



Aareal Bank

Press Release

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Aareal Bank Group reports successful business development for the second quarter of 2012

- **Consolidated operating profit up slightly year-on-year, to € 45 million**
- **Core Tier 1 ratio at 11.7 per cent, providing a solid foundation for the planned expansion of new business during the second half of the year**
- **Aareal Bank affirms guidance for full-year consolidated operating profit**

Wiesbaden, 14 August 2012 – Aareal Bank Group once again performed well in a challenging market environment, continuing its successful business development throughout the second quarter of 2012. With € 45 million in consolidated operating profit for the period from April to June, the bank exceeded both the previous quarter's figure of € 43 million and the corresponding figure for the second quarter of 2011 (€ 44 million). Consolidated net income was € 24 million, compared to € 21 million in the first quarter of the year, and the same amount in the second quarter of the previous year.

"There was no relief for the banking sector in the challenging environment during the second quarter. Quite the contrary, in fact: financial and capital markets have remained particularly volatile, with the renewed aggravation of the European sovereign debt crisis adding to market uncertainty. The issue of the cumulative impact of impending regulatory changes on banks and on the real economy still remains unresolved, whilst there are no signs of a stable policy framework for banks. Against this background, we are very satisfied with Aareal Bank's second-quarter results", said Dr Wolf Schumacher, Chairman of the Management Board.

Given the uncertain environment, Aareal Bank continued to adhere to its very cautious liquidity and investment strategy during the second quarter, which burdened net interest income for the period under review. Thanks to the bank's conservative business policy over the past several years, allowance for credit losses was in line with that of the previous year (which was already very low), thus remaining at a clearly manageable level. Due to its extremely successful

refinancing activities during the second quarter, Aareal Bank further safeguarded its good liquidity status.

Following a reticent start of the year, Aareal Bank increased its new business origination in the Structured Property Financing segment during the second quarter. New business volume totalled € 1.2 billion, up from € 0.5 billion in the first quarter. "Based on our decidedly robust financial position and thanks to our successful funding activities during the first half of the year, we are in a position to exploit attractive market opportunities at any time. We will focus more heavily on doing so in the second half of 2012", Schumacher said. "We thus affirm our projected new business target of € 4.5 billion to €5.5 billion for the year 2012 as a whole.

Structured Property Financing segment: new business expanded

At € 44 million, operating profit in the Structured Property Financing segment for the second quarter of 2012 exceeded the previous year's figure of € 41 million as well as the first-quarter result of € 40 million.

Net interest income in the period under review was € 115 million after € 124 million in the comparable period of the previous year. The positive effects of higher margins from new business originated in the previous year were offset by the burden resulting from the very cautious liquidity and investment strategy.

Allowance for credit losses in the second quarter of 2012 amounted to € 25 million (Q2 2011: € 24 million), bringing the figure for the first half of the year to € 37 million (H1 2011: € 42 million). It was therefore lower than the pro-rata forecast range of € 110 million to € 140 million for the financial year, but within the expected range.

In commercial property financing, the developments of the first quarter continued, with markets remaining largely stable overall. Looking at the competitive environment, many institutions are currently focusing on their domestic markets, especially in Europe. In this environment, Aareal Bank is one of the few remaining providers of commercial property finance that is fully operational on an international level.

Aareal Bank increased the new business originated in the segment during the second quarter, compared to the first three months of the year, to € 1.2 billion – with a growing share of new loans granted. Total new business volume for the first half of 2012 amounted to € 1.7 billion.

Consulting/Services: deposit volumes continued to rise

Contrary to expectations, interest rate levels – which are relevant for income from the deposit-taking business in our Consulting/Services segment – have declined year-to-date. This burdened the segment result. Operating profit in the Consulting/Services segment totalled € 1 million for the quarter under review (Q2 2011: € 3 million). However, the importance of this business goes way beyond the interest margin generated from the deposits – which is under pressure in the current market environment. This is because the deposits from

the institutional housing industry represent a strategically important additional source of funding for Aareal Bank.

Against this background, the development of deposit volumes from institutional housing industry clients – in the banking business of the Consulting/Services segment – developed very favourably. During the second quarter Aareal Bank further improved on the already high average level of € 5.0 billion in the previous quarter, to € 5.5 billion.

The business activities of the Aareon AG subsidiary were on schedule during the second quarter. Once again, the Wodis Sigma product line – which came to the market in 2009 – provided the basis for this. The second quarter once again saw numerous clients deciding to adopt the product; roughly 400 property management companies of all shapes and sizes now use it. Aareon's international business also developed favourably.

Successful funding activities – capitalisation remains solid

Aareal Bank was successful in its refinancing activities during the second quarter. The bank raised a total of € 1.3 billion in long-term funds, comprising € 800 million in Mortgage Pfandbriefe, € 400 million in unsecured funding, and € 100 million in subordinated bonds. Aareal Bank has therefore maintained its long-term funding inventory at a high level. Of the issues launched in the second quarter, the € 500 million Mortgage Pfandbrief with a five-year term to maturity issued in June is particularly worth mentioning.

The bank raised a total of € 3.3 billion in long-term funds on the capital market during the first six months of 2012, comprising € 1.8 billion in Mortgage Pfandbriefe, € 1.4 billion in unsecured refinancing, and € 0.1 billion in subordinated bonds.

Aareal Bank therefore continues to be very solidly financed. As at 30 June 2012 the Tier 1 ratio was 16.7 per cent, which is comfortable on an international level. The core Tier 1 ratio was 11.7 per cent. Aareal Bank thus already largely complies with the tightened capital requirements under Basel III, and is thus well-positioned for the planned expansion of new business during the second half of 2012.

Notes to Group financial performance

Net interest income of € 122 million for the second quarter of 2012 was € 12 million lower year-on-year (Q2 2011: € 134 million). The figure for the first six months of the financial year was € 251 million (H1 2011: € 268 million). The positive effects of higher margins from new business originated in the previous year were offset by the burden resulting from the very cautious liquidity and investment strategy.

Net commission income of € 40 million for the quarter under review was markedly higher year-on-year (Q2 2011: € 31 million). Net commission income totalled € 80 million for the first half of the year (H1 2011: € 61 million). Costs for the

bonds guaranteed by SoFFin were incurred for the last time in the first half of 2012, amounting to € 3 million (H1 2011: € 15 million).

The aggregate of net trading income/expenses and the result from hedge accounting amounted to € –2 million for the second quarter (Q2 2011: € 4 million); the relevant aggregate figure for the first six months of 2012 was € –28 million. This was primarily attributable to the measurement of derivatives used to hedge interest rate and currency risks.

Consolidated administrative expenses totalled € 89 million for the second quarter (Q2 2011: € 96 million) and € 180 million for the first half of the year (H1 2011: € 187 million), thus remaining significantly below the previous year's figures, both for the second quarter and the first half of the year. This was largely due to the measures designed to optimise structures and processes, which were implemented in the previous year.

Consolidated net other operating income and expenses broke even for the second quarter and the first half of 2012. The figure for the same period of the previous year (H1 2011: € –12 million) reflected in particular expenses incurred with one individual property.

On balance, consolidated operating profit for the second quarter amounted to € 45 million (Q2 2011: € 44 million). Taking into consideration income taxes of € 11 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.

Aareal Bank Group's consolidated operating profit for the first six months of the financial year totalled € 88 million (H1 2011: € 91 million). Taking into consideration taxes of € 23 million and non-controlling interest income of € 10 million, net income attributable to shareholders of Aareal Bank AG amounted to € 55 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated income stood at € 45 million.

Outlook: Aareal Bank affirms guidance for full-year consolidated operating profit

In the wake of the still-unresolved sovereign debt crisis, Aareal Bank anticipates continued volatility – and hence, prevailing risks – on the financial and capital markets during the remainder of the financial year 2012. Economic development will also continue to face significant risks and uncertainties. The uncertain political framework and cumulative effects of forthcoming changes to the regulatory environment – which have not yet been clarified – also present further challenges for the banking sector.

Aareal Bank continues to counter this uncertainty by pursuing a cautious liquidity and investment strategy. The resulting burden on net interest income can only partially be offset by the positive impact of higher margins from new business originated in the previous year. ECB's decision to cut its key interest rate at the

beginning of July will only marginally burden net interest income. Aareal Bank therefore continues to expect a marked decline in net interest income 2012.

The Management Board continues to forecast allowance for credit losses in a range of € 110 million to € 140 million, which is unchanged from last year. As in the previous years, the bank cannot rule out additional allowances for unexpected credit losses that may be incurred during 2012. Net commission income will increase significantly, since the charges pertaining to the SoFFin-guaranteed bonds will no longer apply. Due to measures designed to optimise structures and processes, implemented in 2011, administrative expenses are expected to notably decline compared to the financial year 2011.

The bank also affirms its target for new business in the Structured Property Financing segment, which is projected in a range between € 4.5 billion to € 5.5 billion. Only for the operating profit in the Consulting/Services segment Aareal Bank now expects a lower figure than in the previous year. This reflects the fact that, contrary to previous expectations, interest rate levels have declined further year-to-date; these are relevant for income from the deposit-taking business.

Aareal Bank has affirmed its forecast for consolidated operating profit for 2012, in spite of the various challenges identified above: The bank continues to see good potential for achieving full-year consolidated operating profit that is only slightly below last year's very good result.

"Even though the situation on global financial markets remains tense, thanks to our decidedly robust capital base and refinancing situation, we are in an excellent position to be successful in this challenging environment. We can leverage our competitive edge: client proximity on an international scale, combining profound property and sector expertise with the flexibility that our mid-sized structure affords us. This will allow us to continue expanding our leading market position going forward", Schumacher emphasised.

Note to editors: Aareal Bank's full interim report for the second quarter of 2012 is available for download from <http://www.aareal-bank.com/en/investor-relations/financial-reports/>.

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 2012 (in accordance with IFRS)

	1 Jan - 30 Jun 2012	1 Jan - 30 Jun 2011	Change
	€ mn	€ mn	%
Profit and loss account			
Net interest income	251	268	-6
Allowance for credit losses	37	42	-12
Net interest income after allowance for credit losses	214	226	-5
Net commission income	80	61	31
Net result on hedge accounting	-5	0	
Net trading income / expenses	-23	-6	
Results from non-trading assets	-3	4	
Results from investments accounted for using the equity method	-	1	
Results from investment properties	5	4	25
General administrative expenses	180	187	-4
Net other operating income / expenses	0	-12	
Impairment of goodwill	-	0	
Operating Profit	88	91	-3
Income taxes	23	26	-12
Net income / loss	65	65	0
Allocation of results			
Net income / loss attributable to non-controlling interests	10	9	11
Net income / loss attributable to shareholders of Aareal Bank AG	55	56	-2
Appropriation of profits			
Net income / loss attributable to shareholders of Aareal Bank AG	55	56	-2
Silent participation by SoFFin	10	11	-9
Consolidated retained profit/accumulated loss	45	45	0

	30 Jun 2012	31. Dez 2011	Change
	€ mn	€ mn	%
Portfolio data			
Property financing	23.303	23.986	-3
of which: international	19.999	20.425	-2
Property finance under management	23.539	24.239	-3
of which: international	19.999	20.425	-2
Equity	2.264	2.169	4
Total assets	45.400	41.814	9

	1 Jan - 30 Jun 2012	1 Jan - 30 Jun 2011
Key financial indicators		
Cost/Income ratio (%) *)	44,1	45,5
Earnings per share (€)	0,92	1,16
RoE before taxes (%) **)	7,3	8,3
RoE after taxes (%) **)	5,1	5,7

*) Structured Property Financing segment only

**) on an annualised basis

**Segment results for the first half of 2012 financial year
(in accordance with IFRS)**

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 30 Jun 2012	1 Jan - 30 Jun 2011	1 Jan - 30 Jun 2012	1 Jan - 30 Jun 2011	1 Jan - 30 Jun 2012	1 Jan - 30 Jun 2011	1 Jan - 30 Jun 2012	1 Jan - 30 Jun 2011
€ mn								
Net interest income	236	249	0	0	15	19	251	268
Allowance for credit losses	37	42					37	42
Net interest income after allowance for credit losses	199	207	0	0	15	19	214	226
Net commission income	10	-7	85	87	-15	-19	80	61
Net result on hedge accounting	-5	0					-5	0
Net trading income / expenses	-23	-6					-23	-6
Results from non-trading assets	-3	4					-3	4
Results from investments accounted for using the equity method				1				1
Results from investment properties	5	4					5	4
General administrative expenses	96	105	84	82	0	0	180	187
Net other operating income / expenses	-3	-13	3	1	0	0	0	-12
Impairment of goodwill		0						0
Operating profit	84	84	4	7	0	0	88	91
Income taxes	22	24	1	2			23	26
Net income / loss	62	60	3	5	0	0	65	65
Allocation of results								
Net income / loss attributable to non- controlling interests	8	8	2	1			10	9
Net income / loss attributable to shareholders of Aareal Bank AG	54	52	1	4	0	0	55	56
Allocated equity	1.270	1.406	74	76	810	484	2.154	1.966
Cost / income ratio in %	44,1	45,5	96,0	92,6			59,0	58,5
RoE before taxes in % *)	12,0	10,9	4,9	13,7			7,3	8,3

*) on an annualised basis

Segment results for the second quarter of 2012
(in accordance with IFRS)

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	Quarter 2 2012	Quarter 2 2011	Quarter 2 2012	Quarter 2 2011	Quarter 2 2012	Quarter 2 2011	Quarter 2 2012	Quarter 2 2011
€ mn								
Net interest income	115	124	0	0	7	10	122	134
Allowance for credit losses	25	24					25	24
Net interest income after allowance for credit losses	90	100	0	0	7	10	97	110
Net commission income	6	-2	41	43	-7	-10	40	31
Net result on hedge accounting	5	2					5	2
Net trading income / expenses	-7	2					-7	2
Results from non-trading assets	-3	2					-3	2
Results from investments accounted for using the equity method				1				1
Results from investment properties	2	2					2	2
General administrative expenses	47	54	42	42	0	0	89	96
Net other operating income / expenses	-2	-11	2	1	0	0	0	-10
Impairment of goodwill	0	0					0	0
Operating profit	44	41	1	3	0	0	45	44
Income taxes	11	13	0	1			11	14
Net income / loss	33	28	1	2	0	0	34	30
Allocation of results								
Net income / loss attributable to non-controlling interests	4	4	1	0			5	4
Net income / loss attributable to shareholders of Aareal Bank AG	29	24	0	2	0	0	29	26
Allocated equity	1.270	1.406	74	76	810	484	2.154	1.966
Cost / income ratio in %	40,3	45,5	97,3	93,3			55,9	58,7
RoE befor taxes in % *)	12,6	10,5	3,5	13,7			7,5	8,1

*) on an annualised basis