

THE INTERNATIONAL PROPERTY SPECIALIST

Analyst Conference

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Aareal Bank



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6 step program 2005



6 step program for realignment

1. Continued new business growth
2. Reduction of the non-performing loan portfolio
3. Leveraging our mid-sized corporate structure
4. Revision of our organisational structure
5. Emphasising a modern corporate culture
6. More transparency in managing our business

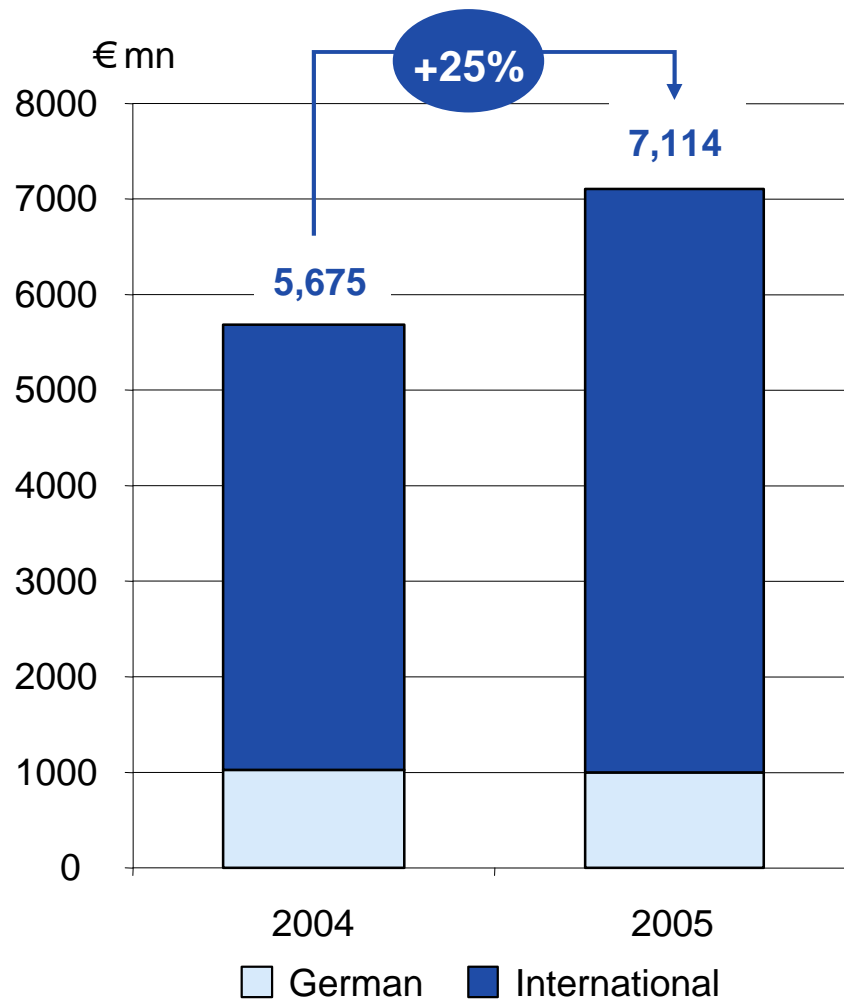
1. New business growth 2005



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Strengthening of new business

Total new commitments



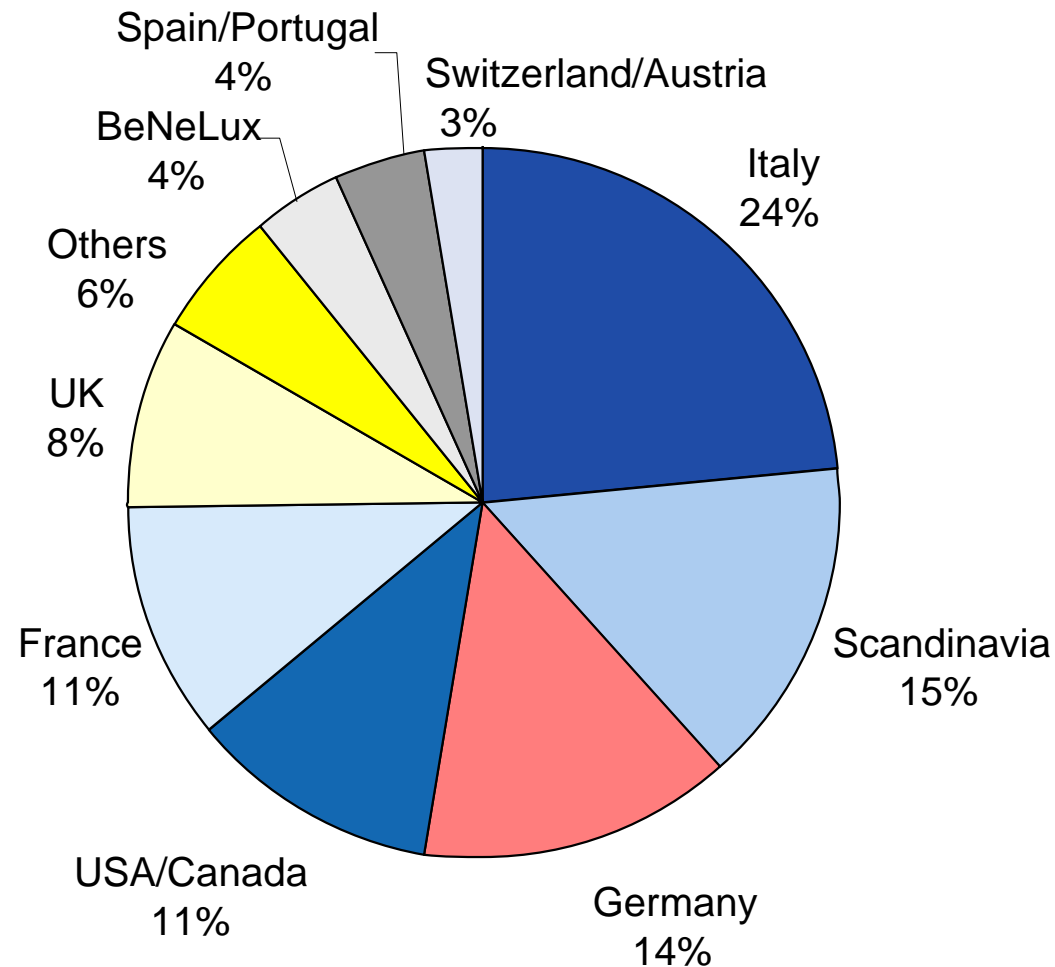
- ✓ Increase of new business volume of 25 % year on year
- ✓ High degree of diversification: more than 85% international
- ✓ Further development of markets, e.g. Turkey and Russia
- ✓ First steps in the Asian markets

1. New business growth 2005



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New business 2005 by region: High degree of diversification



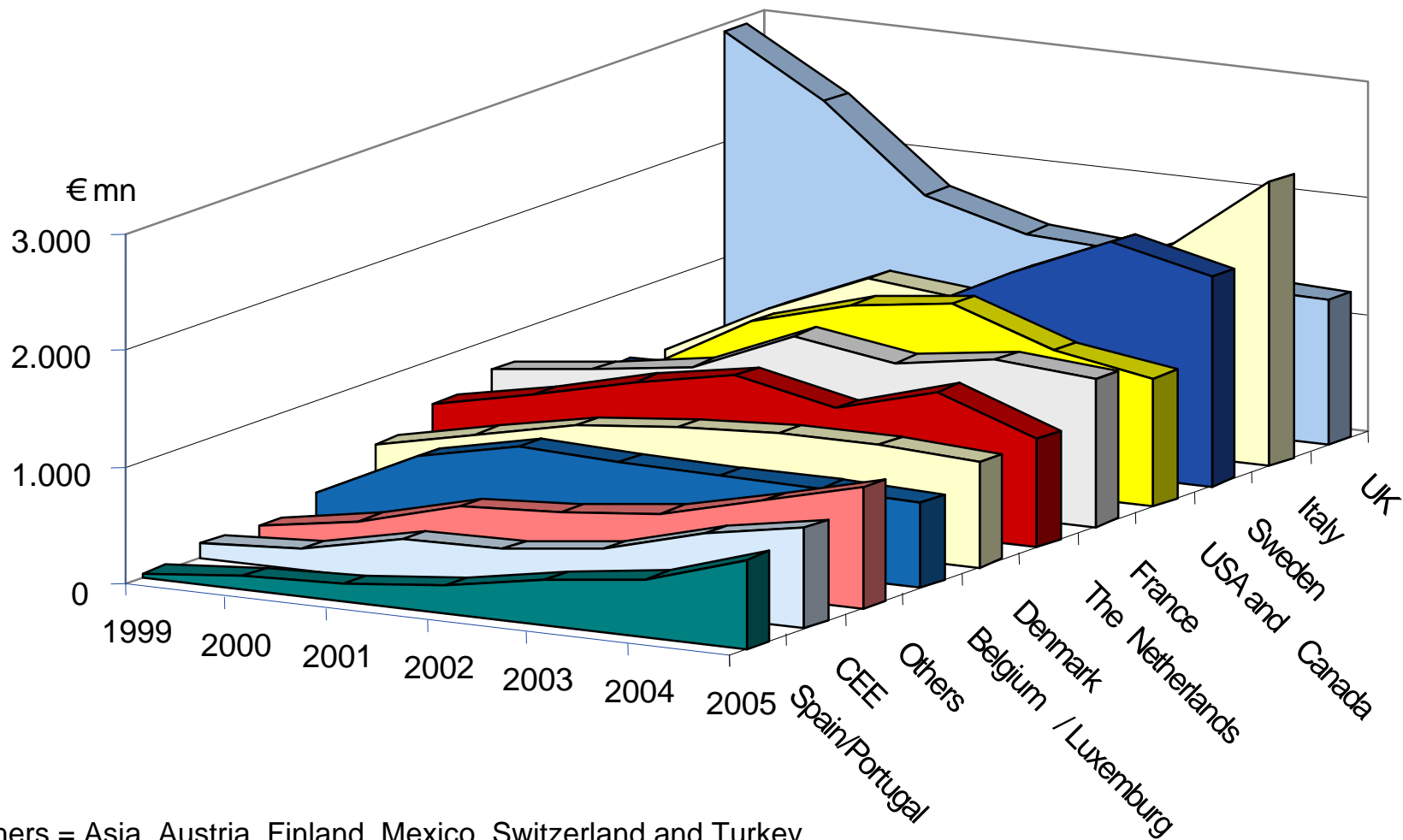
Others = Asia, Czech Republic, Moskau, Mexico, Turkey, Slovakia

1. New business growth 2005



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International Portfolio: development of regional diversification



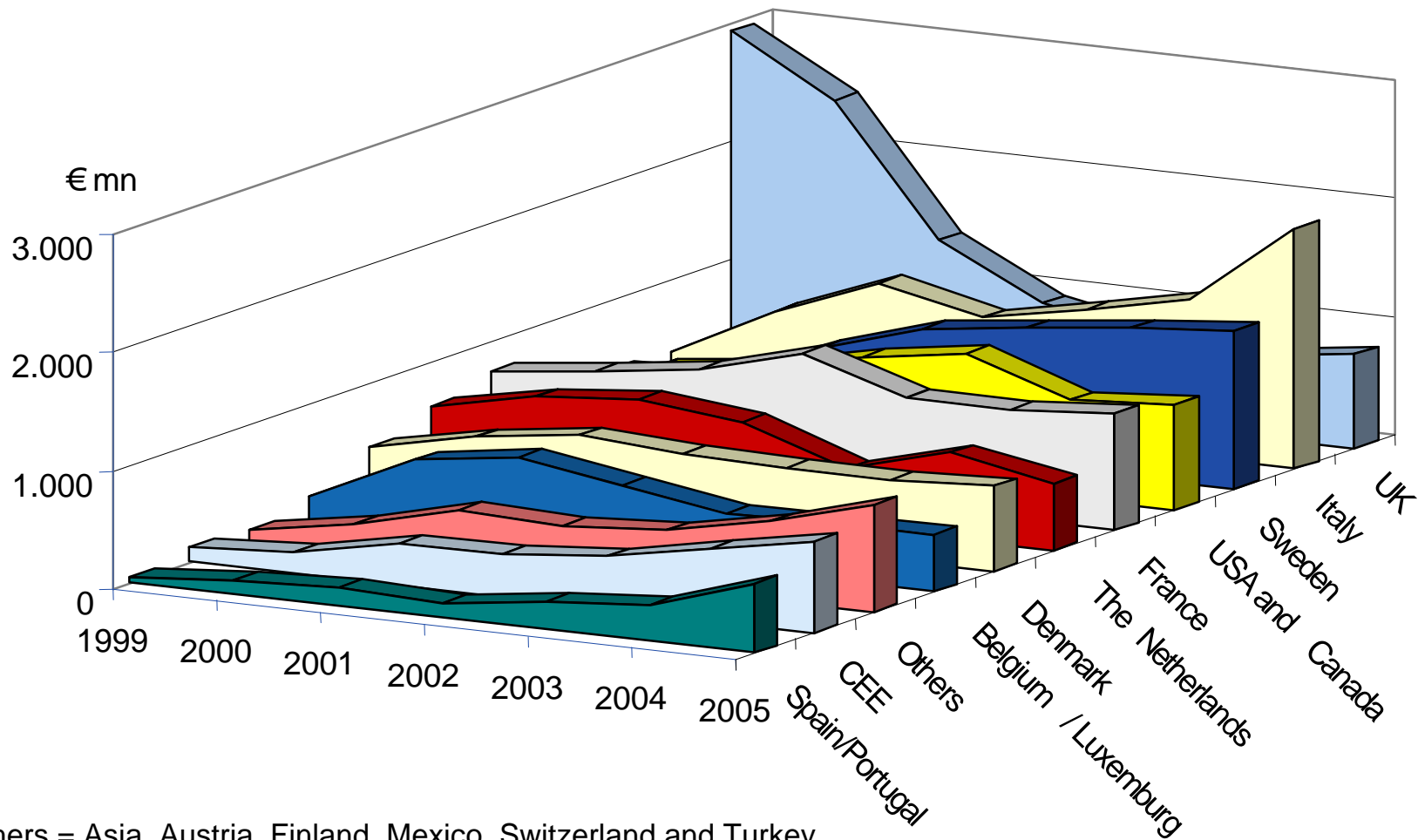
Others = Asia, Austria, Finland, Mexico, Switzerland and Turkey

1. New business growth 2005



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International Portfolio:
regional diversification after synthetic securitisation



Others = Asia, Austria, Finland, Mexico, Switzerland and Turkey

2. Non performing loan portfolio 2005



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Successful NPL portfolio sales totalling € 908 million

Jan 05 Feb 05 Mrz 05 Apr 05 Mai 05 Jun 05 Jul 05 Aug 05 Sep 05 Okt 05 Nov 05 Dez 05

- ✓ First NPL portfolio sale in 2005:
 - Reduction of NPL portfolio by more than 20%
 - Volume: € 583 mn (plus € 107 mn interest and fees)
 - Composition: 50% commercial, 50% residential; 1/3 East Germany, 2/3 West Germany
 - No P&L burden

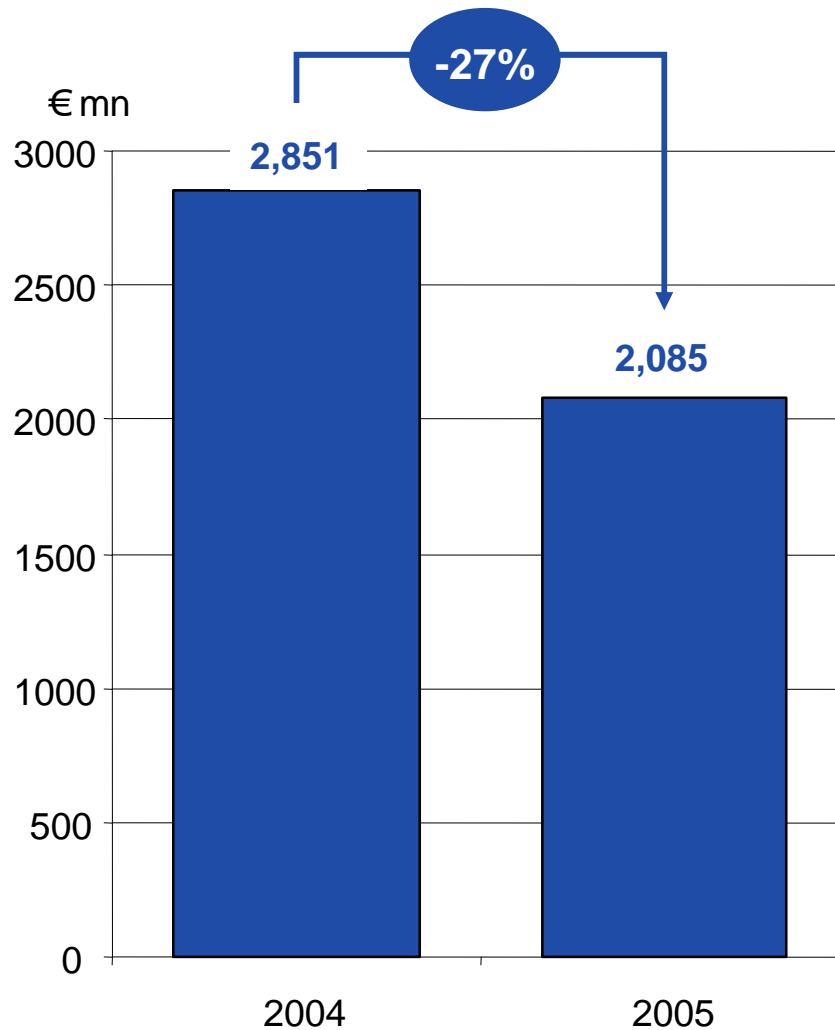
- ✓ Second NPL portfolio sale in 2005:
 - Reduction of NPL portfolio by 14%
 - Total volume: € 325 mn (plus € 63 mn interest and fees)
 - Composition: 50% commercial, 50% residential; 29% East Germany, 57% West Germany, 14% Berlin
 - No P&L burden

2. Non performing loan portfolio 2005

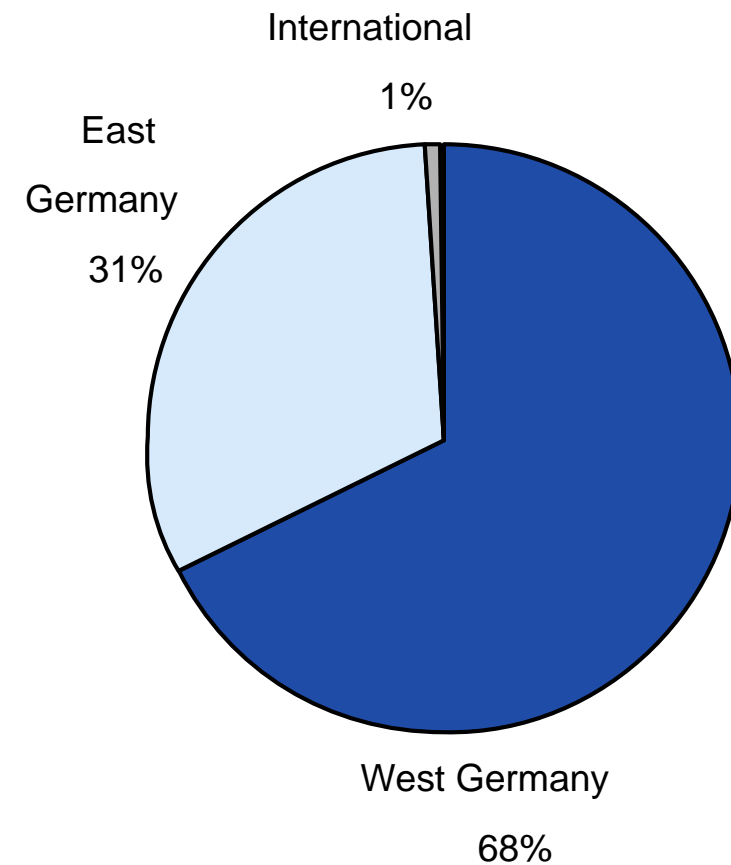


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Development NPL portfolio



Regional split 31.12.2005





Leveraging our mid-sized corporate structure

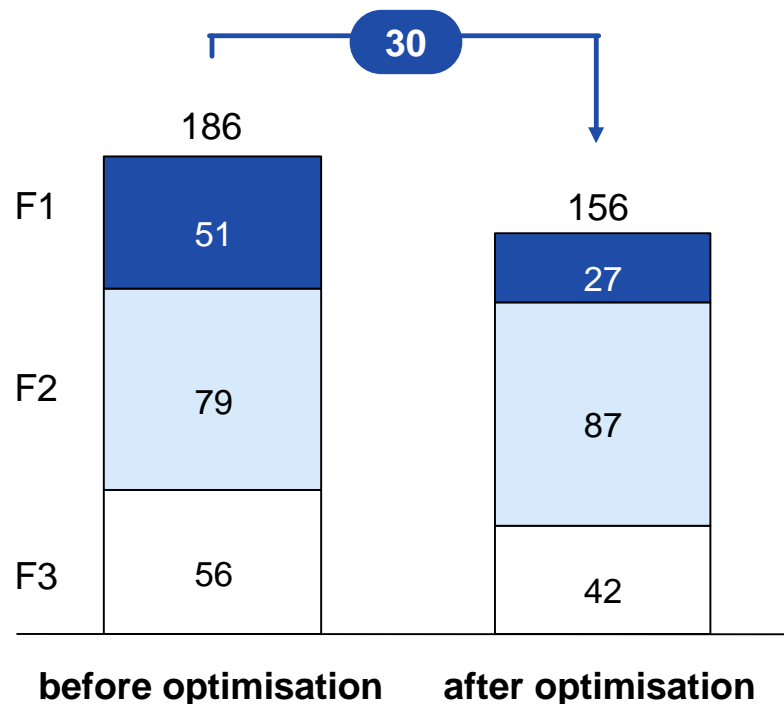
Step 1: 2005

- ✓ Consulting and Services to the institutional property industry: **Interdisciplinary Management Board founded**, including:
 - Institutional housing industry department of Aareal Bank
 - Aareon AG
 - First Financial Solutions AG

- ✓ Aareal Hypotheken Vermittlungs GmbH: **Sold**
- ✓ Aareal Hypotheken Management GmbH: **Sold**
- ✓ Via Capital Ltd: **Closed**
- ✓ Asset Management Subsidiaries:
Holding Company founded

Streamlining Aareal Bank's organisational structure

Number of organisational units
Aareal Bank AG



- ✓ Target organisation of Aareal Bank AG identified
- ✓ Reduction of organisational units implemented in 2005
 - Powerful management levels
 - Optimised span of control
 - Less interfaces
 - Optimised processes
 - Clear responsibilities
- ✓ Target reduction of head counts of Aareal Bank AG identified



Emphasising a modern corporate culture and More transparency in managing our business

- ✓ More delegation of competences, especially regarding credit competences
- ✓ Focussing on an open communication policy
- ✓ Development of new remuneration system, especially regarding performance evaluation and agreements on objectives
- ✓ Development of new trainee program



Group Facts and Figures 2005



Group P&L Q4 2005

	Q4 2005	Q4 2004
	€ mn	€ mn
Net interest income	97	111
Net loan loss provisions	24	55
Net interest income after net loan loss provisions	73	56
Net commission income	50	50
Results from hedges	0	-1
Net trading income	-11	-18
Results from non-trading assets	20	19
Results from companies accounted for at equity	-8	-11
Results from investment properties	3	-16
Administrative expenses	105	97
Other operating income	7	7
Depreciation of goodwill	0	3
Operating Profit	29	-14
Income taxes	5	-3
Group net income	24	-11
Allocation of results	€ mn	€ mn
Minority interest income / loss	4	4
Gains / losses attributable to shareholders of Aareal Bank AG	20	-15

- Interest Income effected by decline of risk weighted assets in 2005 as a result of reduction of our German non-core business
- Risk provisioning already clearly reduced in Q4 2005
- Commission income as usual strong in Q4
- Trading income is burdened by synthetic securitisation costs
- Administrative expenses effected by costs of realignment
- Entities consolidated for the first time resulted in an increase in administrative expenses as well as other operating income by approx. € 6 million



Scope and results of the loan book review 2005

- Overall 71,2% of the total loan portfolio were reviewed in detail
- The following portfolios were reviewed to 100%
 - Workout portfolio
 - Private clients business (by means of a scoring method)
 - Foreclosed assets
 - Social properties
 - Funds
- Measures taken in the scope of the review
 1. Interest income: 5 mn €
 2. Loan loss provisions: 159 mn €
 3. Impairments of foreclosed assets: 50 mn €



Group P&L 2005

	1.1.-31.12.2005	1.1.-31.12.2004	Change
	€ mn	€ mn	%
Net interest income	419	441	-5.0
Net loan loss provisions	273	410	-33.4
Net interest income after net loan loss provisions	146	31	---
Net commission income	169	157	7.6
Results from hedges	2	-9	---
Net trading income	-25	-18	---
Results from non-trading assets	46	30	56.3
Results from companies accounted for at equity	-10	-16	---
Results from investment properties	-8	-15	---
Administrative expenses	402	363	10.7
Other operating income	-6	15	---
Depreciation of goodwill	0	7	-100.0
Operating Profit	-88	-195	---
Income taxes	-52	-84	---
Group net income	-36	-111	---
Allocation of results	€ mn	€ mn	%
Minority interest income / loss	19	18	5.6
Gains / losses attributable to shareholders of Aareal Bank AG	-55	-129	---



Capital Increase and development of capitalisation

Capital ratios (according to BIS)	31.12.05	31.12.04
	€mn	€mn
Core capital	1,281	1,270
Total capital	2,260	2,238
RWA	17,926	18,502
Tier 1 Ratio	7.2%	6.9%
Total capital Ratio	12.6%	12.1%

- Capital increase in November 2005 in order to strengthen the capital base
- 10% excluding shareholder's preemptive subscription rights placed with the shareholders of Aareal Holding Verwaltungsgesellschaft
- Aareal Holding Verwaltungsgesellschaft now holds 39.97%



Segment Reporting



Segment Reporting 2005

	Structured Property Financing		Consulting / Services		Property Asset Management		Consolidation/ Reconciliation/ Other		Aareal Bank Group	
	€mn		€mn		€mn		€mn		€mn	
	1.1.- 31.12.2005	1.1.- 31.12.2004	1.1.- 31.12.2005	1.1.- 31.12.2004	1.1.- 31.12.2005	1.1.- 31.12.2004	1.1.- 31.12.2005	1.1.- 31.12.2004	1.1.- 31.12.2005	1.1.- 31.12.2004
Net interest income	384	400	-1	1	-1	2	37	38	419	441
Net loan loss provisions	273	410							273	410
Net interest income after net LLP	111	-10	-1	1	-1	2	37	38	146	31
Net commission income	22	24	177	168	11	8	-41	-43	169	157
Results from hedges	2	-9							2	-9
Net trading income	-24	-19			-1	1			-25	-18
Results from non-trading assets	45	32	1			-2			46	30
Results from companies accounted for at equity	-16	-17	0	1	6	0			-10	-16
Results from investment properties	-9	-16			1	1			-8	-15
Administrative expenses	203	184	186	172	21	15	-8	-8	402	363
Other operating income	-6	10	2	4	10	4	-12	-3	-6	15
Depreciation of goodwill	0	4	0	3		0			0	7
Operating Profit	-78	-193	-7	-1	5	-1	-8	0	-88	-195
Income taxes	-46	-84	-2	1	-1	-1	-3		-52	-84
Group net income	-32	-109	-5	-2	6	0	-5	0	-36	-111
Allocated shareholders's equity	694	724	104	101	27	42	380	326	1,205	1,193
Cost / income ratio (%)	62.1	52.6	104.3	99.2	105.6	97.6			76.5	68.5
RoE after taxes (%)	-4.5	-15.0	-5.3	-1.8	22.1	-0.4			-3.0	-9.3



Structured Property Financing: Virtual separation of non-performing business

	Structured Property Financing Performing	Structured Property Financing Non-Performing
	€mn	€mn
	1.1.-31.12.2005	1.1.-31.12.2005
Net interest income	380	4
Net loan loss provisions	46	227
Net interest income after net LLP	334	-223
Administrative expenses	183	20
Other Items	13	1
Operating Profit	164	-242
Income taxes	50	-96
Group net income	114	-146

- Net interest income non-performing business =
 - Interest income on NPL portfolio
 - Minus refinancing costs
- Admin expenses include costs for NPL portfolio sales
- LLP performing portfolio = LLP on performing loans



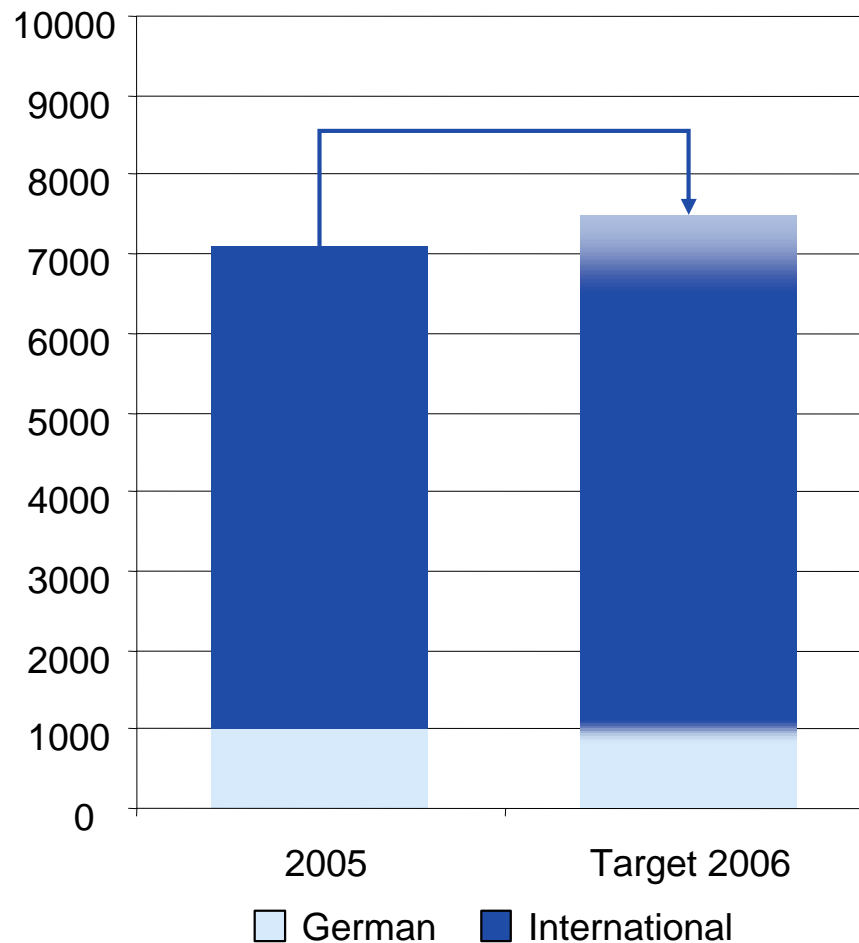
6 step program 2006



Strengthening diversification

Total new commitments

€ mn

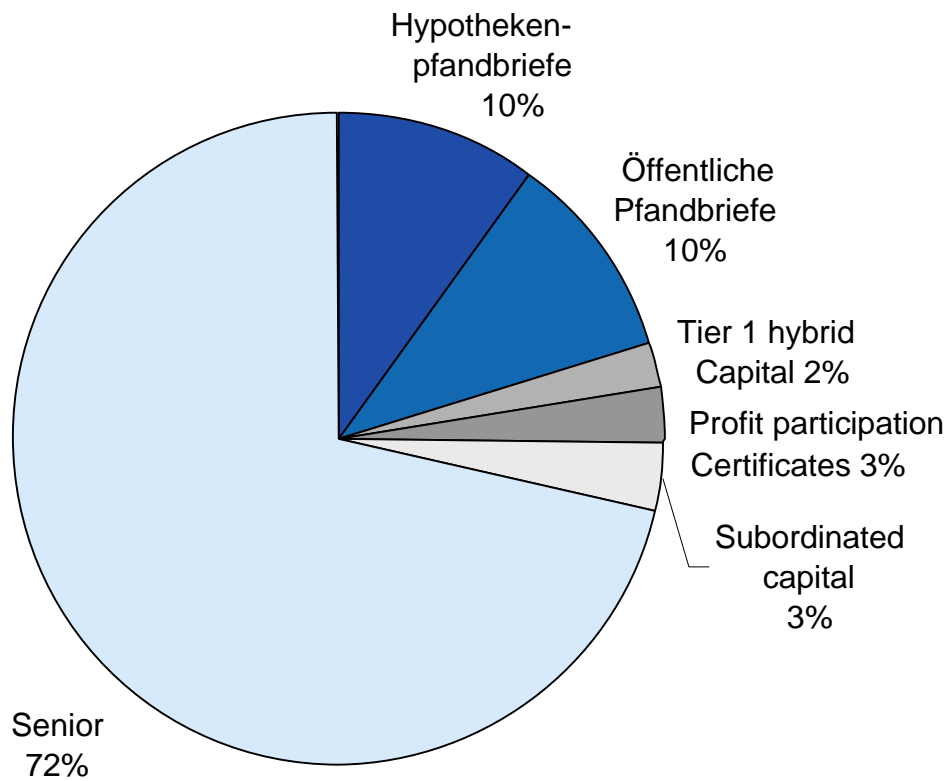


- New business target range 2006: € 6.5-7.5 billion
- High diversification in region and object type
- Advancement of “buy-and-manage” strategy by first true sales transaction
- Improved diversification of refinancing mix and more international investor base
 - ✓ First Jumbo mortgage Pfandbrief in Q1 2006

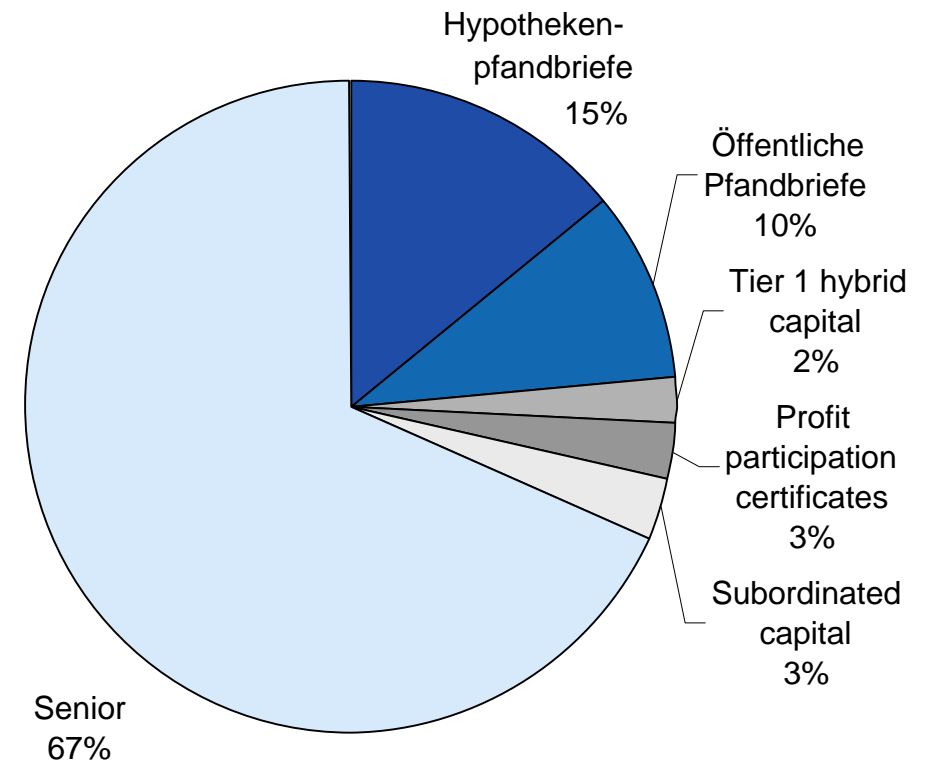


Refinancing structure

Group Refinancing structure
as at 31.12.2005



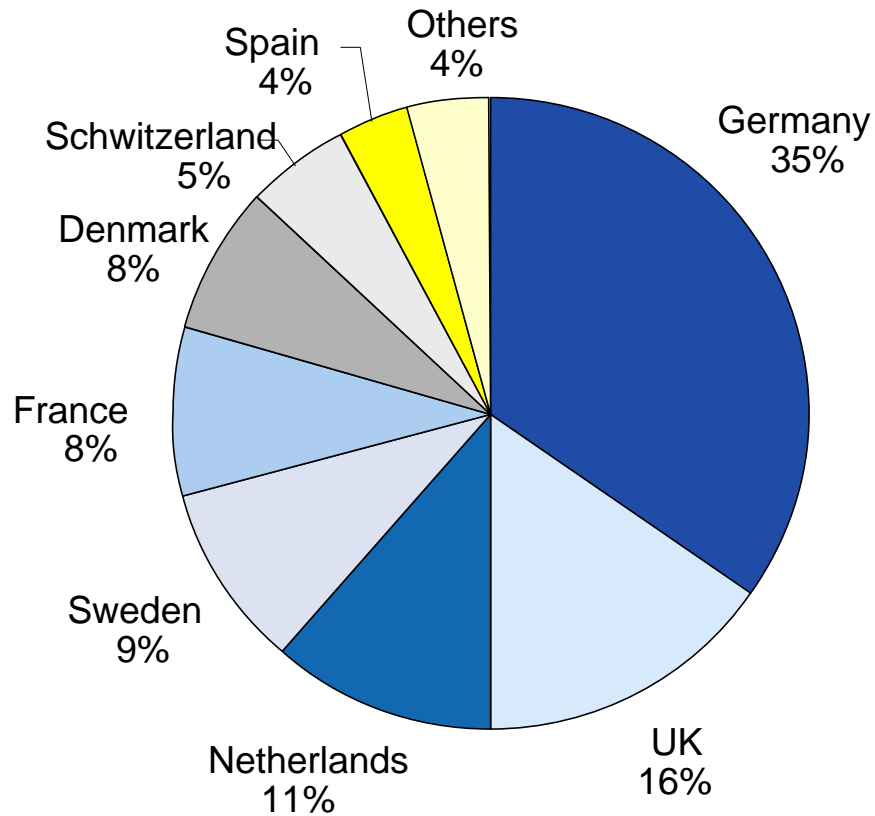
Group Refinancing structure
as at 28.02.2006



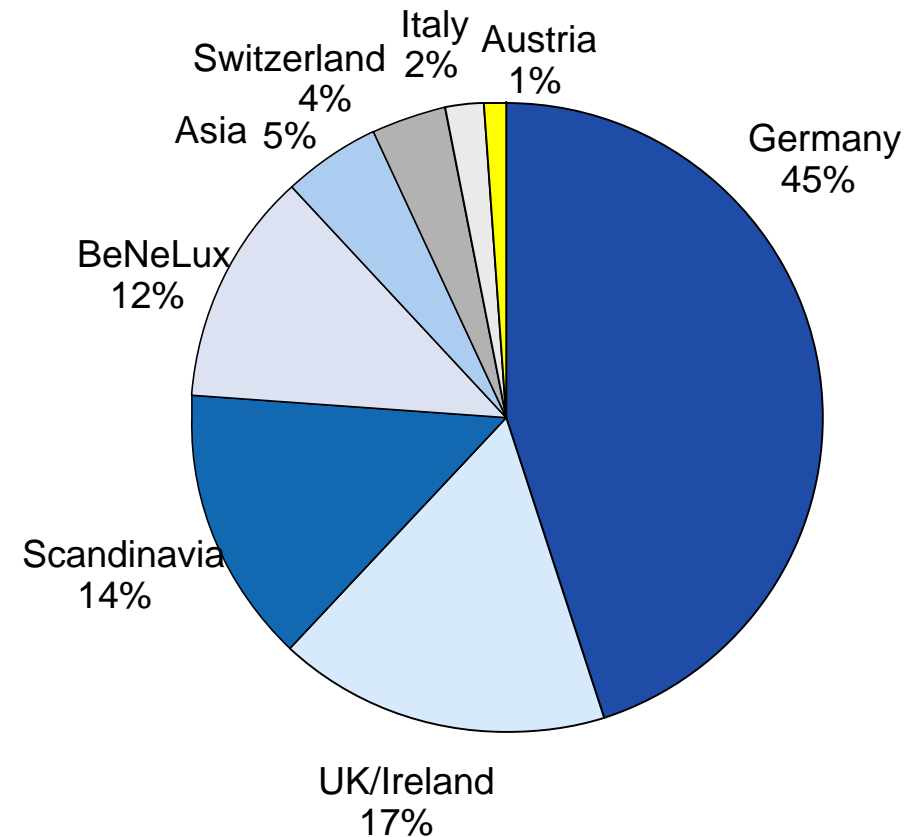


Diversification of cover pool and investor base

Cover pool:
regional diversification



Placement Jumbo Pfandbrief:
regional split

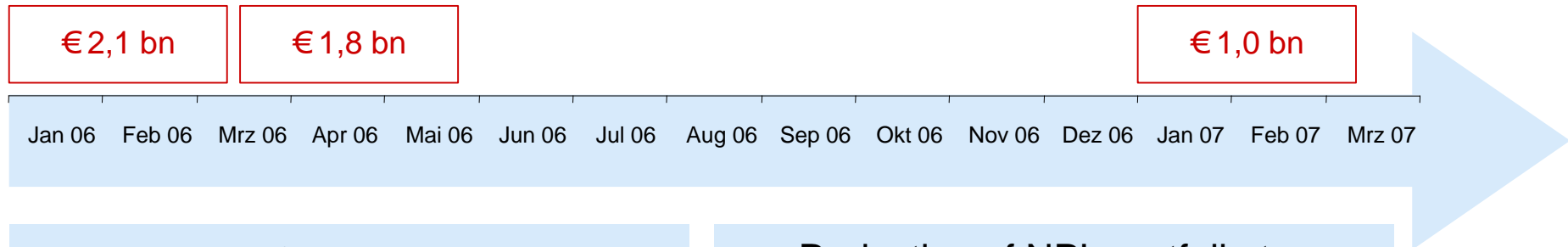


2. Non performing loan portfolio 2006



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Further NPL portfolio sales in progress



Third NPL portfolio sale:

- Private client portfolio
- Reduction of NPL portfolio by 12.8%
- Total volume: € 265 mn (plus € 80 mn interest and fees)
- Composition:
 - Ca. 1800 loans for ca. 1000 objects
 - 50% West Germany, 50% East Germany

- Reduction of NPL portfolio to €1 bn
- By further portfolio transactions
- By single workout transactions



Optimisation of group structure

Step 2: 2006

- Management Board Consulting and Services to the institutional property industry:
 - Realigned and harmonised business model incl. product strategy and client strategy
 - Raised efficiency and improved organisational structure
- ✓ Aareal Hyp AG: **Merged** into Aareal Bank AG
- Value maximisation of subsidiaries and participations that were reviewed in 2005
- Review of further subsidiaries and participations

Streamlining Aareal Bank's organisational structure

Property Structured Financing:
representations in Germany



- ✓ Implementation of target organisation of Aareal Bank AG
- Reduction of property structured financing offices and representations in Germany from eight to four
- First step of planned head counts reduction for Aareal Bank AG (of 253 FTE within three years)
- Improvement of cost structure and therefore cost/income ratio of the segment Property Structured Financing



Emphasising a modern corporate culture and More transparency in managing our business

- Implementation of a new remuneration system, especially regarding performance evaluation and agreements on objectives: First step
- Realisation of corporate guidelines
- Implementation of a new employee development program
- Implementation of a new trainee program



Targets



Target results 2006

	2006 (target)	2005
	€ mn	€ mn
Net interest and commission income	580 - 600	588
Net loan loss provisions	80 - 90	273
Administrative expenses	370 - 390	402
Operating Profit	130 - 150	-88

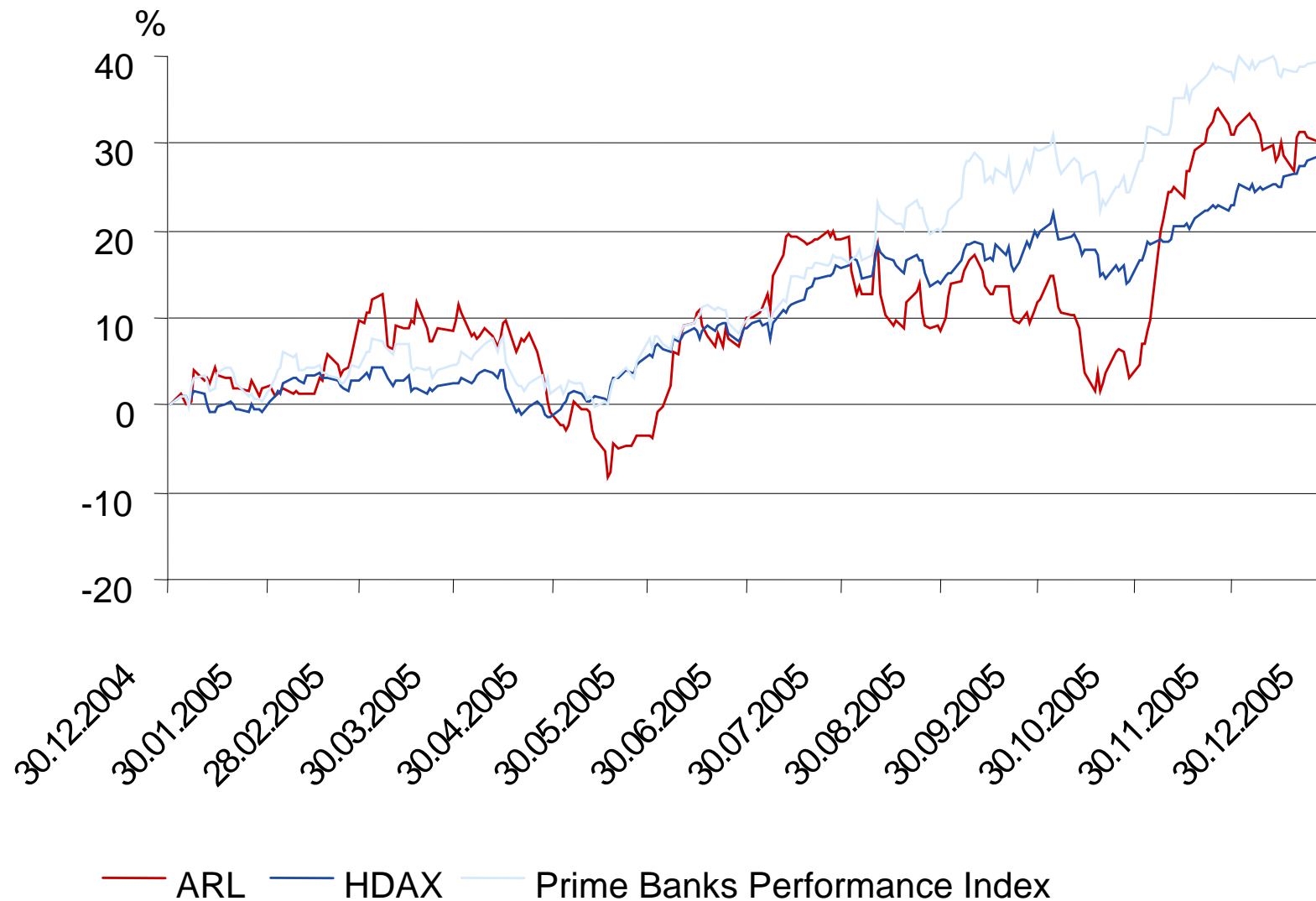
- RoE-target: 7.5 – 8.0 %
- Liberating measures taken in 2005
- Back to normalised risk provisioning in 2006
- Slight Interest income increase in 2006
- Slight Commission income increase in 2006
- Administrative expenses reduction in 2006



Appendix



Relative share performance of ARL in comparison



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