

Press Release

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Aareal Bank looks to the future with confidence after a successful 2012 financial year

- **Fourth quarter consolidated operating profit of € 46 million and € 176 million for the full year – consolidated net income for 2012: € 85 million**
- **At € 6.3 billion, new Structured Property Financing business clearly exceeded forecast**
- **Outlook for 2013: Consolidated operating profit expected to match the level of 2012 – potential to reach the very good level achieved in 2011**
- **Aareal Bank specifies its medium-term objectives: 12 per cent return on equity before taxes targeted by 2016 at the latest / resumption of an active dividend policy for the 2013 financial year is planned for 2014, depending on market conditions**
- **Dr Wolf Schumacher, Chairman of the Management Board: We achieved all of our main objectives during the past year. After a good start into 2013, we look ahead with confidence. We are in a position to continue with our positive development, despite a changed framework."**

Wiesbaden, 20 February 2013 – Aareal Bank Group once again posted good results for the previous financial year, in a market environment that remained very challenging for long periods of time. On the basis of preliminary and unaudited figures, consolidated operating profit amounted to € 176 million and, as announced, was therefore down only slightly on the previous year's very good figure of € 185 million, in spite of the uncertainty that persisted during the year. Similarly, consolidated net income of € 85 million was down only slightly on the high figure from 2011 (€ 93 million). The months between October and December were successful, too. With consolidated operating profit of € 46 million (Q4 2011: € 47 million), the fourth quarter was in fact the strongest quarter of the year.

At € 106 million, allowance for credit losses in the 2012 financial year was not only lower than the previous year's figure of € 112 million but also developed more favourably than expected. The bank's own forecasts on new business in the Structured Property Financing segment were also exceeded: at € 6.3 billion, the volume of new business clearly exceeded the upper end of the projected range of € 4.5 billion to € 5.5 billion. At € 358 million, administrative expenses were significantly lower than the previous year (€ 382 million) and within the projected range of € 350 million to € 360 million.

Dr Wolf Schumacher, Chairman of the Management Board, commented on the success of the past year: "We continued to remain on track in 2012, in a sometimes difficult environment, and delivered on our promises again. We achieved all of our main objectives for the year, even exceeding some of them. We consistently took advantage of market opportunities that arose, whilst further strengthening our capital base and liquidity. After a good start into 2013, we look ahead with confidence. We are in an excellent position to continue our positive performance going forward, and to further strengthen our leading market position in both segments."

Financial year 2012: Sound performance in a volatile market environment

Net interest income for the 2012 financial year was € 486 million after € 547 million last year. In particular, this figure reflects the low interest rate environment and the cautious investment strategy pursued by Aareal Bank during the financial year just ended, in view of the high degree of uncertainty generated by the European sovereign debt crisis and the regulatory requirements, many of which are not yet clarified.

Allowance for credit losses of € 106 million was lower than the previous year's figure of € 112 million and the € 110 million to €140 million range projected for the financial year.

Net commission income of € 169 million increased significantly (2011: € 144 million), mainly due to lower costs (€3 million; 2011: € 21 million) for the bonds guaranteed by the German Financial Markets Stabilisation Fund (SoFFin), which matured during the past financial year.

Net trading income/expenses and the net result on hedge accounting of € –14 million (previous year: € 20 million) were primarily attributable to the measurement of derivatives used to hedge interest rate and currency risk, and to unrealised changes in value from the sale of hedges for selected EU sovereign countries.

At € 358 million, administrative expenses were down on the previous year (€ 382 million). This was mainly due to measures taken to optimise structures and processes initiated during the 2011 financial year and implemented during the financial year under review. The previous year's figure included related non-recurring effects of € 12 million recognised in the fourth quarter of 2011.

After deduction of net other operating income/expenses of € –7 million (2011: € –14 million), consolidated operating profit for the financial year 2012 amounted to € 176 million after € 185 million in 2011. Taking into consideration taxes of € 52 million and non-controlling interest income of € 19 million, net income attributable to shareholders of Aareal Bank AG amounted to € 105 million (2011: € 114 million). After deduction of the € 20million net interest payable on

the SoFFin silent participation, consolidated net income stood at € 85 million (2011: € 93 million).

The positive results mean that Aareal Bank will service all of its subordinated refinancing vehicles for the 2012 financial year. This includes the silent participation by SoFFin and the bank's other hybrid instruments.

Aareal Bank continued to pursue its successful business policy – strictly focusing on quality – in its **Structured Property Financing segment**. Having concentrated initially on its funding activities during the first six months, it consistently pursued the available opportunities for attractive new business during the remainder of the year.

The volume of new business amounted to € 6.3 billion in 2012 (2011: € 8.0 billion), so that the bank clearly exceeded its projected target range of € 4.5 billion to € 5.5 billion. The share of newly-originated loans in total new business was 47 per cent (2011: 62 per cent). A comparison with the previous year must take into account that new business in the 2011 financial year benefited from the capital increase that was conducted in the second quarter of 2011.

Net interest income in this segment stood at € 463 million (2011: € 508 million). The decline was attributable mainly to the low interest rate environment, and to a cautious investment strategy, according to which considerable amounts of liquidity were deposited with the Bundesbank and the European Central Bank.

At € 191 million, administrative expenses were below the previous year's level (€ 217 million).

The result from investment properties of € 5 million mainly comprises rental income. The decline over the previous year (€ 10 million) was due especially to the loss of rental income in conjunction with the sale of a property in the second quarter of 2012.

Taking into account net other operating income and expenses of € -9 million (2011: € -17 million), operating profit in the Structured Property Financing segment amounted to € 170 million, after € 165 million the year before. After deduction of income taxes of € 51 million and € 17 million in non-controlling interest income, the segment result was € 102 million (2011: € 102 million).

Sales revenues in the **Consulting/Services segment** amounted to € 194 million in the 2012 financial year (2011: € 203 million). The decline resulted mainly from the low interest rate environment, which burdened the margins generated from the deposit-taking business that are reported under sales revenues.

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 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 relation to the changing regulatory framework, Aareal Bank sees this business as offering a particular competitive advantage.

Against this background, the development of deposit volumes from institutional housing industry clients developed very favourably. In the 2012 financial year, Aareal Bank succeeded in further improving on the already high average level of € 4.7 billion in the previous year, to € 5.6 billion. The figure for the end of the year was € 6.3 billion (2011: € 4.8 billion).

The business activities of the Aareon AG subsidiary were on schedule during the 2012 financial year. The good development of the Wodis Sigma product generation that Aareon launched in 2009 continued in 2012, too. 477 clients have already opted for Wodis Sigma since the launch; 102 in the 2012 financial year alone. Aareon's international business has also developed positively: the share in Aareon Group's total revenue increased to 28.7 per cent (2011: 27.4 per cent). The total revenue amounted to € 165 million.

On balance, the Consulting/Services segment generated operating profit of € 6 million (2011: € 20 million). After deduction of taxes (€ 1 million) and non-controlling interest income (€ 2 million), the segment result stood at € 3 million (2011: € 12 million).

Successful funding activities – ECB repo funds to be repaid

Aareal Bank Group successfully carried out its funding activities as planned during the 2012 financial year. Owing to the strong demand for Pfandbriefe and unsecured issues from solid issuers, all of the measures could be implemented as planned, and the refinancing targets for the full year were already achieved during the third quarter.

During the period under review, Aareal Bank raised a total of € 4.5 billion of medium- and long-term funds on the capital market. Unsecured issues totalled € 2.1 billion, € 0.1 billion was accounted for by subordinated debt. Mortgage Pfandbriefe made up € 2.3 billion of the total volume. This highlights how very important the Pfandbrief remains to Aareal Bank's funding mix.

Thanks to its good liquidity situation, the bank has decided to fully repay € 1 billion provided by the European Central Bank within the scope of its three-year Long-Term Refinancing Operation (LTRO) on 28 February 2013, and thus on the earliest possible date.

Aareal Bank remains very solidly financed. The bank's comfortable Tier 1 ratio of 16.7 per cent as at 31 December 2012 (up from 16.3 per cent at year-end 2011) is also good by international standards. The core Tier 1 ratio was 11.6 per cent (2011: 11.3 per cent). The capital ratios stated are based on full accumulation of retained profit generated during the 2012 financial year, as reported in accordance with the German Commercial Code (HGB). The Management Board believes this is still necessary, given the risks that persist in relation to potential disruptions on the markets and the financial system.

Notes on the preliminary Income Statement for the fourth quarter of 2012

At € 46 million, Aareal Bank Group's consolidated operating profit in the fourth quarter of 2012 was down slightly year-on-year (Q4 2011: € 47 million).

According to preliminary figures, net interest income in the final quarter of 2012 stood at € 116 million (Q4 2011: € 146 million), and was therefore down

€ 3 million on the corresponding figure for the previous quarter (€ 119 million). Compared with the same period of the previous year, net interest income was burdened in particular by the low interest rate environment as well as by the bank's prudent investment strategy. Moreover, the previous year's figure included positive non-recurring effects of € 9 million. The volume of new loans granted during the quarter under review was significantly higher compared with the previous quarters. Since a large proportion of these loans were disbursed at the end of the financial year or the start of the new financial year, as expected, these loans only impacted marginally in net interest income for the fourth quarter.

€ 39 million in allowance for credit losses was recognised during the fourth quarter (Q4 2011: € 34 million).

At € 50 million, net commission income was above the corresponding quarter of the previous year (Q4 2011: € 45 million), which still included charges of € 3 million for the bonds guaranteed by SoFFin.

Net trading income/expenses and the net result on hedge accounting totalled € 10 million in the final quarter (Q4 2011: € 4 million). The result was largely influenced by unrealised changes in value from the sale of hedges for selected EU sovereign countries.

Consolidated administrative expenses amounted to € 88 million during the fourth quarter (Q4 2011: € 102 million). This figure also reflects the measures to optimise structures and processes that were initiated in the 2011 financial year. The previous year's figure included related non-recurring effects of € 12 million.

Consolidated operating profit for the fourth quarter thus totalled € 46 million (Q4 2011: € 47 million). Taking into consideration income taxes of € 19 million and minority interest income of € 4 million, net income after non-controlling interest income amounted to € 23 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at € 18 million (Q4 2011: € 24 million).

Outlook for 2013: The environment is expected to improve slightly

In view of the decisions reached in recent months at EU level as well as in the crisis states, the sovereign debt crisis is expected to ease further. Even though a sustainable solution to the crisis has not yet been found and a renewed escalation cannot be ruled out, latest developments on the capital markets suggests that market participants believe the worst is overcome.

Against this background, Aareal Bank – which celebrates its 90th anniversary this year – has started this year on a cautiously optimistic note. 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 improvement in Aareal Bank's business environment.

Aareal Bank had therefore already started to adjust its previously very cautious investment strategy in mid-2012. The Management Board will continue along these lines in 2013 and may further reduce the funds deposited with the ECB and the Bundesbank. However, the prevailing low interest rate environment has a

negative impact on these investments, and on the deposit-taking business. The good margins achieved on the lending side are offset in part by these effects, so that net interest income in 2013 is expected to come in only slightly above the previous year's figure.

Planning in relation to allowance for credit losses reflects the developments on the property markets worldwide. Aareal Bank expects allowance for credit losses to be in a slightly adjusted range 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; from today's perspective however, the Management Board expects allowance for credit losses to be at the lower end of the range. Aareal Bank expects a stable trend for net commission income in 2013, at between € 165 million and € 175 million.

Thanks to the measures implemented to optimise structures and processes, administrative expenses are also expected to rise slightly (if at all) compared with 2012, to between € 360 million and € 370 million.

Notwithstanding a still-challenging environment, the Management Board believes there is a good chance the bank's consolidated operating profit will match the level of 2012; there is even potential to reach the very good level achieved in 2011.

The positive trend should also remain intact in relation to the new business originated in the Structured Property Financing segment. Aareal Bank therefore raised the target corridor for its new business in the current year, to between € 6 billion and € 7 billion.

In the Consulting/Services segment, the Aareon subsidiary expects a stable result before taxes in the region of € 27 million, despite rising investments.

Medium-term objectives specified

From a medium-term perspective, Aareal Bank believes it is well-positioned for the permanently changed framework in commercial property financing – higher capital requirements, stricter liquidity rules and the resulting lower expectations of profitability.

In the Structured Property Financing segment, in view of the new business environment, the bank plans – amongst other things – to focus its lending operations to an even greater extent on high-margin business, on markets with low LTV ratios of 60 to 70 per cent, and on exposures eligible for inclusion in cover asset pools, as well as intensifying cooperations with other providers within the scope of club deals and syndications. In the Consulting/Services segment, Aareon plans to significantly increase its contribution to results in the medium term, by investing in new as well as existing products. The deposit volumes from institutional housing industry clients is intended to be increased from approximately € 6 billion at present to around € 7 billion by 2015.

The bank targets a cost/income ratio in the Structured Property Financing segment of around 40 per cent by 2015, thus keeping it at today's levels for the medium term.

For the Tier 1 ratio in accordance with Basel III, the bank aims at achieving a level of 11.5 per cent by 1 January 2016. In this context, Aareal Bank will continue to focus on optimising its capital base over the years to come.

Depending on market conditions, the bank plans to resume an active dividend policy in 2014 for the 2013 financial year.

Overall, Aareal Bank's activities are geared towards achieving returns on equity before taxes of 12 per cent, assuming a favourable development of the business environment, by 2015 – but not later than 2016.

Dr Schumacher, Chairman of the Management Board, summarised: "Our strategy also works in what is being referred to as the 'new normal'. On the basis of our pronounced strengths and with our strict management of costs, risks and capital, we will be in a position to achieve a solid performance, and to increase the bank's sustainable enterprise value in the future."

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.

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the financial year 2012
(unaudited, in accordance with IFRS):

| | 1 Jan - 31 Dec 2012 | 1 Jan - 31 Dec 2011 | Change |
|--|------------------------|------------------------|------------|
| | € mn | € mn | % |
| Income Statement | | | |
| Net interest income | 486 | 547 | -11 |
| Allowance for credit losses | 106 | 112 | -5 |
| Net interest income after allowance for credit losses | 380 | 435 | -13 |
| Net commission income | 169 | 144 | 17 |
| Net result on hedge accounting | -4 | 6 | |
| Net trading income / expenses | -10 | 14 | |
| Results from non-trading assets | 1 | -29 | |
| Results from investments accounted for using the equity method | 0 | 1 | |
| Results from investment properties | 5 | 10 | -50 |
| General administrative expenses | 358 | 382 | -6 |
| Net other operating income / expenses | -7 | -14 | |
| Impairment of goodwill | - | 0 | |
| Operating profit | 176 | 185 | -5 |
| Income taxes | 52 | 52 | 0 |
| Net income / loss | 124 | 133 | -7 |
| Allocation of results | | | |
| Net income / loss attributable to non-controlling interests | 19 | 19 | 0 |
| Net income / loss attributable to shareholders of Aareal Bank AG | 105 | 114 | -8 |
| Appropriation of profits | | | |
| Net income / loss attributable to shareholders of Aareal Bank AG | 105 | 114 | -8 |
| Silent participation by SoFFin | 20 | 21 | -5 |
| Consolidated profit / loss | 85 | 93 | -9 |

Segment Results of Aareal Bank Group
Preliminary results for the financial year 2012
(unaudited, in accordance with IFRS):

| | Structured Property Financing | | Consulting / Services | | Consolidation / Reconciliation | | Aareal Bank Group | |
|--|-------------------------------|---------------------|-----------------------|---------------------|--------------------------------|---------------------|---------------------|---------------------|
| | 1 Jan - 31 Dec 2012 | 1 Jan - 31 Dec 2011 | 1 Jan - 31 Dec 2012 | 1 Jan - 31 Dec 2011 | 1 Jan - 31 Dec 2012 | 1 Jan - 31 Dec 2011 | 1 Jan - 31 Dec 2012 | 1 Jan - 31 Dec 2011 |
| € mn | | | | | | | | |
| Net interest income | 463 | 508 | 0 | 0 | 23 | 39 | 486 | 547 |
| Allowance for credit losses | 106 | 112 | | | | | 106 | 112 |
| Net interest income after allowance for credit losses | 357 | 396 | 0 | 0 | 23 | 39 | 380 | 435 |
| Net commission income | 21 | 2 | 173 | 183 | -25 | -41 | 169 | 144 |
| Net result on hedge accounting | -4 | 6 | | | | | -4 | 6 |
| Net trading income / expenses | -10 | 14 | | | | | -10 | 14 |
| Results from non-trading assets | 1 | -29 | | | | | 1 | -29 |
| Results from investments accounted for using the equity method | 0 | 0 | | 1 | | | 0 | 1 |
| Results from investment properties | 5 | 10 | | | | | 5 | 10 |
| General administrative expenses | 191 | 217 | 169 | 167 | -2 | -2 | 358 | 382 |
| Net other operating income / expenses | -9 | -17 | 2 | 3 | 0 | 0 | -7 | -14 |
| Impairment of goodwill | | 0 | | | | | | 0 |
| Operating profit | 170 | 165 | 6 | 20 | 0 | 0 | 176 | 185 |
| Income taxes | 51 | 46 | 1 | 6 | | | 52 | 52 |
| Net income / loss | 119 | 119 | 5 | 14 | 0 | 0 | 124 | 133 |
| Allocation of results | | | | | | | | |
| Net income / loss attributable to non-controlling interests | 17 | 17 | 2 | 2 | | | 19 | 19 |
| Net income / loss attributable to shareholders of Aareal Bank AG | 102 | 102 | 3 | 12 | 0 | 0 | 105 | 114 |

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the fourth quarter 2012
(unaudited, in accordance with IFRS):

| | Quarter 4 2012 | Quarter 4 2011 | Change |
|--|-------------------|-------------------|------------|
| | € mn | € mn | % |
| Net interest income | 116 | 146 | -21 |
| Allowance for credit losses | 39 | 34 | 15 |
| Net interest income after allowance for credit losses | 77 | 112 | -31 |
| Net commission income | 50 | 45 | 11 |
| Net result on hedge accounting | 3 | 4 | -25 |
| Net trading income / expenses | 7 | 0 | |
| Results from non-trading assets | 3 | -11 | |
| Results from investments accounted for using the equity method | 0 | 0 | |
| Results from investment properties | 0 | 3 | |
| General administrative expenses | 88 | 102 | -14 |
| Net other operating income / expenses | -6 | -4 | |
| Impairment of goodwill | - | 0 | |
| Operating Profit | 46 | 47 | -2 |
| Income taxes | 19 | 13 | 46 |
| Net income / loss | 27 | 34 | -21 |
| Allocation of results | | | |
| Net income / loss attributable to non-controlling interests | 4 | 5 | -20 |
| Net income / loss attributable to shareholders of Aareal Bank AG | 23 | 29 | -21 |
| Appropriation of profits | | | |
| Net income / loss attributable to shareholders of Aareal Bank AG | 23 | 29 | -21 |
| Silent participation by SoFFin | 5 | 5 | 0 |
| Consolidated profit / loss | 18 | 24 | -25 |

Segment Results of Aareal Bank Group
Preliminary results for the fourth quarter 2012
(unaudited, in accordance with IFRS):

| | Structured Property Financing | | Consulting / Services | | Consolidation / Reconciliation | | Aareal Bank Group | |
|--|-------------------------------|----------------|-----------------------|----------------|--------------------------------|----------------|-------------------|----------------|
| | Quarter 4 2012 | Quarter 4 2011 | Quarter 4 2012 | Quarter 4 2011 | Quarter 4 2012 | Quarter 4 2011 | Quarter 4 2012 | Quarter 4 2011 |
| € mn | | | | | | | | |
| Net interest income | 113 | 136 | 0 | 0 | 3 | 10 | 116 | 146 |
| Allowance for credit losses | 39 | 34 | | | | | 39 | 34 |
| Net interest income after allowance for credit losses | 74 | 102 | 0 | 0 | 3 | 10 | 77 | 112 |
| Net commission income | 5 | 5 | 49 | 51 | -4 | -11 | 50 | 45 |
| Net result on hedge accounting | 3 | 4 | | | | | 3 | 4 |
| Net trading income / expenses | 7 | 0 | | | | | 7 | 0 |
| Results from non-trading assets | 3 | -11 | | 0 | | | 3 | -11 |
| Results from investments accounted for using the equity method | 0 | 0 | | | | | 0 | 0 |
| Results from investment properties | 0 | 3 | | | | | 0 | 3 |
| General administrative expenses | 44 | 58 | 45 | 45 | -1 | -1 | 88 | 102 |
| Net other operating income / expenses | -4 | -6 | -2 | 2 | 0 | 0 | -6 | -4 |
| Impairment of goodwill | | 0 | | | | | | 0 |
| Operating profit | 44 | 39 | 2 | 8 | 0 | 0 | 46 | 47 |
| Income taxes | 19 | 10 | 0 | 3 | | | 19 | 13 |
| Net income / loss | 25 | 29 | 2 | 5 | 0 | 0 | 27 | 34 |
| Allocation of results | | | | | | | | |
| Net income / loss attributable to non-controlling interests | 4 | 5 | 0 | 0 | | | 4 | 5 |
| Net income / loss attributable to shareholders of Aareal Bank AG | 21 | 24 | 2 | 5 | 0 | 0 | 23 | 29 |