



Press Release

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Aareal Bank Group posts a marked increase in profits for the 2011 financial year

- **Consolidated operating profit up 38 per cent over the previous year to € 185 million - consolidated net income more than doubled, to € 93 million**
- **Tier 1 ratio at 16.3 per cent and core Tier 1 ratio at 11.3 per cent, as at 31 December 2011**
- **CEO Dr Wolf Schumacher: "We exploited the opportunities available to us during the year under review, and delivered on our promises despite a challenging market environment."**

Wiesbaden, 21 February 2012 – Thanks to an excellent business performance also maintained during the final quarter, Aareal Bank significantly increased its 2011 financial year results over the previous year. Based on preliminary, unaudited figures, consolidated operating profit for the 2011 financial year climbed by 38% or € 51 million compared with 2010, to € 185 million – despite the very challenging market environment the bank faced for long periods during 2011. Consolidated net income reached € 93 million and has therefore more than doubled year-on-year (2010: € 46 million).

Aareal Bank Group replicated the positive performance of the previous quarters in the fourth quarter of 2011 too. At € 47 million, consolidated operating profit was significantly higher than in the final quarter of 2010 (€ 40 million). Consolidated net income increased to € 24 million in the fourth quarter (Q4 2010: € 19 million).

Aareal Bank achieved its key targets in the financial year under review. The excellent result – considering the challenging market environment – is attributable to, amongst other things, a significant increase in net interest income, which benefited from the previous year's high-margin new business. Aareal Bank also consistently took advantage of available market opportunities and increased the volume of new business to € 8.0 billion; it was therefore at the upper end of the projected target corridor of € 7 billion to € 8 billion and clearly outperformed the level achieved in 2010 (€ 6.7 billion). Maintaining a prudent business policy

throughout 2011 paid off, too: on the one hand, allowance for credit losses totalling € 112 million was at the lower end of the projected range of € 110 to € 140 million and was only marginally higher than last year (€ 105 million), despite the poor economic development.

"We delivered on our promises again in the financial year under review, despite the escalating turbulences on financial markets in the second half of the year. Our very good results show that Aareal Bank Group is well-positioned to master the challenges presented by the economic downturn, the uncertain political framework and the cumulative regulatory changes that are forthcoming", CEO Dr Schumacher explained.

2011 financial year: good performance despite challenging environment

Consolidated net interest income posted for the financial year under review amounted to € 547 million (2010: € 509 million). The increase was largely based on the higher average margins achieved in the lending business. Margins from the deposit-taking business with the institutional housing industry were lower than planned, due to lower interest rate levels – which persist for longer than anticipated.

At € 112 million, the allowance for credit losses in the 2011 financial year was slightly higher than the figure posted for the previous year (€ 105 million).

The significant improvement in net commission income of € 144 million (2010: € 123 million) reflected – amongst other things – lower running costs of € 21 million for the guarantee facility extended by SoFFin, compared with € 30 million in 2010. The item also includes, for the first time, full net commission income of € 17 million (2010: € 4 million) from SG automatisering bv, which was acquired in the fourth quarter of 2010.

Net trading income/expenses, results from non-trading assets and the net result on hedge accounting totalled € –9 million after € –6 million the year before. 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 the sale of hedges for selected EU sovereign countries. Results from non-trading assets were defined largely by the sale of fixed-income securities within the scope of active portfolio management.

At € 382 million, administrative expenses were slightly higher than the previous year (€ 366 million). The figure includes special effects, including the bank levy that was imposed for the first time in 2011, as well as expenses incurred in conjunction with measures taken to improve efficiency and optimise income.

Taking into account net other operating income and expenses of € -14 million (2010: € -9 million), consolidated operating profit for the 2011 financial year amounted to € 185 million (2010: € 134 million). After deduction of taxes of € 52 million and € 19 million in income attributable to non-controlling interests, net income attributable to shareholders of Aareal Bank AG amounted to € 114 million (2010: € 76 million). After deduction of the € 21 million net interest payable on the

SoFFin silent participation, consolidated net income stood at € 93 million (2010: € 46 million).

The positive results mean that Aareal Bank will service all of its subordinated refinancing vehicles for the 2011 financial year. This includes the silent participation by SoFFin, and the bank's other hybrid instruments.

Aareal Bank continued to pursue its successful business policy – strictly focusing on quality – in its **Structured Property Financing segment**. Despite an economic environment that deteriorated especially in the second half of the year, Aareal Bank exploited available opportunities to originate attractive new business, which increased to € 8.0 billion during the 2011 financial year – up from € 6.7 billion the year before. This increase was also supported by, amongst other things, the rights issue successfully conducted by Aareal Bank in the second quarter, raising gross issuing proceeds of around € 270 million. The resulting strengthening of the capital base provided greater scope for generating new business. The share of new loans extended in new business increased, exceeding 60 per cent.

Net interest income posted by the segment for the financial year under review amounted to € 508 million after € 467 million the previous year. The increase is based largely on higher average margins achieved in the lending business.

Segment administrative expenses of € 217 million was in line with the previous year's levels, despite special effects including the bank levy that was imposed for the first time in 2011, as well as expenses incurred in conjunction with measures taken to improve efficiency and optimise income. This highlights Aareal Bank's continued strict cost discipline.

Net income from investment property amounted to € 10 million and was attributable mainly to rental income. Last year's result of € –17 million was burdened by a non-recurring charge recognised for the repositioning of a property.

Taking into account net other operating income/expenses of € -17 million, operating profit for the Structured Property Financing segment amounted to € 165 million (2010: € 108 million). After deduction of tax expenses of € 46 million and € 17 million in non-controlling interest income, the segment result was € 102 million (previous year: € 60 million).

In the Consulting / Services segment, Aareon's business developed on schedule in the 2011 financial year, while the low interest rate environment which persist for longer than anticipated burdened the profitability of the deposit-taking business.

The volume of deposits placed in this segment increased significantly although it is still facing intense competition; it averaged € 4.7 billion in the 2011 financial year (2010: € 4.1 billion).

Sales revenue amounted to € 203 million in the 2011 financial year (2010: € 199 million). This increase was accounted for by, amongst other things, the

sales revenue collected over the entire period under review from SG automatisering bv, which was acquired by Aareon in the fourth quarter of 2010 (2011: € 20 million, 2010: € 5 million). On the other hand, the low interest rate environment burdened the margins from the deposit-taking business that are reported in revenues.

On balance, the Consulting / Services segment generated operating profit of € 20 million (2010: € 26 million). After deduction of € 6 million in taxes and € 2 million in non-controlling interests, the segment result stands at € 12 million (2010: € 16 million).

Successful funding activities – capitalisation remains solid

Aareal Bank Group successfully carried out all its funding activities as planned during the 2011 financial year. The bank had already reached its funding targets for the full-year 2011 by the end of the third quarter, despite the challenging situation on the financial and capital markets.

Aareal Bank raised a total of € 4.3 billion in medium- and long-term funds on the capital market in 2011. The issue volume of long-term, unsecured funds amounted to € 1.6 billion in a very difficult environment, especially for unsecured issues; this confirms the trust that fixed income investors still continue to place in Aareal Bank. Pfandbriefe totalling € 2.7 billion were also issued, once again proving how very important this instrument is to Aareal Bank's refinancing mix.

The bank's solid refinancing situation is also reflected in the early repayment of the issue guarantee granted by the Financial Markets Stabilisation Fund (SoFFin). The € 2 billion SoFFin-guaranteed bond maturing on 5 June 2013, which was held on the bank's own books, was redeemed early in April 2011. Additionally, investors holding the remaining € 2 billion in SoFFin-guaranteed notes (maturing on 26 March 2012) were invited in June 2011 to redeem their notes early. Investors took up our offer in an amount of € 0.8 billion. With the repayment of the residual amount, Aareal Bank will have repaid all guarantees extended by SoFFin.

Aareal Bank remains very solidly financed. Besides an additional partial repayment of the SoFFin silent participation and the appropriation of funds for additional new business, some of the funds raised from the successful capital increase were also used to strengthen the regulatory capital. The bank's comfortable Tier 1 ratio of 16.3 per cent as at 31 December 2011 (up from 12.9 per cent at year-end 2010) is also good by international standards. The core Tier 1 ratio, excluding the SoFFin silent participation and other hybrid capital, was 11.3 per cent. The capital ratios stated are based on the full reinvestment of profits generated during the 2011 financial year.

Notes on the preliminary Income Statement for the fourth quarter of 2011

At € 47 million, Aareal Bank Group's operating profit in the fourth quarter was € 7 million higher than the same period of the previous year.

Net interest income in the final quarter of 2011 was € 146 million, after € 139 million in Q4 2010, predominantly on account of currency translation effects and non-recurring effects in the lending business.

Allowance for credit losses in the fourth quarter was € 34 million, compared with € 8 million in Q4 2010. Net interest income after allowance for credit losses amounted to € 112 million, compared with € 131 million in the same quarter of 2010.

Net commission income in the fourth quarter was € 45 million, compared with € 37 million in Q4 2010. The low costs for the guarantee facility extended by SoFFin are reflected in particular here.

The balance of net trading income/expenses, results from non-trading assets, and the net result on hedge accounting, amounted to € –7 million in the final quarter (Q4/2010: € –14 million).

Consolidated administrative expenses during the fourth quarter were € 102 million, compared with € 95 million in Q4 2010. In particular, this increase reflected measures taken to improve efficiency and optimise income.

On balance, Aareal Bank Group generated consolidated operating profit of € 47 million in the fourth quarter (Q4/2010: € 40 million). Taking into consideration income taxes of € 13 million and € 5 million in income attributable to non-controlling interests, net income after non-controlling interest income amounted to € 29 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at € 24 million (Q4 2010: € 19 million).

Outlook: solid performance, despite very challenging environment

Within the scope of the sovereign debt crisis that is still unresolved, the Management Board believes financial markets will remain volatile during the current year and therefore expects the risks in the financial system to persist. The risks in relation to economic development have also increased in recent months. This is reflected in – amongst other things – a downgrading across the board of growth forecasts for the important economies, and the global economy overall. The uncertain political framework and the cumulative effects of the forthcoming changes to the regulatory environment (which have not yet been clarified) present further challenges.

Aareal Bank will counter these uncertainties, amongst other things, by pursuing a very cautious liquidity and investment strategy. This strategy will lead to a burden on net interest income that will more than offset the positive effect of higher margins on new business originated last year. On these assumptions, Aareal Bank expects a considerable decline in net interest income over the year.

The bank continues to forecast allowance for credit losses in a range of € 110 million to € 140 million, which is unchanged from last year. As in previous years, the bank cannot rule out additional allowances for unexpected credit losses in 2012. Aareal Bank expects a significant increase in net commission

income over 2011, particularly since the charges on the SoFFin-guaranteed notes will no longer apply. It anticipates a marked reduction in administrative expenses, due to the cost-cutting measures that resulted in charges last year.

All in all, the Management Board sees good potential for achieving consolidated operating profit that is only slightly below last year's very good result. "We are cautious business people who have to take into account the deterioration of the economic framework during the current year. Nevertheless, our great flexibility allows us to react at all times to changes in the environment and to take advantages of available opportunities", Schumacher commented.

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.

Income Statement of Aareal Bank Group
Preliminary results for the 2011 financial year (unaudited,
in accordance with IFRS)

	1 Jan - 31 Dec 2011	1 Jan - 31 Dec 2010	Change
	€ mn	€ mn	%
Profit and loss account			
Net interest income	547	509	7
Allowance for credit losses	112	105	7
Net interest income after allowance for credit losses	435	404	8
Net commission income	144	123	17
Net result on hedge accounting	6	-2	
Net trading income / expenses	14	8	75
Results from non-trading assets	-29	-12	142
Results from investments accounted for using the equity method	1	5	-80
Results from investment properties	10	-17	
Administrative expenses	382	366	4
Net other operating income / expenses	-14	-9	56
Impairment of goodwill	0	0	
Operating profit	185	134	38
Income taxes	52	40	30
Net income / loss	133	94	41
Allocation of results			
Net income / loss attributable to non-controlling interests	19	18	6
Net income / loss attributable to shareholders of Aareal Bank AG	114	76	50
Appropriation of profits			
Net income / loss attributable to shareholders of Aareal Bank AG	114	76	50
Silent participation by SoFFin	21	30	-30
Consolidated profit / loss	93	46	102

Income Statement of Aareal Bank Group
Preliminary results for the fourth quarter of 2011
(unaudited, in accordance with IFRS)

	Quarter 4 2011	Quarter 4 2010	Change
	€ mn	€ mn	%
Net interest income	146	139	5
Allowance for credit losses	34	8	325
Net interest income after allowance for credit losses	112	131	-15
Net commission income	45	37	22
Net result on hedge accounting	4	-4	
Net trading income / expenses	0	13	
Results from non-trading assets	-11	-23	-52
Results from investments accounted for using the equity method	0	0	
Results from investment properties	3	-17	
Administrative expenses	102	95	7
Net other operating income / expenses	-4	-2	
Impairment of goodwill	0	0	
Operating Profit	47	40	18
Income taxes	13	11	18
Net income / loss	34	29	17
Allocation of results			
Net income / loss attributable to non-controlling interests	5	4	25
Net income / loss attributable to shareholders of Aareal Bank AG	29	25	16
Appropriation of profits			
Net income / loss attributable to shareholders of Aareal Bank AG	29	25	16
Silent participation by SoFFin	5	6	-17
Consolidated profit / loss	24	19	26

Segment Results of Aareal Bank Group
Preliminary results for the 2011 financial year (unaudited,
in accordance with IFRS)

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 31 Dec 2011	1 Jan - 31 Dec 2010	1 Jan - 31 Dec 2011	1 Jan - 31 Dec 2010	1 Jan - 31 Dec 2011	1 Jan - 31 Dec 2010	1 Jan - 31 Dec 2011	1 Jan - 31 Dec 2010
€ mn								
Net interest income	508	467	0	0	39	42	547	509
Allowance for credit losses	112	105					112	105
Net interest income after allowance for credit losses	396	362	0	0	39	42	435	404
Net commission income	2	-9	183	176	-41	-44	144	123
Net result on hedge accounting	6	-2					6	-2
Net trading income / expenses	14	8					14	8
Results from non-trading assets	-29	-13		1			-29	-12
Results from companies accounted for using the equity method	0	5	1				1	5
Results from investment properties	10	-17					10	-17
Administrative expenses	217	217	167	152	-2	-3	382	366
Net other operating income / expenses	-17	-9	3	1	0	-1	-14	-9
Impairment of goodwill	0	0					0	0
Operating profit	165	108	20	26	0	0	185	134
Income taxes	46	32	6	8			52	40
Net income / loss	119	76	14	18	0	0	133	94
Allocation of results								
Net income / loss attributable to non-controlling interests	17	16	2	2			19	18
Net income / loss attributable to shareholders of Aareal Bank AG	102	60	12	16	0	0	114	76