



## Press Release

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### **Aareal Bank Group maintains successful performance during the second quarter of 2011**

- **Consolidated operating profit up by 42 per cent year-on-year, to € 44 million**
- **Tier 1 ratio at 15.8 per cent as at 30 June 2011 / Core Tier 1 ratio at 11.0 per cent**
- **Full-year outlook for 2011 affirmed**

Wiesbaden, 9 August 2011 – Aareal Bank Group's successful business development continued into the second quarter of the current year. At € 44 million, consolidated operating profit exceeded the previous year's figure by around 42% (Q2 2010: € 31 million), almost matching the extraordinary levels seen during the first quarter of 2011. Aareal Bank Group thus once again proved its operative strength, in a market environment that remains challenging.

"Our good performance during the second quarter once again demonstrated that a prudent business policy geared towards sustainable growth, which we pursued over recent years, is paying off. After the first six months, we remain well on track for achieving our goals for 2011 as a whole", said CEO Dr Wolf Schumacher, commenting on the results. "We thus remain in an excellent position to exploit the opportunities for attractive new business that are available in the current market environment", he added.

Despite prevailing uncertainty on the financial and capital markets, Aareal Bank not only completed its scheduled funding activities, but also successfully executed a rights issue during the second quarter, raising gross issue proceeds of € 269.6 million. The net proceeds from the capital increase will support the future growth of the bank's Structured Property Financing segment, consistent with its current credit risk strategy. At the same time, the bank used the capital increase to strengthen its regulatory capital base, and used € 75 million of the net proceeds for a further partial repayment of the silent participation provided by the German Financial Markets Stabilisation Fund (SoFFin).

Against the background of its good funding situation, during April 2011 Aareal Bank also carried out an early redemption of the SoFFin-guaranteed € 2 billion bond maturing in June 2013, which the bank had held on its own books, in agreement with SoFFin. Moreover, the bank was able to repurchase from investors just under € 0.8 billion worth of notes from the remaining € 2 billion SoFFin-guaranteed bond issue maturing in March 2012.

### **Structured Property Financing: operating profit once again exceeds the previous year's figure**

Operating profit in the Structured Property Financing segment of € 41 million for the second quarter of 2011 exceeded the previous year's figure of € 25 million by 64 per cent, and almost matched the extraordinarily strong results achieved in the first quarter (€ 43 million). The year-on-year increase was largely due to an increase in net interest income – reflecting higher margins – and lower allowance for credit losses, which amounted to € 24 million in the second quarter of 2011 (Q2 2010: € 33 million). Aggregate allowance for credit losses of € 42 million for the first half of the year was therefore lower than the pro-rata forecast range of € 110 million to € 140 million for the full year, but within the fluctuation range expected.

During the course of 2011 to date, the property sector continued to gradually improve, reflecting the predominantly positive performance of the economy as a whole. In this economic environment, the business framework for the commercial property markets was stable to slightly positive.

As expected, there were attractive opportunities for high-margin new business in this market situation – which the bank continued to exploit during the second quarter, maintaining its risk-sensitive lending policy. New business totalled € 1.8 billion from April to June, thus exceeding the figures for both the previous quarter (€ 1.4 billion) and for Q2 2010 (€ 1.6 billion). Aggregate new business originated during the first half of 2011 thus amounted to € 3.2 billion – up approximately 10% year-on-year. Newly acquired business more than doubled year-on-year, whilst the share of loan renewals declined significantly.

### **Consulting/Services: volume of deposits remaining on a high level**

Aareal Bank made further progress towards its strategic objectives in the Institutional Housing Unit of its Consulting/Services segment during the second quarter: these objectives were to increase the volume of deposits by acquiring new clients, and to increase cross-selling of the broad product range in its existing client base. At an average € 4.7 billion, the volume of deposits was at a high level during the second quarter of 2011 – in fact, it has been rising continuously since the first quarter of 2010. Aareal Bank benefits from its strong market penetration, its extensive range of products and services, and from many years of experience as the lead bank to the German institutional housing industry. This enabled the bank to maintain a strong position in the market, despite strong competitive pressure on money market investment terms.

IT subsidiary Aareon AG has performed on schedule during the current financial year to date. In particular, Aareon's new Wodis Sigma product line continued to

develop positively during the second quarter. A total of 347 clients have opted for Wodis Sigma since its introduction, with 216 already using the software in production. To adequately service the strong demand, Aareon has invested further in expanding its advisory and support capacities. With the rollout of the new Wodis Sigma Release 3.0 in the fourth quarter of 2011, Aareon will increasingly be offering its clients an alternative software rental option, alongside the existing licence model. Aareon can therefore pave the way for its clients to benefit from the advantages of cloud computing individually geared towards the institutional housing industry. Against this background, more users of the WohnData application - which will be phased out in 2012 - have opted to migrate to the Software as a Service option. When using the software under such a rental scheme, Aareon's SaaS clients pay regular usage fees over a long-term period, but do not need to purchase a software licence - thus saving the related one-off costs.

Operating profit in the Consulting/Services segment for the second quarter of 2011 amounted to € 3 million, after € 4 million in the previous quarter. The decline was attributable to a higher level of investment in the future business, as mentioned above, particularly in the Wodis Sigma product line. Due to consolidation effects (related to the acquisition of SG|automatisering bv), among others, the meaningfulness of a comparison with the same quarter of the previous year (Q2 2010: € 6 million) is limited.

### **Successful funding activities / capital base strengthened further**

Aareal Bank Group continued to successfully carry out its funding activities during the second quarter of 2011. The bank continues to benefit from a good liquidity status, as evidenced in the early redemption of the majority of SoFFin-guaranteed bonds. Aareal Bank raised a total of € 1.7 billion in long-term funds on the capital markets during the period under review, with Mortgage Pfandbriefe accounting for € 0.8 billion and unsecured funding for € 0.9 billion. Key funding transactions included in particular, a three-year bearer bond and the placement of a five-year Mortgage Pfandbrief on the capital market. Both transactions were sized at € 500 million each.

The bank raised a total of € 2.8 billion in long-term funds on the capital market through private and public transactions during the first six months of the financial year, comprising € 1.6 billion in Mortgage Pfandbriefe and € 1.2 billion in unsecured funding.

Aareal Bank further strengthened its already solid capital base via the capital increase executed during the second quarter. Aareal Bank's Tier 1 ratio as at 30 June 2011 stood at 15.8 per cent, which is also good by international standards, compared to 12.9 per cent at the 2010 year-end. In this context, it is worth noting that the bank will only apply the portion of the proceeds from the capital increase earmarked for additional growth during the second half of the year for the purpose of originating additional new business. The bank's Core Tier 1 ratio (the Tier 1 ratio excluding hybrid capital and the SoFFin silent participation) was 11.0 per cent as at 30 June 2011.

## Notes to Group financial performance

Net interest income amounted to € 134 million in the second quarter (Q2 2010: € 122 million), which corresponds to a total figure for the first six months of the financial year of € 268 million (H1 2010: € 239 million). Net interest income after allowance for credit losses for the first half of the year totalled € 226 million (H1 2010: € 174 million).

Net commission income for the quarter under review was € 31 million (Q2 2010: € 32 million). Net commission income totalled € 61 million for the first half of the year (H1 2010: € 62 million). This figure includes costs of € 15 million (H1 2010: € 11 million) incurred for bonds guaranteed by SoFFin.

Net trading income/expenses for the second quarter totalled € 2 million (Q2 2010: € -13 million). The figure for the first six months amounted to € -6 million (H1 2010: € -7 million). Net trading income/expenses is primarily attributable to the measurement of derivatives used to hedge interest rate and currency risks, as well as from unrealised changes in value from sold hedging instruments on selected EU sovereign countries.

Aareal Bank's result from non-trading assets amounted to € 2 million for the second quarter (Q2 2010: € 14 million). The half-year figure amounted to € 4 million, compared to € 14 million in the same period of the previous year. The positive result was mainly attributable to sales of fixed-income securities.

Consolidated administrative expenses amounted to € 96 million in the second quarter (Q2 2010: € 92 million), and € 187 million in the first half-year – almost unchanged from the previous year (€ 183 million). This continues to reflect pursuance of the Group's strict cost discipline.

Net other operating income and expenses in the second quarter amounted to € -10 million (Q2 2010: € -6 million). The figure for the first half of the year amounted to € -12 million (H1 2010: € -8 million).

On balance, consolidated operating profit for the second quarter amounted to € 44 million (Q2 2010: € 31 million). Taking into consideration income taxes of € 14 million and non-controlling interest income of € 4 million, consolidated net income after non-controlling interest income amounted to € 26 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated income stood at € 21 million (Q2 2010: € 9 million).

Aareal Bank Group's consolidated operating profit thus amounted to € 91 million for the first six months of the financial year (H1 2010: € 61 million). Taking into consideration taxes of € 26 million and non-controlling interest income of € 9 million, net income attributable to shareholders of Aareal Bank AG amounted to € 56 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at € 45 million (H1 2010: € 17 million).

## **Outlook: Forecasts for the full year 2011 affirmed**

Despite the Brussels summit resolutions on 21 July 2011, the European sovereign debt crisis and the US debt issue are set to remain at the top of the agenda of financial and capital markets. It is thus fair to expect volatility on financial and capital markets to remain high for the time being. Overall, the risks in the financial system have increased.

Provided that the sovereign debt crisis will not deteriorate further, Aareal Bank Group continues to see good potential for maintaining its positive business development during the remainder of the year, in this challenging market environment. The bank is making good progress in achieving its targets for 2011, which were last raised in April.

Accordingly, on the back of a moderately higher interest rate environment and expected revenues from additional new business, the Management Board expects net interest income for 2011 to be higher than in the previous year. The volume of new business generated in the Structured Property Financing segment is expected to increase to between € 7 billion and € 8 billion. The bank expects allowance for credit losses in a range of € 110 million to € 140 million during the 2011 financial year. As in the previous years, the bank cannot rule out additional allowances for unexpected credit losses that may be incurred during 2011. Net commission income for the financial year 2011 is expected to show a marked increase compared with the previous year. The net figure will benefit from relief due to lower guarantee fees, due to the partial redemption of SoFFin-guaranteed bonds. Aareal Bank continues to believe that during 2011 it will be able to once again markedly increase operating results over and above those for the 2010 financial year – results which were already good in the context of the challenging market environment.

Note to editors: Aareal Bank's full interim report for the second quarter of 2011 is available for download from <http://www.aareal-bank.com/financialreports>.

### **Aareal Bank**

Aareal Bank AG is one of the leading international specialist property banks. The Aareal Bank share is included in Deutsche Börse's mid-cap MDAX index. Aareal Bank operates on three continents: leveraging its successful European business model, the bank has established similar platforms in North America and in the Asia-Pacific region. It provides property financing solutions in more than 20 countries.

## Aareal Bank Group: consolidated results for the first half of 2011 (in accordance with IFRS)

	1 Jan - 30 Jun 2011	1 Jan - 30 Jun 2010	Change
	Euro mn	Euro mn	%
<b>Profit and loss account</b>			
Net interest income	268	239	12
Allowance for credit losses	42	65	-35
<b>Net interest income after allowance for credit losses</b>	<b>226</b>	<b>174</b>	<b>30</b>
Net commission income	61	62	-2
Net result on hedge accounting	0	4	
Net trading income / expenses	-6	-7	
Results from non-trading assets	4	14	-71
Results from investments accounted for using the equity method	1	5	-80
Results from investment properties	4	0	
Administrative expenses	187	183	2
Net other operating income / expenses	-12	-8	
Impairment of goodwill	0	0	
<b>Operating Profit</b>	<b>91</b>	<b>61</b>	<b>49</b>
Income taxes	26	18	44
<b>Net income / loss</b>	<b>65</b>	<b>43</b>	<b>51</b>
<b>Allocation of results</b>			
Net income / loss attributable to non-controlling interests	9	9	0
Net income / loss attributable to shareholders of Aareal Bank AG	56	34	88
<b>Appropriation of profits</b>			
Net income / loss attributable to shareholders of Aareal Bank AG	56	34	88
Silent partnership contribution by SoFFin	11	17	-25
<b>Consolidated retained profit/accumulated loss</b>	<b>45</b>	<b>17</b>	<b>200</b>

	30 Jun 2011	31 Dez 10	Change
	Euro mn	Euro mn	%
<b>Portfolio data</b>			
Property financing	22,252	22,884	-3
of which: international	18,891	19,195	-2
Property finance under management	22,527	23,251	-3
of which: international	18,891	19,195	-2
Equity	2,195	1,985	11
Total assets	40,867	41,217	-1

	1 Jan - 30 Jun 2011	1 Jan - 30 Jun 2010
<b>Key financial indicators</b>		
Cost/Income ratio (%) *)	45.5	48.2
Earnings per share (Euro)	1.16	0.78
RoE before taxes (%) **)	8.3	5.4
RoE after taxes (%) **)	5.7	3.4

\*) Structured Property Financing segment only

\*\* ) on an annualised basis

**Segment results for the first half of the 2011 financial year (in accordance with IFRS)**

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 30 Jun 2011	1 Jan - 30 Jun 2010	1 Jan - 30 Jun 2011	1 Jan - 30 Jun 2010	1 Jan - 30 Jun 2011	1 Jan - 30 Jun 2010	1 Jan - 30 Jun 2011	1 Jan - 30 Jun 2010
Euro mn								
Net interest income	249	217	0	0	19	22	268	239
Allowance for credit losses	42	65					42	65
<b>Net interest income after allowance for credit losses</b>	<b>207</b>	<b>152</b>	<b>0</b>	<b>0</b>	<b>19</b>	<b>22</b>	<b>226</b>	<b>174</b>
Net commission income	-7	-3	87	88	-19	-23	61	62
Net result on hedge accounting	0	4					0	4
Net trading income / expenses	-6	-7					-6	-7
Results from non-trading assets	4	14		0			4	14
Results from investments accounted for using the equity method		5	1				1	5
Results from investment properties	4	0					4	0
Administrative expenses	105	107	82	77	0	-1	187	183
Net other operating income / expenses	-13	-9	1	1	0	0	-12	-8
Impairment of goodwill	0	0					0	0
<b>Operating profit</b>	<b>84</b>	<b>49</b>	<b>7</b>	<b>12</b>	<b>0</b>	<b>0</b>	<b>91</b>	<b>61</b>
Income taxes	24	14	2	4			26	18
<b>Net income / loss</b>	<b>60</b>	<b>35</b>	<b>5</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>65</b>	<b>43</b>
<b>Allocation of results</b>								
Net income / loss attributable to non-controlling interests	8	8	1	1			9	9
Net income / loss attributable to shareholders of Aareal Bank AG	52	27	4	7	0	0	56	34
<b>Allocated equity</b>	<b>1,406</b>	<b>1,478</b>	<b>76</b>	<b>73</b>	<b>484</b>	<b>401</b>	<b>1,966</b>	<b>1,952</b>
Cost/income ratio in %	45.5	48.2	92.6	86.5			58.5	59.0
RoE before taxes in % *)	10.9	5.7	13.7	29.1			8.3	5.4

\*) on an annualised basis

## Segment results (quarterly development, in accordance with IFRS)

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	Quarter 2 2011	Quarter 2 2010	Quarter 2 2011	Quarter 2 2010	Quarter 2 2011	Quarter 2 2010	Quarter 2 2011	Quarter 2 2010
Euro mn								
Net interest income	124	111	0	0	10	11	134	122
Allowance for credit losses	24	33					24	33
<b>Net interest income after allowance for credit losses</b>	<b>100</b>	<b>78</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>11</b>	<b>110</b>	<b>89</b>
Net commission income	-2	1	43	43	-10	-12	31	32
Net result on hedge accounting	2	2					2	2
Net trading income / expenses	2	-13					2	-13
Results from non-trading assets	2	14		0			2	14
Results from investments accounted for using the equity method		5	1				1	5
Results from investment properties	2	0					2	0
Administrative expenses	54	55	42	38	0	-1	96	92
Net other operating income / expenses	-11	-7	1	1	0	0	-10	-6
Impairment of goodwill	0						0	
<b>Operating profit</b>	<b>41</b>	<b>25</b>	<b>3</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>44</b>	<b>31</b>
Income taxes	13	7	1	2			14	9
<b>Net income / loss</b>	<b>28</b>	<b>18</b>	<b>2</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>30</b>	<b>22</b>
<b>Allocation of results</b>								
Net income / loss attributable to non-controlling interests	4	4	0	0			4	4
Net income / loss attributable to shareholders of Aareal Bank AG	24	14	2	4	0	0	26	18
Allocated equity	1,406	1,478	76	73	484	401	1,966	1,952
Cost/income ratio in %	45.5	47.5	93.3	87.4			58.7	58.4
RoE before taxes in % *)	10.5	6.0	13.7	29.9			8.1	5.7

\*) on an annualised basis