



Aareal Bank

Press Release

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Aareal Bank Group remains on track in the third quarter of 2012

- **Third-quarter consolidated operating profit of € 42 million**
- **Core Tier 1 ratio of 11.6 per cent as at 30 September 2012**
- **Basel III requirements already fulfilled as of today**
- **Aareal Bank affirms guidance for full-year consolidated operating profit**

Wiesbaden, 13 November 2012 – Aareal Bank Group has remained on track during the third quarter of 2012, and continued to perform well in a market environment that is still challenging. At € 42 million, consolidated operating profit was lower than the very good figure achieved in the same period of the previous year (€ 47 million), but solid nonetheless. Consolidated net income was € 22 million, compared to € 24 million in the second quarter of 2012, and the same amount in the same quarter of the previous year.

"Conditions remained exceptionally challenging throughout the third quarter. Against this background, we retained our cautious stance, whilst consistently taking advantage of market opportunities that arose. While we boosted our new business as scheduled, we are aware at the same time of a persistently volatile environment and continue to hold considerable amounts of liquidity with the European Central Bank and the Bundesbank. In light of this, we are very satisfied with the earnings development in the third quarter, too", Dr Wolf Schumacher, Chairman of the Management Board of Aareal Bank Group, explained.

In view of the persistent uncertainty emanating from the European sovereign debt crisis and the still unresolved regulatory plans, Aareal Bank adhered to its cautious liquidity and investment strategy during the third quarter as well, which continued to weigh on net interest income during the period under review. Thanks to the high-quality property finance portfolio, allowance for credit losses in the third quarter of 2012 amounted to € 30 million (Q3 2011: € 36 million) and therefore remained within the anticipated range. The volume of new business in the Structured Property Financing segment rose slightly in the third quarter of 2012 over the previous quarter, to € 1.3 billion.

"We continue to see attractive opportunities in the markets we cover. Our deal pipeline is well-stocked for the remainder of the financial year and beyond. We therefore remain confident that we will reach our published new business target of between € 4.5 billion and € 5.5 billion in the current financial year. As things currently stand, we believe there is a good chance that we will reach the upper end of this range", Dr Schumacher stated.

Structured Property Financing segment: new business volume increased – deal pipeline well stocked

Operating profit in the Structured Property Financing segment was € 42 million in the third quarter of 2012 and therefore in line with the same period of the previous year (€ 42 million).

Net interest income in the period under review was € 114 million after € 123 million in the comparable period of the previous year. The figure was burdened by the bank's cautious liquidity and investment strategy.

Allowance for credit losses was € 30 million in the third quarter of 2012, compared with € 36 million in Q3 2011. Allowance for credit losses amounted to € 67 million for the first nine months of the year, and was therefore lower than the pro-rata forecast range of € 110 million to € 140 million for the financial year, but within the expected range of fluctuation.

In commercial property financing, the trends that shaped the first half of the year continued. The markets for first-class commercial property remained largely stable, whereas rents and property values in peripheral locations or for properties of lesser quality came under pressure. Many banks in Europe continued to focus on their domestic markets. As one of the few remaining, international and fully-operational providers of commercial property finance, Aareal Bank leveraged its competitive edge and strengthened its market position.

The bank slightly increased the volume of new business in the segment during the period under review compared with the previous quarter, to € 1.3 billion. Aareal Bank consistently pursued its business policy: having focused initially on its issuing activity in the first quarter, it started to increasingly exploit market opportunities presented in the new lending business during the second quarter. Total new business for the first nine months of 2012 amounted to € 3.0 billion.

Consulting/Services: low-interest-rate environment continues to pose a burden – volume of deposits up again

Contrary to expectations at the beginning of the year, interest rate levels – which are relevant for income from the deposit-taking business in Aareal Bank's Consulting/Services segment – have continued to decline year-to-date. This burdened the segment result. The operating profit in the Consulting/Services segment was zero during the quarter under review, after € 5 million in Q3 2011.

Yet the importance of the deposit-taking business in the Consulting/Services segment goes far beyond the interest margin generated from the deposits – which is under pressure in the current market environment. For Aareal Bank,

deposits from the institutional housing industry are a strategically important, additional source of funding for the lending business that is largely independent of developments on the capital markets. In addition to the German Pfandbrief and unsecured bank bonds, they represent an important pillar in the bank's long-term refinancing mix. Especially in the prevailing difficult capital market environment, Aareal Bank therefore sees this business as being a particular competitive advantage.

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 third quarter Aareal Bank succeeded in further improving on the already high average level of € 5.5 billion in the previous quarter, to € 5.8 billion.

The business activities of the Aareon AG subsidiary were on schedule during the period under review. As in the previous quarters, numerous new clients opted for the Wodis Sigma product line during the third quarter. Launched in 2009, Wodis Sigma is meanwhile used by more than 400 property companies of all size categories. Aareon's international business also developed favourably.

Successful refinancing activities and strong capitalisation / Basel III requirements already fulfilled

Aareal Bank continued to successfully conduct its funding activities in the third quarter, thereby securing its very solid liquidity situation. More than € 500 million in long-term funds was raised on the capital market, with Mortgage Pfandbriefe accounting for around € 200 million and unsecured refinancing for approx. € 300 million. Aareal Bank has therefore maintained its long-term funding at a high level. The total volume of long-term funding raised in the first nine months of 2012 amounted to € 3.9 billion.

Aareal Bank therefore continues to be very solidly financed. As at 30 September 2012 the Tier 1 ratio was 16.8 per cent, which is comfortable on an international level. The core Tier 1 ratio was 11.6 per cent. Aareal Bank thus already complies today with the demanding capital and liquidity requirements under Basel III, which will be gradually implemented until the end of 2018.

Notes to Group financial performance

Consolidated net interest income of € 119 million in the third quarter was € 14 million lower than for the same period of the previous year (€ 133 million). It totalled € 370 million (9m 2011: € 401 million) for the first nine months of the financial year and was burdened by the bank's very cautious liquidity and investment strategy.

Net commission income of € 39 million for the quarter under review was slightly higher than the figure of € 38 million for the same period of the previous year. At € 119 million, net commission income after the first nine months of the year was significantly higher year-on-year (€ 99 million).

The aggregate of net trading income/expenses and the net result on hedge accounting was € 4 million in the third quarter. The relevant aggregate figure for the period from January to September 2012 was € –24 million. This result was 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.

Consolidated administrative expenses totalled € 90 million in the third quarter (Q3 2011: € 93 million) and € 270 million for the first nine months of the year (9m 2011: € 280 million).

Net other operating income/expenses of € –1 million (Q3 2011: € 2 million; 9m 2011: € –10 million) were incurred in the third quarter; the net figure for the entire first nine months of 2012 was identical. The previous year's figure reflected, in particular, expenses incurred with one individual property.

On balance, consolidated operating profit for the third quarter amounted to € 42 million (Q3 2011: € 47 million). Taking into consideration income taxes of € 10 million and € 5 million in income attributable to non-controlling interests, net income after non-controlling interest income amounted to € 27 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at € 22 million in the third quarter.

Aareal Bank Group's consolidated operating profit for the first nine months of the financial year totalled € 130 million (9m 2011: € 138 million). Taking into consideration taxes of € 33 million and non-controlling interest income of € 15 million, net income attributable to shareholders of Aareal Bank AG amounted to € 82 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at € 67 million (9m 2011: € 69 million).

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

Given the still-unresolved sovereign debt crisis, Aareal Bank anticipates continued volatility on the financial and capital markets and therefore expects the risks in the financial system to persist during the remainder of the financial year 2012 as well. Economic development will also continue to face significant risks and uncertainty. 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.

Owing to the uncertainty factors referred to, Aareal Bank will adhere to its 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 and the current year. In this context, the ECB's decision to cut its key interest rate at the beginning of July will only marginally burden consolidated net interest income. Aareal Bank therefore continues to expect a considerable decline in net interest income 2012.

The bank continues to forecast allowance for credit losses in a range of € 110 million to € 140 million, which is unchanged from last year. From today's perspective however, it expects the allowance for credit losses to come in at the lower end of the range. As in the previous years, the bank cannot rule out additional allowances for unexpected credit losses that may be incurred during 2012.

Due to the measures that were introduced in 2011 to optimise the bank's structures and processes, consolidated administrative expenses are likely to fall significantly this year. Aareal Bank is forecasting administrative expenses in a range between € 350 million and € 360 million; this includes the burden arising from the bank levy.

Its well-stocked deal pipeline is just one reason why Aareal Bank remains confident that it will achieve its published new business target of € 4.5 billion to € 5.5 billion for the current financial year. As things stand today, the outlook is good for reaching the upper end of this range. Aareal Bank expects a lower figure compared to the previous year for operating profit in the Consulting/Services segment. This reflects the fact that, contrary to expectations at the beginning of the year, 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 the current financial year, in spite of the ongoing considerable challenges it faces. It continues to see good potential for achieving full-year consolidated operating profit that is only slightly below last year's very good result.

"While we do not anticipate any significant improvement to our environment in the months ahead, we remain confident about our own business. Aareal Bank's business model has proved its considerable viability. This, together with our forward-looking funding policy and our robust financial position, means we can exploit attractive opportunities at any time", Schumacher commented.

Note to editors: The full interim report for the third quarter of 2012 is available on <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 nine months of the 2012 financial year (in accordance with IFRSs)

	1 Jan - 30 Sep 2012	1 Jan - 30 Sep 2011	Change
	€ mn	€ mn	%
Income Statement			
Net interest income	370	401	-8
Allowance for credit losses	67	78	-14
Net interest income after allowance for credit losses	303	323	-6
Net commission income	119	99	20
Net result on hedge accounting	-7	2	
Net trading income / expenses	-17	14	
Results from non-trading assets	-2	-18	
Results from investments accounted for using the equity method	-	1	
Results from investment properties	5	7	-29
General administrative expenses	270	280	-4
Net other operating income / expenses	-1	-10	
Impairment of goodwill	-	0	
Operating Profit	130	138	-6
Income taxes	33	39	-15
Net income / loss	97	99	-2
Allocation of results			
Net income / loss attributable to non-controlling interests	15	14	7
Net income / loss attributable to shareholders of Aareal Bank AG	82	85	-4
Appropriation of profits			
Net income / loss attributable to shareholders of Aareal Bank AG	82	85	-4
Silent partnership by SoFFin	15	16	-6
Consolidated profit / loss	67	69	-3

	30 Sep 2012	31. Dez 2011	Change
	€ mn	€ mn	%
Portfolio data			
Property finance	22,995	23,986	-4
of which: international	19,721	20,425	-3
Property finance under management	23,195	24,239	-4
of which: international	19,721	20,425	-3
Equity	2,326	2,169	7
Total assets	45,042	41,814	8

	1 Jan - 30 Sep 2012	1 Jan - 30 Sep 2011
Indicators		
Cost / Income ratio (%) *)	43.2	43.9
Earnings per share (€)	1.38	1.63
RoE before taxes (%) **)	7.1	8.3
RoE after taxes (%) **)	5.1	5.7

*) Structured Property Financing segment only

**) On an annualised basis

**Segment results for the first nine months of 2012
(in accordance with IFRSs)**

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 30 Sep 2012	1 Jan - 30 Sep 2011	1 Jan - 30 Sep 2012	1 Jan - 30 Sep 2011	1 Jan - 30 Sep 2012	1 Jan - 30 Sep 2011	1 Jan - 30 Sep 2012	1 Jan - 30 Sep 2011
€ mn								
Net interest income	350	372	0	0	20	29	370	401
Allowance for credit losses	67	78					67	78
Net interest income after allowance for credit losses	283	294	0	0	20	29	303	323
Net commission income	16	-3	124	132	-21	-30	119	99
Net result on hedge accounting	-7	2					-7	2
Net trading income / expenses	-17	14					-17	14
Results from non-trading assets	-2	-18		0			-2	-18
Results from investments accounted for using the equity method				1				1
Results from investment properties	5	7					5	7
General administrative expenses	147	159	124	122	-1	-1	270	280
Net other operating income / expenses	-5	-11	4	1	0	0	-1	-10
Impairment of goodwill		0						0
Operating profit	126	126	4	12	0	0	130	138
Income taxes	32	36	1	3			33	39
Net income / loss	94	90	3	9	0	0	97	99
Allocation of results								
Net income / loss attributable to non-controlling interests	13	12	2	2			15	14
Net income / loss attributable to shareholders of Aareal Bank AG	81	78	1	7	0	0	82	85
Allocated equity	1,255	1,373	76	80	834	524	2,165	1,977
Cost / income ratio (%)	43.2	43.9	97.2	91.2			57.8	56.5
RoE before taxes (%) *)	12.1	11.0	3.2	16.6			7.1	8.3

*) On an annualised basis

Segment results for the third quarter of 2012 (in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation / Reconciliation		Aareal Bank Group	
	Quarter 3 2012	Quarter 3 2011	Quarter 3 2012	Quarter 3 2011	Quarter 3 2012	Quarter 3 2011	Quarter 3 2012	Quarter 3 2011
€ mn								
Net interest income	114	123	0	0	5	10	119	133
Allowance for credit losses	30	36					30	36
Net interest income after allowance for credit losses	84	87	0	0	5	10	89	97
Net commission income	6	4	39	45	-6	-11	39	38
Net result on hedge accounting	-2	2					-2	2
Net trading income / expenses	6	20					6	20
Results from non-trading assets	1	-22		0			1	-22
Results from investments accounted for using the equity method								
Results from investment properties	0	3					0	3
General administrative expenses	51	54	40	40	-1	-1	90	93
Net other operating income / expenses	-2	2	1	0	0	0	-1	2
Impairment of goodwill		0						0
Operating profit	42	42	0	5	0	0	42	47
Income taxes	10	12	0	1			10	13
Net income / loss	32	30	0	4	0	0	32	34
Allocation of results								
Net income / loss attributable to non-controlling interests	5	4	0	1			5	5
Net income / loss attributable to shareholders of Aareal Bank AG	27	26	0	3	0	0	27	29
Allocated equity	1,255	1,373	76	80	834	524	2,165	1,977
Cost / income ratio (%)	41.6	40.9	99.7	88.3			55.6	52.9
RoE before taxes (%) *)	11.9	10.8	0.3	23.7			6.9	8.3

*) On an annualised basis