

LOCAL EXPERTISE
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III/2013

Aareal Bank Group – Interim Report
1 January to 30 September 2013

SINCE 1923

TRUSTED
90
YEARS



**Aareal Bank
Group**

Key Group Figures

	1 Jan-30 Sep 2013	1 Jan-30 Sep 2012	Change
	€ mn	€ mn	€ mn
Income statement			
Operating profit	140	130	10
Net income after non-controlling interests	81	82	-1
Indicators			
Cost/income ratio (%) ¹⁾	39.6	43.2	
Earnings per share (€)	1.35	1.38	
RoE before taxes (%) ²⁾	7.4	7.1	
RoE after taxes (%) ²⁾	4.8	5.1	

	30 Sep 2013	31 Dec 2012	Change
	€ mn	€ mn	€ mn
Portfolio data			
Property finance	23,775	23,304	471
of which: international	20,272	19,991	281
Property finance under management ³⁾	23,938	23,496	442
of which: international	20,272	19,991	281
Equity ⁴⁾	2,420	2,317	103
Total assets ⁴⁾	43,352	45,750	-2,398
	%	%	
Regulatory indicators			
Tier 1 ratio pursuant to AIRBA ⁵⁾	18.2	16.7	
Total capital ratio pursuant to AIRBA ⁵⁾	22.3	20.6	

	30.09.2013	31.12.2012	
Rating			
Fitch Ratings, London			
long-term	A-	A-	
short-term	F1	F1	

¹⁾ Structured Property Financing segment only

²⁾ On an annualised basis

³⁾ Property financings under management include the property financing portfolio managed for Deutsche Pfandbriefbank AG.

⁴⁾ The comparative figures 2012 were adjusted. Further information is included in the section "Accounting policies" in the notes to the consolidated financial statements.

⁵⁾ Advanced Internal Ratings-Based Approach (AIRBA)

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Letter to Shareholders

*Dear Shareholders,
business associates and Aareal Bank staff,*

During the third quarter of the 2013 financial year, the macro-economic environment remained largely unchanged, compared to the previous quarters – for the banking sector as a whole, and thus also for Aareal Bank. Despite further relief in terms of the European sovereign debt crisis, overall economic momentum in Europe remained subdued, even though there was some evidence of a slight trend towards recovery – or stabilisation – in certain regions. In the third quarter of the year, international financial and capital markets offered various banks, corporate and sovereign issuers the opportunity to place securities at favourable terms.

On the whole, the fundamental momentum of the global economy remained muted during the quarter under review. The uncertainty prevailing in Europe with respect to the further development of the sovereign debt crisis and a restrictive fiscal policy inhibited economic growth – especially in Southern Europe, where unemployment remained high. Nonetheless, a recovery trend emerged in some regions, whilst other European countries such as Germany held on to moderate growth. The uptrend seen in the US economy during the first half-year continued during the quarter under review, whereas the momentum in growth and developing markets weakened. China's economy continued to post high growth rates by international standards. Growth accelerated slightly in the third quarter, although the growth momentum was still weaker than in previous years.

Discussions on further support programmes for Greece or Portugal show that a sustainable solution to the European sovereign debt crisis has yet to be found, with potential for backlash still present. Moreover, after the end of the quarter under review, the focus returned to the situation in the United States, where the legal sovereign debt ceiling was hit and a drawn-out dispute over the new Federal budget was going on. The US government shutdown in early October, and the fact that the largest economy in the world only barely missed a payment default, had a negative effect on the world economy.

Further details concerning the future regulatory framework for the European banking sector were clarified during the third quarter: the European Parliament adopted a law to establish a European banking supervisory authority under the auspices of the ECB, thus reaching a further milestone on the way towards a banking union. Whilst the exact start date of EU banking supervision has now been fixed, the concrete resolution mechanisms for banks remain unclear, as do the details concerning various regulatory standards. At the same time, discussions regarding the procedures for pan-European stress tests continue. So even though these developments mean that the "new normality" for banks is increasingly gaining concrete shape in terms of future regulation, reliable details – which are essential for strategic planning – are still missing in many respects.

In this environment, which continues to be shaped by uncertainty, Aareal Bank posted another good result for the third quarter of the 2013 financial year: not only did consolidated operating profit of € 48 million clearly exceed the good figure posted a year ago, but this was also the highest quarterly operating result since the outbreak of the financial crisis. Given the still-strained economic situation and the associated challenging business environment, we see this as further evidence of our strong market position, affirming our solid business model and the Bank's forward-looking business policy – especially in view of the further intensified competition in commercial property finance during the quarter under review. This was particularly true in regard to first-class properties with low loan-to-value ratios in numerous markets in Western and Northern Europe, but it was also the case in the US, and in key Asian markets.

New business originated in the Structured Property Financing segment amounted to € 2.3 billion in the third quarter, exceeding the figure for the same quarter of the previous year by one billion euros. At € 6.7 billion, we more than doubled new business for the first nine months of the year compared to 2012; the previous year's development was characterised by a later start to new business origination.

Thanks to this positive business development we currently anticipate aggregate new business volume for this year to exceed € 8 billion. Whilst the transaction environment that is more active – and defined by a higher level of liquidity – provides the basis for loan repayments that are higher than expected, it opens up opportunities for high-margin new business, which we exploit consistently. However, lower margins and higher loan-to-value ratios are already becoming evident.

The positive development of net interest income in this segment prevailed throughout the third quarter of 2013. Good lending margins as well as low funding costs had a positive effect – the net figure was burdened, however, by a lack of attractive investment opportunities for liquidity reserves, on account of the prevailing low interest rate levels. Still, at € 131 million, net interest income significantly exceeded the previous year's level (Q3 2012: € 114 million) as well as the good result posted for the previous quarter (Q2 2013: € 124 million). This has affirmed and stabilised the turnaround seen in net interest income during the first two quarters of this year.

At € 29 million, Aareal Bank's allowance for credit losses in the third quarter was slightly lower year-on-year (Q3 2012: € 30 million), and remained within the fluctuation range we had expected. The risk-sensitive business policy we pursued during recent years thus continues to pay off. From today's perspective, we anticipate full-year allowance for credit losses to be at the lower end of the communicated range of € 110 million to € 150 million.

As in the previous periods, results in our Consulting/Services segment continued to be influenced by two contrasting developments during the third quarter. Our IT subsidiary Aareon continued to develop on schedule, both within Germany and abroad. Aareon acquired 100 per cent of the capital of Sweden's Incit AB, effective 1 July 2013: this allows Aareon to now also cover the Scandinavian markets, which are important for the property management sector. Moreover, Aareon succeeded in winning further corporate clients for its Wodis Sigma product line, which continues to set the benchmark for institutional housing software, thanks in particular to its exclusive interface with Aareon Cloud Computing. In contrast, the segment's banking business continued to be burdened by the prevailing low interest rate environment. Although deposits from institutional housing industry clients continued to develop favourably, remaining on a high average level of € 7.1 billion, the persistently low interest rate environment continued to burden income generated from the deposit-taking business, and therefore operating profit, leading to a € 4 million segment loss for the quarter under review.

However, this is an effect which we continue to consciously tolerate, since the importance of the deposit-taking business for the Group goes far beyond the interest margin generated from the deposits – which is under pressure in the current market environment. These deposits represent a strategically important additional source of funding for our property financing business, one that is largely independent of developments on the capital markets. In addition to the German Pfandbrief and senior unsecured funding, deposit-taking thus represents another key component of Aareal Bank's long-term funding mix. Against the background of increasing regulatory changes, we see this as a key strategic competitive advantage. Moreover, we consider these deposit volumes as evidence for the high level of trust which Aareal Bank continues to enjoy as the long-standing lead bank to the institutional housing industry in Germany.

We continued to successfully implement our funding activities during the third quarter, as planned – thus maintaining our long-term funding inventory at a high level and securing the Bank's sound liquidity position. Overall, we placed a total of € 500 million on the capital markets, in the form of senior unsecured funding, Mortgage Pfandbriefe, and subordinated liabilities. The Bank raised a total of € 3.1 billion in long-term funds until 30 September 2013.

Aareal Bank therefore remains very solidly financed. Thanks to our good capital ratios, we see ourselves in an excellent position both with regard to the future requirements of the Basel III regime as well as compared to the industry standard. As at 30 September 2013 the tier I ratio was 18.2 per cent, which is comfortable. The core tier I ratio was 12.5 per cent. Aareal Bank thus already fully complies with the future capital requirements under Basel III today.

Looking back on the first nine months of this year, during which Aareal Bank celebrates its 90th anniversary, we can state that the Bank's business performance was successful and very satisfactory indeed, despite a market and competitive environment which remains challenging. We therefore look ahead to the remainder of the year with confidence: against this background, we raise our operating profit forecast for the full year 2013. From today's perspective, we expect that we will be able to generate consolidated operating profit for the current financial year on a level comparable to the very good results posted in 2011, thereby exceeding 2012's figures.

Aareal Bank is well-positioned to master current and future challenges. We have aligned our business to the "new normal" for banks, adjusting our short- to medium-term planning accordingly. We will continue to carefully plan our business, managing it sustainably and delivering reliably. Key factors in this respect are our very robust liquidity base and capitalisation. These allow us to exploit attractive market opportunities wherever they arise – thoroughly and consistently. We shall continue to do so in the future, in the best interests of our shareholders, clients and staff.

For the Management Board



Dr Wolf Schumacher
Chairman

Group Management Report

Business and Operating Environment

Macro-economic environment

The fundamental momentum of the global economy remained muted in the third quarter of 2013 – with clear regional differences – and the situation on the labour markets of many countries remained strained, particularly in Europe. However, the economy picked up in some regions compared with spring 2013.

Economy

Uncertainty regarding the further development of the European sovereign debt crisis, the restrictive fiscal policy and high unemployment largely continued to prevail in the euro zone in the third quarter, inhibiting economic growth. However – contrary to the start of the year – various indicators provided evidence of a slight trend towards recovery and stabilisation. Moderate growth trends emerged in most European countries outside of the euro zone.

The US also showed signs of moderate economic growth in the third quarter, continuing the upside trend. The economies in Canada and Mexico also showed signs of economic growth.

China's economy continued to post high growth rates by international standards. Growth accelerated slightly in the third quarter, although the growth momentum was still weaker than in previous years. In Japan, there were signs of a continued economic expansion in the third quarter.

The tension on the labour markets of numerous European Union (EU) countries continued almost unchanged. Especially in the southern periphery countries of the euro zone, and most notably in Spain, the unemployment rate was generally very high. Although the unemployment rate was significantly lower in France, Italy and Poland, it was still above 10%. Germany, Luxembourg and Austria continued to have the lowest unemployment rates in the EU. The labour market situation improved

gradually in the US and the unemployment rate fell slightly in the quarter under review.

Sovereign debt crisis

The segmentation of financial and capital markets that we have already seen for quite some time as a consequence of the European sovereign debt crisis – between euro zone countries with low sovereign bond yields and the periphery countries with significantly higher yields – continued in the third quarter. However, the development in yields for bonds issued by the various euro zone countries varied widely. They increased marginally in Germany and were nearly on the same level in France at the end compared with the start of the quarter. There was a noticeable fall in Spain, whilst at the same time yields in Italy rose slightly, resulting in Italian yields exceeding those in Spain by the end of the quarter.

The discussion about further support measures for Greece and its high level of debt reignited again in the third quarter. It was also discussed whether Portugal will require a second support programme when the current programme expires in mid-2014. This was in light of the fact that, in the third quarter, the Portuguese constitutional court ruled significant parts of the government's savings programme – that planned to make it easier to lay off civil servants – as unlawful.

The focus in the US concerned the debt ceiling and the discussion about drawing up the national budget – which was not passed on time at the end of the quarter.

Financial and capital markets, monetary policy and inflation

In the third quarter of the year, international financial and capital markets once again offered various banks, corporate and sovereign issuers the opportunity to place securities at favourable terms.

The performance of government bond yields varied. While yields on UK, Swedish and US government bonds clearly rose, the increase in Germany was

only marginal, and yields remained almost constant in France. However, yields in these countries remained low. Euro zone periphery states still featured a yield differential: Italian bond yields rose slightly, and those in Spain fell during the third quarter. Japanese government bond yields – already very low – fell further, due to the even more expansive monetary policy pursued since April.

The aforementioned segmentation of the financial and capital markets must be taken into consideration in the description of interest rate development below. Long-term interest rates¹⁾ increased for almost all the important currencies in which we are active. This applied to the euro as well as the US dollar and the pound sterling. However, the interest rate levels can still be classified as low. Only for the Japanese yen long-term interest rates fell further – from an already very low level. Long-term interest rates for the Swiss franc remained almost unchanged. Short-term interest rates²⁾ were largely constant for the various currencies during the quarter.

The exchange rates of what we consider to be the most important currencies relative to the euro showed a mixed picture during the quarter under review. The euro weakened vis-a-vis the pound sterling and the Swedish krona, but appreciated against the Japanese yen, the Canadian dollar and the US dollar. The euro exchange rates relative to the Danish krone and the Swiss franc were virtually unchanged at the end of the quarter.

Numerous central banks maintained their key interest rates at very low levels, including the Bank of England (BoE), the European Central Bank (ECB) and the US Federal Reserve (Fed). Monetary policy remained very expansive overall. The Fed continued its monthly purchases of USD 85 billion in mortgage backed securities from government-sponsored entities and longer-term US treasuries. This was accompanied on financial and capital markets by discussions about a reduction in the pace of these monetary policy measures (the so-called "tapering") or their expiry. However the Fed decided in mid-September to maintain its current levels of bond purchases for the time being.

This led to a decline in long-term interest rates in the US, which had previously climbed significantly, although these were still higher at the end of the third quarter than at the start.

Inflationary pressure in Europe remained muted in the third quarter. The average annual rate of inflation in the euro zone was 1.3% and declined gradually during the quarter. Energy prices, in particular, helped to subdue inflation. Annualised inflation in the US was also moderate. Inflation in China rose above the 2% mark. The rate of inflation was considerably higher in Russia and Turkey. Following times of marginal deflation in Japan, this reverted to slight inflation in the third quarter 2013.

Regulatory environment

The focus in the banking sector remained on the various regulatory and reform measures during the third quarter. The Capital Requirements Regulation (CRR) was agreed at European level at the end of the second quarter and published in the EU Official Journal, thus implementing the recommendations of the Basel Committee for Banking Supervision (the Basel III framework) at a European level. Specifically, these include setting stricter requirements for equity instruments, the implementation of liquidity ratios and a leverage ratio, raising the capital requirements for counterparty credit risk, and further standardisation of the regulatory details in the EU (the "single rule book"). Additionally, the lower chamber of German parliament (the Bundestag) adopted the CRD IV Implementation Act, which implements the Fourth European Capital Requirements Directive (CRD IV) into German law. This largely comprises the deconstruction of legal provisions in the German Banking Act (Kreditwesengesetz – "KWG") that are regulated in the EU regulation (CRR) and the inclusion of regulations from CRD IV in the KWG on stricter financial sanctions, on corporate governance and capital buffers.

¹⁾ Based on the 10-year swap rate

²⁾ Calculated on the basis of 3-month Euribor (or vs. LIBOR or comparable reference rates for non-euro currencies)

In September 2013, the European Parliament formally adopted the legal foundations for the establishment of a centralised banking supervision. Accordingly, the ECB will take responsibility for the supervision of all banks with total assets of more than € 30 billion from 2014 onwards. In conjunction with this, negotiations are currently ongoing regarding a single resolution mechanism, whilst the so-called balance sheet assessments are being prepared. These must be carried out by the ECB before it takes the banks in question under its supervision, and will be followed by a stress test to be carried out in 2014, jointly coordinated by the ECB and the European Banking Authority (EBA).

Supervision of the other banks will remain with the national authorities. Supervision by the ECB comprises all euro states and all other EU member states that want to participate.

Sector-specific and business developments

Structured Property Financing segment

During the quarter under review, we adhered to our risk-sensitive approach to lending, whilst also consistently managing our credit portfolio.

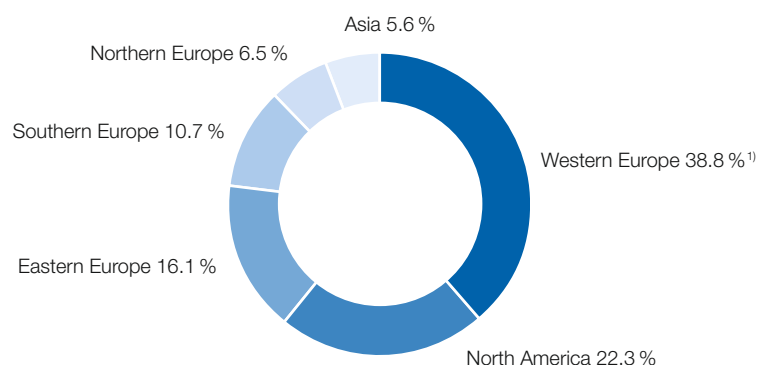
New business in the third quarter of 2013 amounted to € 2.3 billion (Q3 2012: € 1.3 billion), so that € 6.7 billion (9m 2012: € 3.0 billion) was generated in the first nine months of 2013. We exploited the opportunities for new business straight from the beginning of the year, in a transaction environment that was more active and defined by a higher level of liquidity compared with the previous year. At the outset of the previous year, we had focused initially on issuance activities.

The share of newly-originated loans was 51.5 % in the third quarter and therefore roughly in line with the previous year (49.9 %). During the first

New business 1 January-30 September 2013

by region (%)

Total volume: € 6.7 bn



¹⁾ Including Germany

three quarters of this year, newly-originated loans accounted for 55.2 %, and was therefore considerably higher than during the same period of the previous year (37.2 %) due to the reluctance to originate new loans at the start of 2012.

At 72.1 % (9m 2012: 73.6 %), Europe achieved the highest share of new business in the first three quarters of 2013, followed by North America with 22.3 % (24.0 %) and Asia with 5.6 % (2.4 %).²⁾

As in the first half of the year, competition in commercial property financing was clearly even more intensive in the third quarter than it had been the year before. Competition in the business of financing first-class properties in the corresponding locations with low loan-to-value ratios (LTV) remained pronounced for many markets in Western and Northern Europe. Although there is evidence of an increase over last year in the willingness to finance project developments, large-volume projects and properties in peripheral locations, competition here was less defined than for first-class existing properties offering a secure cash flow. Generally speaking, lenders were more prepared to accept higher loan-to-value ratios and lower margins. Competition was not quite as pronounced in Eastern Europe, while the banks in Southern Europe were still taking a reluctant stance on

²⁾ 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.

financing commercial property. The corresponding market environment in Asia was competitive.

In the US, the market for commercial property financing was still defined by a high degree of liquidity and intense competition. Lenders in this market were also more prepared to accept higher loan-to-value ratios, lower margins, and financings in fringe markets.

There was only little change in the principal features of commercial property markets compared with the first quarters of the year. Rents and yields¹⁾ remained largely stable on the markets for first-class properties. Although investors continued to look particularly for first-class properties in the corresponding locations, we saw a shift over the previous year towards properties involving higher risk in the US and on some European markets, such as Germany and the UK. These included, for example, high-quality properties in secondary locations. Global transaction volumes for commercial property increased significantly in the quarter under review, as well as in the first three quarters on aggregate, compared with the same periods of the previous year.

Europe

In most European economic centres, rents for high-quality commercial properties remained almost constant compared with the previous quarter. This applied to the markets for first-class office, retail and logistics properties. A noticeable rise or decline in rents was evident on only a few premium markets. Rents increased for example in London's West End office and retail markets, and in the retail markets of Berlin, Paris and the leading Italian cities of Milan and Rome. The office markets in Madrid, Prague, Rome and Warsaw were examples of falling rents, as were the retail markets in various Dutch centres such as Amsterdam, The Hague and Rotterdam.

There was no evidence of a clear trend on the hotel markets – in terms of the important indicator of average revenue per hotel room – in the quarter under review. On the one hand, the various locations differed greatly in some cases, while on the

other hand substantial fluctuations impacted on the performance during the course of the quarter. Examples of markets with rising average revenues (compared with the third quarter of 2012) were Barcelona, Brussels, Hamburg and Copenhagen. In contrast, average revenues fell, for example, in London (reflecting the effect of the previous year's Olympic Games), Istanbul (caused by political developments during the summer months), as well as in Madrid and Munich.

Investors continued to show particular interest for first-class properties in corresponding locations that offer investors a secure cash flow. However, there was greater interest in some markets for opportunities offering a higher risk profile, such as outside the leading economic centres. Transaction volumes in Europe in the third quarter of 2013 increased over the corresponding period of the previous year. This also applied to all three quarters of the year on aggregate. High transaction volumes during this period – which had increased year-on-year – were recorded, particularly in Germany, France and in the UK. Yields on premium-segment properties in European economic centres remained almost stable for the most part compared with the previous quarter. Only a few markets saw deviating developments. Yields fell, for example, on the markets for first-class office premises in Amsterdam and Madrid, for retail properties in London's West End, and for logistics properties in London. Yields increased on only a few individual markets, such as the retail property market in Birmingham, and the logistics markets in Barcelona and The Hague.

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.

We originated new business in the amount of € 1.5 billion in Europe during the third quarter,

¹⁾ Falling yields are associated with rising property market values, whilst rising yields correspondingly produce falling values, all other things remaining equal.

making a total of € 4.8 billion for the first three quarters of the year. Based on the first three quarters, Western Europe accounted for the largest share, well ahead of Eastern Europe, Southern and Northern Europe.

North America (NAFTA states)

National average rents for office, retail and logistics properties again gradually increased in the US during the third quarter compared with the previous quarter. There were some differences between the leading cities in the US on a regional level. Examples of markets with a significant increase in rents were the San Francisco office market and the retail markets in Boston and New York. The office and retail markets in Washington DC were examples of stagnating rental development. The national vacancy ratios for office, retail and logistics markets in the US remained virtually unchanged in the third quarter.

The upside trend in the hotel sector in the US continued: average revenues per available hotel room increased over the third quarter of the previous year. The same positive trend of increasing average revenues per room continued in Canada and Mexico, too.

Transaction volumes increased in North America in both the quarter under review as well as during the year to date over the corresponding periods of the previous year. Yields for newly-acquired commercial property gradually declined in the US compared with the previous quarter.

We originated new business in the amount of € 0.5 billion in North America during the third quarter, and thus a total of € 1.5 billion for the first three quarters of the year. New business was accounted for almost exclusively by the US.

Asia

The rents for first-class commercial property in Asia saw a largely stable trend. Rents for office premises in the premium segment remained stable over the previous quarter, in the major Chinese cities of Beijing and Shanghai, as well as in Singapore and Tokyo. Rents also remained constant

on the markets for high-quality retail properties in Beijing, Shanghai and Singapore, while Tokyo reported an increase. Rents also increased on the Tokyo logistics market, while remaining almost constant in the other three aforementioned Asian cities.

The performance of the hotel markets varied in Asia. While average revenues per available hotel room in Tokyo increased significantly over the corresponding period of the previous year, Beijing and Shanghai showed a slight downtrend.

Unlike the other regions, transaction volumes in Asia remained almost constant in the third quarter compared with the previous year, but increased relative to the aggregate first three quarters of the year. Investment yields for first-class commercial property were largely stable in the big Asian cities stated above, relative to the previous quarter. High-quality retail properties posted a slight decline only in Singapore and Tokyo.

Our new business in Asia in the third quarter stood at € 0.3 billion and therefore totalled € 0.4 billion for the first three quarters. China and Japan accounted for the new business.

Consulting/Services segment

Institutional Housing Unit

Business in the institutional housing industry continued to develop steadily during the third quarter of 2013. Corporate investments continue to focus on enhancing energy efficiency, and creating a sustainable quality of housing.

The German residential rental market continued to see stable development. Rents offered in July 2013 were around 2.7 % higher than in the third quarter of 2012, with rents in rural areas increasing by 1.8 %, and in the major cities by 3.7 %.

Differences in rental levels are still evident between growth regions and those subject to contraction. While structurally weak regions featured higher vacancy levels, the demand for residential accommodation increased in many German economic centres. The larger cities, and those with univer-

sities, benefited especially from higher demand on the residential rental market.

We continued to see demand for German residential property portfolios from German institutional investors in particular. Investor activity was evident mostly from open-ended property and special funds, as well as from insurance companies, whose interest is focused particularly on smaller, higher-quality portfolios and project developments in the major cities. In addition to the prosperous urban areas, investor interest is focusing increasingly on secondary locations in North Rhine-Westphalia and in Northern Germany.

Our clients 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.

Continuous development of the products offered and the systems used is a decisive sign of quality. An example of this is the timely and smooth transition to the SEPA payment procedures at the start of 2014. Considerable resources were invested in developing the accounting system and the payment products employed.

This enables us to maintain a strong position in the market, despite strong competitive pressure – which is also evident in new client acquisition; the business partners acquired in the third quarter of 2013 currently manage some 130,000 residential units between them. On top of this, we acquired new clients from the energy sector with more than 700,000 customer contracts.

The volume of deposits in the quarter under review averaged € 7.1 billion (Q2 2013: € 7.2 billion), thus remaining at a high level.

The persistently low interest rate environment in the quarter under review burdened income generated from the deposit-taking business, and therefore the segment result. Yet the importance of the deposit-taking business in the Consulting/ Services segment goes far beyond the interest

margin generated from the deposits – which is under pressure in the current market environment. For Aareal Bank, deposits from the institutional housing industry are a strategically important additional source of funding for the lending business, and one that is largely independent of capital markets developments. In addition to the German Pfandbrief and unsecured bank bonds, they represent an important pillar in the Bank's long-term funding mix. Especially in the current capital market environment, Aareal Bank therefore sees this business as possessing a particular competitive advantage.

Aareon

The digitalisation of processes offers considerable potential to the institutional housing industry, its business partners and tenants: for example, customer and service orientation is improved by supporting all phases of the property management company's customer relationship, efficiency is increased, costs reduced and greater transparency created. This is ensured by means of an integrated, modern CRM (customer relationship management) system, mobile solutions, digital archiving systems and cloud computing.

Aareon has been expanding its Cloud Computing service since 2011 and offers, among other things, the Wodis Sigma ERP product as a service from the exclusive Aareon Cloud. 93 clients have already opted in favour of the system. Data is held in Aareon's certified data-processing centre, which guarantees data security and protection at a high level. In the third quarter, DQS GmbH, the German Society for the Certification of Management Systems, once again confirmed Aareon's very high level of data protection. Aareon and its domestic subsidiaries were awarded the DQS data protection seal already for the fourth time. For this purpose, Aareon undergoes a regular data protection audit pursuant to section 9a of the German Data Protection Act (Bundesdatenschutzgesetz – "BDSG").

In order to convert the national payment systems to the Single Euro Payments Area (SEPA), Aareon offers the necessary functions in all ERP systems. Acceptance levels among our clients are high. The third quarter was dominated by the SEPA

mass conversion. More than 630 companies had changed to the SEPA platform by the end of September, and we believe that – in time – clients will have finalised the transition.

The number of Wodis Sigma clients increased further in the previous quarter, to just under 500. The new Wodis Sigma Release 5, which will be presented in November at the Wodis Sigma Forum in Bochum, is developing on schedule. Key functional enhancements impact on the mobile property inspection and integration of the Aareon CRM portal.

Demand for SAP® consultancy services in the SAP® solutions product line and Blue Eagle was particularly strong, as well as in Aareon's own consultancy services.

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

Integrated Services continues to see demand, especially for the Mareon service portal, the BauSecura insurance solutions, and the Aareon invoicing service. To facilitate the use of Mareon, a cooperation agreement between Aareon and Planon, a leading global provider of facility management and property software, was signed and took effect from 8 July 2013. The exclusive partnership aims to allow Planon's clients to use the advantages of the Mareon service portal for ongoing maintenance work. This will also be achieved by integrating Mareon in Planon's computer-aided facility management (CAFM) software.

The Aareon Archiv kompakt product, which was launched on the market at the start of 2013, is enjoying strong client demand. This product constitutes a compact and standardised archive solution, which is offered in the form of software as a service (SaaS) and as an in-house solution; it serves to fulfil audit requirements with regard to archive solutions and document research.

In the I-stay@home project funded by the European Union, the leading IT partner Aareon and 14 other European partners from the institutional housing industry are jointly developing an IT-

based platform that offers access to affordable assistance services. The development is progressing on schedule.

Several customers with SGI Tobias^{AX} financials and projects were rolled out in the Netherlands – including the important client De Key, Amsterdam (35,700 rental units). In France, additional clients were acquired for the Prem'Habitat and Portal-Immo Habitat ERP solutions, while several products were rolled out in the UK – such as the ERP solution QL Housing and the mobile solution 1st Touch.

In the course of its growth strategy, Aareon acquired 100 % of the Swedish company, Incit AB, Göteborg with effect from 1 July 2013, thus taking a position in the important Scandinavian property market. Incit AB is an important provider of ERP property management software in Scandinavia. The fast-growing company provides property management software solutions to almost 300 customers – commercial and other housing enterprises, local authorities, property managers and other service providers. In addition to its Swedish home markets, Incit AB has subsidiaries in Norway (Incit AS) and the Netherlands (Incit B.V.). This acquisition further enhances Aareon's leading position in Europe.

Overall, Aareon achieved operating profit of € 16 million in the first nine months of the 2013 financial year (9m 2012: € 13 million).

Financial Position and Performance

Financial performance

Group

At € 380 million, net interest income for the first nine months of the 2013 financial year exceeded the previous year's figure of € 370 million. Good lending margins as well as low funding costs had a positive effect – the net figure was burdened, however, by a lack of attractive investment oppor-

Consolidated net income of Aareal Bank Group

	1 Jan-30 Sep 2013	1 Jan-30 Sep 2012
€ mn		
Net interest income	380	370
Allowance for credit losses	74	67
Net interest income after allowance for credit losses	306	303
Net commission income	117	119
Net result on hedge accounting	-3	-7
Net trading income/expenses	14	-17
Results from non-trading assets	-8	-2
Results from investments accounted for using the equity method	-	-
Results from investment properties	0	5
Administrative expenses	276	270
Net other operating income/expenses	-10	-1
Impairment of goodwill	0	-
Operating profit	140	130
Income taxes	44	33
Net income/loss	96	97
Allocation of results		
Net income/loss attributable to non-controlling interests	15	15
Net income/loss attributable to shareholders of Aareal Bank AG	81	82
Appropriation of profits		
Net income/loss attributable to shareholders of Aareal Bank AG	81	82
Silent participation by SoFFin	15	15
Consolidated profit/loss	66	67

tunities for our liquidity reserves, on account of the prevailing low interest rate levels.

Allowance for credit losses amounted to € 74 million during the first nine months of the 2013 financial year (9m 2012: € 67 million). It was therefore lower than the pro rata forecast range of € 110 million to € 150 million for the financial year, but within the range we had expected.

Net commission income of € 117 million was roughly in line with the previous year's figure of € 119 million.

The aggregate of net trading income/expenses and the net result on hedge accounting of € 11 million was primarily attributable to the

measurement of derivatives used to hedge interest rate and currency risk, and to realised and unrealised changes in value from sold hedging instruments on selected EU sovereign countries.

The results from non-trading assets amounted to € -8 million, compared to € -2 million for the corresponding period of the previous year. Largely due to the sale of securities within the scope of our active portfolio management.

At € 276 million, administrative expenses were higher than last year's level (9m 2012: € 270 million). The slight increase was due to (i) measurement effects related to share-based remuneration, as defined by the German Ordinance on Remuneration in Financial Institutions (Instituts-Vergütungs-

verordnung – "InstVergV"), due to the positive performance of the Aareal Bank share; (ii) expenses for regulatory projects; and (iii) the takeover of Sweden's Incit AB with effect from 1 July 2013.

After taking into account net other operating income and expenses (€ -10 million), this yields consolidated operating profit of € 140 million for the first nine months of 2013 (9m 2012: € 130 million). After deduction of taxes of € 44 million and non-controlling interest income of € 15 million, net income attributable to shareholders of Aareal Bank AG amounted to € 81 million. Taking into consideration the net interest payable on the SoFFin silent participation, consolidated net income stood at € 66 million.

Structured Property Financing segment

Segment net interest income of € 131 million in the third quarter was markedly higher than in the same period of the previous year (Q3 2012:

€ 114 million), Good lending margins as well as low funding costs had a positive effect – the net figure was burdened, however, by a lack of attractive investment opportunities for our liquidity reserves, on account of the prevailing low interest rate levels.

Allowance for credit losses in the quarter under review amounted to € 29 million (Q3 2012: € 30 million), and was therefore within the projected range.

At € 50 million, administrative expenses in the third quarter were in line with the corresponding level of the previous year (€ 51 million).

Overall, operating profit for the Structured Property Financing segment was € 52 million (Q3 2012: € 42 million). Taking into consideration tax expenses of € 16 million (Q3 2012: € 10 million), the segment result in the quarter under review was € 36 million (Q3 2012: € 32 million).

Structured Property Financing segment result

	Quarter 3 2013	Quarter 3 2012
€ mn		
Net interest income	131	114
Allowance for credit losses	29	30
Net interest income after allowance for credit losses	102	84
Net commission income	2	6
Net result on hedge accounting	0	-2
Net trading income/expenses	3	6
Results from non-trading assets	-2	1
Results from investments accounted for using the equity method	-	-
Results from investment properties	0	0
Administrative expenses	50	51
Net other operating income/expenses	-3	-2
Impairment of goodwill	0	-
Operating profit	52	42
Income taxes	16	10
Segment result	36	32
Allocation of results		
Segment result attributable to non-controlling interests	4	5
Segment result attributable to shareholders of Aareal Bank AG	32	27

Consulting/Services segment

Sales revenue generated in the Consulting/Services segment during the third quarter of 2013, which amounted to € 46 million, was slightly higher than the corresponding figure of the previous year (Q3 2012: € 44 million). The increase was due to, among other things, the acquisition by Aareon of Incit Group and its consolidation as at 1 July 2013. In contrast, the persistent low interest rate environment continued to burden margins from the deposit-taking business that are reported in sales revenues.

Staff expenses in the quarter under review amounted to € 30 million, and were therefore higher than in the same period of the previous year. The increase was due to, among other things, the acquisition by Aareon of Incit Group and its consolidation as at 1 July 2013.

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

Overall, operating profit for the segment in the third quarter of 2013 was € -4 million (Q3 2012: € 0 million). Aareon's contribution was € 5 million (Q3 2012: € 5 million).

After taking taxes into consideration, the segment result in the third quarter amounted to € -3 million (Q3 2012: € 0 million).

Net assets

Aareal Bank Group's total assets as at 30 September 2013 amounted to € 43.4 billion, after € 45.7 billion as at 31 December 2012.

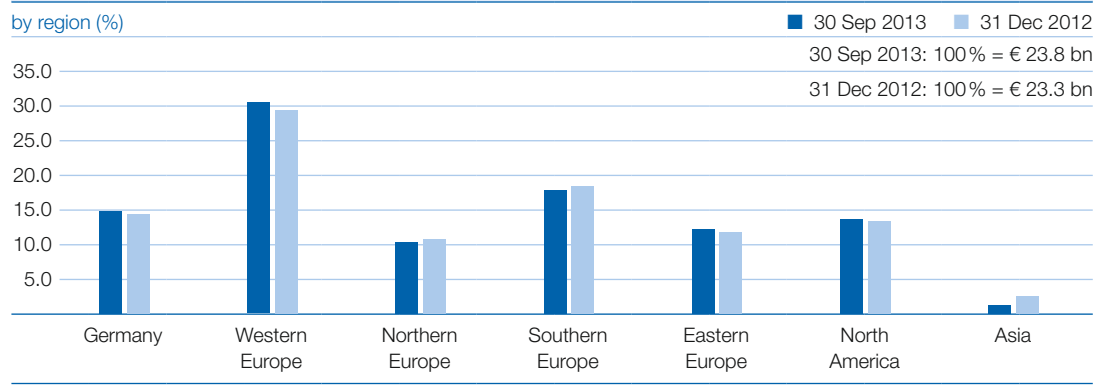
Property financing portfolio

The volume of Aareal Bank Group's property financing portfolio stood at € 23.8 billion as at 30 September 2013. This represents an increase of 2.0 % over the 2012 year-end figure of € 23.3 billion.

Consulting/Services segment result

	Quarter 3 2013	Quarter 3 2012
€ mn		
Sales revenue	46	44
Own work capitalised	1	0
Changes in inventory	0	0
Other operating income	1	1
Cost of materials purchased	6	5
Staff expenses	30	27
Depreciation, amortisation and impairment losses	4	3
Results from investments accounted for using the equity method	-	-
Other operating expenses	12	10
Interest and similar income/expenses	0	0
Operating profit	-4	0
Income taxes	-1	0
Segment result	-3	0
Allocation of results		
Segment result attributable to non-controlling interests	1	0
Segment result attributable to shareholders of Aareal Bank AG	-4	0

Property financing volume (amounts drawn)



This relatively moderate increase in portfolio growth (in view of the increase in newly-originated loans) is largely due to the high volume of repayments during the first three quarters of the year.

The international share of the portfolio fell slightly to 85.3 % (€ 20.3 billion). The chart above illustrates the very broad regional diversification of our overall portfolio.

Securities portfolio

As at 30 September 2013, the nominal volume of the securities portfolio¹⁾ was € 10.9 billion (31 December 2012: € 12.1 billion). Key aspects taken into account for new investments are good credit quality (and the related value stability), as well as a high degree of liquidity, particularly with regard to Basel III criteria. The security portfolio comprises four asset classes: public-sector borrowers, covered bonds and Pfandbriefe, bank bonds and asset-backed securities (ABS). 97 %²⁾ of the overall portfolio is denominated in euros. 98 %²⁾ of the portfolio has an investment grade rating.³⁾

Financial position

Refinancing and equity

Aareal Bank Group continued to successfully conduct its funding activities during the third quarter 2013, thereby securing its very solid liquidity situation. Long-term funding as at 30 September 2013 amounted to € 26.2 billion (31 December 2012: € 26.7 billion) and comprised Pfandbriefe, unsecured and subordinated issues. Aareal Bank also had € 6.8 billion (31 December 2012: € 6.3 billion) at its disposal as a result of deposits generated from the business with the institutional housing industry, as well as institutional money market investor deposits in the amount of € 5.1 billion (31 December 2012: € 5.2 billion).

The Bank raised more than € 500 million in long-term funds on the capital market during the third quarter. This comprised Mortgage Pfandbriefe in the amount of € 200 million, unsecured refinancing of 300 million, as well as subordinated liabilities of just under € 50 million. Aareal Bank has therefore maintained its long-term funding at a high level.

The total volume of long-term funding raised up to 30 September 2013 amounted to € 3.1 billion, with Mortgage Pfandbriefe accounting for € 2.3 billion. Unsecured refinancing amounted to € 700 million. The remaining almost € 100 million were lower tier 2 capital.

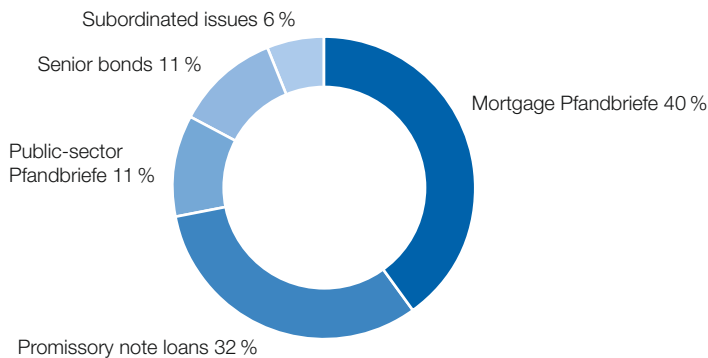
¹⁾ As at 30 September 2013, the securities portfolio was carried at € 12.4 billion (31 December 2012: € 14.0 billion).

²⁾ Details based on the nominal volume

³⁾ The rating details are based on the composite ratings.

Capital market funding mix as at 30 September 2013

% Total volume: € 26.2 bn



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

As at 30 September 2013, Aareal Bank Group's consolidated equity amounted to € 1.9 billion, excluding the SoFFin silent participation and trust preferred securities.

Regulatory indicators

Regulatory indicators under AIRBA

	30 Sep 2013	31 Dec 2012
€ mn		
Tier 1 capital	2,352	2,430
Total own funds	2,886	2,991
Risk-weighted assets (incl. market risk)	12,925	14,513
%		
Tier 1 ratio	18.2	16.7
Total capital ratio	22.3	20.6

Report on Material Events after the Reporting Date

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

Risk Report

Aareal Bank Group Risk Management

The Annual Report 2012 contains a comprehensive description of Aareal Bank Group's risk management approach, including the corresponding organisational structure and workflows in the lending and trading businesses, as well as the methods and procedures used for measuring and monitoring risk exposure. Within the scope of this interim report, we will once again briefly outline the key components of our risk management structure, together with the key developments during the period under review.

The business policy set by the Management Board, and approved by the Supervisory Board, provides the conceptual framework for Aareal Bank Group's risk management. Taking this as a basis, and in strict consideration of the Bank's risk-bearing capacity, we have formulated detailed strategies for managing the various types of risk. These risk strategies, as well as the Bank's business strategy, are adapted to the changed environment at least once a year, and 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 28 % 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 September 2013.

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

Risk-bearing capacity of Aareal Bank Group as at 30 September 2013

– Going-concern approach –

	30 Sep 2013	31 Dec 2012
€ mn		
Own funds for risk cover potential	2,504	2,359
less 8 % minimum tier 1	1,282	1,288
Freely available funds	1,222	1,071
Utilisation of freely available funds		
Credit risks	226	239
Market risks	243	281
Operational risks	44	43
Investment risks	27	27
Total utilisation	540	590
Utilisation as a percentage of freely available funds	44 %	55 %

Credit risks

Definition

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

Risk measurement and monitoring

Aareal Bank's structural organisation and business processes are consistently geared towards effective and professional risk management. Regulatory requirements are fully taken into account for the organisation of operations and workflows in the credit and trading business.

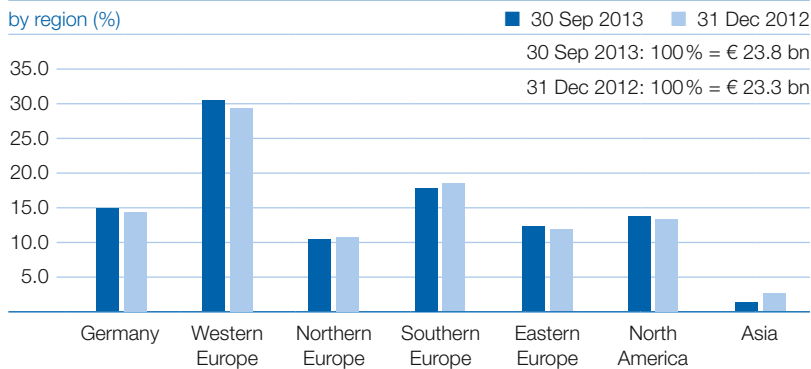
Processes in the credit and trading businesses are designed to consistently respect the clear functional separation of Sales units and Credit Management, up to and including senior management level. The independent Risk Controlling division is responsible for identifying, quantifying and monitoring all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

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

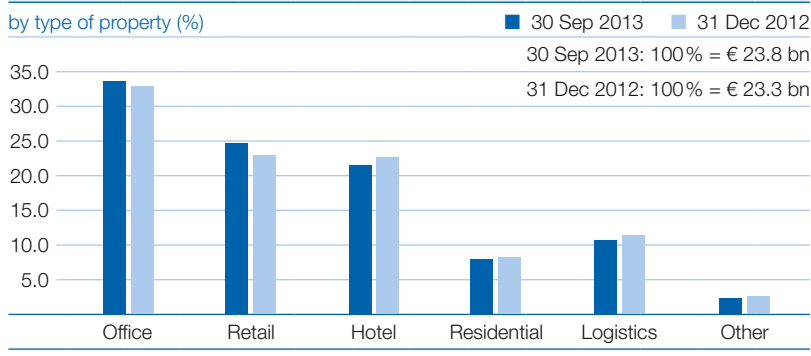
Methods used to measure, control and monitor concentration and diversification effects on a portfolio level include two diverse credit risk models. Based on these models, the Bank's decision-makers are regularly informed of the performance and risk content of property finance exposures, and of business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

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

Property financing volume (amounts drawn)



Property financing volume (amounts drawn)



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

Country risks

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 – in particular, credit and liquidity risk exposure of the bond portfolio – is managed as part of "specific" risk.

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 indi-

cates the potential loss incurred before countermeasures take effect. Since this is a statistical approach, the forecast for the potential loss that may be incurred within a specific period of time is for a given confidence interval only.

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

By their very nature, VaR calculations are based on numerous assumptions regarding the future development of the business, and the related cash flows. Key assumptions used include current account balances which are factored into calculations for a period of two years, using the average

residual amount of deposits observed in the past. Loans are taken into account using their fixed-interest period (for fixed-rate exposures), or using their expected maturity (variable-rate exposures). Aareal Bank's equity is not taken into account as a risk-mitigating item. This tends to overstate VaR, demonstrating the conservative approach adopted in our risk measurement processes.

The limit set for the VaR figure is derived from the analysis of the Bank's risk-bearing capacity, which is carried out at least once a year. Limits are defined at Group level, as well as for the individual Group entities. Being authorised to maintain a trading book, Aareal Bank AG has defined an additional trading book limit, plus a separate value-at-risk limit for fund assets held.

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

	MAX	MIN	Mean	Limit
€ mn				
Q3 2013 (2012 year-end values)				
95 %, 250-day holding period				
Aareal Bank Group – general market price risk	260.8 (220.3)	137.1 (154.9)	188.4 (183.4)	– (–)
Group VaR (interest rates)	248.8 (236.6)	136.2 (156.3)	181.9 (191.3)	– (–)
Group VaR (FX)	46.5 (65.6)	31.2 (35.1)	38.5 (54.7)	– (–)
VaR (funds)	7.0 (16.3)	0.5 (5.2)	4.6 (8.1)	20.0 (20.0)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	5.0 (5.0)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	227.7 (260.8)	152.1 (193.2)	198.7 (232.8)	– (–)
Aggregate VaR – Aareal Bank Group	318.6 (338.2)	233.6 (256.4)	275.8 (296.7)	400.0 (400.0)

To ensure that Aareal Bank's figures are comparable to those published by other institutions,

the risk parameters shown below were determined for a one-day holding period:

	MAX	MIN	Mean	Limit
€ mn				
Q3 2013 (2012 year-end values)				
95 %, 1-day holding period				
Aareal Bank Group – general market price risk	16.5 (13.9)	8.7 (9.8)	11.9 (11.6)	– (–)
Group VaR (interest rates)	15.7 (15.0)	8.6 (9.9)	11.5 (12.1)	– (–)
Group VaR (FX)	2.9 (4.1)	2.0 (2.2)	2.4 (3.5)	– (–)
VaR (funds)	0.4 (1.0)	0.0 (0.3)	0.3 (0.5)	1.3 (1.3)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.3 (0.3)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	14.4 (16.5)	9.6 (12.2)	12.6 (14.7)	– (–)
Aggregate VaR – Aareal Bank Group	20.1 (21.4)	14.8 (16.2)	17.4 (18.8)	25.3 (25.3)

Aggregate VaR – Aareal Bank Group

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

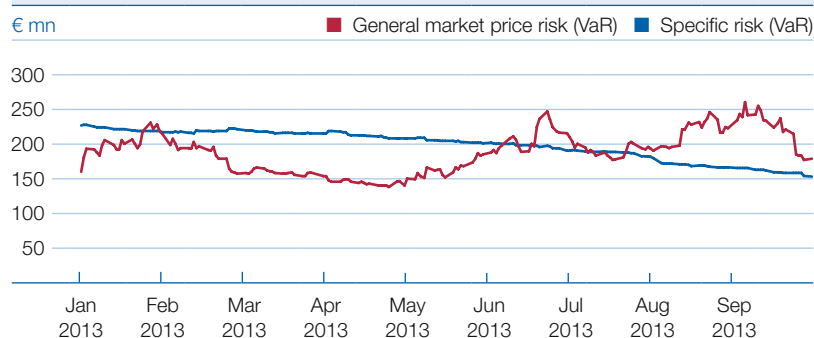
Backtesting

The quality of forecasts made using this statistical model is checked through a weekly backtesting process. The quality of the statistical procedure used to measure risk is checked using a binomial test, whereby daily profits and losses from market fluctuations are compared with the upper projected loss limit (VaR) forecast for this 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). No negative outliers at Group level occurred during the last 250 trading days, affirming the high forecasting quality of the VaR model we use.

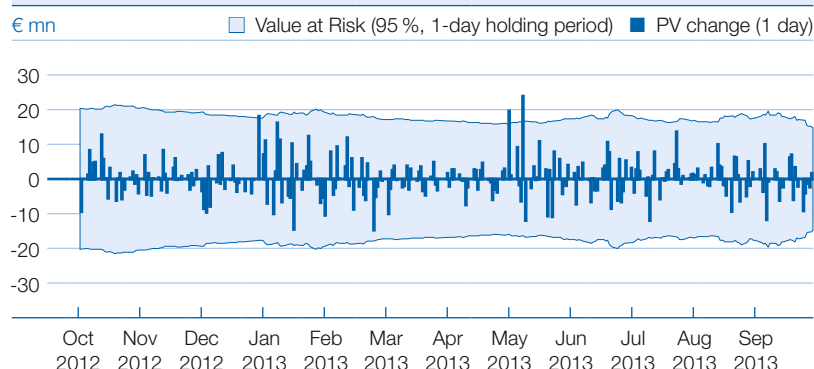
Trading book

Being authorised to maintain a trading book, Aareal Bank AG is the Group entity in a position to assign transactions to the trading portfolio as

General market price risk and specific risk during 2013



Present values and 1-day VaR during 2012/2013



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. Strategic, reputational and systematic risks are not covered by operational risk management. These risks are managed largely through qualitative measures.

Aareal Bank's policy for managing and monitoring operational risks is geared to achieving a risk-minimising or loss-limiting effect at an early stage, by employing a pro-active approach. The Risk Report in the 2012 Annual Report contains a detailed description of controlling tools employed by the Bank to manage operational risk, plus the relevant responsibilities.

The current analysis conducted using these control instruments has shown that the Bank is not exposed to disproportionate operational risks; nor did it indicate any material risk concentration. Operational risk management also includes the reporting to the Bank's Management Board 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

Pressure and uncertainty continue to weigh heavily on the global economy. Uncertainty regarding the further development of the European sovereign debt crisis, the restrictive fiscal policy pursued in many countries, and high unemployment will continue to curb overall economic demand for the foreseeable future.

Although there are signs that the global upturn is stabilising, the global economic recovery is unlikely to generate much momentum and should grow only at a slow pace during the remainder of the year. We assume that the global economic growth rate for 2013 as a whole will be down slightly on the previous year. Regional differences in economic development can be expected. From Aareal Bank's perspective, the anticipated restrained economic development may also have negative implications for rents and asset values on the commercial property markets.

There is evidence that the recession has been overcome in the euro zone. However, the aforementioned negative factors, such as the European sovereign debt crisis, the restrictive financial policy in many countries, high unemployment and low wage growth are likely to prevent any sizeable momentum from developing. As we see it, real economic output in the euro zone is likely to grow only gradually in the final quarter. Based on the full year 2013, this means that real gross domestic product will contract by a rate that is marginally lower than in the previous year. There are signs that the economies of Italy and Spain will also stabilise in the final quarter. However, this means that real gross domestic product will fall sharply for the full-year 2013 in both countries. We anticipate gradual to slight economic growth in most other euro zone countries during the final quarter. Real gross domestic product in countries such as Belgium and France is thus likely to virtually

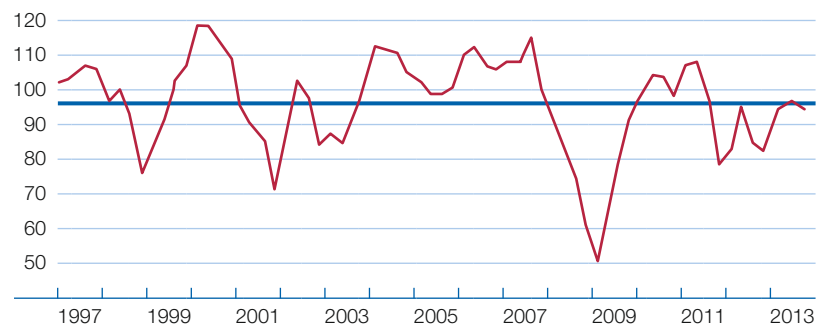
stagnate for the full-year 2013, and set to increase slightly in Germany and Austria. Economic output in Finland and the Netherlands is expected to decline significantly for the year as a whole. Outside the euro zone, the scenario looks mostly slightly more positive. We anticipate slight real growth for most countries in the fourth quarter. This means that real gross domestic product in 2013 will increase slightly year-on-year in the UK, Poland, Sweden and Switzerland. It should remain unchanged from last year in Denmark, whereas it is set to fall sharply in the Czech Republic for the year as a whole. The growth economies of Russia and Turkey will enjoy real economic growth in the full-year 2013.

The US economy was burdened significantly in the current quarter by the dispute over the federal budget, which was passed as a transitional budget with a delay of 16 days and resulted in a partial shutdown of the government's activities and expenditure. In addition to the budget dispute, households and companies were unsettled by the fact that a compromise was only reached when the debt ceiling was imminent. In fact, this agreement does not represent a long-term solution but merely constitutes raising the debt ceiling until February and a transitional budget until mid-January. This short-term nature might prompt further uncertainty among households and companies, as well as investors.

ifo Global Economic Climate*

2005 = 100

■ Long-term average 1997-2012 (96.0)



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

Monetary policy could also have a weakening effect, if the US Federal Reserve (Fed) were to start exiting (“tapering”) its current very expansive policy. However, the Fed announced in mid-September that it would continue with its monthly QE bond purchasing programme for the time being.

We expect moderate growth for Canada and Mexico, based on 2013 as a whole.

Looking at an improvement in competitive strength in exports due to exchange rate effects, the government economic stimulus programme and very loose monetary policy by the Bank of Japan, we assume that the Japanese economy will continue to grow for the remainder of the year and achieve moderate growth for the full year 2013. The Chinese economy will continue to post high growth rates by international standards. Nonetheless, the growth rate for the full-year 2013 is expected to come in slightly below that of the previous year. Singapore’s economy, on the other hand, might grow slightly faster than in the previous year.

The situation on the labour markets remains difficult in many European countries. We anticipate another slight increase in fourth quarter unemployment in the euro zone. The situation is also unlikely to ease noticeably in the European countries outside the euro zone: here, any development in unemployment rates should remain virtually constant after adjustment for seasonal effects. We expect a similar trend on the US labour market in the final quarter.

Future economic development continues to be defined by considerable risks and uncertainties, with respect to further developments concerning the European sovereign debt crisis. There is still no sign of a lasting solution, which is evident also by the discussions held about possible further support measures for Greece. The risk that the crisis may escalate is still present, even though it has eased noticeably since the middle of last year. An escalation of the sovereign debt crisis goes hand in hand with the threat of a subsequent deep global recession. Even though we do not consider such a deep global recession to be the most

likely outcome, the risk still exists. Further considerable risks for the global economy are expected at the start of next year when the debt ceiling is reached once again in the US, and the transitional budget period ends.

The marked expansion of central bank money supply in recent years represents another risk. The longer-term consequences in particular of procuring liquidity by these means remain unclear. There is no doubt that the expansive monetary policy is currently supporting the economy. Yet a quick exit, particularly in the US, also represents a risk to the economy and could dampen the global economy via higher interest rates.

Financial and capital markets, monetary policy and inflation

The measures taken by the ECB impacting on liquidity, as well as its announcement to buy government bonds if necessary under special circumstances, have substantially helped to calm the markets since the middle of last year. There is no evidence of any material changes to this situation at present. Nonetheless, the risks on the financial and capital markets remain, especially in view of the European sovereign debt crisis and the uncertainties related to the fiscal policy in the US, as described above. It can still not be ruled out that the financial and capital markets remain susceptible to shocks, should the sovereign debt crisis escalate again.

In view of the current low inflationary pressure and muted economic outlook, we assume that the central banks will keep their key interest rates low for the remainder of the year. Consequently, under current conditions, short-term interest rates are likely to remain at low levels. Despite the falling trend in risk premiums for bonds issued by periphery euro zone countries since the middle of last year, considerable risk premiums will probably persist. This assessment would change if the risks in these countries were to fall significantly, and if there was a prospect of finding a sustainable solution to the sovereign debt crisis. Interest rates in the markets that are most affected by the

sovereign debt crisis would then fall, while higher rates would be anticipated in the other euro zone countries, such as Germany. An increase in interest rates in the US, especially for long-term maturities, would be possible if the Fed ceases or substantially reduces its bond purchases. The Fed decided in mid-September to continue buying bonds unabatedly for the time being, in order to support the economic recovery. However, the bonds are not being purchased according to a pre-defined schedule and the Fed will review this in future, depending on developments in the economy and on the labour market.

Inflationary pressure remains low in light of the muted economic outlook. However, given the situation in the Middle East, the risk of a sharp rise in the price of oil – with the corresponding impact on inflation – cannot be ruled out. In Europe, we assume that inflation will remain moderate for the remainder of the year and will therefore be lower in 2013 than the year before. The annual inflation rate in the US is likely to remain at a similar level, while a higher figure of over 2 % should be expected for China. Slight deflation in Japan in the first half of the year is expected to be followed by slight inflation for the remainder of the year. On an annual basis, the rate of inflation should therefore trend around the zero mark.

Regulatory environment

It is expected that the trend towards a stricter regulatory framework for the banking business will continue. The various technical regulatory standards still have to be finalised. To nevertheless facilitate the timely implementation, we have continued to pursue the individual issues in numerous projects – devoting considerable resources to this task.

Sector-specific and business developments

Structured Property Financing segment

With a view to the financing markets for commercial property in Europe, we assume that competition will remain intensive for the rest of the

year, particularly in core markets such as Germany, France and the UK. Activity here may be extended by the involvement of insurance companies and pension funds. In contrast, competition and credit supply is likely to remain significantly weaker in Southern Europe. Lending activity could pick up there, provided the European sovereign debt crisis clearly eases. In future, most banks in Europe will probably concentrate on extending credit for first-class commercial properties in the corresponding locations, with low LTVs. However, we believe that a recovery in the range of financing solutions for properties with a higher risk profile and for large-volume financings is possible.

The financing markets in the US are currently defined by good liquidity and intense competition. This competition is expected to remain intense for the remainder of the year. The financing markets in China and Japan are also likely to remain competitive. The high refinancing requirements of investors from expiring loans must be taken into consideration for many markets.

Opposing factors impact on the commercial property markets with respect to their future development.¹⁾ On the one hand, the muted economic outlook and high unemployment, particularly in Europe, are likely to impact on rents and property values. On the other hand, we can expect demand momentum from investors and hence support for property values, due to low interest rates and the high levels of liquidity available to them. Primarily, it will be first-class properties in good locations that will remain in demand, even though demand for properties with a higher risk profile is likely to increase compared to the previous year. In view of the still-muted economic outlook, we anticipate falling rents and values on average this year in various European countries. This applies to the southern European countries of Italy and Spain, as well as to euro zone countries such as Belgium, Finland, France and the Netherlands.

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

On the other hand, we anticipate a stable development in Germany and the UK. Our expectations for the Turkish market, on the other hand, are slightly positive.

We expect slightly higher rents and values for the US this year. Good liquidity held by investors also shores up demand for property, and therefore supports property values. Increased investor focus on properties with a higher risk profile is also possible there.

We expect rents and values in China to remain stable or increase slightly during the current year. We anticipate a rising trend in this respect for Japan and Singapore.

The trends described above should, in our view, apply to office, retail and logistics property markets.

The development in average hotel revenues in Europe is likely to remain inconsistent in the various markets. We expect the development of average returns per hotel room to remain positive in North America this year. A mixed picture is also expected in Asia.

The risks and uncertainty factors that continue to define the macro-economic environment are also relevant to the future development of the commercial property markets. In the event of a deeper recession, more extensive declines in rents as well as in property values are probable. The high volume of financings set to mature could also represent a risk factor. On the other hand, the low volume of new properties in recent years could support a positive trend in values of commercial property in Europe and North America.

Our new business target for 2013 originally stood at € 6 billion to € 7 billion. Thanks to the positive business development, we currently anticipate aggregate new business volume for this year to exceed € 8 billion. This assessment is based on higher transaction volumes in some commercial property markets. Such developments are reflected in higher early repayments on the one hand and in additional new business opportunities on the other.

Subject to the performance of the relevant currencies vis-a-vis the euro, we continue to expect the volume of the property financing at year-end 2013 to increase compared to year-end 2012. The regional breakdown of the portfolio is driven by our three-continent strategy, with the regional focus being on Western Europe and North America.

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

These forecasts are based on the assumption that there will be no protracted deep global recession. Otherwise, we would have to expect repercussions for new business and portfolio development.

Consulting/Services segment

Institutional Housing Unit

We expect developments within the institutional housing industry in Germany to remain stable also for the remainder of the year.

The sector continues to anticipate a sustainable development of the portfolios, and a higher volume of investment in new apartment construction. The business expectations of housing enterprises are also dependent upon the political framework and its impact on the viability of renovation and new-build measures.

The demographic and macro-economic prospects will continue to drive the positive sentiment on the housing market. We expect a further moderate rise in purchase prices and rents. Due to growing urbanisation, we are likely to see higher demand, especially in densely populated areas. Rental growth will remain strongest in cities with growing populations and high economic output.

Residential property continues to be seen by private and institutional investors as secure, due to the good fundamental data of the German economy. Demand for residential property investment will continue to grow during the remainder of the year.

We see good opportunities during the fourth quarter of 2013 to acquire new clients and to intensify the business relationships with our existing client base. This also applies to our payments services for utilities and the waste disposal industry. We are investing currently in developing our products designed for the management and settlement of rental deposits.

Looking at the volume of deposits taken, we expect the positive trend to continue, particularly in relation to current account balances and rent deposits. Given the ongoing low interest rate environment, we expect margins in the deposit-taking business will continue to remain under pressure for the rest of the year. However, the importance of this business goes way beyond the interest margin generated from the deposits, which is under pressure in the current market environment. This is because the deposits from the institutional housing industry represent a strategically important additional source of funding for Aareal Bank.

Aareon

The digitalisation of communication in the institutional housing sector and the associated use of mobile solutions is becoming increasingly important. In this context, IT cloud computing will also establish itself further on the market for property management software.

Aareon expects the sales revenue in the Wodis Sigma product line to be consistent with last year, whereby Wodis Sigma, in particular, is well received by our clients as a service from the Aareon Cloud. We expect to close further new agreements by the end of the year.

We expect a slight increase in turnover in the GES ERP system for 2013 compared with the previous year, due to one-off project revenues.

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

Sales revenues are expected to continue rising in the Integrated Services segment. The launch of new products, such as a state-of-the-art sector-specific customer relationship management (CRM) system and mobile solutions, as well as Aareon Archiv kompakt and Mareon FM (facility management), will have a positive effect on sales revenues. Within the scope of its research and development activities, Aareon invests in developing the CRM system and mobile solutions, as part of international projects within Aareon Group. This can enhance synergies to increase the benefit of these solutions for the clients. The new products are being launched on the market from 2013 onwards. With the internationalisation of Aareon in mind, the I-stay@home project conducted with 14 other European partners in the institutional housing sector is progressing on schedule. The project for developing an IT-based platform that will offer elderly people access to affordable assistance systems is likely to continue up to 2015.

In the Netherlands, structural changes in the social housing sector are being pursued by policy makers. Aareon is adapting to this by adjusting the product portfolio. Overall, Aareon expects the licence business to make a slightly lower contribution to results in the Netherlands compared with the previous year. Assuming an unchanged cost base, we expect a lower EBIT for 2013.

In France, the introduction of Release 3.0 for the ERP solution Portallmmo Habitat is planned this year. Despite a weaker SAP®-related business, Aareon France is expected to record a slight increase in sales revenues in 2013, which will be generated mainly from consulting. The Flexiciel module will be sold on the market in future as software-as-a-service (SaaS). With this type of operation, clients benefit from being able to acquire the software directly from the exclusive Aareon Cloud. Owing to investment in new products – for example, as part of the I-stay@home project – EBIT is expected to come in below last year's level despite the growth in sales revenue.

In the UK, the price war on the market for ERP solutions continues to exercise a considerable influence on new client acquisition. Nonetheless, Aareon UK is expected to boost sales revenues, with cost levels increasing. The ERP solution QL is being developed further, in line with the latest technological requirements. Demand remains strong for the document management and mobile solutions offered by Aareon UK. Despite the increase in sales revenues, EBIT is expected to come in slightly below last year's level.

Aareon UK Ltd. will significantly increase the turnover of 1st Touch Ltd., the specialist for mobile solutions acquired in 2012, given the sharp increase in the demand for such products on the market. The new "Enterprise deals" distribution model was launched with strong demand. The growing number of new projects anticipated in both new and existing client business will lead to greater demand for advisors, which 1st Touch Ltd. will address through investment in new personnel capacity – mainly through new hirings. 1st Touch will positively influence Aareon's EBIT.

In the course of its growth strategy, Aareon acquired 100 % of Swedish company Incit AB, Gothenburg, with effect from 1 July 2013, thus taking a position in the Scandinavian property markets, which are important for the property management sector. The company has subsidiaries in Norway and the Netherlands that operate as distribution companies. Incit Group will deliver a profit contribution in 2013 already.

All in all, Aareon expects an increase in sales revenues. Increased demand, in particular for advisory services for Wodis Sigma, sales growth in integrated services through the new CRM products, Aareon Archiv kompakt and Mareon FM, together with anticipated growth in sales at 1st Touch Ltd., Aareon France SaaS and Aareon UK Ltd., will all combine to offset the decline in licence revenues at the Dutch subsidiary. Investments in the new integrated services products, investment costs for I-stay@home, and the increase in personnel capacities of 1st Touch Ltd., will lead to higher costs. Acquisition costs were also incurred in the course

of the takeover of Incit Group and further integration costs will be incurred.

Aareon expects operating profit for 2013 to come in at last year's level.

Group targets

Net interest income presently benefits from good margins in the lending business and funding costs that were lower than anticipated at the beginning of the year. Although the persistent low interest rate environment continues to burden net interest income, both in the deposit-taking business as well as due to a lack of attractive investment opportunities for our liquidity reserves, we now expect net interest income to exceed € 500 million in the 2013 financial year.

From today's perspective, allowance for credit losses is likely to be at the lower end of the € 110 million to € 150 million range communicated. As in the previous years, the Bank cannot rule out additional allowance for unexpected credit losses.

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

Administrative expenses are expected in the region of € 375 million. The slight increase compared to the previous projection of € 360 million to € 370 million was due to (i) measurement effects related to share-based remuneration, as defined by the German Ordinance on Remuneration in Financial Institutions (Instituts-Vergütungsverordnung – "InstVergV"), due to the positive performance of the Aareal Bank share; (ii) expenses for regulatory projects; and (iii) the takeover of Sweden's Incit AB with effect from 1 July 2013.

We are raising our operating profit forecast for the full year 2013: from today's perspective, we expect that we will be able to generate consolidated operating profit for the current financial year on a level comparable to the very good results posted in 2011.

Our new business target in the Structured Property Financing segment was originally € 6 billion to € 7 billion for the year 2013. Thanks to the positive business development, from today's perspective, we currently anticipate aggregate new business volume for this year to exceed € 8 billion. This assessment is based on higher transaction volumes in some commercial property markets. Such developments are reflected in higher early repayments on the one hand and in additional new business opportunities on the other.

In the Consulting/Services segment, we expect Aareon Group to generate operating profit at the level of the previous year.

Consolidated Financial Statements

Statement of Comprehensive Income¹⁾

Income Statement

	Note	1 Jan-30 Sep 2013	1 Jan-30 Sep 2013
€ mn			
Interest income		624	762
Interest expenses		244	392
Net interest income	1	380	370
Allowance for credit losses	2	74	67
Net interest income after allowance for credit losses		306	303
Commission income		136	140
Commission expenses		19	21
Net commission income	3	117	119
Net result on hedge accounting	4	-3	-7
Net trading income/expenses	5	14	-17
Results from non-trading assets	6	-8	-2
Results from investments accounted for using the equity method		-	-
Results from investment properties		0	5
Administrative expenses	7	276	270
Net other operating income/expenses	8	-10	-1
Impairment of goodwill		0	-
Operating profit		140	130
Income taxes		44	33
Net income/loss		96	97
Allocation of results			
Net income/loss attributable to non-controlling interests		15	15
Net income/loss attributable to shareholders of Aareal Bank AG		81	82
Appropriation of profits			
Net income/loss attributable to shareholders of Aareal Bank AG		81	82
Silent participation by SoFFin		15	15
Consolidated profit/loss		66	67
€			
Earnings per share		1.35	1.38
Diluted earnings per share		1.35	1.38

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

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

Statement of Comprehensive Income

Reconciliation from Net Income/Loss to Total Comprehensive Income

	1 Jan - 30 Sep 2013	1 Jan - 30 Sep 2013
€ mn		
Net income/loss	96	97
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from defined benefit plans	-	-23
Result from defined benefit plans	-	-33
Taxes	-	10
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	40	111
Gains and losses on remeasuring AfS financial instruments	53	148
Reclassifications to the income statement	-	-
Taxes	-13	-37
Changes in hedging reserves	-1	-26
Profit/loss from derivatives used to hedge future cash flows	-2	-38
Reclassifications to the income statement	-	-
Taxes	1	12
Changes in currency translation reserves	-2	2
Profit/loss from translating foreign operations' financial statements	-2	2
Reclassifications to the income statement	-	0
Taxes	-	-
Other comprehensive income	37	64
Total result	133	161
Allocation of total comprehensive income		
Total comprehensive income attributable to non-controlling interests	15	15
Total comprehensive income attributable to shareholders of Aareal Bank AG	118	146

Statement of Comprehensive Income

Income Statement (Quarterly Development)

	Quarter 3 2013	Quarter 3 2012
€ mn		
Interest income	214	233
Interest expenses	81	114
Net interest income	133	119
Allowance for credit losses	29	30
Net interest income after allowance for credit losses	104	89
Commission income	47	44
Commission expenses	7	5
Net commission income	40	39
Net result on hedge accounting	0	-2
Net trading income/expenses	3	6
Results from non-trading assets	-2	1
Results from investments accounted for using the equity method	-	-
Results from investment properties	0	0
Administrative expenses	94	90
Net other operating income/expenses	-3	-1
Impairment of goodwill	0	-
Operating profit	48	42
Income taxes	15	10
Net income/loss	33	32
Allocation of results		
Net income/loss attributable to non-controlling interests	5	5
Net income/loss attributable to shareholders of Aareal Bank AG	28	27

Statement of Comprehensive Income

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

	Quarter 3 2013	Quarter 3 2012
€ mn		
Net income/loss	33	32
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from defined benefit plans	-	-7
Result from defined benefit plans	-	-9
Taxes	-	2
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	12	51
Gains and losses on remeasuring AfS financial instruments	17	69
Reclassifications to the income statement	-	-
Taxes	-5	-18
Changes in hedging reserves	-2	-12
Profit/loss from derivatives used to hedge future cash flows	-3	-17
Reclassifications to the income statement	-	-
Taxes	1	5
Changes in currency translation reserves	0	0
Profit/loss from translating foreign operations' financial statements	0	1
Reclassifications to the income statement	-	-1
Taxes	-	-
Other comprehensive income	10	32
Total comprehensive income	43	64
Allocation of total comprehensive income		
Total comprehensive income attributable to non-controlling interests	5	5
Total comprehensive income attributable to shareholders of Aareal Bank AG	38	59

Segment Reporting

Segment Results

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan- 30 Sep 2013	1 Jan- 30 Sep 2012	1 Jan- 30 Sep 2013	1 Jan- 30 Sep 2012	1 Jan- 30 Sep 2013	1 Jan- 30 Sep 2012	1 Jan- 30 Sep 2013	1 Jan- 30 Sep 2012
€ mn								
Net interest income	373	350	0	0	7	20	380	370
Allowance for credit losses	74	67					74	67
Net interest income after allowance for credit losses	299	283	0	0	7	20	306	303
Net commission income	7	16	118	124	-8	-21	117	119
Net result on hedge accounting	-3	-7					-3	-7
Net trading income/expenses	14	-17					14	-17
Results from non-trading assets	-8	-2					-8	-2
Results from investments accounted for using the equity method								
Results from investment properties	0	5					0	5
Administrative expenses	147	147	130	124	-1	-1	276	270
Net other operating income/expenses	-9	-5	-1	4	0	0	-10	-1
Impairment of goodwill	0						0	
Operating profit	153	126	-13	4	0	0	140	130
Income taxes	47	32	-3	1			44	33
Net income/loss	106	94	-10	3	0	0	96	97
Allocation of results								
Net income/loss attributable to non-controlling interests	13	13	2	2			15	15
Net income/loss attributable to shareholders of Aareal Bank AG	93	81	-12	1	0	0	81	82
Allocated equity	1,159	1,255	92	76	1,001	834	2,252	2,165
Cost/income ratio (%)	39.6	43.2	110.7	97.2			56.4	57.8
RoE before taxes (%) ¹⁾	16.1	12.1	-21.5	3.2			7.4	7.1
Employees (average)	740	793	1,564	1,504			2,304	2,297
Segment assets	35,870	38,896	7,482	6,146			43,352	45,042

¹⁾ On an annualised basis

Segment Reporting

Segment Results (Quarterly Development)

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	Quarter 3 2013	Quarter 3 2012	Quarter 3 2013	Quarter 3 2012	Quarter 3 2013	Quarter 3 2012	Quarter 3 2013	Quarter 3 2012
€ mn								
Net interest income	131	114	0	0	2	5	133	119
Allowance for credit losses	29	30					29	30
Net interest income after allowance for credit losses	102	84	0	0	2	5	104	89
Net commission income	2	6	40	39	-2	-6	40	39
Net result on hedge accounting	0	-2					0	-2
Net trading income/expenses	3	6					3	6
Results from non-trading assets	-2	1					-2	1
Results from investments accounted for using the equity method								
Results from investment properties	0	0					0	0
Administrative expenses	50	51	44	40	0	-1	94	90
Net other operating income/expenses	-3	-2	0	1	0	0	-3	-1
Impairment of goodwill	0						0	
Operating profit	52	42	-4	0	0	0	48	42
Income taxes	16	10	-1	0			15	10
Net income/loss	36	32	-3	0	0	0	33	32
Allocation of results								
Net income/loss attributable to non-controlling interests	4	5	1	0			5	5
Net income/loss attributable to shareholders of Aareal Bank AG	32	27	-4	0	0	0	28	27
Allocated equity	1,159	1,255	92	76	1,001	834	2,252	2,165
Cost/income ratio (%)	38.6	41.6	109.8	99.7			55.1	55.6
RoE before taxes (%) ¹⁾	16.5	11.9	-19.9	0.3			7.7	6.9

¹⁾ On an annualised basis

Statement of Financial Position¹⁾

€ mn	Note	30 Sep 2013	31 Dec 2012
Assets			
Cash funds		2,158	3,667
Loans and advances to banks	9	2,764	1,552
Loans and advances to customers	10	24,966	24,766
Allowance for credit losses		-322	-302
Positive market value of derivative hedging instruments		1,854	2,365
Trading assets	11	292	576
Non-current assets held for sale and discontinued operations	12	7	9
Non-trading assets	13	10,806	12,286
Investments accounted for using the equity method		1	1
Investment properties		88	88
Intangible assets	14	104	90
Property and equipment	15	99	103
Income tax assets		16	35
Deferred tax assets		103	96
Other assets	16	416	418
Total		43,352	45,750
Equity and liabilities			
Liabilities to banks	17	1,667	3,284
Liabilities to customers	18	26,164	27,366
Certificated liabilities	19	9,694	8,473
Negative market value of derivative hedging instruments		1,659	2,122
Trading liabilities	20	324	719
Provisions	21	292	290
Income tax liabilities		6	10
Deferred tax liabilities		23	28
Other liabilities	22	164	113
Subordinated capital	23	939	1,028
Equity	24, 25		
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,086	1,020
Other reserves		-110	-147
Silent participation by SoFFin		300	300
Non-controlling interest		243	243
Total equity		2,420	2,317
Total		43,352	45,750

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

Statement of Changes in Equity¹⁾

				Other reserves				Silent participation by SoFFin	Total	Non-controlling interest	Equity
	Subscribed capital	Capital reserves	Retained earnings	Reserve from defined benefit plans	Revaluation surplus	Hedging reserves	Currency translation reserves				
€ mn											
Equity as at 1 Jan 2013	180	721	1,016	-	-99	-13	4	300	2,109	243	2,352
Adjustment			4	-39					-35		-35
Equity as at 1 Jan 2013 (adjusted)	180	721	1,020	-39	-99	-13	4	300	2,074	243	2,317
Total comprehensive income for the period			81		40	-1	-2		118	15	133
Payments to non-controlling interests										-15	-15
Silent participation by SoFFin											
Costs associated with the silent participation by SoFFin			-15						-15		-15
Other changes											
Equity as at 30 Sep 2013	180	721	1,086	-39	-59	-14	2	300	2,177	243	2,420

				Other reserves				Silent participation by SoFFin	Total	Non-controlling interest	Equity
	Subscribed capital	Capital reserves	Retained earnings	Reserve from defined benefit plans	Revaluation surplus	Hedging reserves	Currency translation reserves				
€ mn											
Equity as at 1 Jan 2012	180	721	929	-	-221	14	3	300	1,926	243	2,169
Adjustment			3	-16					-13		-13
Equity as at 1 Jan 2012 (adjusted)	180	721	932	-16	-221	14	3	300	1,913	243	2,156
Total comprehensive income for the period			82	-23	111	-26	2		146	15	161
Payments to non-controlling interests										-15	-15
Silent participation by SoFFin											
Costs associated with the silent participation by SoFFin			-15						-15		-15
Other changes			3						3		3
Equity as at 30 Sep 2012 (adjusted)	180	721	1,002	-39	-110	-12	5	300	2,047	243	2,290

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

Statement of Cash Flows (condensed)

	2013	2012
€ mn		
Cash and cash equivalents as at 1 January	3,667	588
Cash flow from operating activities	-2,888	5,014
Cash flow from investing activities	1,469	-1,608
Cash flow from financing activities	-90	-35
Total cash flow	-1,509	3,371
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 30 September	2,158	3,959

Notes (condensed)

Basis of Accounting

Legal framework

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

This quarterly financial report for the period ended 30 September 2013 was prepared pursuant to the provisions of section 37y no. 3 of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG") in conjunction with section 37x (3) of the WpHG. It comprises the present interim condensed consolidated financial statements, as well as an interim group management report (see Group Management Report), and was approved for publication by the Management Board on 5 November 2013.

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

Scope of consolidation

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

Aareal Bank Group entity Aareon AG acquired 100 % of the capital of Incit AB, Gothenburg, Sweden, with the effect from 1 July 2013. Incit AB is an important provider of ERP property management software in Scandinavia. Since 1 July 2013, it has been included in the consolidated financial statements by way of full consolidation.

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

Accounting policies

Unless specifically indicated otherwise, the accounting policies applied in the preparation of the consolidated financial statements 2012 were also applied in the preparation of these condensed interim consolidated financial statements, including the calculation of comparative figures.

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

- **Amendment to IAS 1 Presentation of Financial Statements**

The amendment to IAS 1 changes the presentation of the items reported in other comprehensive income within the statement of comprehensive income.

- **IAS 12 Deferred Tax: Recovery of Underlying Assets**

In accordance with IAS 12 Income Taxes, the measurement of deferred taxes depends on whether the carrying amount of an asset is recovered through its use or sale. The amendment introduces the rebuttable presumption according to which the carrying amount is normally recovered through sale. As a consequence of this amendment, SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets, no longer applies for investment properties measured at fair value.

- **Amendment to IAS 19 Employee Benefits**

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

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

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

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

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

Adjusted items in the statement of comprehensive income for the period from 1 January 2012 to 30 September 2012:

	1 Jan-30 Sep 2012 (reported)	Adjustment	1 Jan-30 Sep 2012 (adjusted)
€ mn			
Income statement			
Administrative expenses	167	0	167
Income taxes	33	0	33
Other comprehensive income			
Changes in the reserve from defined benefit plans	–	-23	-23

- **IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities**

The amendments to IFRS 7 clarify some details in relation to offsetting financial assets and financial liabilities. In future, gross and net amounts recognised in the statement of financial position as well as amounts for existing offsetting arrangements – which, however, do not comply with the offsetting criteria – are required as supplementary mandatory disclosure.

- **IFRS 13 Fair Value Measurement**

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

- **Annual Improvements 2009-2011 Cycle**

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

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

New International Financial Reporting Interpretations	Issued	Endorsed	Effective date
IFRIC 21 Levies	May 2013		Financial years beginning on or after 1 January 2014

Revised International Financial Reporting Standards	Issued	Endorsed	Effective date
IFRS 10 Consolidated Financial Statements	June 2012	April 2013	Financial years beginning on or after 1 January 2014
IFRS 11 Joint Arrangements	June 2012	April 2013	Financial years beginning on or after 1 January 2014
IFRS 12 Disclosures of Interests in Other Entities	June 2012	April 2013	Financial years beginning on or after 1 January 2014
IAS 36 Impairment of Assets	May 2013		Financial years beginning on or after 1 January 2014
IAS 39 Financial Instruments: Recognition and Measurement entitled Novation of Derivatives and Continuation of Hedge Accounting	June 2013		Financial years beginning on or after 1 January 2014

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

	1 Jan-30 Sep 2013	1 Jan-30 Sep 2012
€ mn		
Interest income from		
Property loans	492	521
Public-sector loans	13	22
Other lending and money market operations	44	99
Debt and other fixed-income securities	75	119
Current dividend income	0	1
Total interest income	624	762
Interest expenses for		
Bonds issued	80	107
Registered mortgage Pfandbriefe	21	57
Promissory note loans	67	103
Subordinated capital	17	21
Term deposits	40	77
Payable on demand	18	22
Other banking transactions	1	5
Total interest expenses	244	392
Total	380	370

(2) Allowance for credit losses

	1 Jan-30 Sep 2013	1 Jan-30 Sep 2012
€ mn		
Additions	95	74
Reversals	23	18
Direct write-offs	6	15
Recoveries on loans and advances previously written off	4	4
Total	74	67

(3) Net commission income

	1 Jan-30 Sep 2013	1 Jan-30 Sep 2012
€ mn		
Commission income from		
Consulting and other services	122	114
Trustee loans and administered loans	2	12
Securities transactions	–	–
Other lending and money market operations	7	8
Other commission income	5	6
Total commission income	136	140
Commission expenses for		
Consulting and other services	15	15
Securities transactions	1	3
Other lending and money market transactions	1	1
Other commission expenses	2	2
Total commission expenses	19	21
Total	117	119

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

(4) Net result on hedge accounting

	1 Jan-30 Sep 2013	1 Jan-30 Sep 2012
€ mn		
Ineffective portion of fair value hedges	-1	-3
Ineffective portion of cash flow hedges	-2	-4
Ineffective portion of net investment hedges	0	0
Total	-3	-7

(5) Net trading income/expenses

	1 Jan-30 Sep 2013	1 Jan-30 Sep 2012
€ mn		
Net income/expenses from positions held for trading	12	-13
Currency translation	2	-4
Total	14	-17

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

(6) Results from non-trading assets

	1 Jan-30 Sep 2013	1 Jan-30 Sep 2012
€ mn		
Result from debt securities and other fixed-income securities	-8	1
of which: Loans and receivables (LaR)	-8	1
Available for sale (AfS)	-	0
Result from equities and other non-fixed income securities	0	0
of which: Available for sale (AfS)	-	0
Designated as at fair value through profit or loss (dFVtPL)	0	0
Results from equity investments (AfS)	-	-3
Total	-8	-2

(7) Administrative expenses

	1 Jan-30 Sep 2013	1 Jan-30 Sep 2012
€ mn		
Staff expenses	167	167
Other administrative expenses	94	88
Depreciation, amortisation and impairment of property and equipment and intangible assets	15	15
Total	276	270

(8) Net other operating income/expenses

	1 Jan-30 Sep 2013	1 Jan-30 Sep 2012
€ mn		
Income from properties	13	5
Income from the reversal of provisions	0	2
Income from goods and services	2	2
Miscellaneous	9	13
Total other operating income	24	22
Expenses for properties	7	7
Expenses for services used	0	0
Write-downs of trade receivables	0	0
Expenses for other taxes	2	1
Miscellaneous	25	15
Total other operating expenses	34	23
Total	-10	-1

Notes to the Statement of Financial Position

(9) Loans and advances to banks

	30 Sep 2013	31 Dec 2012
€ mn		
Term deposits and current account balances	2,614	1,363
Public-sector loans	133	146
Receivables from securities repurchase transactions	–	–
Other loans and advances	17	43
Total	2,764	1,552

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

(10) Loans and advances to customers

	30 Sep 2013	31 Dec 2012
€ mn		
Property loans	22,811	22,522
Public-sector loans	1,448	1,633
Other loans and advances	707	611
Total	24,966	24,766

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

(11) Trading assets

	30 Sep 2013	31 Dec 2012
€ mn		
Positive market value of trading assets	292	576
Total	292	576

Trading assets are allocated to the measurement category "Held for trading" (HfT). They are mainly used to hedge economic market price risks.

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

	30 Sep 2013	31 Dec 2012
€ mn		
Properties	7	9
Total	7	9

(13) Non-trading assets

	30 Sep 2013	31 Dec 2012
€ mn		
Debt and other fixed-income securities	10,785	12,262
of which: Loans and receivables (LaR)	4,388	5,668
Held to maturity (HtM)	96	151
Available for sale (AfS)	6,301	6,443
Equities and other non-fixed-income securities	19	22
of which: Available for sale (AfS)	19	19
Designated as at fair value through profit or loss (dFVtPL)	–	3
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	2	2
Total	10,806	12,286

(14) Intangible assets

	30 Sep 2013	31 Dec 2012
€ mn		
Goodwill	64	54
Proprietary software	12	15
Other intangible assets	28	21
Total	104	90

(15) Property and equipment

	30 Sep 2013	31 Dec 2012
€ mn		
Land and buildings and construction in progress	79	81
Office furniture and equipment	20	22
Total	99	103

(16) Other assets

	30 Sep 2013	31 Dec 2012
€ mn		
Properties	323	324
Trade receivables (LaR)	25	29
Miscellaneous	68	65
Total	416	418

(17) Liabilities to banks

	30 Sep 2013	31 Dec 2012
€ mn		
Payable on demand	705	915
Term deposits	151	467
Promissory note loans	429	465
Securities repurchase and open-market transactions	–	1,007
Registered mortgage Pfandbriefe	239	261
Registered public-sector Pfandbriefe	51	97
Miscellaneous	92	72
Total	1,667	3,284

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

(18) Liabilities to customers

	30 Sep 2013	31 Dec 2012
€ mn		
Payable on demand	5,326	5,167
Term deposits	6,580	6,333
Promissory note loans	8,049	8,815
Registered mortgage Pfandbriefe	3,323	3,640
Registered public-sector Pfandbriefe	2,886	3,411
Total	26,164	27,366

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

(19) Certificated liabilities

	30 Sep 2013	31 Dec 2012
€ mn		
Medium-term notes	2,779	2,495
Bearer mortgage Pfandbriefe	6,773	5,787
Bearer public-sector covered bonds	35	35
Other debt securities	107	156
Total	9,694	8,473

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

(20) Trading liabilities

	30 Sep 2013	31 Dec 2012
€ mn		
Negative market value of trading assets	324	719
Total	324	719

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

(21) Provisions¹⁾

	30 Sep 2013	31 Dec 2012
€ mn		
Provisions for pensions and similar obligations	150	144
Other provisions	142	146
Total	292	290

(22) Other liabilities

	30 Sep 2013	31 Dec 2012
€ mn		
Liabilities from outstanding invoices	10	10
Deferred income	6	5
Liabilities from other taxes	12	17
Trade payables (LaC)	7	8
Other liabilities (LaC)	129	73
Other liabilities	164	113

(23) Subordinated capital

	30 Sep 2013	31 Dec 2012
€ mn		
Subordinated liabilities	549	574
Profit-participation certificates	165	227
Contributions by silent partners ²⁾	225	227
Total	939	1,028

²⁾ The silent participation by SoFFin is classified as equity in accordance with IFRSs; it is therefore not reported under contributions by silent partners, but as a separate item in equity.

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

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

(24) Equity¹⁾

	30 Sep 2013	31 Dec 2012
€ mn		
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,086	1,020
Other reserves		
Reserve from defined benefit plans	-39	-39
Revaluation surplus	-59	-99
Hedging reserves	-14	-13
Currency translation reserves	2	4
Silent participation by SoFFin	300	300
Non-controlling interest	243	243
Total	2,420	2,317

(25) Treasury shares

No treasury shares were held during the period under review.

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

Reporting on Financial Instruments

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

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

30 September 2013

	Fair value Total 30 Sep 2013	Fair value Level 1 30 Sep 2013	Fair value Level 2 30 Sep 2013	Fair value Level 3 30 Sep 2013
€ mn				
Positive market value of derivative hedging instruments	1,854	-	1,854	-
Assets held for trading	292	-	292	-
Trading derivatives	292	-	292	-
Non-trading assets available for sale	6,320	6,246	74	0
Fixed-income securities	6,301	6,243	58	-
Equities/funds	19	3	16	0
Non-trading assets designated as at fair value through profit or loss	0	-	-	0
Negative market value of derivative hedging instruments	1,659	-	1,659	-
Liabilities held for trading	324	-	324	-
Trading derivatives	324	-	324	-

31 December 2012

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

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

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

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

The fair value of OTC derivatives included in the trading portfolio as well as of OTC hedging derivatives is determined on the basis of sector-specific standardised measurement models, such as the present value method or option pricing models. These techniques are based on inputs quoted on active markets, such as interest rates, yield curves and credit spreads. The fair value of foreign exchange forwards is generally based on current forward exchange rates quoted on active markets. Fair values determined using valuation techniques where one or more material inputs are not based on observable market data, are assigned to Level 3 of the fair value hierarchy. Products that are allocated to this level are currently not held by Aareal Bank Group.

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

Aareal Bank reviews the allocation of a financial instrument in the fair value hierarchy on the previous year's balance sheet date of the preceding quarter in comparison with the allocation on the current reporting date, to determine whether reclassifications occurred between the individual levels of the fair value hierarchy. The date for recognising reclassifications into the hierarchy levels and for recognising reclassifications from the hierarchy levels is the same.

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

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

	Carrying amount 30 Sep 2013	Fair value 30 Sep 2013	Carrying amount 31 Dec 2012	Fair value 31 Dec 2012
€ bn				
Cash on hand and balances with central banks	2.2	2.2	3.7	3.7
Loans and advances to banks (LaR)	2.8	2.8	1.6	1.6
Loans and advances to customers (LaR)	24.6	26.2	24.5	26.0
Non-trading assets (LaR)	4.4	4.1	5.7	5.2
Other assets (LaR)	0.1	0.1	0.1	0.1
Total loans and receivables	31.9	33.2	31.9	32.9
Non-trading assets held to maturity	0.1	0.1	0.2	0.2
Non-trading assets available for sale	6.3	6.3	6.5	6.5
Non-trading assets designated as at fair value through profit or loss	-	-	0.0	0.0
Positive market value of derivative hedging instruments	1.9	1.9	2.4	2.4
Assets held for trading	0.3	0.3	0.6	0.6
Liabilities to banks (LaC)	1.7	1.7	3.3	3.3
Liabilities to customers (LaC)	26.2	26.1	27.4	27.0
Certificated liabilities (LaC)	9.7	9.8	8.5	8.6
Other liabilities (LaC)	0.1	0.1	0.1	0.1
Subordinated capital (LaC)	0.9	0.9	1.0	0.9
Total liabilities measured at amortised cost	38.6	38.6	40.3	39.9
Negative market value of derivative hedging instruments	1.7	1.7	2.1	2.1
Liabilities held for trading	0.3	0.3	0.7	0.7
Financial guarantee contracts	0.1	0.1	0.3	0.3
Loan commitments	1.4	1.4	2.0	2.0

(28) Day-One Profit or Loss

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

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

	2013	2012
€ mn		
Position as at 1 January	10	7
Additions from new transactions	14	3
Reversals through profit or loss in the period	3	2
Balance as at 30 September	21	8

(29) Offsetting financial instruments

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

The following overviews show whether and to what extent financial instruments were actually offset as at the current reporting date. The tables also include disclosures on financial instruments that are part of an enforceable master netting or similar arrangement that do not meet the criteria for offsetting in the statement of financial position.

Financial assets as at 30 September 2013

	Gross carrying amounts of recognised financial assets	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial liabilities which were not subject to offsetting	Collateral received	Remaining net amount
€ mn						
Derivatives	1.923	–	1.923	1.189	706	28
Reverse repos	–	–	–	–	–	–
Total	1.923	–	1.923	1.189	706	28

Financial liabilities as at 30 September 2013

	Gross carrying amounts of recognised financial liabilities	Gross carrying amounts of offset amounts	Net carrying amount reported in the statement of financial position	Financial assets which were not subject to offsetting	Collateral provided	Remaining net amount
€ mn						
Derivatives	1.938	–	1.938	1.189	721	28
Repos	–	–	–	–	–	–
Total	1.938	–	1.938	1.189	721	28

Financial assets as at 31 December 2012

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

Financial liabilities as at 31 December 2012

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

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

The master agreements for financial derivatives used by Aareal Bank AG include netting arrangements at a single transaction level (so-called "payment netting"), which provide for a netting of payments when both parties need to make payments in the same currency on the same date, as set out in the contract. Aareal Bank AG does not offset financial derivatives due to the rules related to payment netting as the transactions are not settled on a net basis. Aareal Bank Group has not entered into arrangements providing for netting of derivatives across several transactions.

For securities repurchase transactions (repos), depending on the counterparty, payment or delivery netting is made. In line with the rules set out in the master agreement for repo transactions, payments or deliveries of securities may be offset when both counterparties have to make payments in the same currency on the same date, or have to deliver securities of the same type. Transactions effected on the basis of the master agreement for repo transactions generally meet the offsetting requirements of IAS 32. Aareal Bank AG settles on a net basis in the case of transactions within the framework of GC pooling, which means that these transactions are offset in the statement of financial position.

(30) Reclassification of financial assets

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

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

	Carrying amount 30 Sep 2013	Fair value 30 Sep 2013	Carring amount 31 Dec 2012	Fair value 31 Dec 2012
€ mn				
from AfS to LaR	3,955	3,630	5,120	4,651
Asset-backed securities	27	27	29	28
Senior unsecured bank bonds	411	421	603	617
Covered bank bonds	502	506	633	623
Public-sector issuer	3,015	2,676	3,855	3,383
from HfT to LaR	157	149	213	179
Asset-backed securities	157	149	213	179
Public-sector issuer	–	–	–	–
Total	4,112	3,779	5,333	4,830

If the Bank had not opted for reclassification, this would have resulted in a € 27 million profit (before tax) for the first nine months of the current financial year (previous year: € 11 million), and € 87 million (after tax) (previous year: € 58 million) would have been recognised in the revaluation surplus.

(31) Bond and property financing portfolio in selected European countries

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

Bond portfolio as at 30 September 2013 (total)

	Carrying amount			Revaluation surplus ¹⁾			Unrealised gains/losses ¹⁾
	LaR + HtM	AfS	Total	LaR + HtM	AfS	Total	
€ mn							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	1,068	533	1,601	-48	-22	-70	-155
Portugal	63	157	220	0	-19	-19	-14
Spain	816	194	1,010	-5	2	-3	-60
Total	1,947	884	2,831	-53	-39	-92	-229
Total 31 Dec 2012	2,118	795	2,913	-57	-64	-121	-333

¹⁾ figures given on an after-tax basis

Bond portfolio as at 30 June 2013 (by type of security)

	Carrying amount			Revaluation surplus ¹⁾			Un-realised gains/losses ¹⁾
	LaR	AfS	Total	LaR	AfS	Total	
€ mn							
Government bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	1,068	445	1,513	-48	-23	-71	-155
Portugal	–	96	96	–	-13	-13	–
Spain	–	–	–	–	–	–	–
Total	1,068	541	1,609	-48	-36	-84	-155

	Carrying amount			Revaluation surplus ¹⁾			Un-realised gains/losses ¹⁾
	LaR	AfS	Total	LaR	AfS	Total	
€ mn							
Sub-sovereign bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	–	–	–	–	–	–	–
Portugal	63	–	63	0	–	0	-14
Spain	344	29	373	-1	2	1	-57
Total	407	29	436	-1	2	1	-71

	Carrying amount			Revaluation surplus ¹⁾			Un-realised gains/losses ¹⁾
	LaR + HtM	AfS	Total	LaR + HtM	AfS	Total	
€ mn							
Covered bank bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	–	75	75	–	1	1	–
Portugal	–	61	61	–	-6	-6	–
Spain	472	165	637	-4	0	-4	-3
Total	472	301	773	-4	-5	-9	-3

	Carrying amount			Revaluation surplus ¹⁾			Un-realised gains/losses ¹⁾
	LaR	AfS	Total	LaR	AfS	Total	
€ mn							
Senior unsecured bank bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	–	13	13	–	0	0	–
Portugal	–	–	–	–	–	–	–
Spain	–	–	–	–	–	–	–
Total	–	13	13	–	0	0	–

¹⁾ figures given on an after-tax basis

The revaluation surplus for bonds of the "Loans and receivables" (LaR) category is attributable to securities which were reclassified in the years 2008 and 2009 from the measurement category "Available for sale" (AfS) to the measurement category "Loans and receivables" (LaR). Unrealised gains and losses relate to securities carried at amortised cost (LaR and HtM). When determining such unrealised gains and losses, the effects from interest rate-driven measurement of hedged securities were taken into account.

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

The presented AfS securities with a carrying amount of € 884 million (2012: € 782 million) were allocated to Level 1 of the fair value hierarchy pursuant to IFRS 7 and measured based on quoted prices on active markets. Securities with a carrying amount of € 13 million (2012: € 13 million) were allocated to Level 2 of the fair value hierarchy. No quoted market prices of fair value hierarchy level 1 were available for these securities as at the balance sheet date; however, measurement is also directly or indirectly based on observable market prices. Aareal Bank Group does not hold securities measured according to Level 3 of the fair value hierarchy.

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

Property financing portfolio as at 30 September 2013

	Carrying amount ¹⁾	Average LTV	Non-Performing Loans
	€ mn	%	€ mn
Greece	–		–
Ireland	–		–
Italy	3,150	66,9	296
Portugal	–		–
Spain	1,053	88,0	92
Total	4,203		388
Total as at 31 Dec 2012	4,280		314

¹⁾ Not including valuation allowances

Other Notes

(32) Contingent liabilities and loan commitments

	30 Sep 2013	31 Dec 2012
€ mn		
Contingent liabilities on guarantees and indemnity agreements	116	273
Loan commitments	1,358	1,979
of which: irrevocable	844	1,521

(33) Employees

	1 Jan-30 Sep 2013	1 Jan-31 Dec 2012
Salaried employees	2,182	2,171
Executives	122	124
Total	2,304	2,295
of which: Part-time employees	429	424

(34) Related party disclosures in accordance with IAS 24

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

(35) 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

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(until 22 May 2013)

Chairman of the Supervisory Board of
Citigroup Global Markets Deutschland AG

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Chairman of the Supervisory Board
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Former partner of Bankhaus Metzler seel. Sohn
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Member of the Management Board

Dagmar Knopek (since 1 June 2013)

Member of the Management Board

Hermann Josef Merkens

Member of the Management Board

Thomas Ortmanns

Member of the Management Board

¹⁾ Member of the Executive Committee; ²⁾ Member of the Accounts and Audit Committee; ³⁾ Member of the Risk Committee;

⁴⁾ Member of the Committee for Urgent Decisions; ⁵⁾ Member of the Nomination Committee; ⁶⁾ Employee representative

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Deposit-taking

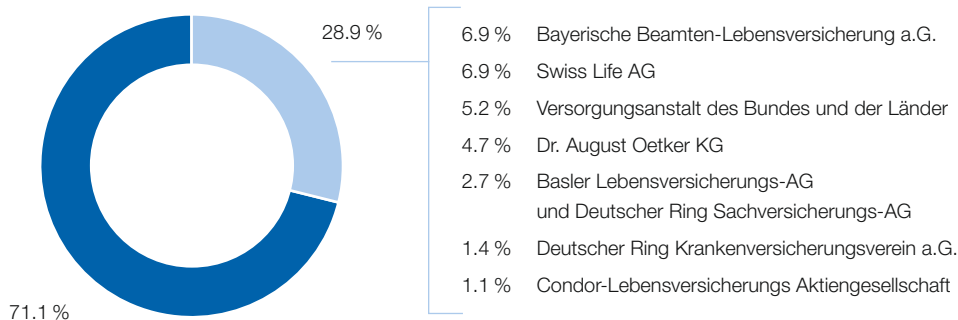
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Shareholder Structure | Financial Calendar

Shareholder Structure

■ Free float ■ Aareal Holding Verwaltungsgesellschaft mbH



as at 30 September 2013

Financial Calendar

20 February 2014	Presentation of preliminary results for the 2013 financial year
27 March 2014	Presentation of annual report as at 31 December 2013
7 May 2014	Presentation of interim report as at 31 March 2014
21 May 2014	Annual General Meeting – Kurhaus, Wiesbaden
12 August 2014	Presentation of interim report as at 30 June 2014
11 November 2014	Presentation of interim report as at 30 September 2014

Locations



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

Aareal Bank, Institutional Housing Unit: Berlin, Essen, Hamburg, Leipzig, Munich, Stuttgart, Wiesbaden | **Aareon AG:** Berlin, Coventry, Dortmund, Emmen, Enschede, Erfurt, Gorinchem, Gothenburg, Hamburg, Hilversum, Hückelhoven, Karlskrona, Leipzig, Lund, Mainz, Meudon-la-Forêt, Munich, Nantes, Norrtälje, Orléans, Oslo, Piteå, Southampton, Stockholm, Stuttgart, Swansea, Toulouse | **Deutsche Bau- und Grundstücks-AG:** Berlin, Bonn, Moscow, Munich | **Aareal First Financial Solutions AG:** Mainz

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11/2013



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