

LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

Acquisition of Corealcredit Bank AG



December 23, 2013
Dr. Wolf Schumacher, CEO – Hermann J. Merkens, CFO



**Aareal Bank
Group**

Agenda

- Strategic rationale
 - Transaction structure
 - Financials
 - Next steps

 - Appendix: Corealcredit Bank AG

 - Definitions and contacts
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Strategic rationale



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Strategic rationale

Value enhancing transaction in line with current strategy

- ➔ The transaction represents an attractive opportunity for Aareal Bank Group to pursue inorganic growth as it is creating shareholder value and EpS accretive from day one
- ➔ Aareal Bank Group acquires Corealcredit Bank AG, which has been successfully realigned and refocused on its core business by its previous owner, in a favourable market environment at a conservative price
- ➔ Corealcredit Bank AG is a well digestible addition to Aareal Bank Group. Legacy risks have been conservatively evaluated and comprehensively ring-fenced
- ➔ Our mid-term targets and our goal to resume an active dividend policy remain unchanged
- ➔ With the acquisition of Corealcredit Bank AG, Aareal Bank Group further strengthens its position as a leading commercial real estate lender
- ➔ The acquisition of Corealcredit Bank AG from existing excess capital demonstrates the strength and strategic capacity of Aareal Bank Group



Strategic rationale

Favourable market environment for inorganic growth

Current environment

- Favourable price-to-book valuations
- Attractive asset and liability spreads for fair value appraisal
- Limited interest of investors for the European CRE-Banking sector

Realisation of purchase price discount

Strong position of Aareal Bank

- Aareal Bank has strong ability to act thanks to solid capitalisation
- As a specialist in commercial real estate financing, Aareal Bank is an ideal buyer for corresponding portfolios or competitors

Specific target – Corealcredit Bank AG

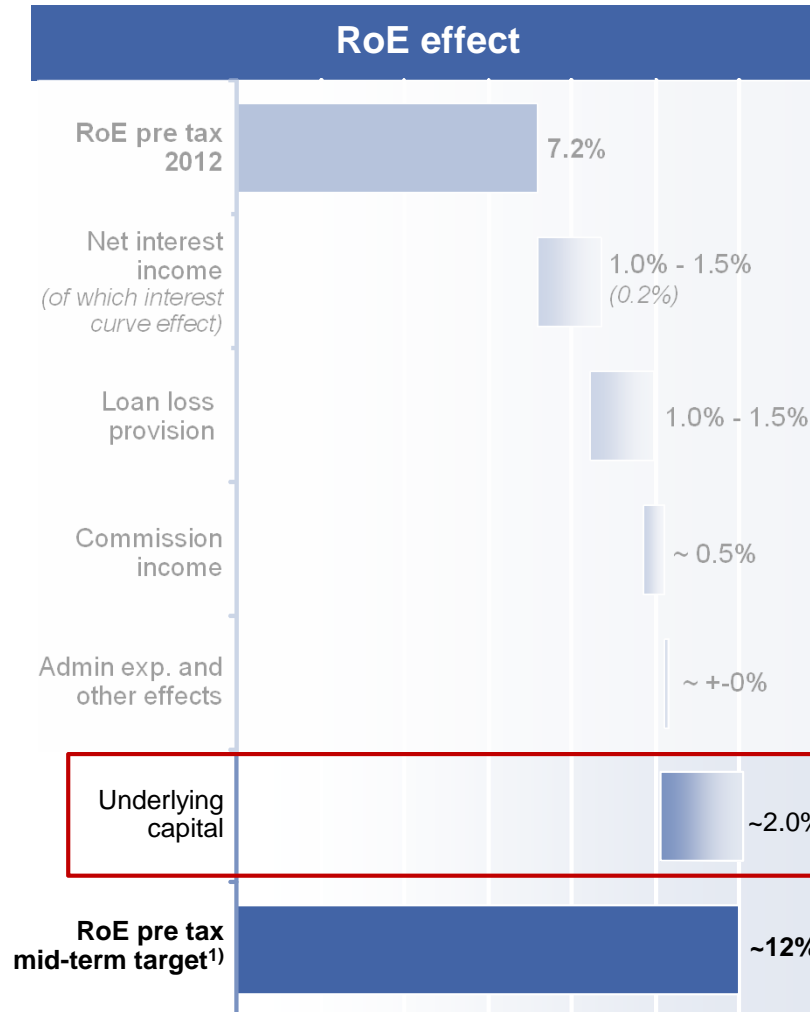
- Corealcredit Bank AG successfully restructured and downsized
- Perfect match of core businesses of Corealcredit Bank AG and Aareal
- Experienced Corealcredit Bank AG team

With the acquisition of Corealcredit Bank AG, Aareal Bank Group has made use of its excellent position in the current market environment and has exploited an attractive opportunity for inorganic growth in its core business.



Strategic rationale

Transaction in line with Aareal Bank mid-term action plan



1) Equity adjusted for effects arising from one-off deferred tax assets

Aareal action plan

- Optimisation funding structure / liquidity portfolio (1)
- Slight loan portfolio growth (2)
- *Expected Euribor increase* (3)
- Reduction of average LTVs and risk weightings (2)
- Increase in Aareon revenues via organic and inorganic growth (4)
- Keep cost base under control (5)
- Reduction of average risk weighting resulting in reduction of relative underlying capital (2)
- Optimisation of regulatory capital structure (6)
- Alignment or allocation of underlying capital (7)



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Transaction structure



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Transaction structure

Attractive terms and conditions

Transaction

- 100% acquisition of Corealcredit Bank AG¹⁾ which has been successfully cleaned up and downsized under previous Lone Star ownership
- All cash transaction
- Attractive purchase price of €342mn²⁾
- Acquisition with healthy risk/return profile after fair valuation; attractive asset and liability spreads logged in
- RWA increase on group level compensated via negative goodwill and allocation of underlying capital – no additional capital necessary to maintain strong capital position
- Extensive due diligence carried out
- Identified legal, tax, and loan related risks have been evaluated conservatively and comprehensively ring-fenced
- Operating profit from 1 July 2013 until closing to be paid to Loan Star

Closing conditions

- Subject to BaFin approval
- Subject to anti-trust approval

1) Subject to pre-closing measurements, BaFin and anti-trust approval

2) Subjects to purchase price adjustments as contracted



Financials

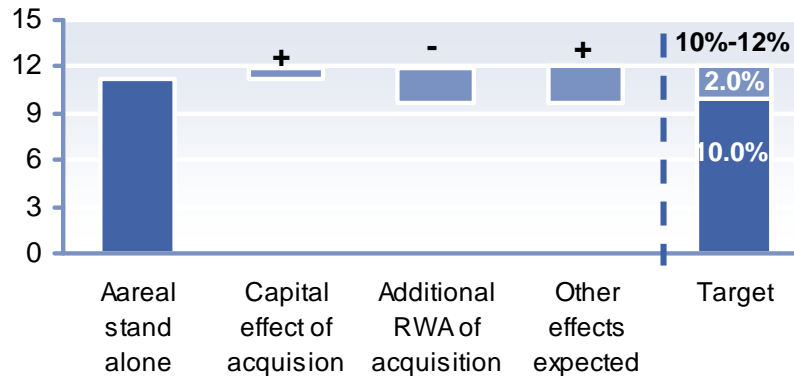


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Financials

Impact on EpS, RoE and capital ratios

Expected pro forma CT1 ratio Basel III fully loaded incl. IFRS & CRD IV



Capital ratios:

- All cash transaction: RWA increase on group level compensated via negative goodwill and allocation of excess capital
- Expected effect on total capital ratio of -100bp, but still within target range (~18-19%)
- Bail in capital ratio expected above target (~8%)

EpS

- The transaction is EpS accretive from day one
- Present value of cumulative EPS for the next three years > €3¹⁾
- Capital currently absorbed by acquired RWA to free up until 2016 for alternative utilisation:
 - Allocation
 - Alignment

RoE:

- Transaction in line with mid-term RoE target
- Pre-tax RoE target²⁾ confirmed at ~12%

Dividend policy:

- Plan to start active dividend policy in 2014 reconfirmed (for FY 2013, depending on market conditions)

1) Negative goodwill, deferred tax assets realised upon initial consolidation and NPV of additional net income until 2016; assuming closing date 31.12.2013

9 2) Equity adjusted for effects arising from one-off deferred tax assets



Financials

Outlook P&L-impact

Operating profit excl. negative goodwill

€15-20mn p.a. for 2014 and 2015 expected, largely driven by attractive portfolio valuation and related PPA amortisation

Average RWA¹⁾

Additional RWA of

- €2.7-2.9bn in 2014 expected
- €2.0-2.2bn in 2015 expected

Subject to closing date

The following line items may vary subject to closing date:

- Net interest income
- Net loan loss provisions
- Admin expenses
- Additional negative goodwill²⁾ of €91mn in 2014 assuming closing date 31 December 2013
- Deferred tax assets

1) Standard approach until 2015

2) Subjects to purchase price adjustments as contracted



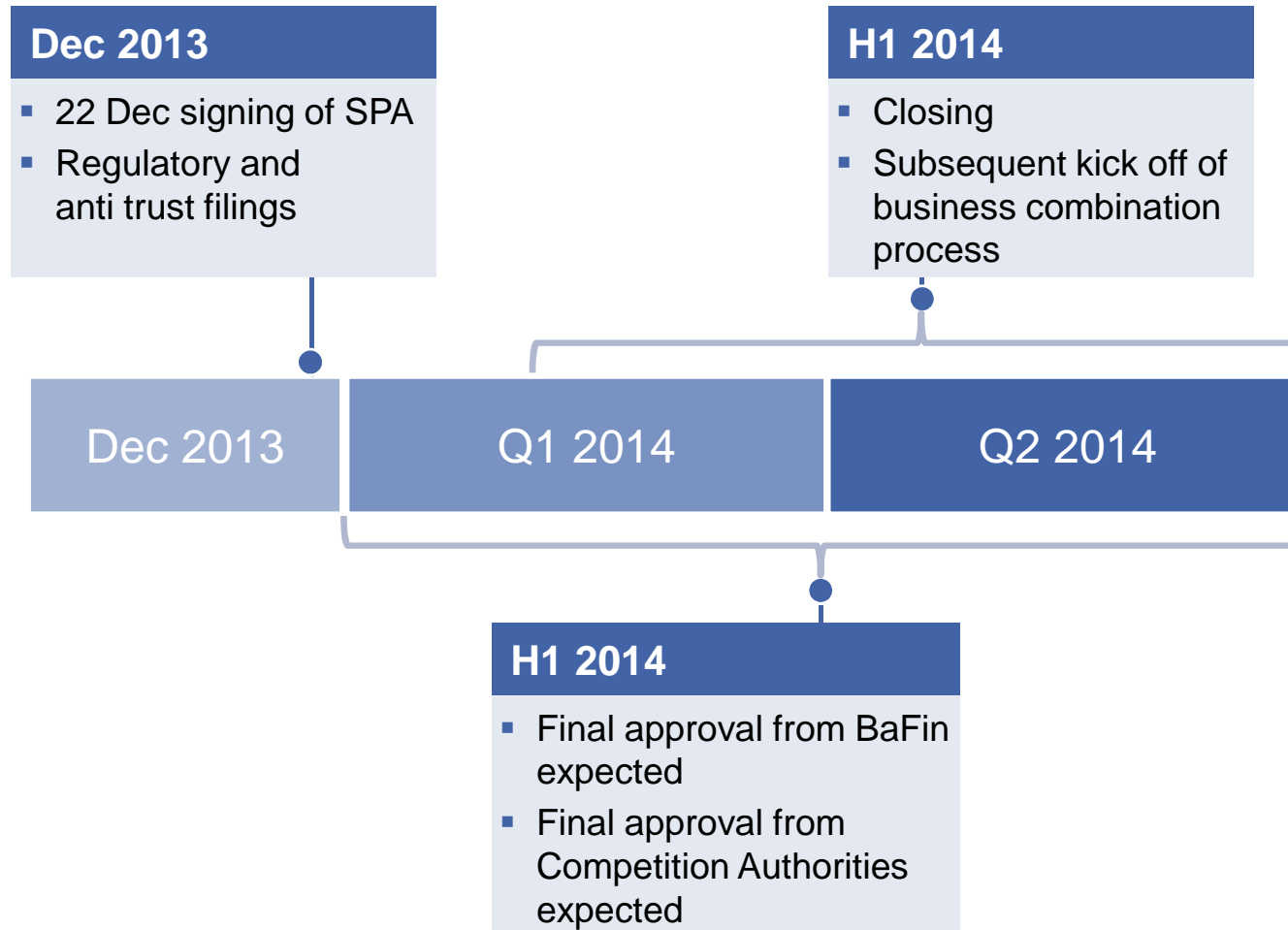
Next steps



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Next steps

Closing envisaged for H1 2014



Next steps

Financial calendar

Date	Event
20 February 2014	Preliminary 2013 results and group outlook 2014
27 March 2014	Presentation of annual report as at 31 December 2013
7 May 2014	Interim report as of 31 March 2013
21 May 2014	Annual general meeting



Appendix: Corealcredit Bank AG financials



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Corealcredit Bank at a glance

Successfully realigned and downsized Corealcredit Bank

Strategy & Business Model

- Significant downsizing and realignment since Lone Star's acquisition to €7.6bn (as at 30.06.2013):
 - Run down of public sector lending
 - Repositioning of CRE lending towards Germany (portfolio volume: €3.6bn as at 30.06.2013); exit from the international CRE and retail mortgage lending business
 - Conservative new lending policies and volumes
 - Diversified funding sources

History and ownership

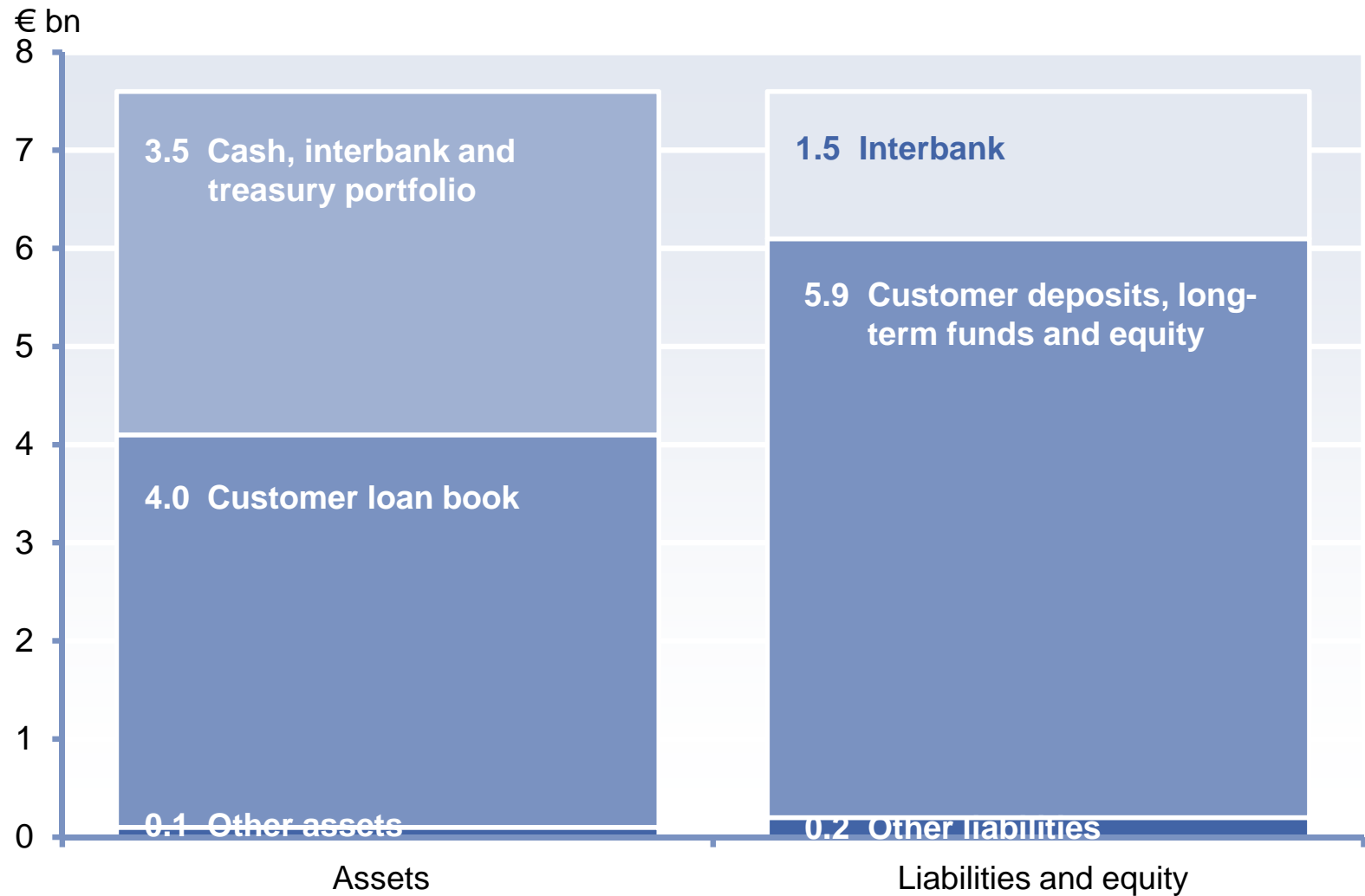
- Dec'05: BGAG¹⁾ sells Allgemeine Hypothekenbank Rheinboden (AHBR) to Lone Star
- Dec'06: Implementation of new management
- Dec'07: AHBR renamed Corealcredit Bank AG

1) Beteiligungsgesellschaft der Gewerkschaften AG



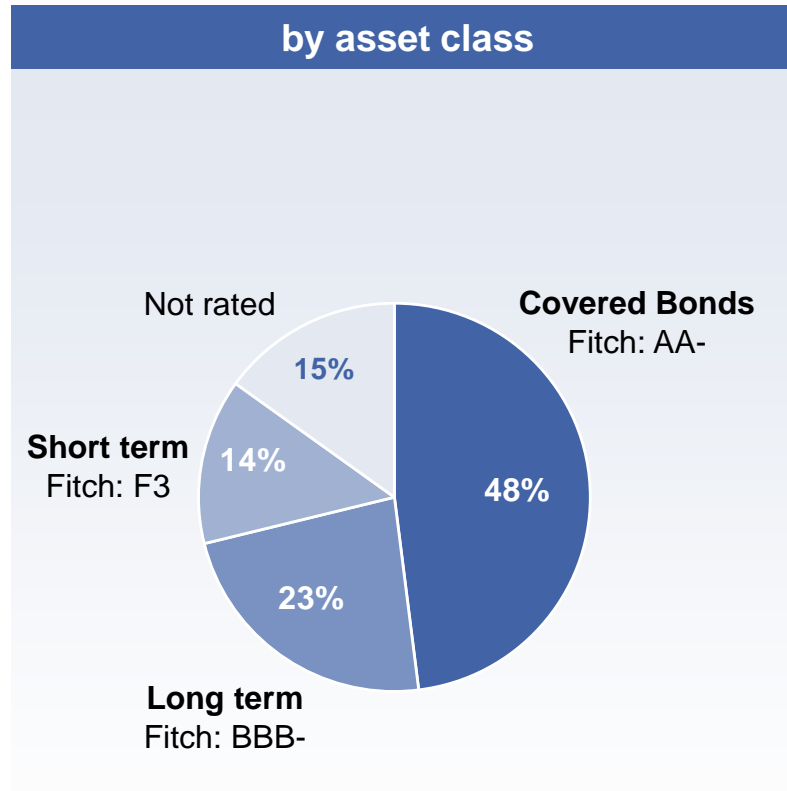
Corealcredit Bank financials: ALM structure

HGB book values as at 30.06.2013: € 7.6 bn



Corealcredit Bank financials

Funding base of € 5.5 bn as at 30.06.2013



- Business portfolio is fully funded with matched maturities
- New business generation has historically been clearly focused on cover-pool eligible business
- Consequently, mortgage covered bonds remain the core financing instrument for the bank; current overcollateralisation of 20.7%¹⁾
- Uncovered funding predominately with customer deposits and (longer term) promissory notes

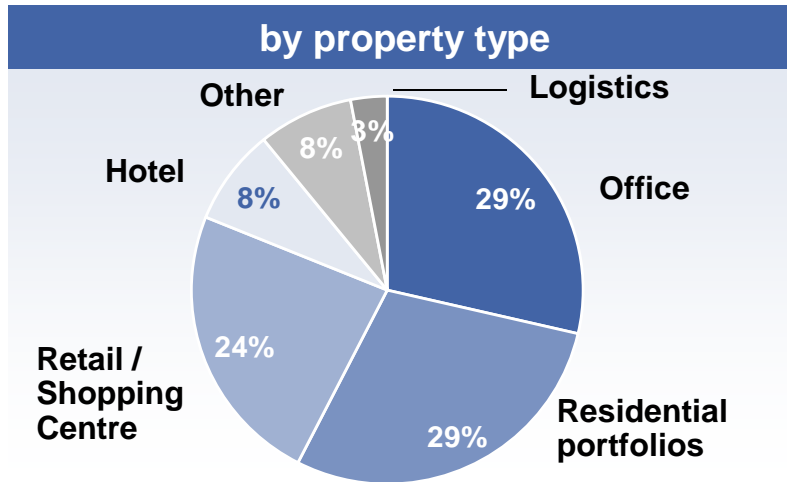
Note: All financials based on HGB reporting standards

1) Overcollateralisation based on present value; nominal overcollateralisation as of H1 2013 is 18.2%

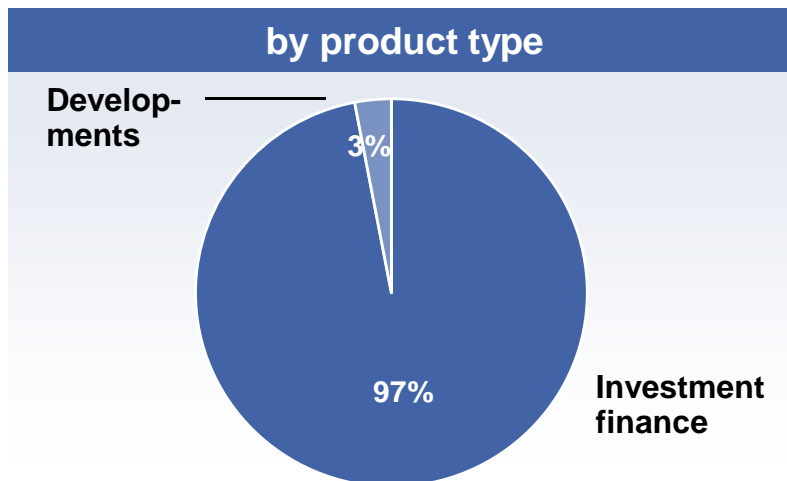


Corealcredit Bank financials: German portfolio

Total volume outstanding as at 30.06.2013: € 3.6 bn

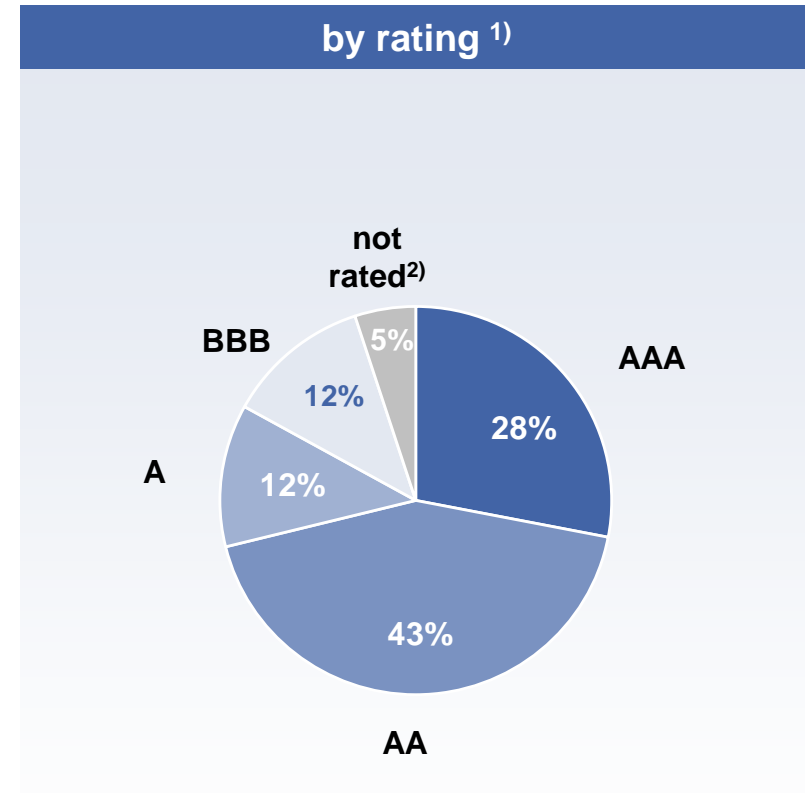
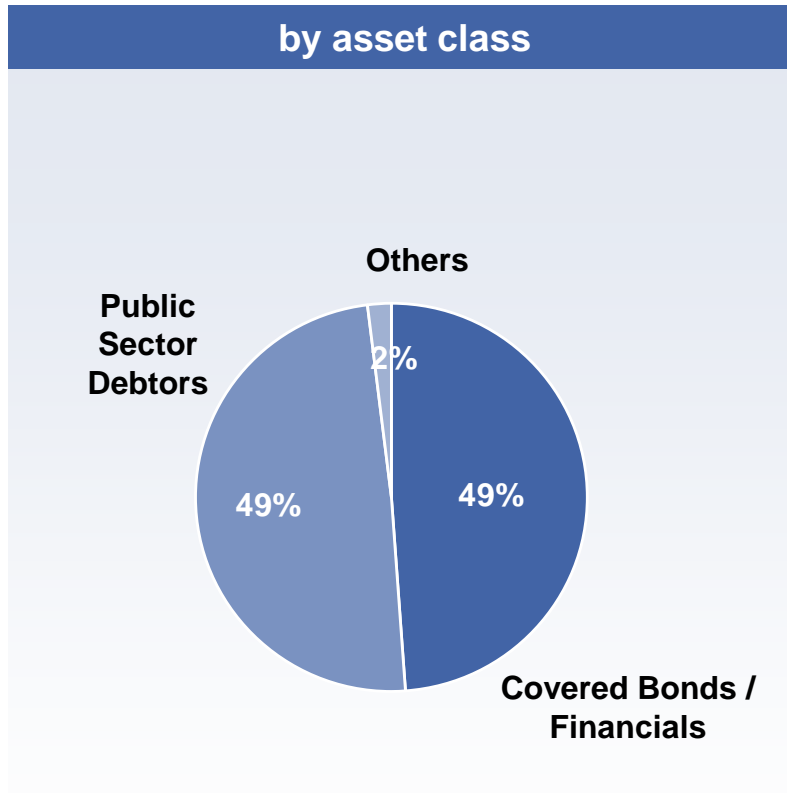


- Broadly diversified portfolio
- Focus on investment finance
- Solely German business
- German share of total CRE portfolio increases to 27% (16%) on group level
- Average LtV of Corealcredit Bank AG portfolio at 62% below average Aareal Bank's LtV (Germany 64%, international 65%)



Corealcredit Bank financials

Treasury portfolio of € 2.1 bn high quality assets



As at 30.06.2013 – all figures are nominal amounts

1) Composite Rating

2) Promissory note loans of German issuers

(Länder, Landesbanken and Sparkassen with Gewährträgerhaftung)



Definitions and contacts



**Aareal Bank
Group**

Contacts

- **Jürgen Junginger**
Managing Director Investor Relations
Phone: +49 611 348 2636
juergen.junginger@aareal-bank.com
- **Alexandra Beust**
Director Investor Relations
Phone: +49 611 348 3053
alexandra.beust@aareal-bank.com
- **Sebastian Götzken**
Senior Manager Investor Relations
Phone: +49 611 348 3337
sebastian.goetzken@aareal-bank.com
- **Karin Desczka**
Investor Relations
Phone: +49 611 348 3009
karin.desczka@aareal-bank.com



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