Aareal Bank Group – Interim Report
1 January to 30 June 2012

Aareal Bank Group

Key Group Figures

	1 Jan-30 Jun 2012	1 Jan-30 Jun 2011	Change
	€ mn	€ mn	€ mn
Income statement			
Operating profit	88	91	-3
Net income after non-controlling interests	55	56	-1
Indicators			
Cost/income ratio (%)[1]	44.1	45.5	
Earnings per share (€)	0.92	1.16	
RoE before taxes (%)[2]	7.3	8.3	
RoE after taxes (%)[2]	5.1	5.7	

	30 Jun 2012	31 Dec 2011	Change
	€ mn	€ mn	€ mn
Portfolio data			
Property finance	23,303	23,986	-683
of which: international	19,999	20,425	-426
Property finance under management[3]	23,539	24,239	-700
of which: international	19,999	20,425	-426
Equity	2,264	2,169	95
Total assets	45,400	41,814	3,586
	%	%	
Regulatory indicators			
Tier 1 ratio pursuant to AIRBA[4]	16.7	16.3	
Total capital ratio pursuant to AIRBA[4]	20.5	19.5	

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

[1] Structured Property Financing segment only
[2] On an annualised basis
[3] Property financings under management include the property financing portfolio managed for Deutsche Pfandbriefbank AG
[4] Advanced Internal Ratings-Based Approach (AIRBA)

Contents

Letter to Shareholders

Dear Shareholders,
business associates and Aareal Bank staff,

The second quarter of the 2012 financial year once again presented great challenges to Aareal Bank Group and the banking sector as a whole. Our environment was influenced particularly by high volatility on the global capital markets, and deep concern about a further escalation of the European sovereign debt crisis. The financial system continued to be characterised by a considerable degree of risk. Fears about sustained weakness in Europe's economic development also became stronger.

After the EU summit resolutions on the design of the European rescue fund, and the European Central Bank's repo operations succeeded at easing tension on the markets at the beginning of the year, the renewed aggravation of the European sovereign debt crisis in the second quarter made insecurity and volatility on the financial and capital markets rise again. The cause of these developments can be traced to, amongst other things, the failure to form a government in Greece after the first election in April, which led to great uncertainty and reticence amongst market participants. In addition, there were discussions surrounding the support measures for the Spanish banking sector and the risk premiums on Spanish and Italian government bonds, which increased once again. Against this background, central banks continued to pursue an expansive monetary policy during the second quarter.

As was apparent at the beginning of the year, economic performance varied widely in different parts of the world in the second quarter of 2012 as well. Within the euro zone, the sovereign debt crisis and the associated austerity measures negatively impacted the economic development of many countries. Particularly hard hit were countries on the southern periphery of the euro zone. Whilst a great number of countries outside the euro zone also showed only tepid economic growth for the second quarter of 2012, economic development in North America was markedly better, and showed signs of a moderate upturn, albeit without gaining momentum. Asian economies continued their upwards trend, although economic momentum weakened here, too.

Banking regulation remains one of the dominant themes in the financial sector. Various measures have already been adopted, and there is an ongoing discussion concerning stricter capital and liquidity requirements as well as the future structure of banks' balance sheets. Yet despite all this, the issue of the cumulative impact on banks and on the real economy still remains unanswered. The aspect of needing to implement measures in an internationally uniform manner to prevent competitive disadvantages has drawn the short straw. Against this background, negative effects on the macro-economic role of banks in financing growth and innovation cannot be ruled out – particularly in Europe. The banking industry has undoubtedly an enormous macro-economic role to play, given the significant support it provides to the real economy. It is therefore imperative to take a differentiated view when considering the role of banks.

Aareal Bank succeeded in posting a very satisfactory result for the second quarter of 2012 in this challenging market environment. At € 45 million in the second quarter of 2012, our consolidated operating profit was up slightly over the previous year's level of € 44 million. A significant rise in net commission income and lower administrative expenses contributed to the year-on-year increase, whilst net interest income reflected the sustained caution in our liquidity and investment strategy, declining slightly.

In commercial property financing, the developments of the first quarter continued, with markets remaining largely stable overall. As regards the competitive environment, many institutions are currently focusing on their domestic markets, especially in Europe. In this environment, Aareal Bank is one of the few remaining providers of commercial property finance that is fully operational on an international level. We see this as a clear competitive advantage, and a positive precondition for business development throughout the rest of the year.

Compared to the first three months of the year, we have expanded new business in the Structured Property Financing segment in the second quarter, reaching € 1.2 billion. Our remarkably robust financial position enables us to take advantage of attractive opportunities in new lending business. We will focus more heavily on doing so in the second half of 2012. Our successful funding activities in the first half of the year serve as a basis in this respect. Our well-stocked deal pipeline is just another reason why we remain convinced that we will achieve our published new business target of € 4.5 to € 5.5 billion for the current financial year.

We continued to pursue our very cautious liquidity and investment strategy during the second quarter in light of the high uncertainty ensuing from the European sovereign debt crisis and planned regulatory reforms, which in many cases remain unclear as to their precise scope and implication. For this reason, we have continued to invest liquid funds with the ECB to a large extent, which weighed on our net interest income as already stated. As long as we must assume that the situation on the financial and capital markets will remain difficult, and that volatility will persist, we will firmly adhere to this strategy. We accept the concessions this means in our net interest income as the price for the security it affords.

At € 25 million, allowance for credit losses remained lower than the pro rata range forecast for the financial year, but it was within the predicted fluctuation range. It stands as a clear confirmation of the high quality standards to which we subject our property financing portfolio, and which we are able to implement by actively managing our credit exposures.

After the last remaining bonds guaranteed by the German Financial Markets Stabilisation Fund (SoFFin) matured in the first quarter of 2012, the resulting guarantee costs did not apply for the first time in the second quarter. As a result, there was a considerable and positive effect upon net commission income compared with the previous year. Aareal Bank is no longer using SoFFin guarantees.

In the Consulting / Services segment, our subsidiary Aareon AG performed in line with plans. Once again, the Wodis Sigma product line – which came to the market in 2009 – provided the basis for this success. The second quarter once again saw numerous clients deciding to adopt the product; roughly 400 property management companies of all shapes and sizes now use it. Aareon's international business also developed favourably.

The banking business in the Consulting / Services segment continues to be shaped by two developments. On the one hand, deposit volumes from institutional housing industry clients developed very favourably during the second quarter. We further improved on the already high average level of € 5.0 billion in the previous quarter, bringing it to € 5.5 billion. On the other hand, sustained low interest rates continued to weigh on results generated from deposits this quarter. Moreover, recent decisions by the European Central Bank regarding interest rates have made it clear that no rapid positive changes in this situation can be expected. In fact, developments over the course of the year may instead result in a stronger burden for this segment's results than previously anticipated. The importance of this business goes way beyond the interest margin – which is under pressure in the current market environment – generated from the deposits. This is because the deposits from the institutional housing industry represent a strategically important source of funding for us.

We were very successful in our refinancing activities in the second quarter, and were able to raise € 1.3 billion in long-term funds. In this way we secured our good liquidity situation and continued to maintain our long-term funding at a high level. Of the issues launched in the second quarter, the € 500 million Mortgage Pfandbrief with a five-year term to maturity issued in June is particularly worth mentioning.

Aareal Bank therefore continues to be very solidly financed. As at 30 June 2012 the Tier I ratio was 16.7 per cent, which is comfortable on an international level. The core Tier I ratio was 11.7 per cent. Aareal Bank thus already largely complies with the tightened capital requirements under Basel III, and is well-positioned for the planned expansion of new business during the second half of 2012.

Within the scope of the still-unresolved European sovereign debt crisis, we believe the financial and capital markets will remain volatile during the current year and therefore expect the risks in the financial system to persist. In light of the uncertainty that persists amongst market participants, we do not foresee a speedy resolution of the sovereign debt crisis. To overcome the sovereign debt crisis, we need the concentrated and combined efforts of all those involved – not only from the financial industry, but from politicians and investors as well. In this context, it is necessary for politicians to establish a stable political framework within a reasonable period of time.

The aforementioned uncertainty and risks shape the macro-economic environment and future economic developments. The uncertain political framework and cumulative effects of forthcoming changes to the regulatory environment – which have not yet been clarified – also present further challenges for our industry.

Despite the challenges just described, we continue to see good potential for achieving consolidated operating profit that is only slightly below 2011's very good result. Aareal Bank will continue to confront the existing uncertainty factors with a cautious liquidity and investment strategy, whilst armed with a business model that proved its mettle in the crisis. Thanks to our very robust capital and refinancing situation, we are always well-positioned to take advantage of attractive market opportunities. And we will focus more heavily on doing so in the second half of 2012.

We shall continue to trust and target our competitive edge, namely client proximity and our international profile, our profound property and sector expertise, our innovative drive and the flexibility that our mid-sized structure affords us. We continue to proceed with caution, and we shall adhere to our selective approach towards new business, which is strictly oriented upon quality, return and risk. We remain convinced that there is a positive future ahead for commercial property financing, for those who – like Aareal Bank – are prudent, forward looking and sound.

For the Management Board

Yours Sincerely, Wolf Schumacher

Dr Wolf Schumacher
Chairman

Group Management Report

Business and Operating Environment

Macro-economic environment

During the second quarter of 2012, the macro-economic environment was characterised by yet another escalation of the European sovereign debt crisis. This had a burdening effect on the European economy in particular, whilst the North American and Asian economies enjoyed a moderate upwards trend. On a global level, economic momentum was subdued, with distinct regional differences.

Economy

Various indicators – for instance, those tracking production, or sentiment indicators – suggest that the euro zone economy actually shrank during the second quarter of 2012. The burdens presented by the European sovereign debt crisis were a major contributing factor in this context, causing uncertainty and reticence among investors and consumers alike. Economic momentum was also weakened by restrictive fiscal policies adopted by numerous countries striving to consolidate their budgets.

Countries in Southern Europe were hit by marked economic weakness: economic output from Greece and Portugal, but also that of Italy and Spain, continued to shrink during the second quarter of 2012. Accordingly, these countries were still in recession. Economic performance in the other euro zone member states was also very subdued indeed, with some posting a decline. Numerous economies outside the euro zone also only grew on a very moderate scale during the second quarter. On a European level, the economic environment was more positive in Poland and Sweden.

Even though the economy in North America performed markedly better than that in Europe, it lacked serious momentum.

Japan's economy continued its uptrend, still recovering from the impact of the earthquake disaster in March 2011. In fact, total economic output even exceeded its pre-earthquake levels. Singapore's economy also continued to grow during the second quarter of 2012. Whilst the Chinese economy lost some momentum compared with the previous year, the People's Republic remains one of the fastest-growing economies worldwide. Likely causes of this slowdown include weaker foreign demand and lower investment in housing construction.

Economic weakness in many countries did not provide any basis for improvement on the labour markets. In Europe, unemployment stagnated in many countries, or even increased slightly. In Germany there were signs that the positive trend of falling unemployment, which has been ongoing for quite some time now, has now ceased to progress. Germany's unemployment rate remained virtually unchanged during the second quarter. However, one needs to take into account that Germany has already achieved a low unemployment rate, compared to its European peers, whilst the euro zone periphery states in particular reported high unemployment. This was particularly pronounced in Spain, where the rate kept rising. In the US, the decline in the unemployment rate that had set in during the fourth quarter of 2011 ceased during the second quarter, with most recent statistics showing stagnation.

Sovereign debt crisis

The European sovereign debt crisis escalated once again during the second quarter: the focus of attention was on uncertainty in the wake of the Greek elections, as well as on the situation concerning Spanish banks.

Numerous Spanish banks have been hit by the massive collapse in Spanish housing prices, by the recession in Spain, and by write-downs on their securities portfolios. The amount of non-performing loans has been rising strongly over an extended period of time. As a consequence, some Spanish financial institutions depend upon support measures. Faced with soaring yield spreads of Spanish government bonds in recent months, the Spanish government no longer saw the possibility of refinancing the required funds on the financial and capital markets at acceptable terms, without third-party support. The Euro Group offered up to € 100 billion in financial aid, to enable Spain to support its banking system with fresh capital without having to issue additional government bonds in order to raise the required funds on the financial and capital markets. In contrast to the support packages provided to Greece, Ireland and Portugal so far, these funds are earmarked exclusively for recapitalising banks. Spain will continue to fund its remaining financial requirements itself, on the financial and capital markets.

At the end of the quarter, Cyprus also asked for Euro Group support, with the objective of mitigating the risks the Cypriot economy is exposed to, given its close economic ties with Greece. Providing support to the banking sector in Cyprus is also likely to feature prominently in this context.

Resolutions passed at the euro zone heads of government and state summit at the end of June included decisions concerning the function of the European Stability Mechanism (ESM). The plan is to give the ESM the ability to directly recapitalise and stabilise banks from its own funds. As a prerequisite for taking on this task, a uniform supervisory framework for euro zone banks needs to be established. In this context, the EU Commission was instructed to draft a proposal for such a mechanism within a short period of time; the plan is to get the European Central Bank (ECB) involved in this scheme as well. Furthermore, there are plans to enable the ESM to also purchase euro zone sovereign bonds. Whilst in this case, countries making use of such a facility would not have to subject themselves to a strict reform programme, they would nonetheless have to comply with the EU Commission's budget recommendations.

At the beginning of the year, sovereign bond yields for the Southern euro zone members had declined. During the second quarter, however, spreads – and hence, the yields for Spanish and Italian government bonds – started rising again, with the yields in Italy being markedly lower than those in Spain. In contrast, Portuguese yields declined, presumably reflecting progress made in the country's reform policies. However, they remained higher than Spanish and Italian yields.

The second quarter saw further downgrades of sovereign ratings by at least one of the three major rating agencies; this affected Spain, for example. Numerous banks were also downgraded.

Financial and capital markets, monetary policy and inflation

Following the noticeable relief on the financial and capital markets at the beginning of this year, the renewed escalation of the European sovereign debt crisis once again drove up uncertainty and volatility on the markets during the second quarter. Hence, financial market stress in Europe increased again. Despite the heightened tension of this environment, Aareal Bank AG successfully placed another € 500 million Mortgage Pfandbrief issue, as well as numerous private placements, during the quarter under review.

The external value of the euro came under pressure in the wake of the escalating European sovereign debt crisis: during the quarter under review, the European common currency clearly lost ground against most major currencies in which we are active, including the US dollar and pound sterling. Diverging from this overall trend, the euro initially gained value vis-à-vis the Swedish krona; the euro exchange rate ended the quarter only marginally lower compared to its value at the beginning of the quarter. The euro exchange rate against the Swiss franc was virtually unchanged, due to the fact that the Swiss National Bank has not tolerated any EUR/CHF rate below 1.20 since September 2011.

Long-term interest rates for all important currencies in which we are active posted a marked decline during the second quarter, having increased during the first quarter. This reinforced the very low interest rate environment. Interest rate development continued to show widening risk premiums, especially in the euro zone's periphery states. In fact, spreads for most of these countries even widened significantly during the second quarter. Short-term interest rate developments were somewhat less uniform. Whilst short-term rates also fell in some currencies – including the euro, pound sterling, Danish kroner and Swedish krona – they remained virtually unchanged in others, such as the US dollar, Japanese yen, Canadian dollar and Swiss franc.

Monetary policy remained expansive throughout the second quarter of 2012, as various central banks continued to operate their quantitative easing programmes. At the end of April, the Bank of Japan even increased the size of its securities purchasing programme by JPY 5 trillion, to a total of JPY 70 trillion. The US Federal Reserve (Fed) extended its Operation Twist, whereby the US central bank buys long-term government bonds against selling short-term issues, until the end of the year. At the end of June, the ECB resolved to loosen the requirements for certain securities, in order to make them eligible as collateral for refinancing operations. This also related to certain types of securitisation, including Commercial Mortgage-Backed Securities (CMBS) and Residential Mortgage-Backed Securities (RMBS). The vast majority of central banks kept their key interest rates at a low level during the second quarter, including the ECB, the Fed, and the Bank of England (BoE). In contrast, the Polish central bank slightly hiked its key interest rates in early May. At the same time, the Danish and Czech central banks cut their key interest rates further, to very low levels. Until last year, the focus of central banks in the emerging and growth market economies – including the People's Bank of China – was on preventing an overheating of their respective economies, and on countering rising inflationary pressure. Against the backdrop of a slowdown in economic momentum and falling inflation rates, these central banks have now also started to loosen the reins of their respective monetary policies; a development that also continued throughout the second quarter of 2012. Accordingly, the Chinese central bank cut its key interest rates by 25 basis points – the first cut in almost four years – and also further reduced the minimum reserve rates for commercial banks.

Inflationary pressures receded slightly during the quarter under review, with inflation rates falling slightly in many economies. This also applied to the euro zone, where the annual inflation rate declined marginally, to 2.4 % – still above the ECB's target level, however. On a European level, countries with relatively high inflation rates of around or even above 3 % included the Czech Republic, Italy, Poland, and the United Kingdom. Sweden, in contrast, was an example for particularly low inflation, whilst prices in Switzerland even decreased, giving rise to a deflationary trend. Annualised inflation was also lower in the US, most recently at 2.3 %. Inflation in Japan was very low, with only a marginal price increase. Inflationary pressures in the emerging markets and growth economies also receded: in China, for example, the annual inflation rate fell to 3 % – a level last seen around two years ago. In general, lower inflationary pressure was due to a marked decline in crude oil prices during the second quarter, following the strong increase seen during the first quarter of the year. This decline was due on the one hand to lower demand (reflecting the sluggish momentum of the global economy) and to higher supply levels on the other, attributable to increased production levels in some oil-producing countries.

Sector-specific and business developments

Structured Property Financing segment

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

We advanced our new business over the first quarter of the year. Second quarter new business volume amounted to € 1.2 billion (Q2 2011: € 1.8 billion) and therefore to € 1.7 billion for the first half of 2012 (H1 2011: € 3.2 billion). The increase in new business also concerned new loans extended: the share of new exposures in total new business clearly increased over the first quarter of 2012, albeit remaining below renewals. Considering the high volatility on the financial and capital markets during 2012, we deliberately embarked on new lending later than in the previous year; the share of new loans relative to total new business in the first half of 2012 was therefore considerably lower than in the corresponding period of the previous year.

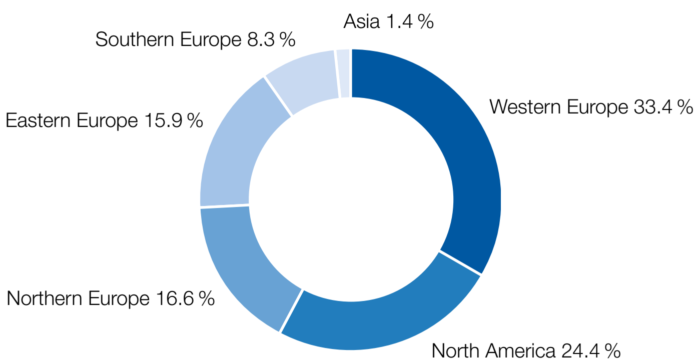
Looking at a breakdown of continents, Europe accounted for the largest share in our new business during the first two quarters of 2012, at 74.2 %, followed by North America with 24.4 %. The volume of new business generated in Asia was lower, accounting for only 1.4 %[1)].

Considering the competitive environment amongst banks financing commercial property, the trends seen during 2011 continued to apply during the first half of 2012. Especially in Europe, numerous banks continue to focus on their respective home market, and a few core markets. Hence, only a few banks are currently active in the market, which finance a broad range of international commercial property to a considerable extent – as does Aareal Bank AG. In another development, large insurance companies and pension funds stepped up their activities in Europe, too. However, the volumes transacted by these companies in commercial property finance are still low at the moment.

Besides the overall market development that is influenced by macro-economic factors such as the economy, the trend on the labour markets and with regard to interest rates, the development of rent and asset value of commercial properties is determined by factors specific to the properties concerned. These property-specific factors that render a property more attractive for users include, among other things, location, modernity, floor space usage, energy efficiency, flexibility and the quality of a property's management. From an investor's perspective, the tenant mix, the terms and conditions of rental contracts, and tenant quality also play a role. What makes commercial property markets special is that they are not homogeneous.

New business 1 January-30 June 2012

by region (%) Total volume: € 1.7 bn



Developments in the individual regions

Europe

In most European economic centres, rents for first-class commercial properties remained almost constant in the second quarter of 2012 compared with the previous quarter. Premium segment rents rose or fell in only very few economic centres. Rental development was slightly more favourable for retail properties compared with office and logistics properties. Rents for prime properties deviated from the general market trend and rose, for example, in the office and retail markets of Düsseldorf and Munich, the retail markets of Berlin, London and Paris, as well as the Moscow logistics market. On the other hand, falling rents for first-class properties were observed, for example, in the office markets of Barcelona, Madrid and Paris, as well as in the logistics markets of Milan and Rotterdam. Rents tended to come under pressure for commercial properties outside the first-class segment.

Developments varied in the hotel markets in the important European cities – measured in terms of the important indicator of average revenues per available hotel room. Average revenues in the second quarter of 2012 improved over the corresponding period of the previous year in some centres such as Helsinki, Moscow, Munich and Prague. They were lower on the other hand in other centres, including Madrid, Milan, Rome, Rotterdam as well as Geneva and Zurich.

[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.

Commercial property transaction volumes in Europe were down in the second quarter of 2012 on the corresponding figure for the previous year. Investors remained focused on properties in the first-class segment in the second quarter of 2012, too. In this segment, investors' yield requirements for newly-acquired properties in many European economic centres remained largely unchanged compared with the previous quarter. However, they have increased slightly for first-class properties in some economic centres, for example, in the office, retail and logistics markets in the Italian cities of Milan and Rome, as well as in the office markets of Birmingham and Madrid, or in the logistics markets of Birmingham again and Paris. There was slightly greater evidence of rising yield requirements on the office and logistics markets and only sporadically on the markets for retail properties. Assuming constant or falling rents, rising yield requirements drive down property values whereas falling yield requirements (of which there was little evidence during the second quarter of 2012) result in rising property values, given constant or rising rents. The office markets of Geneva and Stockholm, the retail markets of Barcelona and Stockholm again, as well as the logistics markets of Amsterdam and Rotterdam are examples of markets with falling yields in the prime segment.

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: performance came under pressure here. The trend towards diverging performance, depending on the quality of the property, remained intact and the gap between first- and second-class properties widened further.

We generated new business in the amount of € 0.8 billion in Europe during the period under review, and a total of € 1.2 billion for the first six months of the year. In terms of the entire first half-year, Western Europe accounted for the largest share, followed by Northern and Eastern Europe. The smallest share was attributable to Southern Europe.

North America (NAFTA states)

The national average rent in the US remained virtually constant in the second quarter of 2012 compared with the previous quarter. This applied to office, retail and logistics properties. Boston, Chicago, Los Angeles, New York and Washington, D.C. are examples of office markets where rents remained stable or changed only slightly on average. On the other hand, the office market in San Francisco is an example of a market with noticeably rising rents. This is due to the dynamic economic development in the region, which is supported in particular by numerous IT companies. Average vacancy ratios in the US hardly changed either over the previous quarter. While vacancy ratios improved marginally in the national logistics market, the national vacancy ratios for office and retail property markets were almost unchanged.

The upside trend in the US hotel sector that already prevailed in the first quarter continued. Average revenues per available hotel room in the second quarter of 2012 also improved compared with the national average in the corresponding period of the previous year. This development was supported by a higher occupancy ratio as well as by higher average room prices. Average revenues per available hotel room were also up in Canada and Mexico compared with the national average in the second quarter of 2011.

Investors focused on first-class commercial property in North America, too. There was also some interest shown in properties promising development potential. Transaction volumes in commercial property during the quarter under review was also lower in North America, compared with the second quarter of 2011. Investors' yield requirements varied somewhat. These were constant to slightly rising on national average in the US. However, some regional markets deviated from this trend, and there was evidence of falling yield requirements, too.

We generated new business of € 0.3 billion in North America in the second quarter of 2012. The volume of new business generated there in the first half of 2012 therefore totalled € 0.4 billion, with the US accounting for the largest share.

Asia

Rental development in the economic centres of Asia varied. Rents for first-class commercial properties continued to rise in many instances in the Chinese metropolitan areas of Beijing and Shanghai. However, there was evidence of a slowdown in rental momentum compared with the previous year. Rental development even faltered on the office market in Shanghai. Rents for first-class commercial properties in Singapore came under pressure and were lower, in some cases significantly. Rents in Tokyo's premium segment were stable to lower. Rental development was particularly stable in the retail property sector. It varied between stable to lower in the office sector, whilst rents for logistics properties were slightly lower.

Following the sharp collapse last year in the wake of the earthquake catastrophe, the hotel sector in Tokyo is now recovering strongly. Both occupancy ratios and room prices, and hence the average revenue per available room, increased significantly during the second quarter of 2012 compared with the same period of the previous year. Average revenues per available hotel room also increased in Singapore, as well as in the Chinese metropolitan areas of Beijing and Shanghai.

Whilst commercial property transaction volumes in Europe and North America were down compared with the second quarter of 2011, they increased in Asia. Investors' yield requirements varied in the major Asian cities. However, developments were largely stable, for example, on the markets for first-class commercial properties in Shanghai and Tokyo. On the other hand, yield requirements rose or fell in the premium segments on some markets.

The volume of new business concluded in Asia in the second quarter of 2012 was low, following the first quarter where no new business was generated in Asia.

Consulting / Services segment

Institutional Housing Unit

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

Our clients continue to make strong use of the combination of specialist services in conjunction with automated mass electronic payments processing, together with the related advice we offer, as well as cash investment schemes. This enables us to maintain a strong position in the market, despite strong competitive pressure. New business partners acquired during the first half of the year manage more than 46,000 residential units between them.

The Institutional Housing Unit succeeded in significantly increasing the volume of deposits in the quarter under review, at an average of € 5.5 billion (Q1 2012: € 5.0 billion).

Contrary to our expectations, interest rate levels – which are relevant for income from the deposit-taking business – have declined year-to-date. This burdened the segment result.

Business in the institutional housing industry continued to develop steadily during the second quarter of 2012. Rental income generated from a highly-diversified tenant portfolio guarantees a solid foundation.

The long-standing trend remains intact on the housing market in Germany. Owing to the sustained demand for apartments and associated price increases, in particular in the German conurbations, residential rents continued to remain stable. Rents offered in April 2012 were around 0.6 % higher than at the end of 2011. Rents in the major cities have increased by 7.1 % since 2010 and by 3.6 % in rural areas. At the same time, the price gap between the major cities of East and West Germany has narrowed. Rents offered increased by 7.7 % in the major East German cities in the last two years, compared with 5.3 % in the major West German cities.

The ongoing recovery on the housing market was also reflected in the rising number of residential property transactions. Residential property in the amount of around € 6 billion was transacted up to the end of May 2012, which equates to the total volume of transactions in 2011.

Considering the high volatility on the financial and capital markets and the low returns offered by alternative investments, investors focused on residential property, as was the case in the first quarter of 2012 too. We are seeing demand in particular from exchange-listed German housing enterprises, and from a growing number of international financial investors, whose opportunistic investor profile is geared largely towards so-called distressed housing assets.

The largest transactions during the quarter under review included the sale of 23,500 residential units held by BauBeCon Group to Deutsche Wohnen AG, as well as the acquisition by holding company Cerberus of 22,000 apartments from Speymill Deutsche Immobilien.

Aareon AG

Cloud computing – one of the most important current IT trends – is becoming increasingly important on the market for property management software and demand is steadily growing. Using cloud computing, companies can retrieve IT solutions from services providers through a network. This allows for an efficient deployment of IT investments, keeping administrative expenditure low. Aareon looks back on several decades of experience, both as an IT centre operator and as provider of GES, an ASP-based software solution. ASP, or "Application Service Providing", can be seen as the predecessor of today's cloud computing concept. The positive response to our products was extended further following Aareon's launch of Wodis Sigma Release 3.0 during the fourth quarter of 2011: the software is also available as a service provided through the exclusive Aareon Cloud. Data from Aareon's cloud computing is held in Aareon's certified data-processing centre in Mainz, which guarantees a high degree of data security and protection. 47 clients already use the Wodis Sigma product as a service from the exclusive Aareon Cloud.

The Wodis Sigma ERP product continues to be well received by the market: 17 contracts were signed in the first half-year. A total of 392 clients have already opted for the system to date. Development of Wodis Sigma Release 4.0, scheduled for launch in the fourth quarter of 2012, is on schedule.

In the SAP® solutions product line and Blue Eagle, demand was subdued overall in the market for large-volume projects; the exceptions were consultancy services for SAP® and Aareon. Comprehensive consultancy agreements were signed with large clients of the Blue Eagle Individual ERP solution. The development of the new Blue Eagle Release 6.3 is on schedule.

The volume of business with the established GES system remained stable. The new GES version 05/2012 was rolled out on schedule in May. Key topics were the "E-Bilanz" electronic balance sheet service and the development of GES contract management and GES customer contact management.

In the Integrated Services product line, demand remained good for the Mareon service portal in particular, the Aareon DMS document management system, the insurance management solution BauSecura and Aareon's automated invoicing service. The web-based solution Aareon immoblue+, designed to manage prospective tenants, was acquired on 1 April; it was integrated in the customer relationship management service range and has met with great client interest. Aareon plans to expand this line of business further in the future.

The 22nd Aareon Congress – the traditional trade meeting for the property management sector – was held in Garmisch-Partenkirchen from 4 to 6 June, and was very well received indeed. Some 1,000 participants attended more than 25 presentations by experts on the topics of "information technology", "society & ecology" and "politics and economy".

In France, Aareon France's PortalImmo Habitat 2.0 ERP system was rolled out on schedule for the important French housing enterprise Le Foyer Remois from Reims (approx. 18,000 rental units).

Aareon UK leveraged its leading position on the highly competitive UK market for property management software and bid successfully for important tenders.

The ERP product generation SG|tobias^{AX} from the Dutch company SG|automatisering continues to be well received by the market. The migration to SG|tobias^{AX} was agreed with the major client de Alliante, Huizen. Production rollout is scheduled for the fourth quarter of 2013. The releases of the SG|Treasury und SG|Vastgoed products were launched on schedule during the second quarter.

Financial Position and Performance

Financial performance

Consolidated net income

Operating profit in the first half of 2012 amounted to € 88 million, compared with 91 million in the same period of the previous year.

Net interest income of € 251 million was down € 17 million year-on-year (H1 2011: € 268 million). The positive impact of higher margins from new business originated in the previous year only partially offset the burden resulting from the very cautious liquidity and investment strategy.

Consolidated net income of Aareal Bank Group

€ mn	1 Jan-30 Jun 2012	1 Jan-30 Jun 2011
Net interest income	251	268
Allowance for credit losses	37	42
Net interest income after allowance for credit losses	**214**	**226**
Net commission income	80	61
Net result on hedge accounting	-5	0
Net trading income/expenses	-23	-6
Results from non-trading assets	-3	4
Results from investments accounted for using the equity method	–	1
Results from investment properties	5	4
General administrative expenses	180	187
Net other operating income/expenses	0	-12
Impairment of goodwill	–	0
Operating profit	**88**	**91**
Income taxes	23	26
Net income/loss	**65**	**65**
Allocation of results		
Net income/loss attributable to non-controlling interests	10	9
Net income/loss attributable to shareholders of Aareal Bank AG	55	56
Appropriation of profits		
Net income/loss attributable to shareholders of Aareal Bank AG	55	56
Silent participation by SoFFin	10	11
Consolidated profit/loss	**45**	**45**

Allowance for credit losses amounted to € 37 million during the first six months of the financial year (H1 2011: € 42 million), It was therefore lower than the pro rata forecast range of € 110 million to € 140 million for the financial year, but within the range we had expected.

Net commission income of € 80 million was significantly higher than the previous year (€ 61 million). Costs for the bonds guaranteed by SoFFin were incurred for the last time in the first quarter of 2012. These amounted to € 3 million (2011: € 15 million).

Net trading income / expenses and the net result on hedge accounting of € -28 million resulted largely from the measurement of derivatives used to hedge interest rate and currency risk.

At € 180 million, administrative expenses were down from last year's level (H1 2011: € 187 million). This was largely due to the measures designed to optimise structures and processes, which were initiated in the previous year.

Consolidated net other operating income / expenses broke even in H1 2012 (H1 2011: € -12 million), reflecting in particular expenses incurred with one individual property in the same period of the previous year.

Overall, consolidated operating profit for the first six months of the financial year totalled € 88 million (H1 2011: € 91 million). Taking into consideration taxes of € 23 million and non-controlling interest income of € 10 million, net income attributable to shareholders of Aareal Bank AG amounted to € 55 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated income stood at € 45 million.

Structured Property Financing segment result

Operating profit in the Structured Property Financing segment was € 44 million in the second quarter of 2012 (Q2 2011: € 41 million).

Structured Property Financing segment result

€ mn	Quarter 2 2012	Quarter 2 2011
Net interest income	115	124
Allowance for credit losses	25	24
Net interest income after allowance for credit losses	**90**	**100**
Net commission income	6	-2
Net result on hedge accounting	5	2
Net trading income / expenses	-7	2
Results from non-trading assets	-3	2
Results from investments accounted for using the equity method	–	–
Results from investment properties	2	2
General administrative expenses	47	54
Net other operating income / expenses	-2	-11
Impairment of goodwill	0	0
Operating profit	**44**	**41**
Income taxes	11	13
Segment result	**33**	**28**
Allocation of results		
Segment result attributable to non-controlling interests	4	4
Segment result attributable to shareholders of Aareal Bank AG	29	24

Net interest income during the period under review was € 115 million, after € 124 million in the comparable period of the previous year. The positive impact of higher margins from new business originated in the previous year only partially offset the burden resulting from the very cautious liquidity and investment strategy.

Allowance for credit losses in the second quarter of 2012 amounted to € 25 million (Q2 2011: € 24 million). It was therefore lower than the pro rata forecast range of € 110 million to € 140 million for the financial year, but within the range we had expected.

The remaining bonds guaranteed by SoFFin matured in the first quarter of 2012, so that the resulting guarantee costs no longer applied in the quarter under review. These still amounted to € 6 million in the comparable period of the previous year.

At € 47 million, administrative expenses in the second quarter were markedly lower year-on-year (Q2 2011: € 54 million). This was largely due to the measures designed to optimise structures and processes, which were initiated in the previous year.

Net other operating income and expenses amounted to € -2 million (Q2 2011: € -11 million), reflecting in particular expenses incurred with one individual property in the same period of the previous year.

Overall, operating profit for the Structured Property Financing segment in the second quarter was € 44 million (Q2 2011: € 41 million). Taking tax expenses of € 11 million into consideration (Q2 2011: € 13 million), the segment result was € 33 million (Q2 2011: € 28 million).

Consulting/Services segment result

Operating profit in the Consulting/Services segment totalled € 1 million during the second quarter (Q2 2011: € 3 million).

At € 47 million, sales revenue was € 1 million lower year-on-year (Q2 2011: € 48 million).

Consulting/Services segment result

€ mn	Quarter 2 2012	Quarter 2 2011
Sales revenue	47	48
Own work capitalised	1	1
Changes in inventory	0	0
Other operating income	3	2
Cost of materials purchased	6	5
Staff expenses	28	28
Depreciation, amortisation and impairment losses	3	3
Results from investments accounted for using the equity method	–	1
Other operating expenses	13	13
Interest and similar income/expenses	0	0
Operating profit	**1**	**3**
Income taxes	0	1
Segment result	**1**	**2**
Allocation of results		
Segment result attributable to non-controlling interests	1	0
Segment result attributable to shareholders of Aareal Bank AG	0	2

Income generated from the deposit-taking business in the Institutional Housing Unit was burdened by the lower interest rate environment.

Staff expenses of € 28 million were in line with the same period of the previous year.

On the whole, other items were largely in line with the same quarter of the previous year.

Net assets

Aareal Bank Group's total assets amounted to € 45.4 billion as at 30 June 2012 (31 December 2011: € 41.8 billion).

Property financing portfolio

The volume of Aareal Bank Group's property financing portfolio stood at € 23.3 billion as at 30 June 2012. This represents a decline of 2.9 % compared with year-end 2011 (€ 24.0 billion) and is largely attributable to repayments that exceeded new commitments in the first half of the year. The volume of new commitments and the repayment ratio were both within our expectations. In contrast, the weaker euro compared with 31 December 2011 resulted in a slight increase in the property financing volume.

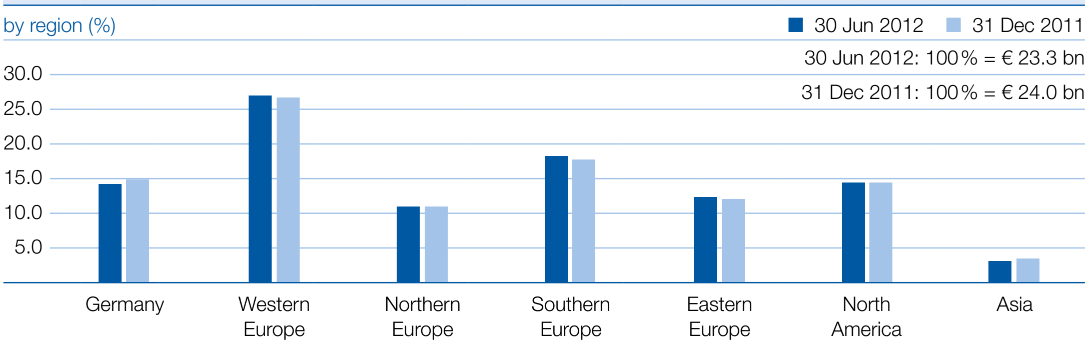
The share of international financings relative to the aggregate property financing portfolio increased slightly, to 85.8 % in the second quarter (equivalent to € 20.0 billion). The following chart illustrates the very broad regional diversification of our overall portfolio.

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 30 June 2012, the securities portfolio[1] worth € 11.2 billion (nominal volume; 31 December 2011: € 10.5 billion), comprised the four asset classes of public-sector borrowers, covered bonds and Pfandbriefe, bank bonds and asset-backed securities (ABS). 96 %[2] of the overall portfolio is denominated in euros. 98 %[2] of the portfolio has an investment grade rating[3].

Property financing volume (amounts drawn)



[1] As at 30 June 2012, the securities portfolio was carried at € 12.7 billion (31 December 2011: € 11.8 billion).
[2] Details based on the nominal volume
[3] The rating details are based on the composite ratings.

Financial position

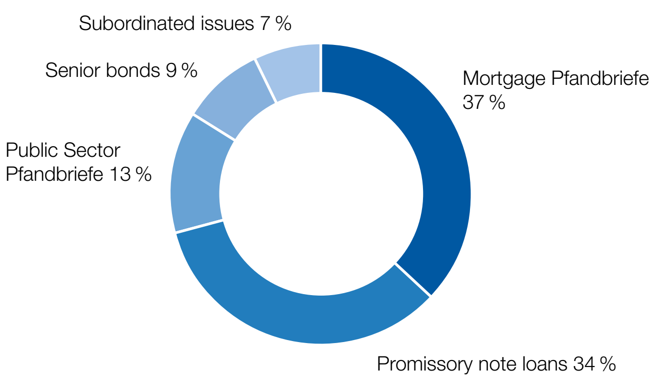
Refinancing and equity

Aareal Bank Group continued to successfully conduct its funding activities in the second quarter of 2012, thereby securing its very solid liquidity situation. As at 30 June 2012, Aareal Bank Group's consolidated equity amounted to € 1.7 billion, excluding the SoFFin silent participation and trust preferred securities. Long-term funding as at 30 June 2012 amounted to € 27.2 billion (31 December 2011: € 25.8 billion) and comprised Pfandbriefe, unsecured and subordinated issues. Aareal Bank also had € 5.7 billion (31 December 2011: € 4.8 billion) at its disposal from deposits generated from the business with the institutional housing industry, as well as institutional money market investor deposits in the amount of € 5.3 billion (31 December 2011: € 4.5 billion).

A total of € 1.3 billion of long-term funds were raised on the capital market in the second quarter. This comprised Mortgage Pfandbriefe in the amount of € 800 million as well as unsecured refinancing of € 400 billion. Aareal Bank also successfully issued subordinated notes in the amount of € 100 million. Aareal Bank has therefore maintained its long-term funding inventory at a high level.

Capital market funding mix as at 30 June 2012

% Total volume: € 27.2 bn



Of the public and private issues launched in the second quarter, the € 500 million Mortgage Pfandbrief with a five-year term to maturity issued in June is particularly worth mentioning.

The total volume of long-term funding raised in the first half of 2012 amounted to € 3.3 billion, of which Mortgage Pfandbriefe accounted for € 1.8 billion. Unsecured refinancing of € 1.4 billion was also raised, with the remaining amount of € 100 million in subordinated debt.

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

Regulatory indicators

Key indicators pursuant to AIRBA

	30 Jun 2012	31 Dec 2011
€ mn		
Tier 1 capital	2,449	2,501
Total own funds	2,998	2,988
Risk-weighted assets (incl. market risk)	14,650	15,313
%		
Tier 1 ratio	16.7	16.3
Total capital ratio	20.5	19.5

Report on Material Events after the Reporting Date

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

Risk Report

Aareal Bank Group Risk Management

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

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

Risk-bearing capacity and risk limits

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

In accordance with this approach, potential risk cover is determined using data derived from the income statement and from the statement of financial position; this derivation also forms the basis for determining regulatory capital. This involves setting aside the maximum amount of own funds required as potential risk cover to offset risks without causing a breach of minimum requirements pursuant to the German Solvency Regulation (SolvV). Aareal Bank has decided to considerably exceed this minimum requirement, and to prudently apply a minimum core Tier I ratio (calculated in accordance with Basel III) of 8 %. Only free own funds exceeding this level are applied as potential risk cover, of which a further 18 % is retained as a risk cushion. This cushion is not applied to risk limits, and is thus available for risk types that cannot be quantified (for example, reputational or strategic risks).

We adopt an equally conservative stance with respect to setting risk limits. The aggregation of individual limits is based on the assumption that no risk-mitigating correlation effects exist amongst different types of risk. Taking into account the prior deduction of a minimum core Tier I ratio of 8 %, the value-at-risk models used to quantify risks are based on a confidence interval of 95 % and a one-year holding period (250 trading days). A monthly report submitted to the Management Board provides information regarding the utilisation of individual limits for the material types of risk, as well as on the overall limit utilisation. The following table summarises the bank's overall risk exposure as at 30 June 2012.

Risk-bearing capacity of Aareal Bank Group as at 30 June 2012[1)]
– Going-concern approach –

€ mn	30 Jun 2012
Own funds for risk cover potential	2,359
less 8 % minimum tier 1	1,288
Freely available funds	**1,071**
Utilisation of freely available funds	
Credit risks	238
Market risks	322
Operational risks	42
Investment risks	31
Total utilisation	**633**
Utilisation as a percentage of freely available funds	**59 %**

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

Credit Risks

Definition

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

Risk measurement and monitoring

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

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

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

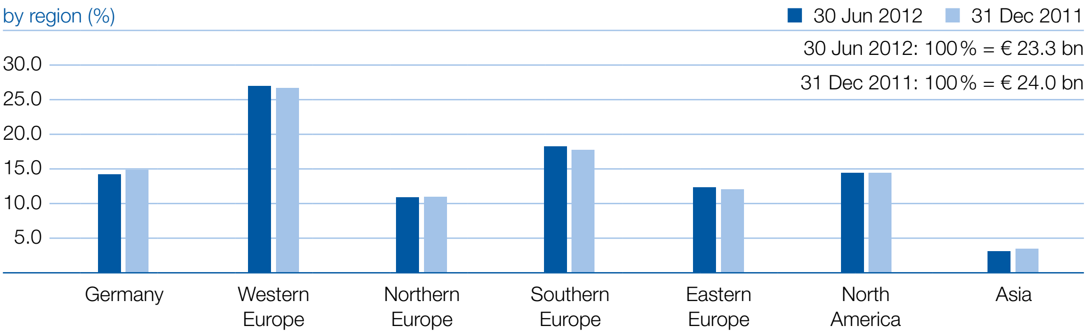
Methods used to measure, control and monitor concentration and diversification effects on a portfolio level include two diverse credit risk models. Based on these models, the bank's decision-makers are regularly informed of the performance and risk content of property financing exposures, and of business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

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

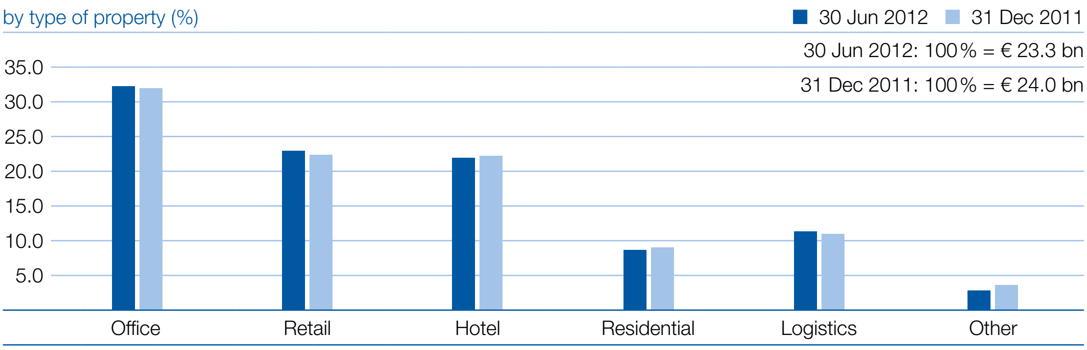
A credit risk report that complies with the Minimum Requirements for Risk Management (MaRisk) is prepared and submitted to the bank's senior

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

Property financing volume (amounts drawn)



Property financing volume (amounts drawn)



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, expressed in euros, indicates the potential loss incurred before counter-measures take effect. Since this is a statistical approach, the forecast for the potential loss that may be incurred within a specific period of time is for a given confidence interval only.

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

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

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

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

€ mn	MAX	MIN	Mean	Limit
Q2 2012 (as at 1 Jan 2012) 95 %, 250-day holding period				
Aareal Bank Group – general market price risk	201.8 (176.3)	154.9 (176.3)	167.6 (176.3)	– (–)
Group VaR (interest rates)	213.8 (189.9)	156.3 (189.9)	177.7 (189.9)	– (–)
Group VaR (FX)	65.6 (64.8)	52.7 (64.8)	58.3 (64.8)	– (–)
VaR (funds)	16.3 (11.5)	5.5 (11.5)	9.7 (11.5)	20.0 (20.0)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	5.0 (5.0)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	251.8 (193.9)	193.2 (193.9)	219.4 (193.9)	– (–)
Aggregate VaR – Aareal Bank Group	322.4 (262.7)	256.4 (262.7)	277.0 (262.7)	400.0 (400.0)

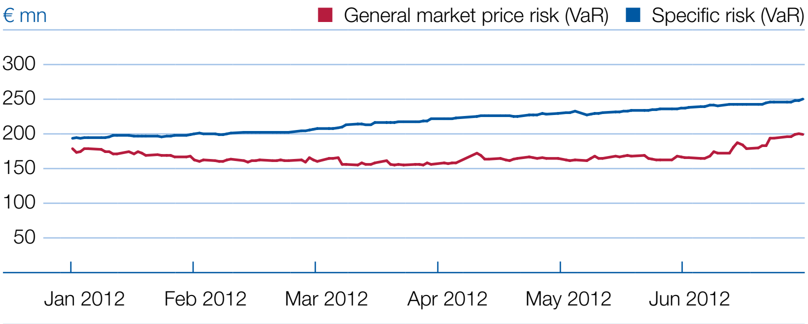
To ensure that Aareal Bank's figures are comparable to those published by other institutions, the risk parameters shown below were determined for a one-day holding period:

€ mn	MAX	MIN	Mean	Limit
Q2 2012 (as at 1 Jan 2012) 95 %, 1-day holding period				
Aareal Bank Group – general market price risk	12.8 (11.2)	9.8 (11.2)	10.6 (11.2)	– (–)
Group VaR (interest rates)	13.5 (12.0)	9.9 (12.0)	11.2 (12.0)	– (–)
Group VaR (FX)	4.1 (4.1)	3.3 (4.1)	3.7 (4.1)	– (–)
VaR (funds)	1.0 (0.7)	0.3 (0.7)	0.6 (0.7)	1.3 (1.3)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.3 (0.3)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	15.9 (12.3)	12.2 (12.3)	13.9 (12.3)	– (–)
Aggregate VaR – Aareal Bank Group	20.4 (16.6)	16.2 (16.6)	17.5 (16.6)	25.3 (25.3)

Aggregate VaR – Aareal Bank Group

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

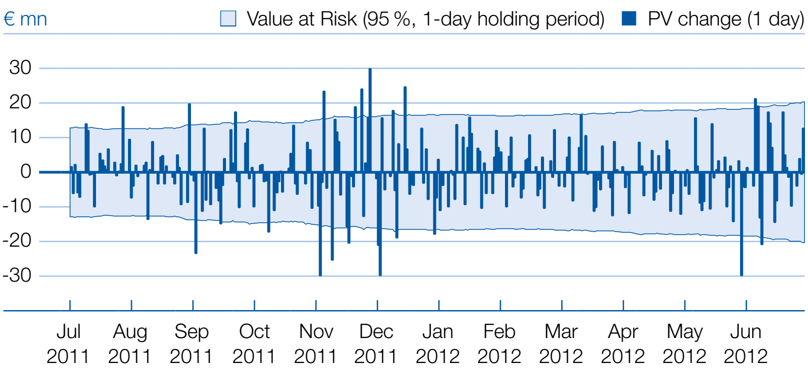
General market price risk and specific risk during 2012



Backtesting

The quality of forecasts made using this statistical model is checked through a weekly backtesting process. The quality of the statistical procedure used to measure risk is checked using a binomial test, whereby daily profits and losses from market fluctuations are compared with the upper projected loss limit (VaR) forecast on the previous day (known as "clean backtesting"). In line with the selected confidence level of 95 %, only a small number of events are expected to break out of the VaR projection (≤ 17 for a 250-day period). The number of negative outliers at Group level did not exceed 13 during the last 250 trading days, affirming the high forecasting quality of the VaR model we use.

Present values and 1-day VaR during 2011/2012



Trading book

Being authorised to maintain a trading book, Aareal Bank AG is the Group entity that is in a position to assign transactions to the trading portfolio as defined by the German Banking Act. Given that no such trades were concluded during the period under review, trading book risks played a negligible role in the overall risk scenario.

Liquidity risks

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

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

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

Operational risks

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

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

The current analyses 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 macro-economic environment as well as future economic developments are characterised by substantial uncertainty and risk. These factors increased again during the second quarter. The main source of uncertainty is the ongoing development of the European sovereign debt crisis: together with its implications on investor and consumer demand as well as on the financial and capital markets, this will have a significant impact upon the future economic development.

The risk of the European sovereign debt crisis escalating further is still present. The distortions on the financial and capital markets which would result from such an escalation, alongside banks' more pronounced reticence to lend and a deep-rooted uncertainty amongst economic operators, would hold the threat of a deep recession – not only in the euro zone. Given the transmission mechanisms and cross-relationships in global trade and the international financial and capital markets, such a development might also invoke recessionary trends for the entire world economy. Even though we do not consider such a deep global recession to be the most likely outcome, the risk does exist, with the economy being clearly vulnerable to shocks.

But even in the absence of any such escalation, the growing uncertainty in the context of the European sovereign debt crisis will continue to unsettle economic operators, thus leading to reticence in terms of investment and consumption. Moreover, macro-economic demand will continue to be restricted by the measures implemented in numerous countries to consolidate their public-sector budgets. Likewise, in many countries the private sector is also striving to de-leverage, which also constrains demand. For these reasons, we anticipate only very moderate growth momentum in the world economy for the remainder of the year. There will be distinct regional variations, however. The continued expansive monetary policy should be positive for economic developments. There is uncertainty concerning the future development of commodity prices, with the price of crude oil being particularly important for future economic performance. Since it is driven by a multitude of factors, including political developments and speculation, it is hardly possible to predict the trend.

We expect continued weakness in the European economies during the remainder of this year, with regional divergence expected to prevail. The euro zone overall is likely to be in recession until the end of the year, and hence also for 2012 as a whole. The economies at the southern periphery of the euro zone are burdened in particular by uncertainty emanating from the European sovereign debt crisis, high credit spreads, and measures taken to consolidate public-sector budgets. For this reason, it is fair to expect economic output in Greece and Portugal to be significantly lower during the course of this year; whilst the slowdown in Italy and Spain is anticipated to be less pronounced, economic output there is still likely to be markedly lower. Looking at the year as a whole, this would translate into markedly lower economic output in all of these countries. We also anticipate a weak economic performance in Belgium, France, Ireland and the Netherlands this year. As a consequence, for the year 2012 as a whole, we expect real gross domestic product in the Netherlands to be moderately lower, whilst real GDP in Belgium, Ireland and France is expected to remain in line with the previous year's levels. In contrast, the euro zone economies of Austria, Finland, Germany and Luxembourg are expected to develop positively for the remainder of the year, albeit with subdued momentum. We expect these economies to grow slightly for the year 2012 as a whole, even though we cannot exclude falling economic output in individual quarters. Looking ahead, economic developments will also diverge amongst individual countries outside the euro zone. The economy in the United Kingdom is expected to be weak, with overall performance for the full year being virtually stagnant. The Czech economy is expected to shrink, whilst real gross domestic product in Denmark, Sweden and Switzerland is forecast to grow slightly. We continue to anticipate the highest growth rates across Europe to occur in Poland and Turkey, albeit below the previous year's levels. The development of the Russian economy will be strongly impacted by commodity prices.

With regard to the US economy, we continue to forecast moderate growth for the remainder of the year, and hence for 2012 as a whole. Growth momentum there is driven by more active investment – compared to Europe – and slightly increasing private consumption. However, falling public-sector demand is expected to be a factor in slowing down the US economy. Canada and Mexico are expected to see continued economic growth.

We anticipate moderate growth in Japan, both for the remainder of the year and 2012 as a whole, on account of catch-up processes in the wake of the March 2011 earthquake catastrophe, which are strongly supported by government initiatives. Despite high growth rates which we continue to expect for China, the economy there will lose some steam due to falling demand from the developed economies. However, the recent monetary loosening might have a supporting effect on economic trends.

Given the weak economic outlook for Europe, we anticipate rising unemployment ratios in most countries, both for the remainder of the year and 2012 as a whole. Such increases are expected to be particularly pronounced in the southern euro zone countries. Only a few European countries are expected to be able to escape the trend of rising unemployment: we forecast unemployment ratios to be virtually unchanged during the second half of the year in Austria, Finland, Poland, Sweden and Switzerland, for example. In Germany there are signs that the improvement in the labour market, which has been ongoing for quite some time now, has ceased to progress. In the US, the decline in the unemployment rate that had set in during the fourth quarter of 2011 ceased during the second quarter of this year. We now expect the US labour market to be largely unchanged during the second half of the year.

Financial and capital markets, monetary policy and inflation

The European sovereign debt crisis and its implications will remain a key issue that will likely continue to concern the financial and capital markets this year and next. A quick, lasting solution to the sovereign debt crisis is still not expected any time soon. In September, the German Federal Constitutional Court will declare its decision on the urgent petitions lodged against the laws adopted by the lower house of the German parliament – the Bundestag – for approval of the European Stability Mechanism (ESM) and the European fiscal pact.

Uncertainty – and hence, volatility – on the financial and capital markets will remain high during the second half of the year. The vulnerability of the financial system against shocks, as well as risks within the system, increased again during the second quarter, and are set to remain in place.

In most developed economies domestic inflationary pressure is low, given the weak economic outlook and the difficult labour market situation that together are unlikely to trigger a wage-price spiral. However, future inflationary trends will be driven by the development of crude oil prices, which is in turn characterised by uncertainty. For the remainder of the year, we believe that inflation will remain slightly below the previous year's levels.

Looking at these inflationary expectations and the uncertain situation on the financial and capital markets, we expect monetary policy in the developed economies to remain expansive during the course of this year. For instance, the US Federal Reserve (Fed) has already resolved to extend its Operation Twist, whereby the US central bank buys long-term government bonds against selling short-term issues, until the end of the year. The purpose of this programme is to push long-term interest rates lower. At the beginning of July, the ECB lowered its key interest rate by 25 basis points, to 0.75 %.

We assume that central banks' key interest rates – and hence, short-term interest rates – of the most important currencies in which we are active will remain at a low level during the second half of the year. The environment we find ourselves in today suggests that this situation is likely to prevail into next year, which is opposite to our original assessment. Looking at long-term interest rates, the risk premiums for bonds deemed as unsafe by investors are set to remain high. These spreads will continue to have a major impact, especially on the economies at the euro zone's periphery. This assessment would change in the event of a significant reduction in the prevailing uncertainty on the markets, in which case interest rates would fall in those countries having been most affected by the sovereign debt crisis. In contrast, this scenario would likely lead to higher interest rates in other euro zone countries such as Germany.

Sector-specific and business developments

Structured Property Financing segment

Developments on commercial property markets are influenced to a great extent by expectations concerning the future economic environment.[1] In view of the weak economic outlook and the expected uncertainty on financial and capital markets, we expect property values in the vast majority of countries (particularly in Europe) to be unchanged to slightly lower on average until the end of the year. The low interest environment is likely to provide some support for property values. Likewise, we expect rents to be stable to lower on average in most countries, for new rentals or where rental contracts are extended or re-negotiated.

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

In 2012 we expect country-specific average rents and market values to decline, primarily in Europe. We forecast very significant declines in average property values for Italy and Spain, whose economies (which are in recession) – as well as financial and capital markets – are particularly hard hit by the sovereign debt crisis. We also anticipate market values in other European countries, such as Belgium, the Czech Republic, France and the Netherlands, to decline on average – however, to a clearly lesser extent than in Southern Europe. In fact, some countries with a currently more robust economic environment might show stable market values, whereby the stabilising effect of the low-interest environment needs to be taken into account. We expect market values to be unchanged to slightly lower in countries such as Germany, Sweden, Turkey and the United Kingdom.

The more positive economic outlook in North America points towards a more favourable development of commercial property markets there. On average, we expect property values and rents in North American countries to remain stable, or to rise slightly in 2012.

Whilst the growth economies, and especially China, are expected to continue posting high economic growth rates in the future, their momentum is slowing. Consequently, we remain cautious regarding our assessment of rents and commercial property values in China, expecting a virtually stable trend on average this year. Japan's commercial property market might benefit from economic catch-up processes, which could have a positive effect on market values and rents this year.

We assume that the trends described above will apply for office and retail properties, as well as for the logistics property market. In the hotel sector, we anticipate revenues in the second half of the year to stagnate (or to grow only slightly) year-on-year on numerous markets, given the subdued economic outlook. Nonetheless, the hotel sector in North America and Asia might perform better than in Europe.

Developments on commercial property markets continue to be burdened by significant uncertainty and risks, particularly on account of the sovereign debt crisis and its implications for the economy as well as the financial and capital markets. In the event of a deeper recession, more extensive declines in rents as well as in property values are probable; these would occur with a certain time lag. Another risk factor for commercial property markets is the high volume of financings which mature during the current year and the years ahead. Any failure to refinance maturing loans might trigger an increased level of sales to redeem residual debt – which would burden prices.

Property values might be supported, however, if investors were to increasingly favour commercial property as an alternative investment, given the low interest rate environment and against the background of the discussions concerning the safety of government bonds of some countries. High-quality properties would benefit in particular from such a scenario. The current market environment is a burden to properties in peripheral locations, or of lesser quality, in particular. In Europe and North America, the prime segment benefits from additional support thanks to low construction activity for commercial property: in many locations, new construction volumes are barely sufficient to replace existing properties that have reached the end of their economic life. Accordingly, there is a strong need for investment to upgrade properties.

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

We are adhering strictly to our new business target, which ranges between € 4.5 billion and € 5.5 billion for the year 2012 as a whole. We will increasingly exploit opportunities during the second half of the year, with a higher share of new exposures in total new business compared to the first half – a trend already seen during the second quarter. Looking at 2012 as a whole, however, the share of new loans is expected to remain below the previous year's level.

Having successfully syndicated several loans during the first half of the year, we want to continue executing syndications in the second half when the opportunity arises, despite a challenging environment. Syndication techniques will thus remain important for us this year too, whereby we will employ them for the purpose of diversifying individual credit risks.

Subject to the performance of the relevant currencies vis-a-vis the euro, we expect a slightly lower portfolio volume for 2012 compared to the year-end 2011.

These forecasts are based on the assumption that there will be no profound, lasting global recession. Such a scenario might involve lower new business volumes, a higher share of renewals and a lower share of prepayments compared to the current assessment, as well as a decline in syndication opportunities.

We do not expect the change in rating methods currently being discussed for Mortgage Pfandbriefe (or any rating changes which may result therefrom) to have any material implications for Aareal Bank.

Consulting/Services segment

Institutional Housing Unit

We also expect developments within the institutional housing industry in Germany to remain stable during the course of 2012. Corporate investments continue to focus on the renovation of the housing stock to create a sustainable quality of housing.

In numerous housing sub-markets, it will be necessary to convert existing units over the years to come, with a view to creating affordable housing for families or the elderly. Against this background, member companies of the Federation of German Housing Enterprises (GdW) plan to increase investments in their existing properties by close to 10 %, to more than € 10 billion, with 25 % of investments earmarked for new construction projects.

Given the uncertainty resulting from the European sovereign debt crisis, residential property continues to gain importance, being seen as tangible assets by national and international investors alike. The housing market will remain attractive for numerous investors during the remainder of the year.

This trend will be beneficial to property investors and potential sellers within the institutional housing industry. We expect prices of German housing properties to increase moderately on average, by 2.0 % to 3.5 % by the end of the year; price increases are likely to be most pronounced in cities in South and Southwest Germany. The prevailing shortage of housing in large, economically powerful cities might in fact exacerbate such price increases. At present, demand for rented accommodation is estimated to exceed supply by some 100,000 units.

Transaction volumes already totalled approximately € 6 billion by the end of the first half of 2012 – equivalent to the aggregate volumes for the whole of 2011. Against this background, and recognising the continued attractiveness of the German housing market, transaction volumes for 2012 are likely to significantly exceed the previous year's level.

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

Looking at the volume of deposits taken, we expect the positive trend to continue, particularly in relation to rent deposits. However, contrary to our expectations, interest rate levels – which are relevant for income from the deposit-taking business – have declined so far this year. Against this background, we anticipate further pressure on segment results. However, the importance of this business goes way beyond the interest margin – which is under pressure in the current market environment – generated from the deposits. This is because the deposits from the institutional housing industry represent a strategically important additional source of funding for Aareal Bank.

Aareon AG

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

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

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

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

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

Aareon anticipates a slight increase in sales revenues in its international business segment. Demand for Aareon France's ERP products PortalImmo Habitat and Prem'Habitat is stable. The successful production roll-out of pilot projects for the Flexiciel module has been another milestone in France, with additional client projects planned in this connection. Flexiciel is a platform for the development of web-based solutions – for example, CRM solutions for managing customer relationships with specifications customised for the institutional housing industry.

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

Despite the ongoing price competition on the UK market, the Aareon UK subsidiary is expected to generate additional sales revenues with new clients. particularly in view of demand for mobile solutions developed for the housing industry. Aareon AG acquired a 100 % stake in 1st Touch Ltd, based in Southampton, UK, with effect from 1 July 2012. 1st Touch is the biggest provider of mobile software solutions for the housing industry in the United Kingdom.

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

Group targets

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

Aareal Bank counters these uncertainties by pursuing a cautious liquidity and investment strategy, amongst other things. The resulting burden on net interest income can only partially be offset by the positive impact of higher margins from new business originated in the previous year. In this context, ECB's decision to cut its key interest rate at the beginning of July will only marginally burden net interest income. Accordingly, we still expect a considerable decline in net interest income in 2012.

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

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

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

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

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

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

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

However, contrary to our expectations, interest rate levels – which are relevant for income from the deposit-taking business in our Consulting / Services segment – have declined year-to-date. Against this background, we expect segment operating profit to be down on the previous year.

Consolidated Financial Statements
Statement of Comprehensive Income

Income Statement

	Note	1 Jan-30 Jun 2012	1 Jan-30 Jun 2011
€ mn			
Interest income		529	525
Interest expenses		278	257
Net interest income	1	**251**	**268**
Allowance for credit losses	2	37	42
Net interest income after allowance for credit losses		**214**	**226**
Commission income		96	93
Commission expenses		16	32
Net commission income	3	**80**	**61**
Net result on hedge accounting	4	-5	0
Net trading income/expenses	5	-23	-6
Results from non-trading assets	6	-3	4
Results from investments accounted for using the equity method		–	1
Results from investment properties		5	4
General administrative expenses	7	180	187
Net other operating income/expenses	8	0	-12
Impairment of goodwill		–	0
Operating profit		**88**	**91**
Income taxes		23	26
Net income/loss		**65**	**65**
Allocation of results			
Net income/loss attributable to non-controlling interests		10	9
Net income/loss attributable to shareholders of Aareal Bank AG		55	56
Appropriation of profits			
Net income/loss attributable to shareholders of Aareal Bank AG		55	56
Silent participation by SoFFin		10	11
Consolidated profit/loss		**45**	**45**
€			
Earnings per share		0.92	1.16
Diluted earnings per share		0.92	1.16

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.

Statement of Comprehensive Income

Reconciliation from Net Income/Loss to Total Comprehensive Income

€ mn	Note	1 Jan-30 Jun 2012	1 Jan-30 Jun 2011
Net income/loss		**65**	**65**
Changes in revaluation reserves	9	60	-22
Changes in hedging reserves	9	-14	–
Changes in currency translation reserves	9	2	0
Gains and losses directly recognised in equity (after taxes)		**48**	**-22**
Total comprehensive income		**113**	**43**
Allocation of total comprehensive income			
Total comprehensive income attributable to non-controlling interests		10	9
Total comprehensive income attributable to shareholders of Aareal Bank AG		103	34

Statement of Comprehensive Income

Income Statement (Quarterly Development)

€ mn	Quarter 2 2012	Quarter 2 2011
Interest income	250	273
Interest expenses	128	139
Net interest income	**122**	**134**
Allowance for credit losses	25	24
Net interest income after allowance for credit losses	**97**	**110**
Commission income	45	46
Commission expenses	5	15
Net commission income	**40**	**31**
Net result on hedge accounting	5	2
Net trading income/expenses	-7	2
Results from non-trading assets	-3	2
Results from investments accounted for using the equity method	–	1
Results from investment properties	2	2
General administrative expenses	89	96
Net other operating income/expenses	0	-10
Impairment of goodwill	0	0
Operating profit	**45**	**44**
Income taxes	11	14
Net income/loss	**34**	**30**
Allocation of results		
Net income/loss attributable to non-controlling interests	5	4
Net income/loss attributable to shareholders of Aareal Bank AG	29	26

Statement of Comprehensive Income

Reconciliation from Net Income/Loss to Total Comprehensive Income (Quarterly Development)

€ mn	Quarter 2 2012	Quarter 2 2011
Net income/loss	**34**	**30**
Changes in revaluation reserves	-3	-10
Changes in hedging reserves	5	–
Changes in currency translation reserves	4	0
Gains and losses directly recognised in equity (after taxes)	**6**	**-10**
Total comprehensive income	**40**	**20**
Allocation of total comprehensive income		
Total comprehensive income attributable to non-controlling interests	5	4
Total comprehensive income attributable to shareholders of Aareal Bank AG	35	16

Segment Reporting

Segment Results

€ mn	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan-30 Jun 2012	1 Jan-30 Jun 2011	1 Jan-30 Jun 2012	1 Jan-30 Jun 2011	1 Jan-30 Jun 2012	1 Jan-30 Jun 2011	1 Jan-30 Jun 2012	1 Jan-30 Jun 2011
Net interest income	236	249	0	0	15	19	251	268
Allowance for credit losses	37	42					37	42
Net interest income after allowance for credit losses	**199**	**207**	**0**	**0**	**15**	**19**	**214**	**226**
Net commission income	10	-7	85	87	-15	-19	80	61
Net result on hedge accounting	-5	0					-5	0
Net trading income/expenses	-23	-6					-23	-6
Results from non-trading assets	-3	4					-3	4
Results from investments accounted for using the equity method				1				1
Results from investment properties	5	4					5	4
General administrative expenses	96	105	84	82	0	0	180	187
Net other operating income/expenses	-3	-13	3	1	0	0	0	-12
Impairment of goodwill		0						0
Operating profit	**84**	**84**	**4**	**7**	**0**	**0**	**88**	**91**
Income taxes	22	24	1	2			23	26
Net income/loss	**62**	**60**	**3**	**5**	**0**	**0**	**65**	**65**
Allocation of results								
Net income/loss attributable to non-controlling interests	8	8	2	1			10	9
Net income/loss attributable to shareholders of Aareal Bank AG	54	52	1	4	0	0	55	56
Allocated equity	1,270	1,406	74	76	810	484	2,154	1,966
Cost/income ratio (%)	44.1	45.5	96.0	92.6			59.0	58.5
RoE before taxes (%)	12.0	10.9	4.9	13.7			7.3	8.3
Employees (average)	**797**	**878**	**1,503**	**1,483**			**2,300**	**2,361**

Segment Reporting

Segment Results (Quarterly Development)

€ mn	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	Quarter 2 2012	Quarter 2 2011	Quarter 2 2012	Quarter 2 2011	Quarter 2 2012	Quarter 2 2011	Quarter 2 2012	Quarter 2 2011
Net interest income	115	124	0	0	7	10	122	134
Allowance for credit losses	25	24					25	24
Net interest income after allowance for credit losses	**90**	**100**	**0**	**0**	**7**	**10**	**97**	**110**
Net commission income	6	-2	41	43	-7	-10	40	31
Net result on hedge accounting	5	2					5	2
Net trading income/expenses	-7	2					-7	2
Results from non-trading assets	-3	2					-3	2
Results from investments accounted for using the equity method				1				1
Results from investment properties	2	2					2	2
General administrative expenses	47	54	42	42	0	0	89	96
Net other operating income/expenses	-2	-11	2	1	0	0	0	-10
Impairment of goodwill	0	0					0	0
Operating profit	**44**	**41**	**1**	**3**	**0**	**0**	**45**	**44**
Income taxes	11	13	0	1			11	14
Net income/loss	**33**	**28**	**1**	**2**	**0**	**0**	**34**	**30**
Allocation of results								
Net income/loss attributable to non-controlling interests	4	4	1	0			5	4
Net income/loss attributable to shareholders of Aareal Bank AG	29	24	0	2	0	0	29	26
Allocated equity	1,270	1,406	74	76	810	484	2,154	1,966
Cost/income ratio (%)	40.3	45.5	97.3	93.3			55.9	58.7
RoE before taxes (%)	12.6	10.5	3.5	13.7			7.5	8.1

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	General administrative expenses	Net other operating income / expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	Q2 2012		0	41			42	2		**1**	0	**1**
	Q2 2011		0	43		1	42	1		**3**	1	**2**
Income statement classification – industrial enterprise												
Sales revenue	Q2 2012	47		47								
	Q2 2011	48		48								
Own work capitalised	Q2 2012	1					1					
	Q2 2011	1					1					
Changes in inventory	Q2 2012	0						0				
	Q2 2011	0						0				
Other operating income	Q2 2012	3						3				
	Q2 2011	2						2				
Cost of materials purchased	Q2 2012	6		6								
	Q2 2011	5		5								
Staff expenses	Q2 2012	28					28					
	Q2 2011	28					28					
Depreciation, amortisation and impairment losses	Q2 2012	3					3					
	Q2 2011	3					3					
Results from investments accounted for using the equity method	Q2 2012											
	Q2 2011	1				1						
Other operating expenses	Q2 2012	13					12	1				
	Q2 2011	13					12	1				
Interest and similar income / expenses	Q2 2012	0	0									
	Q2 2011	0	0									
Operating profit	**Q2 2012**	**1**	**0**	**41**			**42**	**2**				
	Q2 2011	**3**	**0**	**43**		**1**	**42**	**1**				
Income taxes	Q2 2012	0									0	
	Q2 2011	1									1	
Segment result	**Q2 2012**	**1**										
	Q2 2011	**2**										

Statement of Financial Position

€ mn	Note	30 Jun 2012	31 Dec 2011
Assets			
Cash funds		537	588
Loans and advances to banks	10	5,937	2,912
Loans and advances to customers	11	25,020	25,422
Allowance for credit losses		-290	-318
Positive market value of derivative hedging instruments		1,941	1,801
Trading assets	12	509	421
Non-current assets held for sale and discontinued operations	13	17	172
Non-trading assets	14	10,911	10,010
Investments accounted for using the equity method		2	2
Investment properties		88	88
Intangible assets	15	83	85
Property and equipment	16	104	104
Income tax assets		19	20
Deferred tax assets		101	89
Other assets	17	421	418
Total		**45,400**	**41,814**
Equity and liabilities			
Liabilities to banks	18	3,196	3,073
Liabilities to customers	19	26,815	24,929
Certificated liabilities	20	8,642	7,540
Negative market value of derivative hedging instruments		1,946	1,769
Trading liabilities	21	807	723
Provisions	22	243	251
Income tax liabilities		16	29
Deferred tax liabilities		14	6
Other liabilities	23	167	127
Subordinated capital	24	1,290	1,198
Equity	25, 26		
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		976	929
Other reserves		-156	-204
Silent participation by SoFFin		300	300
Non-controlling interest		243	243
Total equity		2,264	2,169
Total		**45,400**	**41,814**

Statement of Changes in Equity

€ mn	Subscribed capital	Capital reserves	Retained earnings	Other reserves: Revaluation reserves	Other reserves: Hedging reserves	Other reserves: Currency translation reserves	Silent participation by SoFFin	Total	Non-controlling interest	Equity
Equity as at 1 January 2012	**180**	**721**	**929**	**-221**	**14**	**3**	**300**	**1,926**	**243**	**2,169**
Total comprehensive income for the period			55	60	-14	2		103	10	113
Capital increase										
Payments to non-controlling interests									-10	-10
Dividends										
Silent participation by SoFFin										
Costs associated with the silent participation by SoFFin			-10					-10		-10
Other changes			2					2		2
Equity as at 30 June 2012	**180**	**721**	**976**	**-161**	**0**	**5**	**300**	**2,021**	**243**	**2,264**

€ mn	Subscribed capital	Capital reserves	Retained earnings	Other reserves: Revaluation reserves	Other reserves: Currency translation reserves	Silent participation by SoFFin	Total	Non-controlling interest	Equity
Equity as at 1 January 2011	**128**	**511**	**836**	**-110**	**2**	**375**	**1,742**	**243**	**1,985**
Total comprehensive income for the period			56	-22	0		34	9	43
Capital increase	52	218					270		270
Costs of capital increase		-8					-8		-8
Payments to non-controlling interests								-9	-9
Dividends									
Silent participation by SoFFin						-75	-75		-75
Costs associated with the silent participation by SoFFin			-11				-11		-11
Other changes									
Equity as at 30 June 2011	**180**	**721**	**881**	**-132**	**2**	**300**	**1,952**	**243**	**2,195**

Statement of Cash Flows (condensed)

€ mn	2012	2011
Cash and cash equivalents as at 1 January	**588**	**922**
Cash flow from operating activities	756	-1,374
Cash flow from investing activities	-900	767
Cash flow from financing activities	93	228
Total cash flow	**-51**	**-379**
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 30 June	**537**	**543**

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 half-yearly financial report for the period ended 30 June 2012 was prepared pursuant to the provisions of section 37w in conjunction with section 37y no. 2 of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG"). It comprises the present interim condensed consolidated financial statements, as well as an interim group management report (see Group Management Report). The condensed consolidated financial statements were approved for publication by the Management Board on 8 August 2012.

Aareal Bank AG prepares its condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) applicable within the European Union (EU) as at the reporting date, in connection with the provisions pursuant to section 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.

ZAO Toros, Moscow, was sold on 27 June 2012 and de-consolidated as at the quarter-end. The company owns and operates the Redwood logistics park close to Moscow.

There were no other material changes to the reporting entity structure during the period under review. Overall, the changes in the scope of consolidation had no material consequences for the presentation of the financial position and performance.

Accounting policies

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

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

- Amendments to IFRS 7 Financial Instruments: Disclosures

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

In the period under review, the following financial reporting standards (IASs / IFRSs) and interpretations (SICs and IFRICs) had been published by the International Accounting Standards Board (IASB) and adopted by the EU Commission:

Revised International Financial Reporting Standards		Issued	Endorsed	Effective date
IAS 1	Presentation of Items of Other Comprehensive Income	June 2011	June 2012	Financial years beginning on or after 1 July 2012
IAS 19	Employee Benefits	June 2011	June 2012	Financial years beginning on or after 1 January 2013
	Annual Improvements 2009-2011 Cycle	May 2012		Financial years beginning on or after 1 January 2013

Aareal Bank Group did not opt for early application of these standards, which are required to be applied in future financial years.

Notes to the Statement of Comprehensive Income

(1) Net interest income

€ mn	1 Jan-30 Jun 2012	1 Jan-30 Jun 2011
Interest income from		
Property loans	357	319
Public-sector loans	17	17
Other lending and money market operations	72	86
Debt and other fixed-income securities	82	102
Current dividend income	1	1
Total interest income	**529**	**525**
Interest expenses for		
Bonds issued	76	60
Registered mortgage Pfandbriefe	43	33
Promissory note loans	74	75
Subordinated capital	16	16
Term deposits	53	53
Payable on demand	15	17
Other banking transactions	1	3
Total interest expenses	**278**	**257**
Total	**251**	**268**

(2) Allowance for credit losses

€ mn	1 Jan-30 Jun 2012	1 Jan-30 Jun 2011
Additions	42	84
Reversals	13	42
Direct write-offs	12	15
Recoveries on loans and advances previously written off	4	15
Total	**37**	**42**

(3) Net commission income

€ mn	1 Jan-30 Jun 2012	1 Jan-30 Jun 2011
Commission income from		
Consulting and other services	77	73
Trustee loans and administered loans	9	1
Securities transactions	–	1
Other lending and money market operations	6	14
Other commission income	4	4
Total commission income	**96**	**93**
Commission expenses for		
Consulting and other services	10	10
Securities transactions	3	16
Securitisation transactions	–	0
Other lending and money market transactions	1	5
Other commission expenses	2	1
Total commission expenses	**16**	**32**
Total	**80**	**61**

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

Commission expenses from securities transactions include expenses of € 3 million (2011: € 15 million) for the guarantee facility extended by the German Financial Markets Stabilisation Fund (SoFFin), which expired in the first quarter 2012.

(4) Net income on hedge accounting

€ mn	1 Jan-30 Jun 2012	1 Jan-30 Jun 2011
Ineffective portion of fair value hedges	-3	0
Ineffective portion of cash flow hedges	-2	–
Total	**-5**	**0**

(5) Net trading income / expenses

€ mn	1 Jan-30 Jun 2012	1 Jan-30 Jun 2011
Results from derivative financial instruments	-17	-8
Currency translation	-6	2
Total	**-23**	**-6**

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

(6) Results from non-trading assets

€ mn	1 Jan-30 Jun 2012	1 Jan-30 Jun 2011
Result from debt securities and other fixed-income securities	0	5
of which: Loans and receivables (LaR)	0	5
Available for sale (AfS)	0	0
Result from equities and other non-fixed income securities	0	-1
of which: Available for sale (AfS)	0	0
Designated as at fair value through profit or loss (dFVtPL)	0	-1
Results from equity investments (AfS)	-3	0
Total	**-3**	**4**

The negative result from equity investments is mainly attributable to the sale of shares in ZAO Toros, Moscow. ZAO Toros owns and operates a logistics park close to Moscow.

(7) Administrative expenses

€ mn	1 Jan-30 Jun 2012	1 Jan-30 Jun 2011
Staff expenses	109	114
Other administrative expenses	61	63
Depreciation, amortisation and impairment of property and equipment and intangible assets	10	10
Total	**180**	**187**

(8) Net other operating income/expenses

€ mn	1 Jan-30 Jun 2012	1 Jan-30 Jun 2011
Income from properties	3	3
Income from the reversal of provisions	0	0
Income from goods and services	1	2
Miscellaneous	11	6
Total other operating income	**15**	**11**
Expenses for properties	6	11
Expenses for services used	0	0
Write-downs of trade receivables	–	0
Expenses for other taxes	1	1
Miscellaneous	8	11
Total other operating expenses	**15**	**23**
Total	**0**	**-12**

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

€ mn	1 Jan-30 Jun 2012	1 Jan-30 Jun 2011
Net income/loss	**65**	**65**
Changes in revaluation reserves, after tax	**60**	**-22**
Gains and losses on remeasuring available-for-sale financial instruments, before tax	79	-30
Reclassifications to the income statement, before tax	-	0
Taxes	-19	8
Changes in hedging reserves, after tax	**-14**	**–**
Profit/loss from derivatives used to hedge future cash flows (before taxes)	-21	–
Reclassifications to the income statement, before tax	–	–
Taxes	7	–
Changes in currency translation reserves, after tax	**2**	**0**
Profit/loss from translating foreign operations' financial statements (before taxes)	1	0
Reclassifications to the income statement, before tax	1	0
Taxes	–	–
Gains and losses directly recognised in equity, after tax	**48**	**-22**
Total	**113**	**43**

Notes to the Statement of Financial Position

(10) Loans and advances to banks

€ mn	30 Jun 2012	31 Dec 2011
Term deposits and current account balances	5,417	2,698
Public-sector loans	156	159
Securities repurchase transactions	300	–
Other loans and advances	64	55
Total	**5,937**	**2,912**

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

(11) Loans and advances to customers

€ mn	30 Jun 2012	31 Dec 2011
Property loans	22,391	23,365
Public-sector loans	1,655	1,618
Other loans and advances	974	439
Total	**25,020**	**25,422**

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

(12) Trading assets

€ mn	30 Jun 2012	31 Dec 2011
Positive market value of trading derivatives	509	421
Total	**509**	**421**

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

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

€ mn	30 Jun 2012	31 Dec 2011
Real estate	17	172
Total	**17**	**172**

The decrease as at 30 June 2012 is attributable to the sale of shares in ZAO Toros, Moscow. ZAO Toros owns and operates a logistics park close to Moscow.

(14) Non-trading assets

€ mn	30 Jun 2012	31 Dec 2011
Debt and other fixed-income securities	10,887	9,985
of which: Loans and receivables (LaR)	5,755	6,044
Held to maturity (HtM)	168	168
Available for sale (AfS)	4,964	3,773
Equities and other non-fixed income securities	22	22
of which: Available for sale (AfS)	19	18
Designated as at fair value through profit or loss (dFVtPL)	3	4
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	2	3
Total	**10,911**	**10,010**

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

Reclassified financial assets

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

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

€ mn	Carrying amount 30 Jun 2012	Fair value 30 Jun 2012	Carrying amount 31 Dec 2011	Fair value 31 Dec 2011
from AfS to LaR	**5,176**	**4,530**	**5,395**	**4,773**
Asset-backed securities	30	28	30	27
Bank bonds	680	688	790	784
Covered bonds	636	590	640	600
Public-sector issuer	3,830	3,224	3,935	3,362
from HfT to LaR	**268**	**223**	**304**	**251**
Asset-backed securities	268	223	304	251
Public-sector issuer	–	–	–	–
Total	**5,444**	**4,753**	**5,699**	**5,024**

If the bank had not opted for reclassification, this would have resulted in a € 7 million profit (before tax) for the first six months of the current financial year (H1 2011: € 15 million), and € -17 million (after tax) (H1 2011: € 5 million) would have been recognised in the revaluation reserves.

Bonds of selected European countries

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

Bond values as at 30 June 2012 (total)

€ mn	Carrying amount			Revaluation reserves[1]			Hidden reserves/ encumbrances[1]
	LaR + HtM	AfS	Total	LaR + HtM	AfS	Total	
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	1,133	420	1,553	-52	-56	-108	-269
Portugal	63	123	186	-1	-45	-46	-23
Spain	893	121	1,014	-6	-8	-14	-132
Total	**2,089**	**664**	**2,753**	**-59**	**-109**	**-168**	**-424**
Total 31 Dec 2011	2,038	614	2,652	-61	-142	-203	-381

[1] figures given on an after-tax basis

Bond values as at 30 June 2012 (bond type)

€ mn	Carrying amount			Revaluation reserves[1]			Hidden reserves/ encum-brances[1]
	LaR	AfS	Total	LaR	AfS	Total	
Government bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	1,110	339	1,449	-52	-52	-104	-269
Portugal	–	76	76	–	-29	-29	–
Spain	–	–	–	–	–	–	–
Total	**1,110**	**415**	**1,525**	**-52**	**-81**	**-133**	**-269**

€ mn	Carrying amount			Revaluation reserves[1]			Hidden reserves/ encum-brances[1]
	LaR	AfS	Total	LaR	AfS	Total	
Sub-sovereign bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	–	–	–	–	–	–	–
Portugal	63	–	63	-1	–	-1	-23
Spain	346	24	370	-1	-1	-2	-88
Total	**409**	**24**	**433**	**-2**	**-1**	**-3**	**-111**

€ mn	Carrying amount			Revaluation reserves[1]			Hidden reserves/ encum-brances[1]
	LaR + HtM	AfS	Total	LaR + HtM	AfS	Total	
Covered bank bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	–	69	69	–	-4	-4	–
Portugal	–	47	47	–	-16	-16	–
Spain	547	97	644	-5	-7	-12	-44
Total	**547**	**213**	**760**	**-5**	**-27**	**-32**	**-44**

€ mn	Carrying amount			Revaluation reserves[1]			Hidden reserves/ encum-brances[1]
	LaR	AfS	Total	LaR	AfS	Total	
Senior unsecured bank bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	23	12	35	0	0	0	0
Portugal	–	–	–	–	–	–	–
Spain	–	–	–	–	–	–	–
Total	**23**	**12**	**35**	**0**	**0**	**0**	**0**

[1] figures given on an after-tax basis

The revaluation reserves 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). Hidden reserves and encumbrances relate to securities carried at amortised cost (LaR and HtM).

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

(15) Intangible assets

€ mn	30 Jun 2012	31 Dec 2011
Goodwill	50	50
Proprietary software	19	21
Other intangible assets	14	14
Total	**83**	**85**

(16) Property and equipment

€ mn	30 Jun 2012	31 Dec 2011
Land and buildings and construction in progress	83	83
Office furniture and equipment	21	21
Total	**104**	**104**

(17) Other assets

€ mn	30 Jun 2012	31 Dec 2011
Real estate	323	323
Trade receivables (LaR)	27	30
Miscellaneous	71	65
Total	**421**	**418**

(18) Liabilities to banks

€ mn	30 Jun 2012	31 Dec 2011
Payable on demand	824	727
Term deposits	426	283
Promissory note loans	571	564
Securities repurchase transactions and open-market operations	1,013	967
Registered mortgage Pfandbriefe	185	135
Registered public-sector Pfandbriefe	120	130
Miscellaneous	57	267
Total	**3,196**	**3,073**

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

(19) Liabilities to customers

€ mn	30 Jun 2012	31 Dec 2011
Payable on demand	4,443	3,943
Term deposits	6,567	5,308
Promissory note loans	8,774	8,855
Registered mortgage Pfandbriefe	3,653	3,507
Registered public-sector Pfandbriefe	3,378	3,316
Total	**26,815**	**24,929**

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

(20) Certificated liabilities

€ mn	30 Jun 2012	31 Dec 2011
Medium-term notes	2,252	1,558
Bearer mortgage Pfandbriefe	6,146	4,476
Bearer public-sector Pfandbriefe	71	97
Other debt securities	173	1,409
Total	**8,642**	**7,540**

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

(21) Trading liabilities

€ mn	30 Jun 2012	31 Dec 2011
Negative market value from trading derivatives	807	723
Total	**807**	**723**

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

(22) Provisions

€ mn	30 Jun 2012	31 Dec 2011
Provisions for pensions and similar obligations	92	91
Other provisions	151	160
Total	**243**	**251**

(23) Other liabilities

€ mn	30 Jun 2012	31 Dec 2011
Liabilities from outstanding invoices	9	10
Deferred income	5	4
Liabilities from other taxes	10	16
Trade payables (LaC)	6	10
Other liabilities (LaC)	137	87
Total	**167**	**127**

(24) Subordinated capital

€ mn	30 Jun 2012	31 Dec 2011
Subordinated liabilities	586	497
Profit-participation certificates	481	472
Contributions by silent partners[1]	223	229
Total	**1,290**	**1,198**

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

Items of subordinated equity are allocated to the measurement category "Liabilities measured at amortised cost" (LaC).

(25) Equity

€ mn	30 Jun 2012	31 Dec 2011
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	976	929
Other reserves		
Revaluation reserves	-161	-221
Hedging reserves	0	14
Currency translation reserves	5	3
Silent participation by SoFFin	300	300
Non-controlling interest	243	243
Total	**2,264**	**2,169**

(26) Treasury shares

No treasury shares were held during the period under review.

Other Notes

(27) Contingent liabilities and loan commitments

€ mn	30 Jun 2012	31 Dec 2011
Contingent liabilities on guarantees and indemnity agreements	320	343
Loan commitments	1,559	1,521
of which: irrevocable	1,061	1,025

(28) Employees

	01.01.-30.06.2012	01.01.-31.12.2011
Salaried employees	2,177	2,264
Executives	123	122
Total	**2,300**	**2,386**
of which: Part-time employees	415	432

The number of employees is calculated as the average number of staff as at the quarterly dates within the period under review.

(29) Related party disclosures in accordance with IAS 24

No material transactions with related parties were entered into during the first six months of the 2012 financial year.

(30) 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
AWD Holding AG

Thomas Hawel [6)], Saulheim
Aareon Deutschland GmbH

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

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

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

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

Wolf R. Thiel [1)], Stutensee
(until 31 March 2012)
Former President and Chairman of the
Management Board of Versorgungsanstalt
des Bundes und der Länder (ret'd.)

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

Responsibility Statement

Statement pursuant to section 37y of the German Securities Trading Act (WpHG) in conjunction with section 37w (2) no.3 of the WpHG

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Wiesbaden, 8 August 2012

The Management Board

Dr Wolf Schumacher **Dirk Große Wördemann** **Hermann J. Merkens** **Thomas Ortmanns**

Review Report

To Aareal Bank AG, Wiesbaden

We have reviewed the condensed consolidated interim financial statements – comprising the statement of financial position, statement of comprehensive income, condensed statement of cash flows, statement of changes in equity and selected explanatory notes – and the interim group management report of Aareal Bank AG, Wiesbaden, for the period from 1 January 2012 to 30 June 2012 which are part of the half-year financial report pursuant to § (Article) 37w WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standard on Review Engagements "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Frankfurt/Main, 8 August 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Roland Rausch
Wirtschaftsprüfer (German Public Auditor)

ppa. Kay Böhm
Wirtschaftsprüfer (German Public Auditor)

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

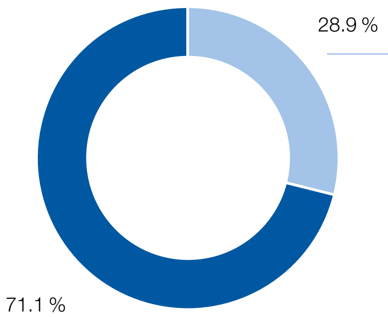
Deposit-taking

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

Shareholder Structure | Financial Calendar

Shareholder Structure

■ Free float ■ Aareal Holding Verwaltungsgesellschaft mbH



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

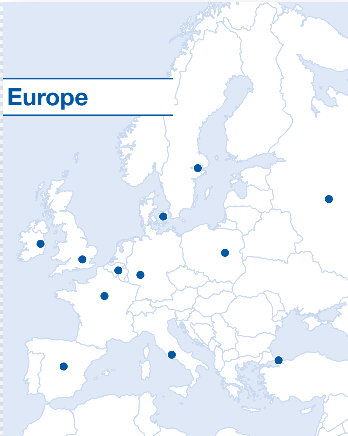
as at 30 June 2012

Financial Calendar

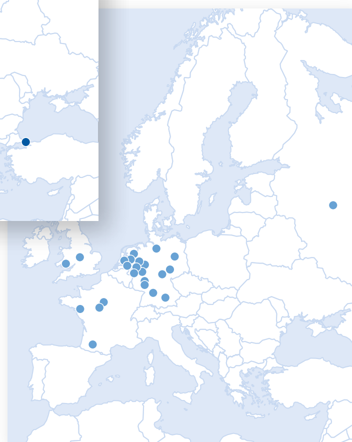
13 November 2012	Presentation of interim report as at 30 September 2012
May 2013	Annual General Meeting – Kurhaus, Wiesbaden

Locations

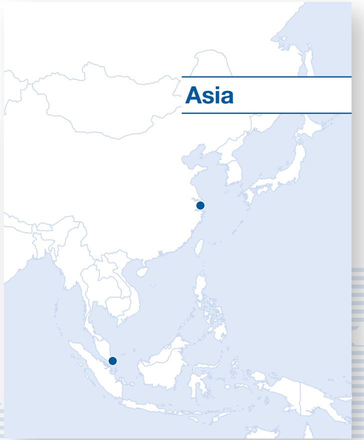
Structured Property Financing



Structured Property Financing



Consulting / Services



Structured Property Financing

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

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

as at 30 June 2012

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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

08/2012

Aareal Bank
Group