LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

Aareal Bank Group – Interim Report
1 January to 31 March 2012

Aareal Bank
Group

Key Group Figures

	1 Jan-31 Mar 2012	1 Jan-31 Mar 2011	Change
	€ mn	€ mn	€ mn
Income statement			
Operating profit	43	47	-4
Net income after non-controlling interests	26	30	-4
Indicators			
Cost/income ratio (%)[1]	48.5	45.6	
Earnings per share (€)	0.43	0.70	
RoE before taxes (in %)[2]	7.1	9.1	
RoE after taxes (%)[2]	4.8	6.5	

	31 Mar 2012	31 Dec 2011	Change
	€ mn	€ mn	€ mn
Portfolio data			
Property finance	23,323	23,986	-663
of which: international	19,880	20,425	-545
Property finance under management[3]	23,567	24,239	-672
of which: international	19,880	20,425	-545
Equity	2,233	2,169	64
Total assets	43,679	41,814	1,865
	%	%	
Regulatory indicators[4]			
Tier 1 ratio pursuant to AIRBA[5]	16.6	16.3	
Total capital ratio pursuant to AIRBA[5]	19.8	19.5	

	31 Mar 2012	31 Dec 2011	
Rating			
Fitch Ratings, London			
long-term	A-	A-	
short-term	F1	F1	

[1] Structured Property Financing segment only
[2] On an annualised basis
[3] Property financings under management include the property financing portfolio managed for Deutsche Pfandbriefbank AG
[4] After confirmation of the financial statements 2011 of Aareal Bank AG. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2011 is subject to approval by the Annual General Meeting.
[5] Advanced Internal Ratings-Based Approach (AIRBA)

Contents

Letter to Shareholders

Dear Shareholders,
business associates and Aareal Bank staff,

The first three months of the 2012 financial year once again presented a challenge to Aareal Bank Group and the banking sector as a whole. This applied to both the economic environment in which Aareal Bank operates, and the global financial system. Significant risks continued to be associated with the European sovereign debt crisis, which has not yet been overcome. This was exacerbated by persistently weak economic development, particularly in Europe.

Still, the financial and capital market initially enjoyed significant relief in the first quarter of 2012, brought about on the one hand by the extensive liquidity measures taken by the European Central Bank that heightened confidence on the markets. On the other hand, the summit conclusions reached by European politics at the start of the year contributed towards easing the market environment to a certain extent. At the same time, a swift and thorough solution to the European sovereign debt crisis is yet to be found, and any sustainable impact emanating from liquidity support measures and the European fiscal pact remains to be seen. For this reason, and given the economic factors described above, the situation on the financial and capital markets is likely to remain tense for the remainder of the year.

Besides these uncertainties, the banking sector continues to face numerous reform plans. The most important issues regarding the cumulative effects on the banks and on the real economy, as well as about guaranteeing a level playing field from a competition perspective, still remain unanswered. Negative effects on banks' macro-economic role of financing growth and innovation cannot be ruled out – particularly in Europe.

Meanwhile, real economic development varied greatly in the different regions in the world during the first quarter of 2012. While the economy remained weak in the euro zone, and the southern member states are currently facing a marked recession, economic development in North America was moderately positive and therefore clearly improved. The emerging market economies of Asia, especially China, continued to post record growth rates, even though the speed at which they were expanding has eased somewhat. The renewed increase in the price of oil is burdening the entire world economy.

Our business in the first three months of the year was also defined by this still challenging market environment. Aareal Bank's good performance under these circumstances is therefore all the more encouraging. We have already incorporated future requirements and indicators under Basel III in our current management systems: specifically, this includes stricter capital ratios, new requirements concerning the Leverage Ratio as well as liquidity management indicators such as the Net Stable Funding Ratio (NSFR) and the Liquidity Coverage Ratio (LCR).

At € 43 million, our consolidated operating profit in the first three months of the current year is down slightly on the strong numbers seen in the first and last quarters of 2011 (€ 47 million each). Considering the still challenging environment, we are nonetheless very satisfied with this result. It once again confirms the robustness of our business model. The good performance overall achieved in the first quarter once more proves that Aareal Bank Group's prudent business policy continues to pay off.

Commercial property markets were largely stable overall, despite the weaker economic development in some regions. Convinced by its sustainability, we continue to pursue our selective approach that is oriented strictly on quality, return and risk. The easing of tension on the financial and capital markets, as mentioned above, led us to take additional advantage of funding opportunities in the first quarter. Having said that, we continue to anticipate a situation on the financial and capital markets that is set to remain difficult during the months to come. Nonetheless, we plan to increasingly exploit opportunities in new lending business during the remainder of the year, leveraging our successful issuance activity during the first quarter.

Aareal Bank adopted a cautious stance with regard to new business in the first quarter of 2012, and concentrated on renewals. We affirm our target for new business of € 4.5 billion to € 5.5 billion for the current financial year, and will exploit opportunities in new lending business more vigorously during the remainder of the year.

We have accounted for the uncertainty factors affecting our environment, as described above, as well as for the Basel III implementation rules (which have not yet been clarified) through our cautious liquidity and investment strategy. Against this background, we currently invest larger cash amounts with ECB, at low interest rates. Hence, first-quarter net interest income of € 121 million generated in the Structured Property Financing segment fell short of the previous year's level.

Allowance for credit losses in the first quarter was significantly lower than the pro rata range forecast for the financial year, but it was within the fluctuation range we had predicted. In our opinion, this represents further proof of the high quality of our property financing portfolio and the successful monitoring of our credit exposure. The most important factors are our mid-sized structure and our long-standing expertise in the markets in which we are active. The segment result was burdened in turn by the measurement of derivatives used to hedge interest rate and currency risk.

In the Consulting/Services segment, our subsidiary Aareon AG continued to build on the success story of its Wodis Sigma product line. More than 380 property companies have already opted for Wodis Sigma to date. To do justice to the strong market demand, Aareon has invested further in expanding its advisory and support capacities for this product line. Wodis Sigma also allows clients to benefit from the advantages of cloud computing. Aareon's international business also continued to develop positively.

Our banking operations in the segment continued to be defined by two developments in the first quarter. On the one hand, the prevailing low interest rate environment burdened margins in the deposit-taking business. The average development in the volume of deposits from institutional housing industry clients is all the more positive. We further improved on the already high level of € 4.9 billion in the previous quarter, to € 5.0 billion. High market coverage, the extensive range of products and services and many years of experience as the lead bank to the German institutional housing industry are key factors that have contributed to our success.

Our funding activities were also very successful in the first three months of the year. We secured our good liquidity situation and continued to maintain our long-term funding at a high level.

The remaining SoFFin-guaranteed notes still outstanding matured and were redeemed at the end of March. Aareal Bank therefore no longer uses any SoFFin guarantees, so that the guarantee fees will no longer apply as of the second quarter. Following the full return of the issuance guarantees extended by SoFFin, € 300 million of the silent participation is what remains of the original commitment of € 525 million by SoFFin to Aareal Bank, which we service properly.

Our capital ratios not only meet the forthcoming requirements of the Basel III regime but also are excellent by industry standards. As at 31 March 2012 the Tier I ratio was 16.6 per cent, which is also comfortable on an international level. The core Tier I ratio was 11.6 per cent. Aareal Bank therefore remains very solidly financed.

In view of the developments described above, we believe the uncertain environment will persist for the entire banking sector during the current year. In the wake of the sovereign debt crisis that is still unresolved, we believe financial markets will remain strongly volatile and therefore expect the risks in the financial system to persist. Economic development will continue to face significant risks and uncertainties. The uncertain political framework and cumulative effects of forthcoming changes to the regulatory environment, which have not yet been clarified, present further challenges.

We therefore continue to confirm the forecasts we communicated for the year 2012 as a whole. All in all, despite the significant challenges we face, we believe the current year offers good potential for achieving a level of consolidated operating profit only slightly below the very good result recorded in 2011.

We will adhere to our cautious liquidity and investment strategy, to account for the existing uncertainties in a comprehensive manner, as is required by commercial prudence. Nevertheless, our high flexibility allows us to react at all times to changes in the environment, and to take advantage of available opportunities.

For the Management Board

Yours Sincerely, Wolf Schumacher

Dr Wolf Schumacher
Chairman

Group Management Report

Business and Operating Environment

Macro-economic environment

The macro-economic environment was influenced primarily by two factors in the first quarter of 2012. This was on the one hand, the noticeable easing of tension on the financial and capital markets, which is attributable for the most part to the extensive liquidity measures taken by the European Central Bank (ECB). The environment was defined on the other hand, by restrained economic development in Europe, while the economies in North America and Asia trended moderately upwards.

Economy

Economic development in the euro zone was weak in the first quarter of 2012. This was primarily due to prevailing uncertainty, with the region being affected by the European sovereign debt crisis as well as various restrictive fiscal measures taken to consolidate the budgets in many countries. The renewed increase in the price of oil also weighed on the global economy.

Different indicators – for instance, those tracking production – suggest that real economic output in the euro zone fell slightly in the first quarter of 2012. With economic output having already fallen in the final quarter of 2011, the euro zone economy is technically in a recession. This is the case if real gross domestic product falls in at least two consecutive quarters. However, the recession was moderate in most countries, including Germany. It is currently more pronounced in the southern euro zone member states, including Italy and Spain. Weaker consumer demand also pushed the Netherlands into a more pronounced recessionary phase. Greece and Portugal continued to report the sharpest declines. Economic development was also restrained in most European countries outside the euro zone, such as the Czech Republic, Denmark, Sweden, and the United Kingdom. Poland once again posted more favourable economic figures compared with the rest of Europe.

Economic development in North America was moderately positive, and therefore significantly better than Europe. Economic output in Japan showed signs of growth in the first quarter, following falling output in the fourth quarter of 2011 on the back of the strong yen, a weak global economy and flooding in Thailand, amongst other factors. Singapore's economy also grew in the first quarter of 2012. The emerging market economies of Asia, especially China, continued to show the highest economic growth rates, even though the speed of the expansion eased slightly as a consequence of weaker demand from other regions.

In the course of the economic downturn in many European countries, unemployment continued to rise in the first quarter of 2012, even after adjustment for seasonal effects. In the US, the situation on the labour market improved somewhat in the last few months of 2011, evidenced by a decline in the unemployment rate. The decline in unemployment continued to progress slowly at the start of 2012.

Sovereign debt crisis

Developments in conjunction with the European sovereign debt crisis played a major role in the macro-economic environment in the first quarter of 2012, too.

In February 2012, the finance ministers of the euro zone nations agreed on a second bailout package of up to € 130 billion for Greece. This aid required Greece to impose further savings measures – these were approved by the parliament a short time later – and a haircut at the expense of private-sector bond holders. Within the scope of this haircut that was implemented in March, government bonds held by private investors were swapped for new bonds with a lower nominal value and longer terms to maturity. Since Aareal Bank AG has no exposure to Greek government bonds, it was not affected by this haircut.

Budgetary consolidation remained the focus of the political, public and business arena in the EU states. At the end of January, the EU heads of state – with the exception of the UK and the Czech

Republic – agreed on measures to strengthen budgetary discipline. These measures include enshrining a debt ceiling in national law as well as automatically introducing deficit proceedings against countries that fail to meet their deficit limits. It was also agreed to bring forward the implementation of the permanent European Stability Mechanism (ESM) to the middle of this year.

The ratings of many euro zone member states were downgraded by one or more of the major rating agencies in the first quarter of 2012. Specifically, Standard & Poor's withdrew its top triple-A rating for France and Austria. Italy and Spain were also downgraded and Portugal is now rated non-investment grade by all three major rating agencies.

As a consequence of Portugal's downgrade, the spreads of its government bonds over Germany widened initially, albeit tightening in the course of the quarter. The yield differential on Italian and Spanish government bonds to Germany remains high. Although it tightened noticeably for Italy, in particular, Italian and Spanish sovereign spreads widened again towards the end of the quarter. However, both countries succeeded in issuing notes in the first quarter of 2012 at considerably more favourable terms than towards the end of 2011.

Financial and capital markets, monetary policy and inflation

On the whole, various countries, companies and banks successfully placed securities on the market during the period under review. This had the effect of significantly easing the situation on the financial and capital markets, following the escalation in the second half of 2011. Nonetheless, the situation has not returned to normal yet. Yields on government bonds from the euro zone's southern periphery states rose again towards the end of the quarter, which again signals rising tension. Aareal Bank AG successfully placed a mortgage Pfandbrief in the amount of € 500 million in the first quarter of 2012 as well as a bearer bond of the same size.

The two three-year refinancing operations conducted by the ECB in December 2011 and February 2012 significantly eased tensions in the financial and capital markets. Many banks participated in these operations: around 800 banks took up funding of approx. € 530 billion in February. The ECB also approved specific national collateral eligibility criteria in Eurosystem credit operations for a series of countries in the same month.

Expansive monetary policy was also pursued outside of the euro zone. The Bank of England (BoE) for example, agreed at the start of February to extend its quantitative easing programme by an additional GBP 50 billion (approx. € 60 billion) to GBP 325 billion (approx. € 389 billion). The Japanese central bank announced it would buy an additional JPY 10 billion (approx. € 90 billion) in government bonds while the Federal Reserve continued to invest freed up funds from maturing government bonds and mortgage-backed securities in notes with longer-dated maturities.

Most of the major central banks left interest rates unchanged in the first quarter of 2012 at low levels. The Swedish Riksbank was an exception, reducing the key rate slightly by 0.25 percentage points. China also eased monetary policy to a certain extent. The Chinese central bank lowered the minimum reserve for commercial banks in February.

Whilst long-term interest rates rose for the most important currencies in which we are active, including the pound sterling and the US dollar, they remained at low levels nonetheless. On the other hand, long-term interest rates for the euro and Swiss franc fell slightly. Interest rate development continued to show high risk premiums, especially in the euro zone's southern periphery states, even though these tightened at times. Short-term interest rates for the euro, Swedish krona and the US dollar fell significantly. Rates for all the other important currencies remained almost unchanged from the start of the year.

The euro appreciated against the Japanese yen, and slightly against the US dollar, during the first quarter. The euro exchange rate at the end of the quarter vis-à-vis most of the other important currencies in which we are active was comparable with the start of the year. It depreciated slightly against the Swedish krona.

The annual rate of inflation persisted at a high level in many countries in the first quarter of 2012. It averaged 2.7 % in the euro zone, and was therefore in line with the level for 2011 as a whole and still above the ECB's target rate. Higher oil prices in particular were responsible for the inflationary pressure. Although the annual inflation rate in the US fell compared with the end of last year, it remained at a high level of around 2.8 %. Although prices recently rose slightly in Japan, the annual rate of inflation remains around zero. Annual inflation rates in China and Russia fell substantially compared with the previous year, to over 3 % and 4 % respectively.

Segments and business development

Structured Property Financing segment

During the first quarter of 2012 we continued to pursue our risk-sensitive lending policy, as well as consistently managing our loan portfolio.

We adopted a cautious stance with regard to new business in the first quarter of 2012, and concentrated on renewals. New business amounted to € 0.5 billion compared with € 1.4 billion for the first quarter of the previous year. At 86.1 %, Europe accounted for most of the new business, and 13.9 % was attributable to North America. We did not originate any new business in Asia.[1)]

Developments on the commercial property market are very important for the Structured Property Financing segment, which is why they will be explained in more detail here. It must be noted that commercial property markets are not homogeneous. Besides the overall market developments that are influenced by the trend in the economy, on the labour markets and with regard to interest rates, the development of rent and asset value of the respective properties is determined by factors specific to it. These property-specific factors that render a property more attractive for users include, among other things, location, modernity, floor space, energy efficiency, flexibility and the quality of a property's management. From an investor's perspective, the tenant mix, the terms and conditions of rental contracts, and tenant quality also play a role.

Developments in the individual regions

Europe

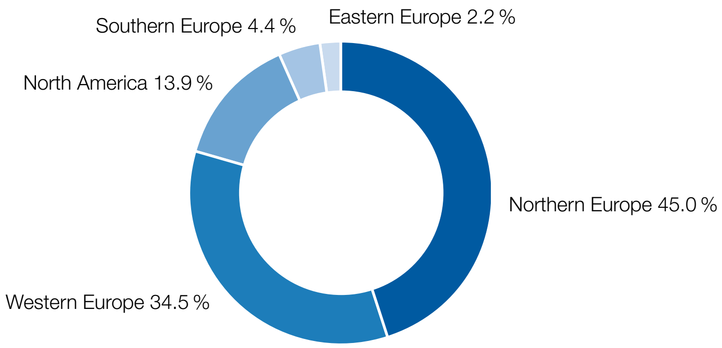
Rents for first-class commercial properties in the first quarter of 2012 remained almost constant over the previous quarter in most European economic centres. Rents in the premium segment rose in only a few commercial property markets. These included for example, the office markets in Hamburg and Gothenburg, the retail markets in Istanbul and Munich, and the logistics markets (also) in Istanbul and Zurich. Falling rents were registered only on very few markets for high-quality properties in the European economic centres. The markets affected included office rents in Barcelona and logistics rents in Amsterdam, Barcelona and Copenhagen. The trend of virtually constant rents for first-class properties affected both the office and retail as well as logistics markets. Rents tended to come under pressure for commercial properties that are not included in the first-class segment.

The trend was inconsistent on the hotel markets of the most important European cities in the first quarter of 2012. Average revenues per available hotel room increased in for example, Hamburg, Moscow, Paris and Prague. Birmingham, Madrid, Munich, Geneva and Zurich on the other hand recorded falling revenues; the hotel sector in Switzerland continued to be burdened by the strong Swiss franc. Development of occupancy ratios and average room rates also varied within Europe.

[1)] New business is allocated to the individual regions on the basis of the location of the properties used as collateral. For exposures not collateralised by property, the allocation is based on the borrower's country of domicile.

New business 1 January - 31 March 2012

by region (%) Total volume: € 0.5 bn



Transaction volumes for commercial property in Europe were considerably lower in the first quarter of 2012 than in the same quarter of the previous year. Investor interest was focused on properties in the first-class segment. In this segment, investors' yield requirements from newly-acquired properties remained largely constant in the European economic centres. Falling or rising yield requirements over the previous quarter were reported in few economic centres only. It is striking that the few markets with falling yields were found predominantly in the retail segment, such as in Paris. Likewise, very few logistics markets saw falling yields on properties: one example was in Berlin. Markets with rising yield requirements were particularly found in the office segment of for example, Madrid, Milan and Paris. However, yields for this type of property remained constant in the first-class segments of the majority of the European economic centres. Falling yield requirements lead to rising market values, and rising yield requirements lead to falling values, all other things remaining equal.

Properties that are not included in the premium segment with regard to factors determining value lagged behind the high-quality properties, or those with stable cash flows, in terms of price performance.

We achieved new business of € 0.4 billion in Europe in the period under review. Northern Europe accounted for the highest share, followed by Western Europe. We concluded very little new business in Southern and Eastern Europe.

North America (NAFTA states)

On average, rental levels in North America in the first quarter of 2012 also remained stable compared with the previous quarter. This applied nationally on average in the US for office and retail, as well as for logistics properties. However, certain differences were evident between the different regional markets. Average office rents climbed significantly in for example, San Francisco and slightly in New York, while remaining almost unchanged in Boston, Chicago, Los Angeles and Washington D.C. The average vacancy ratio across the US also remained constant for office and retail properties – despite the low number of new-build completions – while logistics properties posted a slight improvement.

In the US hotel sector, average revenues per available hotel room rose in the first quarter over the first quarter of the previous year. This was supported by an increase in the occupancy ratio as well as in the average room rates. Revenues per available hotel room were also up in Canada and Mexico compared with the first quarter of 2011.

The volume of commercial property transactions conducted during the period under review improved further over the first quarter of 2011. Investors focused on first-class properties in the US, too. Yield requirements for first-class commercial property in the US were largely constant on a nationwide average.

Our new business in North America amounted to € 0.1 billion in the first quarter of 2011. This was generated exclusively in the USA.

Asia

The upward trend of rents for first-class commercial properties in Beijing and Shanghai saw a slowdown during the first quarter after the sharp rises seen last year. Rents for high-quality office, retail and logistics properties rose only slightly, and remained constant in some of the two cities' sub-markets. The slight slowdown in economic momentum could have played a role here, as did the high number of new properties for some sub-markets.

Rents in Singapore's premium segment remained stable for the different types of commercial property. Rents for first-class office properties in Tokyo continued to fall. Despite the almost stable development of vacancy ratios, rents were lowered to attract new tenants. Rents for high-quality logistics properties also fell slightly, while rents for prime retail properties in the major shopping locations were maintained on average.

Average revenues per available hotel room in Tokyo were up in the first quarter of 2012 on the same period of the previous year. The improvement was mainly achieved in March and attributable to the fact that in March 2011 the hotel sector was severely burdened by the earthquake catastrophe.

However, average revenues per available hotel room in the two big Chinese cities of Beijing and Shanghai, and Singapore too, were up significantly compared with the first quarter of 2011.

Transaction volumes for commercial property was lower in the first quarter of 2012 than in the same quarter of the previous year, although it must be taken into consideration that transaction volumes in Asia had reached a high level in 2011. The development of yield requirements varied in the big Asian cities, although a stable development outweighed. While yield requirements in Beijing remained stable for the various types of commercial property in the first-class segment, they increased in part in Shanghai. Yield requirements in Singapore and Tokyo were largely unchanged. In Tokyo, investors continued to concentrate on properties with a high degree of resistance to earthquakes.

We concluded no new business in Asia in the first quarter of this year.

Consulting/Services segment

Institutional Housing Unit

Although the economic environment remained uncertain, the institutional housing industry showed solid development overall. This is reflected in, amongst other things, the stable rental income of housing enterprises at the start of 2012. Corporate investments continue to focus on improving the degree and quality of energy efficiency, and creating a sustainable quality of housing. Some housing industry and property management associations have founded the Verein zur Förderung der Nachhaltigkeit im Wohnungsbau (NaWoh) – an alliance for promoting sustainability in housing construction – in order to enhance the quality of newly built residential buildings. The society will apply the "Sustainable housing construction" seal of quality for sustainable projects within the scope of inventory change.

The German housing market is largely immune to economic fluctuations, since market developments here tend to be determined more by long-term factors such as population and income perspectives. A trend that had existed for quite some time continued in the first quarter of 2012 too. The small number of new-builds and the slight increase in demand in weak economic locations had the effect of reducing surplus supply. On the other hand, demand exceeded supply in the big cities where immigration is prevalent.

On the basis of growing transaction volumes last year, market momentum for residential property investments remained intact during the first quarter of 2012. International investors continue to show an interest in the German property market. German institutional investors also continue to be active on the transaction market. The sale of LBBW Immobilien GmbH with 21,000 units represented the largest portfolio transaction in the quarter under review. The purchase price amounted to € 1.4 billion.

Considering the high volatility on the financial and capital markets and the low returns offered by alternative investments, investors focused strongly on residential property, as was the case in 2011 too. Especially high-quality city-centre properties were in demand.

In cooperation with Aareal Bank Group's wholly-owned Aareal First Financial Solutions AG subsidiary, our Institutional Housing Unit offers the BK01 product family, a highly-automated, customised mass payments system for our commercial housing industry clients. Aareal Bank Group's objective is to increase the volume of deposits through new client acquisition, as well as to intensify the business relationships with existing clients.

The volume of deposits was increased again slightly to average € 5.0 billion in the quarter under review (Q4 2011: € 4.9 billion).

Our clients continue to make strong use of the combination of specialist services in conjunction with automated mass electronic payments processing, together with the related advice we offer, as well as cash investment schemes. This enables us to maintain a strong position in the market, despite strong competitive pressure, a fact that was reflected in our new client acquisition in the first quarter of 2012. 15 business partners managing some 25,000 units were acquired in the Institutional Housing Unit.

Aareon AG

In view of the increasing complexity of IT, cloud computing is becoming increasingly important on the market for property management software. Using cloud computing, companies can retrieve IT solutions from services providers through a network. This allows for an efficient deployment of IT investments, keeping administrative expenditure low. Aareon looks back on several decades of experience, both as an IT centre operator and as provider of GES, an ASP-based software solution. ASP, or "Application Service Providing", can be seen as the predecessor of today's cloud computing concept. Response to this type of computing has been positive following Aareon's launch of Wodis Sigma Release 3.0 during the fourth quarter of 2011: the software is also available as a service provided through the exclusive Aareon Cloud. Data from Aareon's Cloud Computing is held in Aareon's certified data-processing centre in Mainz, which guarantees data security and protection at the highest level. To date, 382 clients have opted for the Wodis Sigma ERP system.

With many property companies having signed up in the fourth quarter of 2011 – just before year-end – the number of contracts signed in the first quarter of 2012 was lower as was to be expected (six contracts). 20 companies alone managing around 100,000 rental units were rolled out at the start of 2012. Development of Wodis Sigma Release 4.0, which should be launched in the fourth quarter, is on schedule.

Demand in the SAP® solutions and Blue Eagle product line was subdued overall; the focus was on SAP® consultancy as well as on Aareon's general consultancy services. Allbau AG, Essen, for example, signed a contract for SAP®-application management services to manage Aareon's existing SAP® installation. Aareon has been managing the system at Allbau (18,000 units) since 1 February 2012. Production rollouts of Blue Eagle Individual at LEG Landesentwicklungsgesellschaft NRW GmbH, Dusseldorf, with more than 90,000 rental units, and VIT GMBH Viersen with more than 10,000 rental units, were both on schedule at the start of 2012.

The volume of business with the established GES system remains stable. The new GES client contact management and GES contract management module that was introduced in the fourth quarter of 2011 met with a positive response.

In the Integrated Services product line, demand is good for the Mareon service portal in particular – also for the Aareon DMS document management system, the insurance management solution BauSecura and Aareon's automated invoicing service. Major client GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen, managing more than 41,000 rental units, signed a contract to implement Mareon in the quarter under review. Aareon also extended its range of services with the purchase of immoblue+, a web-based solution for managing prospective tenants, from DataConnexx GmbH, Schönebeck, with effect from 1 April 2012. DataConnex is a specialist for developing web-based solutions for the institutional housing industry. The software is already used by around 50 companies in the institutional housing industry that will be managed by Aareon in future. Aareon will integrate immoblue+ in its ERP solutions and offer the system from the exclusive Aareon Cloud.

At the start of the year, Aareon France rolled out the PortalImo Habitat 2.0 ERP solution for major client Logement Français, managing more than 85,000 rental units. In March, Aareon France presented its product range at the MIPIM held in Cannes.

Aareon UK was represented at the important Housing Technology Conference in February. CHS Group, Cambridge, is another property company to have decided in favour of the QL Housing ERP system in the first quarter of 2012.

The new ERP product generation SG|tobias^{AX} from the Dutch company SG|automatisering continues to be well received by the market. Important new clients were acquired – Provides, IJsselstein, with more than 3,500 rental units, and Woningstichting Den Helder with roughly 10,000 rental units. The new release of SG|tobias^{AX} is developing on schedule. Market launch is scheduled for the second quarter of 2012.

Financial Position and Performance

Financial performance

Consolidated net income

Our cautious liquidity and investment strategy burdened net interest income, which amounted to € 129 million in the first quarter (Q1 2011: € 134 million).

Consolidated net income of Aareal Bank Group

€ mn	1 Jan-31 Mar 2012	1 Jan-31 Mar 2011
Net interest income	129	134
Allowance for credit losses	12	18
Net interest income after allowance for credit losses	**117**	**116**
Net commission income	40	30
Net result on hedge accounting	-10	-2
Net trading income/expenses	-16	-8
Results from non-trading assets	0	2
Result from investments accounted for using the equity method	–	0
Results from investment properties	3	2
General administrative expenses	91	91
Net other operating income/expenses	0	-2
Impairment of goodwill	0	–
Operating profit	**43**	**47**
Income taxes	12	12
Net income/loss	**31**	**35**
Allocation of results		
Net income/loss attributable to non-controlling interests	5	5
Net income/loss attributable to shareholders of Aareal Bank AG	26	30
Appropriation of profits		
Net income/loss attributable to shareholders of Aareal Bank AG	26	30
Silent participation by SoFFin	5	6
Consolidated profit/loss	**21**	**24**

Allowance for credit losses amounted to € 12 million (Q1 2011: € 18 million) for the quarter under review. It was therefore significantly lower than the pro rata forecast range of € 110 to 140 million for the financial year, but within the range we had expected.

Net commission income of € 40 million (Q1 2011: € 30 million) reflected running costs of € 3 million (Q1 2011: € 9 million) for the issued bond guaranteed by the German Financial Markets Stabilisation Fund (SoFFin) that was still outstanding in 2012. The bond matured on 26 March 2012.

Net trading income / expenses and net result on hedge accounting totalling € -26 million resulted largely from the measurement of derivatives used to hedge interest rate and currency risk.

At € 91 million, administrative expenses were in line with the previous year's level.

Consolidated operating profit for the first three months of 2012 totalled € 43 million (Q1 2011: € 47million). Taking into consideration taxes of € 12 million and non-controlling interest income of € 5 million, net income attributable to shareholders of Aareal Bank AG amounted to € 26 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at € 21 million.

Structured Property Financing segment result

Our cautious liquidity and investment strategy burdened net interest income, which amounted to € 121 million in the first quarter (Q1 2011: € 125 million).

Allowance for credit losses amounted to € 12 million (Q1 2011: € 18 million) for the quarter under review. It was therefore significantly lower than the pro rata forecast range of € 110 to 140 million for the financial year, but within the range we had expected.

Structured Property Financing segment result

€ mn	Quarter 1 2012	Quarter 1 2011
Net interest income	121	125
Allowance for credit losses	12	18
Net interest income after allowance for credit losses	**109**	**107**
Net commission income	4	-5
Net result on hedge accounting	-10	-2
Net trading income/expenses	-16	-8
Results from non-trading assets	0	2
Result from investments accounted for using the equity method	–	–
Results from investment properties	3	2
General administrative expenses	49	51
Net other operating income/expenses	-1	-2
Impairment of goodwill	0	–
Operating profit	**40**	**43**
Income taxes	11	11
Segment result	**29**	**32**
Allocation of results		
Segment result attributable to non-controlling interests	4	4
Segment result attributable to shareholders of Aareal Bank AG	25	28

Net commission income of € 4 million (Q1 2011: € -5 million) reflected running costs of € 3 million (Q1 2011: € 9 million) for the issued bond guaranteed by the German Financial Markets Stabilisation Fund (SoFFin) that was still outstanding in 2012. The bond matured on 26 March 2012.

Net trading income / expenses and net result on hedge accounting totalling € -26 million resulted largely from the measurement of derivatives used to hedge interest rate and currency risk.

At € 49 million, administrative expenses in the first quarter were down slightly on the corresponding level of the previous year (€ 51 million).

Overall, operating profit for the Structured Property Financing segment was € 40 million (Q1 2011: € 43 million). Taking tax expenses of € 11 million into consideration (Q1 2011: € 11 million), the segment result for the first quarter of 2012 was € 29 million (Q1 2011: € 32 million).

Consulting / Services segment result

At € 49 million sales revenues generated in the quarter under review were in line with the same period of the previous year (Q1 2011: € 49 million). The low interest rate environment burdened the margins from the deposit-taking business that are reported in sales revenues.

Other operating income and expenses were roughly in line with last year's levels.

At € 28 million, staff expenses during the quarter under review were also unchanged from last year.

On balance, the segment generated operating profit of € 3 million (Q1 2011: € 4 million). After deduction of taxes, the segment result amounted to € 2 million.

Consulting / Services segment result

€ mn	Quarter 1 2012	Quarter 1 2011
Sales revenue	49	49
Own work capitalised	0	0
Changes in inventory	0	0
Other operating income	2	1
Cost of materials purchased	5	5
Staff expenses	28	28
Depreciation, amortisation and impairment losses	3	3
Result from investments accounted for using the equity method	–	0
Other operating expenses	12	10
Interest and similar income/expenditure	0	0
Operating profit	**3**	**4**
Income taxes	1	1
Segment result	**2**	**3**
Allocation of results		
Segment result attributable to non-controlling interests	1	1
Segment result attributable to shareholders of Aareal Bank AG	1	2

Net assets

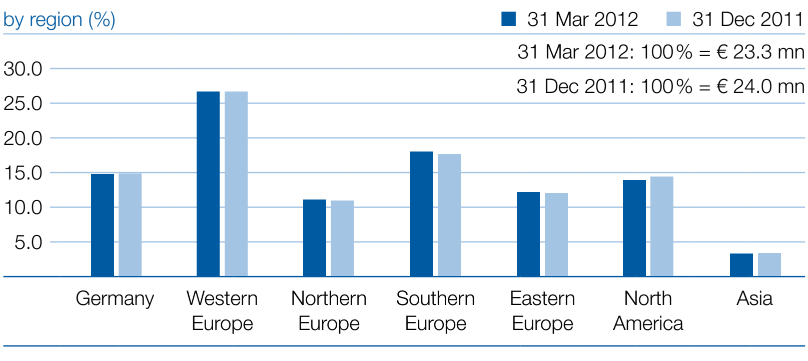
Aareal Bank Group's total assets amounted to € 43.7 billion as at 31 March 2012 (31 December 2011: € 41.8 billion).

Property financing portfolio

The volume of Aareal Bank Group's property financing portfolio[1)] stood at € 23.3 billion as at 31 March 2012. This equates to a decline of 2.9 % over year-end 2011 (€ 24.0 billion), resulting largely from several large-volume repayments. However, the repayment ratio was in line with our expectations. Furthermore, the lower USD exchange rate relative to the euro – compared to the level as at 31 December 2011 – led to a reduction in the volume of property loans reported.

The international share of the portfolio rose slightly to 85.5 % (€ 19.9 billion). The following chart illustrates the very broad regional diversification of our overall portfolio.

Property financing volume (amounts drawn)



Securities portfolio

Commensurate with the still-volatile market environment, the liquidity reserves maintained are invested in a high-quality securities portfolio. The securities portfolio can be liquidated quickly – for instance, via repo transactions on the money market.

As at 31 March 2012, the securities portfolio[2)] worth € 10.4 billion nominal (31 December 2011: € 10.5 billion) comprised the four assets classes of public-sector borrowers, covered bonds and Pfandbriefe, bank bonds and asset-backed securities (ABS). 96 %[3)] of the overall portfolio is denominated in euros. 98.4 %[3)] of the portfolio has an investment grade rating.[4)]

Financial position

Refinancing and shareholders' equity

Aareal Bank Group continued to successfully conduct its funding activities in the first quarter of 2012, thereby securing its very solid liquidity situation. As at 31 March 2012, Aareal Bank Group's consolidated equity amounted to € 1.7 billion, excluding the SoFFin silent participation and trust preferred securities. Long-term funding as at 31 March 2012 amounted to € 26.3 billion (31 December 2011: € 25.8 billion) and comprised Pfandbriefe, unsecured and subordinated issues. As at the reporting date, Aareal Bank also had € 5.0 billion (31 December 2011: € 4.8 billion) at its disposal from deposits generated from the business with the institutional housing industry, as well as institutional money market investor deposits in the amount of € 5.6 billion (31 December 2011: € 4.5 billion).

1) As at 31 March 2012, the portfolio of property financings under management totalled € 23.6 billion (31 December 2011: € 24.3 billion). Property financings under management include the property financing portfolio managed for Deutsche Pfandbriefbank AG.

2) As at 31 March 2012, the securities portfolio was carried at € 11.8 billion in the balance sheet (31 December 2011: € 11.8 billion).

3) Details based on the nominal volume

4) The rating details are based on the composite ratings.

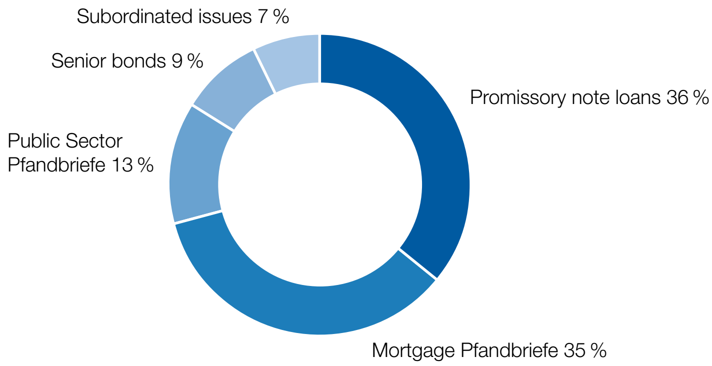
A total of € 2.0 billion of long-term funds were raised on the capital market in the first quarter. This comprises Mortgage Pfandbriefe in the amount of € 1.0 billion as well as unsecured refinancing of € 1.0 billion. Aareal Bank has therefore maintained its long-term funding inventory at a high level.

Of the public and private issues launched in the first quarter, the € 500 million mortgage Pfandbrief with a four-year term to maturity issued in January is worth mentioning. Aareal Bank also successfully placed a € 500 million bearer bond with a three-year term to maturity on the capital market.

As a result of our business activities in a range of foreign currencies, we have secured our foreign currency liquidity over the longer term by means of appropriate measures.

Capital market funding mix as at 31 March 2012

% Total volume: € 26.3 mn



Regulatory indicators

Regulatory indicators under AIRBA

	31 Mar 2012[1]	31 Dec 2011[1]
€ mn		
Tier 1 capital	2,468	2,501
Total own funds	2,937	2,988
Risk-weighted assets (incl. market risk)	14,863	15,313
%		
Tier 1 ratio	16.6	16.3
Total capital ratio	19.8	19.5

[1] After confirmation of the financial statements 2011 of Aareal Bank AG. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2011 is subject to approval by the Annual General Meeting.

Report on material events after the reporting date

There have been no material events subsequent to the end of the interim reporting period under review that need to be disclosed at this point.

Risk Report

Aareal Bank Group Risk Management

The Annual Report 2011 contains a comprehensive description of Aareal Bank Group's risk management approach, including the corresponding organisational structure and workflows in the lending and trading businesses, as well as the methods and procedures used for measuring and monitoring risk exposure. Within the scope of this interim report, we will once again briefly outline the key components of our risk management structure, together with the key developments during the period under review.

The business policy set by the Management Board, and approved by the Supervisory Board, provides the conceptual framework for Aareal Bank Group's risk management. Taking this as a basis, and strictly considering the bank's risk-bearing capacity, we have formulated detailed strategies for managing the various types of risk. These risk strategies, as well as the bank's business strategy, are adapted to the changed environment at least once a year, and then adopted by the Management Board and the Supervisory Board. Suitable risk management and risk control processes are deployed to implement the risk strategies, and to ascertain the bank's ability to bear risk.

Risk-bearing capacity and risk limits

The bank's ability to carry and sustain risk is a core determining factor governing the structure of its risk management system. To ascertain its uninterrupted risk-bearing capacity, Aareal Bank has adopted a dual management approach whereby its risk management is primarily based on the assumption of a going concern. This approach ensures that risk positions are only established to an extent that the institution's continued existence will not be threatened should the risks materialise. A secondary management process ensures that risk positions are only established to an extent that even in the event of liquidation there will still be sufficient potential risk cover in order to service all liabilities (the 'gone concern' approach). The statements below relate to the going-concern approach which the bank has implemented as a primary management process.

In accordance with this approach, potential risk cover is determined using data derived from the income statement and from the statement of financial position; this derivation also forms the basis for determining regulatory capital. This involves setting aside the maximum amount of own funds required as potential risk cover to offset risks without causing a breach of minimum requirements pursuant to the German Solvency Regulation (SolvV), which provides for a minimum Tier I ratio of 4 %. Aareal Bank has decided to considerably exceed this minimum requirement, and to prudently apply a minimum core Tier I ratio (calculated in accordance with Basel III) of 8 %. Only free own funds exceeding this level are applied as potential risk cover, of which a further 16 % is retained as a risk cushion. This cushion is not applied to risk limits, and is thus available for risk types that cannot be quantified (for example, reputational or strategic risks).

We adopt an equally conservative stance with respect to setting risk limits. The aggregation of individual limits is based on the assumption that no risk-mitigating correlation effects exist amongst different types of risk. Taking into account the prior deduction of a minimum core Tier I ratio of 8 %, the value-at-risk models used to quantify risks are based on a confidence interval of 95 % and a one-year holding period (250 trading days). A monthly report submitted to the Management Board provides information regarding the utilisation of individual limits for the material types of risk, as well as on the overall limit utilisation. The table beside summarises the bank's overall risk exposure as at 31 March 2012.

Since aggregate risk cover is an inadequate measure to assess risk-bearing capacity, we have defined special tools for managing this type of risk. These tools are described in detail in the section "Liquidity risk".

Risk-bearing capacity of the Aareal Bank Group as at 31 March 2012[1)]
– Going concern approach –

€ mn	31 Mar 2012
Own funds for risk cover potential	2,389
less 8 % minimum tier 1	1,340
Freely available funds	**1,049**
Utilisation of freely available funds	
Credit risks	225
Market risks	272
Operational risks	44
Investment risks	29
Total utilisation	**570**
Utilisation as a percentage of freely available funds	**54 %**

[1)] Due to changes in methodology, no comparative figures are available for the same period of the previous year.

Credit risks

Definition

Aareal Bank defines credit risk or counterparty credit risk as the risk of losses being incurred due to (i) a business partner defaulting on contractual obligations; (ii) collateral being impaired; or (iii) a risk arising upon realisation of collateral. Both credit business and trading activities may be subject to counterparty credit risk. Counterparty credit risk exposure from trading activities may refer to risk exposure vis-à-vis counterparties or issuers. Country risk is also defined as a form of counterparty credit risk.

Risk measurement and monitoring

Aareal Bank's structural organisation and business processes are consistently geared towards effective and professional risk management. The organisation of operations and workflows in the credit and trading business comply with extensive regulatory requirements.

Processes in the credit and trading businesses are designed to consistently respect the clear functional separation of Sales Units and Credit Management, up to and including senior management level. The independent Risk Controlling division is responsible for identifying, quantifying and monitoring all material risks at portfolio level, and for maintaining a targeted risk reporting system.

Aareal Bank employs various risk classification procedures for the initial, regular, or event-driven assessment of counterparty risk; these procedures are adapted specifically to meet the requirements of the relevant business activity and are subject to permanent review and improvement. Responsibility for development, quality assurance, and monitoring implementation of risk classification procedures, is outside the Sales units.

Methods used to measure, control and monitor concentration and diversification effects on a portfolio level include two diverse credit risk models. Based on these models, the bank's decision-makers are regularly informed of the performance and risk content of property financing exposures, and of business with financial institutions. The models in question allow the bank to include in particular, rating changes and correlation effects in the assessment of the risk concentrations.

The bank uses specific tools to monitor individual exposures on an ongoing basis where this is required: besides the tools already described, this includes rating reviews, monitoring of construction phase loans or residential property developers, the monitoring of payment arrears, and the regular, individual analysis of the largest exposures.

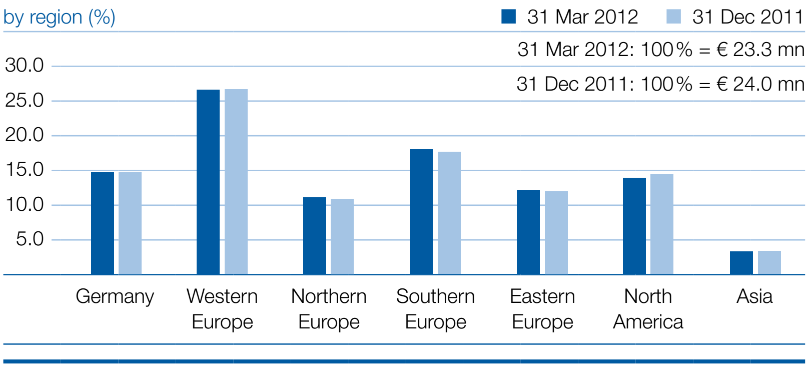
A credit risk report that complies with the Minimum Requirements for Risk Management (MaRisk) is prepared and submitted to the bank's senior management and Supervisory Board on a regular basis, at least quarterly. This report contains extensive information on the development of the credit portfolio (covering countries, types of property and product types, risk classes and types of collateral), with a particular focus on risk concentrations.

Trading activities are generally restricted to counterparties for whom the requisite limits are in place. All trades are immediately taken into account for the purposes of borrower-related limits. Compliance with limits is monitored in real time by Risk Controlling. Persons holding position responsibility are informed about relevant limits and their current usage, regularly and without delay.

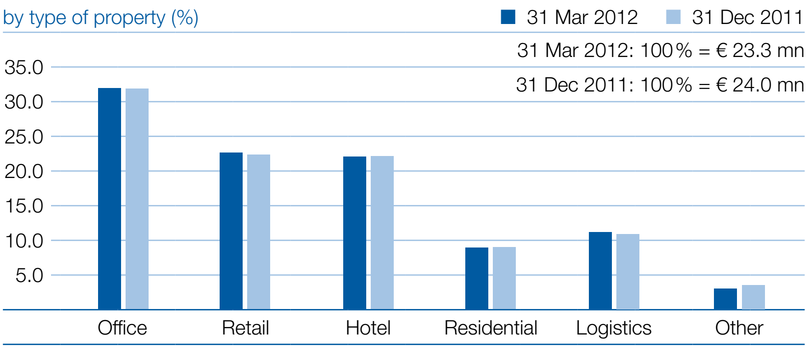
In principle, Aareal Bank pursues a "buy, manage and hold" strategy in managing its credit portfolio: this means that loans are generally held until maturity; sales of loans to third parties during their term are only used on a selective basis. Loan syndication is used as an active element of portfolio management.

In summary, during the period under review, the existing set of tools and methods continued to enable the bank to adopt suitable risk management or risk mitigation measures, where required, at an early stage.

Property financing volume (amounts drawn)



Property financing volume (amounts drawn)



Our comprehensive approach to risk management also includes measuring and monitoring country risk exposure. When defining country risk, in addition to the risk of sovereign default or default of state entities, Aareal Bank also considers the risk that a counterparty could become unable to meet its payment obligations as a result of government action, despite being willing and able to pay, due to restrictions being imposed on making payments to creditors (transfer risk). Country risk exposure is managed using a cross-divisional process. The respective country limits are determined on the basis of a country risk assessment carried out by the bank's senior management. The Risk Controlling division is responsible for the continuous monitoring of country limits and for reporting on limit utilisation.

Market price risks

Definition

Market price risk is broadly defined as the threat of losses due to changes in market parameters. Aareal Bank's market price risk exposure predominantly comprises interest rate risks, whilst currency risks are largely eliminated through hedges. Commodity and other price risks are irrelevant for the bank's business. Hence, the primary market price risk exposures are related to the risk parameters interest rates, equity prices, exchange rates, and implied volatilities. All relevant parameters are covered by our management and monitoring tools.

Derivative financial instruments are primarily used as hedging instruments. Spread risks between the various yield curves (e.g. government, Pfandbrief and swap curves) are taken into account. The risk exposure from bonds that is not related to market price or interest rate risks is managed as part of ‚specific risk', in particular, credit and liquidity risk exposure of the bond portfolio.

Risk measurement and monitoring

Risk Controlling informs the members of the Management Board responsible for Treasury and risk monitoring about the risk position and the market price risk exposure on a daily basis. In addition, the entire Management Board is informed on a monthly basis, within the scope of an extensive risk report. A quarterly report is submitted to the Supervisory Board.

Value-at-risk (VaR) has been broadly accepted as the predominant method for measuring general market price risk. The VaR for market price risk quantifies the exposure as a negative divergence from the current aggregate value of the bank's financial transactions. This absolute amount, expressed in euros, indicates the potential loss incurred before counter-measures take effect. Since this is a statistical approach, the forecast for the potential loss that may be incurred within a specific period of time is for a given confidence interval only.

A variance-covariance approach (delta-normal method) is used throughout the Group to determine the VaR indicator. Determined on a daily basis for the Group and all its operating units, the VaR figure takes into account the correlation between individual risk types. Statistical parameters used in the VaR model are calculated directly from 250-day historical data maintained within the bank. The loss potential is determined applying a 95 % confidence interval and a 250-day holding period.

By their very nature, VaR calculations are based on assumptions regarding the future development of the business, and the related cash flows. Key assumptions used include current account balances which are factored into calculations for a period of two years, using the average residual amount of deposits observed in the past. Loans are taken into account using their fixed-interest period (for fixed-rate exposures), or using their expected maturity (variable-rate exposures). Aareal Bank's equity is not taken into account as a risk-mitigating item. This tends to overstate VaR, demonstrating the conservative approach adopted in our risk measurement processes.

Limits are defined at Group level, as well as for the individual Group entities. Being authorised to maintain a trading book, Aareal Bank AG has defined an additional trading book limit, plus a separate value-at-risk limit for fund assets held.

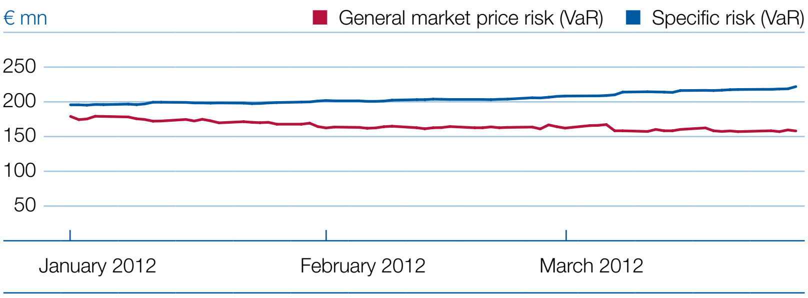
When interpreting the VaR figures stated below, it should be taken into account that these refer to the overall portfolio (thus including all non-trading positions as defined in IFRSs). Hence, the analysis provided represents a very extensive disclosure of market price risks by industry standards.

€ mn	MAX	MIN	Mean	Limit
Q1 2012 (as at 1 Jan 2012) 95 %, 250-day holding period				
Aareal Bank Group – general market price risk	179.6 (176.3)	154.9 (176.3)	164.3 (176.3)	– (–)
Group VaR (interest rates)	193.5 (189.9)	156.3 (189.9)	171.9 (189.9)	– (–)
Group VaR (FX)	65.6 (64.8)	56.7 (64.8)	61.3 (64.8)	– (–)
VaR (funds)	16.3 (11.5)	8.3 (11.5)	12.3 (11.5)	20.0 (20.0)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	5.0 (5.0)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	222.6 (193.9)	193.2 (193.9)	204.2 (193.9)	– (–)
Aggregate VaR – Aareal Bank Group	272.4 (262.7)	256.4 (262.7)	262.9 (262.7)	400.0 (400.0)

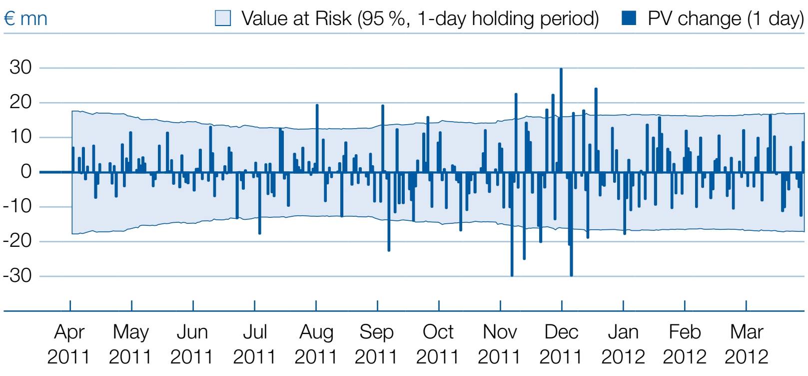
To ensure that Aareal Bank's figures are comparable to those published by other institutions, the risk parameters shown below were determined for a one-day holding period:

€ mn	MAX	MIN	Mean	Limit
Q1 2012 (as at 1 Jan 2012) 95 %, 1-day holding period				
Aareal Bank Group – general market price risk	11.4 (11.2)	9.8 (11.2)	10.4 (11.2)	– (–)
Group VaR (interest rates)	12.2 (12.0)	9.9 (12.0)	10.9 (12.0)	– (–)
Group VaR (FX)	4.1 (4.1)	3.6 (4.1)	3.9 (4.1)	– (–)
VaR (funds)	1.0 (0.7)	0.5 (0.7)	0.8 (0.7)	1.3 (1.3)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.3 (0.3)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	14.1 (12.3)	12.2 (12.3)	12.9 (12.3)	– (–)
Aggregate VaR – Aareal Bank Group	17.2 (16.6)	16.2 (16.6)	16.6 (16.6)	25.3 (25.3)

General market price risk and specific risk during 2012



Present values and 1-day VaR during 2011/2012



Aggregate VaR – Aareal Bank Group

Limits were unchanged during the quarter under review. No limit breaches were detected.

Backtesting

The quality of forecasts made using this statistical model is checked through a weekly backtesting process. The quality of the statistical procedure used to measure risk is checked using a binomial test, whereby daily profits and losses from market fluctuations are compared with the upper projected loss limit (VaR) forecast on the previous day (known as "clean backtesting"). In line with the selected confidence level of 95 %, only a small number of events are expected to break out of the VaR projection (≤ 17 for a 250-day period). The number of negative outliers at Group level did not exceed eleven during the last 250 trading days, affirming the high forecasting quality of the VaR model we use.

Trading book

Being authorised to maintain a trading book, Aareal Bank AG is the Group entity that is in a position to assign transactions to the trading portfolio as defined by the German Banking Act.

Given that no such trades were concluded during the period under review, trading book risks played a negligible role in the overall risk scenario.

Liquidity risks

Liquidity risk in the narrower sense is defined as the risk that current or future payment obligations cannot be met in full or on time. Aareal Bank's liquidity risk management system is designed to ensure that the bank has sufficient cash and cash equivalents to honour its payment obligations at any future point in time. The risk management and monitoring processes have been designed to cover refinancing and market liquidity risks in addition to liquidity risk in the narrower sense.

Treasury is responsible for managing liquidity risks, whilst Risk Controlling ensures the continuous monitoring, including a daily liquidity report submitted to Treasury, and a contribution to the monthly risk report to the entire Management Board.

The appropriateness of the bank's liquidity is assessed in a liquidity report prepared using an internal liquidity risk model: the aggregate of all potential cash inflows and outflows over a three-month period is compared to the liquidity stock. There were no liquidity shortages throughout the period under review. The requirements of the liquidity ratio in accordance with the Liquidity Ordinance, which is relevant to liquidity management, were always complied with, as were the limits set by reference to the liquidity run-off profile. Further details are provided in the comments on the bank's liquidity in the section on "Refinancing and Equity".

Operational risks

Aareal Bank defines operational risk as the threat of losses caused by inappropriate internal procedures, human resources and systems (or their failure); or through external events. This includes legal risks. In contrast, strategic, reputational and systematic risks are not covered by operational risk management. These risks are managed largely through qualitative measures.

Aareal Bank's policy for managing and monitoring operational risks is geared to achieving a risk-minimising or loss-limiting effect at an early stage, by employing a pro-active approach. The Risk Report in the 2011 Annual Report contains a detailed description of controlling tools employed by the bank to manage operational risk, plus the relevant responsibilities.

Current analyses conducted using the control instruments employed have shown that the bank is not exposed to disproportionate operational risks; nor did they indicate any material risk concentration.

Operational risk management also includes the reporting to the bank's senior management about outsourced activities and processes.

Investment risks

We define investment risk as the threat of unexpected losses incurred due to an impairment of the investment's carrying amount, or a default of loans extended to investees. The concept of investment risk also encompasses additional risks arising from contingencies vis-à-vis the relevant Group entities.

Due to the special character of some exposures (e.g. marketing risks), special methods and procedures are employed to deal with investment risk. All relevant Group entities are subject to regular audits, including a review and assessment of their risk situation. A quarterly investment risk report is submitted to the bank's Management Board. There were no significant changes in investment risk during the period under review.

Report on Expected Developments

Macro-economic environment

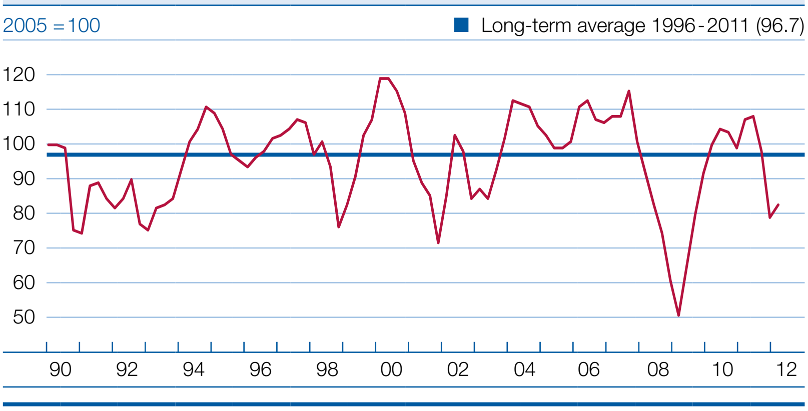
Economy

The global economy remains in a difficult situation. The macro-economic environment is still subject to substantial risks and uncertainties. This is due in particular to the uncertainty that still surrounds the development of the European sovereign debt crisis, despite a certain degree of easing in the first quarter of 2012. The risk of a setback or escalation remains and therefore the threat of a protracted global recession. This would entail considerable turbulence on financial and capital markets, pronounced reluctance on the banking sector to lend and marked uncertainty among economic operators. Even though we do not consider this to be the most likely scenario, the economic vulnerability to shocks is still quite pronounced.

Further economic development could also be burdened by a sharp rise in the price of oil as a consequence of political developments. Oil price development is therefore another element of uncertainty for the economy.

The expectations of economic operators regarding future economic development have improved slightly of late; this is reflected by the cautious upward trend in the early indicators such as the ifo World Economic Survey or the indicator provided for by the OECD. The still expansive monetary policy pursued in many countries should have a positive effect on economic development.

ifo Global Economic Climate*



* Arithmetic mean of the assessment of the current situation and expected developments,
Source: ifo World Economic Survey (WES) I/2012

We expect economic output to grow only slightly for the remainder of the year, albeit with considerable regional differences. Recessionary trends are evident in Europe and economic output is expected to decline in some countries this year. This applies in particular to the southern euro zone member states, where Greece and Portugal are expected to see the sharpest declines in real gross domestic product. The decline in economic output is not as pronounced in Italy and Spain. In addition to the uncertainties arising from the sovereign debt crisis, the various measures taken to consolidate the budgets have impacted on the southern euro zone states in particular. The scope of the governments to stimulate their economies is very restricted indeed. Real gross domestic product is expected to fall moderately in Belgium and the Netherlands in 2012. As we see it, France's economic output should remain in line with last year's level, while Germany, Finland and Austria should see slightly higher economic output this year. Our economic expectations are similar for Denmark, Sweden, Switzerland and the United Kingdom. Economic output can also fall in individual quarters in these countries. On the other hand, the growth rates in some Eastern European countries such as Poland, Russia and Turkey should be significantly higher even if they are likely to be below the previous year's growth rates. The economy in the Czech Republic is expected to virtually stagnate or contract slightly this year.

There has been evidence of some positive trends recently in the US, for example, in relation to developments on the labour market. The US economy is still expected to grow moderately in 2012, especially due to strong investing activities and a slight increase in private consumption. The decline in government-driven demand will have a dampening effect. Economic growth is anticipated for Canada and Mexico, too.

We anticipate moderate growth in Japan because of the catch-up processes in the wake of the earthquake catastrophe. Despite high growth rates in China, the economy will lose some steam due to falling demand from the advanced economies.

Given the weak outlook for the European economies, we envisage rising unemployment in most European countries this year. Unemployment levels should remain virtually constant in only a few countries such as Germany, Finland, Poland and Sweden. We believe the positive trend seen in the US at the end of last year and the start of this year will remain intact and unemployment will fall slightly for the remainder of the year.

Financial and capital markets, monetary policy and inflation

The European sovereign debt crisis and the US debt issue (for which no sustainable solution has yet been found) will continue to command the attention of the financial and capital markets. A quick, lasting solution to the sovereign debt crisis is not expected any time soon. Considering this, the uncertainty and hence the volatility on the financial and capital markets will remain high – despite a certain degree of easing seen at the start of this year. We continue to anticipate a challenging situation on the financial and capital markets in the coming months. The recent rise in the yields of bonds from euro zone's southern periphery states signals rising tension again. The financial system will continue to be susceptible to risks and shocks.

We assume that both long-term and short-term interest rates of the most important currencies in which we are active will remain at a low level for 2012 on average. The risk premiums for bonds deemed as unsafe by investors – which have been high for some time – will remain high.

The subdued outlook for the economy and the labour market, which are unlikely to trigger a wage-price spiral in many countries, suggests there will be little upside pressure on prices. However, political developments could lead to further increases in the price of oil and hence for even higher inflation. Political factors and speculation make it almost impossible to forecast the price of oil. Nonetheless, inflation risk has risen since the end of 2011 on the back of oil price developments. We now assume that inflation this year and the next will be roughly in line with or down only slightly on 2011 levels.

Monetary policy is likely to remain expansive in the advanced economies. Interest rates will remain low given that the situation on the financial and capital markets has not yet returned to normal and the fact that the expectations for inflation are still in the region of the central bank's target figures, despite having increased. Although monetary policy of the emerging market economies has become more restrictive in recent years, the central banks are unlikely to tighten the monetary reins this year. A slight easing of monetary policy is the more likely scenario this year.

Segments and business development

Structured Property Financing segment

Developments on commercial property markets are influenced to a great extent by the future economic environment.[1] In view of the significantly gloomier economic outlook and the tension on the financial and capital markets, we expect property values will decline or remain largely stable on average in most countries for the remainder of the year. Low interest rate levels however, should support property values. We also anticipate a stable to falling trend on average for new rental agreements and renewals.

For the most part, market values and rents are expected to decline on average this year in individual countries, particularly in Europe. This is due to the weak economic outlook and a further increase in unemployment anticipated in many European

[1] Evaluations on individual sub-markets and properties could deviate from the general assessment of the commercial property markets outlined below.

countries. We are likely to see regional differences within Europe too. We anticipate marked reductions in average property values and rents in Italy and Spain in particular, on account of the difficult economic situation in these countries. Germany on the other hand, with the slight increase expected in economic growth together with the stable labour market, is an example of a stable to at worst slightly declining trend on the property markets.

Our assessment for North America is more favourable than for Europe. Considering the more positive forecast for the economy and the labour market compared with Europe, we expect a stable to slightly positive development on average on the commercial property markets there for the remainder of the year.

Although the growth rates remain high, economic momentum in the emerging markets of Asia, China in particular, eased somewhat recently. Recognising this slowdown, our assessment of rents and values in China is cautious: we believe that development will be nearly stable during the course of the year. Japan's property market might benefit from economic catch-up processes, which should have a positive effect on market values and rents.

We assume that the trends described above will apply for office and retail properties, as well as for the logistics property market. Earnings in the hotel sector are likely to stagnate or increase only slightly in the following quarters of this year, given the forecast subdued economic expectations in many markets. The hotel sector in North America and Asia might perform better than Europe due to the more favourable economic outlook.

However, the future performance of commercial property markets is subject to significant uncertainty, especially the risks arising from the European sovereign debt crisis and possible consequences for the economy and for financial and capital markets. In the event of a more profound recession, more extensive declines in rents as well as in property values are probable; these would occur with a certain time lag. Another risk factor for commercial property markets is the high volume of financings which mature during the current year and the years ahead. Any failure to refinance maturing loans might trigger an increased level of sales to redeem residual debt – which would burden prices.

Property values could however benefit if investors were to increasingly favour commercial property as an alternative investment, given the low interest rate environment and against the background of the discussions concerning the safety of government bonds of some countries. This would impact on first-class properties in particular. Low construction activity should further support property values in many places in Europe and North America. The market environment weighs especially on older properties and those in peripheral locations.

Particular attention is paid to risk assessment and therefore to Aareal Bank's policy of granting loans with regard to the performance of the property markets. We will continue to focus on the consistent management of our credit portfolio as well as on active portfolio management. We will also consistently pursue our policy of granting loans, which is oriented on risk and return in relation to new business.

We affirm our full-year target for new business 2012 of € 4.5 billion to € 5.5 billion, and will exploit opportunities in new lending business more vigorously during the remainder of the year. The share of renewals will increase again in 2012 over the previous year, when it fell substantially.

The environment for syndicated loans is challenging. Syndication techniques will remain important for us this year too, whereby we will employ them for the purpose of diversifying individual credit risks. We want to make use of the options presented to us.

Subject to the performance of the relevant currencies vis-a-vis the euro, we expect a slightly lower portfolio volume for 2012.

These forecasts are based on the assumption that there will be no protracted permanent global recession. Failing this, a reduction in new business, together with a more pronounced increase in the share of renewals and a lower scope for syndications would all be likely.

Consulting / Services segment

Institutional Housing Unit

We also expect developments within the institutional housing industry in Germany to remain stable for the remainder of the year. Companies will continue to pursue a sustainable development of their portfolios, largely aimed at improving the properties' energy efficiency. In addition to restoring existing housing stock, we will see a greater emphasis on additional new construction projects with a focus on affordable housing suitable for the elderly.

In view of the existing demand for investment in property and the favourable situation on the labour market, the housing market should continue to develop favourably.

Residential property prices are expected to increase by up to 3 % in the current year. The move into the cities and the increasing number of households, particularly in the German cities, is likely to lead to rising demand for living space.

With developments in the capital markets remaining difficult to calculate, safety-oriented investors are also expected to remain active in the residential property sector in the months ahead. Private investors in particular, are looking for stable inflation-proof returns and are investing increasingly in residential property, by direct or indirect means. As we see it, rising investment interest should lead to an increase in the price of residential property in excellent locations, while the prices for housing stock in good and peripheral locations should remain stable.

Transaction volumes on the market for residential property investments should remain high, in line with the levels recorded in 2011.

The Institutional Housing Unit should continue to see good opportunities to acquire new clients, and intensify business relationships with the existing client base during the rest of the year. This also applies to our payments services for utilities and the waste disposal industry.

Looking at the volume of deposits taken, we expect the positive trend to continue, particularly in relation to rent deposits. However, given the ongoing low interest rate environment, we expect the margins in this area will continue to remain under pressure.

Aareon AG

The key trend of cloud computing will also gain importance in the market for property management software. In this context, attention will also focus even more on the issues of data protection and data security. Cloud computing provides even more effective support to housing enterprises in mastering their IT-related challenges. This support includes constantly increasing system complexity, permanent innovation, and ever-growing amounts of data. Against this background, the provision of software as a service – through a cloud – is growing in importance. IT solutions are procured from a service provider, through a network. This allows for an efficient deployment of IT investments, keeping administrative expenditure low.

Since the market launch of Wodis Sigma Release 3.0 in December 2011, this ERP solution has also been available with a SaaS (software as a service) option, through the Aareon Cloud. Accordingly, we anticipate a marked increase in revenues for the Wodis Sigma product line. Responding to strong demand, Aareon already invested in corresponding advisory and support resources in the previous financial year.

Given the very low number of tender processes for the SAP® solutions / Blue Eagle product line, we expect demand for these products to remain subdued for the time being. Hence, the related consultancy revenues are expected to be low, yet stable in the long term.

Despite the high degree of client satisfaction with the GES product line, we anticipate a continued migration to newer Aareon ERP solutions. Consequently, GES-related revenues are expected to decline.

Sales revenues in the Integrated Services segment are expected to slightly increase during the current financial year. This is attributable in particular to the Mareon service portal and the Aareon invoicing service. We expect sales revenues from the Aareon DMS document management system to rise moderately. We believe we will be able to acquire new clients in the outsourcing business, and further increase business with the existing client base.

We anticipate a slight increase in sales revenues for 2012 in the international business segment. Following the conclusion of an SAP® cooperation agreement by Aareon France in 2011, the business with SAP®-based solutions will grow further. The planned successful production roll-out of pilot projects for the Flexiciel product will achieve another milestone in France, with additional client projects to follow suit.

In the Netherlands, market penetration of the new SG|tobias^{AX} product generation will continue. Further developments are planned for the SG|Vastgoed, SG|Treasury and StraVis solutions. The Facility Management Informations System (FMIS) offered by the SG|Facilitor subsidiary has become increasingly established on the market. Sales revenues here are expected to grow slightly in 2012.

Despite the ongoing price competition on the UK market, the Aareon UK subsidiary is expected to generate additional sales revenues with new clients in the current financial year.

Considering the expected development of the individual business segments, Aareon Group anticipates sales revenues to increase slightly in 2012. Costs are forecast to remain stable in 2012. Although personnel expenses will increase slightly, largely due to further hiring of new advisors for the Wodis Sigma product line and of staff for Integrated Services, we expect positive effects can be achieved through cost optimisation.

Group targets

Within the scope of the sovereign debt crisis that is still unresolved, we believe financial markets will remain volatile during the current year and therefore expect the risks in the financial system to persist. Economic development will continue to face significant risks and uncertainties. The uncertain political framework and cumulative effects of the forthcoming changes to the regulatory environment (which have not yet been clarified) present further challenges.

We counter these uncertainties by pursuing a cautious liquidity and investment strategy, amongst other things. The resulting burden on net interest income will more than offset the positive effect of higher margins from new business originated in the previous year. We therefore expect a considerable decline in net interest income in 2012.

Given the weaker economic projections, we forecast allowance for credit losses in a range of € 110 million to € 140 million, which is unchanged from last year. As in previous years, additional allowances for unexpected credit losses cannot be ruled out during 2012, particularly in an environment that is subject to negative change.

We expect a significant increase in net commission income in 2012, particularly since the charges pertaining to the SoFFin-guaranteed bonds will no longer apply.

Net trading income/expenses essentially comprise the results of hedge transactions related to refinancing our property financing portfolio, predominantly currency and interest rate hedges. We only engage in traditional own-account trading to a very limited extent. This item also includes changes in value from the sale of hedges for selected EU sovereign countries. Especially in the current uncertain market environment, we expect the measurement of these hedges to remain as highly volatile as it was in the previous year. As a result, it is impossible to forecast net trading income/expenses.

Thanks to our consistently conservative risk policy pursued in the past, we currently do not anticipate any write-downs on non-trading assets during 2012. Against the background of current market developments for European government bonds, shifts in our securities portfolio are possible, within the scope of active portfolio management. Moderate burdens to net income from financial investments from the sale of securities cannot be ruled out.

Due to measures designed to optimise our structures and processes implemented in 2011, administrative expenses are expected to notably decline this year. We are forecasting a range of between € 350 and 360 million; this includes the burden arising from the bank levy.

All in all, despite the significant challenges we face, we see good potential for achieving consolidated operating profit this year that will come in slightly below the very good result achieved in 2011.

In the uncertain environment, new business in the Structured Property Financing segment is projected in a range between € 4.5 billion to € 5.5 billion.

Looking at the Consulting / Services segment, we continue to expect a challenging interest rate environment in 2012 for the segment result. We therefore expect operating profit in line with the previous year's levels, adjusted for non-recurring effects.

Consolidated Finacial Statements
Statement of Comprehensive Income

Income Statement

€ mn	Note	1 Jan-31 Mar 2012	1 Jan-31 Mar 2011
Interest income		279	252
Interest expenses		150	118
Net interest income	1	**129**	**134**
Allowance for credit losses	2	12	18
Net interest income after allowance for credit losses		**117**	**116**
Commission income		51	47
Commission expenses		11	17
Net commission income	3	**40**	**30**
Net result on hedge accounting	4	-10	-2
Net trading income/expenses	5	-16	-8
Results from non-trading assets	6	0	2
Result from investments accounted for using the equity method		–	0
Results from investment properties		3	2
General administrative expenses	7	91	91
Net other operating income/expenses	8	0	-2
Impairment of goodwill		0	–
Operating profit		**43**	**47**
Income taxes		12	12
Net income/loss		**31**	**35**
Allocation of results			
Net income/loss attributable to non-controlling interests		5	5
Net income/loss attributable to shareholders of Aareal Bank AG		26	30
Appropriation of profits			
Net income/loss attributable to shareholders of Aareal Bank AG		26	30
Silent participation by SoFFin		5	6
Consolidated profit/loss		**21**	**24**
€			
Earnings per share		0,43	0,70
Diluted earnings per share		0,43	0,70

Statement of Comprehensive Income

Reconciliation from Net Income/Loss to Total Comprehensive Income

€ mn	Note	1 Jan-31 Mar 2012	1 Jan-31 Mar 2011
Net income/loss		**31**	**35**
Changes in revaluation surplus	9	63	-12
Changes in hedging reserves	9	-19	–
Changes in currency translation reserves	9	-2	0
Gains and losses directly recognised in equity (after taxes)		**42**	**-12**
Total comprehensive income		**73**	**23**
Allocation of total comprehensive income			
Total comprehensive income attributable to non-controlling interests		5	5
Total comprehensive income attributable to shareholders of Aareal Bank AG		68	18

Segment Reporting

Segment Results

€ mn	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan- 31 Mar 2012	1 Jan- 31 Mar 2011	1 Jan- 31 Mar 2012	1 Jan- 31 Mar 2011	1 Jan- 31 Mar 2012	1 Jan- 31 Mar 2011	1 Jan- 31 Mar 2012	1 Jan- 31 Mar 2011
Net interest income	121	125	0	0	8	9	129	134
Allowance for credit losses	12	18					12	18
Net interest income after allowance for credit losses	**109**	**107**	**0**	**0**	**8**	**9**	**117**	**116**
Net commission income	4	-5	44	44	-8	-9	40	30
Net result on hedge accounting	-10	-2					-10	-2
Net trading income/expenses	-16	-8					-16	-8
Results from non-trading assets	0	2					0	2
Result from investments accounted for using the equity method				0				0
Results from investment properties	3	2					3	2
General administrative expenses	49	51	42	40	0	0	91	91
Net other operating income/expenses	-1	-2	1	0	0	0	0	-2
Impairment of goodwill	0						0	
Operating profit	**40**	**43**	**3**	**4**	**0**	**0**	**43**	**47**
Income taxes	11	11	1	1			12	12
Net income/loss	**29**	**32**	**2**	**3**	**0**	**0**	**31**	**35**
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	25	28	1	2	0	0	26	30
Allocated equity	1,283	1,438	69	75	788	349	2,140	1,862
Cost/income ratio (%)	48.5	45.6	94.7	91.8			62.3	58.3
RoE before taxes (%)	11.4	11.1	6.6	13.7			7.1	9.1
Employees	**809**	**894**	**1,499**	**1,481**			**2,308**	**2,375**

Segment Reporting

Consulting / Services Segment – Reconciliation of the Income Statement

Reconciliation of the segment result from the income statement classification aligned to an industrial enterprise to a bank income statement classification (which is used for the purposes of segment reporting)

			Income statement classification – bank									
€ mn			Net interest income	Net commission income	Results from non-trading assets	Results from investments accounted for using the equity method	General administrative expenses	Net other operating income / expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	Q1 2012		0	44			42	1		**3**	1	**2**
	Q1 2011		0	44		0	40	0		**4**	1	**3**
Income statement classification – industrial enterprise												
Sales revenue	Q1 2012	49		49								
	Q1 2011	49		49								
Own work capitalised	Q1 2012	0					0					
	Q1 2011	0					0					
Changes in inventory	Q1 2012	0						0				
	Q1 2011	0						0				
Other operating income	Q1 2012	2						2				
	Q1 2011	1						1				
Cost of materials purchased	Q1 2012	5		5								
	Q1 2011	5		5								
Staff expenses	Q1 2012	28					28					
	Q1 2011	28					28					
Depreciation, amortisation and impairment losses	Q1 2012	3					3					
	Q1 2011	3					3					
Results from investments accounted for using the equity method	Q1 2012											
	Q1 2011	0				0						
Other operating expenses	Q1 2012	12					11	1				
	Q1 2011	10					9	1				
Interest and similar income / expenses	Q1 2012	0	0									
	Q1 2011	0	0									
Operating profit	**Q1 2012**	**3**	**0**	**44**			**42**	**1**				
	Q1 2011	**4**	**0**	**44**		**0**	**40**	**0**				
Income taxes	Q1 2012	1									1	
	Q1 2011	1									1	
Segment result	**Q1 2012**	**2**										
	Q1 2011	**3**										

Statement of Financial Position

€ mn	Note	31 Mar 2012	31 Dec 2011
Assets			
Cash funds		554	588
Loans and advances to banks	10	5,278	2,912
Loans and advances to customers	11	24,900	25,422
Allowance for credit losses		-311	-318
Positive market value of derivative hedging instruments		1,794	1,801
Trading assets	12	519	421
Non-current assets held for sale and discontinued operations	13	165	172
Non-trading assets	14	9,950	10,010
Investments accounted for using the equity method		2	2
Investment properties		88	88
Intangible assets	15	84	85
Property and equipment	16	104	104
Income tax assets		23	20
Deferred tax assets		91	89
Other assets	17	438	418
Total		**43,679**	**41,814**
Equity and liabilities			
Liabilities to banks	18	3,405	3,073
Liabilities to customers	19	26,350	24,929
Certificated liabilities	20	7,844	7,540
Negative market value of derivative hedging instruments		1,535	1,769
Trading liabilities	21	685	723
Provisions	22	249	251
Income tax liabilities		28	29
Deferred tax liabilities		3	6
Other liabilities	23	151	127
Subordinated capital	24	1,196	1,198
Equity	25, 26		
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		950	929
Other reserves		-162	-204
Silent participation by SoFFin		300	300
Non-controlling interest		244	243
Total equity		2,233	2,169
Total		**43,679**	**41,814**

Statement of Changes in Equity

€ mn	Subscribed capital	Capital reserves	Retained earnings	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Currency translation reserves	Silent participation by SoFFin	Total	Non-controlling interest	Equity
Equity as at 1 January 2012	**180**	**721**	**929**	**-221**	**14**	**3**	**300**	**1,926**	**243**	**2,169**
Total comprehensive income for the period			26	63	-19	-2		68	5	73
Capital increase										
Capital reduction										
Payments to non-controlling interests									-4	-4
Dividends										
Silent participation by SoFFin										
Costs associated with the silent participation by SoFFin			-5					-5		-5
Other changes										
Equity as at 31 March 2012	**180**	**721**	**950**	**-158**	**-5**	**1**	**300**	**1,989**	**244**	**2,233**

€ mn	Subscribed capital	Capital reserves	Retained earnings	Other reserves: Revaluation surplus	Other reserves: Currency translation reserves	Silent participation by SoFFin	Total	Non-controlling interest	Equity
Equity as at 1 January 2011	**128**	**511**	**836**	**-110**	**2**	**375**	**1,742**	**243**	**1,985**
Total comprehensive income for the period			30	-12	0		18	5	23
Capital increase									
Capital reduction									
Payments to non-controlling interests								-5	-5
Dividends									
Silent participation by SoFFin									
Costs associated with the silent participation by SoFFin			-6				-6		-6
Other changes									
Equity as at 31 March 2011	**128**	**511**	**860**	**-122**	**2**	**375**	**1,754**	**243**	**1,997**

Statement of Cash Flows (condensed)

€ mn	2012	2011
Cash and cash equivalents as at 1 January	**588**	**922**
Cash flow from operating activities	-92	-707
Cash flow from investing activities	60	409
Cash flow from financing activities	-2	-19
Total cash flow	**-34**	**-317**
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 31 March	**554**	**605**

Notes to the Consolidated Financial Statements (condensed)

Basis of Accounting

Legal Framework

Aareal Bank AG is a listed public limited company incorporated under German law, with its registered office in Wiesbaden, Germany. It is the parent company of an international property finance and services group.

This quarterly financial report for the period ended 31 March 2012 was prepared pursuant to the provisions of section 37y no. 3 of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG") in conjunction with section 37x (3) of the WpHG. It comprises the present interim condensed consolidated financial statements, as well as an interim group management report (see Group Management Report) and was approved for publication by the Management Board on 2 May 2012.

Aareal Bank AG prepares its condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) applicable within the European Union (EU) as at the reporting date, in connection with the provisions pursuant to section 315 a (1) of the German Commercial Code (Handelsgesetzbuch – "HGB"). In particular, the interim consolidated financial statements comply with the requirements for interim financial reporting set out in IAS 34. The reporting currency is the euro (€).

Scope of consolidation

Subsidiaries of Aareal Bank AG are included in the consolidated financial statements by way of full consolidation. Special funds and special purpose entities are also included by way of full consolidation in accordance with IAS 27 and SIC 12. Joint ventures and companies over which Aareal Bank AG may exercise a significant influence ("associates") are included in the consolidated financial statements using the equity method.

There were no material changes in the scope of consolidation during the period under review.

Accounting policies

Unless specifically indicated otherwise, the accounting policies applied in the preparation of the consolidated financial statements 2011 were also applied in the preparation of these condensed interim consolidated financial statements, including the calculation of comparative figures.

The following financial reporting standards (IAS/IFRS) and interpretations (SICs and IFRICs) were required to be applied for the first time in the reporting period:

- Amendments to IFRS 7 Financial Instruments: Disclosures

The new and revised standards and interpretations do not have any material consequences for the consolidated financial statements of Aareal Bank Group.

Notes to the Statement of Comprehensive Income

(1) Net interest income

€ mn	1 Jan-31 Mar 2012	1 Jan-31 Mar 2011
Interest income from		
Property loans	189	154
Public-sector loans	8	8
Other lending and money market operations	37	40
Debt and other fixed-income securities	45	50
Current dividend income	0	0
Total interest income	**279**	**252**
Interest expenses for		
Bonds issued	41	27
Registered mortgage Pfandbriefe	24	16
Promissory note loans	40	35
Subordinated capital	9	7
Term deposits	26	24
Payable on demand	7	7
Other banking transactions	3	2
Total interest expenses	**150**	**118**
Total	**129**	**134**

(2) Allowance for credit losses

€ mn	1 Jan-31 Mar 2012	1 Jan-31 Mar 2011
Additions	**23**	**25**
Reversals	9	10
Direct write-offs	0	5
Recoveries on loans and advances previously written off	2	2
Total	**12**	**18**

(3) Net commission income

€ mn	1 Jan-31 Mar 2012	1 Jan-31 Mar 2011
Commission income from		
Consulting and other services	39	37
Trustee loans and administered loans	7	1
Securities transactions	–	1
Securitisation transactions	–	0
Other lending and money market operations	3	7
Other commission income	2	1
Total commission income	**51**	**47**
Commission expenses for		
Consulting and other services	5	5
Securities transactions	3	10
Securitisation transactions	–	1
Other lending and money market transactions	1	0
Other commission expenses	2	1
Total commission expenses	**11**	**17**
Total	**40**	**30**

Commissions from consulting and services primarily include commissions for IT services.

Commission expenses from securities transactions include expenses of € 3 million (2011: € 9 million) for the remaining guarantee facility in 2012 extended by the German Financial Markets Stabilisation Fund (SoFFin). The issued bond matured on 26 March 2012.

(4) Net result on hedge accounting

€ mn	1 Jan-31 Mar 2012	1 Jan-31 Mar 2011
Ineffective portion of fair value hedges	-8	-2
Ineffective portion of cash flow hedges	-2	–
Total	**-10**	**-2**

(5) Net trading income/expenses

€ mn	1 Jan-31 Mar 2012	1 Jan-31 Mar 2011
Results from derivative financial instruments	-17	-10
Currency translation	1	2
Total	**-16**	**-8**

Net trading income/expenses was primarily attributable to the measurement of derivatives used to hedge interest rate and currency risks.

(6) Results from non-trading assets

€ mn	1 Jan-31 Mar 2012	1 Jan-31 Mar 2011
Result from debt securities and other fixed-income securities	0	2
of which: Loans and receivables (LaR)	0	2
Available for sale (AfS)	–	–
Result from equities and other non-fixed income securities	0	0
of which: Available for sale (AfS)	0	0
Designated as at fair value through profit or loss (dFVtPL)	0	0
Results from equity investments (AfS)	–	–
Total	**0**	**2**

(7) Administrative expenses

€ mn	1 Jan-31 Mar 2012	1 Jan-31 Mar 2011
Staff expenses	56	56
Other administrative expenses	30	29
Depreciation, amortisation and impairment of property and equipment and intangible assets	5	6
Total	**91**	**91**

(8) Net other operating income/expenses

€ mn	1 Jan-31 Mar 2012	1 Jan-31 Mar 2011
Income from properties	2	2
Income from the reversal of provisions	0	0
Income from goods and services	1	1
Miscellaneous	2	3
Total other operating income	**5**	**6**
Expenses for properties	1	1
Expenses for services used	0	0
Write-downs of trade receivables	0	–
Expenses for other taxes	0	0
Miscellaneous	4	7
Total other operating expenses	**5**	**8**
Total	**0**	**-2**

(9) Reconciliation from net income/loss to total comprehensive income

€ mn	1 Jan-31 Mar 2012	1 Jan-31 Mar 2011
Net income/loss	**31**	**35**
Changes in revaluation surplus, after tax	**63**	**-12**
Gains and losses on remeasuring available-for-sale financial instruments, before tax	83	-18
Reclassifications to the income statement, before tax	–	0
Taxes	-20	6
Changes in hedging reserves, after tax	**-19**	**–**
Profit/loss from derivatives used to hedge future cash flows (before taxes)	-28	–
Reclassifications to the income statement, before tax	–	–
Taxes	9	–
Changes in currency translation reserves, after tax	**-2**	**0**
Profit/loss from translating foreign operations' financial statements (before taxes)	-2	0
Reclassifications to the income statement, before tax	–	0
Taxes	–	–
Gains and losses directly recognised in equity, after tax	**42**	**-12**
Total	**73**	**23**

Notes to the Statement of Financial Position

(10) Loans and advances to banks

€ mn	31 Mar 2012	31 Dec 2011
Term deposits and current account balances	4,954	2,698
Public-sector loans	156	159
Receivables from securities repurchase transactions	100	–
Other loans and advances	68	55
Total	**5,278**	**2,912**

Loans and advances to banks are allocated to the measurement category "Loans and receivables" (LaR).

(11) Loans and advances to customers

€ mn	31 Mar 2012	31 Dec 2011
Property loans	22,593	23,365
Public-sector loans	1,694	1,618
Other loans and advances	613	439
Total	**24,900**	**25,422**

Loans and advances to customers are allocated to the measurement category "Loans and receivables" (LaR).

(12) Trading assets

€ mn	31 Mar 2012	31 Dec 2011
Positive market value of trading derivatives	519	421
Total	**519**	**421**

Trading assets are allocated to the measurement category "Held for trading" (HfT).

The trading derivatives reported are mainly used to hedge the economic market price risks.

(13) Non-current assets held for sale and discontinued operations

€ mn	31 Mar 2012	31 Dec 2011
Real estate	165	172
Total	**165**	**172**

(14) Non-trading assets

€ mn	31 Mar 2012	31 Dec 2011
Debt and other fixed-income securities	9,927	9,985
of which: Loans and receivables (LaR)	5,717	6,044
Held to maturity (HtM)	169	168
Available for sale (AfS)	4,041	3,773
Equities and other non-fixed income securities	21	22
of which: Available for sale (AfS)	18	18
Designated as at fair value through profit or loss (dFVtPL)	3	4
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	2	3
Total	**9,950**	**10,010**

The item "Debt and other fixed-income securities" mainly consists of public-sector bonds as well as asset-covered bonds (Pfandbriefanleihen) and bank bonds.

Reclassified financial assets

In the wake of the financial markets and economic crisis, Aareal Bank Group made use of the possibility of reclassifying financial assets into another measurement category. Specifically, securities with an aggregate volume of € 6.2 billion were reclassified from the IFRS measurement categories "available for sale" (AfS) and "held for trading" (HfT), to "loans and receivables" (LaR) during 2008 and 2009. In all cases, we opted for reclassification since there was no longer an active market for the securities concerned (in spite of their good quality), and due to our intention to hold these issues for a longer term. Depending on prevailing market conditions, Aareal Bank Group may use this reclassification option again in the future.

The following table compares the carrying amounts of the reclassified assets to their fair values:

€ mn	Carrying amount 31 Mar .2012	Fair value 31 Mar 2012	Carrying amount 31 Dec 2011	Fair value 31 Dec 2011
from AfS to LaR	**5,112**	**4,631**	**5,395**	**4,773**
Asset-backed securities	29	27	30	27
Bank bonds	715	726	790	784
Covered bonds	638	616	640	600
Public-sector issuer	3,730	3,262	3,935	3,362
from HfT to LaR	**284**	**236**	**304**	**251**
Asset-backed securities	284	236	304	251
Public-sector issuer	–	–	–	–
Total	**5,396**	**4,867**	**5,699**	**5,024**

If the bank had not opted for reclassification, this would have resulted in a € 5 million gain (before tax) for the first quarter of 2012 (Q1 2011: € 9 million), and € 104 million (after tax) (Q1 2011: € 33 million) would have been recognised in the revaluation surplus.

Bonds of selected European countries

The following table is a breakdown of the bonds issued by public-sector entities and bank bonds of selected European countries, included in non-trading assets:

Bond values as at 31 March 2012

€ mn		Greece	Italy	Ireland	Portugal	Spain	Hungary	Total
Bonds issued by public-sector entities (LaR)	Nominal amount		839		55	312		**1,206**
	Carrying amount		1,058		62	346		**1,466**
	Fair value		783		31	252		**1,066**
Bonds issued by public-sector entities (AfS)	Nominal amount		360		100	25		**485**
	Carrying amount		351		66	25		**442**
	Fair value		351		66	25		**442**
Covered bank bonds (LaR)	Nominal amount					353		**353**
	Carrying amount					380		**380**
	Fair value					354		**354**
Covered bank bonds (HtM)	Nominal amount					163		**163**
	Carrying amount					169		**169**
	Fair value					169		**169**
Covered bank bonds (AfS)	Nominal amount		70		60	100		**230**
	Carrying amount		70		45	101		**216**
	Fair value		70		45	101		**216**

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€ mn		Greece	Italy	Ireland	Portugal	Spain	Hungary	Total
Senior unsecured bank bonds (LaR)	Nominal amount		23					**23**
	Carrying amount		22					**22**
	Fair value		23					**23**
Senior unsecured bank bonds (AfS)	Nominal amount		13					**13**
	Carrying amount		12					**12**
	Fair value		12					**12**
Total	**Nominal amount**		**1,305**		**215**	**953**		**2,473**

Bond values as at 31 December 2011

€ mn		Greece	Italy	Ireland	Portugal	Spain	Hungary	Total
Bonds issued by public-sector entities (LaR)	Nominal amount		839		55	312		**1,206**
	Carrying amount		1,058		61	344		**1,463**
	Fair value		687		36	268		**991**
Bonds issued by public-sector entities (AfS)	Nominal amount		360		100	25		**485**
	Carrying amount		312		57	27		**396**
	Fair value		312		57	27		**396**
Covered bank bonds (LaR)	Nominal amount					353		**353**
	Carrying amount					384		**384**
	Fair value					341		**341**
Covered bank bonds (HtM)	Nominal amount					163		**163**
	Carrying amount					168		**168**
	Fair value					165		**165**
Covered bank bonds (AfS)	Nominal amount		70		60	100		**230**
	Carrying amount		63		42	100		**205**
	Fair value		63		42	100		**205**
Senior unsecured bank bonds (LaR)	Nominal amount		23					**23**
	Carrying amount		23					**23**
	Fair value		23					**23**
Senior unsecured bank bonds (AfS)	Nominal amount		13					**13**
	Carrying amount		13					**13**
	Fair value		13					**13**
Total	**Nominal amount**		**1,305**		**215**	**953**		**2,473**

The revaluation surplus related to the above-mentioned bonds of the "Loans and receivables" (LaR) category amounted to € -79 million (before taxes) as at 31 March 2012 (31 December 2011: € -80 million). The revaluation surplus is attributable to securities which were reclassified in the years 2008 and 2009 from the measurement category "Available for sale" (AfS) to the measurement category "Loans and receivables" (LaR). The revaluation surplus related to the above-mentioned bonds of the AfS category amounted to € -121 million (before taxes) as at 31 March 2012 (31 December 2011: € -184 million).

The maturities of the bonds set out above are mainly within the long-term range.

(15) Intangible assets

€ mn	31 Mar 2012	31 Dec 2011
Goodwill	50	50
Proprietary software	20	21
Other intangible assets	14	14
Total	**84**	**85**

(16) Property and equipment

€ mn	31 Mar 2012	31 Dec 2011
Land and buildings and construction in progress	83	83
Office furniture and equipment	21	21
Total	**104**	**104**

(17) Other assets

€ mn	31 Mar 2012	31 Dec 2011
Real estate	325	323
Trade receivables (LaR)	30	30
Miscellaneous	83	65
Total	**438**	**418**

(18) Liabilities to banks

€ mn	31 Mar 2012	31 Dec 2011
Payable on demand	906	727
Term deposits	416	283
Promissory note loans	584	564
Liabilities from securities repurchase transactions and open-market operations	1,165	967
Registered mortgage Pfandbriefe	185	135
Registered public-sector Pfandbriefe	124	130
Miscellaneous	25	267
Total	**3,405**	**3,073**

Liabilities to banks are allocated to the measurement category ”Liabilities measured at amortised cost“ (LaC).

(19) Liabilities to customers

€ mn	31 Mar 2012	31 Dec 2011
Payable on demand	4,145	3,943
Term deposits	6,411	5,308
Promissory note loans	8,885	8,855
Registered mortgage Pfandbriefe	3,584	3,507
Registered public-sector Pfandbriefe	3,325	3,316
Total	**26,350**	**24,929**

Liabilities to customers are allocated to the measurement category ”Liabilities measured at amortised cost“ (LaC).

(20) Certificated liabilities

€ mn	31 Mar 2012	31 Dec 2011
Medium-term notes	2,219	1,558
Bearer mortgage Pfandbriefe	5,381	4,476
Bearer public-sector Pfandbriefe	71	97
Other debt securities	173	1,409
Total	**7,844**	**7,540**

Certificated liabilities are allocated to the measurement category ”Liabilities measured at amortised cost“ (LaC).

(21) Trading liabilities

€ mn	31 Mar 2012	31 Dec 2011
Negative market value from trading derivatives	685	723
Total	**685**	**723**

Trading liabilities are allocated to the measurement category ”Held for trading“ (HfT).

(22) Provisions

€ mn	31 Mar 2012	31 Dec 2011
Provisions for pensions and similar obligations	92	91
Other provisions	157	160
Total	**249**	**251**

(23) Other liabilities

€ mn	31 Mar 2012	31 Dec 2011
Liabilities from outstanding invoices	9	10
Deferred income	5	4
Liabilities from other taxes	12	16
Trade payables (LaC)	10	10
Other liabilities (LaC)	115	87
Total	**151**	**127**

(24) Subordinated capital

€ mn	31 Mar 2012	31 Dec 2011
Subordinated liabilities	488	497
Profit-participation certificates	477	472
Contributions by silent partners [1]	231	229
Total	**1,196**	**1,198**

[1] The silent participation by SoFFin is classified as equity in accordance with IFRSs; it is therefore not reported under contributions by silent partners, but as a separate item in equity.

Items of subordinated capital are allocated to the measurement category ”Liabilities measured at amortised cost“ (LaC).

(25) Equity

€ mn	31 Mar 2012	31 Dec 2011
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	950	929
Other reserves		
Revaluation surplus	-158	-221
Hedging reserves	-5	14
Currency translation reserves	1	3
Silent participation by SoFFin	300	300
Non-controlling interest	244	243
Total	**2,233**	**2,169**

(26) Treasury shares

No treasury shares were held during the period under review.

(27) Dividend

The Management Board proposes to the Annual General Meeting that the net retained profit of Aareal Bank AG in the amount of € 10 million for the financial year 2011, as reported under the German Commercial Code (HGB), be transferred to other retained earnings. For reasons of commercial prudence, we believe that this is necessary, above all against the backdrop of securing the positioning of Aareal Bank relative to other companies for the near future in the light of increasing risks on a macro-economic level, weak growth impetus and the risk of further disruptions to the market.

Other Notes

(28) Contingent liabilities and loan commitments

€ mn	31 Mar 2012	31 Dec 2011
Contingent liabilities on guarantees and indemnity agreements	350	343
Loan commitments	1,429	1,521
of which: irrevocable	935	1,025

(29) Employees

	31 Mar 2012	1 Jan-31 Dec 2011
Salaried employees	2,183	2,264
Executives	125	122
Total	**2,308**	**2,386**
of which: Part-time employees	415	432

(30) Related party disclosures in accordance with IAS 24

In the first three months of the 2012 financial year, there were no material transactions with related parties that would have to be reported here.

(31) Events after the interim reporting period

There have been no material events subsequent to the end of the interim reporting period under review that need to be disclosed at this point.

Executive Bodies of Aareal Bank AG

Supervisory Board

Hans W. Reich [1) 2) 3) 4) 5)], Kronberg
Chairman of the Supervisory Board
Chairman Public Sector Group, Citigroup Inc.

Erwin Flieger [1) 3) 4) 5)], Geretsried
Deputy Chairman of the Supervisory Board
Chairman of the Supervisory Boards of
Bayerische Beamten Versicherungsgruppe

York-Detlef Bülow [1) 2) 6)], Messel
Deputy Chairman of the Supervisory Board
Aareal Bank AG

Christian Graf von Bassewitz [2) 3) 4)], Dusseldorf
Banker (ret'd.)
Former Spokesman of the General Partners
of Bankhaus Lampe KG

Manfred Behrens, Hannover
Chairman of the Management Board
AWD Holding AG

Thomas Hawel [6)], Saulheim
Aareon Deutschland GmbH

Dieter Kirsch [3) 6)], Nackenheim
Aareal Bank AG

Dr. Herbert Lohneiß [3) 4)], Gräfelfing
Former Chief Executive Officer
of Siemens Financial Services GmbH (ret'd.)

Joachim Neupel [2) 3) 4)], Meerbusch
Chairman of the Accounts and Audit Committee
German Chartered Accountant, tax consultant

Prof. Dr. Stephan Schüller [1) 2)], Hamburg
Spokesman of the General Partners of
Bankhaus Lampe KG

Wolf R. Thiel [1)], Stutensee
President and Chairman of the
Management Board of Versorgungsanstalt
des Bundes und der Länder

Helmut Wagner [6)], Hahnheim
Aareon Deutschland GmbH

Management Board

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Chairman of the Management Board

Dirk Große Wördemann
Member of the Management Board

Hermann Josef Merkens
Member of the Management Board

Thomas Ortmanns
Member of the Management Board

[1)] Member of the Executive Committee; [2)] Member of the Accounts and Audit Committee; [3)] Member of the Risk Committee;
[4)] Member of the Committee for Urgent Decisions; [5)] Member of the Nomination Committee; [6)] Employee representative

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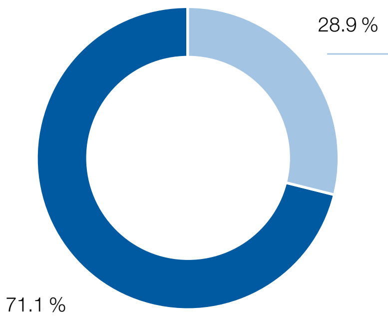
Shareholder Structure | Financial Calendar

Shareholder Structure

■ Free float ■ Aareal Holding Verwaltungsgesellschaft mbH



6.9 %	Bayerische Beamten-Lebensversicherung a.G.
6.9 %	Swiss Life AG
5.2 %	Versorgungsanstalt des Bundes und der Länder
4.7 %	Dr. August Oetker KG
2.7 %	Deutscher Ring Lebensversicherungs-AG und Deutscher Ring Sachversicherungs-AG
1.4 %	Deutscher Ring Krankenversicherungsverein a.G.
1.1 %	Condor-Lebensversicherungs Aktiengesellschaft

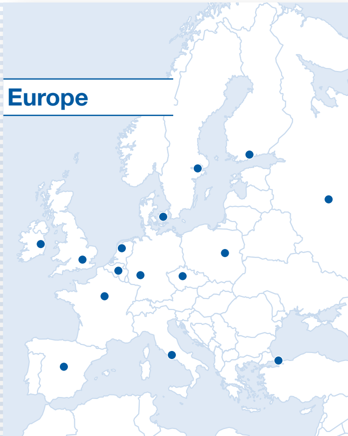
as at 31 March 2012

Financial Calendar

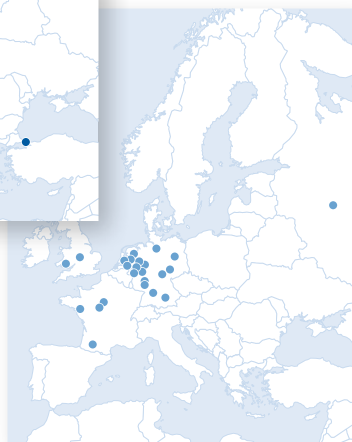
23 May 2012	Annual General Meeting – Kurhaus, Wiesbaden
14 August 2012	Presentation of interim report as at 30 June 2012
November 2012	Presentation of interim report as at 30 September 2012

Locations

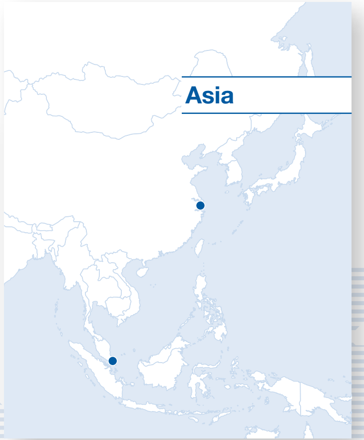
Structured Property Financing



Structured Property Financing



Consulting / Services



Structured Property Financing

Aareal Bank, Real Estate Structured Finance: Amsterdam, Brussels, Copenhagen, Dublin, Helsinki, Istanbul, London, Madrid, Moscow, New York, Paris, Prague, Rome, Shanghai, Singapore, Stockholm, Warsaw, Wiesbaden | **Aareal Valuation GmbH:** Wiesbaden | **Aareal Estate AG:** Berlin, Wiesbaden

Aareal Bank, Institutional Housing Unit: Berlin, Essen, Hamburg, Leipzig, Munich, Stuttgart, Wiesbaden | **Aareon AG:** Berlin, Coventry, Dortmund, Emmen, Enschede, Erfurt, Hamburg, Hückelhoven, Leipzig, Leusden, Mainz, Meudon-la-Forêt, Munich, Nantes, Oberhausen, Orléans, Son en Breugel, Stuttgart, Swansea, Toulouse | **Deutsche Bau- und Grundstücks-AG:** Berlin, Bonn, Moscow, Munich | **Aareal First Financial Solutions AG:** Wiesbaden

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