

THE INTERNATIONAL  
PROPERTY SPECIALIST

# Roadshow Presentation

December 2006



**Aareal Bank**

# Key strategic statements

**1**

**We focus on our core competence**

**2**

**We are more than a bank: We are a property specialist with a highly diversified revenue stream**

**3**

**We are not balance sheet driven**

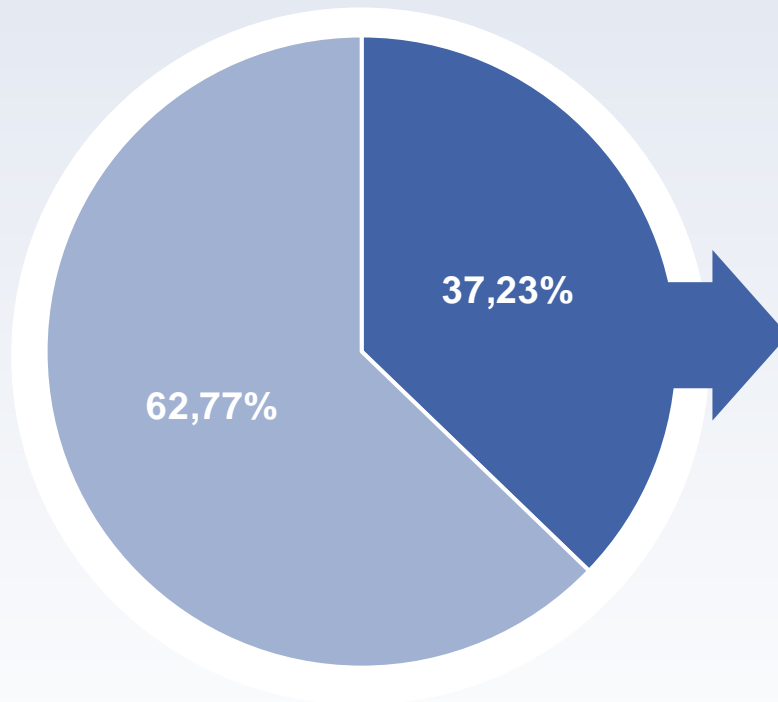
**4**

**We are an international player**



# Shareholder Structure

## Aareal Holding Verwaltungsgesellschaft mbH



**8.94%** Bayerische Beamten  
Lebensversicherung a.G.

**8.94%** Schweizerische  
Lebensversicherungs-  
und Rentenanstalt

**6.68%** Versorgungsanstalt des  
Bundes und der Länder

**6.06%** Bankhaus Lampe KG

**5.52%** Deutscher Ring  
Beteiligungs-Holding

**1.36%** Condor Lebensversicherung

■ Free float

■ Aareal Holding Verwaltungsgesellschaft mbH



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# Structured Property Financing



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# International presence

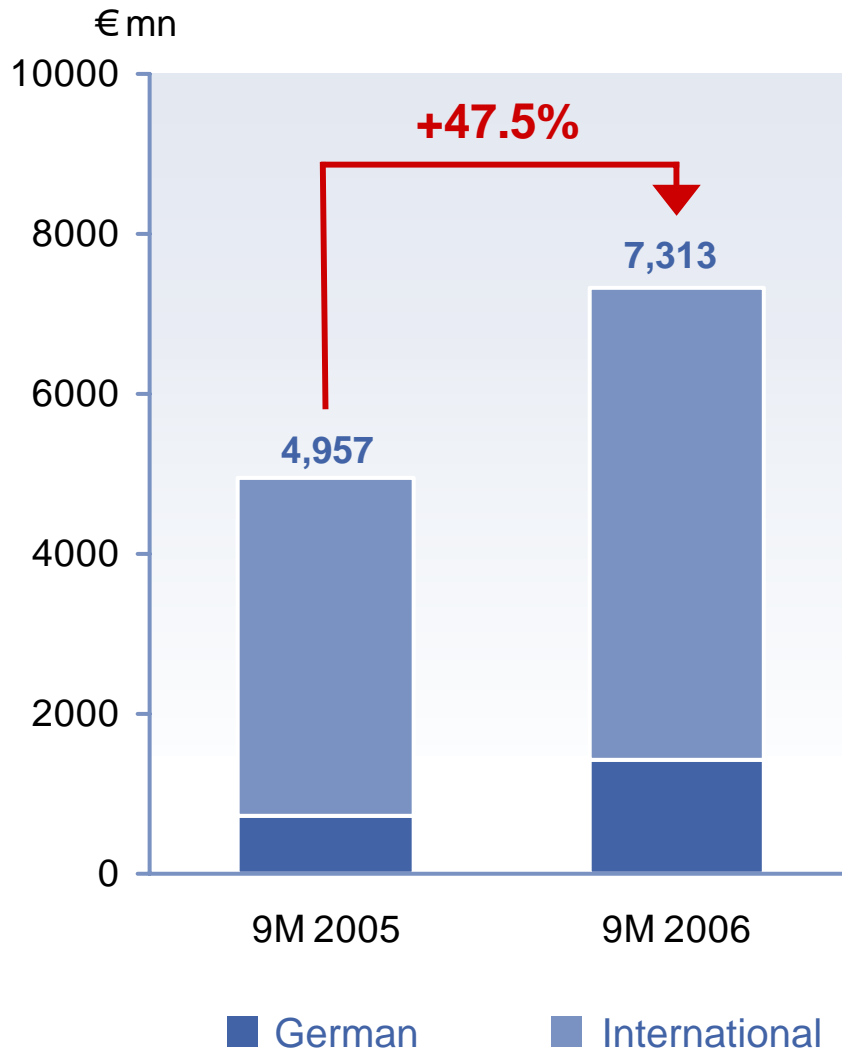


-  Treasury activities
-  locations Real Estate Structured Finance
-  countries with lending operations



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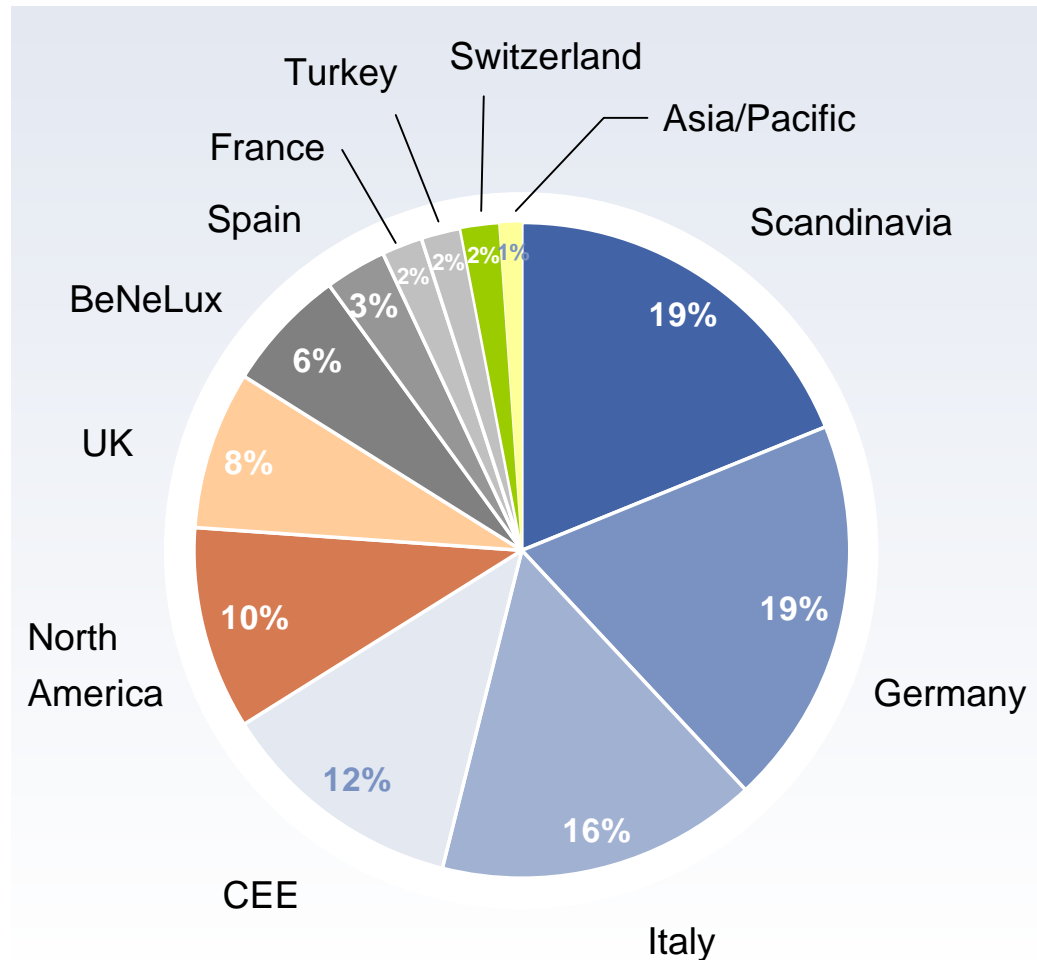
# Continued new business growth



- Increase of new business volume by nearly 50%
- New business target of € 7 bn in 2006 already achieved after 9 months
- New target for the full year: > € 8 bn
- 81% of new business is international
- Highly diversified by region and object type

# New business by region

Total new business 1.1.-30.9.2006: €7.3 bn

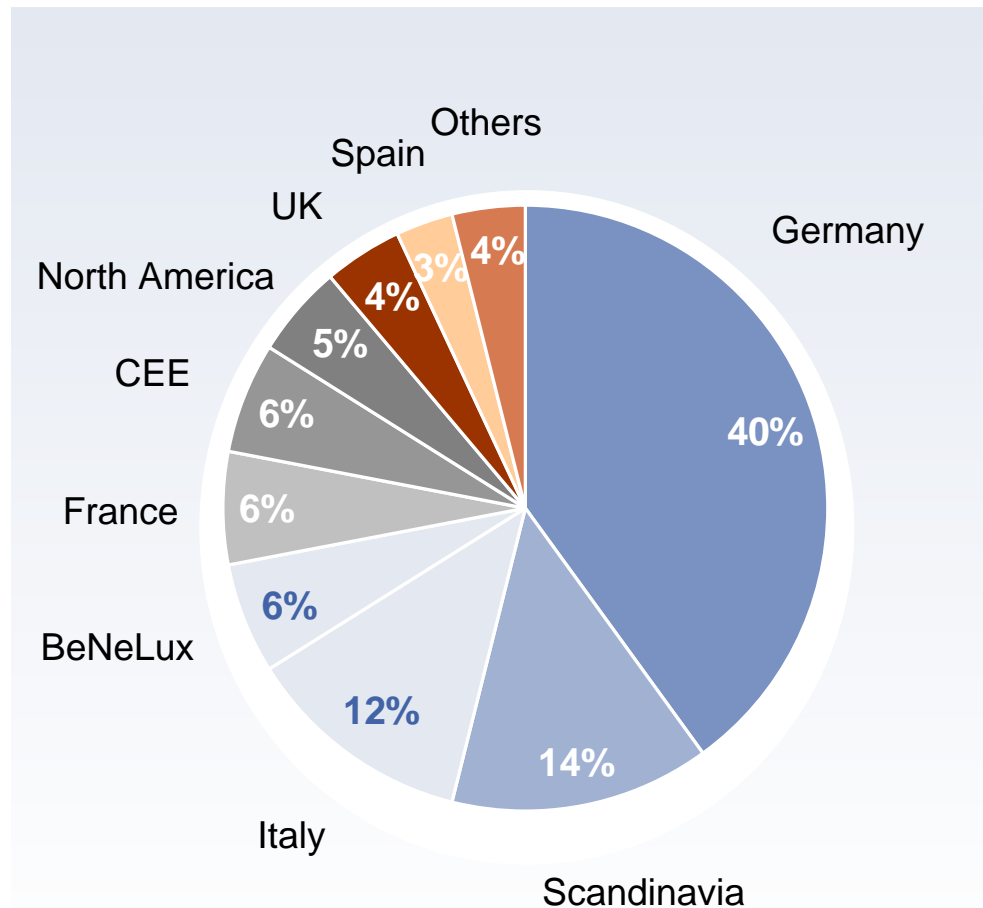


- Principle of one central head of all Nordic countries and branches has proved itself successful
- Similar introduction of:
  - Head of CEE and Russia,
  - Head of Asia and
  - Head of North America
- Office in Helsinki in preparation
- Office in Shanghai planned



# Property financing portfolio by region

Total portfolio 30.9.2006: €22.2 bn



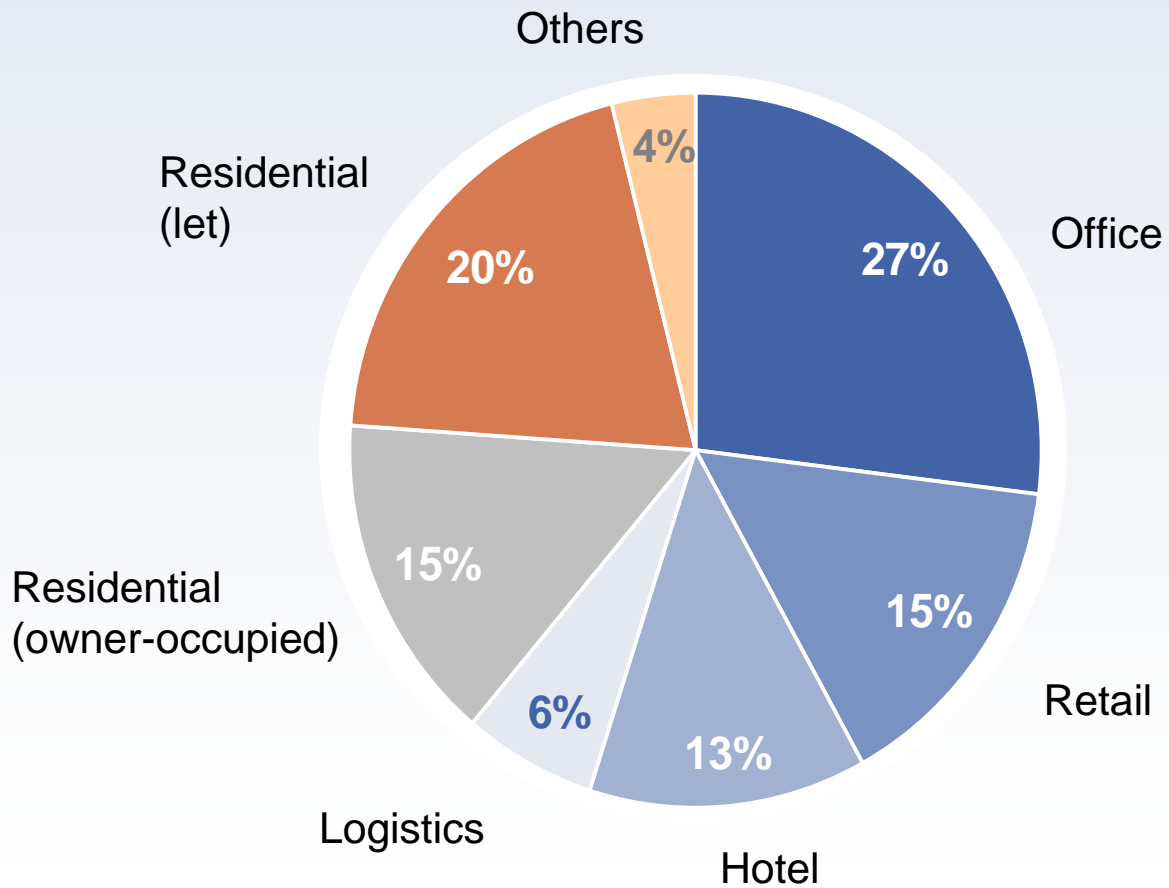
- German portfolio reduced to 40% of total portfolio (down from 53% 01.01.2005)
- Reduction of German portfolio and increase of international portfolio further optimises the regional diversification of the back book



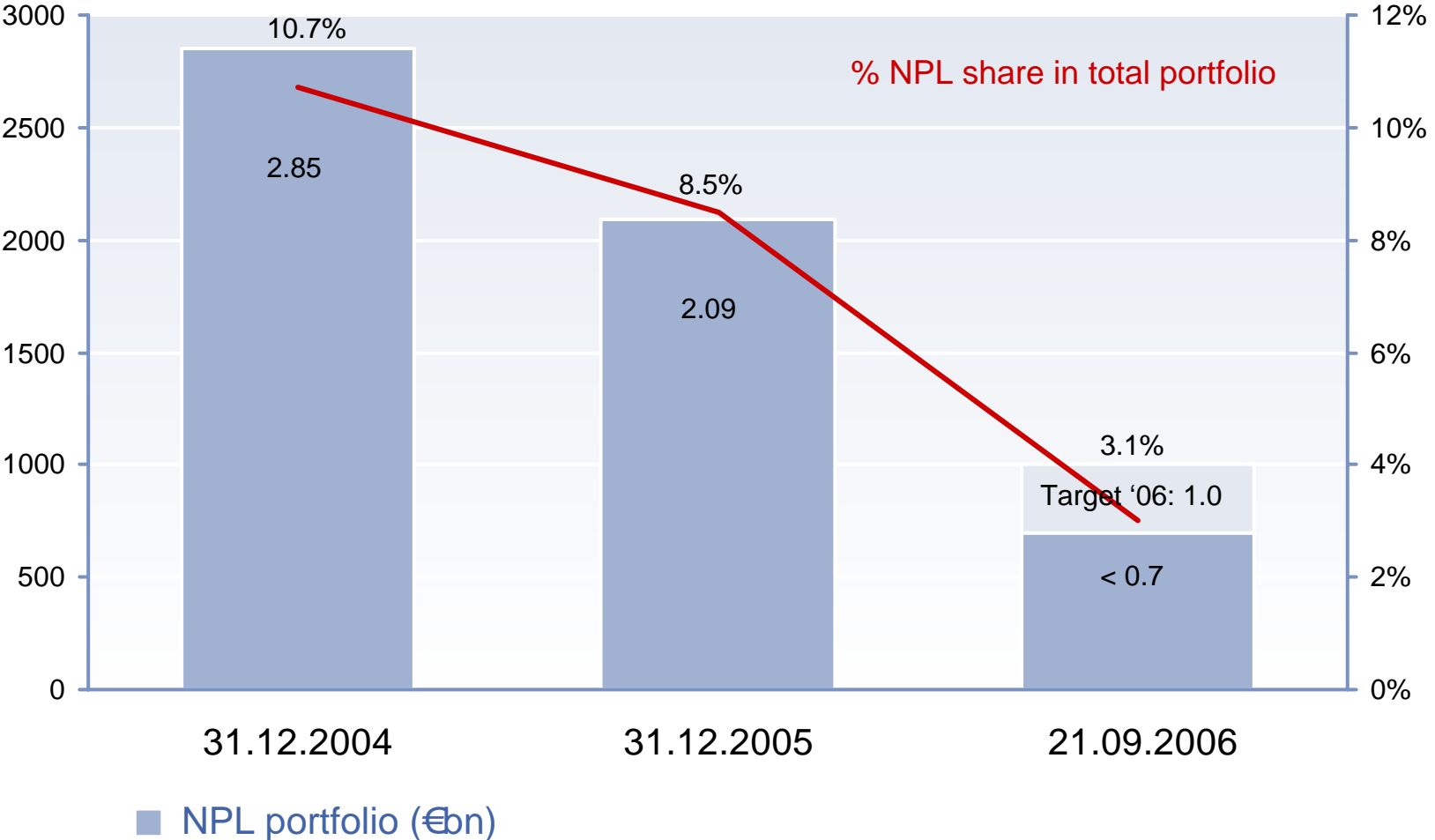


# Property financing portfolio by industry

Total portfolio 30.9.2006: €22.2 bn



# Target reduction of our NPL portfolio outperformed



# Consulting / Services



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# Consulting/Services – major activities

## Aareal Bank Consulting/Services Segment

### Consulting and Services for the institutional housing sector



- Market-leading European IT-system house for the management of residential and commercial property
- Key client base:  
Large size property owners / managers
- 8mn units managed with Aareon's property management softwares



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#### Institutional Housing Industry Department and First Financial Solutions

- Market-leading integrated payment transaction systems for real estate companies
- Payment transaction and special accounts for over 7mn units

### Other Services

#### ImmoScout24

- Financial investment

#### iBS

- Financial investment

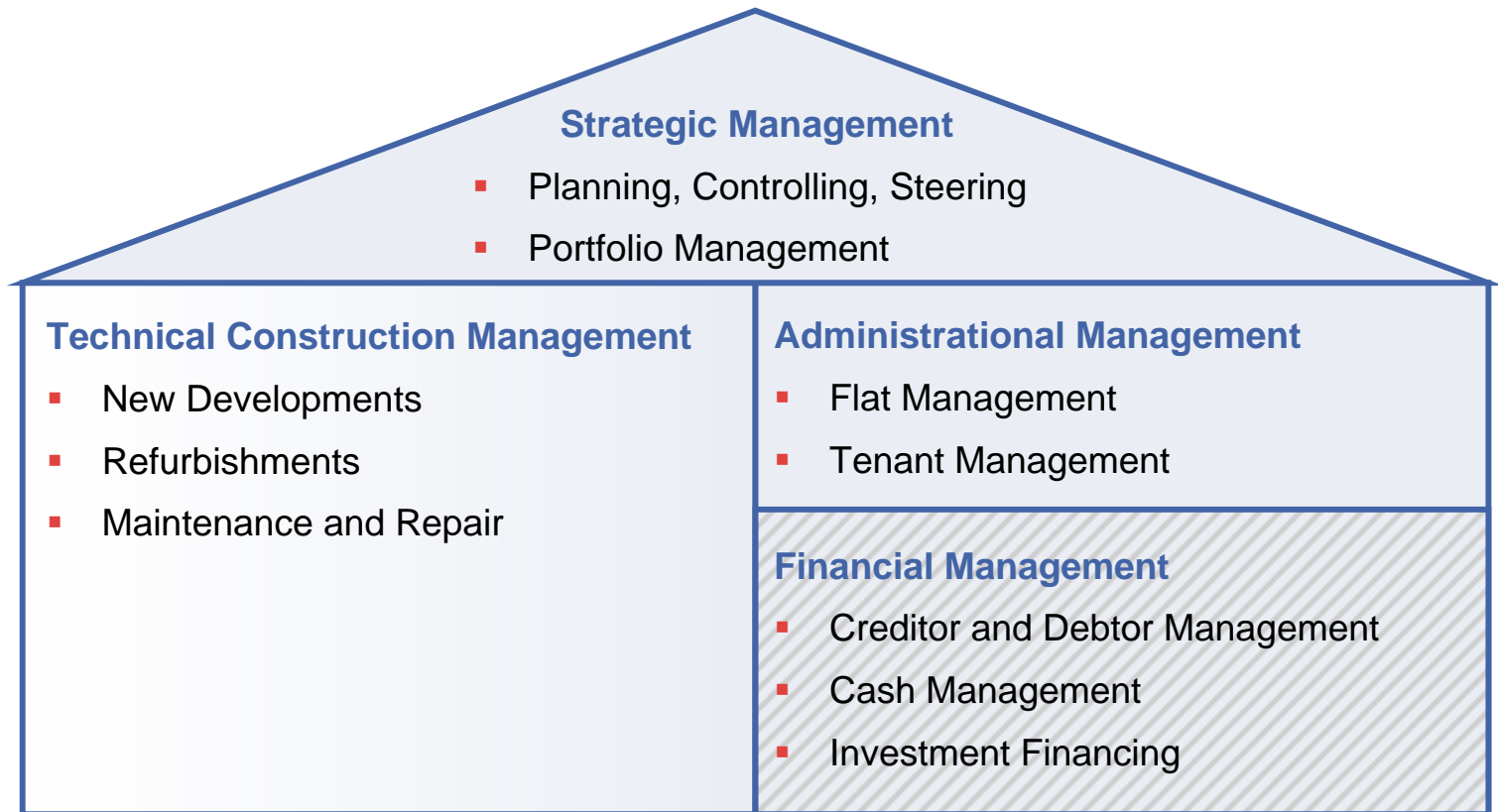
#### BauGrund

- Management of extensive property and trust assets



# Services provided to the Institutional Housing Sector

Requirements of a typical property management company



 IT Solutions

 Integrated Payment Solutions






# Institutional Housing Sector: Interdependence Aareon and Aareal Bank



- ✓ Fully automatic handling of payment transactions generates more than € 4 billion highly stable deposits
- ✓ IT-Systems (with consulting and add-on services) generate stable fee income with low equity engagement

# Institutional housing sector: Integral element of group strategy

<p>1.</p> <p><b>Customer Deposits</b></p>	<p><b>Highly stable customer deposits without expensive branch network</b></p> <ul style="list-style-type: none"><li>➤ ~ € 1.5 bn stable current account money</li><li>➤ ~ € 3 bn stable term deposits</li><li>➤ Increasing tendency</li></ul>	
<p>2.</p> <p><b>Earnings Stability</b></p>	<p><b>Non-cyclical and stable group earnings contributions</b></p> <ul style="list-style-type: none"><li>➤ devoid of credit risk</li><li>➤ 60% market share of Aareon in Germany</li><li>➤ Long-established customer base</li><li>➤ Long-running contracts</li></ul>	
<p>3.</p> <p><b>Group RoE</b></p>	<p><b>Group RoE enhancement</b></p> <ul style="list-style-type: none"><li>➤ Very low equity engagement</li><li>➤ EBT Target 2008 (and onwards): € 40 – 50 mn</li></ul>	

# Institutional Housing Sector: Status 2005: insufficient profitability

Aareon Group <sup>1)</sup>			Aareal First Financial Solutions AG <sup>1)</sup>			Aareal Bank <sup>2)</sup> - Housing Sector department -		
	2004	2005		2004	2005		2004	2005
<b>EBIT</b> (€ mn)	<b>12.3</b>	<b>8.2</b>	<b>Gross result</b> (€ mn)	<b>-8.5</b>	<b>-9.8</b>	<b>Gross result</b> (€ mn)	<b>7.8</b>	<b>2.0</b>
Employees	1009	1029	Employees	75	74	Employees	95	96

- ✘ Insufficient profitability during the past years
  - ✘ Altogether about 10 mn € EBT in 2004 with 1179 employees
  - ✘ Altogether a black zero EBT in 2005 with 1199 employees
- ✘ Insufficient coordination of sales and marketing activities, product development and investments
- ✘ Unclear positioning in the group
- Implementation of realignment measures to restore profitability and group strategy integration

15 1) Single / Sub-group financial statements according to IFRS  
2) According to internal profit centre calculation





# Aareon Group

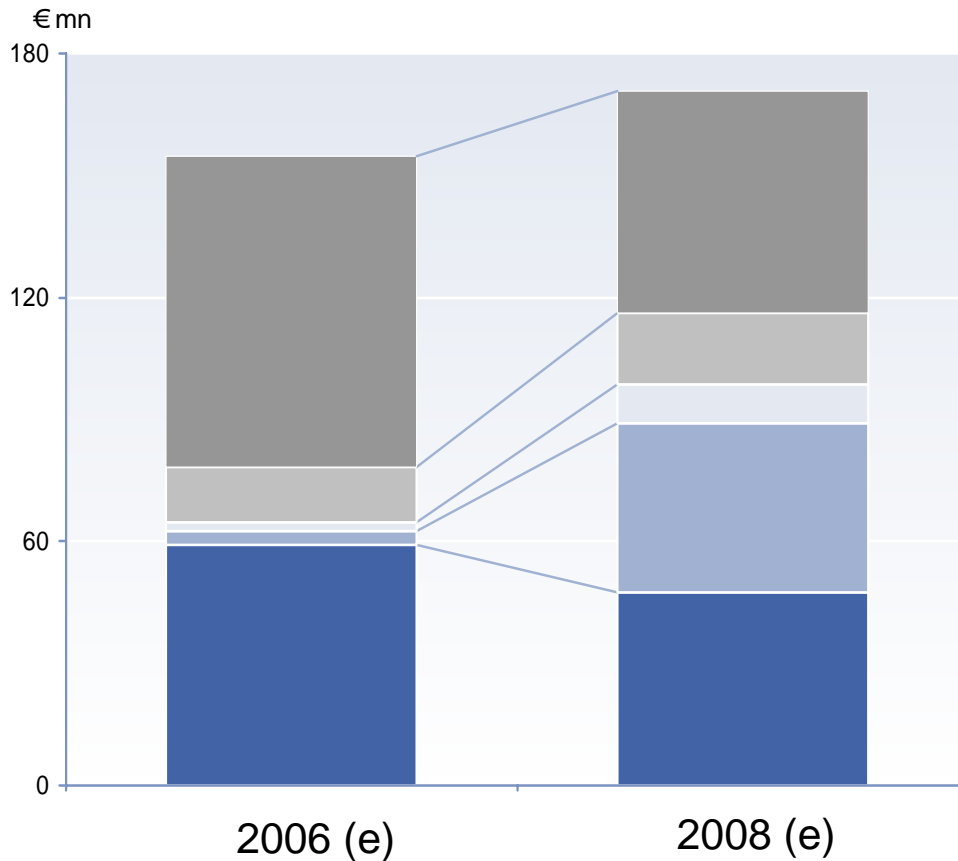
## How to increase profitability

1. Review of product strategy with focus on customer needs
  - **Blue Eagle** (Premium solution for customer with more complex ERP / IT requirements)  
→ Around 50 further implementations of Blue Eagle during the last months
  - **GES and WohnData** (Well established standard solution for housing industry processes for long-established customers)
  - **Wodis** (Less complex solution for medium-sized customers)
2. Focusing on core competences and core business
  - Sale of Aareon Energy Management
3. Strict cost management
  - restructuring plan for Aareon, which costs 6 million Euros and was fully realised in this quarter's P&L
  - About 100 FTE reductions will be realised until early 2007
4. Product costing analysis of all sub segments



# Aareon revenues: expected split by product

## How to increase stability



- Shrinking proportion of Integrated Services and Add-ons (concentration on core products)
- Continuation of our International ERP systems
- Full integration of our solution for mid-sized customers: Wodis
- Realistic growth perspective for Blue Eagle
- Continuation of the established systems GES and WohnData

GES/WohnData
  Blue Eagle
  Wodis
  International ERP systems
  Integrated Services / Add-ons



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# Integrated Payment Solutions: How to increase profitability

1. Establishment of a joint profit centre calculation
2. Integrated product and sales strategy
  - Customer-oriented focus on core products and services
  - Strengthened sales activities and restructuring of front to back office processes
3. Strict cost management
  - Reduction of 30 head counts (20% of current total) until 2008



# Institutional Housing Sector: Breakdown of profitability targets

IT-Services business Aareon Group <sup>1)</sup>				Integrated Payment Solutions Institutional Housing department / AFFS <sup>1)</sup>			
	2006	2007	2008		2006	2007	2008
Revenues (€ mn)	170-175	140-150 <sup>2)</sup>	170-180	Revenues (€ mn)	50-55	55-60	60-65
Expenses (€ mn)	165-170	130-135	140-145	Direct Expenses (€ mn)	45-50	40-45	35-40
<b>EBIT (€ mn)</b>	<b>5-10</b>	<b>10-20</b>	<b>30-40</b>	<b>Gross result <sup>2)</sup> (€ mn)</b>	<b>(5) - 0</b>	<b>0-5</b>	<b>10-20</b>
Employees <sup>3)</sup>	ca. 1050	ca. 940	ca. 910	Employees	ca. 160	ca. 150	ca. 140

→ Target 2006: positive one-digit-million contribution to the segment EBT

→ Target 2008: €40 – 50 mn contribution to the segment EBT

- 1) Sub-group financial statements according to IFRS
- 2) Decrease due to strategic sale of Energy-Management
- 3) Including Techem cross over deal

- 1) Internal profit centre calculation
- 2) after bank overheads  
gross profits before bank overheads:  
€ 5-10 mn (2006), € 10-15 mn (2007),  
€ 20-30 mn (2008)

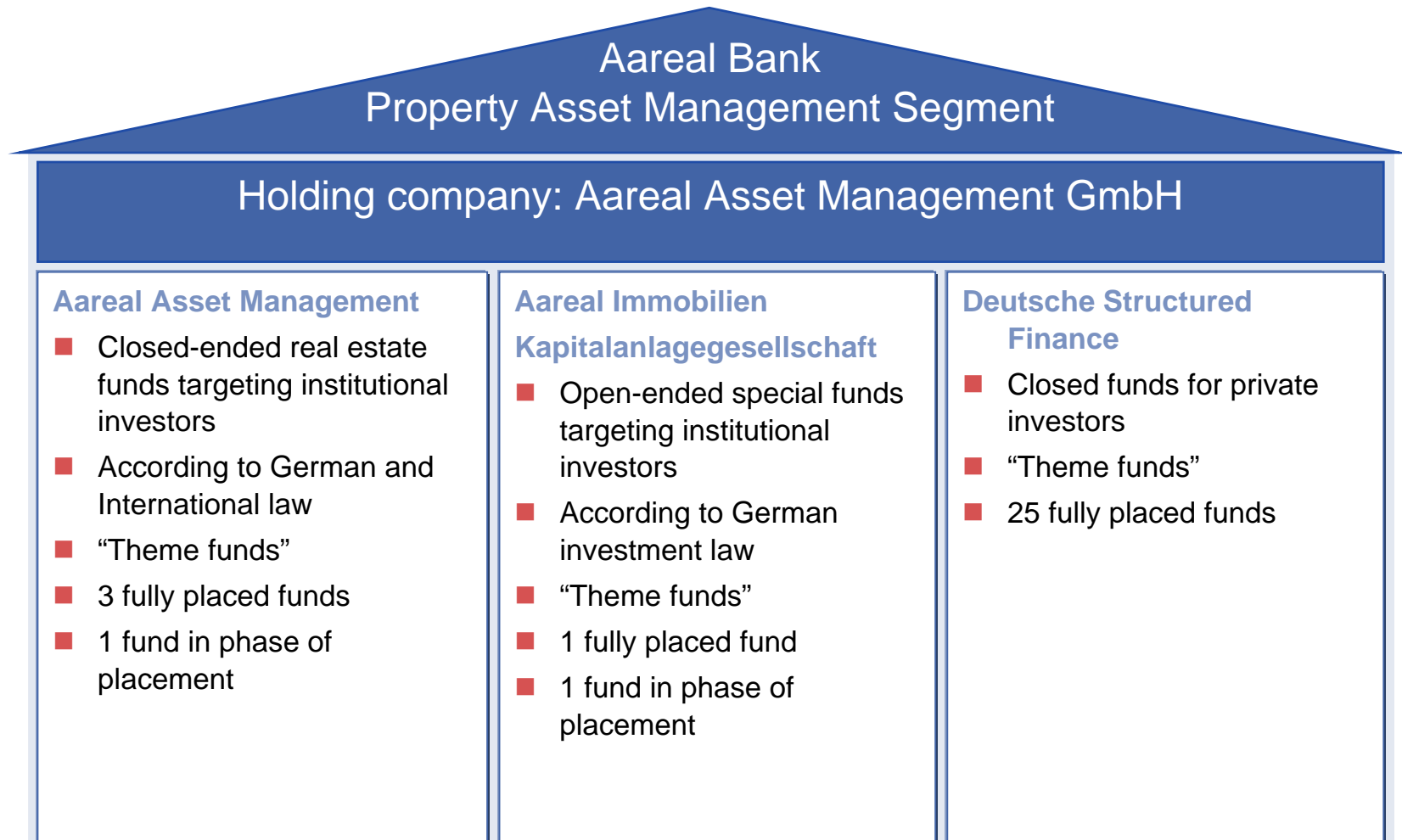


# Property Asset Management



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# Property Asset Management – major activities



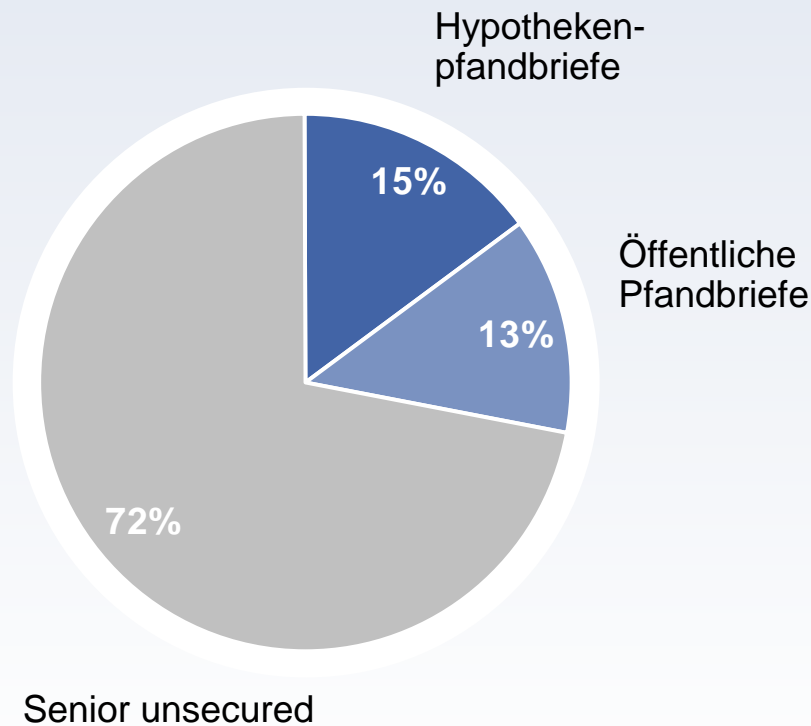
# Refinancing



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# Long-term refinancing structure

## Group Refinancing structure as at 30.09.2006



- Long-term credit rating upgrade by Fitch to “A-” on 7 Nov 2006
- Issue of more than 3.25 bn € long term funding in 9M 2006
- More than 50% of the issues were Pfandbriefe (covered bonds)
- First Pfandbrief benchmark in SEK



# Regulatory indicators (BIS)

Capital ratios (according to BIS)	30.09.06	30.06.06	31.03.06	31.12.05	30.09.05
	€mn	€mn	€mn	€mn	€mn
Core capital	1,319	1,295	1,282	1,281	1,281
Total capital	2,283	2,266	2,260	2,260	2,285
RWA	19,076	18,553	18,549	17,926	18,531
<b>Tier 1 Ratio</b>	<b>7.0%</b>	<b>7.1%</b>	<b>7.0%</b>	<b>7.2%</b>	<b>6.9%</b>
<b>Total capital Ratio</b>	<b>12.0%</b>	<b>12.2%</b>	<b>12.2%</b>	<b>12.6%</b>	<b>12.2%</b>



# Targets



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# Target results 2006

	2006 (target)	9M 2006
Net loan loss provisions (€ mn)	80 - 90	66
Operating Profit (€ mn)	>150	122
Net RoE (%)	>8.0	9.4
Tier I ratio (%)	7.1	7.0

- Key figures well in line or exceeding expectations  
→ Increase of 2006 targets after very successful first nine months
- Normalised risk provisioning in 2006
- Administrative expenses reduction in 2006
- Operating profit target 2006: increased to > € 150 mn
- Net RoE target 2006: exceeding capital costs



# Group Facts and Figures Q3 2006



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# Group P&L Q3 2006

	Q3 2006	Q2 2006	Q3 2005
	€ mn	€ mn	€ mn
Net interest income	97	102	93
Net loan loss provisions	22	22	189
<b>Net interest income after net loan loss provisions</b>	<b>75</b>	<b>80</b>	<b>-96</b>
Net commission income	38	44	41
Results from hedges	4	3	1
Net trading income	5	-4	-7
Results from non-trading assets	16	13	5
Results from companies accounted for at equity	1	0	0
Results from investment properties	0	-1	-15
Administrative expenses	93	94	99
Other operating income	-3	-1	-23
Depreciation of goodwill	0	0	0
<b>Operating Profit</b>	<b>43</b>	<b>40</b>	<b>-193</b>
Income taxes	17	9	-78
<b>Group net income</b>	<b>26</b>	<b>31</b>	<b>-115</b>
<b>Allocation of results</b>			
Minority interest income / loss	4	5	5
<b>Gains attributable to shareholders of Aareal Bank AG</b>	<b>22</b>	<b>26</b>	<b>-120</b>

- Interest income affected by securitisations and portfolio sale in Q3 2006 (with retrospective effect 31.7.2006)
- Underlying commission income stable (as high commissions from Asset Management segment in Q2 are non-recurring)
- Admin expenses successfully reduced despite one-off effect from Aareon restructuring plan (€ 6 mn)
- 9M annualised RoE after taxes = 9.4%
- EpS = 1.71 € in 9 M 2006



# Group P&L 9M 2006

	1.1.-30.09.2006	1.1.-30.09.2005	Change
	€ mn	€ mn	%
Net interest income	297	322	-7.8
Net loan loss provisions	66	249	-73.5
<b>Net interest income after net loan loss provisions</b>	<b>231</b>	<b>73</b>	<b>&gt;100</b>
Net commission income	118	119	-0.8
Results from hedges	6	2	>100
Net trading income	6	-14	---
Results from non-trading assets	40	26	+53.8
Results from companies accounted for at equity	4	-2	---
Results from investment properties	-1	-11	---
Administrative expenses	276	297	-7.1
Other operating income	-6	-13	---
Depreciation of goodwill	0	0	---
<b>Operating Profit</b>	<b>122</b>	<b>-117</b>	<b>---</b>
Income taxes	35	-57	---
<b>Group net income</b>	<b>87</b>	<b>-60</b>	<b>---</b>
<b>Allocation of results</b>	<b>€ mn</b>	<b>€ mn</b>	
Minority interest income / loss	14	15	-6.7
<b>Gains / losses attributable to shareholders of Aareal Bank AG</b>	<b>73</b>	<b>-75</b>	<b>---</b>



# Segment Reporting Q3 2006

	Structured Property Financing		Consulting / Services		Property Asset Management		Consolidation/ Reconciliation/ Other		Aareal Bank Group	
	€mn		€mn		€mn		€mn		€mn	
	Q3 2006	Q3 2005	Q3 2006	Q3 2005	Q3 2006	Q3 2005	Q3 2006	Q3 2005	Q3 2006	Q3 2005
Net interest income	83	85	0	0	1	-1	13	9	97	93
Net loan loss provisions	22	189							22	189
<b>Net interest income after net LLP</b>	<b>61</b>	<b>-104</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>-1</b>	<b>13</b>	<b>9</b>	<b>75</b>	<b>-96</b>
Net commission income	12	5	39	43	2	3	-15	-10	38	41
Results from hedges	4	1							4	1
Net trading income	5	-7			0	0			5	-7
Results from non-trading assets	1	5	14		1				16	5
Results from companies accounted for at equity	1			0	0				1	0
Results from investment properties	0	-15				0			0	-15
Administrative expenses	45	50	46	48	4	4	-2	-3	93	99
Other operating income	-9	-25	5	1	1	3	0	-2	-3	-23
Depreciation of goodwill		0	0	0					0	0
<b>Operating Profit</b>	<b>30</b>	<b>-190</b>	<b>12</b>	<b>-4</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>43</b>	<b>-193</b>
Income taxes	12	-77	5	-1	0	0	0	0	17	-78
<b>Group net income</b>	<b>18</b>	<b>-113</b>	<b>7</b>	<b>-3</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>26</b>	<b>-115</b>
Allocated shareholders's equity	728	713	90	103	26	27	186	86	1,030	929
Cost / income ratio (%)	58.7	101.3	81.7	107.1	87.7	101.2			66.4	103.3
RoE after taxes (%)	9.1	-65.6	27.8	-11.4	4.1	2.2			8.7	-51.9



# Segment Reporting 9M 2006

	Structured Property Financing		Consulting / Services		Property Asset Management		Consolidation/ Reconciliation/ Other		Aareal Bank Group	
	€mn		€mn		€mn		€mn		€mn	
	1.1.- 30.09.2006	1.1.- 30.09.2005	1.1.- 30.09.2006	1.1.- 30.09.2005	1.1.- 30.09.2006	1.1.- 30.09.2005	1.1.- 30.09.2006	1.1.- 30.09.2005	1.1.- 30.09.2006	1.1.- 30.09.2005
Net interest income	260	295	0	1	2	-1	35	27	297	322
Net loan loss provisions	66	249							66	249
<b>Net interest income after net LLP</b>	<b>194</b>	<b>46</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>-1</b>	<b>35</b>	<b>27</b>	<b>231</b>	<b>73</b>
Net commission income	23	11	120	131	14	8	-39	-31	118	119
Results from hedges	6	2							6	2
Net trading income	5	-13			1	-1			6	-14
Results from non-trading assets	23	26	16		1				40	26
Results from companies accounted for at equity	1	0	3	-2					4	-2
Results from investment properties	-1	-11				0			-1	-11
Administrative expenses	140	153	127	139	14	12	-5	-7	276	297
Other operating income	-11	-11	4	2	2	5	-1	-9	-6	-13
Depreciation of goodwill		0	0	0					0	0
<b>Operating Profit</b>	<b>100</b>	<b>-103</b>	<b>16</b>	<b>-7</b>	<b>6</b>	<b>-1</b>	<b>0</b>	<b>-6</b>	<b>122</b>	<b>-117</b>
Income taxes	28	-52	5	-2	2	-1	0	-2	35	-57
<b>Group net income</b>	<b>72</b>	<b>-51</b>	<b>11</b>	<b>-5</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>-4</b>	<b>87</b>	<b>-60</b>
Allocated shareholders's equity	728	713	90	103	26	27	186	86	1,030	929
Cost / income ratio (%)	53.9	60.4	89.8	104.6	76.7	115.8			64.7	74.2
RoE after taxes (%)	11.1	-11.9	13.2	-8.5	16.7	-4.4			9.4	-10.8





## Balance Sheet: Assets

	30.09.2006	31.12.2005
<b>Assets</b>	<b>€mn</b>	<b>€mn</b>
Cash Funds	2.335	1.494
Loans and advances to banks	2.560	1.581
Loans and advances to customers	22.421	25.148
Provisions for loan losses	-340	-1.140
Positive market value of derivative hedging instruments	914	1.131
Trading assets	662	616
Non-current assets and disposal groups held for sale	16	208
Non-trading assets	8.294	9.115
Interests in companies accounted for at equity	162	160
Investment properties	92	89
Intangible assets	70	70
Property and equipment	92	93
Income tax assets	22	11
Deferred tax assets	158	169
Other assets	571	441
<b>Total</b>	<b>38.029</b>	<b>39.186</b>



## Balance Sheet: Shareholder's equity and liabilities

	30.09.2006	31.12.2005
<b>Equity and Liabilities</b>	<b>€mn</b>	<b>€mn</b>
Liabilities to banks	4.806	7.855
Liabilities to customers	21.596	18.899
Certificated liabilities	7.062	7.549
Negative market value of derivative hedging instruments	914	1.183
Trading liabilities	144	207
Obligations from disposal groups held for sale	0	19
Provisions	260	274
Income tax liabilities	25	25
Deferred tax liabilities	77	74
Other liabilities	412	300
Subordinated equity	1.403	1.560
Shareholder's equity		
Subscribed capital	128	128
Capital reserves	511	511
Retained earnings	318	344
Reserves from transactions under common control	-20	-42
Revaluation surplus	75	56
Minority interest	245	244
Group retained income	73	0
<b>Total shareholders' equity</b>	<b>1.330</b>	<b>1.241</b>
<b>Total</b>	<b>38.029</b>	<b>39.186</b>

# Contact

- **Jürgen Junginger (Head of Investor Relations)**  
Managing Director Investor Relations  
Phone: +49 611 348 2636  
[juergen.junginger@aareal-bank.com](mailto:juergen.junginger@aareal-bank.com)
- **Alexandra Beust**  
Senior Manager Investor Relations  
Phone: +49 611 348 3053  
[alexandra.beust@aareal-bank.com](mailto:alexandra.beust@aareal-bank.com)
- **Michelle Lynn Smith**  
Assistant Investor Relations  
Phone: +49 611 348 3009  
[michelle-lynn.smith@aareal-bank.com](mailto:michelle-lynn.smith@aareal-bank.com)



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