LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

I/2013

Aareal Bank Group – Interim Report
1 January to 31 March 2013

SINCE 1923
TRUSTED 90 YEARS

Aareal Bank
Group

Key Group Figures

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

	31 Mar 2013	31 Dec 2012	Change
	€ mn	€ mn	€ mn
Portfolio data			
Property finance	23,597	23,304	293
of which: international	20,242	19,991	251
Property finance under management[3]	23,783	23,496	287
of which: international	20,242	19,991	251
Equity[4]	2,362	2,317	45
Total assets[4]	45,126	45,750	-624
	%	%	
Regulatory indicators[5]			
Tier 1 ratio pursuant to AIRBA[6]	17.1	16.7	
Total capital ratio pursuant to AIRBA[6]	20.6	20.6	

	31 Mar 2013	31 Mar 2012	
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] The comparative figures 2012 were adjusted. Further information is included in the section "Accounting policies" in the notes to the consolidated financial statements.
[5] After confirmation of the financial statements 2012 of Aareal Bank AG. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2012 is subject to approval by the Annual General Meeting.
[6] Advanced Internal Ratings-Based Approach (AIRBA)

Contents

Letter to Shareholders

Dear Shareholders,
business associates and Aareal Bank staff,

At the beginning of the year, we have initially seen a further slight improvement in the business environment – for Aareal Bank as well as for the banking sector as a whole. Numerous banks, companies and sovereign issuers succeeded in placing significant volumes of bonds, at favourable terms, during the first half of the quarter. However, the easing of tension on the financial and capital markets again stagnated temporarily in the face of discussions concerning the bailout of Cyprus, but the fact that there were no major market distortions in this situation showed just how robust global financial and capital markets have become.

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

Whilst economic weakness persisted in the euro zone during the first quarter, whereby the Southern European member states are locked in deep recession and even the momentum of Germany's economic development was restrained, economic developments in other key regions around the world diverged strongly. Whilst Asia's emerging and growth economies – in particular China – continued to post the highest growth rates worldwide; the United States also returned to moderate growth in the first quarter of 2013, after virtually unchanged economic performance there during the fourth quarter of 2012. Looking at global economic trends going forward, the most recent forecasts continue to indicate only a very slow recovery.

Besides these uncertainty factors, the banking sector continues to face numerous regulatory reform projects, the details of which are becoming increasingly clear in terms of scope and direction. Characterised by higher capital requirements, stricter liquidity rules – and hence, lower expected returns – this "new normality" for banks is being put into practice with the adoption of the CRD IV reform package by the European Parliament: rules which banks will have to adapt to further. This also involves the new rules establishing a European banking regulator, as resolved by the European Parliament in March 2013. The introduction of a European supervisory authority for banks is a logical and sensible step because it may enhance financial market stability throughout Europe. However, the regulator's interfaces to national supervisory authorities have not yet been sufficiently clarified.

In this environment Aareal Bank once again performed well during the first three months of this year: at € 47 million, consolidated operating profit was higher than in the same quarter of the previous year. This positive result once again testifies to the viability of our business model – not least against the backdrop of continued uncertainty and hence, the still-challenging business environment. Aareal Bank's prudent business policy, which has been the benchmark of the bank's endeavours for many years, continues to pay off.

During the first quarter, some of the commercial property financing markets were characterised by intense competition: Some US banks stepped up their commercial property financing activities in Great Britain during recent months, with a view to also focus on Continental Europe. There was continued evidence in Europe of reticence amongst financing providers for large-volume projects, cross-border portfolios, properties of less favourable quality or in peripheral locations – as well as for financings with high loan-to-value ratios (LTVs), even though the latter segment saw some modest revival. The market in the US saw strong liquidity and intense competition, which continued to increase slightly recently.

Aareal Bank continued to benefit from opportunities to originate high-margin new business, without having to abandon our selective approach; an approach oriented strictly on quality, return and risk. At € 2.0 billion, the volume of new business originated during the first quarter of 2013 was high compared to the first quarters of previous years. On the one hand, this reflected the fact that some new transactions acquired in the fourth quarter of 2012 were closed during the period under review. On the other hand – and in contrast to the first quarter of the previous year – Aareal Bank started to acquire new business right from the beginning of the year. Moreover, first-quarter new business includes several large early renewals. Newly-originated loans accounted for 59 per cent of new business. We affirm our communicated target for new business in 2013, at € 6 billion to € 7 billion.

For the first time in four quarters, we are pleased to report an increase in net interest income generated in the Structured Property Financing segment, as new business originated in this segment during recent months starts to pay off. Nonetheless, our cautious investment strategy – and the low interest rate environment – continued to burden segment net interest income: in the first quarter it amounted to € 118 million, after € 121 million in the same period of the previous year.

At € 17 million, Aareal Bank's allowance for credit losses in the first quarter was lower than the pro-rata range forecast for the financial year, but it was within the fluctuation range we had expected. In our opinion, this is further proof of the successful monitoring of our credit exposure, which secures the high quality of our property financing portfolio. Our high degree of property expertise, many years of market knowledge and the bank's mid-sized structure are key success factors in this respect.

In the Consulting/Services segment, our subsidiary Aareon AG continued to perform successfully. Aareon's operating profit amounted to € 5 million for the first quarter – during which business is traditionally rather subdued. During the period, the company won further corporate clients for its Wodis Sigma product line which sets standards for institutional housing software, thanks in particular to its interface with state-of-the-art cloud computing. Aareon's international business also continued to develop positively.

Our banking operations in the Consulting/Services segment continued to be defined by two developments in the first quarter. On the one hand, deposit volumes from the institutional housing industry clients continued to develop very favourably; we were able to increase the previous quarter‘s high average level of € 6.2 billion to a record level of € 6.7 billion. Comprehensive 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. On the other hand, the historically low interest rate environment continued to persistently burden income generated from the deposit-taking business, and therefore the segment's operating profit, leading to a € 4 million segment loss for the quarter under review.

The importance of this business therefore goes way beyond the interest margin generated from deposits, which is under pressure in the current market environment. For Aareal Bank, deposits from the institutional housing industry are a strategically important additional source of funding for the property financing business, and one that is largely independent of developments on the capital markets. In addition to the German Pfandbrief and unsecured bank bonds, they represent an important pillar in the bank's long-term funding mix. Particularly in light of upcoming regulatory changes, we consider the deposit-taking business to be one of our strategic competitive advantages.

Our funding activities were once again successful during the first quarter of 2013. The issue of a € 625 million benchmark Mortgage Pfandbrief in January was one of the transactions that secured our good liquidity situation; in total, we raised long-term funds with a volume of € 1.4 billion.

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 2013 the tier 1 ratio was 17.1 per cent, which is comfortable on an international level. The core tier 1 ratio was 11.7 per cent. Aareal Bank therefore remains very solidly financed.

Overall, our review of the first quarter is a positive one: we had a good start into our jubilee year: Aareal Bank celebrates its 90th anniversary in 2013. On the whole, we are still cautiously confident when looking ahead to the remainder of the year. Whilst some of the familiar challenges will remain unchanged – including the global economy's still-tepid development and the uncertainty surrounding how future changes in banking regulation will take shape – we continue to believe that Aareal Bank's business environment will improve modestly overall.

We affirm the forecasts we communicated for the year 2013 as a whole. We anticipate that net interest income will only improve slightly year-on-year. Against the background of sustained moderate allowances for credit losses and only slight cost increases, we are confident that the bank‘s consolidated operating profit will match that of 2012; there is even potential to reach the very good results achieved in 2011.

This does not least reflect our conviction that Aareal Bank is on a solid footing. Building on a 90-year tradition of business policy geared towards sustainable success and leveraging the flexibility to adapt – which the bank proved, time and again, during the course of its history – we believe it is in an excellent position to master the challenges ahead. We are consistently preparing ourselves for the "new normal" environment for banks, which also applies to commercial property financing, as outlined above. That is why we will continue to be able to generate a solid performance, and to sustainably increase the Company's value – which is something you, as shareholders, business associates and staff, can rightly expect from the premium provider amongst specialist property banks.

For the Management Board

Yours Sincerely, Wolf Schumacher

Dr Wolf Schumacher
Chairman

Group Management Report

Business and Operating Environment

Macro-economic environment

After a particularly weak final quarter of 2012, the negative trend in the global economy did not deteriorate further. However, economic development was only moderate at the beginning of 2013.

Economy

The burden brought about by the European sovereign debt crisis remained one of the reasons for the muted economic development. Macroeconomic demand was dampened by the restrictive fiscal policy measures implemented in many countries to consolidate their budgets and the efforts to reduce private sector debt, too, coupled with high unemployment and weak wage dynamics.

Economic development was weak in the first quarter of 2013, especially in Europe. A range of economic data, such as orders received and production ratios showed no evidence of a marked improvement. It was therefore clear that – after the considerable decline in the final quarter of 2012 – real economic output in numerous European countries was almost unchanged or continued to fall in the first quarter of 2013. The recession persisted in the euro zone, impacting mostly on the southern periphery euro member states in particular. However, economic development was muted too in most other euro zone countries. Most European countries outside the euro zone, such as Denmark, the UK and Sweden, posted a similar picture. Economic development looked somewhat more favourable by European standards for Poland, while the economy was still clearly weak in the Czech Republic.

Having remained virtually unchanged in the final quarter of 2012, real economic output in the US grew moderately again in the first quarter of 2013, supported by positive momentum from corporate investment and private consumption. Economic output also picked up in Canada and Mexico at the start of 2013.

The Chinese economy continued to post high growth rates by international standards. Japan's economy showed signs of slight growth in the first quarter of 2013, benefiting from a revival in exports due to the depreciation of the yen.

Weak economic development continued to determine the labour markets. The unemployment rate hardly changed or increased slightly in most European countries at the start of the year. Unemployment therefore remained high in most European countries, especially in the periphery euro zone states, and Spain in particular. The unemployment rate was also clearly above the 10 % mark in France and Poland too. In contrast, rates were low in Germany, Luxembourg and Austria. Unemployment in the United States was falling slowly compared to the end of 2012. It was almost stable in Japan.

Sovereign debt crisis

After the European Central Bank's (ECB) announcement in the third quarter of 2012 that it was willing to buy government bonds on the secondary market under certain conditions (outright monetary transactions – OMT), yields and risk premiums (spreads) on bonds from euro zone periphery countries fell sharply. This trend faltered somewhat in the first quarter of 2013. After some up-and-down movements, the yields on Spanish and Portuguese government bonds were slightly lower at the end compared with the start of the quarter, while Italian government bonds yielded slightly higher. Yields on Spanish government bonds were significantly higher than their Italian counterparts at the start of the year, before converging during the first quarter. Portuguese government bond yields were significantly higher than their Italian and Spanish equivalents.

In this context, it must also be noted that rating agency Fitch downgraded Italy's rating to BBB+. Nonetheless, the Italian and Spanish governments succeeded in placing considerable volumes of new government bonds on the markets.

At the end of the quarter, the focus had shifted to the provision of support for Cyprus and measures to save that country from insolvency. The euro group finance ministers and Cypriot representatives agreed on support measures, whereby € 10 billion was provided by the European Stability Mechanism (ESM) and the International Monetary Fund (IMF). Creditors and customers of the country's two biggest banks will become involved as part of the package of measures, and cuts will be made to public spending.

At the start of the year, a variety of temporary measures that had been launched in the US in the past to stimulate the economy were set to expire simultaneously. Politicians reached a partial agreement shortly before these measures expired. As a result, some of the initially temporary stimulus programmes, such as lower tax rates for the lower and middle-income groups, were adopted as permanent. Other measures were extended temporarily, or expired. As part of this process, the taxes for the higher income groups and social security contributions were raised again. The automatic cuts in public spending that were agreed within the scope of raising the debt ceiling in mid-2011 were deferred for another two months initially, before coming into effect on 1 March 2013.

Financial and capital markets, monetary policy and inflation

Some easing was evident on the financial and capital markets at the start of the year. A large number of banks, companies and sovereign issuers succeeded in placing significant volumes of bonds at favourable terms. Numerous issues were also launched on the market for German Pfandbriefe and covered bonds from other countries. Aareal Bank successfully placed a € 625 million benchmark mortgage Pfandbrief right at the start of the year. However, development on the financial and capital markets was more cautious during the course of the quarter under review and the issuing activities of market participants eased off.

The performance of the euro relative to various currencies varied during the first quarter. After some volatility, the euro/US dollar exchange rate was slightly lower at the end of the quarter compared with the start of the quarter. The euro was also lower relative to the Swedish krona. On the other hand, the exchange rate of the euro saw gradual appreciation against the pound sterling and the Swiss franc. The increase in the euro/Japanese yen exchange rate was more pronounced. The euro remained virtually unchanged against the Danish krone, in line with Denmark's objective of a largely stable exchange rate. The euro/Canadian dollar exchange rate at the end of the quarter was also comparable with that at the start.

The euro zone's financial and capital markets continue to be segmented between the different countries, even though yields have converged somewhat since the second half of 2012. The euro zone periphery countries continued to be faced with high spreads for their bonds. In addition to the public budgets, companies and private households in the countries affected most by the distortions within the scope of the sovereign debt crisis also faced markedly higher interest rates compared with the so-called core euro zone countries. When analysing interest rate developments, this segmentation of the financial and capital markets has to be taken into consideration. Long-term interest rates[1)] for the euro and for the Japanese yen declined during the first quarter of 2013, whilst rising slightly in the other important currencies in which we are active, including the pound sterling and the US dollar. Overall, however, long-term rates remained low. Short-term interest rates[2)] for the most important currencies in which we are active remained largely unchanged during the quarter under review.

The key interest rates for the most important currencies in which we are active also remained constant in the first quarter. Only Denmark's central bank increased its key rate slightly by 0.1 percentage points to 0.3 %. Numerous central banks continued to pursue an expansive monetary policy.

[1)] Calculated on the basis of the 10-year swap rate vs. 6-month Euribor/LIBOR

[2)] Calculated on the basis of 3-month Euribor, or the corresponding LIBOR or other comparable rates for other currencies

The US Federal Reserve (the Fed) bought significant amounts of mortgage-backed securities from state-supported enterprises and longer-term US Treasuries during the first quarter. During the period under review, various commercial banks repaid – ahead of schedule – significant sums from the ECB's three-year refinancing operations that were launched in December 2011 and February 2012. Aareal Bank also took advantage of decent liquidity conditions to make full repayment – at the earliest possible date – of the € 1 billion raised within the scope of the second ECB's three-year repo.

Funds held by commercial banks with the ECB or the Euro system's national central banks have fallen considerably since the start of the year. This, too, is a reflection of a certain degree of easing on the financial and capital markets.

Inflation fell slightly in the advanced economies, and inflationary pressures slowed. The average annual inflation rate of 1.8 % in the euro zone in the first quarter of 2013 was slightly lower than at the end of the previous year. It must be taken into consideration that inflation in some countries in the first quarter of 2013 was influenced by higher consumption taxes. The lower rate of inflation is owed to the fact that energy prices of late increased only slightly. Annualised inflation in the US was 1.6 % – comparable with that in the euro zone. The figure in China was also moderate, while a gradual deflation was evident in Japan.

Regulatory environment

In March 2013, the EU Parliament agreed to gradually transfer the supervision for certain banks to the ECB. Accordingly, the ECB will take responsibility for the supervision of all banks with total assets of more than € 30 billion as of March 2014. This also applies to the three largest banks of the respective countries, regardless of whether they reach the total assets stated above. The ECB can also assume supervision of a bank if it regards that institution as constituting a systemic risk. Supervision of the other banks will remain with the national authorities. Supervision by the ECB comprises all euro states and all other EU member states that want to participate. The United Kingdom and Sweden rejected this participation. The creation of a single banking supervisor is a prerequisite for banks to be recapitalised directly by the ESM.

Sector-specific and business developments

Structured Property Financing segment

As in previous years, we continued to pursue our risk-sensitive lending policy as well as consistently managing our loan portfolio during the quarter under review.

At € 2.0 billion (Q1 2012: € 0.5 billion), the volume of new business originated was high compared to the first quarters of previous years. On the one hand, this reflected the fact that some new transactions acquired in the fourth quarter of 2012 were closed during the period under review. On the other hand – and in contrast to the first quarter of the previous year – Aareal Bank started to acquire new business right from the beginning of the year. Moreover, first-quarter new business includes several large early renewals. The share of newly-originated loans in the first quarter of 2013 was high at 59.5 %.

At 80.3 %, we achieved the highest share of new business in Europe, followed by North America with 16.4 % and Asia with 3.3 %.[1)]

In commercial property financing, competition remained intense for the business of financing first-class properties with a low LTV in prime locations in the economic centres of Western and Northern Europe. Some US banks stepped up their commercial property financing activities in the UK during recent months, with a view to also focus on Continental Europe. On the other hand, restraint was exercised in Europe regarding the financing of large-volume projects, cross-border portfolios,

[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.

properties of less favourable quality or in peripheral locations and financings with high LTVs, although there was evidence of a growing willingness to extend credit here too. Competition has also intensified noticeably in the area of commercial property financing in various markets recently. Commercial property financing remained cautious overall in Southern Europe.

The market for commercial property financing in the US featured a high degree of liquidity and intense competition, which increased noticeably most recently. This was not only due to the activities of US-banks but of life insurance companies too. To a significant degree, issues were launched on the market for securitised transactions (commercial mortgage-backed securities – CMBS).

The market environment remained competitive in Asia.

Rents and yield requirements by investors[1] on the markets for first-class commercial property remained largely stable during the first quarter of 2013. On the other hand, rents and property values in peripheral locations, or for properties of lesser quality, were often under pressure. The global transaction volume of commercial property declined markedly in the first quarter of 2013 compared with 2012's strong closing quarter, as transaction volumes are generally lower at the start of a year; nonetheless, they were considerably higher than in the first quarter of 2012. Investors continued to focus on first-class properties in the corresponding locations but also sought opportunities with a higher risk profile. There was an increase in the number of interested parties for investments in secondary locations.

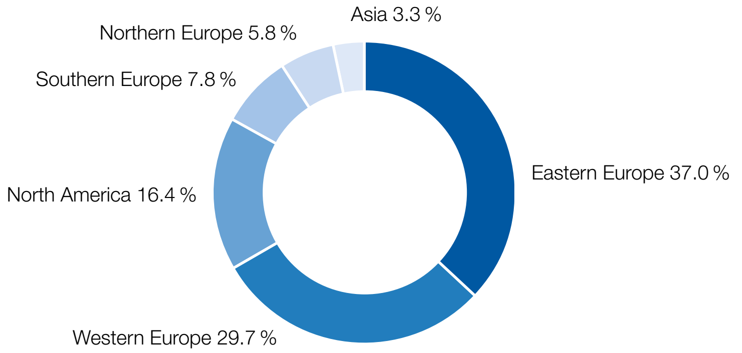
Europe

As in the previous quarters, rents for first-class commercial property in most European economic centres remained constant in the first quarter of 2013. The largely stable trend applied to the markets for high-quality office, retail and logistics properties. Only very few markets in the economic centres deviated from this trend, posting increasing or falling rents for first-class commercial properties. Increasing rents in the premium segment were seen, for example, on the office markets in Berlin, Istanbul and London's West End, as well as on most of the retail property markets of the leading economic centres in Germany, and the logistics market in Amsterdam. However, falling rents in the premium segment were seen particularly in Southern Europe, for example, on the office markets in Barcelona, Madrid and Milan as well as on the logistics markets in Milan and Rome. Rents tended to be under pressure for commercial properties outside the first-class segment.

Developments on the hotel markets of the important European cities varied. Although the important indicator of average revenues per available hotel room posted a quarter-on-quarter increase on many markets, this development was concentrated in particular on the German centres and a small number of other major European cities such as Copenhagen and Paris. However, average revenues per hotel room also rose in Barcelona. At the same time, average revenues per hotel room fell in many other important European economic centres compared with the first quarter of 2012; these

New business 1 January-31 March 2013

by region (%) Total volume: € 2.0 bn



[1] Falling yields lead to rising property market values, while rising yields correspondingly produce falling values, all other things remaining equal.

included Helsinki, Madrid, London, Prague, Rome and Warsaw.

During the first quarter of 2013, too, investors focused on first-class properties that offer secure cash flow, although growing investor interest was evident in properties with a higher risk profile. Transaction volumes in commercial property were up in Europe over the comparable period of the previous year, particularly in Germany, where a significant increase was recorded. Investor yield requirements for newly-acquired commercial property in the high-quality segments remained stable in the vast majority of European economic centres; this applied across the different types of property. Only very few markets exhibited discernible movement – falling or rising – in yields for high-quality property. Examples of falling yields were the office markets in the City of London and Prague, the retail markets in London's West end and Warsaw as well as the logistics market in Birmingham. On the other hand, rising yields were registered on the retail markets of the economic centres in the Netherlands as well as the logistics markets in Den Haag and Madrid.

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 developments: there was evidence of pressure here.

Our new business in Europe amounted to € 1.6 billion in the first quarter of 2013, with Eastern Europe accounting for the largest share, followed by Western Europe. Southern and Northern Europe, however, accounted for lower shares of new business.

North America (NAFTA states)

The gradual rise in rents for commercial property in the US continued during the first quarter of 2013, too. On a national average basis, rents for office, retail and logistics properties in the US increased marginally. This was also the case for most of the leading regional markets. Only a few of the major markets recorded a marked increase in rents; these include the office markets in Boston and San Francisco, while rents remained virtually unchanged only on a few important markets, such as the retail market in Chicago and the office market in Washington DC. Vacancy ratios for the different types of property were stable compared with the previous quarter.

The upside trend in the hotel sector in the US continued. Average revenues per available hotel room rose during the first quarter of 2013, compared with the corresponding period of the previous year. This was due to an improvement in average room rates, as well as in the occupancy ratio. Average revenues per available hotel room also increased in Canada and Mexico. The increase was particularly pronounced in Mexico.

Transaction volumes in North America and particularly in the US were higher in the quarter under review compared with the first quarter of 2012. Investor yield requirements declined slightly in the US. Yields were slightly lower on average for office, retail and logistics properties.

We generated new business of € 0.3 billion in North America in the first quarter of 2013; this was accounted for exclusively by the US.

Asia

The development of rents for first-class commercial property varied in Asia. Rents for high-quality office properties remained stable in the big Chinese cities of Beijing and Shanghai. Office rents came under pressure in Tokyo, especially for properties in peripheral locations and of lesser quality, compared with a stable trend for first-class properties in the leading locations. Rents for first-class office properties fell in Singapore, while they were stable to slightly higher for first-class retail properties in Beijing and Shanghai. Rental levels remained constant in Tokyo. This was also the case for the top retail trade locations and properties in Singapore, while rents in some suburbs were subject to downside pressure. Rents for high-quality logistics properties increased in Beijing, Shanghai and Tokyo, whilst the remained constant in Singapore.

Developments in the hotel sector in Asia varied. Average revenues per available hotel room fell in the big Chinese cities of Beijing and Shanghai, and in Singapore, compared with the first quarter of 2012. On the other hand, there was a strong increase in average hotel revenues in Tokyo.

Transaction volumes in Asia also increased during the reporting period over the corresponding quarter of the previous year, which was mainly due to a sharp increase in Japan. The development of yield requirements varied in Asia. While yields for first-class office, retail and logistics properties increased in Shanghai, they were stable in Beijing. The trend was also stable in Tokyo. On the other hand, yields for high-quality office and logistics properties fell in Singapore, while yields for retail properties remained constant there.

Our new business in Asia amounted to € 0.1 billion in the first quarter of 2013, and was accounted for solely by China.

Consulting/Services segment

Institutional Housing Unit

In an economic environment that remains challenging, developments in the German institutional housing sector were stable overall.

Corporate investments continue to focus on improving the degree and quality of energy efficiency, and creating a sustainable quality of housing. In the first quarter of 2013, the Federal Government amended the requirements for energy measures in new-built properties. These adjusted requirements for energy-savings measures are likely to come into effect at the start of 2014.

The positive development seen on the housing market for quite some time persisted at the start of the year. Advertised rents for new-built properties were around 3 % higher in 2013 than in the first quarter of 2012. Rents in the major cities increased by almost 2 % in the same period. Demand exceeded supply, especially in the big cities where immigration is prevalent. The growing influx of a highly-qualified workforce is leading to housing shortages, particularly in city locations.

Residential property is seen by private and institutional investors as secure and retaining value in an environment of persistent volatility on the financial and capital markets. Based on the resulting strong demand for residential investment, the momentum on the market for portfolio transactions is lasting too. The IPO of LEG Immobilien, which manages some 91,000 apartments, was one of the largest capital market transactions in the first quarter of 2013.

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 our leading position in the market, despite strong competitive pressure and is reflected in new client acquisition; business partners that were acquired in the first quarter of 2013 manage some 18,000 units at present.

The volume of deposits was increased again, to average € 6.7 billion during the quarter under review (Q4 2012: € 6.2 billion).

On the other hand, the persistently low interest rate environment in the quarter under review burdened income generated from the deposit-taking business, and therefore the segment result. Yet the importance of the deposit-taking business in the Consulting/Services segment goes way beyond the interest margin generated from the deposits. Deposits from the institutional housing industry represent a strategically important additional source of funding which is largely independent of the developments in the capital markets.

Aareon

Cloud computing is becoming increasingly important in the market for property management software, and demand is steadily growing. Using cloud computing, companies can procure and retrieve IT solutions from a network of services. This facilitates efficient investments in IT and helps to keep administrative expenses low. Aareon can look back on several decades of experience, both as an IT centre operator and as the 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. Since 2011, the Wodis Sigma ERP system has been available as a service from the exclusive Aareon Cloud, for which 81 clients have already opted. Data from Aareon's Cloud Computing is held in Aareon's certified data-processing centre in Mainz, which guarantees a high level of data security and protection. The mobile use of software solutions, for example, through the use of smartphones and other mobile devices, has emerged as another important trend in the housing industry. The flow of information between housing enterprises, their business partners and tenants opens up optimisation potential that supports the benefits for all sides.

After numerous property management companies signed contracts for Wodis Sigma shortly before the 2012 year-end, a further five contracts were signed in the first quarter of 2013. At the start of the year, Wodis Sigma was rolled out for 75,000 rental units managed by 13 companies.

Demand for the SAP® solutions product line and for Blue Eagle was subdued overall; the most required services were consultancy services for SAP® and other consulting services provided by Aareon. The switch to Release 6.3 of Blue Eagle is planned for the second quarter of 2013.

The volume of business with the established GES system remained stable.

The conversion of the national payment systems to SEPA during 2013 – to start at the beginning of 2014 – is a central issue for Aareon's clients. Aareon had already started in 2012 to inform its clients about this topic, through a road show held in cooperation with Aareal Bank. The new functions are currently being tested in an operating environment with pilot clients. The conversion is expected to start as of the second quarter of 2013.

The Integrated Services product line continues to see demand, especially for the Mareon service portal, the BauSecura insurance solutions, and the Aareon invoicing service. Aareon agreed a strategic partnership with Schleupen AG, Moers, in January 2013. The common objective is to combine the range of solutions offered by both IT companies, thus supporting the business processes in the property management sector and in energy and water management, in order to leverage the potential in terms of efficiency for electronic billing. As part of the cooperation, an interface was created between the Aareon invoicing service and the Schleupen. CS IT system. The development of the modern CRM system for the property management sector that supports the customer through all phases of the rental cycle is on schedule, so that the system for the German market can be presented at the Aareon Congress to be held in Garmisch-Partenkirchen in May. The development is part of an international project being conducted in Aareon Group.

Aareon is the leading IT partner in the "I-stay@home" project funded by the European Union. Several European companies from the institutional housing industry teamed up and were awarded the tender. The project aims to allow older people to remain self-sufficient and living within their own four walls for as long as possible. The development of the IT-based platform through the project partners is progressing on schedule.

In the Netherlands, SG|tobias^{AX} was rolled out for several important clients. In France, the housing enterprise Promologis, Toulouse – with 22,000 rental units – decided in favour of Aareon France's CRM solutions, while Erilia, Marseilles (89,000 rental units) is the first Aareon France client to choose Aareon's data centre to host their CRM solution. The new release 3.0 of PortalImmo Habitat is developing on schedule. The project is scheduled for launch during the second quarter of 2013. In the UK, several Aareon UK and 1st Touch systems were prepared for roll-out on 2 April for the important Together Group (35,000 rental units).

Overall, Aareon achieved profit before taxes and interest (EBIT) of € 5 million in the first quarter of 2013.

Financial Position and Performance

Financial performance

Consolidated net income

Our cautious investment strategy and the low interest rate environment had negative implications for net interest income. It amounted to € 121 million in the first quarter compared with € 129 million in the comparable quarter of the previous year.

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

Net commission income was roughly unchanged from the previous year. Aareon's sales revenue – shown in net commission income – was stable compared with the previous year.

The aggregate of net trading income / expenses and the net result on hedge accounting of € 3 million, was primarily attributable to the measurement of derivatives used to hedge interest rate and currency risk, and to realised and unrealised changes in value from sold hedging instruments on selected EU sovereign countries.

Consolidated net income of Aareal Bank Group

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

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

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

Structured Property Financing segment

Our cautious investment strategy and the low interest rate environment had negative implications for net interest income. It amounted to € 118 million in the first quarter compared with € 121 million in the comparable quarter of the previous year.

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

The aggregate of net trading income / expenses and the net result on hedge accounting of € 3 million was primarily attributable to the measurement of derivatives used to hedge interest rate and currency risk, and to realised and unrealised changes in value from sold hedging instruments on selected EU sovereign countries.

At € 50 million, administrative expenses in the first quarter were down only slightly on the corresponding level of the previous year (€ 49 million).

Structured Property Financing segment result

€ mn	Quarter 1 2013	Quarter 1 2012
Net interest income	118	121
Allowance for credit losses	17	12
Net interest income after allowance for credit losses	**101**	**109**
Net commission income	2	4
Net result on hedge accounting	-3	-10
Net trading income / expenses	6	-16
Results from non-trading assets	-1	0
Results from investments accounted for using the equity method	–	–
Results from investment properties	0	3
Administrative expenses	50	49
Net other operating income / expenses	-4	-1
Impairment of goodwill	0	0
Operating profit	**51**	**40**
Income taxes	16	11
Segment result	**35**	**29**
Allocation of results		
Segment result attributable to non-controlling interests	4	4
Segment result attributable to shareholders of Aareal Bank AG	31	25

Overall, operating profit for the Structured Property Financing segment was € 51 million (Q1 2012: € 40 million). Taking tax expenses of € 16 million into consideration (Q1 2012: € 11 million), the segment result for the first quarter of 2013 was € 35 million (Q1 2012: € 29 million).

Consulting/Services segment

At € 44 million, sales revenue generated during the first quarter 2013 was lower than in the same period of the previous year (Q1 2012: € 49 million). The low interest rate environment burdened the margins from the deposit-taking business that are reported in sales revenues. Aareon's sales revenues, on the other hand, were stable compared with the same period of the previous year.

Staff expenses in the quarter under review amounted to € 29 million. These were roughly in line with the same period of the previous year.

On the whole, other income items were roughly unchanged from the previous year.

On balance, the segment generated operating loss of € 4 million (Q1 2012: operating profit of € 3 million). After deduction of taxes, the segment result amounted to € -3 million.

Consulting/Services segment result

€ mn	Quarter 1 2013	Quarter 1 2012
Sales revenue	44	49
Own work capitalised	1	0
Changes in inventory	0	0
Other operating income	0	2
Cost of materials purchased	5	5
Staff expenses	29	28
Depreciation, amortisation and impairment losses	3	3
Results from investments accounted for using the equity method	–	–
Other operating expenses	12	12
Interest and similar income/expenses	0	0
Operating profit	**-4**	**3**
Income taxes	-1	1
Segment result	**-3**	**2**
Allocation of results		
Segment result attributable to non-controlling interests	1	1
Segment result attributable to shareholders of Aareal Bank AG	-4	1

Net assets

Aareal Bank Group's total assets as at 31 March 2013 amounted to € 45.1 billion, after € 45.7 billion as at 31 December 2012.

Property financing portfolio

The volume of Aareal Bank Group's property financing portfolio stood at € 23.6 billion as at 31 March 2013. This represents an increase of 1.3 % (€ 23.3 billion) over year-end 2012.

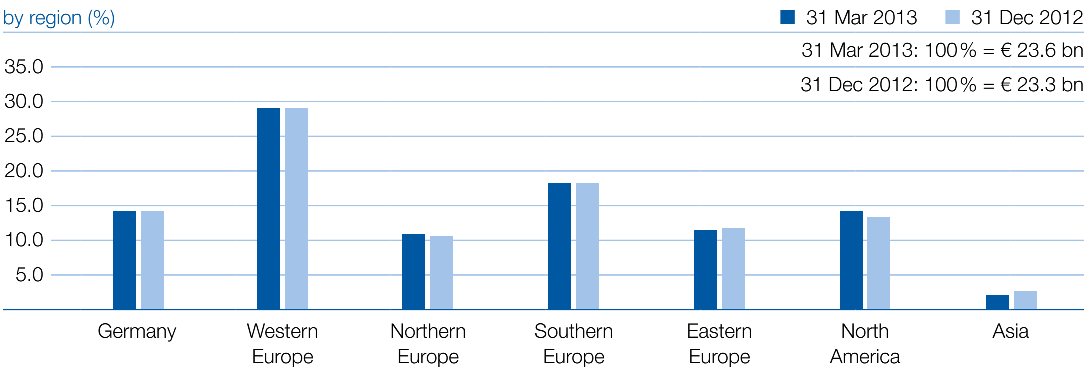
The international share of the portfolio remained unchanged at 85.8 % (€ 20.2 billion). The following chart illustrates the very broad regional diversification of our overall portfolio.

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 2013, the nominal volume of the securities portfolio[1] was € 11.8 billion (31 December 2012): € 12.1 billion). The securities portfolio comprises four asset classes: public-sector borrowers, covered bonds and Pfandbriefe, bank bonds and asset-backed securities (ABS). 97 %[2] of the overall portfolio is denominated in euros. 97.7 %[2] of the portfolio has an investment grade rating.[3]

Property financing volume (amounts drawn)



Financial position

Refinancing and equity

Aareal Bank Group continued to successfully conduct its funding activities in the first quarter of 2013, thereby securing its very solid liquidity situation. As at 31 March 2013, Aareal Bank Group's consolidated equity amounted to € 1.8 billion, excluding the SoFFin silent participation and trust preferred securities. Long-term funding as at 31 March 2013 amounted to € 27.1 billion (31 December 2012: € 26.7 billion) and comprised Pfandbriefe, unsecured and subordinated issues. Aareal Bank also had € 6.9 billion (31 December 2012 € 6.3 billion) at its disposal from deposits generated from the business with the institutional housing industry, as well as institutional money

[1] As at 31 March 2013, the securities portfolio was carried at € 13.6 billion (31 December 2012: € 14.0 billion).
[2] Details based on the nominal volume
[3] The rating details are based on the composite ratings.

market investor deposits in the amount of € 5.0 billion (31 December 2012: € 5.2 billion).

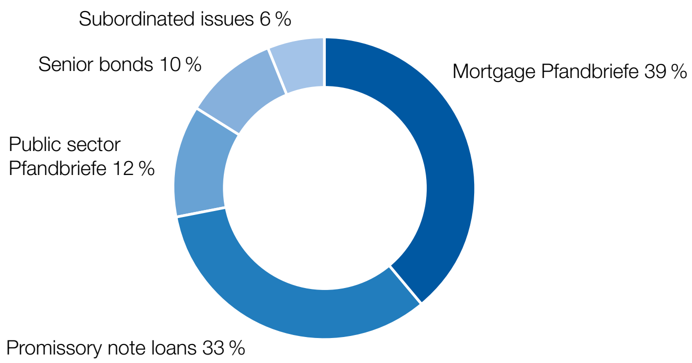
A total of € 1.4 billion of long-term funds was raised on the capital markets during the first quarter. This comprised Mortgage Pfandbriefe in the amount of € 1.1 billion as well as unsecured refinancing of € 300 million. Aareal Bank has therefore maintained its long-term funding at a high level.

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

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 2013

% Total volume: € 27.1 bn



Regulatory indicators

Key indicators pursuant to AIRBA

	31 Mar 2013[1]	31 Dec 2012[1]
€ mn		
Tier 1 capital	2,330	2,430
Total own funds	2,809	2,991
Risk-weighted assets (incl. market risk)	13,638	14,513
%		
Tier 1 ratio	17.1	16.7
Total capital ratio	20.6	20.6

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

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 2012 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 in strict consideration of 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). Aareal Bank has decided to considerably exceed this minimum requirement, and to prudently apply a minimum core Tier 1 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 18 % is retained as a risk cushion, which 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 1 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 following table summarises the bank's overall risk exposure as at 31 March 2013.

Risk-bearing capacity of Aareal Bank Group as at 31 March 2013
– Going-concern approach –

€ mn	31 Mar 2013	31 Dec 2012
Own funds for risk cover potential	2,359	2,359
less 8 % minimum tier 1	1,288	1,288
Freely available funds	**1,071**	**1,071**
Utilisation of freely available funds		
Credit risks	236	239
Market risks	264	281
Operational risks	43	43
Investment risks	27	27
Total utilisation	**570**	**590**
Utilisation as a percentage of freely available funds	**53 %**	**55 %**

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 risks“.

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. Regulatory requirements are fully taken into account for the organisation of operations and workflows in the credit and trading business.

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 held outside of the Sales units.

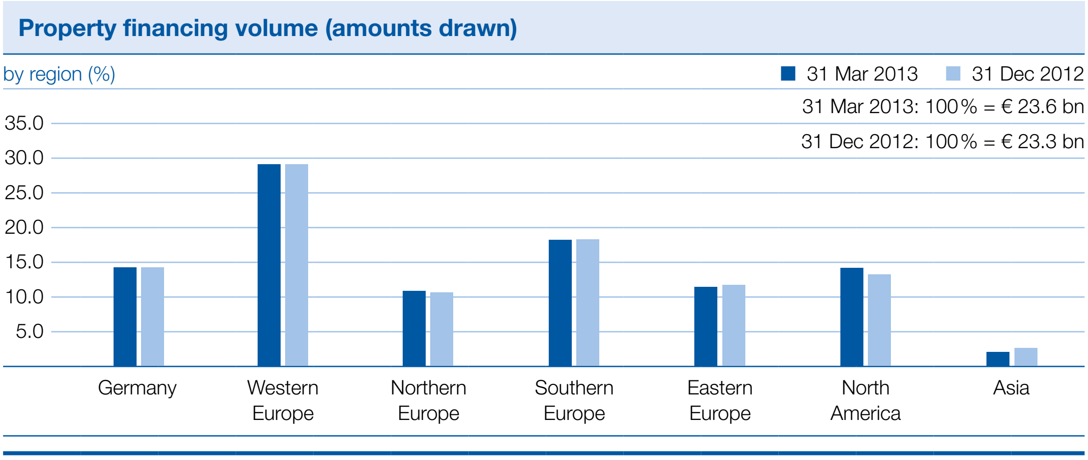
Methods used to measure, control and monitor concentration and diversification effects on a portfolio level include two diverse credit risk models. Based on these models, the bank's decision-makers are regularly informed of the performance and risk content of property finance exposures, and of business 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.

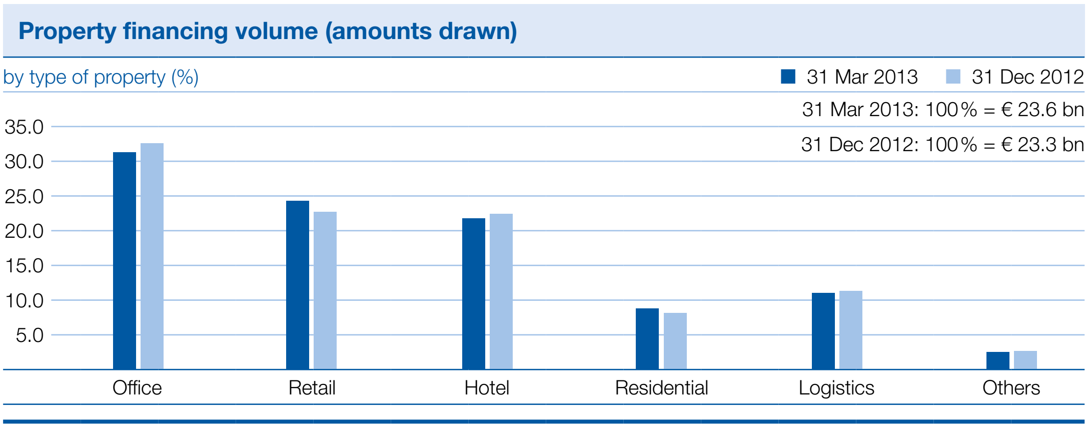
The bank uses specific tools to monitor individual exposures on an ongoing basis where this is required: besides the tools already described, this includes rating reviews, monitoring of construction phase loans or residential property developers, the monitoring of payment arrears, and the regular, individual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

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 indicates the potential loss incurred before countermeasures 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 numerous 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.

The limit set for the VaR figure is derived from the analysis of the bank's risk-bearing capacity, which is carried out at least once a year. 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 2013 (2012 year-end values) 95 %, 250-day holding period				
Aareal Bank Group – general market price risk	231.0 (220.3)	152.9 (154.9)	183.1 (183.4)	– (–)
Group VaR (interest rates)	218.6 (236.6)	155.6 (156.3)	177.6 (191.3)	– (–)
Group VaR (FX)	46.5 (65.6)	31.2 (35.1)	37.9 (54.7)	– (–)
VaR (funds)	7.0 (16.3)	4.3 (5.2)	5.3 (8.1)	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)	227.7 (260.8)	215.3 (193.2)	219.5 (232.8)	– (–)
Aggregate VaR – Aareal Bank Group	318.6 (338.2)	264.0 (256.4)	286.3 (296.7)	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 2013 (2012 year-end values) 95 %, 1-day holding period				
Aareal Bank Group – general market price risk	14.6 (13.9)	9.7 (9.8)	11.6 (11.6)	– (–)
Group VaR (interest rates)	13.8 (15.0)	9.8 (9.9)	11.2 (12.1)	– (–)
Group VaR (FX)	2.9 (4.1)	2.0 (2.2)	2.4 (3.5)	– (–)
VaR (funds)	0.4 (1.0)	0.3 (0.3)	0.3 (0.5)	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)	14.4 (16.5)	13.6 (12.2)	13.9 (14.7)	– (–)
Aggregate VaR – Aareal Bank Group	20.1 (21.4)	16.7 (16.2)	18.1 (18.8)	25.3 (25.3)

Aggregate VaR – Aareal Bank Group

Group-wide limits are being continuously monitored as part of the analysis of the bank's risk-bearing capacity. These limits remained unchanged during the quarter under review; no limit breaches were detected.

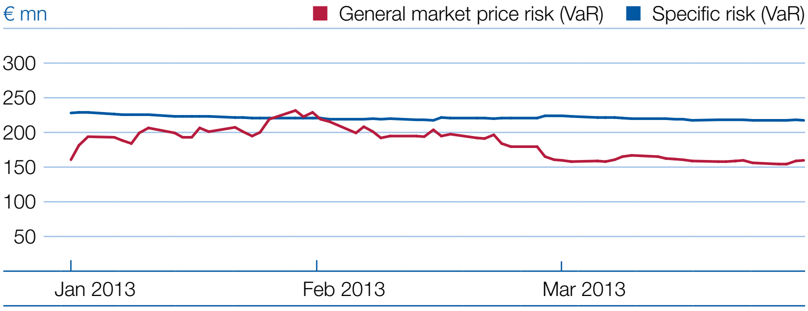
Backtesting

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). Three negative outliers at Group level occurred during the last 250 trading days, affirming the high forecasting quality of the VaR model we use.

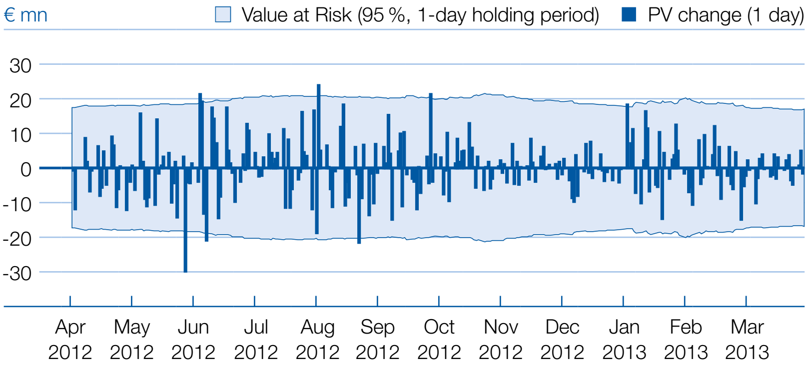
Trading book

Being authorised to maintain a trading book, Aareal Bank AG is the Group entity 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.

General market price risk and specific risk during 2013



Present values and 1-day VaR during 2012/2013



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 2012 Annual Report contains a detailed description of controlling tools employed by the bank to manage operational risk, plus the relevant responsibilities.

The current analysis conducted using these control instruments has shown that the bank is not exposed to disproportionate operational risks; nor did it 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 considerable pressure and uncertainties at present imply that economic development will remain muted. Although various trend barometers such as the Ifo World Economic Climate Index regarding expectations for future economic development improved to a certain extent at the beginning of the first quarter, various trend barometers declined again recently. The underlying economic conditions, such as industrial production, continue to be weak, especially in Europe.

The future development of the European sovereign debt crisis and its impact on overall economic demand, and on financial and capital markets continues to represent the major burden and risk to the global economy. Economic development is also burdened by the restrictive fiscal policy pursued in numerous countries, high unemployment and the ongoing efforts to reduce private sector debt levels in many countries. Another risk factor for the economy is the future development of the oil price.

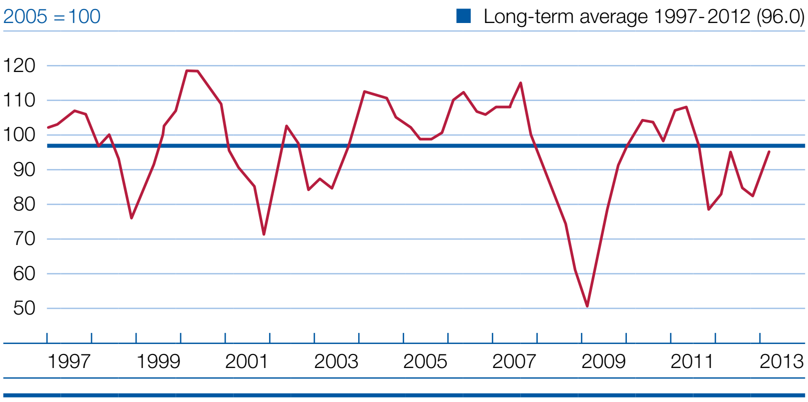
We therefore assume that global economic growth will be only moderate this year. It will be roughly on par with last year's levels, although we are likely to see marked regional differences. What is relevant from Aareal Bank's perspective is that the anticipated weak economy is also expected to have negative implications for the development of rents and asset values on the commercial property markets. We will deal with this in more detail below.

Despite improved trend barometers, the euro zone economy in particular will continue to be burdened by uncertainty concerning the progression of the European sovereign debt crisis, restrictive fiscal policy focused on budget consolidation and high unemployment levels in many places. We therefore expect a slight reduction in real economic output in the euro zone this year. The recession is expected to continue, particularly in the euro zone's southern periphery states, including Italy and Spain. We also forecast a slight recession for Belgium and the Netherlands. Real economic output in numerous other euro member states, including France, is likely to remain largely unchanged over the previous year. We expect a slight increase in real gross domestic product in Germany, Luxembourg and Austria. Most European countries outside the euro zone are likely to see a slight increase in real gross domestic product: this affects the UK, Poland, Sweden and Switzerland. Real economic output in Denmark should be virtually unchanged from the previous year. On the other hand, we anticipate higher growth rates by European standards in the growth economies of Russia and Turkey, and we envisage a slight drop in real gross domestic product in the Czech Republic.

The economic outlook in the US has improved somewhat in recent months. This is attributable to rising prices and an increase in construction activity for private residential property, as well as an improvement in sentiment among private households and companies, having been tempered by political uncertainties about the development of public finances at the start of the year. We expect moderate growth in real gross domestic product in the US this year. Economic risks are still present in the US, given that a sustainable solution has yet to be found for the country's debt issues. This is particularly pressing since the statutory debt ceiling is likely to be reached again in May. It cannot be ruled out that this will lead to uncertainty and a significant decline in growth rates in the US, which would also impact on the global economy via the trade channel. We also assume moderate growth rates for Canada and Mexico this year.

We also expect a slight increase in economic growth in Japan in 2013, with momentum possibly coming from the economic stimulus programme agreed at the start of the year. The Chinese economy will continue to post high growth rates by international standards. We also assume that economic growth will pick up gradually compared with the previous year. We anticipate a faster pace of economic growth in Singapore year-on-year.

ifo Global Economic Climate*



* Arithmetic mean of the assessment of the current situation and expected developments, Source: ifo World Economic Survey (WES) I/2013

The weak economic outlook in Europe suggests that unemployment will continue to rise in the majority of European countries. This increase is likely to be particularly pronounced in the southern euro zone member states. We anticipate a marginal rise in unemployment, or almost stable unemployment rates, for only a few European countries – for example, Germany, the UK and Poland. In view of the comparatively positive economic outlook in the US, we forecast a slow decline in the unemployment rate there during 2013.

Future economic development, and hence the forecasts, are still subject to considerable risks and uncertainty – primarily with respect to further developments concerning the European sovereign debt crisis. The risk of the crisis escalating is still present: the distortions on the financial and capital markets, alongside the banking sector's more pronounced reticence to lend and a deep-rooted uncertainty amongst economic operators, all hold the threat of a deep global recession. Even though we do not consider such a deep global recession to be the most likely outcome, the risk does exist. Another risk is the marked expansion of central bank money supply as a result of the expansive monetary policy measures taken. Although the expansive monetary policy is currently supporting the economy, the consequences of supplying the economy with liquidity in this manner are unclear.

Financial and capital markets, monetary policy and inflation

From the market participants' perspective, the development on the financial and capital markets in recent months suggests that the worst may be over with regard to the European sovereign debt crisis. Whilst the measures taken by the ECB impacting on liquidity as well as its announcement to buy government bonds under special circumstances substantially helped to calm the markets, the underlying economic conditions in many euro zone countries continue to be weak. Nevertheless, the uncertainties and risks on the financial and capital markets will continue to exist in view of the European sovereign debt crisis. The financial and capital markets are still very susceptible to shocks, should the sovereign debt crisis escalate.

The vast majority of central banks continue to pursue an expansive monetary policy, with some specifying in recent months that they will keep their interest rates low and persist with quantitative easing measures. The US Federal Reserve announced it would keep its key rate in the current range of between 0 and 0.25 %, provided unemployment remains above 6.5 % (March 2013: 7.6 %), the two-year inflation forecast does not exceed 2.5 % and the long-term inflation forecasts are firmly anchored. We therefore assume that the vast majority of the central banks will continue to pursue an expansive monetary policy in the future too, keeping key interest rates low. Consequently, under current conditions, short-term interest rates will remain low. Looking at long-term interest rates, the risk premiums (spreads) for bonds deemed as unsafe by investors are set to persist. The risk premiums will be particularly important for euro zone periphery governments as well as the companies located there. This assessment would change if there were any significant reduction in market uncertainty. Interest rates in the markets that were affected most by the sovereign debt crisis would then fall, while higher rates would be anticipated in other euro zone countries, such as Germany.

In light of the weak economic outlook and difficult environment on the labour markets, whereby a wage-price spiral is unlikely in most countries, there is little upside pressure on inflation. However, increases in consumption taxes and other levies are driving up prices in some countries. The oil price is an element of uncertainty with regard to inflation. As we see it, the rate of inflation in Europe for 2013 will be down slightly on the previous year's level. Our expectations for North America are similar. In China however, the annual inflation rate might exceed the previous year's level slightly, while mildly negative inflation (deflation) is possible in Japan.

Regulatory environment

The trend towards a tighter regulatory framework in the banking business is set to persist. Accordingly, Aareal Bank will also focus on the related measures for implementation and how these will affect the bank's business activities. Regulators have yet to come up with (and adopt) final details for a large portion of these additional requirements. The final draft of the various technical standards that are essential for implementation is still pending. To nevertheless facilitate the timely implementation, we have already started to deal with and pursue the various issues in numerous projects – devoting considerable resources to this task.

Sector-specific and business developments

Structured Property Financing segment

We expect that non-banks, such as insurance companies and pension funds, will expand their activities in Europe on the market for commercial property finance. However, the banks in Europe, in particular, are likely to continue focusing on their domestic markets and a number of core markets. US banks have recently stepped up their business activities in Germany again. On the whole, we expect the competition on the market for commercial property financing in Europe to intensify progressively.

Most banks will continue to concentrate in future on extending credit for first-class commercial property – in the corresponding locations – with low LTVs, even though we expect the range of financing solutions for properties with a higher risk profile, for cross-border portfolios, and for large-volume financings, to pick up. In contrast, credit supply is likely to remain tight in Southern Europe. However, lending activity is likely to pick up if the European sovereign debt crisis clearly eases. On the demand side, the high refinancing requirements of investors from expiring financing agreements must still be taken into consideration.

The financing markets in North America are currently very liquid. We therefore expect intensifying competition on the financing markets in the US this year and assume that this trend will become more pronounced. We also continue to believe the financing markets in Asia will remain liquid and highly competitive.

The weak economic outlook and high unemployment in Europe, together with the uncertainty and risks in the overall economic environment will adversely impact on the commercial property markets on the one hand.[1] On the other hand, the low interest rate levels are supporting property values. Additionally, investors appear to have a high level of liquidity for commercial property purchases, which also accounts for the corresponding demand. This is therefore also expected to foster commercial property values. While investors are looking primarily for first-class properties in good locations in the leading economic centres of Western and Northern Europe, we are also likely to see increased demand for properties with a higher risk profile. Bearing these conditions in mind, we anticipate rents and values to remain largely stable on average in 2013 in many European countries, such as Belgium, Germany, the UK and Poland. France and Sweden, on the other hand, are expected to see a slightly declining trend. In view of the persistent recession in Italy, the Netherlands and Spain, property values and rents will probably come under greater pressure there in 2013. On the other hand, market developments in the growth economies of Russia and Turkey could be slightly positive.

We expect rents and values in North America to rise slightly in 2013 as a result of the more favourable economic outlook. Good liquidity held by investors also shores up demand for and support of property values. As we see it, the slightly accelerated economic growth should lead to a slight increase in rents and values in China. We also expect a positive development in Singapore in 2013, while rents and values in Japan should, on average, remain virtually stable.

The trends described above should, in our view, tend to apply to office, retail and logistics property markets. Revenues in 2013 for hotel properties in Europe are expected to fluctuate around the previous year's levels in many places. The hotel sector in Southern Europe might deviate from this trend and come under downside pressure. We believe a slightly positive development is possible for the hotel sector in North America and Asia.

The uncertainty in the overall economic environment generates tangible risks on the commercial property markets. In the event of a deep recession of the global economy, more extensive declines in rents as well as in property values are probable; these would occur with a certain time lag. The high volume of financings set to mature could also represent a risk factor, while on the other hand, the low volume of new commercial property on the markets of Europe and North America could act as a support.

Aareal Bank takes property market developments into account for its risk assessment.

Among others, the new business targets take into consideration market conditions and expected developments. Despite the recent intensification of competition in commercial property financing in some core markets and the expectation that this trend will go on, we continue to expect new business of € 6.0 billion to € 7.0 billion for 2013.

[1] Assessments of individual sub-markets and properties may deviate from the assessment of the commercial property markets outlined below.

We want to continue to use club deals and syndicated financing in the future too, to allow us to participate in large-volume financings and to diversify risk.

Subject to the performance of the relevant currencies vis-a-vis the euro, we expect the volume of the property finance portfolio for this year to increase compared to the year-end 2012. The regional breakdown of the portfolio is driven by our three-continent strategy, with the regional focus being on Western Europe and North America.

The forecasts are based on the assumption that there will be no protracted global recession and that recessionary trends should remain restricted to a few European countries. We would otherwise anticipate a lower volume of new business.

Consulting / Services segment

Institutional Housing Unit

We 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.

Besides restoring existing housing stock, additional new construction projects are necessary for affordable housing, particularly in the conurbations. We forecast a 2 % increase in housing construction investment for Germany in 2013.

From a demographic and overall economic perspective, sentiment on the German residential property market will remain positive during 2013. Rental growth will be highest in 2013 in cities with growing populations and high economic output. Strong demand is expected, especially in the higher-quality new-build segment.

In addition to further large-volume portfolio transactions, demand in the smaller and mid-sized market also looks set to remain high in 2013. Interest in particular from international investors in residential property investment will continue to rise, with the volume of buyers from the US, Asia and Middle East increasing. Aggregate transaction volumes of around € 10 billion are expected for 2013.

We see good opportunities during 2013 to acquire new clients and to intensify the business relationships with our existing client base. 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 current account balances and rent deposits. Given the ongoing low interest rate environment, we expect margins in the deposit-taking business will continue to remain under pressure in 2013. However, the importance of the deposit-taking business in the Consulting / Services segment goes way beyond the interest margin generated from deposits, which is under pressure in the current market environment. This is because the deposits from the institutional housing industry represent a strategically important additional source of funding for us.

Aareon

The IT trend of cloud computing will continue to establish itself in the market for property management software. The use of mobile solutions is also becoming increasingly important.

Aareon anticipates further growth in sales revenues for the Wodis Sigma product line. Wodis Sigma is well received by our clients as a service from the Aareon Cloud, and supports the growth in the product line's sales revenues. Aareon is prepared for anticipated migrations from other ERP solutions to Wodis Sigma. It had already increased the advisory and support capacity in 2012. The high degree of client satisfaction with the ERP system GES has an influence on their readiness to migrate to other solutions; the migration of GES clients is therefore slower than originally anticipated. For 2013, we expect sales revenues with GES to be in line with the previous year's level.

We continue to expect a small number of tenders for new implementations on the market for SAP® solutions and Blue Eagle. Aareon therefore anticipates generally stable sales revenues with advisory solutions. A decline is only expected in licence revenues.

Sales revenues should continue to rise in the Integrated Services segment. The launch of new products, such as a state-of-the-art sector-specific customer relationship management system (CRM) and mobile solutions, as well as Aareon Archiv kompakt and Mareon FM (facility management), will have a positive effect on sales revenues. The CRM system and mobile solutions are developed in international projects within Aareon Group. This can enhance synergies to increase the benefit of these solutions for the clients. Owing to the market launch of the new products as of 2013, investment costs will burden the contribution margin of the Integrated Services segment in the years ahead too.

Profit before income and taxes (EBIT) in Aareon's international business will be lower in 2013 due to the temporary decline in licence sales in the Netherlands.

The EU-supported I-stay@home project will continue until 2015.

In the Netherlands, structural changes in the social housing sector are being pursued by policy makers. Aareon is adapting to this by adjusting the product portfolio. The market penetration with the product generation SG|tobias^{AX} will progress further. Market penetration by the Facility Management Informations System (FMIS) offered by the SG|Facilitor subsidiary is slower than expected. Overall, Aareon expects the licence business to make a slightly lower contribution to results compared with the previous year. Assuming an unchanged cost base, we expect a lower EBIT for 2013.

In France, the introduction of Release 3.0 for the ERP solution PortalImmo Habitat is planned this year. Despite a lower SAP® business, Aareon France is expected to record a slight increase in sales revenues in 2013, which will be generated mainly from consulting. The Flexiciel module will be sold on the market in future as software-as-a-service (SaaS). Owing to investment in new products – for example, as part of the I-stay@home project – EBIT is expected to come in at last year's level despite the growth in sales.

In the UK, the price war on the market for ERP solutions continues to exercise a considerable influence on new client acquisition. Nonetheless, Aareon UK is expected to increase sales revenues, with costs remaining constant. The ERP solution QL is being developed further, in line with the latest technological requirements. Demand remains strong for the document management and mobile solutions offered by Aareon UK. Aareon UK will also increase its EBIT contribution this year.

1st Touch Ltd., the specialist for mobile solutions acquired in 2012, will significantly increase the sales revenues via Aareon UK Ltd., given the sharp increase in the demand for such products on the market. The growing number of new projects anticipated in both new and existing client business will lead to greater demand for advisors, which 1st Touch Ltd. will address through investment in new personnel capacity – mainly through new hirings, which will raise staff-related costs significantly. 1st Touch is an important acquisition for Aareon Group and will also have a positive effect on Aareon's EBIT.

All in all, Aareon expects a slight increase in sales revenues. Increased demand, in particular for advisory services for Wodis Sigma, sales growth in integrated services through the new CRM products, Aareon Archiv kompakt and Mareon FM, together with anticipated growth in sales at 1st Touch Ltd., Aareon France SaaS and Aareon UK Ltd. will combine to offset the decline in licence sales at the Dutch subsidiary. Investments in the new integrated services products, investment costs for I-stay@home, and additional sales-related personnel expenses on account of the recruitment drive at 1st Touch Ltd. will lead to higher costs.

Compared with the previous year, Aareon expects a stable EBIT of around € 27 million for 2013.

Group targets

Net interest income / loss reflects the good margins achieved in the lending business. However, the persistently low interest rate environment coupled with the cautious investment strategy continues to represent a burden, so that net interest income / loss for 2013 is expected to be only slightly higher than in the previous year.

Aareal Bank expects allowance for credit losses to fluctuate in a slightly adjusted range – compared with the previous year – of € 110 million to € 150 million, particularly in view of the recessionary trends in Italy, Spain and the Netherlands, as well as a growing loan portfolio. As in the previous years, the bank cannot rule out additional allowance for unexpected credit losses that may be incurred during 2013.

We expect a stable trend for net commission income in 2013, between € 165 million and € 175 million.

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

Notwithstanding a still-challenging environment, we believe there is a good chance the bank's consolidated operating profit will match the level of 2012.

Our new business target in the Structured Property Financing segment is € 6 billion to € 7 billion for the year 2013.

In the Consulting / Services segment, we anticipate a stable result before taxes compared with the previous year, of around € 27 million for Aareon Group in 2013, despite rising investments.

Consolidated Financial Statements
Statement of Comprehensive Income[1)]

Income Statement

	Note	1 Jan-31 Mar 2013	1 Jan-31 Mar 2012
€ mn			
Interest income		204	279
Interest expenses		83	150
Net interest income	1	**121**	**129**
Allowance for credit losses	2	17	12
Net interest income after allowance for credit losses		**104**	**117**
Commission income		44	51
Commission expenses		6	11
Net commission income	3	**38**	**40**
Net result on hedge accounting	4	-3	-10
Net trading income/expenses	5	6	-16
Results from non-trading assets	6	-1	0
Results from investments accounted for using the equity method		–	–
Results from investment properties		0	3
Administrative expenses	7	92	91
Net other operating income/expenses	8	-5	0
Impairment of goodwill		0	0
Operating profit		**47**	**43**
Income taxes		15	12
Net income/loss		**32**	**31**
Allocation of results			
Net income/loss attributable to non-controlling interests		5	5
Net income/loss attributable to shareholders of Aareal Bank AG		27	26
Appropriation of profits			
Net income/loss attributable to shareholders of Aareal Bank AG		27	26
Silent participation by SoFFin		5	5
Consolidated profit/loss		**22**	**21**
€			
Earnings per share		0.45	0.43
Diluted earnings per share		0.45	0.43

Earnings per share are determined by dividing the earnings attributable to ordinary shareholders of Aareal Bank AG by the weighted average of shares outstanding during the reporting period.

[1)] The comparative figures were partially adjusted. Further information is included in the section "Accounting policies" in the notes to the consolidated financial statements.

Statement of Comprehensive Income

Reconciliation from Net Income/Loss to Total Comprehensive Income

€ mn	1 Jan-31 Mar 2013	1 Jan-31 Mar 2012
Net income/loss	**32**	**31**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from defined benefit plans	**–**	**-4**
Result from defined benefit plans	–	-6
Taxes	–	2
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	**20**	**63**
Gains and losses on remeasuring AfS financial instruments	27	83
Reclassifications to the income statement	–	–
Taxes	-7	-20
Changes in hedging reserves	**2**	**-19**
Profit/loss from derivatives used to hedge future cash flows	2	-28
Reclassifications to the income statement	–	–
Taxes	0	9
Changes in currency translation reserves	**0**	**-2**
Profit/loss from translating foreign operations' financial statements	0	-2
Reclassifications to the income statement	–	–
Taxes	–	–
Other comprehensive income	**22**	**38**
Total comprehensive income	**54**	**69**
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	49	64

Segment Reporting

Segment Results

€ mn	Structured Property Financing 1 Jan-31 Mar 2013	Structured Property Financing 1 Jan-31 Mar 2012	Consulting/Services 1 Jan-31 Mar 2013	Consulting/Services 1 Jan-31 Mar 2012	Consolidation/Reconciliation 1 Jan-31 Mar 2013	Consolidation/Reconciliation 1 Jan-31 Mar 2012	Aareal Bank Group 1 Jan-31 Mar 2013	Aareal Bank Group 1 Jan-31 Mar 2012
Net interest income	118	121	0	0	3	8	121	129
Allowance for credit losses	17	12					17	12
Net interest income after allowance for credit losses	**101**	**109**	**0**	**0**	**3**	**8**	**104**	**117**
Net commission income	2	4	39	44	-3	-8	38	40
Net result on hedge accounting	-3	-10					-3	-10
Net trading income/expenses	6	-16					6	-16
Results from non-trading assets	-1	0					-1	0
Results from investments accounted for using the equity method								
Results from investment properties	0	3					0	3
Administrative expenses	50	49	42	42	0	0	92	91
Net other operating income/expenses	-4	-1	-1	1	0	0	-5	0
Impairment of goodwill	0	0					0	0
Operating profit	**51**	**40**	**-4**	**3**	**0**	**0**	**47**	**43**
Income taxes	16	11	-1	1			15	12
Net income/loss	**35**	**29**	**-3**	**2**	**0**	**0**	**32**	**31**
Allocation of results								
Net income/loss attributable to non-controlling interests	4	4	1	1			5	5
Net income/loss attributable to shareholders of Aareal Bank AG	31	25	-4	1	0	0	27	26
Allocated equity	1,197	1,283	85	69	948	788	2,230	2,140
Cost/income ratio (%)	42.2	48.5	111.7	94.7			59.0	62.3
RoE before taxes (%)	15.7	11.4	-26.0	6.6			7.4	7.1
Employees (average)	**739**	**809**	**1,535**	**1,499**			**2,274**	**2,308**

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)

€ mn			Income statement classification – bank									
			Net interest income	Net commission income	Results from non-trading assets	Results from investments accounted for using the equity method	Administrative expenses	Net other operating income / expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	Q1 2013		0	39			42	-1		**-4**	-1	**-3**
	Q1 2012		0	44			42	1		**3**	1	**2**
Income statement classification – industrial enterprise												
Sales revenue	Q1 2013	44		44								
	Q1 2012	49		49								
Own work capitalised	Q1 2013	1					1					
	Q1 2012	0					0					
Changes in inventory	Q1 2013	0						0				
	Q1 2012	0						0				
Other operating income	Q1 2013	0						0				
	Q1 2012	2						2				
Cost of materials purchased	Q1 2013	5		5								
	Q1 2012	5		5								
Staff expenses	Q1 2013	29					29					
	Q1 2012	28					28					
Depreciation, amortisation and impairment losses	Q1 2013	3					3					
	Q1 2012	3					3					
Results from investments accounted for using the equity method	Q1 2013											
	Q1 2012											
Other operating expenses	Q1 2013	12					11	1				
	Q1 2012	12					11	1				
Interest and similar income / expenses	Q1 2013	0	0									
	Q1 2012	0	0									
Operating profit	**Q1 2013**	**-4**	**0**	**39**			**42**	**-1**				
	Q1 2012	**3**	**0**	**44**			**42**	**1**				
Income taxes	Q1 2013	-1									-1	
	Q1 2012	1									1	
Segment result	**Q1 2013**	**-3**										
	Q1 2012	**2**										

Statement of Financial Position[1)]

€ mn	Note	31 Mar 2013	31 Dec 2012
Assets			
Cash funds		3,689	3,667
Loans and advances to banks	9	1,450	1,552
Loans and advances to customers	10	24,840	24,766
Allowance for credit losses		-293	-302
Positive market value of derivative hedging instruments		2,186	2,365
Trading assets	11	494	576
Non-current assets held for sale and discontinued operations	12	7	9
Non-trading assets	13	11,901	12,286
Investments accounted for using the equity method		1	1
Investment properties		88	88
Intangible assets	14	87	90
Property and equipment	15	102	103
Income tax assets		23	35
Deferred tax assets		84	96
Other assets	16	467	418
Total		**45,126**	**45,750**
Equity and liabilities			
Liabilities to banks	17	2,029	3,284
Liabilities to customers	18	27,427	27,366
Certificated liabilities	19	9,236	8,473
Negative market value of derivative hedging instruments		1,952	2,122
Trading liabilities	20	658	719
Provisions	21	298	290
Income tax liabilities		11	10
Deferred tax liabilities		19	28
Other liabilities	22	130	113
Subordinated capital	23	1,004	1,028
Equity	24, 25		
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,042	1,020
Other reserves		-125	-147
Silent participation by SoFFin		300	300
Non-controlling interest		244	243
Total equity		2,362	2,317
Total		**45,126**	**45,750**

[1)] The comparative figures were partially adjusted. Further information is included in the section "Accounting policies" in the notes to the consolidated financial statements.

Statement of Changes in Equity[1)]

				Other reserves							
€ mn	Subscribed capital	Capital reserves	Retained earnings	Reserve from defined benefit plans	Revaluation surplus	Hedging reserves	Currency translation reserves	Silent participation by SoFFin	Total	Non-controlling interest	Equity
Equity as at 1 Jan 2013	**180**	**721**	**1,020**	**-39**	**-99**	**-13**	**4**	**300**	**2,074**	**243**	**2,317**
Total comprehensive income for the period			27		20	2	0		49	5	54
Payments to non-controlling interests										-4	-4
Silent participation by SoFFin											
Costs associated with the silent participation by SoFFin			-5						-5		-5
Other changes											
Equity as at 31 Mar 2013	**180**	**721**	**1,042**	**-39**	**-79**	**-11**	**4**	**300**	**2,118**	**244**	**2,362**

				Other reserves							
€ mn	Subscribed capital	Capital reserves	Retained earnings	Reserve from defined benefit plans	Revaluation surplus	Hedging reserves	Currency translation reserves	Silent participation by SoFFin	Total	Non-controlling interest	Equity
Equity as at 1 Jan 2012	**180**	**721**	**932**	**-16**	**-221**	**14**	**3**	**300**	**1,913**	**243**	**2,156**
Total comprehensive income for the period			26	-4	63	-19	-2		64	5	69
Payments to non-controlling interests										-4	-4
Silent participation by SoFFin											
Costs associated with the silent participation by SoFFin			-5						-5		-5
Other changes											
Equity as at 31 Mar 2012	**180**	**721**	**953**	**-20**	**-158**	**-5**	**1**	**300**	**1,972**	**244**	**2,216**

[1)] The comparative figures were partially adjusted. Further information is included in the section "Accounting policies" in the notes to the consolidated financial statements.

Statement of Cash Flows (condensed)

€ mn	2013	2012
Cash and cash equivalents as at 1 January	**3,667**	**588**
Cash flow from operating activities	-343	-92
Cash flow from investing activities	389	60
Cash flow from financing activities	-24	-2
Total cash flow	**22**	**-34**
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 31 March	**3,689**	**554**

Notes (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 2013 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 30 April 2013.

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 315a (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 to 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 2012 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:

- **Amendment to IAS 1 Presentation of Financial Statements**
  The amendment to IAS 1 changes the presentation of the items reported in other comprehensive income within the statement of comprehensive income.

- **IAS 12 Deferred tax: Recovery of underlying assets**
  In accordance with IAS 12 Income Taxes, the measurement of deferred taxes depends on whether the carrying amount of an asset is recovered through its use or sale. The amendment introduces the

rebuttable presumption according to which the carrying amount is normally recovered through sale. As a consequence of this amendment, SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets, no longer applies to investment properties measured at fair value.

- **Amendment to IAS 19 Employee Benefits**
  In accordance with the amended IAS 19, future unexpected fluctuations of pension obligations as well as any existing plan assets, so-called actuarial gains and losses, are recognised directly in other comprehensive income (Reconciliation from net income/loss to total comprehensive income). The previous election of recognising these gains and losses directly in profit or loss, in other comprehensive income or the deferred recognition under the so-called corridor method, was eliminated. Another change refers to the return on plan assets, which is no longer estimated in accordance with return expectations based on asset allocation. Instead, any income from the expected return on plan assets may be recognised only in the amount of the discount rate. The unrealised actuarial losses accrued as at 31 December 2012 amount to € 51 million and are offset against equity as an increase in pension provisions as at 1 January 2013, taking into account deferred taxes of € 16 million. The restatement of comparative figures resulting from the retrospective application of IAS 8 is as follows:

Adjusted items in the statement of financial position as at 31 December 2012:

€ mn	31 Dec 2012 (reported)	Adjustment	31 Dec 2012 (adjusted)
Deferred tax assets	80	16	**96**
Provisions	239	51	**290**
Equity			
Retained earnings	1,016	4	**1,020**
Other reserves	-108	-39	**-147**

Adjusted items in the statement of financial position as at 1 January 2012:

€ mn	1 Jan 2012 (reported)	Adjustment	1 Jan 2012 (adjusted)
Deferred tax assets	89	6	**95**
Provisions	251	19	**270**
Equity			
Retained earnings	929	3	**932**
Other reserves	-204	-16	**-220**

Adjusted items in the statement of comprehensive income for the period from 1 January 2012 to 31 March 2012:

€ mn	1 Jan-31 Mar 2012 (reported)	Adjustment	1 Jan-31 Mar 2012 (adjusted)
Income statement			
Administrative expenses	91	0	**91**
Income taxes	12	0	**12**
Other comprehensive income			
Changes in the reserve from defined benefit plans	–	-4	**-4**

- **IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities**
  The amendments to IFRS 7 concern the disclosures related to the offsetting of financial assets and liabilities. In future, gross and net amounts recognised in the statement of financial position as well as amounts for existing offsetting arrangements – which, however, do not comply with the offsetting criteria – are required as supplementary mandatory disclosure.

- **IFRS 13 Fair Value Measurement**
  IFRS 13 sets out uniform measures and disclosure requirements for fair value measurement which was previously defined in individual standards. The standard increases the extent of disclosures in connection with non-financial assets that are recognised at fair value within the context of business combinations or investment property. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

- **Annual Improvements 2009-2011 Cycle**

The new and revised standards and interpretations do not have any additional 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 2013	1 Jan-31 Mar 2012
Interest income from		
Property loans	157	189
Public-sector loans	4	8
Other lending and money market operations	17	37
Debt and other fixed-income securities	26	45
Current dividend income	0	0
Total interest income	**204**	**279**
Interest expenses for		
Bonds issued	25	41
Registered mortgage Pfandbriefe	6	24
Promissory note loans	22	40
Subordinated capital	6	9
Term deposits	17	26
Payable on demand	7	7
Other banking transactions	0	3
Total interest expenses	**83**	**150**
Total	**121**	**129**

(2) Allowance for credit losses

€ mn	1 Jan-31 Mar 2013	1 Jan-31 Mar 2012
Additions	20	23
Reversals	2	9
Direct write-offs	1	0
Recoveries on loans and advances previously written off	2	2
Total	**17**	**12**

(3) Net commission income

€ mn	1 Jan-31 Mar 2013	1 Jan-31 Mar 2012
Commission income from		
Consulting and other services	40	39
Trustee loans and administered loans	1	7
Securities transactions	–	–
Other lending and money market operations	2	3
Other commission income	1	2
Total commission income	**44**	**51**
Commission expenses for		
Consulting and other services	5	5
Securities transactions	0	3
Other lending and money market transactions	0	1
Other commission expenses	1	2
Total commission expenses	**6**	**11**
Total	**38**	**40**

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

(4) Net result on hedge accounting

€ mn	1 Jan-31 Mar 2013	1 Jan-31 Mar 2012
Ineffective portion of fair value hedges	-3	-8
Ineffective portion of cash flow hedges	0	-2
Ineffective portion of net investment hedges	0	–
Total	**-3**	**-10**

(5) Net trading income/expenses

€ mn	1 Jan-31 Mar 2013	1 Jan-31 Mar 2012
Net income/expenses from trading assets/liabilities	7	-17
Currency translation	-1	1
Total	**6**	**-16**

Net trading income/expenses were primarily attributable to the measurement of derivatives used to hedge interest rate and currency risks as well as to realised and unrealised changes in value from the sale of hedges for selected EU sovereign countries.

(6) Results from non-trading assets

€ mn	1 Jan-31 Mar 2013	1 Jan-31 Mar 2012
Result from debt securities and other fixed-income securities	0	0
of which: Loans and receivables (LaR)	0	0
Available for sale (AfS)	–	–
Result from equities and other non-fixed income securities	-1	0
of which: Available for sale (AfS)	–	0
Designated as at fair value through profit or loss (dFVtPL)	-1	0
Results from equity investments (AfS)	0	–
Total	**-1**	**0**

(7) Administrative expenses

€ mn	1 Jan-31 Mar 2013	1 Jan-31 Mar 2012
Staff expenses	55	56
Other administrative expenses	32	30
Depreciation, amortisation and impairment of property and equipment and intangible assets	5	5
Total	**92**	**91**

(8) Net other operating income/expenses

€ mn	1 Jan-31 Mar 2013	1 Jan-31 Mar 2012
Income from properties	2	2
Income from the reversal of provisions	0	0
Income from goods and services	1	1
Miscellaneous	4	2
Total other operating income	**7**	**5**
Expenses for properties	2	1
Expenses for services used	0	0
Write-downs of trade receivables	0	0
Expenses for other taxes	0	0
Miscellaneous	10	4
Total other operating expenses	**12**	**5**
Total	**-5**	**0**

Notes to the Statement of Financial Position

(9) Loans and advances to banks

€ mn	31 Mar 2013	31 Dec 2012
Term deposits and current account balances	1,264	1,363
Public-sector loans	137	146
Receivables from securities repurchase transactions	–	–
Other loans and advances	49	43
Total	**1,450**	**1,552**

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

(10) Loans and advances to customers

€ mn	31 Mar 2013	31 Dec 2012
Property loans	22,631	22,522
Public-sector loans	1,555	1,633
Other loans and advances	654	611
Total	**24,840**	**24,766**

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

(11) Trading assets

€ mn	31 Mar 2013	31 Dec 2012
Positive market value of trading assets	494	576
Total	**494**	**576**

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

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

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

€ mn	31 Mar 2013	31 Dec 2012
Properties	7	9
Total	**7**	**9**

(13) Non-trading assets

€ mn	31 Mar 2013	31 Dec 2012
Debt and other fixed-income securities	11,878	12,262
of which: Loans and receivables (LaR)	5,335	5,668
Held to maturity (HtM)	132	151
Available for sale (AfS)	6,411	6,443
Equities and other non-fixed income securities	21	22
of which: Available for sale (AfS)	19	19
Designated as at fair value through profit or loss (dFVtPL)	2	3
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	2	2
Total	**11,901**	**12,286**

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

(14) Intangible assets

€ mn	31 Mar 2013	31 Dec 2012
Goodwill	54	54
Proprietary software	14	15
Other intangible assets	19	21
Total	**87**	**90**

(15) Property and equipment

€ mn	31 Mar 2013	31 Dec 2012
Land and buildings and construction in progress	80	81
Office furniture and equipment	22	22
Total	**102**	**103**

(16) Other assets

€ mn	31 Mar 2013	31 Dec 2012
Properties	326	324
Trade receivables (LaR)	27	29
Miscellaneous	114	65
Total	**467**	**418**

(17) Liabilities to banks

€ mn	31 Mar 2013	31 Dec 2012
Payable on demand	882	915
Term deposits	310	467
Promissory note loans	465	465
Securities repurchase transactions and open-market operations	5	1,007
Registered mortgage Pfandbriefe	202	261
Registered public-sector Pfandbriefe	97	97
Miscellaneous	68	72
Total	**2,029**	**3,284**

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

(18) Liabilities to customers

€ mn	31 Mar 2013	31 Dec 2012
Payable on demand	5,257	5,167
Term deposits	6,655	6,333
Promissory note loans	8,524	8,815
Registered mortgage Pfandbriefe	3,739	3,640
Registered public-sector Pfandbriefe	3,252	3,411
Total	**27,427**	**27,366**

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

(19) Certificated liabilities

€ mn	31 Mar 2013	31 Dec 2012
Medium-term notes	2,562	2,495
Bearer mortgage Pfandbriefe	6,522	5,787
Bearer public-sector Pfandbriefe	35	35
Other debt securities	117	156
Total	**9,236**	**8,473**

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

(20) Trading liabilities

€ mn	31 Mar 2013	31 Dec 2012
Negative market value of trading liabilities	658	719
Total	**658**	**719**

Trading liabilities are allocated to the measurement category ”Held for trading“ (HfT). The trading liabilities reported are mainly used to hedge the economic market price risks.

(21) Provisions[1)]

€ mn	31 Mar 2013	31 Dec 2012
Provisions for pensions and similar obligations	147	144
Other provisions	151	146
Total	**298**	**290**

(22) Other liabilities

€ mn	31 Mar 2013	31 Dec 2012
Liabilities from outstanding invoices	11	10
Deferred income	8	5
Liabilities from other taxes	12	17
Trade payables (LaC)	9	8
Other liabilities (LaC)	90	73
Other liabilities	**130**	**113**

(23) Subordinated capital

€ mn	31 Mar 2013	31 Dec 2012
Subordinated liabilities	547	574
Profit-participation certificates	228	227
Contributions by silent partners[2)]	230	227
Total	**1,005**	**1,028**

[2)] 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).

[1)] The comparative figures were partially adjusted. Further information is included in the section "Accounting policies" in the notes to the consolidated financial statements.

(24) Equity[1)]

€ mn	31 Mar 2013	31 Dec 2012
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,042	1,020
Other reserves		
Reserve from defined benefit plans	-39	-39
Revaluation surplus	-79	-99
Hedging reserves	-11	-13
Currency translation reserves	4	4
Silent participation by SoFFin	300	300
Non-controlling interest	244	243
Total	**2,362**	**2,317**

(25) Treasury shares

No treasury shares were held during the period under review.

(26) Dividends

The Management Board of Aareal Bank AG proposes to the Annual General Meeting that the net retained profit of Aareal Bank AG in the amount of € 5,000,000 for the financial year 2012, 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 in view of the weak growth impetus on a macroeconomic level and the persisting risks of further disruptions to the market and to the financial system in order to secure the positioning of Aareal Bank for the near future. Impairment losses on our securities portfolio of the liquidity reserve cannot be ruled out, particularly if volatility on the financial and capital markets rises again.

1) The comparative figures were partially adjusted. Further information is included in the section „Accounting policies“ in the notes to the consolidated financial statements.

Reporting on Financial Instruments

(27) Presentation of the fair value hierarchy in accordance with IFRS 13

The following table shows the carrying amounts of financial instruments held by Aareal Bank Group which are reported at fair value in the statement of financial position, according to the three-tier fair value hierarchy pursuant to IFRS 13.72 et seq. The classification into the individual hierarchy levels is based on the inputs used for fair value measurement.

31 March 2013

€ mn	Total Fair value 31 Mar 2013	Fair value Level 1 31 Mar 2013	Fair value Level 2 31 Mar 2013	Fair value Level 3 31 Mar 2013
Positive market value of derivative hedging instruments	**2,186**	**–**	**2,186**	**–**
Assets held for trading	**494**	**–**	**494**	**–**
Trading derivatives	494	–	494	–
Non-trading assets available for sale	**6,430**	**6,355**	**75**	**0**
Fixed-income securities	6,411	6,352	59	–
Equities/funds	19	3	16	0
Non-trading assets designated as at fair value through profit or loss	**2**	**–**	**2**	**0**
Negative market value of derivative hedging instruments	**1,952**	**–**	**1,952**	**–**
Liabilities held for trading	**658**	**–**	**658**	**–**
Trading derivatives	658	–	658	–

31 December 2012

€ mn	Total Fair value 31 Dec 2012	Fair value Level 1 31 Dec 2012	Fair value Level 2 31 Dec 2012	Fair value Level 3 31 Dec 2012
Positive market value of derivative hedging instruments	**2,365**	**–**	**2,365**	**–**
Assets held for trading	**576**	**–**	**576**	**–**
Trading derivatives	576	–	576	–
Non-trading assets available for sale	**6,462**	**6,387**	**75**	**0**
Fixed-income securities	6,443	6,384	59	–
Equities/funds	19	3	16	0
Non-trading assets designated as at fair value through profit or loss	**3**	**–**	**3**	**0**
Negative market value of derivative hedging instruments	**2,122**	**–**	**2,122**	**–**
Liabilities held for trading	**719**	**–**	**719**	**–**
Trading derivatives	719	–	719	–

The fair value of financial instruments is allocated to Level 1 of the fair value hierarchy if it is determined on the basis of unadjusted quoted prices in active markets for identical assets or liabilities. The determination of the fair value is based on the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. Another factor to be taken into account is whether Aareal Bank can enter into a transaction for the relevant asset or liability at the price in that market at the measurement date.

Fair values determined using inputs other than quoted prices included within Level 1 that are observable for the financial instrument, either directly or indirectly, are included in Level 2 of the fair value hierarchy. Financial instruments whose fair value is allocated to Level 2 of the fair value hierarchy are measured using various valuation techniques.

In case of fixed-income securities or equities for which no current market price is available, the fair value is determined on the basis of comparable market prices to the extent possible. To this end, quoted prices on active markets for largely identical or quoted prices on inactive markets for identical or similar securities are used by adjusting the last available market price or the current fair value of another largely identical instrument, to take into account any changes in risk or new information known as of the measurement date. In the absence of comparable market prices for securities, they are measured through an analysis of future payments using the fully-capitalised earnings value approach, where the inputs are based on observable market data. These approaches include the discounted cash flow (DCF) method, which is used to determine the present value of contractual cash flows until the expected end of the term, and adjusted using the benchmark curve of the relevant market, taking into account mark-ups based on credit quality and liquidity. The valuation model used for options included in the transaction is the commonly used Black-Scholes model or appropriate numerical procedures.

The fair value of OTC derivatives included in the trading portfolio as well as of OTC hedging derivatives is determined on the basis of sector-specific standardised measurement models, such as the present value method or option pricing models. These techniques are based on inputs quoted on active markets, such as interest rates, yield curves and credit spreads. The fair value of foreign exchange forwards is generally based on current forward exchange rates quoted on active markets.

Fair values determined using valuation techniques where one or more material inputs are not based on observable market data are assigned to Level 3 of the fair value hierarchy. Products that are allocated to this level are currently not held by Aareal Bank Group.

In the first quarter of 2013, there were no transfers between the hierarchy levels for the various financial instruments.

Aareal Bank reviews the allocation of a financial instrument in the fair value hierarchy at the beginning of the preceding quarter with the allocation at the beginning of the current quarter, to determine whether reclassifications occurred between the individual levels of the fair value hierarchy. The date for recognising reclassifications into the hierarchy levels and for recognising reclassifications from the hierarchy levels is the same.

(28) Comparison of carrying amounts and fair values of the financial instruments

The following table is a comparison of the fair values of the financial instruments with their carrying amounts. The presentation is made for each class of financial instrument:

€ bn	Carrying amount 31 Mar 2013	Fair value 31 Mar 2013	Carrying amount 31 Dec 2012	Fair value 31 Dec 2012
Cash on hand and balances with central banks	**3.7**	**3.7**	**3.7**	**3.7**
Loans and advances to banks (LaR)	1.4	1.4	1.6	1.6
Loans and advances to customers (LaR)	24.5	26.1	24.5	26.0
Non-trading assets (LaR)	5.3	4.9	5.7	5.2
Other assets (LaR)	0.1	0.1	0.1	0.1
Total loans and receivables	**31.3**	**32.5**	**31.9**	**32.9**
Non-trading assets held to maturity	**0.1**	**0.1**	**0.2**	**0.2**
Non-trading assets available for sale	**6.4**	**6.4**	**6.5**	**6.5**
Non-trading assets designated as at fair value through profit or loss	**0.0**	**0.0**	**0.0**	**0.0**
Positive market value of derivative hedging instruments	**2.2**	**2.2**	**2.4**	**2.4**
Assets held for trading	**0.5**	**0.5**	**0.6**	**0.6**
Liabilities to banks (LaC)	2.0	2.0	3.3	3.3
Liabilities to customers (LaC)	27.4	27.2	27.4	27.0
Certificated liabilities (LaC)	9.2	9.3	8.5	8.6
Other liabilities (LaC)	0.1	0.1	0.1	0.1
Subordinated capital (LaC)	1.0	0.9	1.0	0.9
Total liabilities measured at amortised cost	**39.7**	**39.5**	**40.3**	**39.9**
Negative market value of derivative hedging instruments	**2.0**	**2.0**	**2.1**	**2.1**
Liabilities held for trading	**0.7**	**0.7**	**0.7**	**0.7**
Financial guarantee contracts	**0.2**	**0.2**	**0.3**	**0.3**
Loan commitments	**1.6**	**1.6**	**2.0**	**2.0**

(29) Day-One Profit or Loss

Aareal Bank Group has entered into transactions that were not effected on the principal market or the most advantageous market for the asset or liability concerned. In these cases the transaction price does not correspond to the fair value of the asset or liability, because the determination of the fair value using a valuation technique which assumes a transaction on a principal market results in a fair value that deviates from the transaction price. The financial instruments are carried at the transaction price upon initial recognition. The difference between the transaction price and the fair value measured based on the valuation model (the so-called day-one profit or loss) is amortised over the term of the transaction in the income statement, since the fair value of these financial instruments of the trading portfolio is determined using valuation models whose inputs are not fully based on observable market factors.

The table below shows the development of the day-one profit during the quarter under review. The day-one profit is recognised as an item to be deducted from the carrying amount of trading assets.

€ mn	2013	2012
Balance at 1 January	**10**	**7**
Additions from new transactions	7	0
Reversals through profit or loss in the period	1	0
Balance at 31 March	**16**	**7**

(30) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position when there is a current and legally enforceable right to set off the recognised amounts, and when the Bank intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The following overviews show the financial instruments that are part of an enforceable master netting or similar arrangement. The tables also disclose whether and to what extent financial instruments were actually offset as at the current reporting date.

Financial assets as at 31 March 2013

€ mn	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset financial liabilities	Net carrying amount reported in the statement of financial position	Related liabilities which were not subject to offsetting		Remaining net amount
				Financial instruments	Collateral	
Derivatives	2,331	–	2,331	1,436	866	29
Reverse repos	–	–	–	–	–	–
Other financial assets	–	–	–	–	–	–
Total	**2,331**	**–**	**2,331**	**1,436**	**866**	**29**

Financial liabilities as at 31 March 2013

€ mn	Gross carrying amounts of recognised financial liabilities	Gross carrying amounts of offset financial assets	Net carrying amount reported in the statement of financial position	Related assets which were not subject to offsetting		Remaining net amount
				Financial instruments	Collateral	
Derivatives	2,587	–	2,587	1,436	1,134	17
Repos	5	–	5	–	5	–
Other financial liabilities	–	–	–	–	–	–
Total	**2,592**	**–**	**2,592**	**1,436**	**1,139**	**17**

Financial assets as at 31 December 2012

€ mn	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset financial liabilities	Net carrying amount reported in the statement of financial position	Related liabilities which were not subject to offsetting		Remaining net amount
				Financial instruments	Collateral	
Derivatives	2,555	–	2,555	1,571	950	34
Reverse repos	–	–	–	–	–	–
Other financial assets	–	–	–	–	–	–
Total	**2,555**	**–**	**2,555**	**1,571**	**950**	**34**

Financial liabilities as at 31 December 2012

€ mn	Gross carrying amounts of recognised financial liabilities	Gross carrying amounts of offset financial assets	Net carrying amount reported in the statement of financial position	Related assets which were not subject to offsetting: Financial instruments	Related assets which were not subject to offsetting: Collateral	Remaining net amount
Derivatives	2,831	–	2,831	1,571	1,225	35
Repos	–	–	–	–	–	–
Other financial liabilities	–	–	–	–	–	–
Total	**2,831**	**–**	**2,831**	**1,571**	**1,225**	**35**

To reduce counterparty risk, Aareal Bank AG concludes standardised master agreements for financial derivatives and securities repurchase agreements, such as the ISDA Master Agreement, the German Master Agreement on Financial Derivatives or the Master Agreement for Securities Repurchase Transactions. In addition, Aareal Bank AG enters into collateral agreements (Credit Support Annex to the ISDA Master Agreement and Collateral Annex to the German Master Agreement on Financial Derivatives) in which a mutual collateralisation of all claims between the contracting parties is agreed and which include netting arrangements.

The master agreements for financial derivatives used by Aareal Bank AG include netting arrangements at a single transaction level (so-called "payment netting"), which provide for a netting of payments when both parties need to make payments in the same currency on the same date, as set out in the contract. So-called close-out netting applies if all individual transactions under a master agreement are terminated. In general, all master agreements are based on the principle of a common agreement. This means that in the case of a termination the individual claims are netted and that only such net amount can and may be claimed with regard to the defaulted counterparty. This claim must not be affected by any insolvency, i.e. it must be legally valid and enforceable. In this context, netting is only permitted in the case of termination. Termination may be based on a defined event of default or on a defined termination event, i.e. an event outside the control of the counterparties (e.g. changes in tax laws). The rules related to close-out netting which are included in the master agreements for financial derivatives do not fulfil the requirements set out in IAS 32 with regard to offsetting, since it is a contingent event. Aareal Bank AG also does not offset financial derivatives due to the rules related to payment netting, as there is no intention to settle on a net basis. Aareal Bank Group has not entered into arrangements providing for netting of derivatives across several transactions.

For securities repurchase transactions (repo), depending on the counterparty, payment or delivery netting is made. In line with the rules set out in the master agreement for repo transactions, payments or deliveries of securities may be offset when both counterparties have to make payments in the same currency on the same date, or have to deliver securities of the same type. In this case, the party owing the largest amount of money or the largest quantity of securities pays or delivers the difference between the amounts or quantities owed. Transactions effected on the basis of the master agreement for repo transactions generally meet the offsetting requirements of IAS 32. However, Aareal Bank AG settles on a net basis only in the case of transactions within the framework of GC pooling, which means that these transactions are offset in the statement of financial position. In the case of GC pooling via Eurex Repo, the market participants maintain various accounts to hold services received from a transaction, as well as for securities to be provided as collateral by the market participant. The clearing of these transactions is based on "settlement day netting", i.e. all transactions of a specific trade currency with the same ISIN are offset in a securities account to determine a net position, which is then used for the purpose of calculating the amount of collateral to be provided.

(31) Reclassification of financial assets

In 2008 and 2009, Aareal Bank Group took advantage of the opportunity to reclassify 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). 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 2013	Fair value 31 Mar 2013	Carrying amount 31 Dec 2012	Fair value 31 Dec 2012
from AfS to LaR	**4,840**	**4,422**	**5,120**	**4,651**
Asset-backed securities	29	28	29	28
Senior unsecured bank bonds	533	548	603	617
Covered bank bonds	606	607	633	623
Public-sector issuer	3,672	3,239	3,855	3,383
from HfT to LaR	**203**	**175**	**213**	**179**
Asset-backed securities	203	175	213	179
Public-sector issuer	–	–	–	–
Total	**5,043**	**4,597**	**5,333**	**4,830**

If the Bank had not opted for reclassification, this would have resulted in a € 6 million gain/loss (before tax) for the first quarter of 2013 (Q1 2012: € 5 million), and € 36 million (after tax) (Q1 2012: € 104 million) would have been recognised in the revaluation surplus.

(32) Bond and property financing portfolio in 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 portfolio as at 31 March 2013 (total)

€ mn	Carrying amount			Revaluation surplus[1]			Unrealised gains/losses[1]
	LaR + HtM	AfS	Total	LaR + HtM	AfS	Total	
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	1,129	524	1,653	-50	-36	-86	-211
Portugal	64	160	224	-1	-18	-19	-14
Spain	856	151	1,007	-5	-1	-6	-77
Total	**2,049**	**835**	**2,884**	**-56**	**-55**	**-111**	**-302**
Total 31 Dec 2012	2,118	795	2,913	-57	-64	-121	-333

[1] figures given on an after-tax basis

Bond portfolio as at 31 March 2013 (by type of security)

€ mn	Carrying amount			Revaluation surplus[1]			Unrealised gains/losses[1]
	LaR	AfS	Total	LaR	AfS	Total	
Government bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	1,129	437	1,566	-50	-36	-86	-211
Portugal	–	99	99	–	-11	-11	–
Spain	–	–	–	–	–	–	–
Total	**1,129**	**536**	**1,665**	**-50**	**-47**	**-97**	**-211**

€ mn	Carrying amount			Revaluation surplus[1]			Unrealised gains/losses[1]
	LaR	AfS	Total	LaR	AfS	Total	
Sub-sovereign bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	–	–	–	–	–	–	–
Portugal	64	–	64	-1	–	-1	-14
Spain	348	27	375	-1	1	0	-71
Total	**412**	**27**	**439**	**-2**	**1**	**-1**	**-85**

€ mn	Carrying amount			Revaluation surplus[1]			Unrealised gains/losses[1]
	LaR + HtM	AfS	Total	LaR + HtM	AfS	Total	
Covered bank bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	–	74	74	–	0	0	–
Portugal	–	61	61	–	-7	-7	–
Spain	508	124	632	-4	-2	-6	-6
Total	**508**	**259**	**767**	**-4**	**-9**	**-13**	**-6**

€ mn	Carrying amount			Revaluation surplus[1]			Unrealised gains/losses[1]
	LaR	AfS	Total	LaR	AfS	Total	
Senior unsecured bank bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	–	13	13	–	0	0	–
Portugal	–	–	–	–	–	–	–
Spain	–	–	–	–	–	–	–
Total	**–**	**13**	**13**	**–**	**0**	**0**	**–**

[1] figures given on an after-tax basis

The revaluation surplus for bonds of the ”Loans and receivables“ (LaR) category 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). Unrealised gains and losses refer to securities accounted for amortised cost (LaR + HtM). The measurement of unrealised gains / losses included the effect from measurement gains/losses attributable to interest rate changes for hedged securities.

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

The presented AfS securities with a carrying amount of € 822 million (2012: € 782 million) were allocated to Level 1 of the fair value hierarchy pursuant to IFRS 7 and measured based on quoted prices on active markets. Securities with a carrying amount of € 13 million (2012: € 13 million) were allocated to Level 2 of the fair value hierarchy. No quoted market prices of hierarchy level 1 were available for these securities as at the balance sheet date; however, measurement is also directly or indirectly based on observable market prices. Aareal Bank Group does not hold securities measured according to Level 3 of the fair value hierarchy.

The following table is a breakdown of property financing in selected European countries included in loans and advances to customers:

Property financing portfolio as at 31 March 2013

	Carrying amount[1]	Average LTV	Non-performing loans
	€ mn	%	€ mn
Greece	–		–
Ireland	–		–
Italy	3,153	61.6	288
Portugal	–		–
Spain	1,082	83.3	58
Total	**4,235**		**346**
Total 31 Dec 2012	4,280		314

[1] Not including valuation allowances

Other Notes

(33) Contingent liabilities and loan commitments

€ mn	31 Mar 2013	31 Dec 2012
Contingent liabilities on guarantees and indemnity agreements	245	273
Loan commitments	1,590	1,979
of which: irrevocable	1,082	1,521

(34) Employees

	1 Jan-31 Mar 2013	1 Jan-31 Dec 2012
Salaried employees	2,156	2,171
Executives	118	124
Total	**2,274**	**2,295**
of which: Part-time employees	446	424

(35) Related party disclosures in accordance with IAS 24

In the first three months of the 2013 financial year, there were no material transactions with related parties that would have to be reported here.

(36) 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 of the Supervisory Board of
Citigroup Global Markets Deutschland AG

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)]**, Hamburg**
Banker (ret'd.)
Former Spokesman of the General Partners
of Bankhaus Lampe KG

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

Thomas Hawel [6)]**, Saulheim**
Aareon Deutschland GmbH

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

Marija G. Korsch, Frankfurt
Former partner of Bankhaus Metzler seel. Sohn
& Co. Holding 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

Helmut Wagner [6)]**, Hahnheim**
Aareon Deutschland GmbH

Management Board

Dr Wolf Schumacher
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

Offices

Wiesbaden Head Office

Aareal Bank AG
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3480
Fax: +49 611 3482549

Structured Property Financing

Brussels
7, rue Guimard
1040 Brussels, Belgium
Phone: +32 2 5144090
Fax: +32 2 5144092

Copenhagen
St. Kirkestræde 1, 3
1073 Kopenhagen K, Denmark
Phone: +45 3369 1818
Fax: +45 70 109091

Istanbul
Ebulula Mardin Caddesi
Maya Meridyen Iş Merkezi
D:2 Blok · Kat. 11
34335 Akatlar-Istanbul, Turkey
Phone: +90 212 3490200
Fax: +90 212 3490299

London
38 Lombard Street
London EC3V 9BS, United Kingdom
Phone: +44 20 74569200
Fax: +44 20 79295055

Madrid
Paseo de la Castellana, 60 - 4D
28046 Madrid, Spain
Phone: +34 915 902420
Fax: +34 915 902436

Moscow
Business Centre "Mokhovaya"
4/7 Vozdvizhenka Street
Building 2
125009 Moscow, Russia
Phone: +7 499 2729002
Fax: +7 499 2729016

New York
Aareal Capital Corporation
250 Park Avenue
Suite 820
New York NY 10177, USA
Phone: +1 212 5084080
Fax: +1 917 3220285

Paris
29 bis, rue d'Astorg
75008 Paris, France
Phone: +33 1 44516630
Fax: +33 1 42662498

Rome
Via Mercadante, 12/14
00198 Rome, Italy
Phone: +39 06 83004200
Fax: +39 06 83004250

Shanghai
Suite 2902
Tower 2 Plaza 66
No. 1266 Nanjing West Road
Jing An District
Shanghai 200040, P.R. of China
Phone: +86 21 62889908
Fax: +86 21 62889903

Singapore
Aareal Bank Asia Limited
3 Church Street
17-03 Samsung Hub
Singapore 049483, Singapore
Phone: +65 6372 9750
Fax: +65 6536 8162

Stockholm
Hamngatan 11
11147 Stockholm, Sweden
Phone: +46 8 54642000
Fax: +46 8 54642001

Warsaw
RONDO 1
Rondo ONZ 1
00-124 Warsaw, Poland
Phone: +48 22 5449060
Fax: +48 22 5449069

Wiesbaden
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482950
Fax: +49 611 3482020

Aareal Estate AG
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482446
Fax: +49 611 3483587

Aareal Valuation GmbH
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482059
Fax: +49 611 3482640

Deutsche Structured Finance GmbH
Westendstrasse 24
60325 Frankfurt/Main, Germany
Phone: +49 69 9714970
Fax: +49 69 971497510

Consulting / Services

Aareal Bank AG
Institutional Housing Unit
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482967
Fax: +49 611 3482499

Institutional Housing Unit
Berlin Branch
Wallstrasse 9-13
10179 Berlin, Germany
Phone: +49 30 88099444
Fax: +49 30 88099470

Institutional Housing Unit
Essen Branch
Alfredstrasse 220
45131 Essen, Germany
Phone: +49 201 81008100
Fax: +49 201 81008200

Institutional Housing Unit
Hamburg Branch
Pelzerstrasse 7
20095 Hamburg, Germany
Phone: +49 40 33316850
Fax: +49 40 33316399

Institutional Housing Unit
Leipzig Branch
Neumarkt 2-4
04109 Leipzig, Germany
Phone: +49 341 2272150
Fax: +49 341 2272101

Institutional Housing Unit
Munich Branch
Prinzregentenstrasse 22
80538 Munich, Germany
Phone: +49 89 5127265
Fax: +49 89 51271264

Institutional Housing Unit
Rhine-Main Branch
Paulinenstrasse 15
65189 Wiesbaden, Germany
Hotline: +49 611 3482000
Fax: +49 611 3483002

Institutional Housing Unit
Stuttgart Branch
Büchsenstrasse 26
70174 Stuttgart, Germany
Phone: +49 711 2236116
Fax: +49 711 2236160

Aareon AG
Isaac-Fulda-Allee 6
55124 Mainz, Germany
Phone: +49 6131 3010
Fax: +49 6131 301419

Aareal First Financial Solutions AG
Isaak-Fulda-Allee 6
55124 Mainz, Germany
Phone: +49 6131 4864500
Fax: +49 6131 486471500

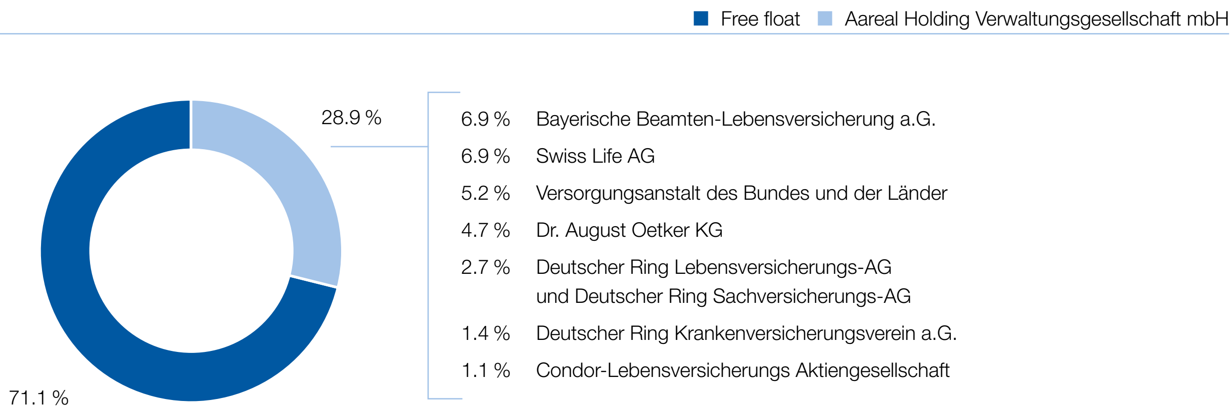
Deutsche Bau- und
Grundstücks-Aktiengesellschaft
Chlodwigplatz 1
53119 Bonn, Germany
Phone: +49 228 5180
Fax: +49 228 518298

Deposit-taking

Dublin
4 Custom House Plaza · IFSC
Dublin 1, Ireland
Phone: +353 1 6369220
Fax: +353 1 6702785

Shareholder Structure | Financial Calendar

Shareholder Structure



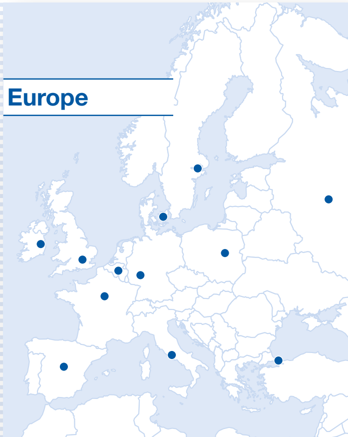
as at 31 March 2013

Financial Calendar

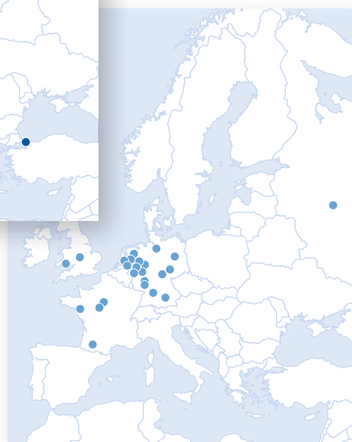
22 May 2013	Annual General Meeting – Kurhaus, Wiesbaden
13 August 2013	Presentation of interim report as at 30 June 2013
November 2013	Presentation of interim report as at 30 September 2013

Locations

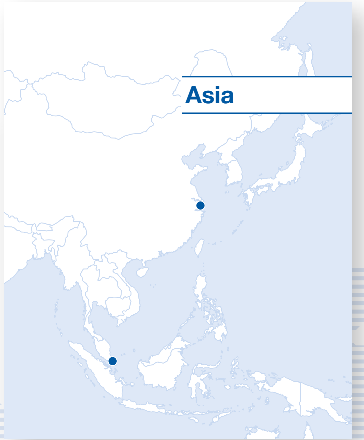
Structured Property Financing



Structured Property Financing



Consulting/Services



Structured Property Financing

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

as at 31 March 2013

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Aareal Bank AG
Investor Relations
Paulinenstrasse 15
65189 Wiesbaden, Germany

Phone: +49 611 348 3009
Fax: +49 611 348 2637
E-mail: aareal@aareal-bank.com
www.aareal-bank.com

05/2013

Aareal Bank Group