

INTERIM REPORT
AAREAL BANK GROUP
AS AT 31 MARCH 2008



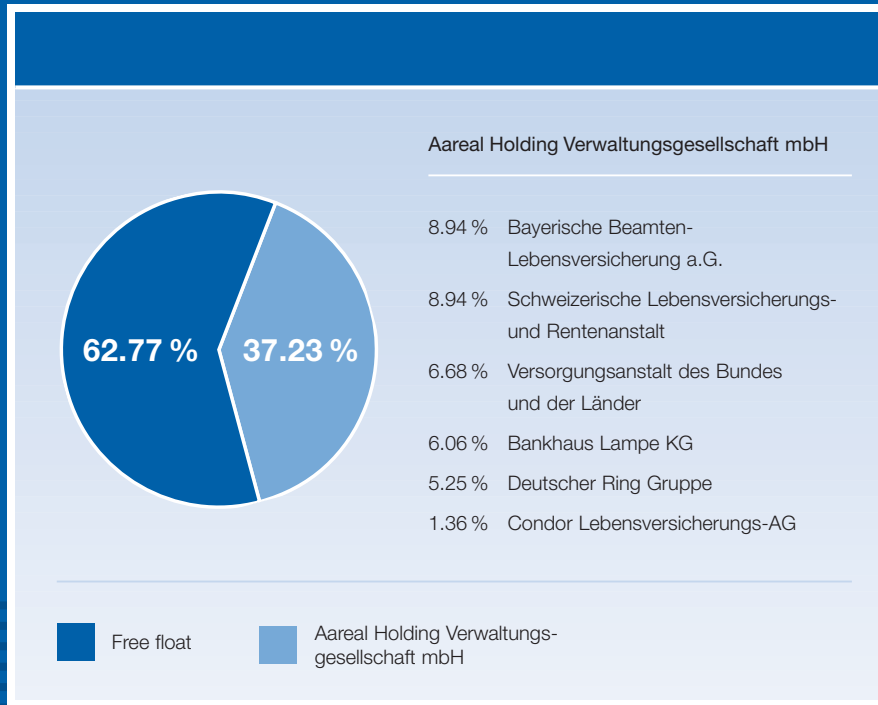
Morocco

1 JANUARY TO 31 MARCH 2008



Aareal Bank

SHAREHOLDER STRUCTURE



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KEY GROUP FIGURES

KEY GROUP FIGURES

	01 Jan - 31 Mar 2008	01 Jan - 31 Mar 2007	Change
Consolidated Income Statement	€ mn	€ mn	€ mn
Operating profit	27	79	-52
Group net income after minority interest income	13	51	-38
Indicators			
Cost / income ratio (%) ¹⁾	61.4	38.5	
Earnings per share (€)	0.30	1.18	
RoE after taxes (%) ²⁾	3.9	19.3	

	31 Mar 2008	31 Dec 2007	Change	Change
Portfolio Data	€ mn	€ mn	€ mn	%
Property financing	22,333	22,550	-217	-1
of which: international	16,715	16,878	-163	-1
Property financing under management	23,666	23,992	-326	-1
of which: international	16,715	16,878	-163	-1
Shareholder's equity	1,552	1,627	-75	-5
Total assets	39,815	40,202	-387	-1
Regulatory indicators	%			
Core capital ratio (German Banking Act) ^{3) 4)}	7.7	n. s.		
Total capital ratio (German Banking Act) ^{3) 4)}	11.7	n. s.		
Core capital ratio (BIS rules) ^{3) 5)}	7.3	7.3		
Total capital ratio (BIS rules) ^{3) 5)}	11.1	11.2		

	31 Mar 2008	31 Dec 2007
Rating		
Fitch Ratings, London		
Long-term	A-	A-
Short-term	F2	F2

¹⁾ only in the Structured Property Financing segment; ²⁾ on an annualised basis

³⁾ after confirmation of Aareal Bank AG's financial statements 2007; the inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity capital as at 31 December 2007 is subject to approval by the Annual General Meeting

⁴⁾ The figures as at 31 March 2008 were calculated for the first time in accordance with the credit risk standardised approach (CRSA) pursuant to the Solvability Ordinance.

⁵⁾ The ratios, which were calculated in accordance with the definitions by the Basel Committee, were shown as at 31 March 2008, for the purpose of comparison. No agreement regarding the determination of the ratios has been concluded with the German Federal Financial Supervisory Authority (BaFin).

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LETTER TO SHAREHOLDERS

Dear shareholders, business associates and Aareal Bank staff,

Our business model comprising the two strong pillars of Structured Property Financing and Consulting / Services, proved itself once again in the first quarter of 2008, during which the entire banking industry was affected by the global financial crisis. It clearly demonstrates consistency and sustainability, particularly in the current difficult market environment that also impacts on our bank. Following the successful realignment of the last two years, Aareal Bank Group is now well-positioned to overcome the challenges ahead – and also to exploit the opportunities presented by the market, in a targeted manner.

Structured Property Financing: higher margins, selective new business

We consistently pursued our three-continent strategy during the first quarter of 2008. Broad geographical diversification not only provides us with the opportunity to generate attractive new business in high-growth regions. It also affords us the great advantage of allowing us to adjust, in a flexible manner, to possible declines in individual markets – especially in a market situation defined by great uncertainty.

In the Structured Property Financing segment, we are pursuing a strict, selective new business policy in the current financial year that focuses on quality and return. We are also concentrating on attractive high-margin market opportunities. In this context, the volume of business in the first three months declined compared with the same period of the previous year, also due to the drop in transaction volumes on major property

markets as a consequence of the financial crisis.

At the same time, we achieved a significant year-on-year increase in interest margins on new business in many markets.

In the current market environment, increasing the volume of new business is not our main focus. As an on-balance-sheet lender, our focus lies on our risk-weighted assets instead. Thanks to our solid capital base – with a 7.7 % total capital ratio in accordance with the CRSA – we have the capacity to take on loans on our own balance sheet. We will also consistently exploit this competitive advantage in the course of the year, and exploit market opportunities presented to us within the context of our selective new business policy – in a targeted manner.

Consulting / Services: stable and diversified sources of income

The Consulting / Services segment for the Institutional Housing Business is becoming an increasingly high contributor to income for our Group. In this segment, we generate stable sources of income that are largely independent of property cycles and the ongoing turbulence on the financial markets.

In the first three months of the year, the Consulting / Services segment performed well in all sectors. At € 11 million, its operating income clearly surpassed the comparable figure for the previous year. This

represents the seventh consecutive positive quarterly result by the segment.

We further expanded the deposit-taking business in our integrated payments operations, through the acquisition of new clients and by a more pronounced penetration of our existing client base. Our market-leading payments system "BK 01" is fundamental to these activities.

Aareon AG continued to successfully roll out its multi-product strategy, comprising the four enterprise resource planning (ERP) systems Blue Eagle, GES, Wohndata and Wodis. Further progress was made in enhancing the market penetration of Blue Eagle, in line with projections.

Aareal Bank remains well equipped to deal with the consequences of the financial crisis

The direct consequences of the global financial crisis stayed within reason for Aareal Bank Group during the first quarter of the current financial year. Revaluation of securities holdings, brought about by the volatile market environment, was reflected in net trading income of minus € 22 million. The securities concerned were ABS issues in particular, of which some 90 % are rated triple-A. These ratings have remained stable since the onset of the US financial crisis, with some issues even having been upgraded.

Notwithstanding these burdens, which are moderate compared to the bank's competitors, Aareal Bank Group continues to benefit from the strategy of prudent risk policy it has followed in recent years. Aareal Bank is not exposed to the US sub-prime market, neither directly nor indirectly. We have neither US Residential Mortgage-Backed Securities, Collateralised Debt Obligations (CDOs), nor Asset-Backed Commercial Paper or Structured Investment Vehicles (ABCP / SIVs) on our books. Furthermore, we do not hold any securities that are guaranteed by monoliners.

Refinancing: the importance of Pfandbrief issuance

The Pfandbrief, which we believe is experiencing a revival, is enjoying a high degree of investor confidence owing to its legally enshrined security features. We want to exploit this competitive advantage over other refinancing instruments to an even greater extent in the future. Our original planning remains unchanged; we envisage expanding the Pfandbrief share of our refinancing activities from currently 35 %: in terms of our property financing portfolio, the proportion of mortgage bond refinancing is planned to increase from 25 % at present to around 30 % by the end of 2008.

The significant level of deposits within our Institutional Housing Business also offers our Group competitive advantages on the re-financing side, and clearly reduces the bank's

dependency on the money and capital markets in the current volatile environment.

Developing the strategic orientation

We reacted to the changes in the market environment brought about by the financial crisis, by further developing our strategic orientation, especially in the Structured Property Financing segment. The growth programme embarked upon in early 2007 was adjusted to the new conditions, by incorporating an extended planning horizon. The necessary adjustments to structures, systems and processes have been identified, and will be implemented in the coming months within the scope of the growth programme FUTURE 2010 – which also encompasses developments in the Consulting/ Services segment. This will create the prerequisite for Aareal Bank Group to continue on its road to success despite the changed environment, and to achieve its ambitious goals.

Business environment

Macro-economic environment

The first quarter of 2008 continued to be burdened by financial market turbulence brought about by the financial crisis which had started in the US, with numerous banks reporting charges – in some cases, significant losses. The confidence crisis in the interbank market thus prevailed.

At present, both the scope and duration of the crisis affecting financial markets and banks indicate that the global economy will be negatively affected as a consequence.

Different effects were evident during the first three months of the year, as the US economy has been in a recessive phase, determined by falling consumption and a decline in corporate investment.

On the other hand, most European economies are still in a more robust state. This applies to Germany in particular, where production was positive in the first three months of the year, and a more favourable trend was visible in sentiment indicators which, however, deteriorated sharply in April.

Together with a decline in international orders, reflecting the strong appreciation of the euro, an economic slowdown would appear to be likely.

There was little evidence in Central and Eastern European countries, and in Asia (except Japan), that the financial crisis and the economic slowdown in the US had led to a downturn in growth.

Accelerating inflationary development, which is driven mainly by rising energy and foodstuff prices, is a cause for concern for all economies.

The ongoing financial crisis, rising inflation, and different real economic development

led to a divergence in monetary policy between the US and Europe. The US central bank (the Federal Reserve, or "Fed") and the European Central Bank (ECB) attempted to defuse the liquidity shortages in the financial sector by providing extensive funds. However, whilst the Fed cut its key interest rates substantially, the Bank of England only lowered rates marginally, and the ECB justified its unchanged benchmark rate with continued inflationary pressures.

The sustained liquidity shortage in the banking system has driven short-term money market rates to levels well above capital market yields.

Sector-specific environment

Structured Property Financing

Turbulence on the financial markets has led investors to adopt a cautious stance on the commercial property markets. Negotiations between buyers and sellers are more protracted and pricing has become more difficult than before the financial market crisis. Yields on property investments are rising on many markets. Banks have become considerably less willing to grant loans for commercial property.

The situation on the credit securitisation markets remains difficult. Until the outbreak of the financial market crisis, all kinds of loan receivables were traded extensively on these markets.

Consulting / Services Institutional Housing Business

Ever since international capital market participants have focused on the German property market, the institutional housing sector has become more heterogeneous, and has developed considerably in some sub-sectors.

The large-volume trading activities of debt-oriented investors eased off in the wake of the credit markets turbulence. Furthermore, the significance of opportunistic buyers on the investment market has diminished, to be replaced increasingly by national investors, and strategically oriented international investors with conservative return targets.

Rents are rising, following years of stagnation in the residential property sector. However, these vary considerably from region to region. The recovery on the residential market will undoubtedly lead to greater investment by the housing companies. In the course of the new energy saving regulations that came into force in October 2007, investments were mainly directed towards the energetic renovation of existing buildings. Owing to rising energy costs, this trend is likely to continue beyond the first quarter of 2008.

Although the average vacancy ratio fell in Germany, the situation remains problematic in a number of regions. Meanwhile, rental property alone is no longer the anchor product being marketed. Rather, the attrac-

tiveness of rental property is heightened increasingly by approaching target client groups, and by the provision of supplementary services.

Group profitability

Operating profits of Aareal Bank Group for the first quarter of 2008 amounted to € 27 million, after € 79 million in the first quarter of 2007. The first quarter of 2007 included a one-off payment of € 37 million from DEPFA Deutsche Pfandbriefbank AG in conjunction with a completed tax audit of a former subsidiary.

Net interest income rose by 9 % in the first three months of the current financial year, to € 107 million (Q1 2007: € 98 million). The rise is attributable mainly to high-margin new business originated in 2007.

Net of loan loss provisions amounted to € 20 million (Q1 2007: € 22 million), net interest income after provisions amounted to € 87 million (Q1 2007: € 76 million).

Net commission income was down € 4 million compared with the same period of the previous year, to € 33 million (Q1 2007: € 37 million). The increase in results in the Consulting / Services segment was offset by lower net commission income earned in the Structured Property Financing segment. The key reasons here are our more selective

new business policy and lower prepayments compared with the previous year.

Net trading income was down by € 24 million compared to the previous year's figure, to minus € 22 million. First-quarter developments reflected a charge of approx. € 16 million in lower mark-to-market valuations of Asset Backed Securities (ABS issues). Roughly 90 % of these issues are rated AAA. These ratings have remained stable since the onset of the US financial crisis, with some issues even having been upgraded. Net trading income also regularly includes ongoing expenditure for the bank's own securitisations; these amounted to € 2 million during the first quarter. The remaining balance was attributable to stand-alone derivatives, bank bonds, government bonds issued by EU member states, interest payments, and currency effects.

At € 9 million, results from non-trading assets in the first three months were down from the figure of € 12 million reported in the same period of the previous year. This was largely due to the sale of securities from the available-for-sale portfolio.

Staff expenses, as a part of administrative expenses, fell compared with the corresponding quarter of the previous year. Notwithstanding a slight rise in non-staff expenditure, administrative expenses overall fell in the first quarter, to € 88 million (Q1 2007: € 89 million).

Net other operating income / expenses was positive, at € 6 million. The corresponding figure of € 39 million for the previous year includes the compensation payment received from DEPFA Deutsche Pfandbriefbank AG in the first quarter of 2007.

After deduction of € 9 million in taxes (Q1 2007: € 23 million) and minority interest income of € 5 million (Q1 2007: € 5 million), consolidated net income attributable to shareholders of Aareal Bank AG amounts to € 13 million (Q1 2007: € 51 million including non-recurring effects).

Segments

Structured Property Financing

This segment brings together the property finance and treasury activities of Aareal Bank.

Business development

We are currently pursuing a strict, selective new business policy that focuses on quality and return, whereby we concentrate on attractive, high-margin market opportunities. The volume of new business in the first three months of 2008 fell accordingly to € 1.1 billion, after € 2.2 billion in the same period of the previous year. Additionally, this development was influenced by falling transaction volume on important property

markets as a consequence of the financial crisis.

On the other hand, the average interest margin was increased substantially. We continue to consistently pursue our three-continent strategy; North America now accounts for 15.9 % of the volume of new business and Asia for 6.6 %.

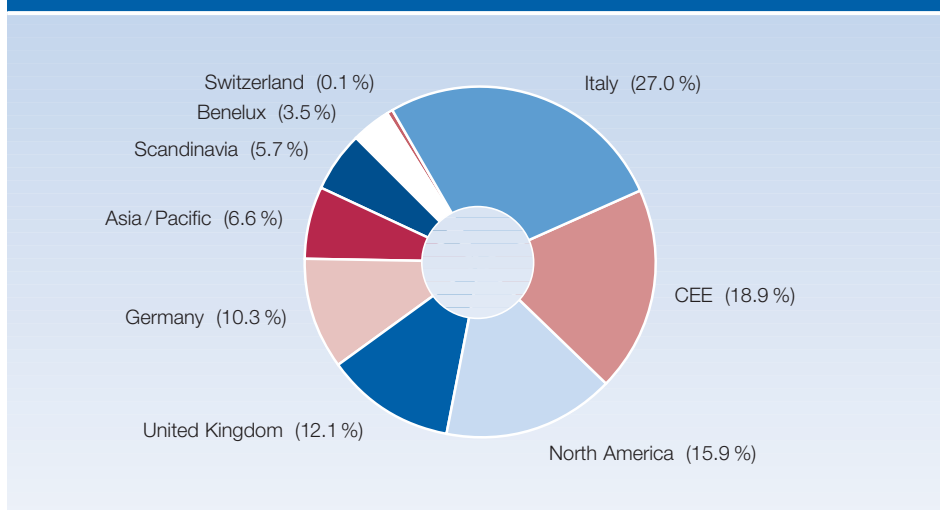
Europe

Transaction volumes on the markets for commercial property in London and Germany in the first three months dropped by more than 25 per cent from the same period of the previous year. The decline in the greater Paris region was even more pronounced. Rents for commercial property in most European locations were stable or slightly rising. Rents for property investments rose in many areas, albeit with regional differences.

In Europe we achieved € 0.84 billion in new business in the first three months of 2008, accounting for approx. 77.5 % of the total. Italy accounted for the lion's share, with 27 %, followed by Central and Eastern European (CEE) countries (18.9 %), the UK (12.1 %), and Germany (10.3 %). All in all, we generated new business in twelve European countries.

Although new business was down in many locations compared with the first quarter of 2007, it actually rose in the CEE countries and in the UK. Despite the difficult economic

New business by region 01 January-31 March 2008 (%): € 1,1 billion



environment, the favourable risk / return ratio provided opportunities in the UK.

North America

The financial crisis also impacted on the market for commercial property in the US. The indicators to hand currently show a decline in purchase prices for commercial property, whereby the yields for investors are rising. Office property rents fell, but varied strongly by region. There was no evidence of a uniform trend for other types of property. Overall, rental development varied greatly by region.

Our new business in North America amounted to € 0.17 billion in the first

three months of 2008. This corresponds to 15.9 % of the total volume of new business.

Asia / Pacific

Rents on the Asian property market showed a rising trend, unlike returns for investors, which did not follow any identifiable trend.

The Asian region accounted for 6.6 % of total new business. We are currently in promising negotiations regarding further financings here.

Segment result

Net interest income in the first quarter was € 92 million after € 84 million in the

same period of the previous year. This equates to an increase of around 10%. The rise is attributable mainly to high-margin new business originated in 2007.

Net loan loss provisions in the period under review were € 20 million (Q1 2007: € 22 million).

Net commission income in the first quarter fell to € 3 million (Q1 2007: € 8 million). The key reasons for this decline were our more selective new business policy, and

lower prepayments compared with the previous year.

The valuation of our securities trading portfolio in the current volatile market environment is the main reason why net trading income in the first quarter of 2008 fell to minus € 22 million (Q1 2007: € 2 million). Securities in the trading portfolio comprise ABS issues in particular, of which some 90% are rated triple-A.

Structured Property Financing	01 Jan-31 Mar 2008 € mn	01 Jan-31 Mar 2007 € mn
Net interest income	92	84
Provision for loan losses	20	22
Net interest income after net loan loss provisions	72	62
Net commission income	3	8
Net result on hedge accounting	2	2
Net trading income / expenses	-22	2
Results from non-trading assets	9	12
Results from investments accounted for using the equity method	0	
Results from investment property	0	0
Administrative expenses	52	54
Net other operating income / expenses	4	40
Impairment of goodwill		
Operating profit	16	72
Income taxes	6	21
Segment result	10	51

Aareal Bank Group is not invested in US sub-prime or US RMBS securities, nor in CDOs or ABCP/SIVs. Furthermore, the Group does not hold any issues that are guaranteed by monoliners. Net trading income also includes expenses from our own synthetic securitised transactions, and results from stand-alone derivatives.

Results from non-trading assets totalled € 9 million (Q1 2007: € 12 million). This was largely due to the sale of securities from the available-for-sale portfolio.

Administrative expenses were € 52 million, down € 2 million on the corresponding figure for the previous year (Q1 2007: € 54 million). The effects of our consistent cost management policy have also been in evidence during the first quarter. Compared with last year, personnel expenses have been reduced, while non-staff expenses remained virtually constant.

Net other operating income and expenses was € 4 million. The previous year's figure of € 40 million included a one-off payment of € 37 million from DEPFA Deutsche Pfandbriefbank AG in the first quarter 2007, in conjunction with a completed tax audit of a former subsidiary.

All in all, operating profit in the Structured Property Financing segment amounted to € 16 million. Taking into consideration tax expenses of € 6 million, the segment result in the first quarter of 2008 was € 10 million.

Consulting / Services

Business development Institutional Housing Business

Aareon AG

The positive trend seen in the 2007 financial year has remained intact during the first quarter of 2008. Results were slightly above the seasonal target. Market penetration of Blue Eagle realised further sales successes: for example, another customer to switch to this product was GAG Immobilien AG, which manages around 46,000 apartments and 650 commercial units. And roll-out has commenced for Neuland Wohnungsgesellschaft mbH, in Wolfsburg.

The positive trend continued for Wodis, the solution for SMEs: roll-outs for eleven customers alone occurred in January, with a total of 26,350 units. Additional new customers were acquired.

The tradesmen's portal Mareon continued to meet with strong response. A joint venture was completed with the Mülheim-based EASY SOFTWARE AG to market document management systems.

Payments and deposit-taking

In cooperation with Aareal First Financial Solutions AG, our Institutional Housing Business offers a highly-automated mass payments system to our commercial housing

¹⁾ The result from the Consulting / Services segment is reported on the basis of an income statement classification aligned to industrial companies.

A transfer to the segment result shown in the segment reporting can be found on page 27 of this interim report.

sector clients. Aareal Bank's focus is to increase the volume of deposits through new client acquisition as well as the consistent penetration of existing clients with as broad a product range as possible. Regularly reviewing our services with regard to customer orientation and making the corresponding adjustments to our service range and the distribution focus are therefore a part of the strategy. This enabled us to achieve the corresponding successes in the first quarter of the current financial year: the deposit volume averaged a high level of around € 4.5 billion, which exceeded the volume of € 4.3 billion for the same period of the previous year. The intensified use of BK 01 deposits and BK 01 operating cost manage-

ment modules, together with new customer acquisition, also offers potential. We recorded 15 additional BK 01 users, with more than 40,000 rental units, as at the end of the first quarter.

Segment result¹⁾

During the period under review, revenues rose by 4 % over the comparable period of the previous year, from € 53 million to € 55 million. This increase was achieved through a slight increase in sales revenue in conjunction with the Blue Eagle software, with stable earnings from the Institutional Housing Business.

Consulting / Services	01 Jan-31 Mar 2008 € mn	01 Jan-31 Mar 2007 € mn
Revenues	55	53
Own work capitalised		0
Changes in inventory	0	
Other operating income	3	2
Cost of material purchased	9	9
Staff expenses	24	24
Depreciation and amortisation	3	3
Result from investments in companies accounted for using the equity method		
Other operating expenses	11	12
Interest and similar income / expenditure	0	0
Profits from ordinary activities	11	7
Income taxes	3	2
Segment result	8	5

At € 9 million, the cost of materials was unchanged from the previous year.

Personnel expenses amounted to € 24 million in the first three months of 2008. Strict cost management ensured that the figure was maintained at the level of the corresponding quarter of the previous year.

At € 11 million, other operating expenses were down € 1 million on last year's figure (Q1 2007: € 12 million).

The Consulting / Services segment provided a net contribution of € 11 million to consolidated operating income, which is € 4 million (or 57%) higher than last year's figure of € 7 million.

Financial situation

Total assets

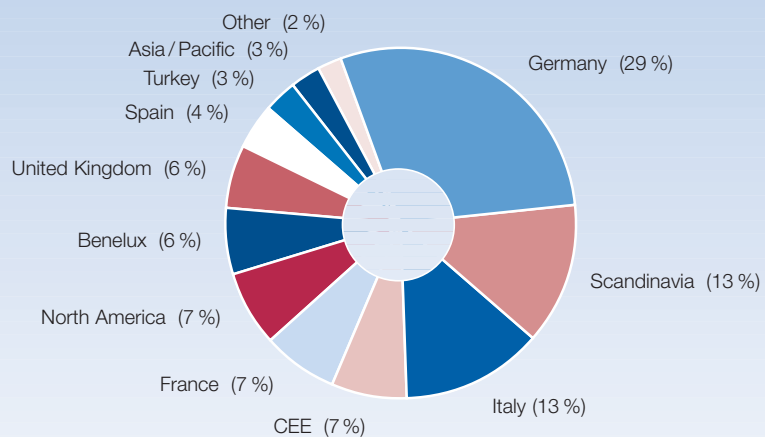
Consolidated total assets as at 31 March 2008 amounted to € 39.8 billion, after € 40.2 billion as at 31 December 2007.

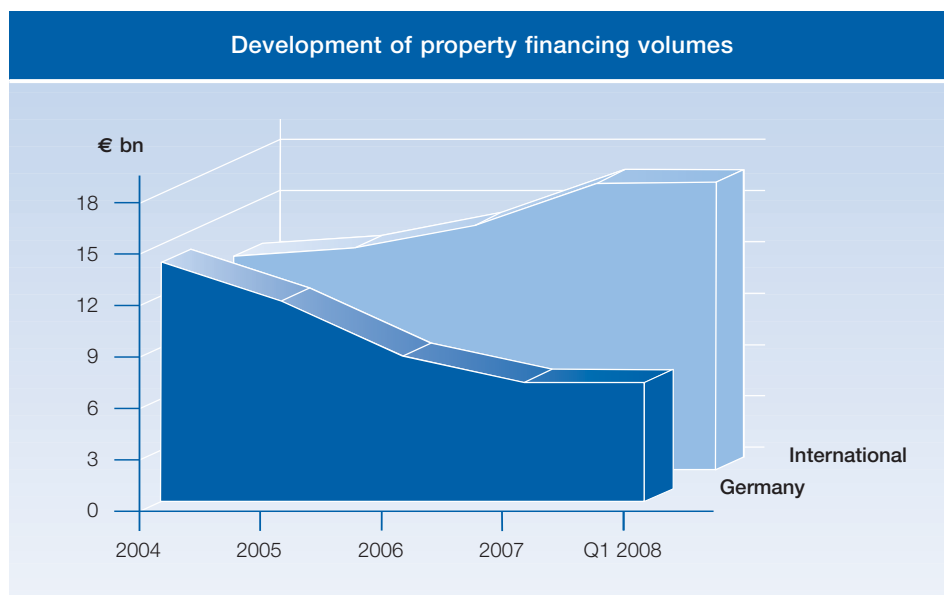
Financial situation

Property financing portfolio

As at 31 March 2008, the property financing portfolio under management amounted to € 23.7 billion and was therefore virtually unchanged from the figure of € 24 billion

Property financing portfolio under management by region as at 31 March 2008 (%): € 23,7 billion





reported as at 31 December 2007. The slight fall of 1.4 % in the first quarter is due to the very selective approach to new business, owing to the current market environment.

At the end of the first quarter, the share of international financings amounted to € 16.7 billion or 71 % of the overall portfolio. The share of the German lending business was € 6.95 billion.

An analysis of the performance of our property financing portfolio over the past four years shows that we have successfully reduced the high share of German exposures and replaced them with international business.

It is also evident that since the financial year 2007, we have approached a level that is in line with our successful diversification strategy.

Refinancing and Shareholders' Equity

Refinancing strategy and own issues

The property financing portfolio to be refinanced totalled € 22.3 billion as at 31 March 2008, financed by € 20.1 billion in long-term funds and an average of € 4.5 billion in deposits from the institutional housing sector. In spite of the challenging market environment, long-term funding was thus

maintained at a high level. Aareal Bank successfully shaped its scope for refinancing on the capital market during the first quarter of 2008. The bank raised over € 490 billion in long-term funds during the period under review.

The focus of our funding activities during the first quarter of 2008 was on Pfandbrief issuance, with mortgage bonds accounting for € 400 million and public-sector covered securities for € 30 million. The remaining € 60 million was accounted for by senior unsecured issues. Aareal Bank benefited from its good standing with regard to private placements, and thus did not need benchmark issues.

Pfandbrief issuance currently represents an important component of Aareal Bank's refinancing activities. In view of the level of quality, strict regulatory requirements and successful capital market history, Pfandbrief issues offer refinancing at favourable terms. This also provides Aareal Bank with a clear competitive advantage in the persistently difficult situation on the capital markets. We also plan to increasingly use mortgage bonds as a means to refinance our international loan portfolio in the future.

Aareal Bank has a solid liquidity base. The property financing portfolio is funded long-term through Pfandbriefe, unsecured and subordinated debt. The bank also generates a very stable deposit volume from institutional money market clients. Current account

balances and term deposits of our clients in the Institutional Housing sector also represent a reliable and constant refinancing source.

At 5.2 years, the average remaining term of long-term funding (excluding public-sector covered securities) is considerably higher than the average term of our property loans (3.6 years). The maturity profile also highlights our comfortable liquidity situation: the maturities in our property loan portfolio will exceed those of the long-term funds in the next three years. The volume of long-term funds maturing annually is just under € 3 billion, whilst the volume of the property loan portfolio maturing annually is € 3.3 billion.

¹⁾ After confirmation of Aareal Bank AG's financial statements 2007; the inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity capital as at 31 December 2007 is subject to approval by the Annual General Meeting.

²⁾ The figures as at 31 March 2008 were calculated for the first time in accordance with the credit risk standardised approach (CRSA) pursuant to the Solvability Ordinance.

Regulatory indicators¹⁾

Regulatory indicators (German Banking Act – CRSA) ²⁾	31 Mar 2008
	€ mn
Core capital	1,779
Risk-weighted assets (incl. market risk)	23,295
	%
Core capital ratio	7.7
Total capital ratio	11.7

Regulatory indicators (BIS rules) ³⁾	31 Mar 2008	31 Dec 2007
	€ mn	€ mn
Core capital	1,723	1,701
Risk-weighted assets (incl. market risk)	23,875	23,503
	%	%
Core capital ratio	7.3	7.3
Total capital ratio	11.1	11.2

³⁾ The ratios, which were calculated in accordance with the definitions by the Basel Committee, were shown as at 31 March 2008, for the purpose of comparison. No agreement regarding the determination of the ratios has been concluded with the German Federal Financial Supervisory Authority (BaFin).

Outlook

Macroeconomic developments

The economic outlook for the remainder of the year 2008 remains subdued, reflecting a business environment that continues to be dominated by the financial market crisis and exploding commodity prices.

Our assumption is that the crisis affecting banks and the financial markets is set to last until the next year, with banks' scope for lending to remain restricted due to higher write-downs and the prevailing confidence crisis. Banks' refinancing costs will therefore tend to increase compared to the previous year. Consequently, business investment will weaken, slowing down economic growth. Whilst the Fed will try to avert this danger with interest rate cuts and the provision of liquidity, the ECB will continue to face the quandary of having to fight inflation and trying to avert a slowdown at the same time.

We envisage volatility in the financial markets to prevail for an extended period of time. There is a risk of a recession in the US, as banks and financial markets there are particularly affected by write-downs, and by financial market turbulence.

The euro zone cannot disengage permanently from the US economy. European economic growth will thus also see a marked slowdown, and we expect euro zone growth rates for 2008 and 2009 to fall significantly short of the levels seen in 2007.

The financial crisis and economic weakness in the US and Europe will slow down the economic momentum in Central and Eastern Europe, and in Asia, although the growth rates should remain considerably higher than in Europe.

In view of the prevailing burdens – the crisis affecting banks and the financial markets, combined with price developments for energy and food – the global economy is facing challenging times. It is very difficult to forecast the extent and duration of these developments.

Development of international property markets

Economic slowdown, uncertainty on the financial markets and restricted lending by the banks continue to impact on the property markets.

Europe

Commercial property transaction volumes in Europe are down substantially on the same period of the previous year. We assume that the transaction volume will persist at a low level. This is explained especially by the fall-off in lending, and investor uncertainty. In the course of the year, the return on investment in commercial property will exceed or possibly continue to rise above last year's level. However, there are regional differences. Whilst the UK is particularly affected by the rise in yields, we are forecasting stable yields over last year in Eastern European countries such as Russia or Romania.

As we see it, the healthy employment market should continue to maintain rents at a stable level.

North America

The extensive decline in commercial property prices in the US is accompanied by a rise in the return on investment. Returns this year, which should be higher than the previous year, are expected to remain stable or rise further. The US in particular has been affected by the economic slowdown, so that we expect falling rents; these will vary, however, according to the location and quality of the property. We also forecast a decline in the volume of transactions in the US, too. Bearing in mind that Canada and Mexico are affected indirectly through their dependency on US exports, developments should be less pronounced in these countries.

Asia / Pacific

The effects of the financial market crisis have impacted on the Asia / Pacific markets to a lesser extent, so that these locations will become increasingly attractive. We therefore forecast dynamic economic growth in East Asia, with stable returns on investment in commercial property. Despite strong activity, especially in China, we assume that demand for modern, high-quality property will remain strong, supported by the dynamic development in this region, so that rents will remain stable.

Development of the German institutional property sector

Performance in the German property sector remains stable. High service and maintenance costs – above all due to the continued increase in energy prices – continue to present a challenge to the property sector. Property management companies are therefore expected to invest increasingly in the energetic renovation and maintenance of their housing stock.

The issue of process optimisation, with a view to enhancing efficiency, will remain on the agenda owing to relentless cost pressures in the property management sector.

The increased heterogeneity of customer requirements in the institutional housing business will guarantee high demand for complex and differentiated IT solutions, as well as bespoke services for the property management business. In particular, demand for automated IT systems to optimise payment systems and internal processes will rise further in the years ahead.

Corporate development

Structured Property Financing

The uncertainty regarding further developments on the international property and financial markets makes it difficult to deliver

a concrete forecast for the current year. We are generally confident that the opportunities available to Aareal Bank Group will outweigh the risks.

Additionally, the successful geographical diversification within the scope of our three-continent strategy will enable us to offset any possible negative developments in the individual markets in the Structured Financing segment. The bank has various attractive opportunities for new business open to it at the moment. We will pursue these on a very selective basis, following a strict analysis of the risk / return ratios of each individual exposure. In Europe in particular, we will concentrate primarily on exposures eligible for inclusion in the cover assets pool, in order to facilitate refinancing via Pfandbriefe.

The transfer of receivables or risks, in the form of syndication and securitisation will be impossible (or only possible to a very limited extent) during the current financial year. However, as an on-balance sheet lender with a solid capital base, we are in a position to continue to take loans on our balance sheet. We want to exploit this competitive advantage in order to increase our risk-weighted assets, with the objective of enhancing net interest income.

The threat of a sustained recession in the US, which could lead to a global economic downturn and subsequently to a fall-off in activity on important property markets,

could represent risks for the development of the Structured Property Financing segment.

We plan to further increase the share of Pfandbriefe in Aareal Bank's refinancing mix. It remains to be seen how the risk premiums on senior unsecured issues will develop. The advantage of Pfandbrief issues in terms of refinancing costs – compared to senior unsecured issues – continued to widen during the first quarter of 2008.

Consulting / Services

In the Consulting / Services segment, our subsidiary Aareon AG is planning a significant rise in the number of residential units managed through Blue Eagle / SAP® in the 2008 and 2009 financial years. Revenues generated from advisory services should therefore rise considerably. The integrated IT product Wodis, together with other available integrated services, will enable us to further penetrate Aareon's existing customer base.

The process optimisation procedures for mass payment services offered by the bank's Institutional Housing Business will continue to generate stable deposits for Aareal Bank Group.

The high quality and integration capability of the payment systems within the IT solutions of the property management companies promote a high level of cus-

tomers loyalty. This business segment will continue to focus strategically on new client acquisition and greater utilisation of the cross-selling potential.

Aareal Bank Group will continue to benefit from the resulting positive contribution to results in the years ahead.

Owing to the planned rise in revenues, combined with stable costs, we forecast a significant rise in the contribution from the Consulting / Services segment to Group results in the current financial year.

Aareal Bank Group

Based on the performance of our business during the first quarter, during which our business model once again demonstrated its resilience and sustainability, we still believe that we will be able to match 2007 operating profit in the current year – unless the distortions on financial markets continue to prevail.

Positive performance in the Consulting / Services segment is expected to continue.

Report on material events after the reporting date

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

Yours sincerely,

The Management Board



Dr. Wolf Schumacher

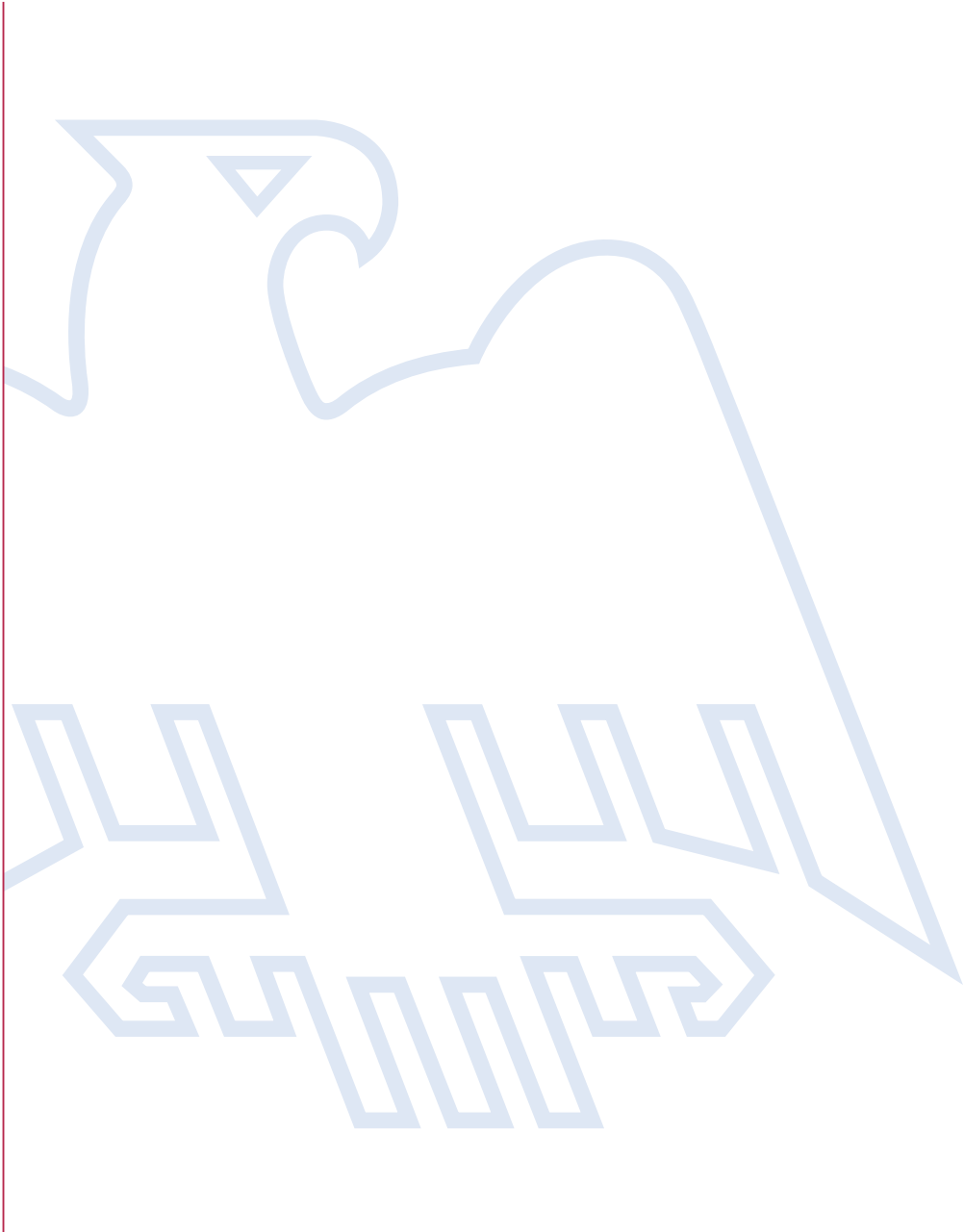
Norbert Kickum



Hermann J. Merkens



Thomas Ortmanns



CONSOLIDATED INCOME STATEMENT OF AAREAL BANK GROUP

	Note	01 Jan - 31 Mar 2008	01 Jan - 31 Mar 2007
		€ mn	€ mn
Interest income		485	435
Interest expenses		378	337
Net interest income	1	107	98
Provision for loan losses	2	20	22
Net interest income after net loan loss provisions		87	76
Commission income		47	53
Commission expenses		14	16
Net commission income	3	33	37
Net result on hedge accounting		2	2
Net trading income/expenses	4	-22	2
Results from non-trading assets	5	9	12
Results from companies accounted for at equity		0	
Results from investment properties		0	0
Administrative expenses	6	88	89
Net other operating income/expenses	7	6	39
Impairment of goodwill			
Operating profit		27	79
Income taxes		9	23
Consolidated net income/loss		18	56
Allocation of results		€ mn	€ mn
Consolidated net income/loss attributable to minority interests		5	5
Consolidated net income/loss attributable to shareholders of Aareal Bank AG		13	51
		€	€
Earnings per share		0.30	1.18
Diluted earnings per share		0.30	1.18

Earnings per share are determined by dividing the earnings attributable to ordinary shareholders of Aareal Bank AG by the weighted average of ordinary shares outstanding in the financial year.



CONSOLIDATED INCOME STATEMENT (QUARTERLY DEVELOPMENT)

	Quarter 1 2008	Quarter 4 2007	Quarter 3 2007	Quarter 2 2007	Quarter 1 2007
	€ mn	€ mn	€ mn	€ mn	€ mn
Interest income	485	505	488	475	435
Interest expenses	378	396	388	371	337
Net interest income	107	109	100	104	98
Provision for loan losses	20	14	19	22	22
Net interest income after net loan loss provisions	87	95	81	82	76
Commission income	47	53	47	52	53
Commission expenses	14	16	15	16	16
Net commission income	33	37	32	36	37
Net result on hedge accounting	2	-3	-1	3	2
Net trading income/expenses	-22	-20	-13	5	2
Results from non-trading assets	9	18	162	14	12
Results from companies accounted for at equity	0		63	5	
Results from investment properties	0	0	0	1	0
Administrative expenses	88	88	93	91	89
Net other operating income/expenses	6	-9	-10	-2	39
Impairment of goodwill		3			
Operating profit	27	27	221	53	79
Income taxes	9	5	33	11	23
Consolidated net income/loss	18	22	188	42	56
Allocation of results	€ mn	€ mn	€ mn	€ mn	€ mn
Consolidated net income/loss attributable to minority interests	5	4	5	4	5
Consolidated net income/loss attributable to shareholders of Aareal Bank AG	13	18	183	38	51

SEGMENT REPORTING BY OPERATING UNIT

	Structured Property Financing		Consulting / Services		Consolidation / Reconciliation / Other		Aareal Bank Group	
	€ mn		€ mn		€ mn		€ mn	
	Quarter 1 2008	Quarter 1 2007	Quarter 1 2008	Quarter 1 2007	Quarter 1 2008	Quarter 1 2007	Quarter 1 2008	Quarter 1 2007
Net interest income	92	84	0	0	15	14	107	98
Provision for loan losses	20	22					20	22
Net interest income after net loan loss provisions	72	62	0	0	15	14	87	76
Net commission income	3	8	46	44	-16	-15	33	37
Net result on hedge accounting	2	2					2	2
Net trading income / expenses	-22	2					-22	2
Results from non-trading assets	9	12	0	0			9	12
Results from companies accounted for at equity	0						0	
Results from investment properties	0	0					0	0
Administrative expenses	52	54	37	36	-1	-1	88	89
Net other operating income / expenses	4	40	2	-1	0	0	6	39
Impairment of goodwill								
Operating profit	16	72	11	7	0	0	27	79
Income taxes	6	21	3	2			9	23
Consolidated net income / loss	10	51	8	5	0	0	18	56
Allocation of results								
Consolidated net income / loss attributable to minority interests	4	4	1	1			5	5
Consolidated net income / loss attributable to shareholders of Aareal Bank AG	6	47	7	4	0	0	13	51
Allocated equity	965	770	71	87	269	189	1,305	1,046
Cost / income ratio (%)	61.4	38.5	78.1	84.4			67.0	48.9
RoE after taxes (%) ¹⁾	2.5	24.2	38.2	18.1			3.9	19.3

¹⁾ on an annualised basis

CONSOLIDATED BALANCE SHEET OF AAREAL BANK GROUP

	Note	31 Mar 2008	31 Dec 2007
Assets		€ mn	€ mn
Cash funds		2,049	1,051
Loans and advances to banks	8	2,297	2,245
Loans and advances to customers	9	24,468	24,985
Provision for loan losses		-204	-190
Positive market value of derivative hedging instruments		825	899
Trading assets	10	1,727	1,819
Non-current assets held for sale and discontinued operations		20	20
Non-trading assets	11	7,876	8,811
Interests in companies accounted for at equity		91	92
Investment properties		99	10
Intangible assets	12	77	80
Property and equipment	13	100	101
Income tax assets		34	32
Deferred tax assets		65	61
Other assets	14	291	186
Total		39,815	40,202
Shareholders' equity and liabilities		€ mn	€ mn
Liabilities to banks	15	4,447	4,953
Liabilities to customers	16	23,448	21,790
Certificated liabilities	17	6,856	7,862
Negative market value of derivative hedging instruments		895	1,128
Trading liabilities	18	767	995
Obligations from disposal groups and discontinued operations		0	0
Provisions	19	242	273
Income tax liabilities		19	18
Deferred tax liabilities		38	55
Other liabilities	20	216	183
Subordinated equity	21	1,335	1,318
Shareholders' equity	22		
Subscribed capital		128	128
Capital reserves		511	511
Retained earnings		706	554
Reserves from transactions under common control		-14	-26
Revaluation surplus		-35	70
Minority interest		243	243
Group retained income		13	147
Total shareholders' equity		1,552	1,627
Total		39,815	40,202

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	2008	2007
	€ mn	€ mn
Consolidated shareholders' equity as at 01 January	1,627	1,372
Retained earnings	5	0
Reserves from transactions under common control	12	0
Revaluation surplus	-105	8
Minority interest	0	1
Consolidated net income / loss attributable to shareholders of Aareal Bank AG	13	51
Consolidated shareholders' equity as at 31 March	1,552	1,432

CONSOLIDATED STATEMENT OF CASH FLOWS

	2008	2007
	€ mn	€ mn
Cash and cash equivalents as at 01 January	1,051	1,331
Cash flow from operating activities	43	694
Cash flow from investing activities	938	56
Cash flow from financing activities	17	-27
Total cash flow	998	723
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 31 March	2,049	2,054

BASIS OF ACCOUNTING

Legal framework and reporting entity structure

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.

Aareal Bank AG prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) applicable within the European Union (EU) as at the reporting date, in connection with the provisions pursuant to section 315 a (1) of the German Commercial Code (Handelsgesetzbuch – "HGB"). Its reporting currency is the euro.

The present interim financial statements comply with IAS 34 and the requirements of German Accounting Standard as laid down by the German Accounting Standards Board (GASB) for interim reports.

All subsidiaries of Aareal Bank AG have been consolidated. Joint ventures are consolidated proportionally, whilst associates were accounted for at equity in the present interim financial statements.

Effective 31 March 2008, Aareal Financial Services USA Inc., Wilmington / Delaware, hitherto a subsidiary of Aareal Bank Group, was merged into Aareal Capital Corporation, Wilmington / Delaware, which had been

established in January 2008 (also as a member of Aareal Bank Group).

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

Accounting policies

The accounting policies applied in the preparation of the Consolidated Financial Statements 2007 were also applied for this interim report, including the calculation of comparative figures.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

(1) Net interest income

	01 Jan-31 Mar 2008 € mn	01 Jan-31 Mar 2007 € mn
Interest income from		
Property loan	255	221
Public-sector loan	22	21
Other lending and money market operations	127	109
Fixed-income securities and debt register claims	79	83
Current dividend income	2	1
Other interest income	0	
Total interest income	485	435
Interest expenses for		
Bonds issued	132	114
Borrowed funds	109	102
Subordinated equity	19	19
Term deposits taken	90	71
Overnight deposits taken	29	29
Other banking transactions	-1	2
Total interest expenses	378	337
Total	107	98

(2) Provision for loan losses

Provisions for loan losses amounted to € 20 million during the first three months of the financial year 2008 (Q1 2007: € 22 million). The amount recognised is determined as a proportion of the amounts projected for the year as a whole.

(3) Net commission income

	01 Jan-31 Mar 2008 € mn	01 Jan-31 Mar 2007 € mn
Net commission income from consulting and other services	27	24
Net commission income from trustee loans and administered loans	3	6
Net commission income from securities transactions	0	0
Net commission income from securitisation transactions	-2	-4
Net commission income from other lending and capital market transactions	3	8
Net other commission income	2	3
Total	33	37

(4) Net trading income

	01 Jan-31 Mar 2008 € mn	01 Jan-31 Mar 2007 € mn
Results from derivative financial instruments	-7	1
Currency translation	4	1
Net income / expenses from other positions held for trading	-19	0
Total	-22	2

(5) Results from non-trading assets

	01 Jan-31 Mar 2008 € mn	01 Jan-31 Mar 2007 € mn
Results from securities sales	9	9
Results from the measurement of securities	0	0
Results from the disposal of participating interests	0	3
Results from the measurement of participating interests	0	0
Total	9	12

(6) Administrative expenses

	01 Jan-31 Mar 2008 € mn	01 Jan-31 Mar 2007 € mn
Staff expenses	53	55
of which: for pensions	6	5
Other general administrative expenses	30	29
Depreciation and amortisation of property and equipment and intangible assets	5	5
Total	88	89

(7) Net other operating income / expenses

	01 Jan-31 Mar 2008 € mn	01 Jan-31 Mar 2007 € mn
Income from properties	1	2
Income from the release of provisions	2	2
Income from goods and services	0	0
Other	9	43
Total other operating income	12	47
Expenses from properties	1	1
Expenses for services used	0	0
Write-downs of trade receivables	0	0
Expenses for other taxes	0	0
Other	5	7
Total other operating expenses	6	8
Total	6	39

NOTES TO THE CONSOLIDATED BALANCE SHEET

(8) Loans and advances to banks

	31 Mar 2008 € mn	31 Dec 2007 € mn
Term deposits and current account balances	631	431
Public-sector loans	298	333
Receivables from securities repurchase transactions	1,047	1,377
Other loans and advances	321	104
Total	2,297	2,245

(9) Loans and advances to customers

	31 Mar 2008 € mn	31 Dec 2007 € mn
Property loans	22,333	22,550
Public-sector loans	1,774	1,738
Other loans and advances	361	697
Total	24,468	24,985

(10) Trading assets

	31 Mar 2008 € mn	31 Dec 2007 € mn
Debt and other fixed-income securities	1,181	1,390
Positive market values of stand-alone derivatives	546	429
Other assets held for trading		
Total	1,727	1,819

(II) Non-trading assets

	31 Mar 2008 € mn	31 Dec 2007 € mn
Debt and other fixed-income securities	7,379	8,213
Equities and other non-fixed-income securities	490	594
Interests in affiliated companies		
Other participations	7	4
Total	7,876	8,811

(12) Intangible assets

	31 Mar 2008 € mn	31 Dec 2007 € mn
Goodwill	29	29
Proprietary software	35	37
Other intangible assets	13	14
Total	77	80

(13) Property and equipment

	31 Mar 2008 € mn	31 Dec 2007 € mn
Land, buildings and assets under construction	84	84
Office furniture and equipment	16	17
Total	100	101

(14) Other assets

	31 Mar 2008 € mn	31 Dec 2007 € mn
Properties	44	44
Trade receivables	37	34
Other	210	108
Total	291	186

(15) Liabilities to banks

	31 Mar 2008 € mn	31 Dec 2007 € mn
Payable on demand	700	203
Term deposits	1,310	1,223
Promissory note loans borrowed	1,381	1,366
Liabilities from securities repurchase transactions and open-market operations	362	1,546
Registered mortgage bonds	403	398
Other	291	217
Total	4,447	4,953

(16) Liabilities to customers

	31 Mar 2008 € mn	31 Dec 2007 € mn
Payable on demand	3,572	3,570
Term deposits	6,966	5,547
Promissory note loans borrowed	8,558	8,472
Registered mortgage bonds	4,326	4,199
Other	26	2
Total	23,448	21,790

(17) Certificated liabilities

	31 Mar 2008 € mn	31 Dec 2007 € mn
Medium-term notes	2,392	2,765
Bearer mortgage bonds	3,518	3,233
Other debt securities	946	1,864
Total	6,856	7,862

(18) Trading liabilities

	31 Mar 2008 € mn	31 Dec 2007 € mn
Negative market values of stand-alone derivatives	186	170
Other liabilities held for trading	581	825
Total	767	995

(19) Provisions

	31 Mar 2008 € mn	31 Dec 2007 € mn
Provisions for pensions and similar obligations	109	108
Other provisions	133	165
Total	242	273

(20) Other liabilities

	31 Mar 2008 € mn	31 Dec 2007 € mn
Liabilities from outstanding invoices	23	30
Deferred income	30	24
Liabilities from other taxes	15	22
Trade payables	8	11
Other liabilities	140	96
Total	216	183

(21) Subordinated equity

	31 Mar 2008 € mn	31 Dec 2007 € mn
Subordinated liabilities	612	603
Profit-participation certificates	488	483
Contributions by silent partners	235	232
Total	1,335	1,318

(22) Treasury shares

No treasury shares were held during the period under review.

OTHER NOTES

(23) New property financing

	01 Jan-31 Mar 2008 € mn	01 Jan-31 Mar 2007 € mn
Commercial property financing	998	1,950
of which: international	929	1,882
Property financing for commercial housing	85	255
of which: international	42	109
Total	1,083	2,205

(24) Employees

	01 Jan-31 Mar 2008	01 Jan-31 Dec 2007
Number of employees in the banking business	1,148	1,151
Number of employees in other businesses	1,333	1,395
Total	2,481	2,546
of which: part-time employees	352	438

(25) Related party transactions

No major transactions with related parties were carried out in the first quarter 2008.

EXECUTIVE BODIES

Supervisory Board

Hans W. Reich ^{1) 2) 3) 4)}, **Kronberg**
Chairman of the Supervisory Board
Chairman Public Sector Group, Citigroup

Erwin Flieger ^{1) 3) 4)}, **Geretsried**
Deputy Chairman of the Supervisory Board
Chairman of the Supervisory Boards of
Bayerische Beamten Versicherungsgruppe

York-Detlef Bülow ^{1) 2) 5)},
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Deputy Chairman of the Supervisory Board
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Christian Graf von Bassewitz ^{2) 3) 4)},
Dusseldorf
Banker ret'd.

Manfred Behrens, Munich
Managing Director of Schweizerische
Lebensversicherungs- und Rentenanstalt
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Tamara Birke ^{3) 5)}, **Wiesbaden**
Aareal Bank AG

Thomas Hawel ⁵⁾, **Saulheim**
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Dr. Herbert Lohneiß ^{3) 4)}, **München**
Siemens Financial Services GmbH
(until 31 March 2008)

Joachim Neupel ^{2) 3) 4)}, **Meerbusch**
Certified Accountant and Tax Advisor

Prof. Dr. Stephan Schüller ^{1) 2)}, **Hamburg**
Spokesman of the General Partners of
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President and Chairman of the
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des Bundes und der Länder

Helmut Wagner ⁵⁾, **Hahnheim**
Aareon Deutschland GmbH

Management Board

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Chairman of the Management Board

Norbert Kickum
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 Credit and
Market Risk Committee

⁴⁾ Member of the Committee for
Urgent Decisions

⁵⁾ Employee representative

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Deposit-taking

Dublin

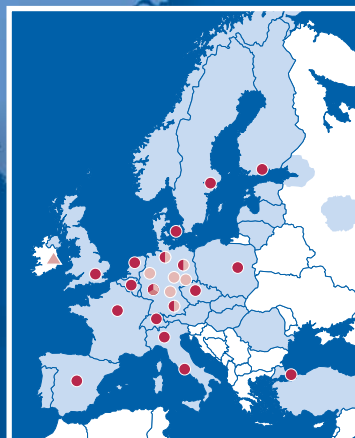
Dublin Exchange Facility
 4 Custom House Plaza
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Two business segments in Europe

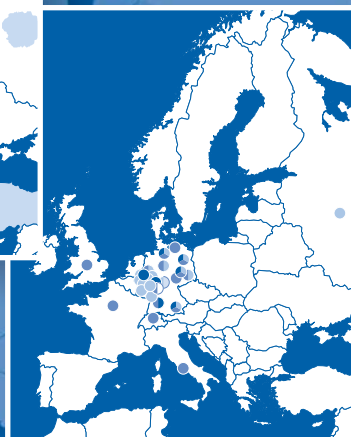
North America



Structured Property Financing



Structured Property Financing



Consulting / Services

Asia / Pacifik




Structured Property Financing

 Treasury activities

 Countries with lending operations

 Real Estate Structured Finance

 Aareal Estate AG

 Aareal Valuation GmbH

 Institutional Housing Unit

 Aareal First Financial Solutions AG

 Aareon AG

 Deutsche Bau- und Grundstücks-AG

 Deutsche Structured Finance GmbH

FINANCIAL CALENDAR

21 May 2008

Annual General Meeting – Kurhaus, Wiesbaden

12 August 2008

Presentation of interim report as at 30 June 2008

November 2008

Presentation of interim report as at 30 September 2008

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