

LOCAL EXPERTISE  
MEETS GLOBAL EXCELLENCE

# Analyst Conference

## Financial Year 2008

March 27, 2009 – Dr. Wolf Schumacher, CEO – Hermann J. Merkens, CFO



**Aareal Bank**

# Agenda

- Highlights FY 2008
- SoFFin measures
- Group capital position
- Asset quality
- Current development and outlook
  
- Appendix
- Definitions and Contacts



## 2008 at a glance: Solid operating performance despite difficult markets

	2008	2007	Change %	Comments
Operating profit (€ mn)	117	380	-69.2	2007 profit included significant one-off effects of € 121 mn
Clean operating profit excl. one-off effects (€ mn)	153	159	-3.8	Clean operating profit nearly on 2007 level despite very challenging Q4
Group net income after minorities (€ mn)	60	290	-79.3	Solid profitability despite challenging environment
RoE after taxes (%)	4.5	25.0	-	
Tier 1 ratio <sup>1)</sup> (%) (reported)	8.0 (KSA)	7.3 (BIS)	-	Regulatory capital calculated according to KSA from 2008 onwards

1) Pre capital measure



# 2008 at a glance: Solid operating performance despite difficult markets

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## **Profitability maintained**

- All quarterly results since beginning of crisis in 2007 showed positive results; also Q4 2008 despite very challenging markets

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## **Positive result in both business segments**

- Structured Property Financing segment: € 73 mn EBT – despite significant increase in capital markets volatility
- Consulting/Services segment: € 44 mn EBT – high earnings stability untouched by financial crisis

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## **Concentration on core competences**

- Was already carried out before the financial crisis

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## **Lean and flexible set-up**

- Allowing us to react swiftly to the fast changing environment

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## **Conservative funding**

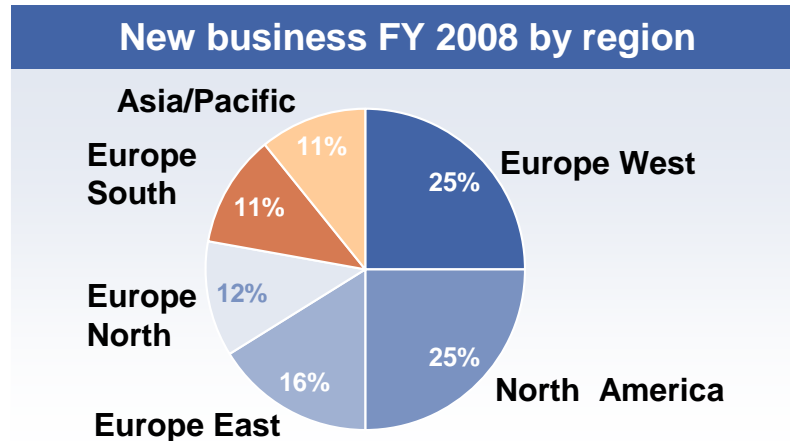
- Funding position solid despite financial crisis

1) Pre capital measure



# Structured property financing: Profitable despite significant increase in capital markets volatility

P&L SPF Segment	2008	2007	Change
	€ mn	€ mn	%
Net interest income	403	347	+ 16.1
Loan loss provision	80	77	+ 3.9
Commission income	29	24	+ 20.8
Net trading result	-23	-26	-
Result from non-trading assets	-95	52	-
Admin expenses	200	212	- 5.7
Others	39	89	- 56.2
<b>Operating profit</b>	<b>73</b>	<b>197</b>	<b>-62.9</b>



- Very selective in writing new business already in 2008: focus on business with outstanding risk-return-profile
- Focus on high diversification maintained
- Strong net interest income supported by higher margins and substitution of senior unsecured funding with Pfandbriefe



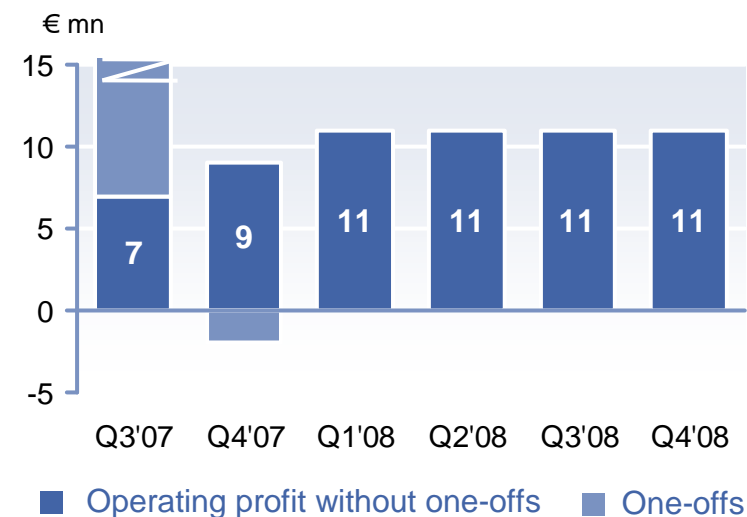
**Aareal Bank**

## Consulting / Services: High earnings stability untouched by financial crisis

P&L C/S Segment (industry format)	2008	2007	Change
	€ mn	€ mn	%
Sales revenue	229	223	+ 2.7
Own work capitalised	1	2	- 50.0
Other operating income	12	162 <sup>1)</sup>	
<i>Excl. one-offs</i>	12	9	+ 33.3
Cost of material purchased	36	36	0.0
Staff expenses	99	102	- 2.9
Depreciation, amortisation and impairment losses	14	16	
<i>Excl. one-offs</i>	14	14	0.0
Results from investments accounted for at equity	0	5	
<i>Excl. one-offs</i>	0	0	0.0
Other operating expenses	49	55	
<i>Excl. one-offs</i>	49	52	- 5.8
<b>Operating profit</b>	<b>44</b>	<b>183</b>	
<i>Excl. one-offs</i>	<b>44</b>	<b>30</b>	<b>+ 46.7</b>

1) Boosted by IS24 sale

5



- Origination successes in all product lines
- Stable demand for consulting services
- Stable earnings independent from financial crisis
- EBT of € 44 mn in line with FY guidance (€ 40-50 mn)



**Aareal Bank**

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# SoFFin support measures: Key terms

## Silent participation

- Volume: € 525 mn in one tranche
- Coupon: 9%
- Term: perpetual
- Redemption: at nominal value
- Fully recognised as Tier 1 capital
- Call rights: by Aareal Bank only, acc. to para. 10,4,3 German Banking Law
- No dividend payments during 2009 and 2010 for preceding years
- Additional remuneration: coupon increases on a pro rata basis by 0.5 pp for each 0.25 € DpS
- Subordination in case of liquidation and insolvency: junior to existing and future Tier 2 instruments (incl. Genussrechte /-scheine) and other debt; pari passu with existing tier 1 hybrids and future tier 1 hybrid offerings; senior to shareholders
- Loss sharing: pari passu with all other instruments with loss participation; no dividend payment until full compensation of shared losses

## Government guarantee facility

- Volume: € 4 bn
- Term: ≤ 36 months
- Guaranteed obligations: bearer bonds
- Drawdown period: until 31.12.2009
- Commitment fee: 10 bp (for undrawn guarantee)
- Drawdown fee:
  - ≤ 12 months: 50 bp p.a.
  - > 12 months: 94.8 bp p.a.





# As a fundamentally sound bank, consequences from SoFFin measures are manageable<sup>1)</sup>

## **Aareal Bank profile unchanged**

- Aareal Bank's business model will remain unchanged
- No state influence on current business model and corporate governance
- Fundamentally sound bank; no request for restructuring plan expected
- Holding remains anchor investor and retains its current shares
- Voting agreement in order to maintain Aareal Holding's blocking minority to be concluded

## **Interest payments manageable**

- Interest payments on silent participation are economically reasonable
- Economic costs roughly equal the dividend payments 2007
- Flexible funding at attractive costs compared to senior unsecured

## **Conditions market standard**

- Aareal Bank has agreed to pay no dividend during 2009 and 2010
- Cash compensation for management board is capped in 2009 and 2010
- No further conditions exceeding German Financial Market Stabilisation Act

## **Exit determined by Aareal Bank**

- Aareal Bank committed to repaying silent participation midterm, given sound capitalisation
- Aareal Bank can determine the date of repayment (BaFin approval required)
- Aareal Bank has a variety of options to repay the silent participation

1) Subject to standard EU Commission proceedings



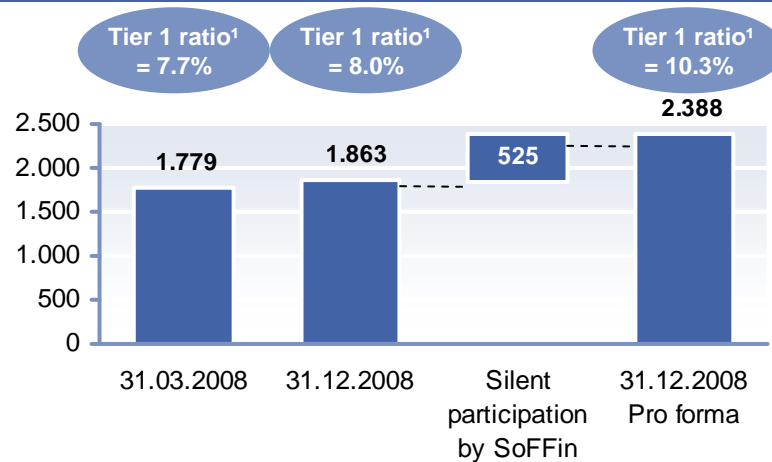
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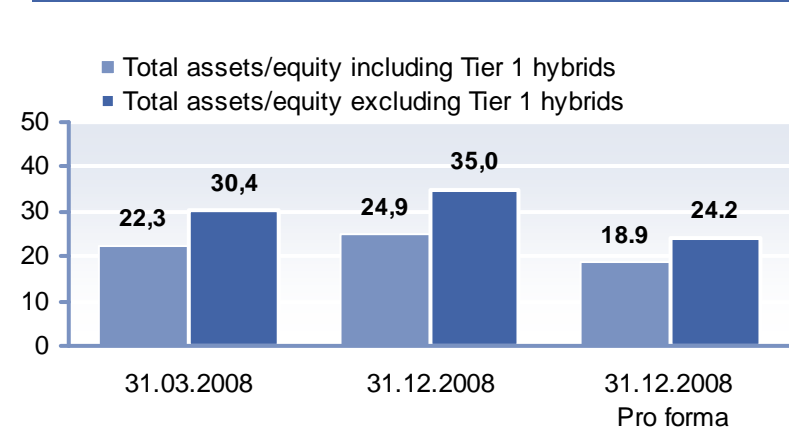


# Silent participation improves Tier 1 Ratio to pro forma 10.3% even under KSA

**Pro forma Tier 1 capital (KSA/German GAAP) after SoFFin measure**



**Pro forma total balance sheet leverage after SoFFin measure<sup>2)</sup>**



**Composition of Tier 1 capital**

€ mn	31.03.2008	31.12.2008	31.12.2008 Pro forma
Core Tier 1	1,309	1,393	1,918
Hybrid Tier 1	470	470	470
Hybrid ratio	26%	25%	20%
<b>Total Tier 1</b>	<b>1,779</b>	<b>1,863</b>	<b>2,388</b>

- Even under standard approach (KSA) new pro forma Tier 1 ratio of 10.3% in line with peers and market requirements
- Aareal Bank currently uses KSA; implementation of IRBA might lead to higher ratios

1) Excluding market risk

2) Gross IFRS numbers (particularly no netting of derivatives)

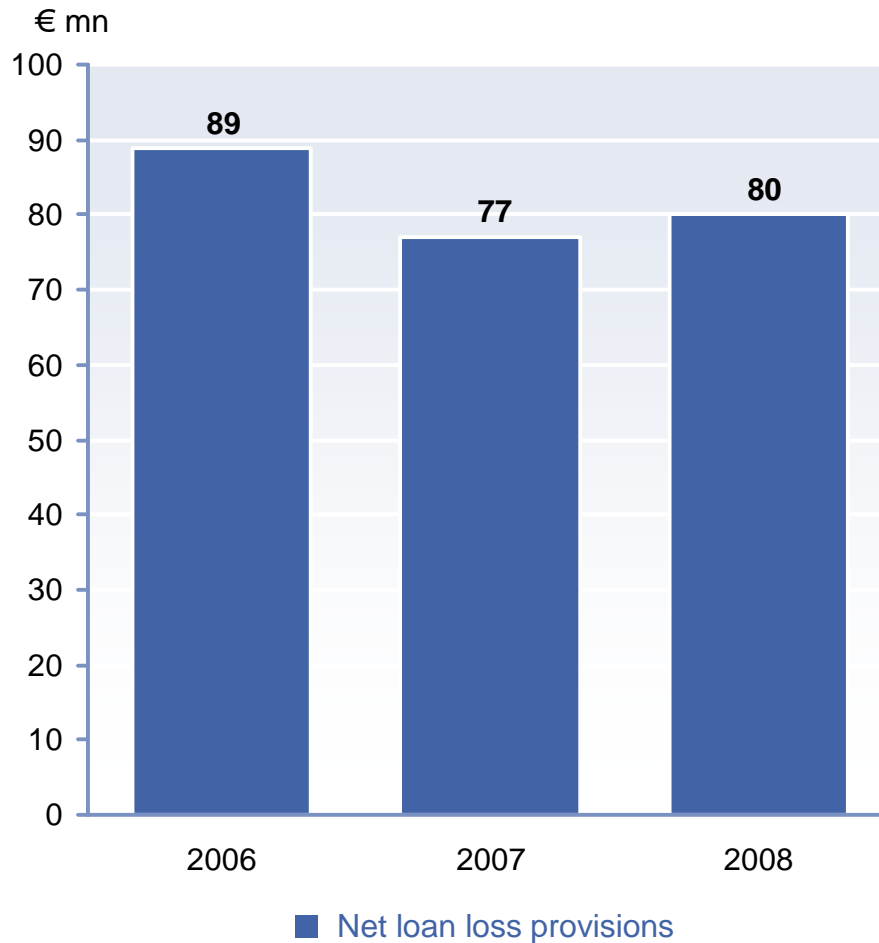


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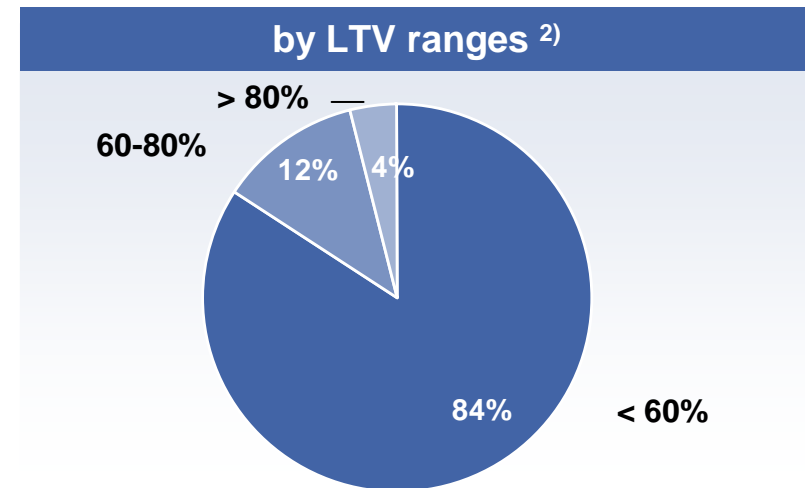
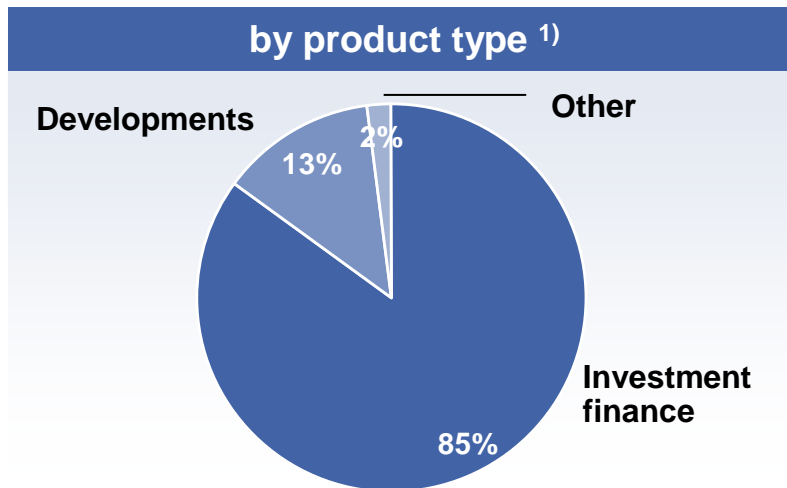
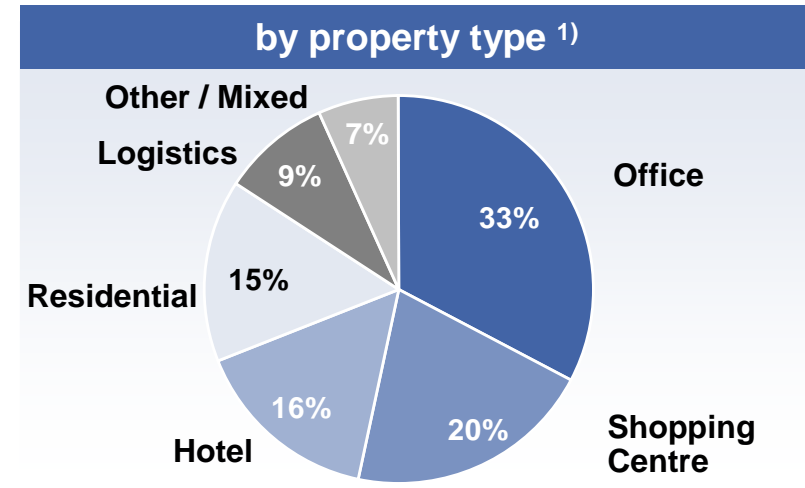
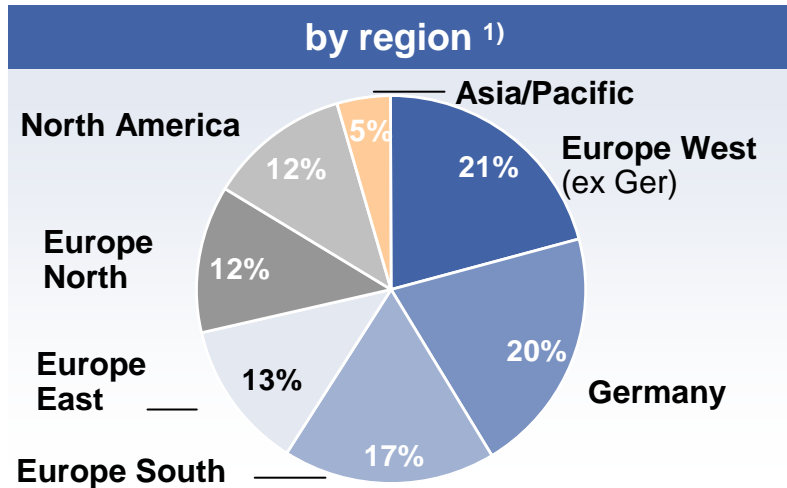
## Net loan loss provisions: Risk costs stable



- LLP/ØRWA = 35 bp and 20 bp excl. General Portfolio LLP, rsp.
- Reflecting sound asset quality
- € 80 mn in 2008 in line with budget
  - € 35 mn Specific LLP
  - € 11 mn General LLP according to statistical model
  - **€ 34 mn General Portfolio LLP additional cushion for challenging environment**



# Total property finance portfolio: High diversification and sound asset quality

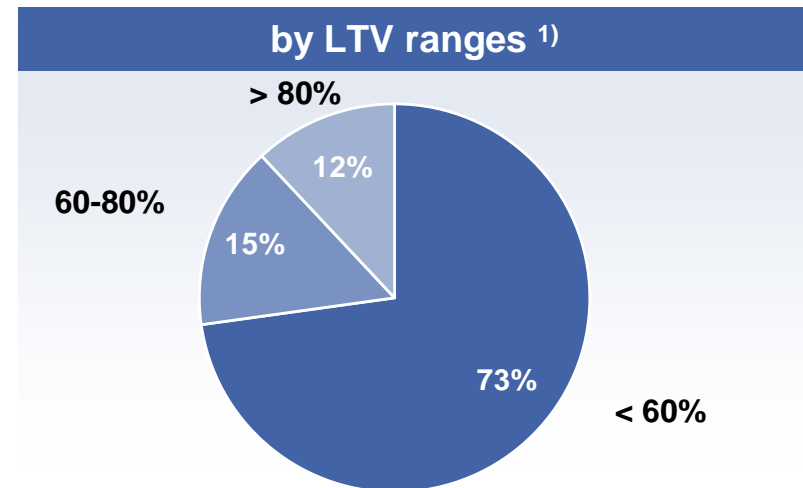
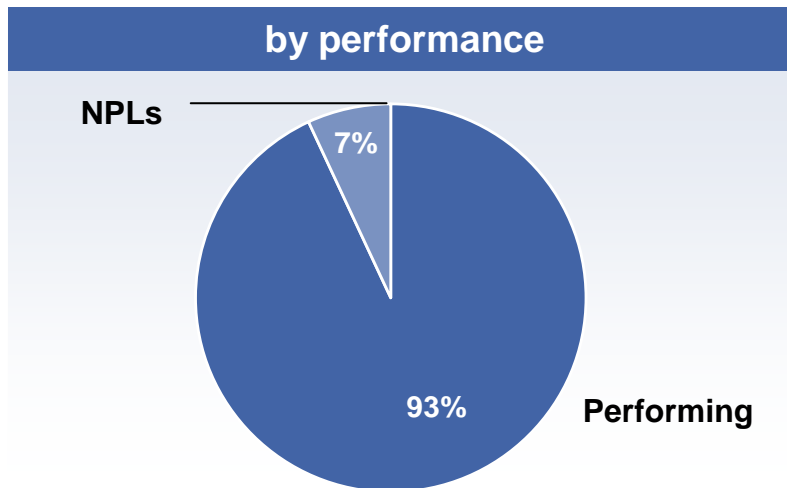
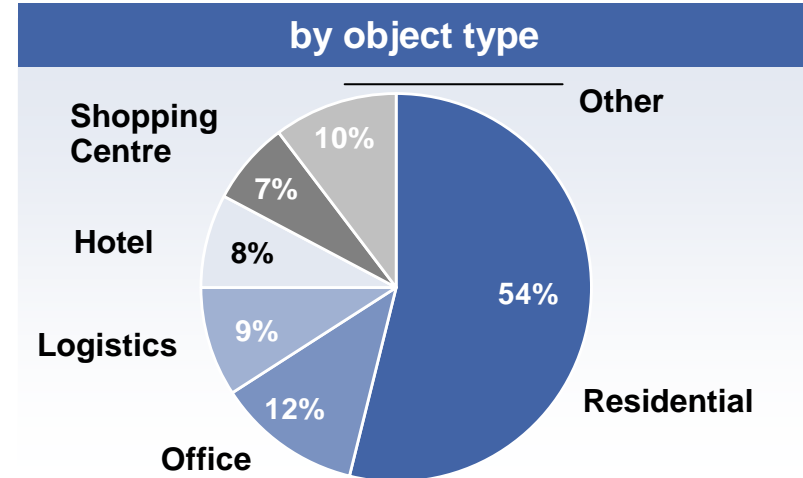
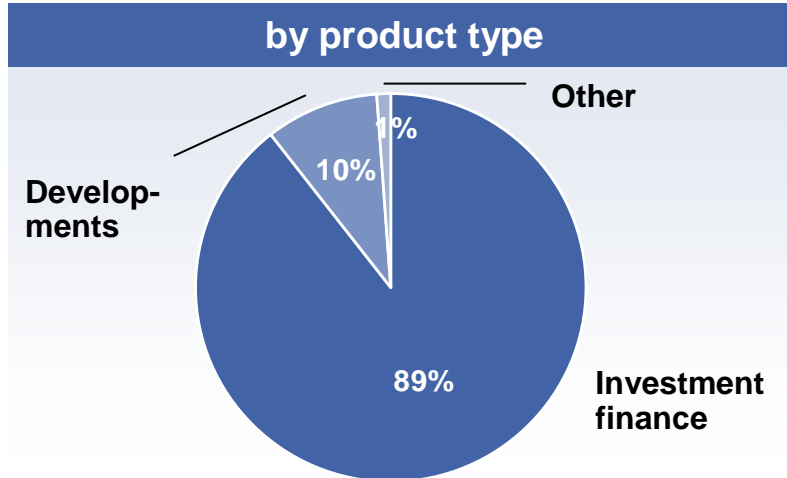


1) Total volume outstanding of € 23.5 bn as at 31.12.2008  
 13 2) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages; values as at 31.12.2008



# German credit portfolio as at 31.12.2008

Total volume outstanding : € 4.8 bn

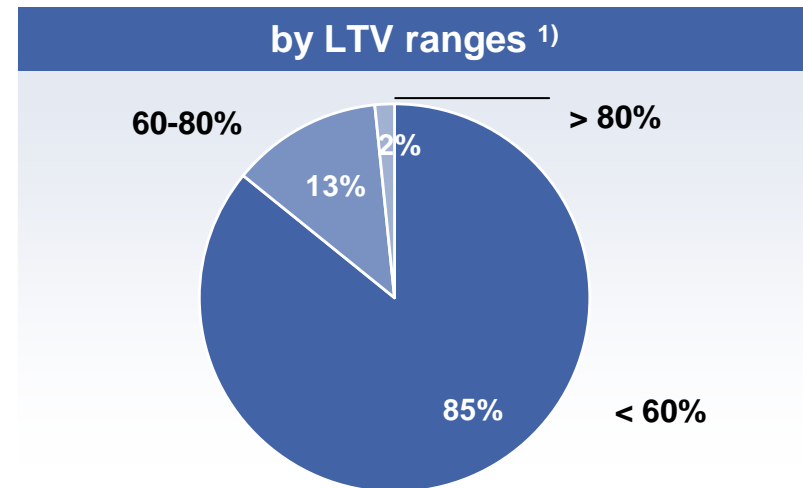
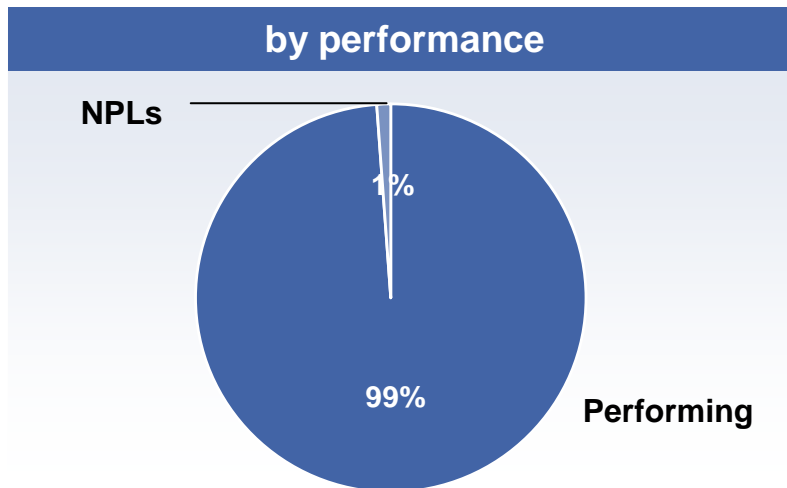
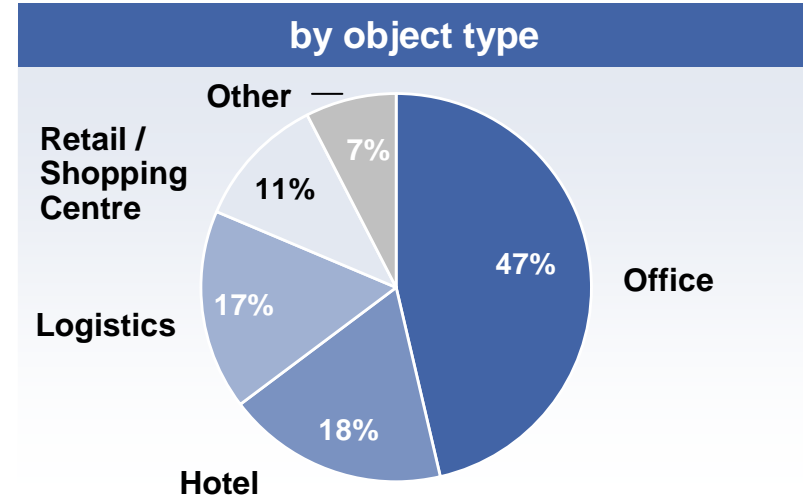
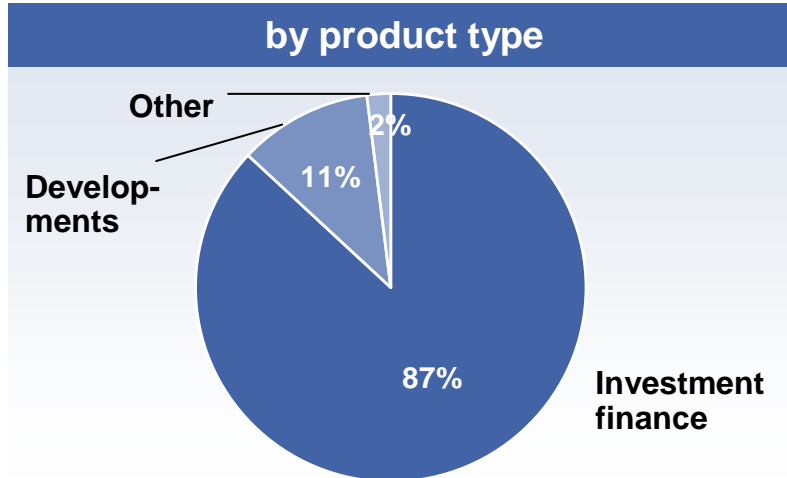


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



# Western Europe (ex Ger) credit portf. 31.12.2008

Total volume outstanding : € 4.9 bn



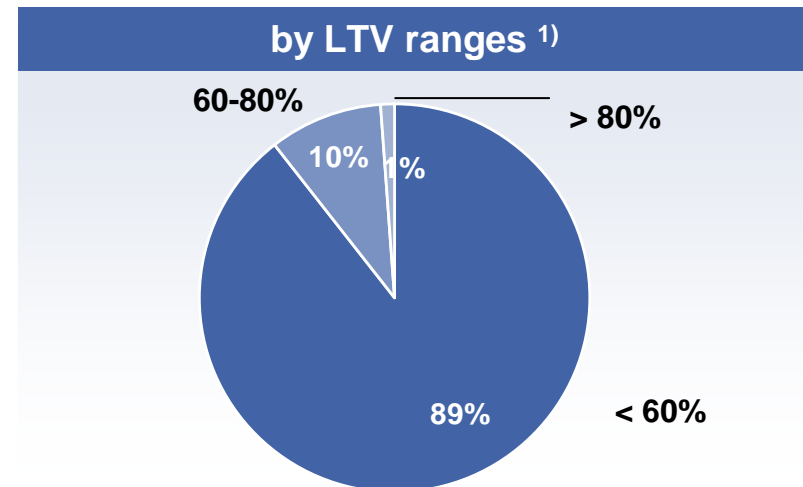
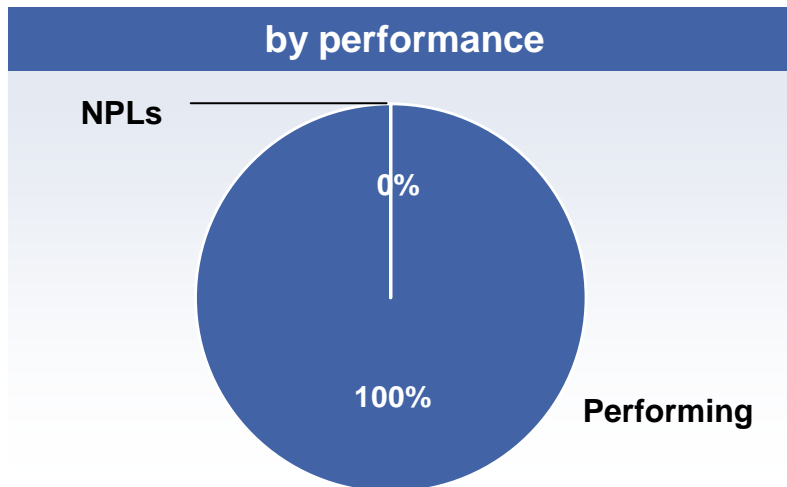
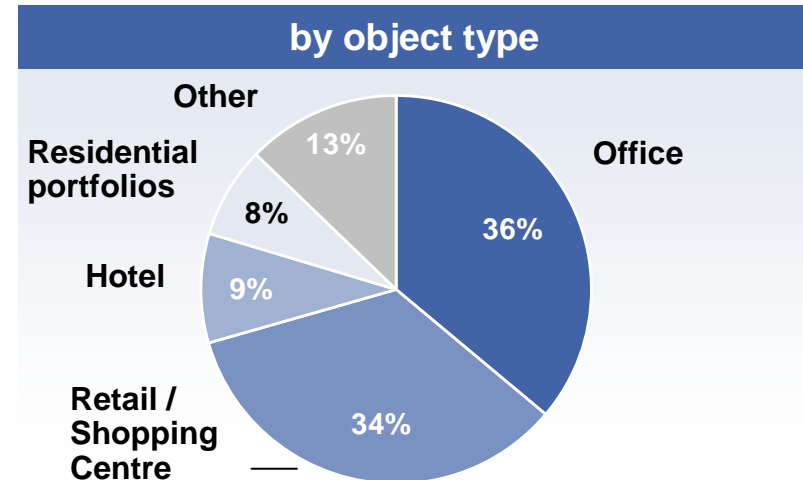
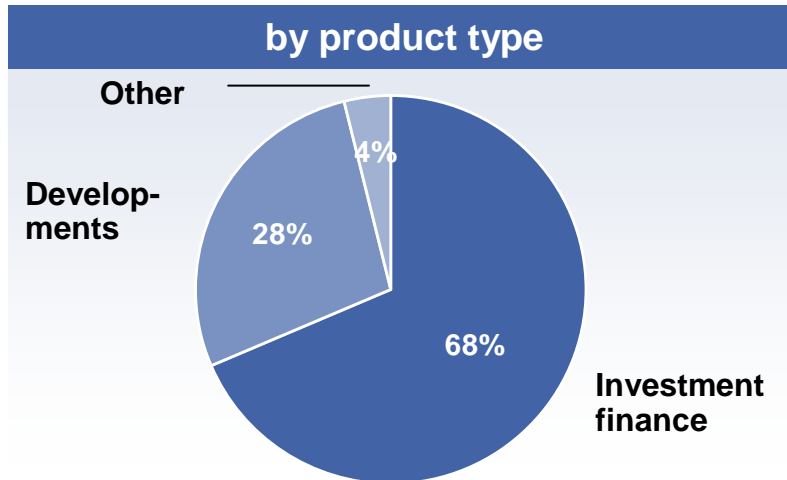
1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages





# Southern Europe credit portfolio 31.12.2008

Total volume outstanding : € 4.1 bn

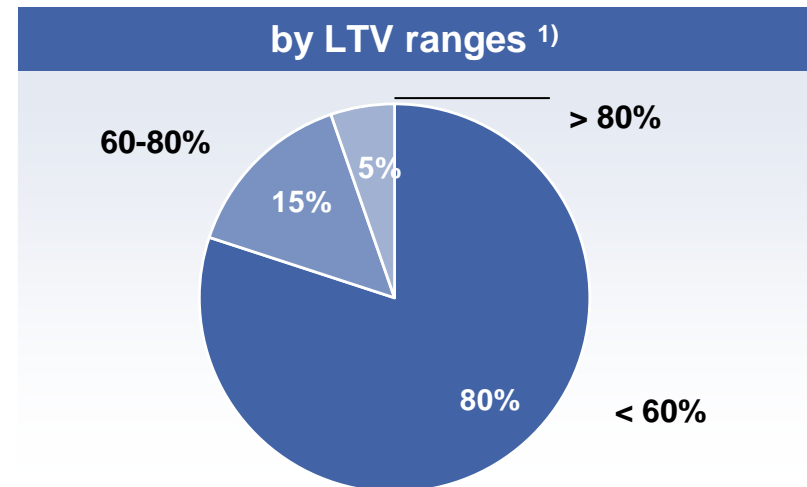
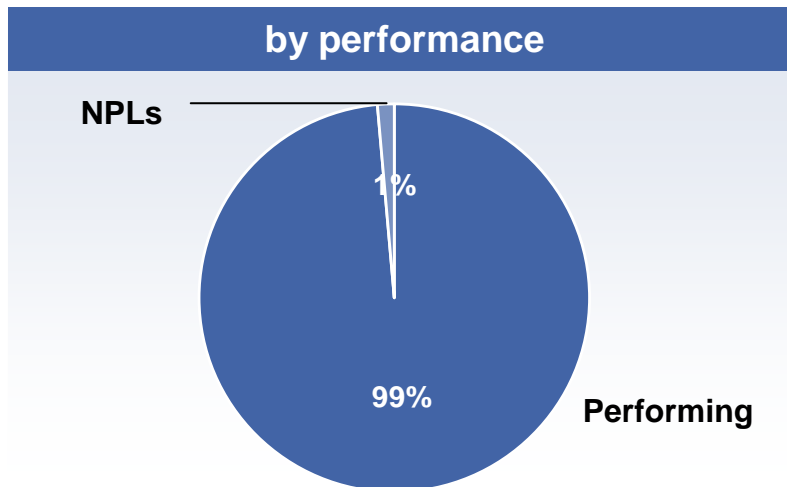
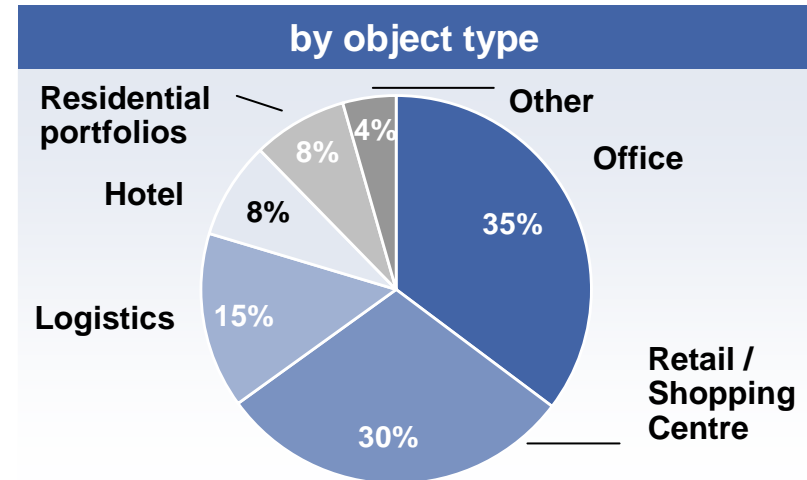
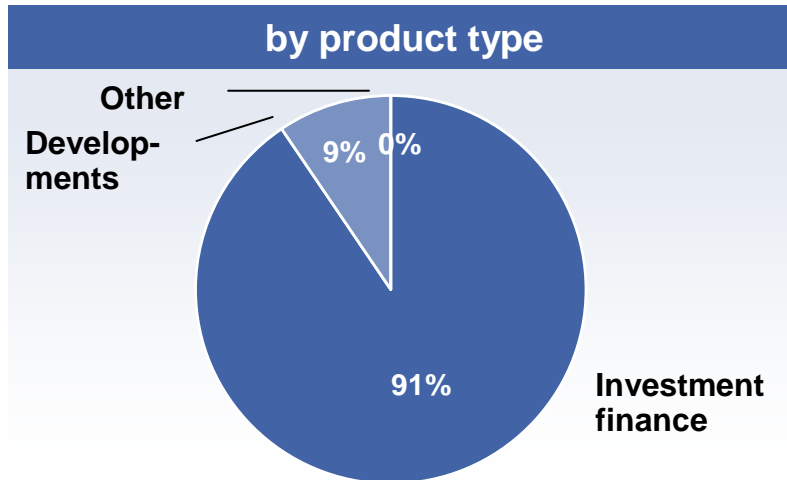


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



# Northern Europe credit portfolio as at 31.12.2008

Total volume outstanding : € 2.9 bn

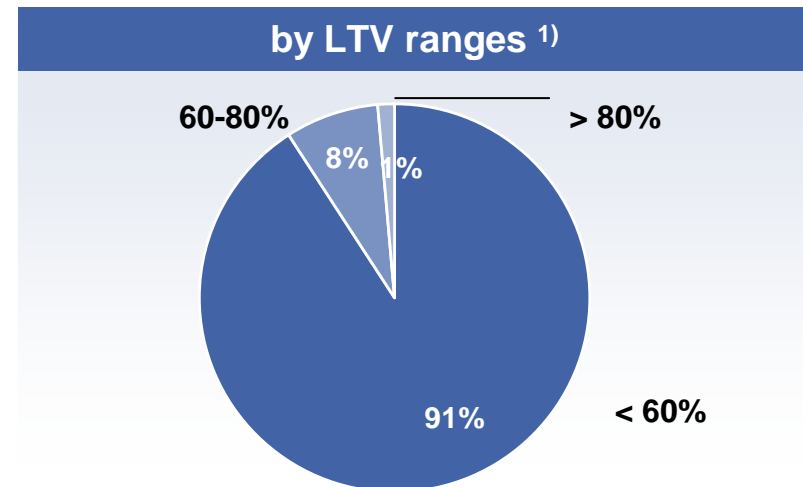
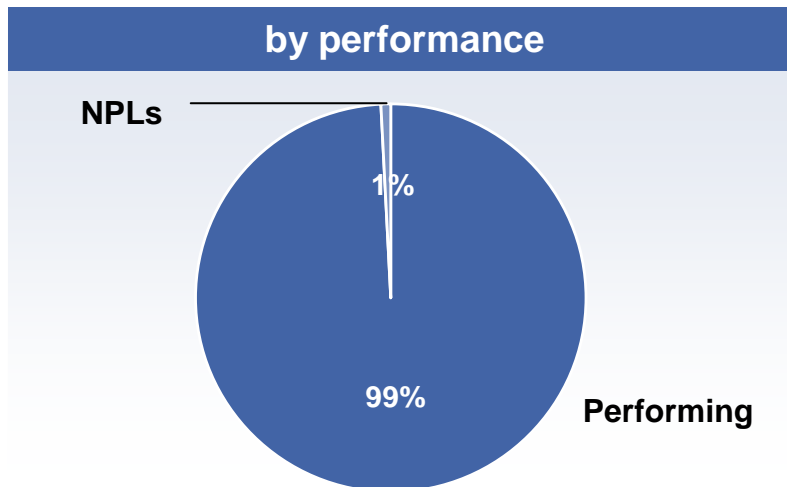
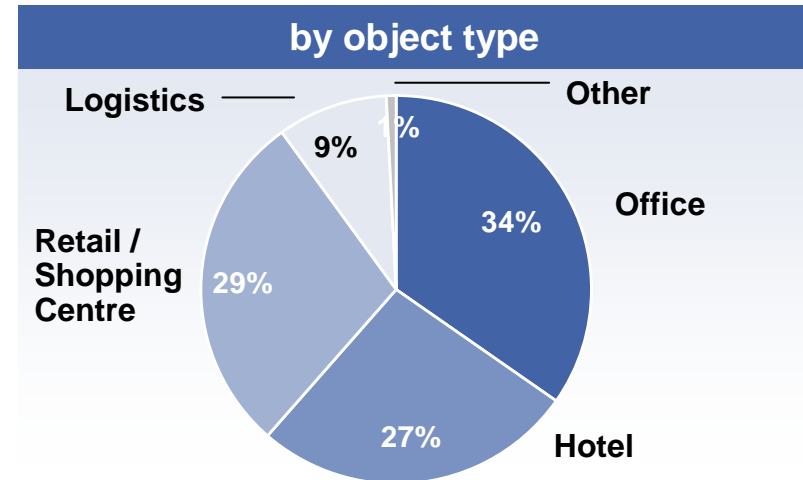
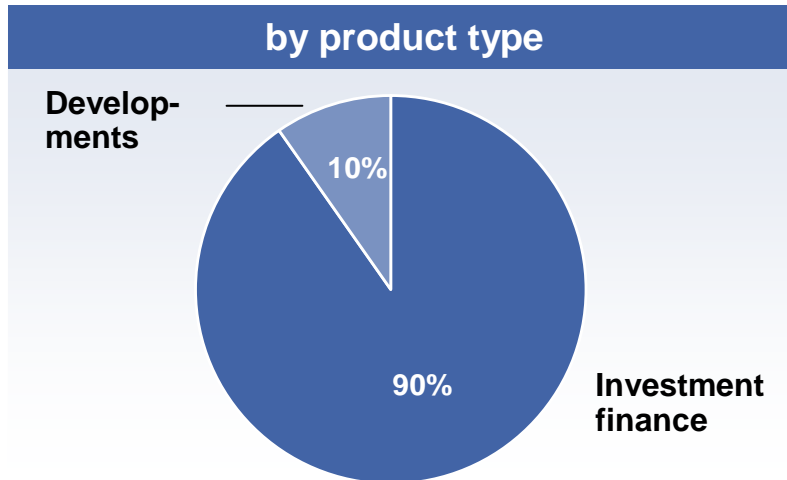


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



# Eastern Europe credit portfolio as at 31.12.2008

Total volume outstanding : € 2.9 bn

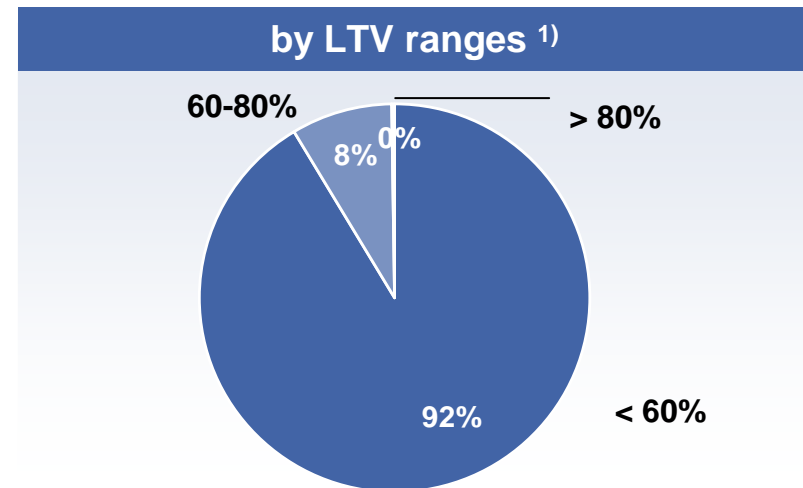
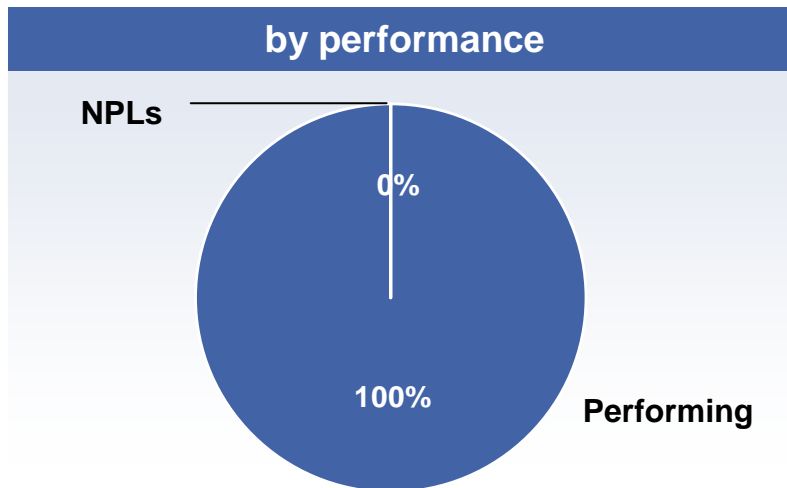
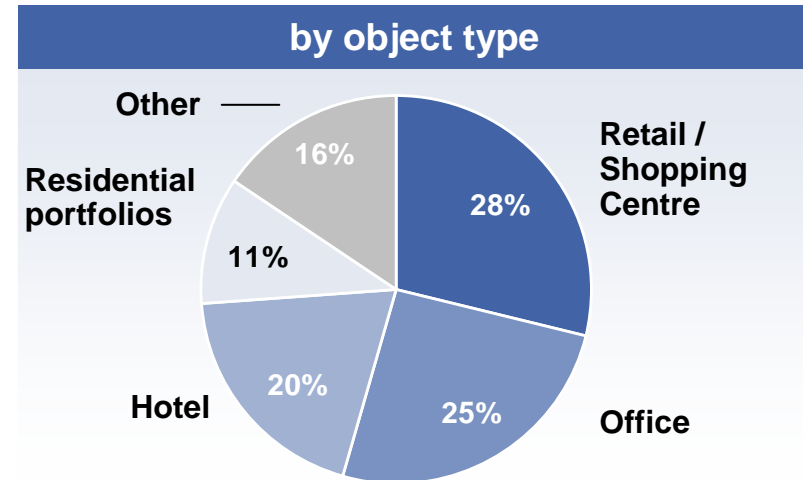
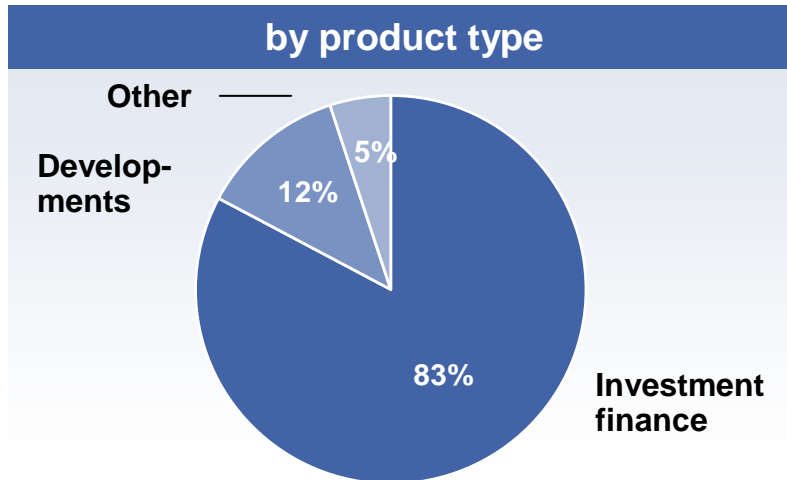


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



# North America credit portfolio as at 31.12.2008

Total volume outstanding : € 2.8 bn

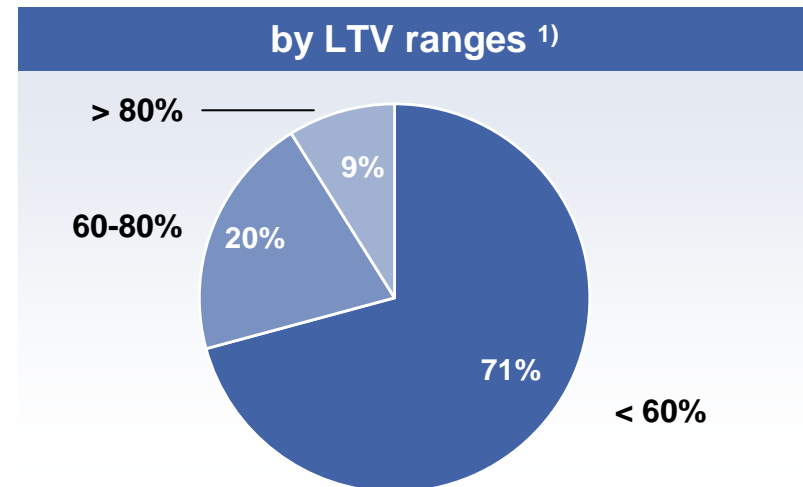
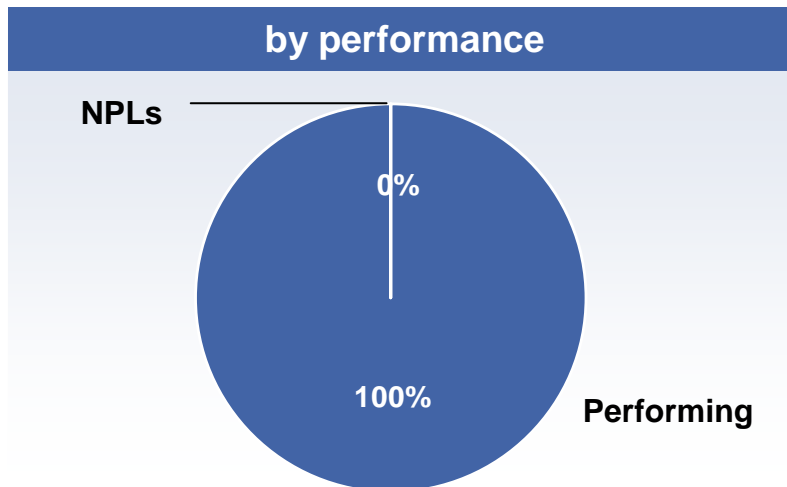
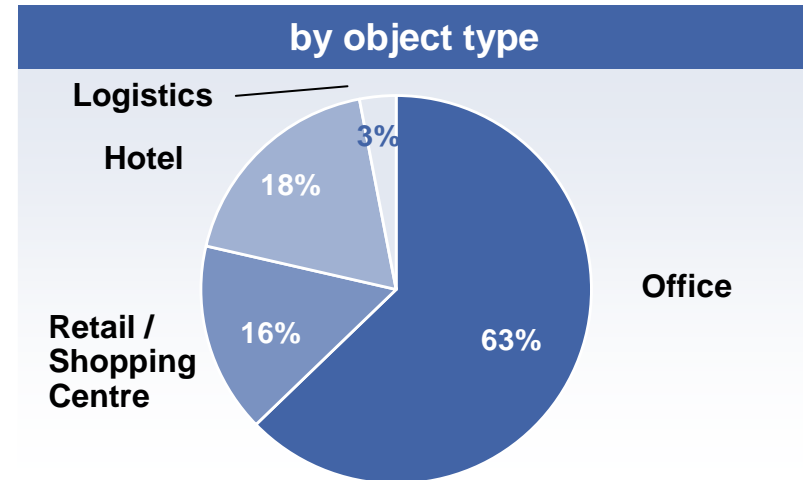
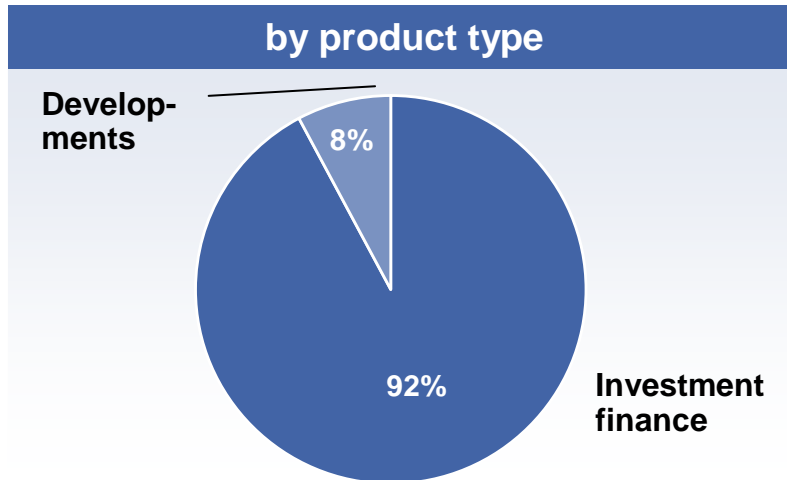


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



# Asia credit portfolio as at 31.12.2008

Total volume outstanding : € 1.1 bn



1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



# Agenda

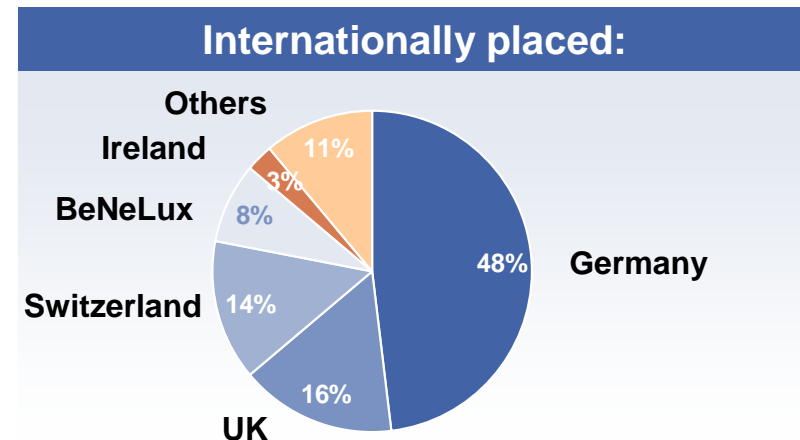
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# First government guaranteed bond successfully issued

<b>Issuer:</b>	<b>Aareal Bank AG</b>
<b>Guarantor:</b>	<b>SoFFin</b>
<b>Guaranty:</b>	<b>unconditional, irrevocable and senior</b>
<b>Rating:</b>	<b>Aaa / AAA (Moody´s / Fitch)</b>
<b>Notional volume:</b>	<b>€ 2 bn</b>
<b>Coupon:</b>	<b>2,625 % p.a.</b>
<b>Spread:</b>	<b>Mid Swap + 38 bps</b>
<b>Re-offer price:</b>	<b>99,843%</b>
<b>Settlement date:</b>	<b>26. March 2009</b>
<b>Maturity:</b>	<b>26. March 2012</b>
<b>Exchange:</b>	<b>Frankfurt</b>
<b>ISIN:</b>	<b>DE000AAR0041</b>
<b>Lead Manager:</b>	<b>Bayern LB, Deutsche Bank, Dresdner Bank, DZ Bank, HSBC, UniCredit</b>

- Indication: Mid Swap + 40 bps area
- Orderbook developed quickly
- High granularity: ~ 150 orders
- > 90% re-offer orders
- Total orders € 4.4 bn  
Book opening at 9 am and closing at 11:30 am
- Pricing at a spread tighter than initial guidance: mid Swap + 38 bps
- Strong secondary market performance: tightening of ~ 4 bps on the first trading day



**Aareal Bank**

# Outlook

## Group

<b>Net interest income</b>	– Target range of € 420 – € 440 mn. Expected to be negatively affected due to lower new business generation. Moreover, one-off income items as in 2008 will not recur in 2009
<b>Net loan loss provisions</b>	– Expected loss to increase to 40 – 65 bps of RWA, based on statistically derived expected loss. Loan loss provisions for unexpected loss due to extraordinary accumulation of defaults cannot be ruled out in 2009
<b>Net trading result / results from non-trading assets</b>	– Unpredictable in current markets / depending on future developments
<b>Revaluation reserve</b>	– Future market developments unpredictable, but repayments of underlying assets undoubtful
<b>Admin expenses</b>	– Under control around € 360 mn from a yearly perspective, incl. consolidation effect of Sylogis.com

## Structured Property Financing

<b>New business</b>	– € 2 – 3 bn; focus on client base / renewals
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## Consulting / Services

<b>Operating profit</b>	– Target range of € 50 – € 60 mn according to plan (subject to the condition that interest rates do not fall to “Japanese” levels)
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## Exposure to special asset classes: Already very limited exposure even further reduced

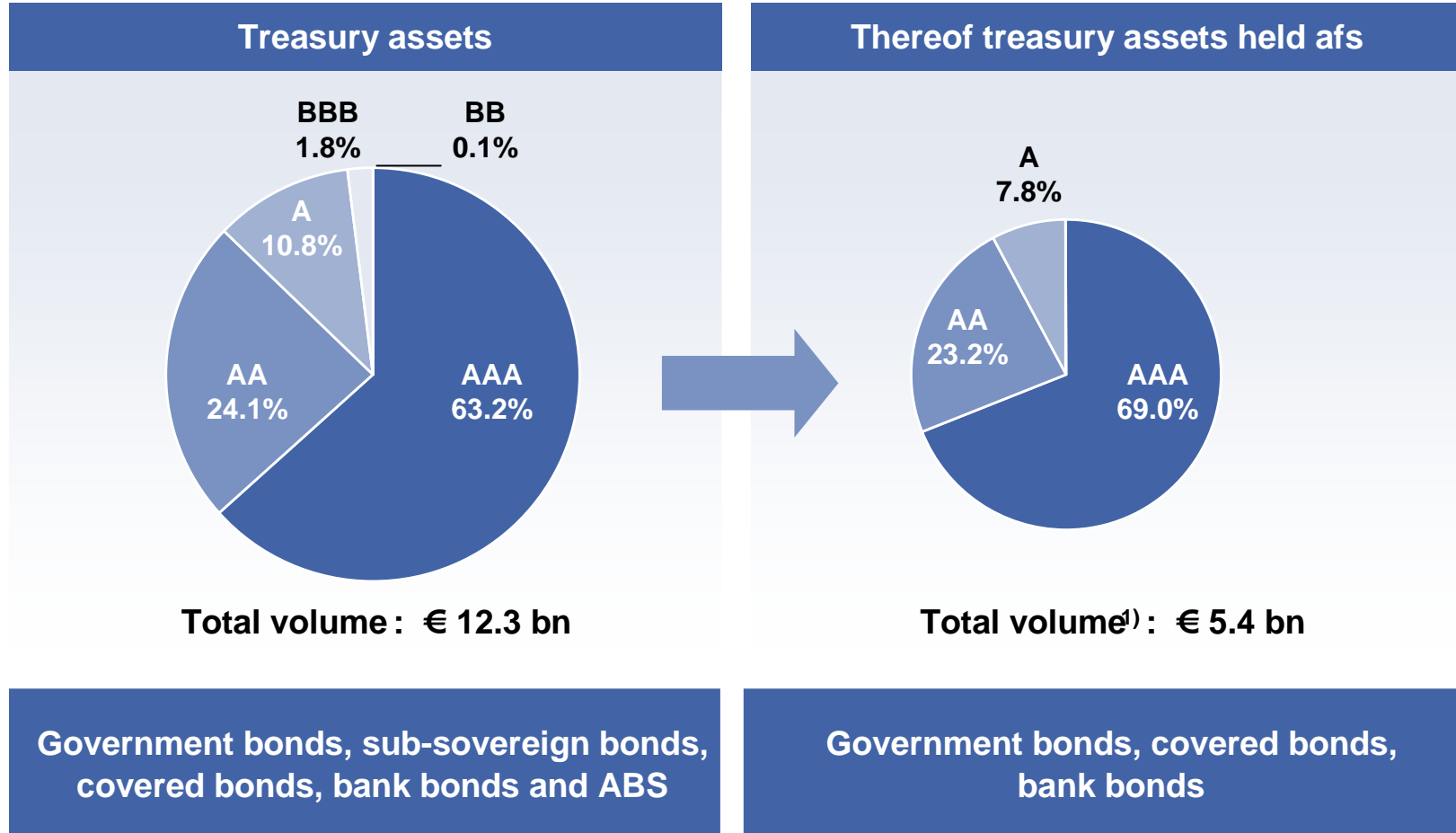
Asset Class	Exposure Aareal Bank	
	31.12.2008	31.12.2007
US Subprime and US RMBS	<b>None</b>	<b>None</b>
CDOs	<b>None</b>	<b>None</b>
ABCPs / SIVs	<b>None</b>	<b>None</b>
Exposure insured by Monoliners	<b>None</b>	<b>None</b>
Bear Stearns Bonds	<b>None</b>	<b>None</b>
Iceland	<b>None</b>	<b>€ 15 mn</b>
Lehman Brothers Bonds	<b>€ 8.5 mn</b>	<b>€ 10 mn</b>
ABS portfolio <sup>1)</sup>	<b>~ € 590 mn</b>	<b>~ € 650 mn</b>
- of which AAA rated	<b>&gt; 90%</b>	<b>&gt; 90%</b>
- of which US CMBS	<b>&lt; € 50 mn</b>	<b>&lt; € 50 mn</b>

**Systematic reduction and avoidance of highly speculative investments – value fluctuations only in asset classes with high quality due to volatility of entire market**

1) Regular repayments; until now no delayed payment nor default



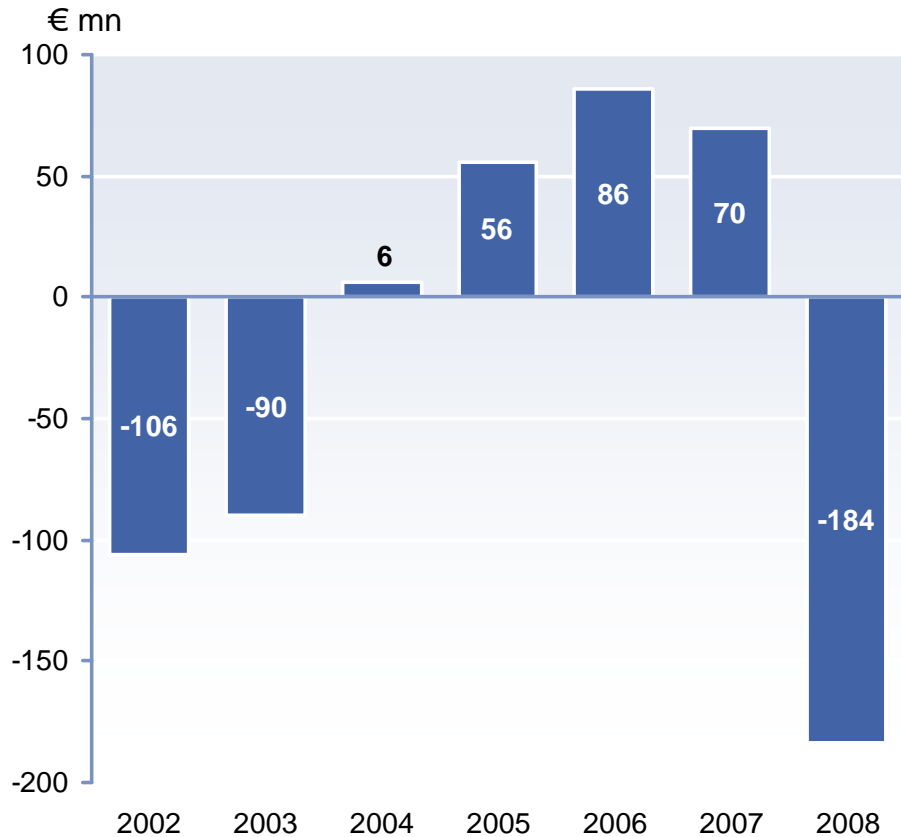
# Treasury Assets as at 31.12.2008: Very good quality of treasury asset



1) After reclassifications



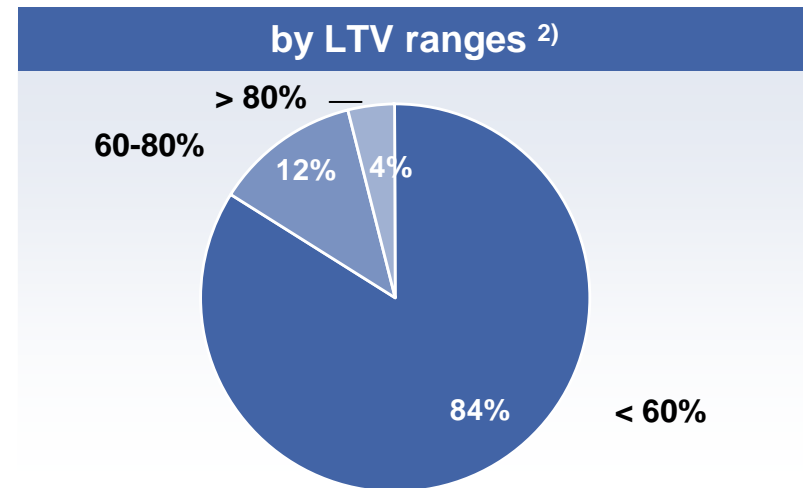
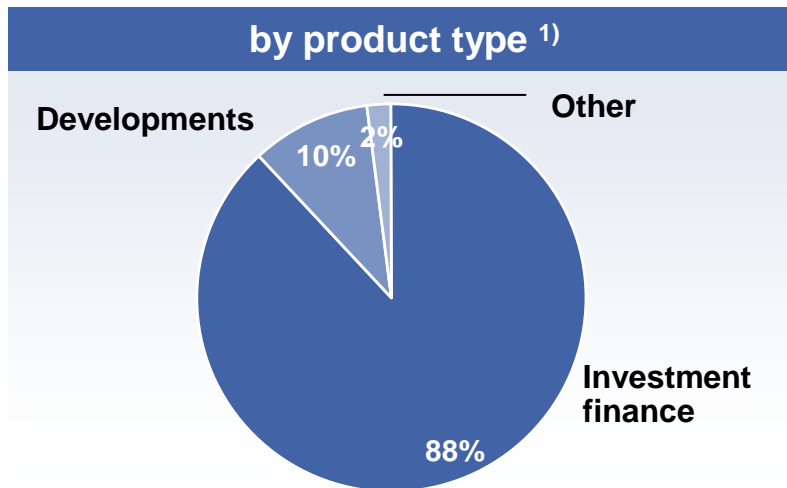
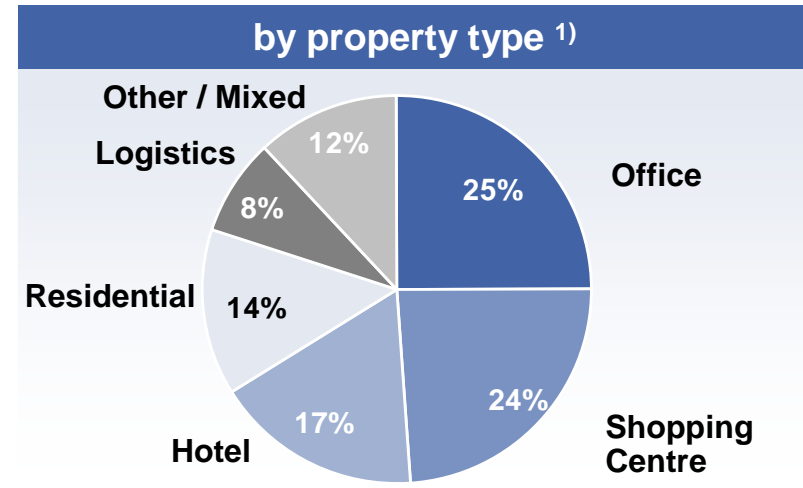
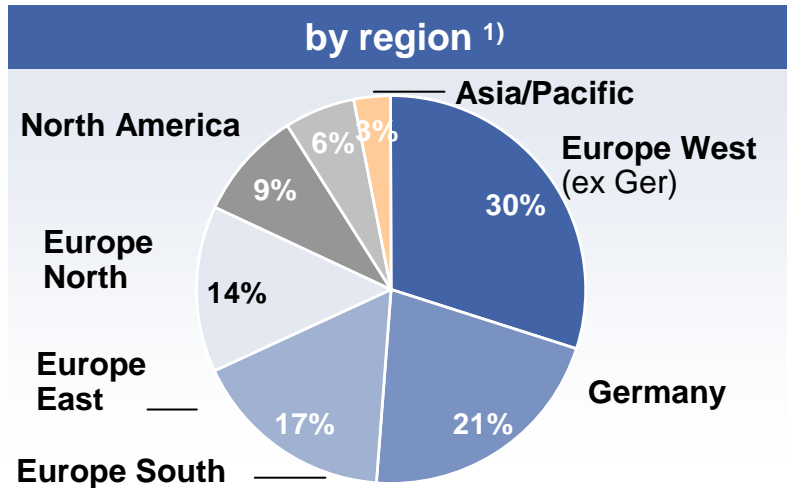
## Revaluation reserve: Change mainly driven by asset spread widening



- Despite sound asset quality revaluation reserve negatively affected by extreme volatility and asset spread widening in nearby all assets classes especially in Q4 2008
- Repayment of underlying assets undoubtful



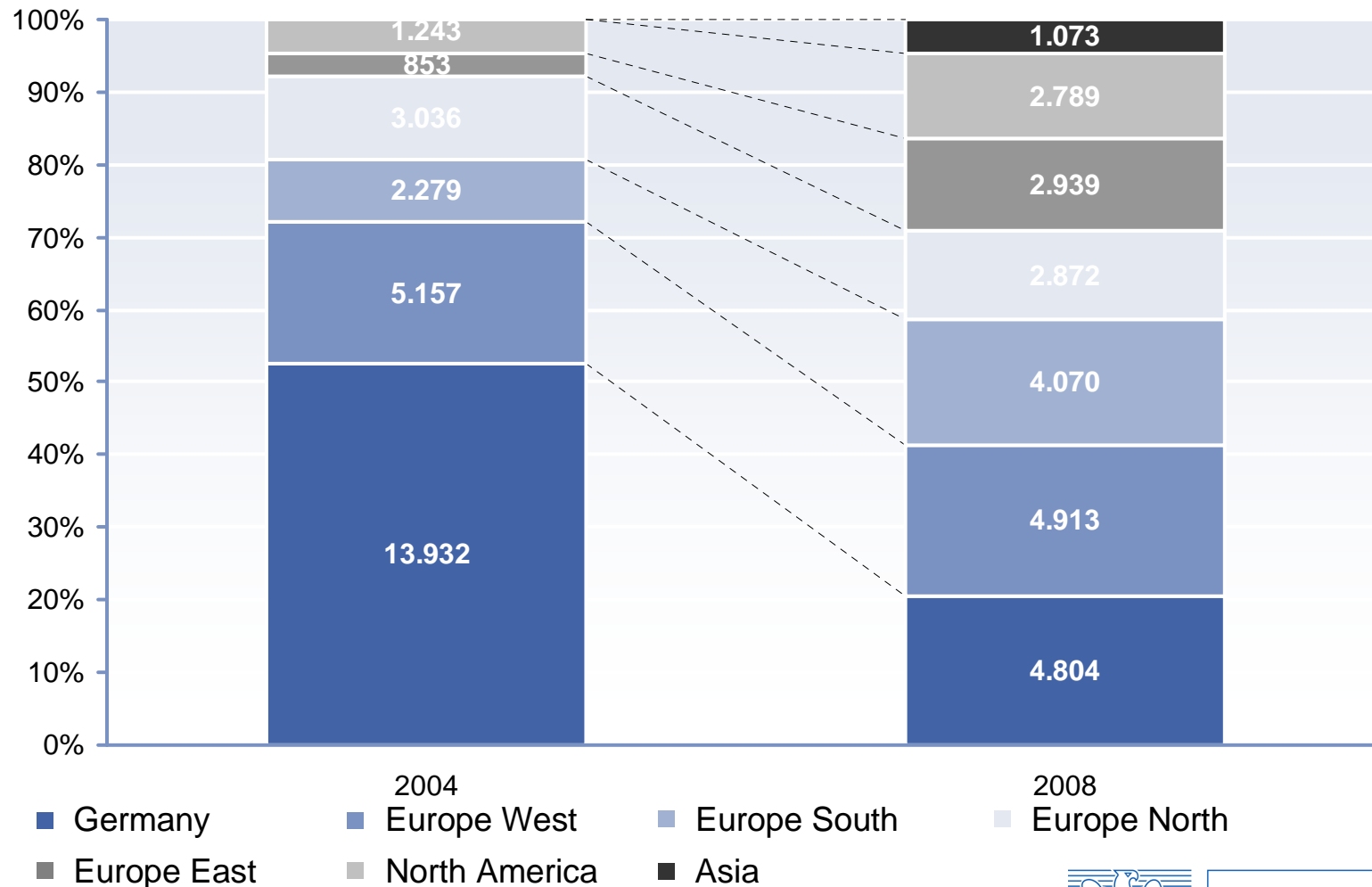
# Total property finance portfolio as at 31.12.2007



1) Total volume outstanding of € 24.0 bn  
 2) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages

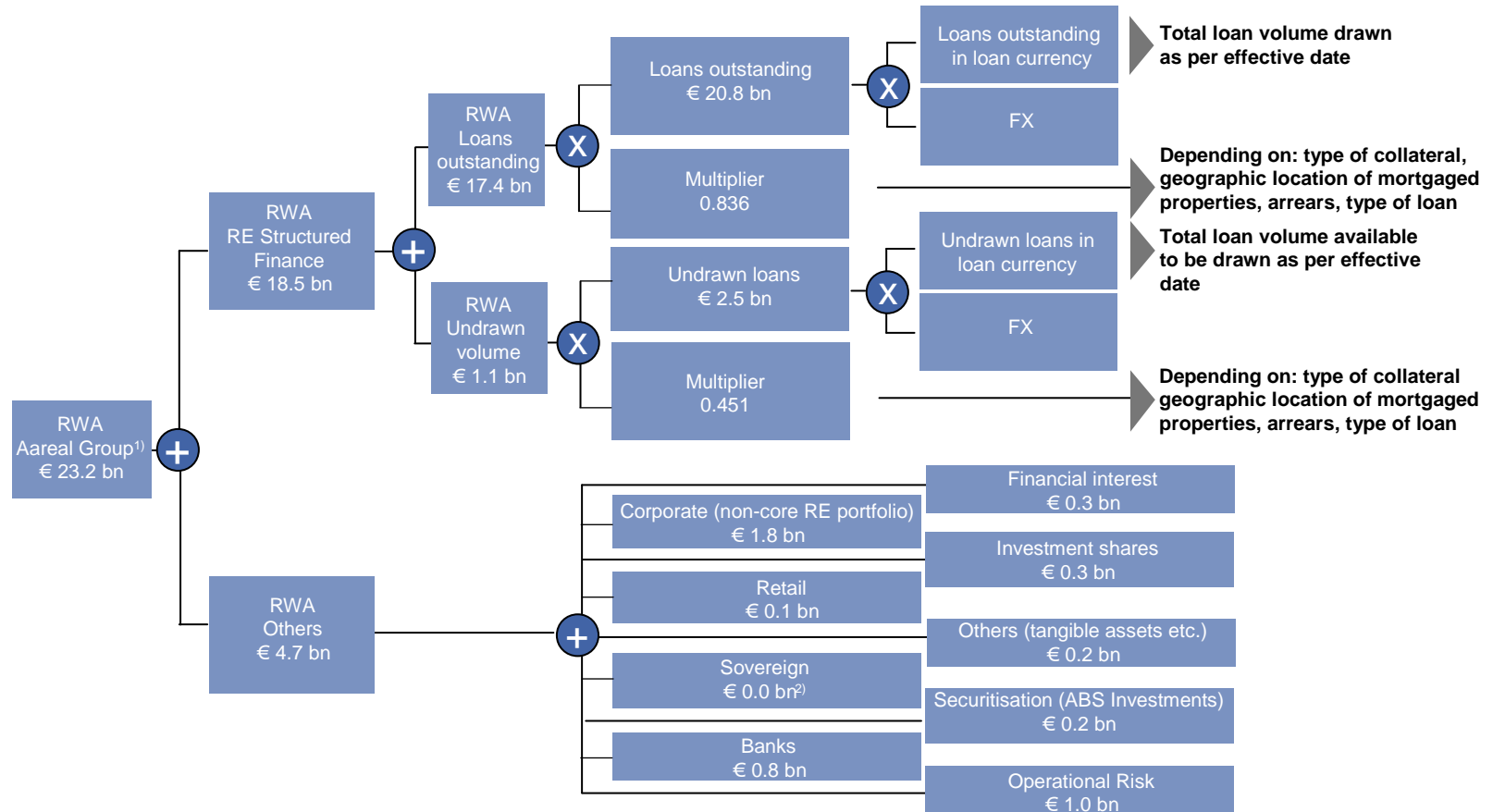


# Development property finance portfolio: Diversification continuously strengthened



# From asset to risk weighted asset (RWA): Essential factors affecting volume of RWA

Effective date 31/12/2008



1) Excl. of market risk

2) Exposure to sovereign governments amounts to € 17 mn



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# Definitions

- **Property Financing Portfolio**
  - Paid-out financings on balance sheet
  - Incl. remaining property loans on DEPFA books
- **New Business**
  - Newly acquired business incl. renewals (excl. interest rate extensions)
  - Contract is signed by customer
  - Fixed loan value and margin
- **Net RoE =** 
$$\frac{\text{Group net income after minority interests}}{\text{Allocated (average) equity}}$$
- **Allocated Equity**

Average of:

  - Equity (excluding minorities, revaluation surplus and silent participation by SoFFin) start of period less dividends and
  - Equity (excluding minorities, revaluation surplus and 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 from 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



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