Speech by
Dr Wolf Schumacher

Chairman of the Management Board of

Aareal Bank AG

On the occasion of the

Annual General Meeting

Held on 22 May 2013

in Wiesbaden

- The spoken word prevails -

I. Greeting and introduction

Dear shareholders,

dear guests,

I would like to take this opportunity, also on behalf of my fellow members of the Management Board, to welcome you to Aareal Bank AG's Annual General Meeting. As Mr Hans Reich already mentioned – and as you were able to see in the short film we showed you at the beginning, this General Meeting is special: Aareal Bank is celebrating its ninetieth anniversary this year. My colleagues and I are particularly pleased that you have accepted our invitation this year too, thus demonstrating your strong relationship with Aareal Bank. I would like to express my sincere thanks for your support also in the last financial year.

I would like to begin my speech with a few words about our anniversary.

What do these 90 years that we look back on represent? I believe they stand for two things: the first being a certain degree of confidence. Our Bank has survived 90 years of change, and therefore a multitude of turmoil and turbulence. This is not taken for granted, and is therefore a reason for us to be proud of what we have achieved. On the other hand, these 90 years are above all representative of an obligation to uphold the bank's tradition and carry it into the future.

We have seen a lot of change in the last 90 years - political, social and economic. Last but not least, the bank itself has changed in these 90 years. From its origins in 1923 as *Deutsche Wohnstättenbank* to date, it has become an international player – and its expertise has grown. Business operations have shifted from private housing construction in Germany to focus on commercial property finance across three continents, and to the provision of services to the institutional housing industry.

Nonetheless, by creating a strong and sustainable base, the bank has remained true to itself throughout all the changes.

- Since 1923, our clients and their needs have been the focal point of our business.
- Since 1923, in-depth understanding of our markets has been the guiding principle of our activities.
- And since 1923, this bank has proved itself as a property expert.

Something else defines Aareal Bank too, namely its flexibility to adjust to changes at an early stage, to actively shape this change and face new challenges, while preserving its fundamental values over the decades. This is what Aareal Bank stands for.

The future looks no less challenging than the past has turned out to be. The 'new normal' facing banks, such as the real economy with increased volatility and less security, is shaping the framework in which we will operate in the future. I will return to this 'new normality' theme later.

First of all, however, I want to provide you with an overview of the economic environment in 2012 and how Aareal Bank performed. Finally, I will, as usual, outline briefly the agenda of today's Annual General Meeting. I will conclude my speech by looking at the current business development and our forecast for the years ahead.

II. Market environment 2012

Ladies and Gentlemen,

We can look back at tough operating conditions in all of the last five financial years. 2012 was no exception: the banking sector as a whole, and therefore Aareal Bank, was confronted with major challenges last year. Although the situation clearly eased on the financial and capital markets in the second half, concerns about the stability of the European economies dominated events on the capital markets for much of the year.

As expected, the euro crisis engaged our attention in 2012 too and showed us once again that a higher volatility has not only become a part of the 'new normality' on financial markets, but also in political decision-making processes. The renewed flaring up of the crisis in Greece, and concerns about the Spanish banks, dominated the economy in mid-2012. Politicians found it difficult initially to jointly develop sustainable solutions in this heated situation.

This persisted until the second half of the year: thanks to important political and – above all – monetary decisions, a framework was defined, within which a sustainable solution to the European debt crisis can be developed in a sensible and purposeful manner. This degree of certainty gained within the prevailing uncertainty had the effect of settling the markets in the second half of the year, and was facilitated by the interaction between different forces. First and foremost, what must be mentioned is the major role once again played throughout the year by the European Central Bank in resolving the crisis. By means of the extensive refinancing packages offered to the big European banks at attractive interest rates at the start of the year– and above all, its announcement that it would buy unlimited quantities of European government bonds under certain circumstances, the ECB once again demonstrated its commitment to counter any weakening of the common currency against all odds.

Politicians also succeeded in a collaborative effort to reach various important decisions, particularly in the second half of the year: in addition to the two rescue packages for Greece and the support measures for Spain, these included above all the decision on the structure of the European Stability Mechanism (ESM) and the long- overdue establishment of a European banking regulator. Against all odds, Europe has proven itself to be willing and capable of taking action – what is important now is to ensure that the framework is a reliable one.

Please allow me to make a personal comment here: the decisions made last year make me confident that we will succeed in resolving the crisis in Europe. This will of course not happen immediately, but will require patient and steadfast efforts to restore the European state budgets. At the same time, growth momentum needs to be created in the countries in crisis that are vital to Europe's future cohesion. It will not be easy and will take longer than had been hoped by many; nonetheless, a solution is possible. It is therefore worthwhile investing every effort in the Europe experiment, which has given our continent a previously unknown measure of peace, freedom and prosperity!

Ladies and Gentlemen,

In 2012, the capital markets also appeared to believe for the first time in a long while that the crisis was coming to an end. The German blue-chip DAX index closed 2012 on a high for the year, and the funding markets eased during the course of the year.

In contrast, the euro debt crisis impacted more and more on the real economy. Global economic growth increasingly lost momentum. This was particularly true in Europe: due to a restrictive fiscal policy and rising unemployment, especially the southern European countries remained in recession, whilst growth momentum in Central and Northern Europe was distinctly muted. Germany was the only country to remain largely unaffected in this environment in 2012, even though the economic momentum there slowed down considerably.

Against the backdrop of the debt crisis and economic weakness, 2012 was not an easy year for the banking industry. Our sector was faced with several other challenges arising at the same time: numerous regulatory measures were concluded last year and others are still being discussed. Although the burdens for the banks are still immense, the fact that the requirements gradually evolved into a more concrete framework last year is a positive factor. Many details on the implementation remain open, but the regulatory landscape is taking shape.

The discussions as to when the new capital and liquidity requirements under Basel III will be introduced in the US (and if at all) showed that we are still a long way off a level regulatory playing field for all market participants. It is becoming increasingly doubtful as to whether this goal can ever be reached. In addition, single countries going it alone – or a lack of coordinated measures on an international level, such as the introduction of a financial transaction tax or the considerations on a two-tier banking system – create additional disadvantages for German and European banks in global competition.

To put it clearly: it is a cause for concern when this makes it more difficult for German banks to realise their role of finance providers to the real economy. This could limit the banks' serving function, which is neither in the interest of the German economy nor politics.

In addition, various scandals did not exactly benefit the image of our industry in 2012. I need only mention the key words of Libor or supporting tax evasion. These topics encourage all those that already rail against the banks for populist reasons. Even though Aareal Bank is recognised by the public not least because of its solid business model and sustainable action, and made no contribution to the general loss of image of our industry, we are not totally immune to the consequences, including excessive regulation.

To avoid misinterpretation: every fault found in the banking as well as other industries must be pursued and punished through legal measures. However, the incidences of misconduct referred to are individual cases and by no means relate to the industry as a whole. Condemnation across the board of the more than 600,000 bank employees in the German banking sector is therefore entirely inappropriate.

Ladies and Gentlemen,

That completes our summary of the environment of the previous financial year: it was certainly not an easy period. Aareal Bank achieved quite a considerable performance in this environment. Our business model, with the two strong pillars of Structured Property Financing and Consulting/Services for the institutional housing industry, together with a business policy focused on sustainability and our medium-sized corporate structure forms the basis for the continuing success of Aareal Bank. Proximity to clients, markets and industry expertise, and the necessary flexibility to react quickly to changes in the environment are attributes that repeatedly offer competitive advantages.

This is all reflected in the results of the year under review, which I will now outline.

III. Review of the 2012 financial year

The financial year under review was one of the most successful in Aareal Bank's history. Against the background of the environment already described, we achieved a profit of € 176 million – a figure that was only slightly lower than the excellent prior year result.

This great achievement is attributable to our staff and our managers within the Group, and I would like to express my sincere thanks for their tireless efforts and commitment, also on behalf of my colleagues on the Management Board.

I will now look at our result during 2012 in more detail. However, I will limit my comments, as usual, to the most important key figures and developments. As always, we have provided you with our detailed annual report, containing very comprehensive information.

In brief, Aareal Bank achieved or even surpassed its key targets set for the financial year under review.

- Consolidated net interest income amounted to € 486 million and was therefore 11 per cent lower than the already very good figure for the previous year. We had expected this development and anticipated it in our planning. The decline is due to persistently low interest rate levels on the one hand, which weighed significantly on the margins in the deposit-taking business. On the other hand, within the scope of our cautious investment strategy and in light of the uncertain environment, we invested surplus liquidity at low interest rates – the rate has now dropped to zero – with the ECB and the Bundesbank. The amount placed averaged at around € 4.0 billion. We deliberately took the associated burden on net interest income into account as the price for greater security on the liquidity side.
- The sustainable and prudent business policy we pursued in recent years paid off once again in the allowance for credit losses. Totalling € 106 million, allowance for credit losses was still below the previous year's figure, despite the economic downturn on some important markets. At the same time, the

figure was at the lower end of the forecast range of € 110 million to € 140 million for 2012. This once again confirms the quality of our credit portfolio.

- Net commission income improved by more than 17 per cent to € 169 million, compared with € 144 million the year before. The increase is largely due to our success in further reducing the costs for the guarantee facility extended by SoFFin, which was repaid during the year.
- Reflecting volatile markets, the aggregate of net trading income/expenses, the result from non-trading assets and the net result on hedge accounting amounted to minus € 13 million, after minus € 9 million in the previous year. Net trading income/expenses was primarily burdened by the measurement of derivatives used to hedge interest rate and currency risks from our lending business, as well as from unrealised changes in value from the sale of hedges for selected EU sovereign countries.
- At € 358 million, administrative expenses were more than 6 per cent lower than the previous year's figure of € 382 million, and were therefore in line with our projections. The measures for enhancing efficiency that were introduced in 2011 and implemented in 2012 are therefore taking effect. We will continue to pursue strict cost discipline in the Group in the future; enhancing our efficiency is a permanent challenge. The earnings performance clearly shows that we are not making savings at the expense of our business and future opportunities.

As I already mentioned, consolidated operating profit for the 2012 financial year amounted to € 176 million, which is down only slightly on the record figure achieved in 2011. We see this as a great success, given the challenging environment we faced.

After deduction of taxes of € 52 million and non-controlling interest income, net income attributable to Aareal Bank AG shareholders was € 105 million. After deduction of net interest payable on the SoFFin silent participation, consolidated net income stood at € 85 million; this figure is only slightly lower than that of the previous year.

Ladies and Gentlemen,

Both of the business segments contributed to Aareal Bank Group's excellent results for 2012 again, in the face of difficult market conditions – albeit to varying degrees.

Despite the aforementioned burden on net interest income through the low interest rate environment and our cautious investment strategy, we once again improved operating profit generated in the **Structured Property Financing** segment. We improved on the very good figure of € 165 million in 2011 with a contribution of € 170 million to results. Allowance for credit losses remained moderate and we benefited from the aforementioned improvement in net commission income due to the lower SoFFin charge.

At the beginning of my speech, I reported on the high volatility and great uncertainty that dominated the markets in early 2012. We adopted a wait-and-see approach to new business in this situation. The primary objective at the start of the year was to procure the necessary refinancing. However, from the middle of the second quarter onwards we started to take more of the opportunities for attractive new business. We continued with this approach during the rest of the year, thus increasing the volume of new business to an impressive € 6.3 billion. This was significantly higher than our target corridor of € 4.5 billion to € 5.5 billion. We continued not to compromise on the quality of our exposure; quite the opposite in fact. The average loan-to-value ratios in our loan book have fallen further. Almost 50 per cent of new business was accounted for by newly-generated loans with a focus on exposures eligible for inclusion in the cover assets pool.

We had to face a decline in operating profit to € 6 million in our second strong pillar, the **Consulting/Services** segment for the institutional housing industry. We had expected better results at the start of the year, but interest rate developments continued to work against us. Persistently low interest rate levels impacts on the margins in the deposit-taking business. In view of the market conditions, we can be satisfied with this result, especially given that Consulting/Services makes an important contribution to the Group's funding activities through the deposit-taking business. I will talk about this shortly.

The business of our IT subsidiary Aareon continued to develop on schedule. It was able to increase revenues again last year and also concluded the financial year with a record result.

The company's successful multi-product strategy continues to pay off. Aareon succeeded in acquiring numerous new clients last year as well, especially with the Wodis Sigma product line launched in 2009. An additional 102 users opted for Wodis Sigma in 2012: this software solution is now used by 477 property companies of all size categories.

Aareon's international business has also developed positively in line with expectations. The company now generates just short of 30 per cent of sales revenue from the strategically important markets of France, Great Britain and the Netherlands.

In the banking business with the German institutional housing industry, we successfully maintained our position as principal bank to the industry, acquiring clients during the year that between them are managing at least 130,000 residential units. Meanwhile, more than 2,700 business partners throughout Germany are using our banking services and products.

Competition for deposits throughout the entire German banking sector remains intense, against the background of the uncertainty on refinancing markets. Our success in once again substantially increasing the volume of deposits in the financial year under review, from € 4.7 billion to an average of € 5.6 billion, is therefore even more remarkable. The volume even reached € 6.2 billion at year-end.

The margins on this business are burdened in the current low interest rate environment. However, deposits from the institutional housing industry represent an important additional source of funding for us, at attractive terms, in addition to Pfandbriefe and unsecured bonds. I want to make it quite clear again here that the strategic importance of this business goes way beyond the interest margin generated from the deposits – which is permanently under pressure in the current market environment.

Ladies and Gentlemen,

Capital base and liquidity remained the focus of attention towards banks last year, not least against the background of the discussions surrounding Basel III and the stress tests conducted by the European Banking Authority, the EBA. Aareal Bank can meet these with confidence: we have a very solid and comfortable capital base, also by international standards, which we were able to strengthen even further during the year under review.

As at 31 December 2012, the bank's tier 1 ratio was 16.7 per cent, after 16.3 per cent the year before. The core tier 1 ratio was 11.6 per cent compared with 11.3 per cent the year before. The ratios just mentioned take into account a complete retention of Aareal Bank AG's 2012 net retained profit (*Bilanzgewinn*) under German commercial law. The Management Board believes this retention is still necessary, given the risks that persist in relation to potential disruptions on the markets and the financial system. However, we are planning to resume an active dividend policy in 2014 for the 2013 financial year, depending on market conditions. I will discuss this again in more detail later.

Already today, our capital ratios meet the high requirements that will apply in future under Basel III. We still have a silent participation from SoFFin in the amount of € 300 million. We remain under no pressure regarding repayment of the residual amount. Nonetheless, we are keen to repay this as quickly as possible, and replace it with other hybrid equity while taking all circumstances into account. However, we will take this step when the environment is right. The new equity instruments that comply with the EU Capital Adequacy Directive – CRD IV – must be known, and acceptable prices must be available for them on the market. This is not yet the case at the moment.

In 2012, we dramatically reduced SoFFin's total exposure to Aareal Bank, by fully redeeming the guarantees extended. The final SoFFin-guaranteed bond, with a residual volume of around € 1.2 billion, matured in March 2012. We therefore no longer utilise any SoFFin guarantees for bond issues – and of course we also no longer pay any guarantee fees.

I just mentioned our good funding status. Despite the challenging environment on the capital markets, we succeeded in reaching all the planned refinancing objectives we set for the year 2012 as a whole. Even better, we achieved them already during the third quarter, when the strong demand for Pfandbriefe and unsecured bonds from solid issuers such as Aareal Bank played a major role.

We raised a total of € 4.5 billion in medium- and long-term funds on the capital market during the period under review, including € 2.1 billion in long-term, senior unsecured bonds – a result that clearly demonstrates investors' strong confidence in Aareal Bank. The fact that we also issued € 2.3 billion in Pfandbriefe highlights how very important the Pfandbrief remains to Aareal Bank's refinancing mix. Subordinated bonds accounted for € 100 million.

Thanks to the good liquidity situation, we repaid € 1 billion in liquidity, provided in February 2012 by the European Central Bank within the scope of its second three-year Long-Term Refinancing Operation (LTRO), in full on 28 February of this year – the earliest possible date.

Ladies and Gentlemen,

I can conclude that 2012 clearly was a positive year. I must emphasise this point again: Aareal Bank remains solid, in an eventful and challenging environment – and has further strengthened its market position in a rapidly changing market and competitive environment.

IV. The Aareal Bank share

This is reflected at least in part by the performance of our share price. You, as shareholders, once again look back at a very volatile year for the stock exchange. I have already mentioned the key factors that influenced events. The European sovereign debt crisis dominated events on the international stock exchanges in 2012 too.

At the start of 2012, the Aareal Bank share, alongside other financials, benefited from the positive impact of the ECB's three-year tender (LTRO). While the Prime Banks Performance CXPB Index during the first weeks of the year gained around 25 per cent on the 2011 year-end close, our share price outperformed even that. On 6 February 2012 it reached € 19.82 – a price increase of over 40 per cent compared with the year-end 2011 – and the high for the year. This high share price level was maintained in anticipation of good preliminary 2011 results, up to their publication on 21 February 2012. Although we surprised the market with our record operating result, our outlook was more cautious than anticipated. The announcement that liquidity holdings would be safely parked with the ECB, and shielded there from risk despite the concessions to net interest income, reversed the outperformance of the first few weeks.

The prices of all indices collapsed with the escalation of the European sovereign debt crisis in the second quarter. The losses incurred above all by the CXPB Banks index – down to its low at the end of July – show how strongly financial stocks were influenced by the developments surrounding the European sovereign debt crisis.

However, towards the end of April 2012, our share successfully decoupled itself from the negative developments on the stock exchanges – and, above all, the banks index. It appreciated by around ten per cent within the two days following publication of our solid first quarter figures.

The decisions reached at the special summits of EU finance ministers held in Brussels in June, together with the comments made by ECB president Draghi in July – not least as a reaction to the renewed deterioration of the crisis in Spain – that the central bank would do "whatever it takes" to support the common currency, boosted a new small rally in bank shares.

Our share price extended its lead over the banks index, and the publication of good half-year figures further supported the positive price performance.

Financial issues in particular reacted with further price increases to the aforementioned announcement by the ECB in the third quarter that it would buy unlimited quantities of European government bonds. In this environment, our third quarter results were once again in line with expectations. The consistently favourable business development was seen as positive on the capital market, as was the confirmation of the outlook for 2012.

Nevertheless, we had to witness a renewed decline in the Aareal Bank share price – albeit in line with the general decline of the CXPB Banks Index. This was driven on the one hand by the persistent uncertainty with regard to the resolution passed on the third Greek rescue package, and on the other hand by protracted negotiations over the US budget dispute.

The Aareal Bank share ended the year at € 15.71, which equates to a respectable increase of 12.3 per cent over the year-end price of 2011.

Our share got off to a good start in 2013: as at 21 May, our share price performance of 18.7 per cent significantly outperformed the DAX, which rose by 11.3 per cent. The CXPB Banks Index increased by only 5.5 per cent during the same period.

This brief overview shows that the environment remains difficult for bank shares. It also offers individual banks little scope to disassociate entirely from the industry trend. We will continue to do whatever we can to present our share from an appropriate and differentiated perspective; first and foremost, this is a matter of instilling confidence through good results and ongoing positive business development.

V. Agenda

Ladies and Gentlemen,

At this point, I would like to briefly discuss the agenda for today's Annual General Meeting.

First of all, I would like to draw your attention to the fact that the comprehensive report of the Management Board regarding disclosures required under sections 289 (4) and 315 (4) of the German Commercial Code can be found on our website. You can also obtain a copy today at our information booth.

Agenda item no.1 refers to the presentation of the statutory documents. Under agenda item no.2, we propose to transfer the net retained profit to other retained earnings.

I already referred to this item earlier in my presentation. The SoFFin agreement prohibited the distribution of dividends: now that this freeze has ended, we could theoretically afford a distribution for the 2012 financial year. However, the Management Board and the Supervisory Board propose to once again reinvest net retained profit in full. Commercial prudence requires that we continue to take account of the ongoing risks in relation to potential disruptions on the market and the financial system. This is why we want to take the precautionary measure again of strengthening our capital base, in order to secure the Company's resilience.

At this point again this year, I would like to explicitly solicit your understanding and support for this step. It represents another milestone for the sustained strengthening of Aareal Bank Group, and we are convinced that it is in the best interests of the

Company, as well as in your interests as shareholders. I already mentioned our intention to resume an active dividend policy in 2014 for the 2013 financial year, depending on market conditions. I will talk about this again in the outlook.

Agenda items nos. 3 and 4 propose a resolution to grant formal approval to the Management Board and the Supervisory Board. Agenda item no. 5 contains the proposal regarding appointment of the external auditors.

New elections to the Supervisory Board are planned in agenda item no. 6. As Hans Reich mentioned, Marija G. Korsch and Richard Peters will be proposed for election. Marija Korsch was judicially appointed as member of the Supervisory Board after the resignation of Wolf Thiel in July 2012. It is proposed that the General Meeting confirm her appointment by way of election. Due to Hans Reich's resignation from his office as Supervisory Board member, the position of Chairman of the Supervisory Board will become vacant at the end of this Annual General Meeting. Subject to her election by the General Meeting, the Supervisory Board already resolved, in its meeting on 20 March 2013, to elect Marija G. Korsch as Chairman of the Supervisory Board. Mr Richard Peters was proposed as another shareholder representative for election to the Supervisory Board, to take up the position that has become available in the Supervisory Board following the resignation of Hans Reich.

Ladies and Gentlemen,

Please let me say a few personal words here. This Annual General Meeting is quite special for Aareal Bank, for various reasons. On the one hand, we have been celebrating our anniversary – I have already mentioned this. Secondly, Marija Korsch - subject to her election by you, the shareholders – will be the first woman to head the supervisory board of a German bank. This fact has already been covered in detail in the public domain. However, what is of utmost importance to me and my colleagues is that Ms Korsch is an expert in her field, whose expertise can help the bank to progress along its chosen path. Dear Ms Korsch, we look forward to working with you!

Thirdly, we are bidding farewell today to Hans Reich, an outstanding personality in the history of Aareal Bank. Hans Reich has been a member of the Supervisory Board since July 2002 and has acted as its chairman since June 2004. He has thus substantially shaped Aareal Bank throughout its existence as a listed company, from the time of its listing. During his chairmanship, he not only successfully oversaw the bank's restructuring, launched in 2005 and concluded in 2007 – he also made an important contribution to the bank's very good track record throughout the financial crisis. The bank – and not least the Management Board – has benefited all these years from his specialist expertise and the circumspect and prudent manner in which he held this challenging office. Dear Mr Reich, I would like to thank you most sincerely, also on behalf of all the shareholders, for your advice and support throughout all the years. You departure also heralds the end of a chapter in the bank's history.

Ladies and Gentlemen,

Now back to the agenda: in agenda item no. 7, we propose two amendments to the Memorandum and Articles of Association. The amendments necessary to any notifications made by the Company were caused by the renaming of the "Electronic Federal Gazette" (*elektronischer Bundesanzeiger*) to “Federal Gazette” (*Bundesanzeiger*) as at 1 April 2012. The purpose of this resolution is to amend

Article 4 (1) of the Memorandum and Articles of Association, to correspond with this change. The purpose of the proposed amendment concerning resolutions passed by the Supervisory Board is to expand the wording of this provision of the Memorandum and Articles of Association, to enable the Supervisory Board to use modern means of communication other than e-mail (such as electronic voting) for polls.

Dear shareholders, on behalf of the Management Board and the Supervisory Board, I respectfully request your approval of the agenda items stated above.

VI. Current business development and outlook

I would now like to turn to current developments in the market environment and in relation to our business.

The underlying developments that I described earlier continued to occupy us again at the start of the year: uncertainty and volatility will accompany us in the foreseeable future.

Overall, the environment for Aareal Bank and the banking sector initially continued to improve slightly at the start of the year. Numerous banks, companies and sovereign issuers succeeded in placing significant volumes of bonds, at favourable terms, during the first half of the quarter. However, this easing on the financial and capital markets then faltered as the first quarter drew to a close, reacting in particular to the discussion about the Cyprus rescue.

The fact that there were no major market distortions in this situation showed just how robust global financial and capital markets have become again. Political decisions, which are increasingly highlighting the regulatory framework, are one of the reasons for the markets' robustness. These also involve the new rules establishing a European banking regulator, as resolved by the European Parliament in March 2013. The introduction of a European supervisory authority for banks is a logical and sensible step because it may enhance financial market stability throughout Europe. On the other hand, important details such as the interfaces to individual national supervisory authorities have not yet been adequately clarified, and many issues on technical structures remain open with regard to other regulatory initiatives.

Yet the considerable difficulties in agreeing upon a rescue plan for Cyprus, as well as the related political discussion concerning the bail-in by investors, clearly showed at the same time that a substantial solution to the European sovereign debt crisis is still quite some time away, with significant potential for backlashes still present.

Whilst economic weakness persisted in the euro zone during the first quarter, whereby the Southern European member states were locked in deep recession and even the momentum of Germany's economy was restrained, economic developments in other key regions around the world were quite different. The Asian economies, particularly China, continue to post the highest growth rates. The US also recorded moderate growth again in the first quarter of 2013, after economic output remained virtually unchanged in the final quarter of 2012. Looking at global economic trends going forward, the most recent forecasts continue to indicate only a very slow recovery.

During the first quarter, some of the commercial property financing markets were characterised by intense competition. Some US banks have been active in recent months in the market for commercial property finance in the UK with an outlook on continental Europe. Restraint is still being exercised in Europe regarding the funding of large-volume projects, as well as for cross-border portfolios, properties of secondary quality or in peripheral locations. Competition was much more intense in the US, where there is strong liquidity. The environment in Asia remained competitive.

We held firm to our selective approach that is oriented strictly on quality, return and risk in this environment too, but took advantage of opportunities that arose for high-margin new business that meet our criteria.

We published our detailed interim report for the first three months of 2013 on 7 May. I therefore want to focus on a few key statements here that I deem particularly important.

In this still-uncertain environment Aareal Bank once again performed well during the first three months of this year: At € 47 million, our consolidated operating profit not only exceeded the result for the same quarter of the previous year, but also the very good level reached in the final quarter of 2012. This result once again testifies to the viability of our business model – not least against the backdrop of a still-challenging business environment. Aareal Bank's prudent business policy, which has been the benchmark of the bank's endeavours for many years, continues to pay off. We will continue to adhere to it in the future, too.

For the first time in four quarters, we were able to report an increase in consolidated net interest income, as new business originated in the Structured Property Financing segment during recent years starts to take effect. Nonetheless, the bank's cautious investment strategy and the low interest rate environment continue to burden consolidated net interest income: in the first quarter of 2013 it amounted to € 121 million, after € 129 million in the same period of the previous year and € 116 million in the fourth quarter of 2012.

Allowance for credit losses was € 17 million in the first quarter and was therefore significantly lower than the pro rata forecast range of € 110 million to € 150 million for the financial year, but within the range the bank had predicted. Hence, no matter how positive it is for us, the figure for the first three months cannot be projected for the year as a whole.

Net commission income of € 38 million was down slightly on last year's figure of € 40 million, while Aareon's sales revenue, which is reported in net commission income, remained stable year-on-year.

The aggregate of net trading income/expenses, the result from non-trading assets and the net result on hedge accounting totalled € 2 million after a negative figure of € 26 million the year before. This was largely attributable to the measurement of derivatives used to hedge interest rate and currency risks, and to realised and unrealised changes in value from the sale of hedges on selected EU sovereign countries.

Administrative expenses of € 92 million were up slightly on the previous year and therefore in line with our projections. This reflects the high level of cost discipline we continue to pursue.

The consolidated operating profit of € 47 million, less taxes and non-controlling interest income, translates into net income attributable to shareholders of Aareal Bank AG of € 27 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at € 22 million – after € 18 million in the fourth quarter of 2012 and € 21 million in the first quarter of the previous year.

Ladies and Gentlemen,

Performance at our **Structured Property Financing** segment was extremely good at the start of the year. At € 51 million, the segment's operating profit was up significantly on the previous year. Given the environment I have described and taking into consideration our cautious liquidity and investment strategy, we are very satisfied with this result.

At € 2.0 billion, the volume of new business originated in the first quarter of 2013 was high compared to the first quarters of previous years. There are several reasons for this: on the one hand, this reflected the fact that some new transactions acquired in the fourth quarter of 2012 were only closed during the first quarter of this year. On the other hand – and in contrast to the first quarter of the previous year – Aareal Bank started to acquire new business right from the beginning of the year. Moreover, first-quarter new business also included several large early renewals.

However, competition has intensified again recently on the most important markets for commercial property finance. Against this background, we affirm our communicated target for new business, at between € 6 billion and € 7 billion for the year as a whole.

Low levels of interest rates, which are relevant for income from the deposit-taking business, continued to burden the **Consulting/Services** segment. The segment's operating loss amounted to € 4 million in the previous quarter after a profit of € 3 million in the same quarter of the previous year. On the other hand, we welcomed a further increase in the average volume of deposits in the institutional housing industry, to € 6.7 billion. Given the higher importance of deposits in the regulatory framework, this is a great success.

The business activities of our IT subsidiary Aareon were in line with expectations in the first quarter. A further five new clients were acquired for Wodis Sigma during the period. The number of new contracts was lower than in the previous quarter, since many clients had opted for our software in the final quarter of 2012, prior to year-end.

Let me now touch briefly on the developments regarding our capitalisation and funding.

Aareal Bank remains very solidly financed. We placed unsecured bonds and Pfandbriefe totalling € 1.4 billion in the first quarter of the current financial year. We have therefore maintained our long-term funding at a high level.

In view of the future capital and liquidity requirements of Basel III, we feel we remain very well positioned. As at 31 March 2013, the tier 1 ratio increased over year-end 2012, to 17.1 per cent. The core tier 1 ratio improved to 11.7 per cent. Aareal Bank therefore continues to be very solidly financed, also compared with its international competitors.

Ladies and Gentlemen,

Let me summarise the first quarter as follows: we enjoyed a successful start to the year 2013, and once again confirmed the stability and sustainability of our business model in a market environment that remains challenging. We exercise strict control over our risks and costs, and are well-positioned to continue to build on our success story this year, too.

We confirm the forecasts we communicated in February for the year 2013 as a whole. Net interest income reflects the good margins achieved in the lending business. However, the persistent low interest rate levels and the cautious investment strategy will continue to be a burdening factor, so that net interest income in 2013 is likely to exceed the previous year's figure only marginally.

We expect 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 credit 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 to optimise structures and processes that were implemented in 2012, administrative expenses are expected to increase only marginally in 2013 over the previous year, to between € 360 million and € 370 million.

I already confirmed the projected new business target for the Structured Property Financing segment of € 6 billion to € 7 billion for the full-year 2013. In the Consulting/Services segment, we anticipate a stable result before taxes for Aareon Group compared with the previous year, despite rising levels of investment, of around € 27 million for 2013.

Notwithstanding a still-challenging environment, we continue to believe there is a good chance overall that the bank's consolidated operating profit will match that of 2012. It is even possible that we might reach the very good result of 2011.

Ladies and Gentlemen,

What are our projections beyond the current financial year?

I already mentioned the key word 'new normal' at the start of my speech with regard to the environment expected for the years ahead. The definition of this 'new normality' has become increasingly clear in the last few months.

In future, we will face fundamental changes to our environment in many areas – not only concerning the banks, but equally society, as well as the economy and politics.

- We have been dealing with recessionary trends in parts of Europe for quite some time, which is also likely to impact increasingly on the political situation in the countries in question.
- Although the uncertainty surrounding the end of the European sovereign debt crisis will persist, the crisis should now affect only a few individual markets.
- The central banks will keep interest rate levels low in the medium term. Whilst this might be beneficial for debtor states, it brings significant challenges for all those who must invest to accumulate capital – for example, as retirement provisions – as well as for banks investing liquidity.
- The regulatory requirements that will come into effect for the banking sector in the future are becoming increasingly clear. However, as I already stated, the numerous measures will have to be coordinated, and the technical details also remain open.

The 'new normality' leads to three trends in particular in commercial property finance. Firstly, the higher capital and liquidity requirements pursuant to Basel III and the other regulatory changes will lead to significantly more conservative balance sheet structures in the future. Secondly, we are therefore likely to see growing competition for customer deposits and business eligible for Pfandbrief cover – since deposits and Pfandbriefe will be favoured by the new regulatory requirements. The framework conditions for unsecured long-term funding remains uncertain.

The third trend is drawn from the two factors mentioned earlier: we will all have to get used to the fact that we will only achieve a yield level that is lower relative to the 'old normal'. The days of excessive promises of yields in our industry are finally over.

Ladies and Gentlemen,

These are the facts and the outlook. We can complain about them, but are nonetheless unable to change them.

However, what we can do is to deal with the 'new normality' and strategically prepare ourselves for it. We have been doing this too, as you are accustomed to expect from us in the tradition of this bank.

Our response to the challenges that lie ahead is to draw up appropriate measures with which we will follow – above all – two objectives:

- We want to continue to build on Aareal Bank's success story even in the environment I have just described. We should be able to benefit from the flexibility and sustainability with which the bank has prepared for changes and challenges in recent years.
- We also want to earn the trust of our shareholders in the medium and long term. Depending on market conditions, we are therefore planning to resume an active dividend policy in 2014, for the financial year 2013. We also want to achieve a return on equity before taxes of 12 per cent by 2015/2016 - which will provide a viable base on which we can sustainably develop our business as well as allowing the shareholders to participate adequately in our success.

We will have to implement a series of measures - which I will outline in brief below - before reaching these objectives:

- In future, we will focus our funding operations even more on issuing Pfandbriefe and on the deposit-taking business, so as to prevent an excessive dependence upon the capital markets.
- We will continue to progress along our chosen path in Structured Property Financing: we are concentrating on high-margin exposures eligible for inclusion in the cover assets pool and with low loan-to-value ratios. We will also aim for greater cooperation with other providers – for example, with insurers – within the scope of club deals or syndications.
- We will increase the level of investment at our subsidiary Aareon in new and existing products, thus forming the basis for a significant increase in Aareon's contribution to results in the medium term.
- In parallel, we will not stray from our efforts to become more efficient. Our clear objective is to maintain the cost/income ratio in Structured Property Financing at 40 per cent. In an environment that will bring about higher expenditure due to the higher regulatory requirements, this can only be achieved by adhering to an unchanged cost discipline.
- Not least, we will adjust our capital structure in line with the changed regulatory environment. This includes our efforts to achieve a total capital ratio of 19 per cent: thus we shall remain attractive to investors, even in a shrinking market for senior unsecured bonds. We want to manage the core tier 1 ratio of 11.5 per cent (including all of the known Basel III effects), which we want to achieve in 2016, as cost-efficiently as possible.

Ladies and Gentlemen,

As you can see, Aareal Bank is prepared to hold its ground in the 'new normal', too. We will also not ease up on our efforts to continue building on the bank's success story.

We have an advantage, whereby we can expect the demand for commercial property financing to remain high. We firmly believe in the positive future of this business in the medium and long term, provided it is operated with a sense of perspective and the required know-how that we have.

VII. Conclusion

Dear shareholders,

The environment in which Aareal Bank operates has changed fundamentally and permanently. We will resolutely face these challenges with a healthy degree of confidence, as the bank and its predecessor institutions have done in the last 90 years. We can build on some decisive qualities and capabilities:

- our expertise as a leading property specialist,
- our flexibility as a medium-sized enterprise,
- our willingness to adjust at all times to new conditions and to face new challenges with new ideas,
- the will and ability to accept responsibility – responsibility for our business, for our customers, our shareholders and our staff, as well as for society as a whole.

We will continue to remain true to the values that have served as a compass and guiding principle for the last 90 years: we are looking for long-term partnerships with our clients. These relationships are based on trust, which in turn emerges from solidity, soundness, credibility and reliability.

This is the tradition of your bank and the recipe for our successful future.

Thank you very much for your attention!