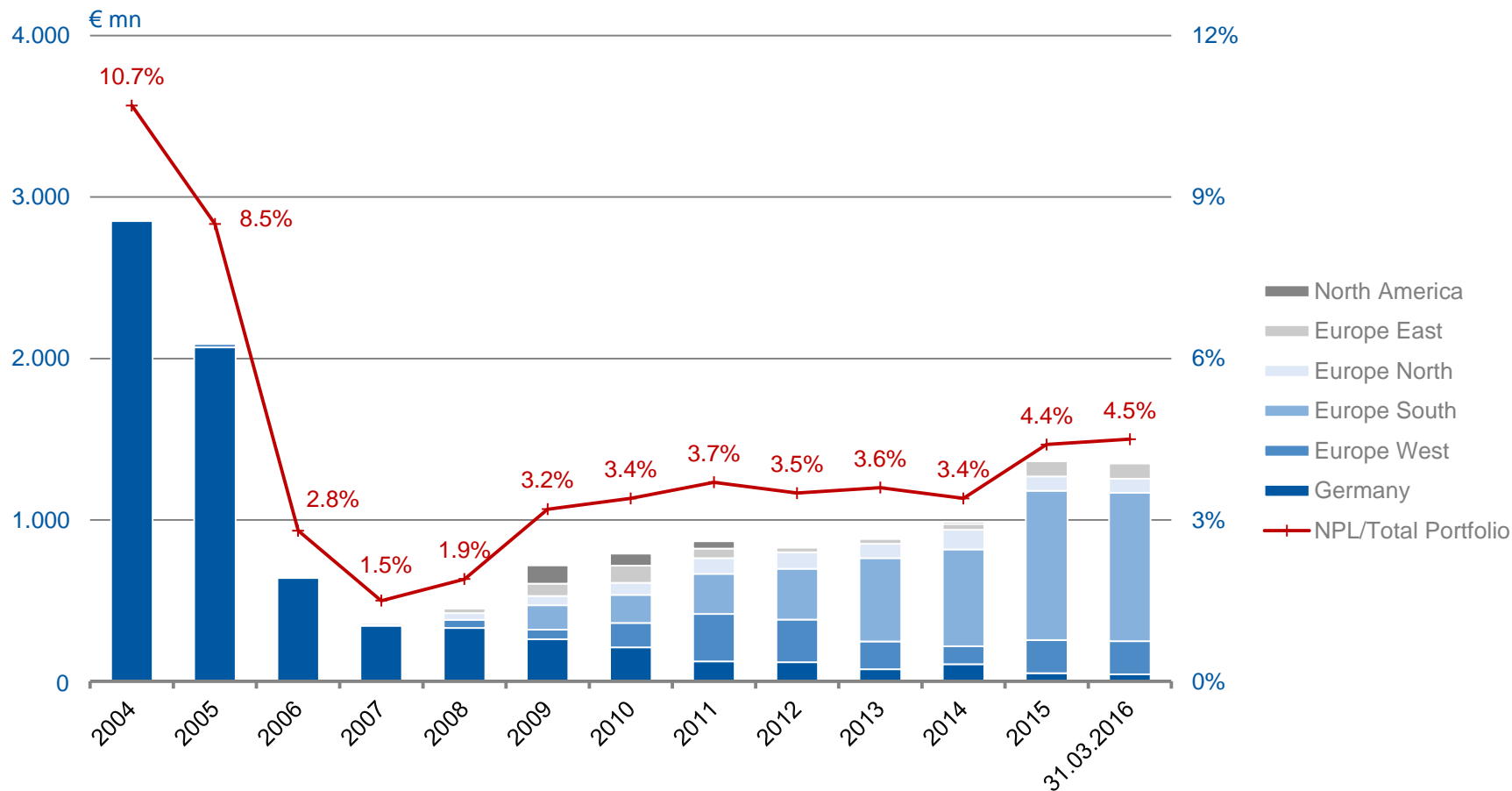
1) CRE business only, private client business (€ 1.4 bn) and WIB's public finance (€ 0.6 bn) not included

2) Performing business only, exposure as at 31.03.2016

# Property finance portfolio

## Italian NPLs expected to have peaked in Q4 2015

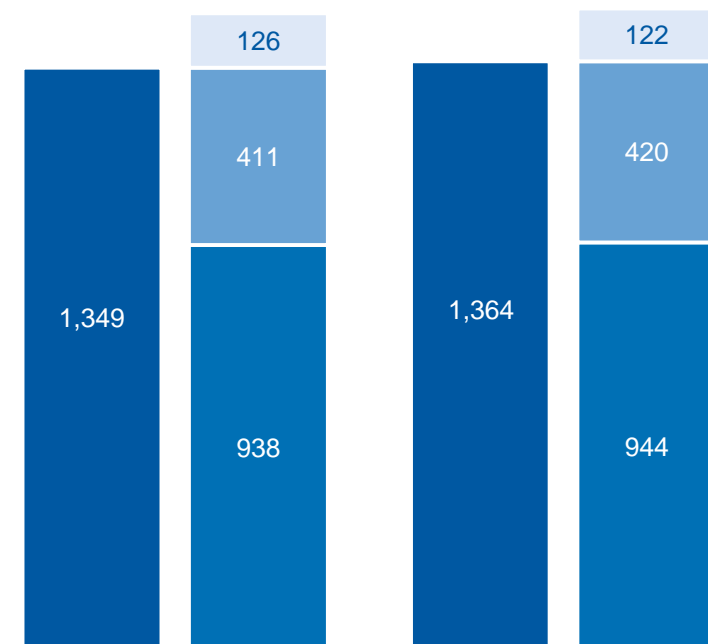
NPL and NPL-ratio (since 12.2004)



# Property finance portfolio

NPL exposure fully covered including collaterals

NPL- and LLP development (€ mn)



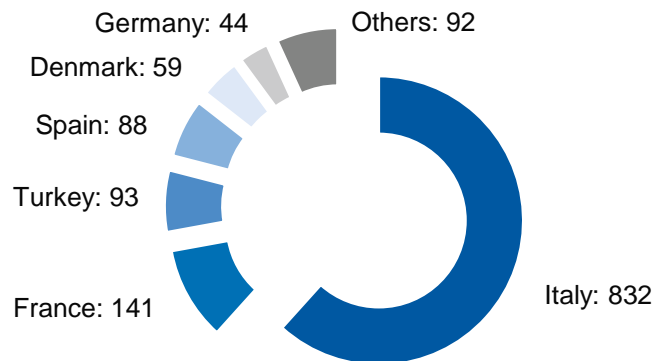
	31.03.2016	31.12.2015
Coverage ratio specific allowance	30%	31%
Coverage ratio including portfolio allowance	40%	40%

- NPL exposure
- Portfolio allowance
- Specific allowance
- Collaterals

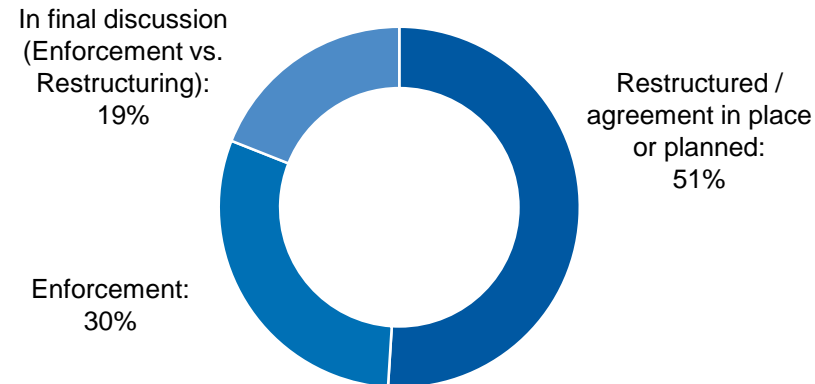
# Spotlight Italy

## Italian NPLs: clear going forward strategy

Total NPL portfolio: € 1.349 mn



Italian NPL by status



- 51% already restructured or agreement in place / planned
- 30% already in “enforcement”
- Only 2 deals (19%) in final discussions

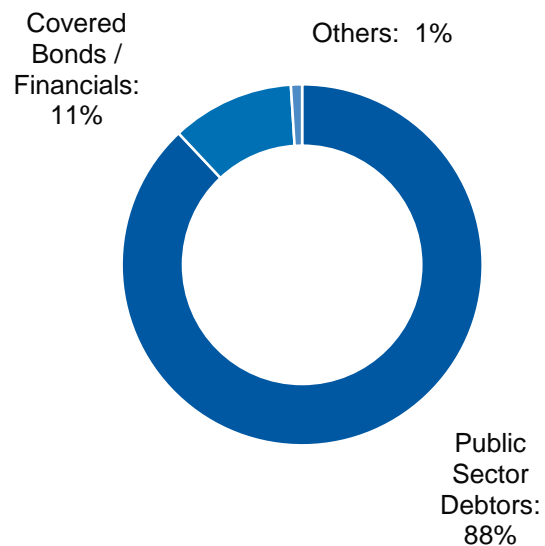


All NPLs are fully covered despite being in different workout-stages

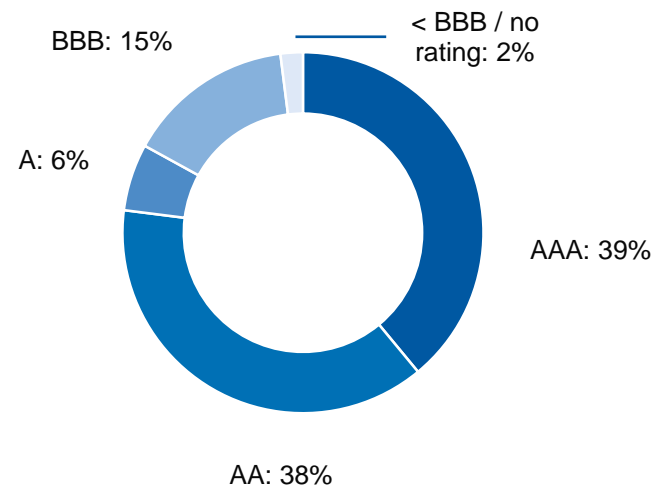
# Treasury portfolio

€ 9.7 bn of high quality and highly liquid assets

by asset class



by rating<sup>1)</sup>



As at 31.03.2016 – all figures are nominal amounts

1) Composite Rating



# Outlook 2016

**Aareal**

## Outlook 2016

2016	
<b>Net interest income</b>	▪ € 700 mn - € 740 mn incl. effects from early repayments (Original plan 2016: € 35 mn / FY 2015: € 75 mn)
<b>Allow. for credit losses<sup>1)</sup></b>	▪ € 80 mn - € 120 mn
<b>Net commission income</b>	▪ € 190 mn - € 200 mn
<b>Admin expenses</b>	▪ € 520 mn - € 550 mn incl. expenses for integration / projects and investments
<b>Operating profit</b>	▪ € 300 mn - € 330 mn
<b>Pre-tax RoE</b>	▪ ~ 11%
<b>EpS<sup>2)</sup></b>	▪ € 2.85 - € 3.19
<b>Target portfolio size</b> (ARL core portfolio)	▪ € 25 bn - € 27 bn
<b>New business origination</b>	▪ € 7 bn - € 8 bn
<b>Operating profit Aareon<sup>3)</sup></b>	▪ € 33 mn - € 35 mn

1) As in 2015, the bank cannot rule out additional allowances for credit losses

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




3) After segment adjustments



# Conclusion

## Aareal Bank Group remains on successful course

### Key takeaways at a glance

-  Aareal Bank Group continues successful development of recent years also in the first quarter of the current financial year, despite an even lower interest rate environment
-  Target operating profit for the full year confirmed after good start into the 2016 financial year
-  Exploiting new earnings potential via the "Aareal 2020" program



Appendix  
Aareal 2020

# Strategic background

## Assumptions

### General environment



Tougher competition and changing clients' needs



Volatile markets (interest rates / exchange rates, oil)



Increasingly stringent regulation, historically low interest rate environment



Technological change and digitalisation



Geopolitical risks

As published February 25, 2016

### Basic planning assumption: high volatility, low growth

#### Regulation



- Basel IV effects in line with our expectations
- Increasing regulation does not lead to additional (material) burdens

#### Property markets



- Property values: stable (EU), slightly increasing (US)
- Ongoing liquidity driven property markets, therefore increasingly inherent portfolio risks (esp. in Europe)

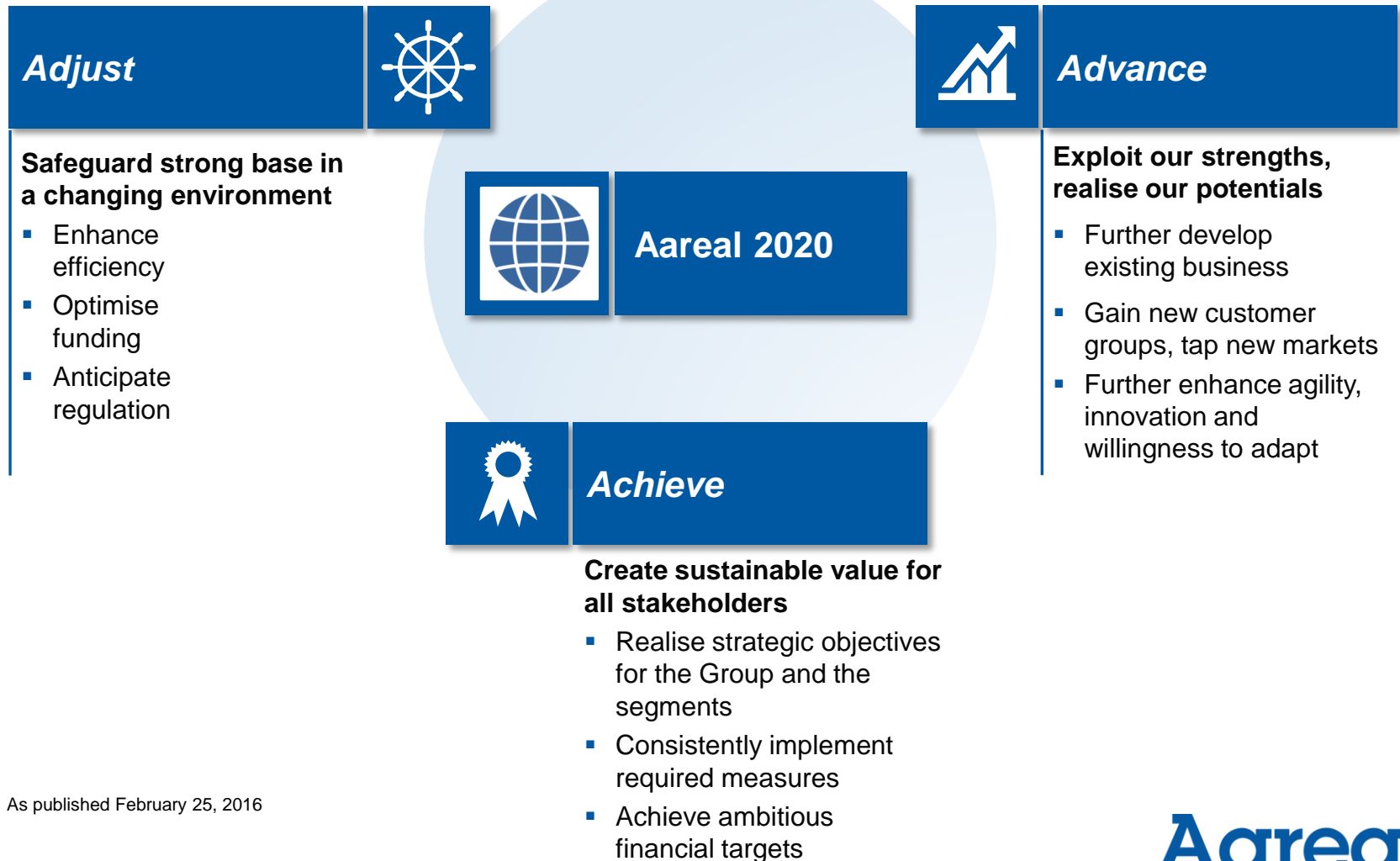
#### Macro-economic environment



- Economic development:
  - Euro zone sideways
  - US and some EU countries more dynamic
- Interest rates:
  - Euro zone: moderate increase starting '17
  - US: continued increase this year
- No euro zone break-up, no "Brexit", no strengthening of nationalistic tendencies in Europe
- No adverse development of geopolitical conflicts

# Aareal 2020 – *Adjust. Advance. Achieve.*

## Our way ahead



As published February 25, 2016



**Adjust.**

Maintain strategy, optimise set-up

**Enhance efficiency**

Considerably reduce admin expenses, digitise processes, optimise IT-architecture

Reduce admin expenses to ~ € 450 mn by 2018



**Optimise funding**

Further reduction of capital market-funding by increasing deposit base

Housing industry deposits to be increased to € 10 bn by 2018



**Anticipate regulation**

Aareal Bank well-prepared for expected scenarios, has identified counter measures to sustainably safeguard its business model

CET1 ratio 10.75% (plus 2.25% management buffer<sup>1)</sup>),  
T1-leverage ratio 4-5%



As published February 25, 2016

1) Management buffer of 2.25% planned until regulatory environment is sufficiently stable



## ***Advance: Structured Property Financing.*** Safeguard core business in adverse environment

**Further develop  
existing business**

**Gain new  
customer groups,  
tap new markets**

- In the medium term, expansion in markets with an attractive risk / return and macroeconomic growth potential, e.g. grow North America portfolio to € 6.0 bn - € 6.5 bn
- Active portfolio- and balance-sheet management e.g. by syndication
- Use digitisation potential with clients, identify and realise new digital business opportunities
- Examine additional business opportunities along the value chain of commercial property financing, e.g. in the area of servicing

**Further enhance agility, innovation and willingness to adapt**

As published February 25, 2016



## ***Advance: Consulting / Services.***

Leverage position as leading provider of ERP solutions in Europe to achieve future growth

**Further develop existing business**

**Gain new customer groups, tap new markets**

- Expanding “ecosystem housing industry”: international cross-selling, develop add-on products for ERP systems and new digital products
- Utilise existing know-how to expand “ecosystem utilities” by offering specific products (e.g. for transaction services) and IT services / consulting
- Further development of existing platform products for the management of housing companies for their B2C business
- Push our payment transaction services and IT products, targeting small-sized housing enterprises and COA-Manager

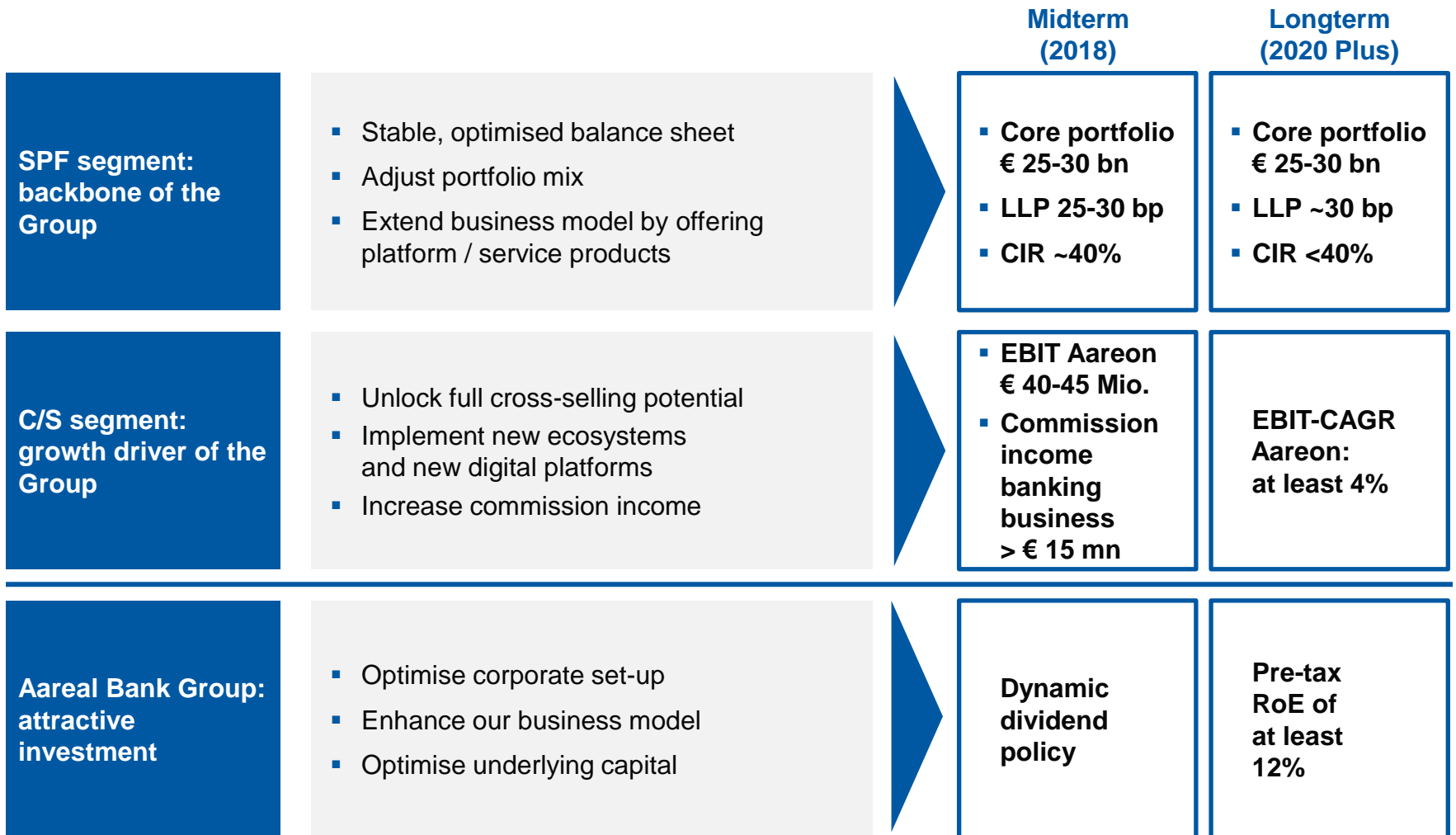
**Further enhance agility, innovation and willingness to adapt**

As published February 25, 2016



**Achieve.**

## What we are targeting



As published February 25, 2016



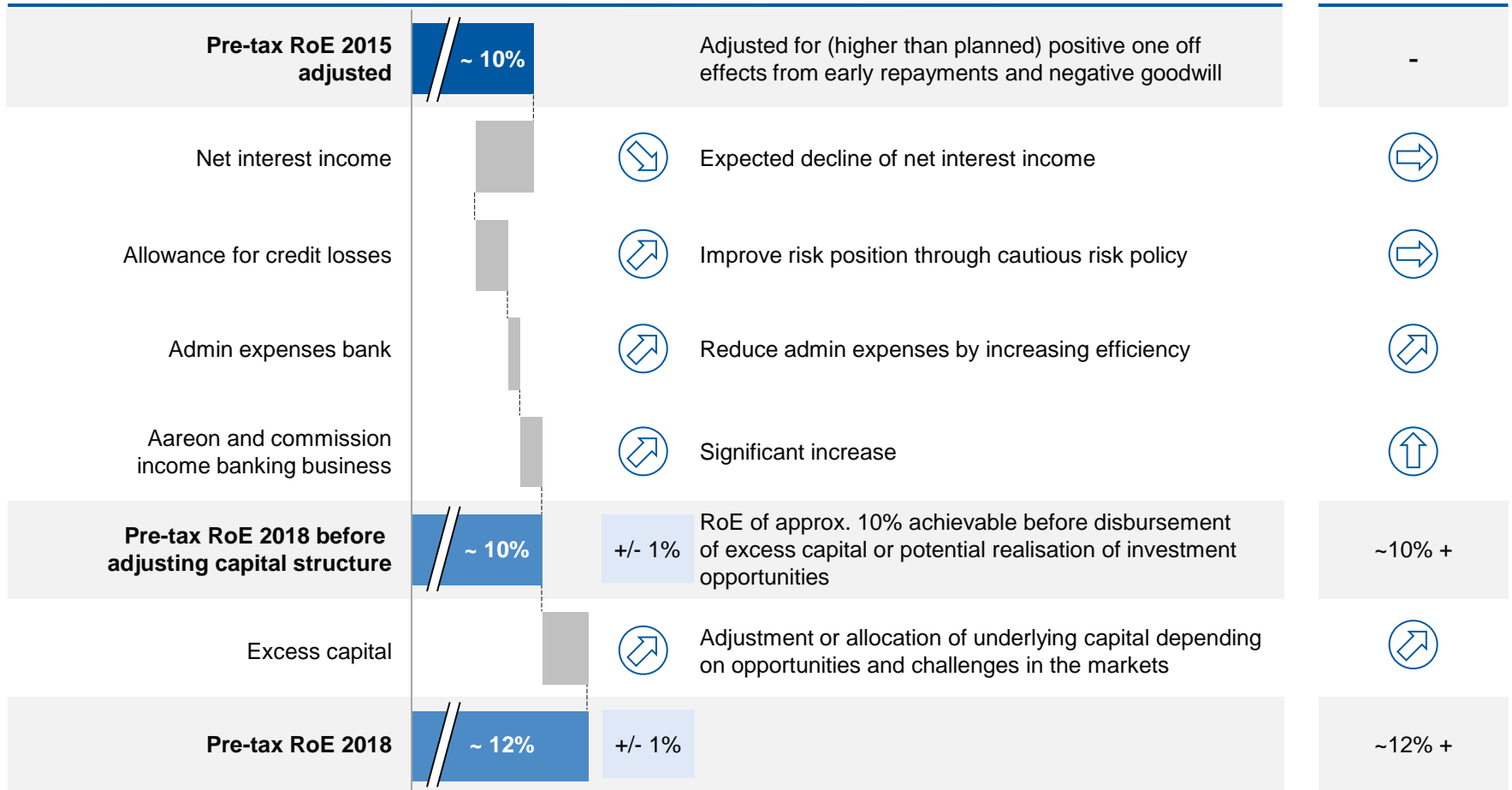


**Achieve.**

# Keep RoE on an attractive level despite difficult environment

## RoE-Development 2015 - 18

## 2020 Plus



As published February 25, 2016

Further medium-term increase is possible on the basis of a positive development of interest rate levels



## Achieve.

Increase payout ratio (up to 80%) and dividend<sup>1)</sup>

### Base dividend

We intend to distribute **approx. 50% of the earnings per ordinary share (EpS)** as base dividend

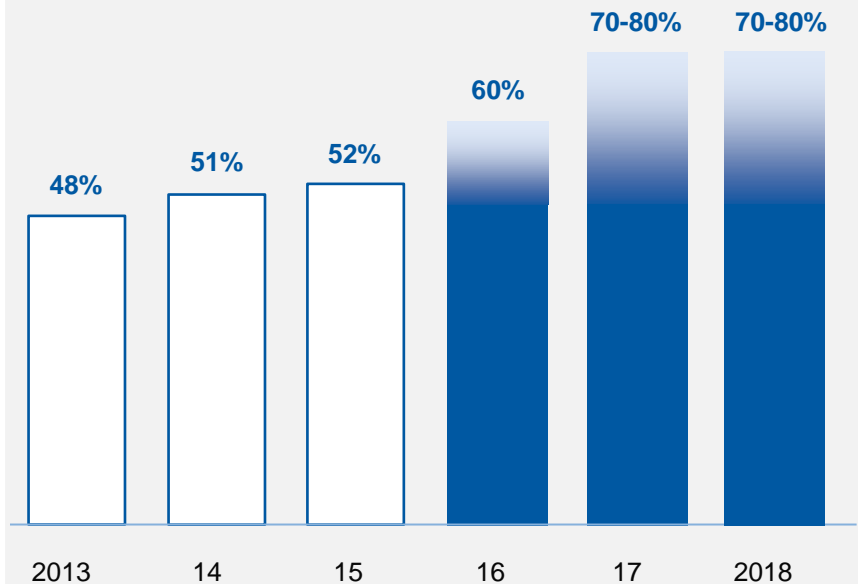
### Supplementary dividend

In addition, we plan to distribute **supplementary dividends, from 10% increasing up to 20-30% of the EpS**

#### Prerequisites:

- No material deterioration of the environment (with longer-term and sustainably negative effects)
- Nor attractive investment opportunities neither positive growth environment

Payout ratio 2013 - 2018



As published February 25, 2016

1) The future dividend policy applies provided that the dividend payments resulting from it are consistent with a long-term and sustained business development of Aareal Bank AG. In addition, the dividend payments are subject to the proviso that corresponding dividend proposals have been made by the Management Board and the Supervisory Board for the respective year.



Appendix  
Group results

# Aareal Bank Group

## Results Q1 2016

	01.01.- 31.03.2016 € mn	01.01.- 31.03.2015 € mn	Change
<b>Profit and loss account</b>			
Net interest income	180	178	1%
Allowance for credit losses	2	18	-89%
<b>Net interest income after allowance for credit losses</b>	<b>178</b>	<b>160</b>	<b>11%</b>
Net commission income	46	41	12%
Net result on hedge accounting	1	11	-91%
Net trading income / expenses	9	-7	
Results from non-trading assets	0	-3	
Results from investments accounted for at equity	0	0	
Administrative expenses	146	132	11%
Net other operating income / expenses	-1	-3	
Negative goodwill			
<b>Operating Profit</b>	<b>87</b>	<b>67</b>	<b>30%</b>
Income taxes	27	22	23%
<b>Consolidated net income</b>	<b>60</b>	<b>45</b>	<b>33%</b>
Consolidated net income attributable to non-controlling interests	5	5	0%
Consolidated net income attributable to shareholders of Aareal Bank AG	55	40	38%
<b>Earnings per share (EpS)</b>			
Consolidated net income attributable to shareholders of Aareal Bank AG <sup>1)</sup>	55	40	38%
of which: allocated to ordinary shareholders	51	36	42%
of which: allocated to AT1 investors	4	4	0%
Earnings per ordinary share (in €) <sup>2)</sup>	0.85	0.60	42%
Earnings per ordinary AT1 unit (in €) <sup>3)</sup>	0.04	0.04	0%

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) Earnings per ordinary share are determined by dividing the earnings allocated 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.

3) Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of 3 € each) are determined by dividing the earnings allocated 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 Q1 2016 by segments

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.01.- 31.03. 2016	01.01.- 31.03. 2015	01.01.- 31.03. 2016	01.01.- 31.03. 2015	01.01.- 31.03. 2016	01.01.- 31.03. 2015	01.01.- 31.03. 2016	01.01.- 31.03. 2015
€ mn								
Net interest income	182	178	0	0	-2	0	180	178
Allowance for credit losses	2	18					2	18
<b>Net interest income after allowance for credit losses</b>	<b>180</b>	<b>160</b>	<b>0</b>	<b>0</b>	<b>-2</b>	<b>0</b>	<b>178</b>	<b>160</b>
Net commission income	2	0	42	41	2	0	46	41
Net result on hedge accounting	1	11					1	11
Net trading income / expenses	9	-7					9	-7
Results from non-trading assets	0	-3					0	-3
Results from investments accounted for at equity			0	0			0	0
Administrative expenses	95	84	51	48	0	0	146	132
Net other operating income / expenses	-1	-3	0	0	0	0	-1	-3
Negative goodwill								
<b>Operating profit</b>	<b>96</b>	<b>74</b>	<b>-9</b>	<b>-7</b>	<b>0</b>	<b>0</b>	<b>87</b>	<b>67</b>
Income taxes	30	24	-3	-2			27	22
<b>Consolidated net income</b>	<b>66</b>	<b>50</b>	<b>-6</b>	<b>-5</b>	<b>0</b>	<b>0</b>	<b>60</b>	<b>45</b>
<b>Allocation of results</b>								
Cons. net income attributable to non-controlling interests	4	4	1	1			5	5
Cons. net income attributable to shareholders of Aareal Bank AG	62	46	-7	-6	0	0	55	40

# Aareal Bank Group

## Results – quarter by quarter

	Structured Property Financing					Consulting / Services					Consolidation / Reconciliation					Aareal Bank Group				
	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
€ mn																				
Net interest income	182	199	214	192	178	0	0	0	0	0	-2	-1	0	-1	0	180	198	214	191	178
Allowance for credit losses	2	42	37	31	18											2	42	37	31	18
<b>Net interest income after allowance for credit losses</b>	<b>180</b>	<b>157</b>	<b>177</b>	<b>161</b>	<b>160</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-2</b>	<b>-1</b>	<b>0</b>	<b>-1</b>	<b>0</b>	<b>178</b>	<b>156</b>	<b>177</b>	<b>160</b>	<b>160</b>
Net commission income	2	2	2	2	0	42	49	39	40	41	2	1	-1	0	0	46	52	40	42	41
Net result on hedge accounting	1	3	-3	-3	11											1	3	-3	-3	11
Net trading income / expenses	9	5	13	2	-7	0	0									9	5	13	2	-7
Results from non-trading assets	0	-2	-13	1	-3											0	-2	-13	1	-3
Results from results accounted for at equity			0			0	0	0	0	0						0	0	0	0	0
Administrative expenses	95	85	101	89	84	51	54	47	48	48	0	-1	-1	-1	0	146	138	147	136	132
Net other operating income / expenses	-1	14	14	12	-3	0	3	1	1	0	0	-1	0	0	0	-1	16	15	13	-3
Negative goodwill			150 <sup>1)</sup>																150 <sup>1)</sup>	
<b>Operating profit</b>	<b>96</b>	<b>94</b>	<b>89</b>	<b>236<sup>1)</sup></b>	<b>74</b>	<b>-9</b>	<b>-2</b>	<b>-7</b>	<b>-7</b>	<b>-7</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>87</b>	<b>92</b>	<b>82</b>	<b>229<sup>1)</sup></b>	<b>67</b>
Income taxes	30	27	29	26	24	-3	-3	-3	-2	-2						27	24	26	24	22
<b>Consolidated net income</b>	<b>66</b>	<b>67</b>	<b>60</b>	<b>210<sup>1)</sup></b>	<b>50</b>	<b>-6</b>	<b>1</b>	<b>-4</b>	<b>-5</b>	<b>-5</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>60</b>	<b>68</b>	<b>56</b>	<b>205<sup>1)</sup></b>	<b>45</b>
Cons. net income attributable to non-controlling interests	4	3	5	4	4	1	1	0	1	1						5	4	5	5	5
Cons. net income attributable to shareholders of Aareal Bank AG	62	64	55	206 <sup>1)</sup>	46	-7	0	-4	-6	-6	0	0	0	0	0	55	64	51	200 <sup>1)</sup>	40

1) Adjusted



Appendix  
AT1: ADI of Aareal Bank AG

# Interest payments and ADI of Aareal Bank AG

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

	31.12. 2015	31.12. 2014	31.12. 2013
<b>€ mn</b>			
Net Retained Profit	99	77	50
▪ <i>Net income</i>	99	77	50
▪ <i>Profit carried forward from previous year</i>	-	-	-
▪ <i>Net income attribution to revenue reserves</i>	-	-	-
+ Other revenue reserves after net income attribution	720	715	710
= Total dividend potential before amount blocked <sup>1)</sup>	819	792	760
./. Dividend amount blocked under section 268 (8) of the German Commercial Code	287	240	156
= Available Distributable Items <sup>1)</sup>	532	552	604
+ Increase by aggregated amount of interest expenses relating to Distributions on Tier 1 Instruments <sup>1)</sup>	46	57	57
= Amount referred to in the relevant paragraphs of the terms and conditions of the respective Notes as being available to cover Interest Payments on the Notes and Distributions on other Tier 1 Instruments <sup>1)</sup>	578	609	661

1) Unaudited figures for information purposes only



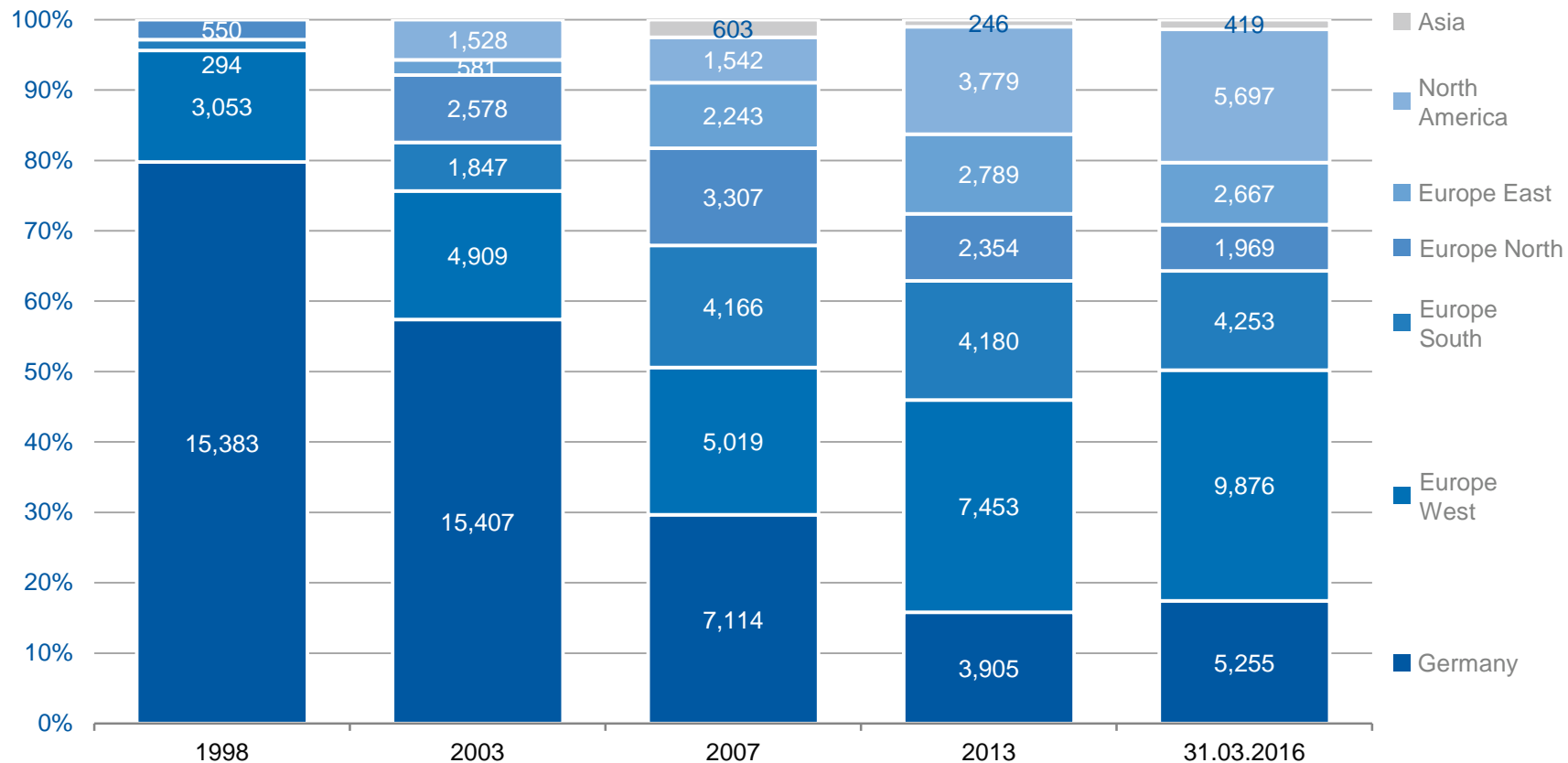


# Appendix

## Development property finance portfolio

# Development property finance portfolio

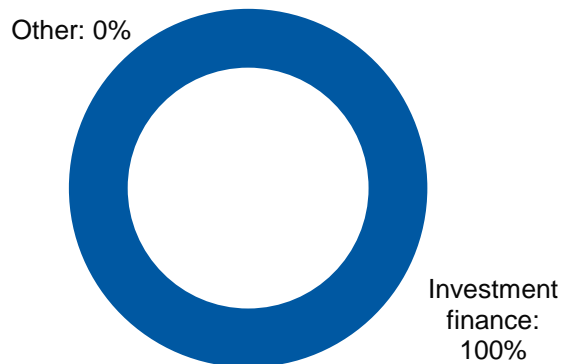
## Diversification continuously strengthened (in € mn)



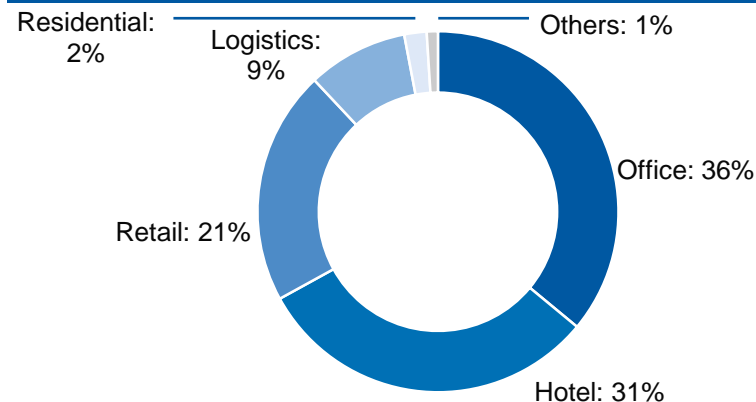
# Western Europe (ex Germany) credit portfolio

Total volume outstanding as at 31.03.2016: € 9.9 bn

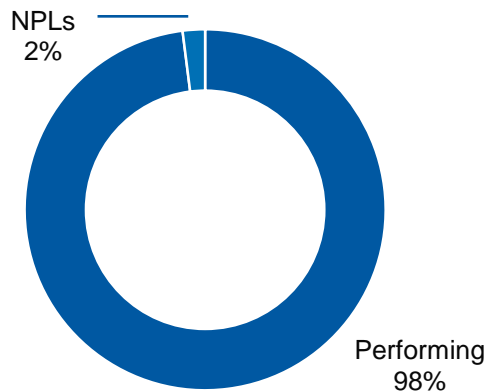
## by product type



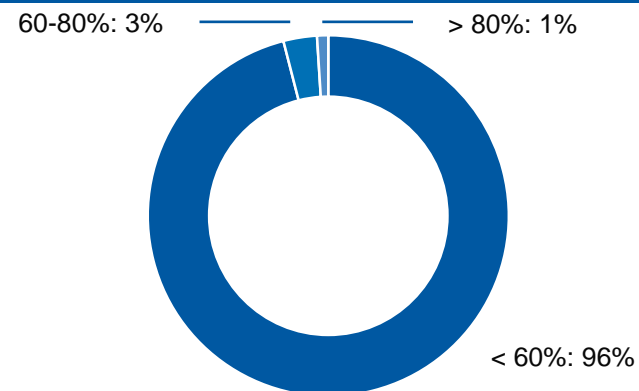
## by property type



## by performance



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

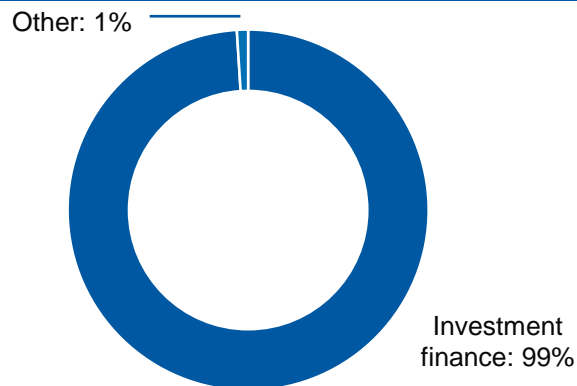


1) Performing business only, exposure as at 31.03.2016

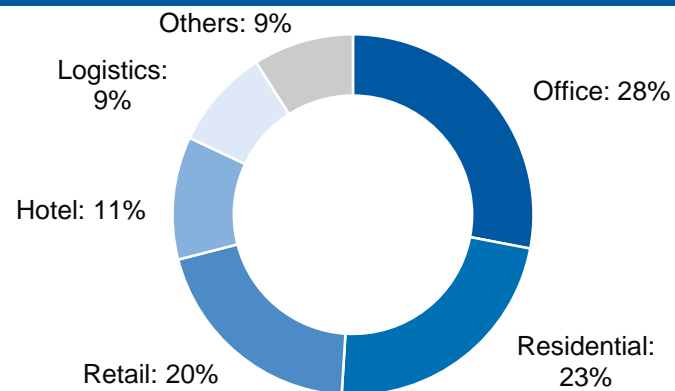
# German credit portfolio

Total volume outstanding as at 31.03.2016: € 5.3 bn

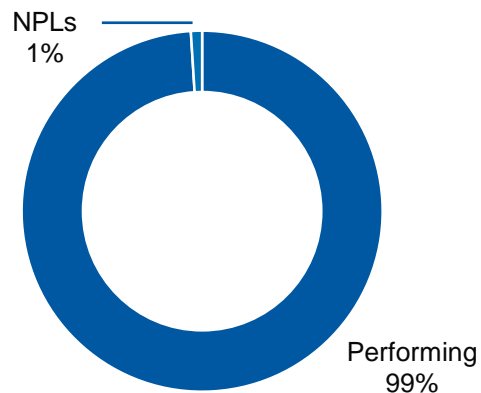
by product type



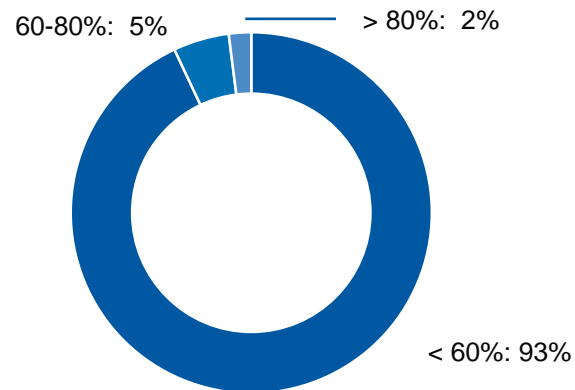
by property type



by performance



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

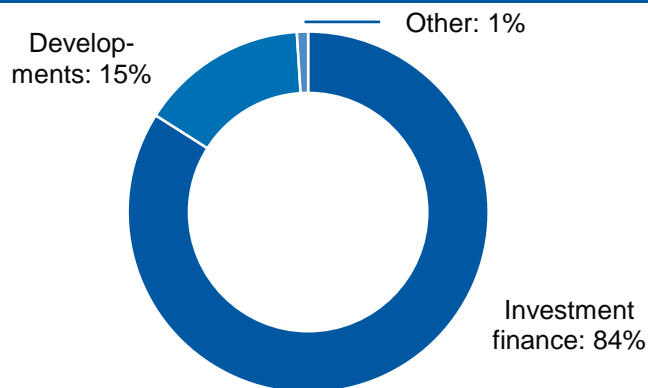


1) Performing business only, exposure as at 31.03.2016

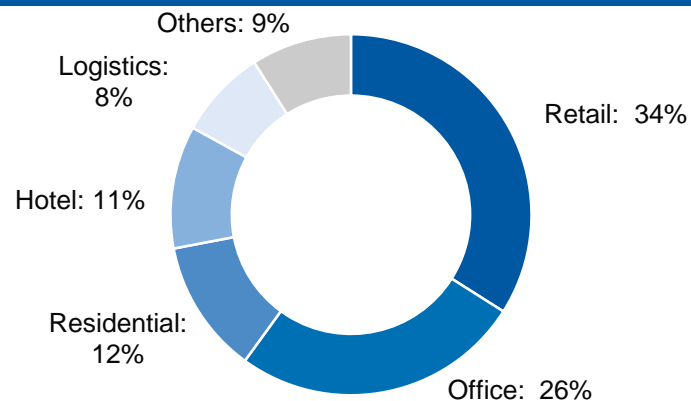
# Southern Europe credit portfolio

Total volume outstanding as at 31.03.2016: € 4.3 bn

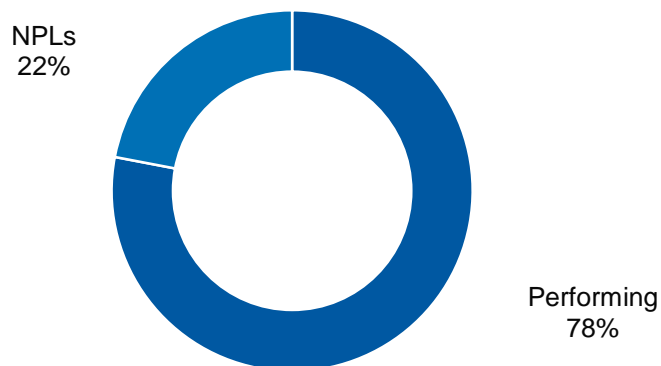
## by product type



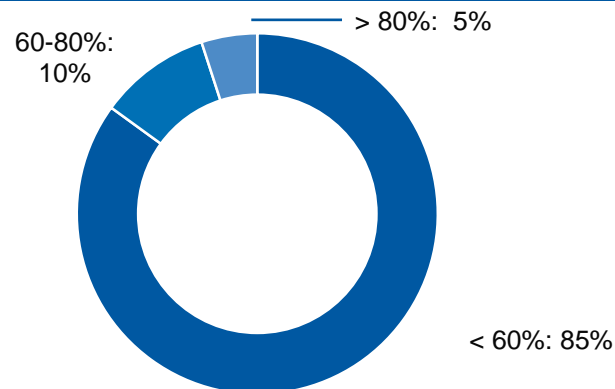
## by property type



## by performance



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

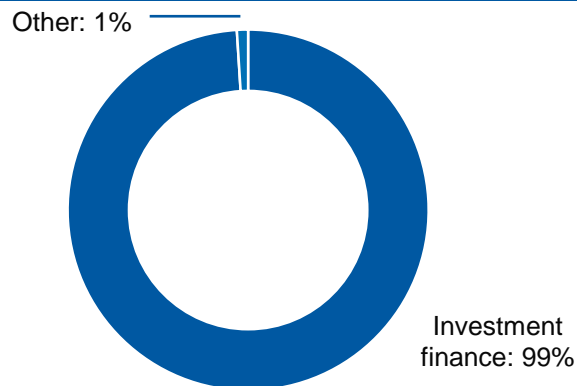


1) Performing business only, exposure as at 31.03.2016

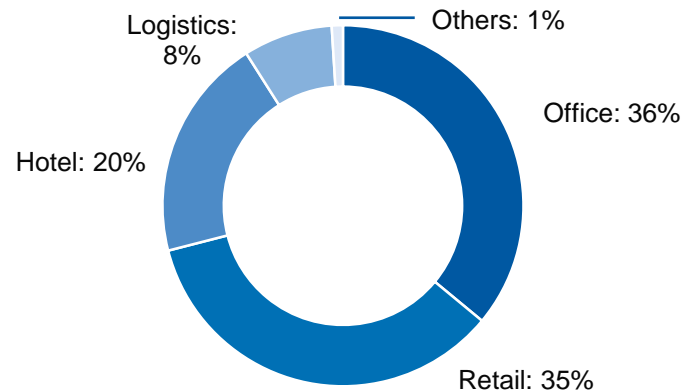
# Eastern Europe credit portfolio

Total volume outstanding as at 31.03.2016: € 2.7 bn

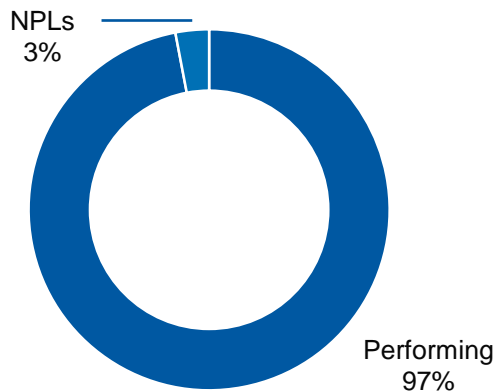
by product type



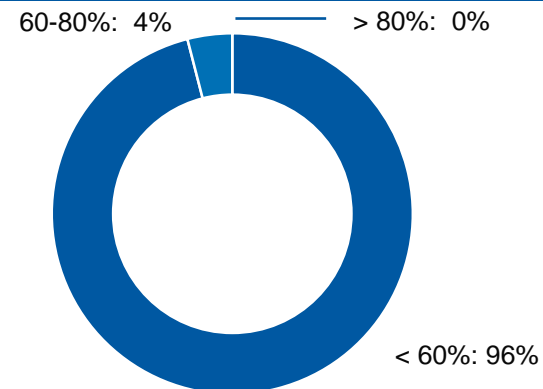
by property type



by performance



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

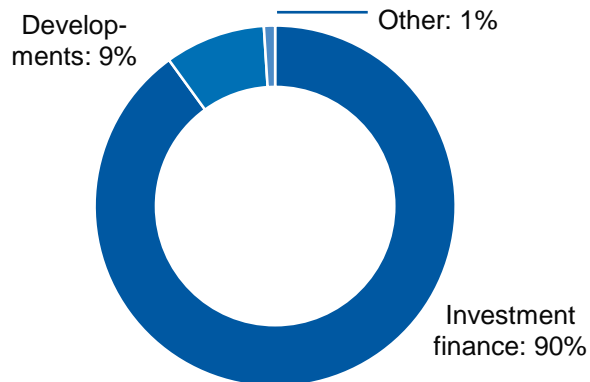


1) Performing business only, exposure as at 31.03.2016

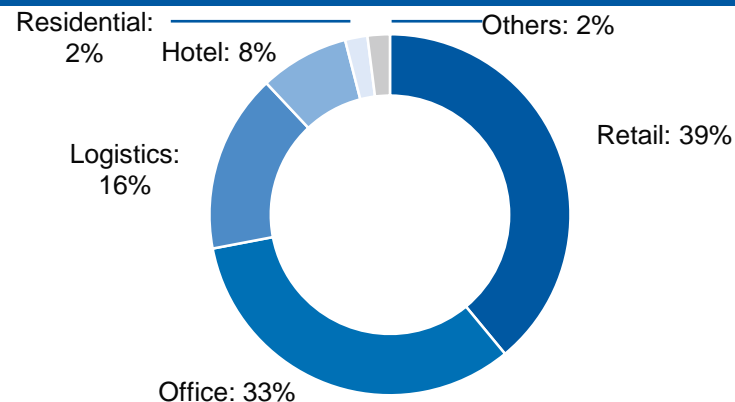
# Northern Europe credit portfolio

Total volume outstanding as at 31.03.2016: € 2.0 bn

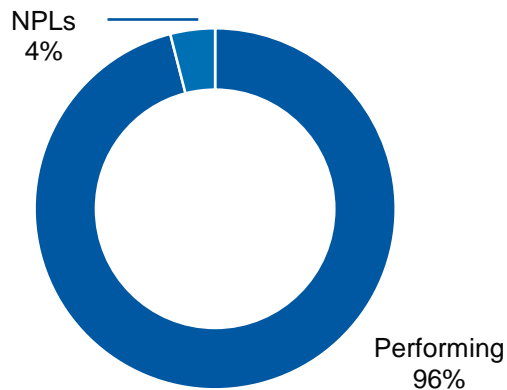
### by product type



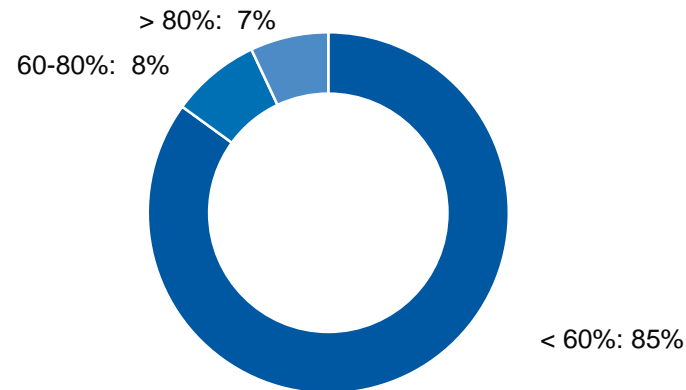
### by property type



### by performance



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

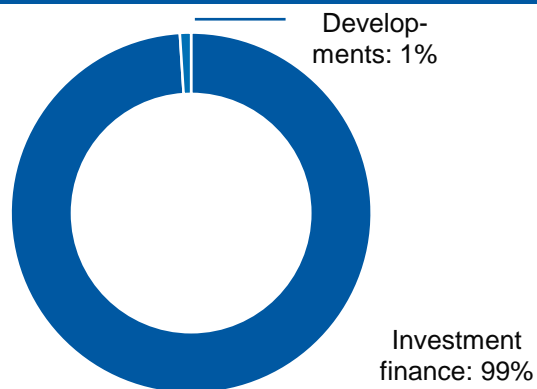


1) Performing business only, exposure as at 31.03.2016

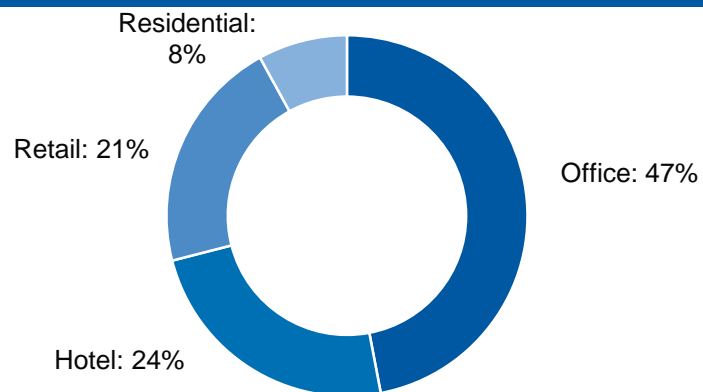
# North America credit portfolio

Total volume outstanding as at 31.03.2016: € 5.7 bn

by product type



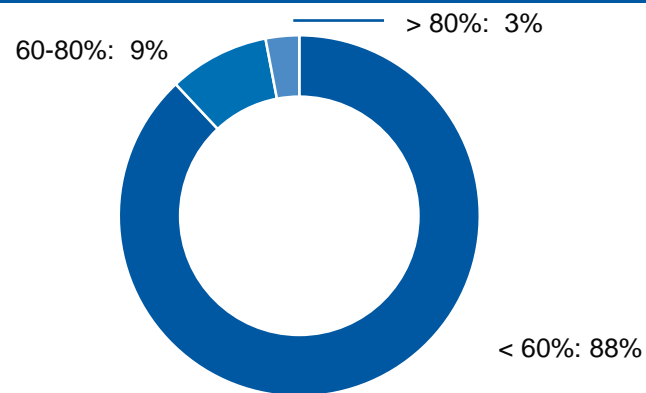
by property type



by performance



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



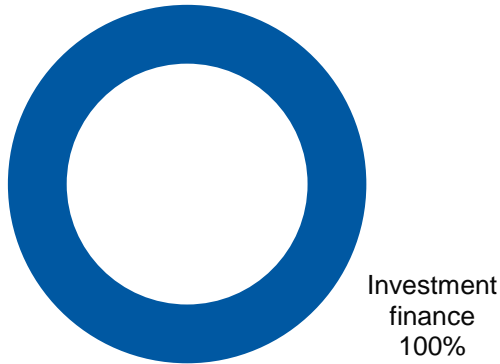
1) Performing business only, exposure as at 31.03.2016



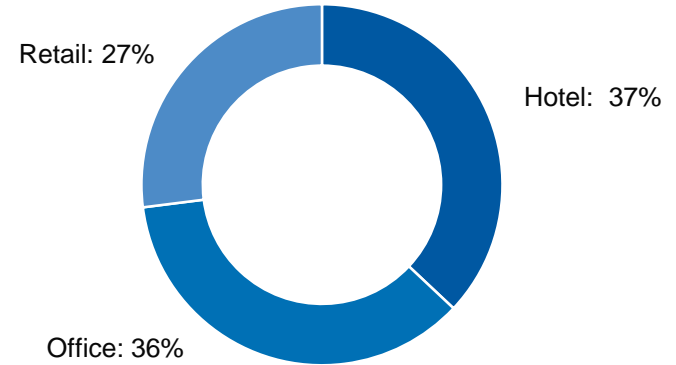
# Asia credit portfolio

Total volume outstanding as at 31.03.2016: € 0.4 bn

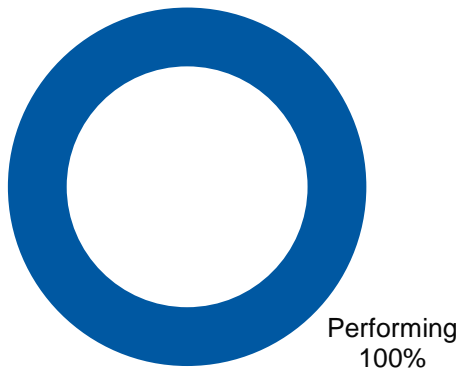
by product type



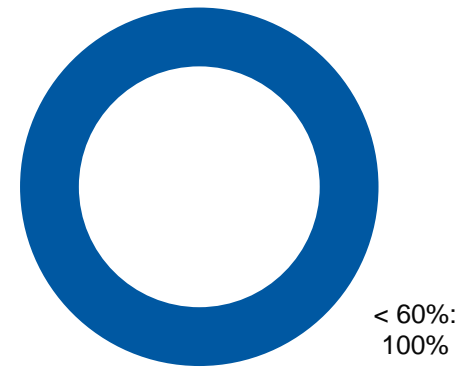
by property type



by performance



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



1) Performing business only, exposure as at 31.03.2016

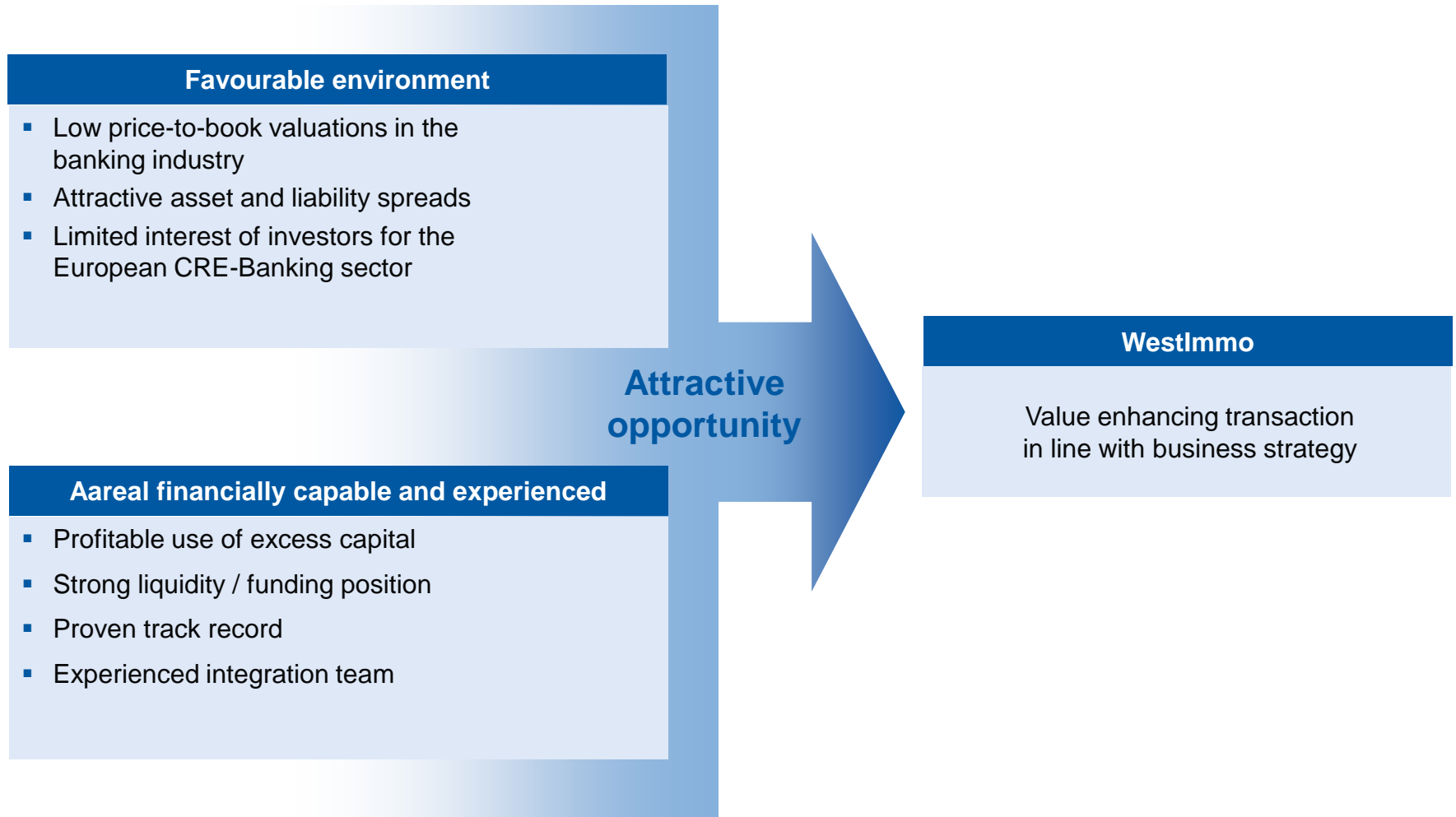


# Appendix

## Acquisition of WestImmo

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

## Attractive opportunity to pursue inorganic growth



1) As published February 22, 2015

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

## Value enhancing transaction in line with business strategy

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

1) As published February 22, 2015

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

## Business ability even without new business origination

### Strategy and business modell

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

### History

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

1) As published February 22, 2015

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

## Attractive terms and conditions

### Transaction

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

### Closing conditions

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

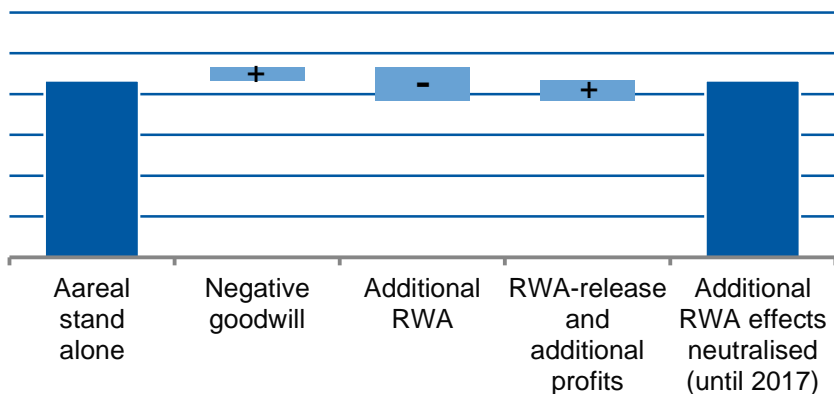
1) As published February 22, 2015

2) Subject to further adjustments

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

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

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



### 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)

### 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%)

### RoE

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

### Dividend policy

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

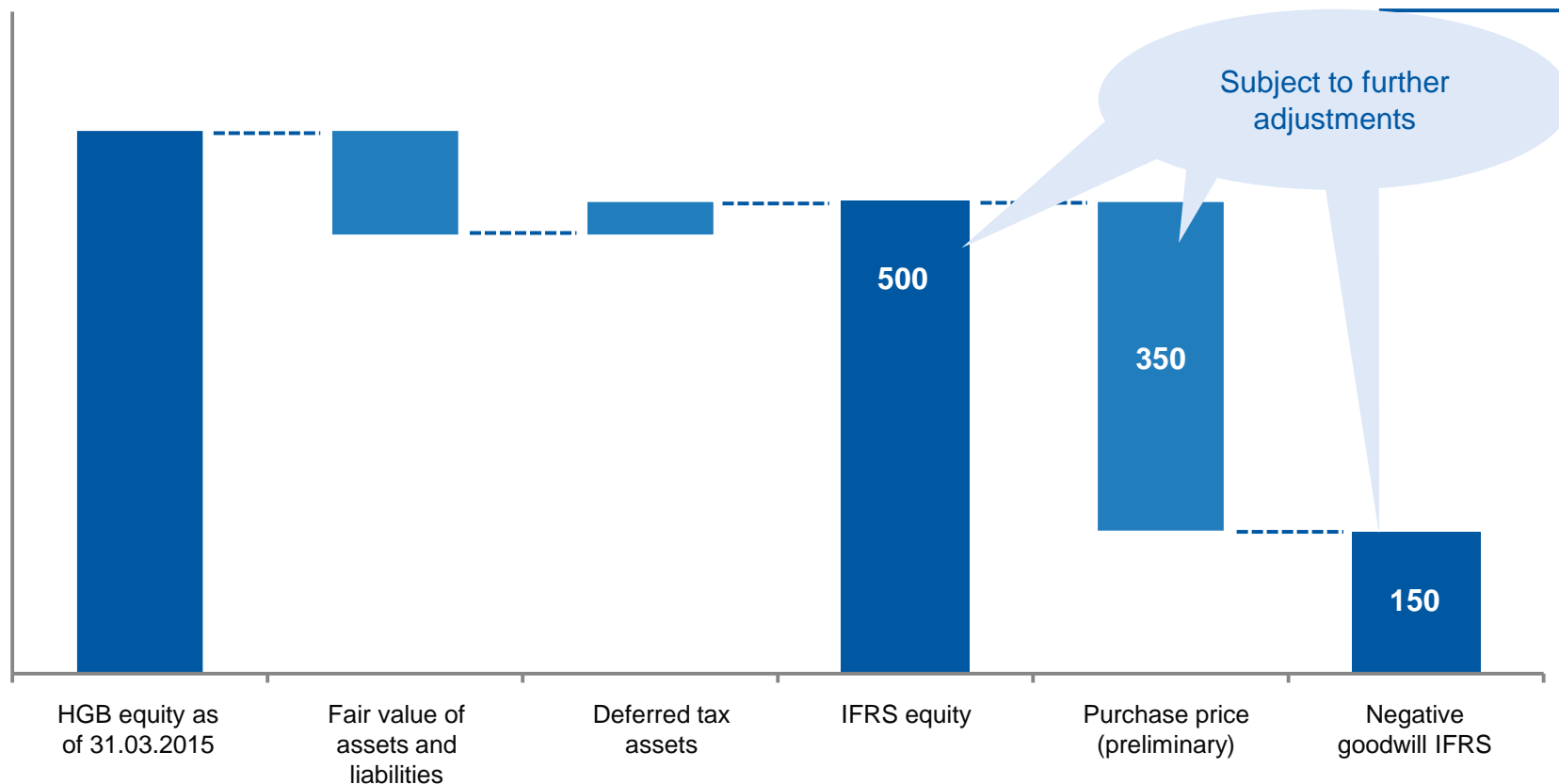
1) As published February 22, 2015

2) Pro forma extrapolated, assumed closing 31.03.2015

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

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

schematic



1) As published February 22, 2015

2) Pro forma extrapolated, assumed closing 31.03.2015



# Acquisition of WestImmo<sup>1)</sup>: Private client loans and Public sector loans<sup>2)</sup>

## Private client loans

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

## Public sector loans

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

1) As published February 22, 2015

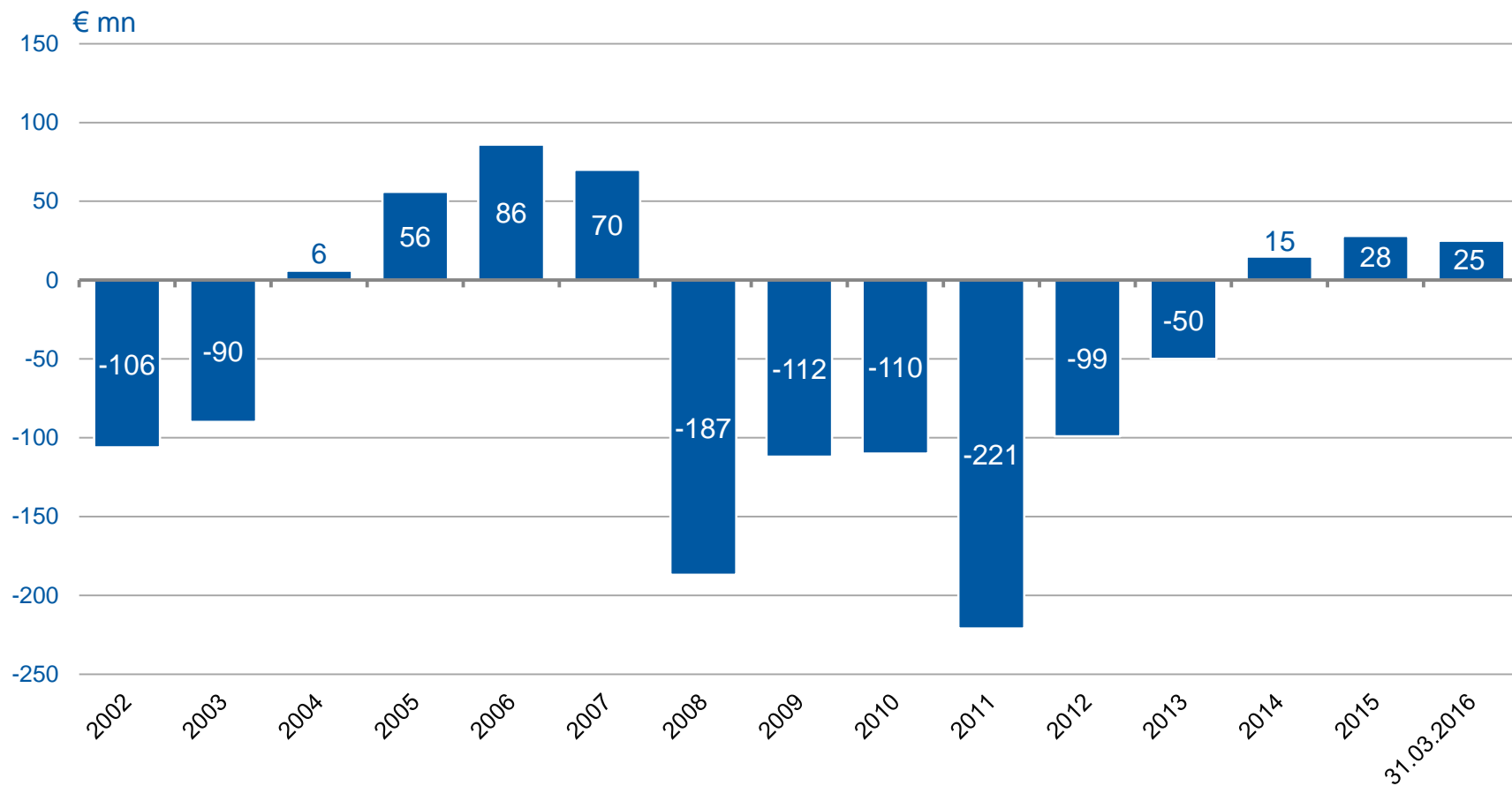
2) Pro forma extrapolated as at 31.03.2015



Appendix  
Revaluation surplus

# Revaluation surplus

Change mainly driven by asset spreads



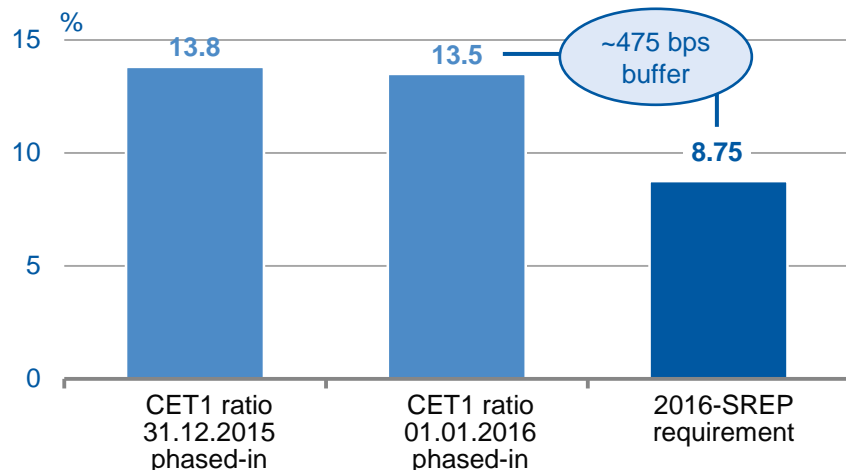
# Appendix

Capital ratios, CET1 development and RWA-split

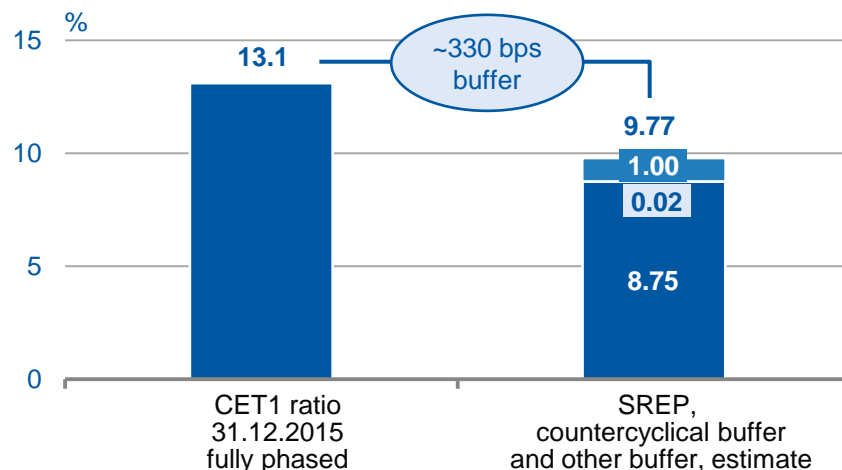
# Capital ratios

## SREP<sup>1)</sup> requirements

Capital ratios vs. SREP requirements (phased-in)



Capital ratios vs. SREP requirements (fully phased)



### Main takeaways

- Aareal Bank's SREP requirement according to ECB notification: 8.75% CET1 including capital conservation buffer
- Other buffer of 1% (estimated - not yet announced); actual countercyclical buffer: 0.02%
- CET1 ratio of 13.1% (fully phased) as at 31.12.2015: ~330 bps above SREP requirement (including capital conservation buffer AND estimated other buffer)
- ~330 bps buffer currently available to cover uncertainties coming from regulatory environment

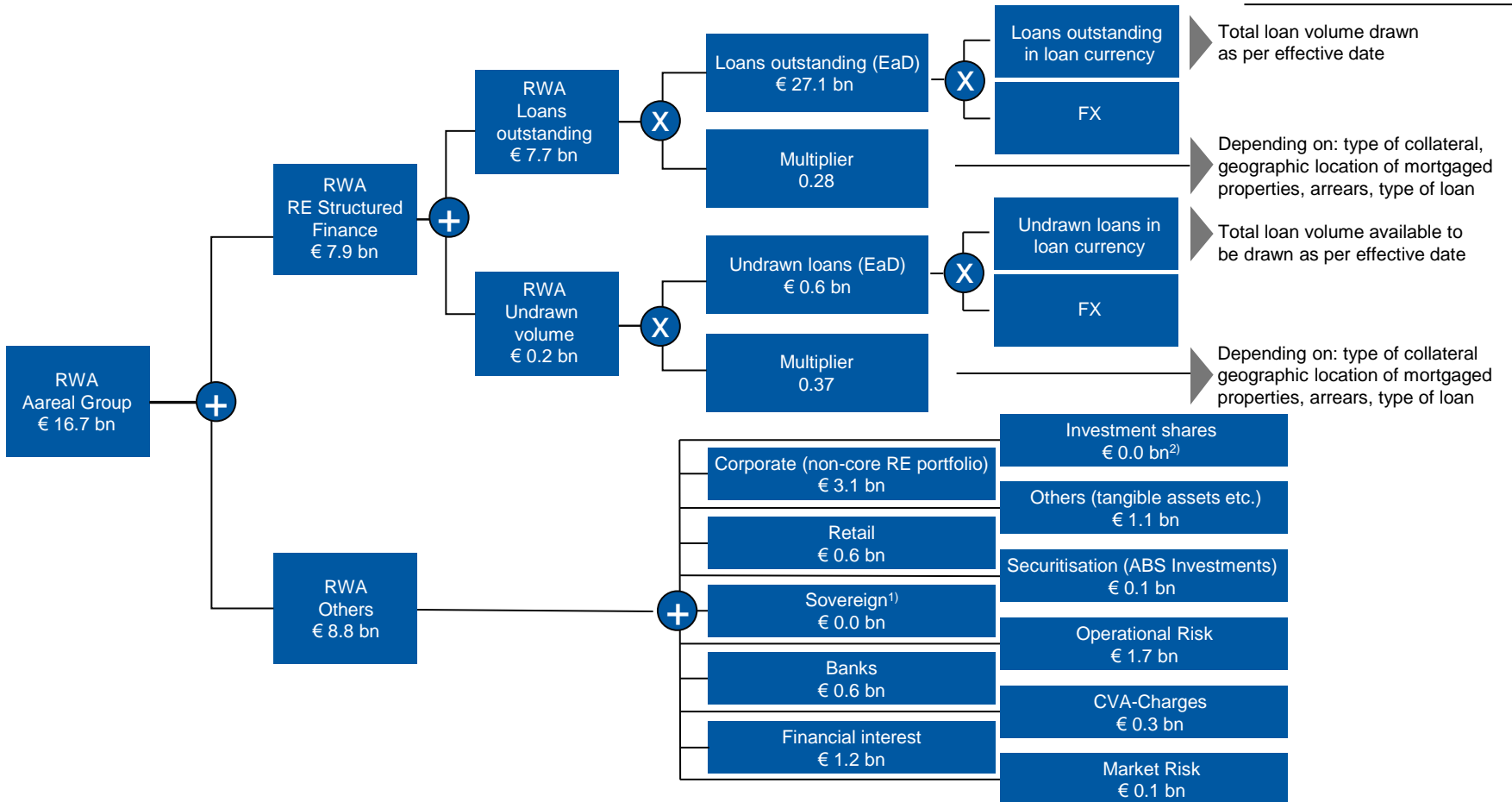
■ Other buffer, estimate  
■ Countercyclical buffer  
■ SREP requirement

1) Supervisory Review and Evaluation Process (SREP)

# From asset to risk weighted asset (RWA)

## Essential factors affecting volume of RWA

Effective date 31/03/2016



1) Amounts to € 36 mn

2) Amounts to € 4 mn



# Definitions and contacts

# 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** = 
$$\frac{\text{Operating profit ./. income/loss attributable to non-controlling interests ./. AT1 coupon}}{\text{Average IFRS equity excl. non-controlling interests, other reserves, AT1 and dividends}}$$
- **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** = 
$$\frac{\text{operating profit ./. income taxes ./. income/loss attributable to non controlling interests ./. net AT1 coupon}}{\text{Number of ordinary shares}}$$



# Contacts

- **Jürgen Junginger**  
Managing Director Investor Relations  
Phone: +49 611 348 2636  
[juergen.junginger@aareal-bank.com](mailto:juergen.junginger@aareal-bank.com)
- **Carsten Schäfer**  
Director Investor Relations  
Phone: +49 611 348 3616  
[carsten.schaefer@aareal-bank.com](mailto:carsten.schaefer@aareal-bank.com)
- **Sebastian Götzken**  
Senior Manager Investor Relations  
Phone: +49 611 348 3337  
[sebastian.goetzken@aareal-bank.com](mailto:sebastian.goetzken@aareal-bank.com)
- **Karin Desczka**  
Investor Relations  
Phone: +49 611 348 3009  
[karin.desczka@aareal-bank.com](mailto:karin.desczka@aareal-bank.com)

# Disclaimer

© 2016 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.