



Aareal Bank

Press Release

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Aareal Bank Group posts a successful start to the 2013 financial year

- **First-quarter consolidated operating profit of €47 million**
- **Strong capitalisation – very solid liquidity situation**
- **Forecasts affirmed for the full year 2013**

Wiesbaden, 7 May 2013 – Aareal Bank Group had a successful start into the 2013 financial year, performing very well in a slightly improved - yet still challenging - market environment. At €47 million, consolidated operating profit generated in the first quarter exceeded the corresponding figure for the same period of the previous year (€43 million), as well as the fourth quarter of 2012 (€46 million). Consolidated net income was €22 million, compared to €18 million in the last quarter of 2012, and to €21 million in the first quarter of the previous year.

"The trend towards some easing on financial and capital markets persisted during the first quarter of 2013, despite the crisis in Cyprus. However, our business environment has remained challenging, especially given the sluggish economy in many markets and due to changes in the regulatory framework. Against this background, we once again did really well during the first quarter of the year", said CEO Dr Wolf Schumacher.

For the first time in four quarters, Aareal Bank was able to report an increase in consolidated net interest income, as new business originated in this segment during recent months starts to pay off. Nonetheless, the bank's cautious investment strategy – and the low interest rate environment – continued to burden net interest income: in the first quarter it amounted to €121 million, after €129 million in the same period of the previous year and €116 million in the previous quarter. Allowance for credit losses of €17 million (Q1 2012:

€ 12 million) evidences the unchanged high quality of Aareal Bank's credit portfolio.

At € 2.0 billion (Q1 2012: € 0.5 billion), new business originated in the Structured Property Financing segment during the first quarter performed strongly. Nonetheless, Aareal Bank affirms its communicated new business target of € 6 billion to € 7 billion for the full year, since competition in commercial property financing has intensified again on the most important markets. Aareal Bank was very successful in its funding activities, thereby preserving its good liquidity situation.

"Our most important success factors are our profound market knowledge, our long-term client relationships, our extremely sound business policy, and a very robust financial position. These factors have enabled us to further expand our good market position during the first quarter of 2013", said Dr Wolf Schumacher, Chairman of the Management Board of Aareal Bank Group.

Structured Property Financing segment: good segment results, with high volume of new business

Operating profit in the Structured Property Financing segment was € 51 million in the first quarter of 2013, exceeding the figure for the same period of the previous year (€ 40 million).

Segment net interest income in the first quarter was € 118 million after € 121 million in the same period of the previous year. Net interest income continued to be burdened by the bank's cautious investment strategy and the low interest rate levels; in contrast, high-margin new business originated during recent months had a positive effect.

Allowance for credit losses during the quarter under review amounted to € 17 million (Q1 2012: € 12 million). It was therefore lower than the pro-rata forecast range of € 110 million to € 150 million for the financial year, but within the expected range.

At € 2.0 billion (Q1 2012: € 0.5 billion), the volume of new business originated was high compared to the first quarters of previous years. The factors contributing to this increase included several large early renewals.

Consulting/Services: deposit volumes continued to grow / segment results burdened by the interest rate environment

Segment results were burdened by the low interest rate levels – which are relevant for income from the deposit-taking business in the Consulting/Services segment. Operating profit in the Consulting/Services segment totalled € -4 million for the quarter under review (Q1 2012: € 3 million).

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, and one that is largely independent of capital markets developments. In addition to the German Pfandbrief and unsecured bank bonds, deposits from the institutional housing industry represent an important pillar in the bank's long-term funding mix.

Against this background, positive development of deposit volumes from institutional housing industry clients was recorded: rising again, to average € 6.7 billion during the quarter under review (Q4 2012: € 6.2 billion).

The business activities of the Aareon AG subsidiary were on schedule during the first quarter. Operating profit amounted to € 5 million. After numerous property management companies signed contracts for Wodis Sigma shortly before the 2012 year-end, a further five contracts were signed in the first quarter of 2013. During the first months of the year, Wodis Sigma was rolled out for 75,000 rental units managed by 13 companies.

Successful funding activities – strong capitalisation

Aareal Bank Group continued to successfully conduct its funding activities in the first quarter of 2013, thereby securing a very solid liquidity situation. A total of € 1.4 billion of long-term funds were raised on the capital market during the first quarter. This comprised Mortgage Pfandbriefe in the amount of € 1.1 billion as well as unsecured refinancing of € 300 million. Aareal Bank has therefore maintained its long-term funding at a high level.

Of the public and private issues placed in the first quarter, the five-year, € 625 million Mortgage Pfandbrief issued in January is worth mentioning.

Aareal Bank therefore continues to be very solidly financed. As at 31 March 2013 the Tier 1 ratio was 17.1 per cent, which is comfortable on an international level. The core tier 1 ratio was 11.7 per cent. Aareal Bank thus already complies today with the capital and liquidity requirements under Basel III, which will be gradually implemented between now and the end of 2018.

Notes to Group financial performance

Consolidated net interest income of € 121 million in the first quarter was lower than for the same period of the previous year (Q1 2012: € 129 million), burdened by the bank's cautious investment strategy, and low interest rate levels.

At € 38 million, net commission income was slightly below the previous year's figure of € 40 million. Aareon's sales revenue - shown in net commission income - was stable compared with the previous year.

The aggregate of net trading income/expenses and the net result on hedge accounting of € 3 million (Q1 2012: € -26 million) were primarily attributable to the measurement of derivatives used to hedge interest rate and currency risk, and to realised and unrealised changes in value from the sale of hedges for selected EU sovereign countries.

At €92 million (Q1 2012: €91 million), administrative expenses were only slightly higher than the previous year and therefore in line with Aareal Bank's planning.

Consolidated operating profit for the first three months of 2013 thus totalled €47 million (Q1 2012: €43 million). Taking into consideration taxes of €15 million and non-controlling interest income of €5 million, net income attributable to shareholders of Aareal Bank AG amounted to €27 million. After deduction of the net return on the SoFFin silent participation, consolidated net income stood at €22 million.

Outlook: full-year targets confirmed

Despite the challenges that still exist – especially the recessionary trend in some European countries and prevailing uncertainty surrounding future regulatory measures – the Management Board forecasts a slight overall improvement in Aareal Bank's business environment during the remainder of the year. After a good start to the year, the Management Board thus affirms the full-year targets for 2013 communicated in February.

Net interest income/loss reflects the good margins achieved in the lending business. However, the persistently low interest rate environment coupled with the cautious investment strategy continues to represent a burden, so that net interest income/loss for 2013 is expected to be only slightly higher than the previous year. Aareal Bank expects allowance for credit losses to fluctuate in a slightly adjusted range – compared with the previous year – of €110 million to €150 million, particularly in view of the recessionary trends in Italy, Spain and the Netherlands, as well as a growing loan portfolio. As in the previous years, the bank cannot rule out additional allowance for unexpected credit losses that may be incurred during 2013.

Thanks to the measures implemented in 2012 to optimise Aareal Bank's structures and processes, administrative expenses are also expected to rise only slightly compared with 2012, to between €360 million and €370 million.

Aareal Bank remains confident that it will reach its published new business target for the full year 2013 of between €6 billion and €7 billion in the Structured Property Financing segment. In the Consulting/Services segment, the bank anticipates a stable result before taxes compared with the previous year, despite rising investments, of around €27 million in 2013.

Notwithstanding a still-challenging environment, Aareal Bank continues to believe there is a good chance the bank's consolidated operating profit will match that of 2012; there is even potential to reach the very good results achieved in 2011.

"Aareal Bank celebrates its 90th anniversary this year. The bank is in best shape, and has had a good start to our jubilee year. We have demonstrated that our business is geared for sustainable success – and that we are able to rise to new challenges. Characterised by higher capital requirements, stricter liquidity rules – and hence, lower expected returns – the 'new normality' for banks is such a challenge. We are in an excellent position and look ahead with optimism", Schumacher added.

Note to editors: The full interim report for the first quarter of 2013 is available on <http://www.aareal-bank.com/en/investor-relations/financial-reports/>.

Aareal Bank

Aareal Bank AG, whose shares are traded in Deutsche Börse's MDAX segment and which celebrates its 90th anniversary this year, is a leading international property specialist. The bank concentrates its business activities on the Structured Property Financing and the Consulting/Services segments. The Structured Property Financing segment encompasses all of Aareal Bank's property financing and funding activities. In this segment, the bank facilitates property investment projects for its domestic and international clients, within the framework of a three-continent strategy covering Europe, North America and Asia. In the Consulting/Services segment, Aareal Bank offers the institutional housing industry services and products for managing residential property portfolios and processing payment flows.

Aareal Bank Group:

Consolidated results for the first quarter of 2013 (in accordance with IFRSs)

	1 Jan - 31 Mar 2013	1 Jan - 31 Mar 2012	Change
	€ mn	€ mn	€ mn
Income Statement			
Operating profit	47	43	4
Net income / loss after non-controlling interests	27	26	1
Kennzahlen			
Cost / income ratio (%) ¹⁾	42.2	48.5	
Earnings per share (€)	0.45	0.43	
RoE before taxes (%) ²⁾	7.4	7.1	
RoE after taxes (%) ²⁾	4.8	4.8	

	31 Mar 2013	31 Dez 2012	Change
	€ mn	€ mn	€ mn
Portfolio data			
Property finance	23,597	23,304	293
of which: international	20,242	19,991	251
Property finance under management	23,783	23,496	287
of which: international	20,242	19,991	251
Equity ⁴⁾	2,362	2,317	45
Total assets ⁴⁾	45,126	45,750	-624
	%	%	
Regulatory Indicators⁵⁾			
Tier 1 ratio pursuant to AIRBA ⁶⁾	17.1	16.7	
Total capital ratio pursuant to AIRBA ⁶⁾	20.6	20.6	

	31 Mar 2013	31 Dez 2012	
Ratings			
Fitch Ratings, London			
Long-term	A -	A -	
Short-term	F1	F1	

1) Structured Property Financing segment only

2) On an annualised basis

3) The figure for property finance under management includes property loans managed on behalf of Deutsche Pfandbriefbank AG.

4) Comparative figures for the previous year were adjusted. Further information is included in the "Accounting policies" section of the notes to the consolidated financial statements.

5) After confirmation of the financial statements 2012 of Aareal Bank AG. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2012 is subject to approval by the Annual General Meeting.

6) Advanced Internal Ratings-Based Approach (AIRBA)

Consolidated income statement for the first quarter of 2013 (in accordance with IFRSs)

	1 Jan - 31 Mar 2013	1 Jan - 31 Mar 2012	Change
	€ mn	€ mn	%
Net interest income	121	129	-6
Allowance for credit losses	17	12	42
Net interest income after allowance for credit losses	104	117	-11
Net commission income	38	40	-5
Net result on hedge accounting	-3	-10	
Net trading income / expenses	6	-16	
Results from non-trading assets	-1	0	
Results from investments accounted for using the equity method	-	-	
Results from investment properties	0	3	
General administrative expenses	92	91	1
Net other operating income / expenses	-5	0	
Impairment of goodwill	0	0	
Operating profit	47	43	9
Income taxes	15	12	25
Net income / loss	32	31	3
Allocation of results			
Net income / loss attributable to non-controlling interests	5	5	
Net income / loss attributable to shareholders of Aareal Bank AG	27	26	4
Appropriation of profits			
Net income / loss attributable to shareholders of Aareal Bank AG	27	26	4
Silent participation by SoFFin	5	5	
Consolidated profit / loss	22	21	5

Segment results for the first quarter of 2013 (in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 31 Mar 2013	1 Jan - 31 Mar 2012	1 Jan - 31 Mar 2013	1 Jan - 31 Mar 2012	1 Jan - 31 Mar 2013	1 Jan - 31 Mar 2012	1 Jan - 31 Mar 2013	1 Jan - 31 Mar 2012
€mn								
Net interest income	118	121	0	0	3	8	121	129
Allowance for credit losses	17	12					17	12
Net interest income after allowance for credit losses	101	109	0	0	3	8	104	117
Net commission income	2	4	39	44	-3	-8	38	40
Net result on hedge accounting	-3	-10					-3	-10
Net trading income / expenses	6	-16					6	-16
Results from non-trading assets	-1	0					-1	0
Results from investments accounted for using the equity method								
Results from investment properties	0	3					0	3
General administrative expenses	50	49	42	42	0	0	92	91
Net other operating income / expenses	-4	-1	-1	1	0	0	-5	0
Impairment of goodwill	0	0					0	0
Operating profit	51	40	-4	3	0	0	47	43
Income taxes	16	11	-1	1			15	12
Net income / loss	35	29	-3	2	0	0	32	31
Allocation of results								
Net income / loss attributable to non-controlling interests	4	4	1	1			5	5
Net income / loss attributable to shareholders of Aareal Bank AG	31	25	-4	1	0	0	27	26
Allocated equity	1,197	1,283	85	69	948	788	2,230	2,140
Cost / income ratio in %	42,2	48,5	111,7	94,7			59,0	62,3
RoE before taxes in % *)	15,7	11,4	-26,0	6,6			7,4	7,1

*) On an annualised basis