

LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

Analyst Conference Call

Q3 2009 results

November 10, 2009

Dr. Wolf Schumacher, CEO – Hermann J. Merkens, CFO



**Aareal Bank
Group**

Agenda Q3 2009 results

- Q3 2009 results at a glance
 - Group capital and funding position
 - Group figures Q3 2009
 - Asset quality
 - Outlook

 - Appendix
 - Definitions and Contacts
-



Q3 2009 results at a glance



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Q3 2009 results at a glance:

Positive results since 2007

	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Comments
Euro mn						
Operating profit (€ mn)	25	25	17	11	31	Positive results continue in 2009 despite challenging environment and conservative positioning
Coupon payment on silent participation SoFFin	12	12	-	-	-	SoFFin costs are manageable for the business model of Aareal Bank
Consolidated retained profit (€ mn) ¹⁾	6	7	7	4	15	Profitable despite challenging economic and financial environment
RoE after taxes (%)	4.3 ²⁾	4.8 ²⁾	1.7	1.3	4.5	
Tier 1 ratio (%) (according to German Banking Act - CRSA)	10.7 ³⁾	10.4 ³⁾	10.2 ³⁾	8.0	8.0	Capitalisation remains solid

1) After deduction of coupon payment on SoFFin participation

2) Before appropriation of profits

3) Post SoFFin capital measure in 2009



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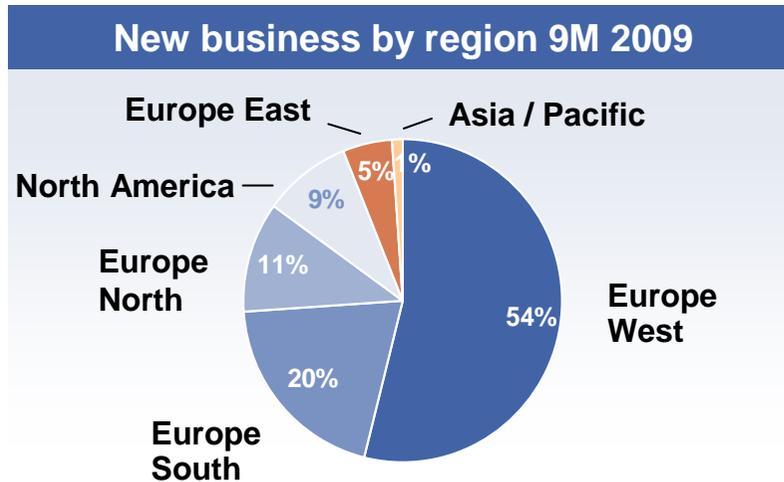
Structured property financing: Still profitable in challenging environment

P&L SPF Segment	Q3 '09	Q2 '09	Q1 '09	Q4 '08	Q3 '08
Euro mn					
Net interest income (NII)	98	101	102	117	99
Provision for loan losses (LLP)	36	42	37	20	20
NII after LLP	62	59	65	97	79
Net commission income	-3	-3	5	13	7
Net result on hedge accounting	-4	0	1	-3	1
Net trading result	19	9	16	-23	25
Results from non-trading assets	-3	1	-17	-59	-37
Res. at equity acc. Companies				4	
Results investment properties	1	0	0	-1	0
Admin expenses	49	50	48	46	50
<i>Others</i>	-4	2	-6	18	-5
Operating profit	19	18	16	0	20
Income taxes	1	-2	6	-1	8
Segment result	18	20	10	1	12
Segment result attributed to minority interests	4	4	4	4	4
Silent participation by SoFFin	12	12	-	-	-
Consolidated retained profit	2	4	6	-3	8

- SoFFin burdens segment result in Q2 and Q3
 - € 24 mn SoFFin coupon shown as appropriation of profits (€ 12 mn per quarter)
 - € 11 mn guarantee fees in commission income (€ 6 mn / € 5 mn)
- Strong liquidity position is reflecting in net interest income
- Loan loss provision varies quarter by quarter – but guidance confirmed



Structured property financing: Reliable Partner for our existing clients



- Unchanged focus on portfolio monitoring and active management
- New business
 - Focussing on renewals with existing clients
 - Preferably loans eligible for Pfandbrief cover pool



Consulting / Services:

Interest rate environment burdens segment results

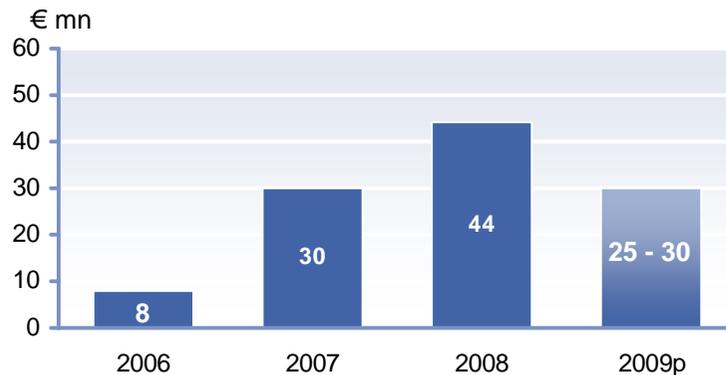
P&L C/S Segment (industry format)	Q3 '09	Q2 '09	Q1 '09	Q4 '08	Q3 '08
Euro mn					
Sales revenue	50	52	51	63	54
Own work capital	0	1	0	1	0
Changes in inventory	0	0	0	0	0
Other operating income	3	2	1	3	3
Cost of material purchased	6	6	7	10	8
Staff expenses	25	27	30	27	24
<i>Excl. one-offs</i>	25	27	24	27	24
D, A, impairment losses	4	3	3	4	3
Results at equity acc. investm.	-	-	-	-	-
Other operating expenses	12	12	11	15	11
Results from interest and similar	0	0	0	0	0
Result from ordinary activities	6	7	1	11	11
Income taxes	2	3	0	4	3
Segment result	4	4	1	7	8
Segment result attributed to minority interests	0	1	0	0	1
Consolidated retained profit	4	3	1	7	7

- IT-Business (Aareon)
 - Stable development
 - Fewer SAP-based implementations than originally planned
- Deposit taking business (Aareal Bank)
 - Historical low interest environment still burdens margins of deposit taking business while expenses stay stable

Consulting / Services:

Stable segment results - confirming outlook

Clean EBT Consulting / Services



Consulting / Services

- Increase of sales revenues expected for Q4 due to new product line
- Confirming outlook of clean operating EBT (~ € 25 - 30 mn) for 2009¹⁾

1) subject to the assumption that interest rates will not approach a "zero"-interest level

Aareon 2009

- Long term contracts generate stable revenues (> 85 % of total revenues)
- SAP-based product lines suffers from reduced implementation projects as anticipated
- New product line Wodis Sigma successfully introduced in Q2, several contracts are already being negotiated in Q3
- € 6 mn one-offs for Staff adjustment after finalisation of SAP-based 'Blue Eagle' and Discontinuation of non-core activities

Aareal Bank 2009

- Aareal sustains it's position as the house bank of the German housing sector
- Interest rate environment still impacts net interest income (NII)
- Stable deposits around € 4 bn



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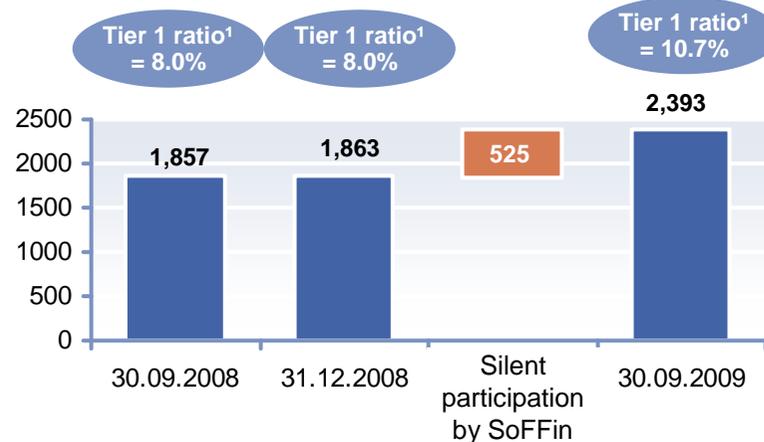
Group capital and funding position



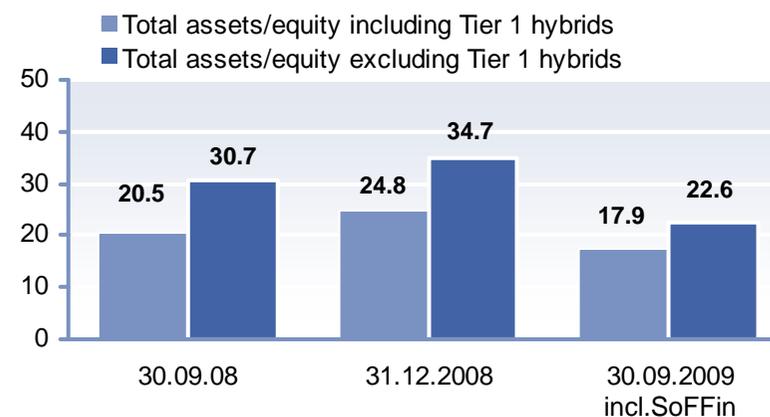
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Tier 1 Ratio increased to 10.7% (CRSA)

Tier 1 capital (CRSA / German GAAP) after SoFFin measure



Leverage ratio²⁾



Composition of Tier 1 capital

	30.09.2009	31.12.2008	30.09.2008
€ mn			
Core Tier 1	1,923	1,393	1,387
Hybrid Tier 1	470	470	470
Hybrid ratio	20%	25%	25%
Total Tier 1	2,393	1,863	1,857

- Tier 1 ratio of 10.7% (CRSA) puts Aareal in a solid position in relation to peers and market requirements
- Already a very low balance sheet leverage compared to peers – no need for future adjustments

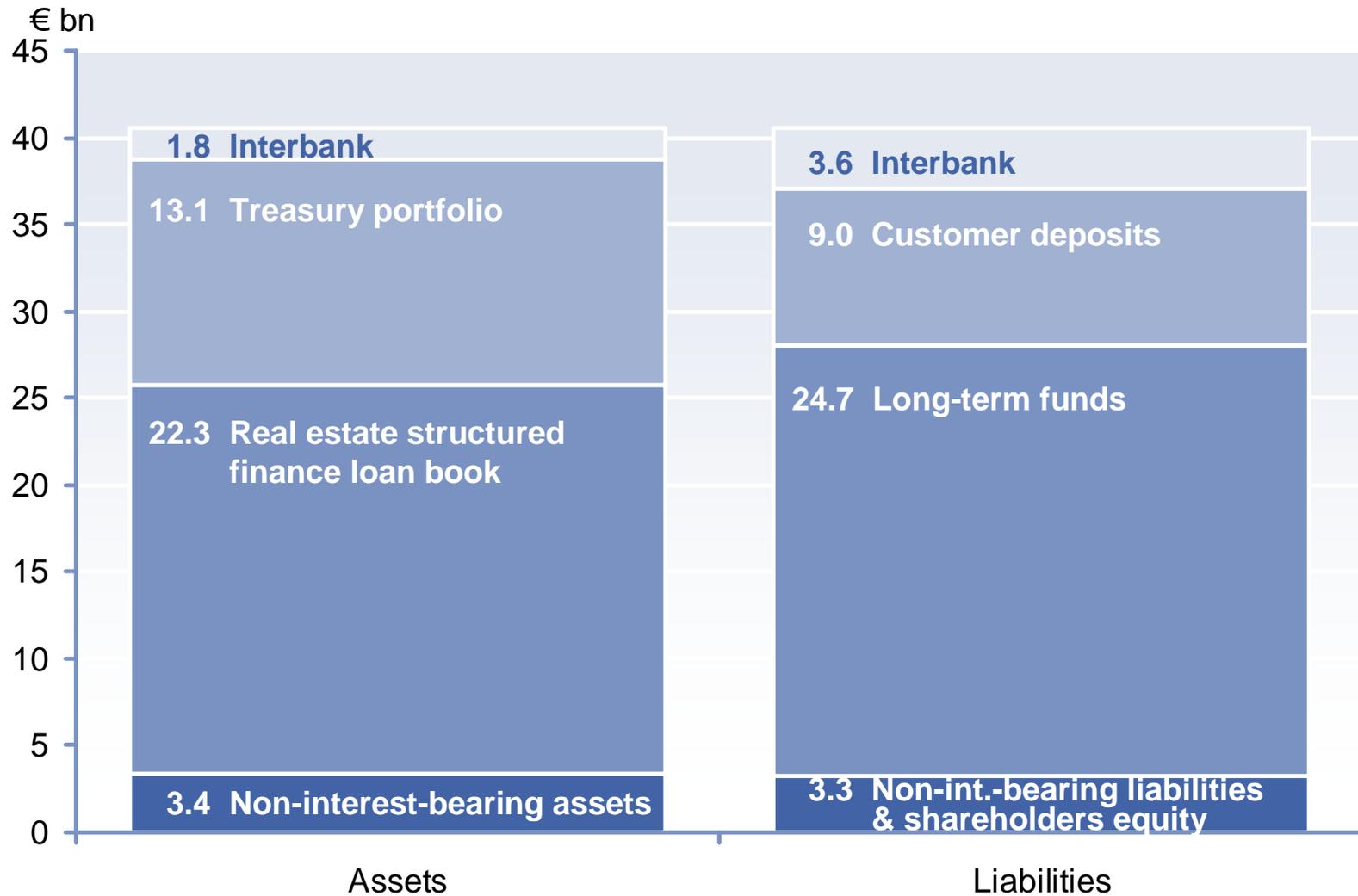
1) Excluding market risk

2) Gross IFRS numbers (particularly no netting of derivatives)

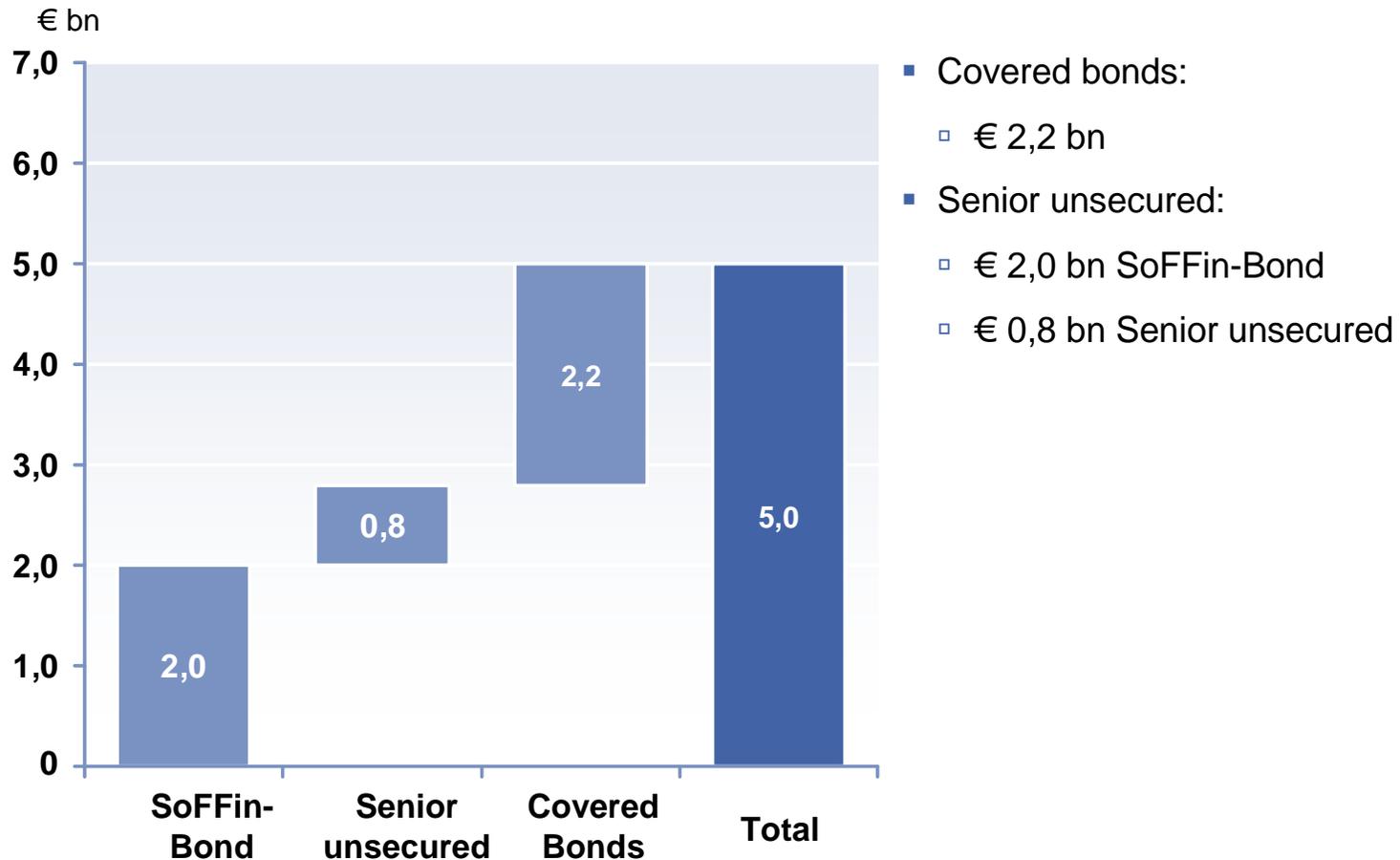


Asset- / Liability structure according to IFRS

As at 30.09.2009: € 40.6 bn



Refinancing situation 9M 2009: Flexible use of unsecured and secured funding



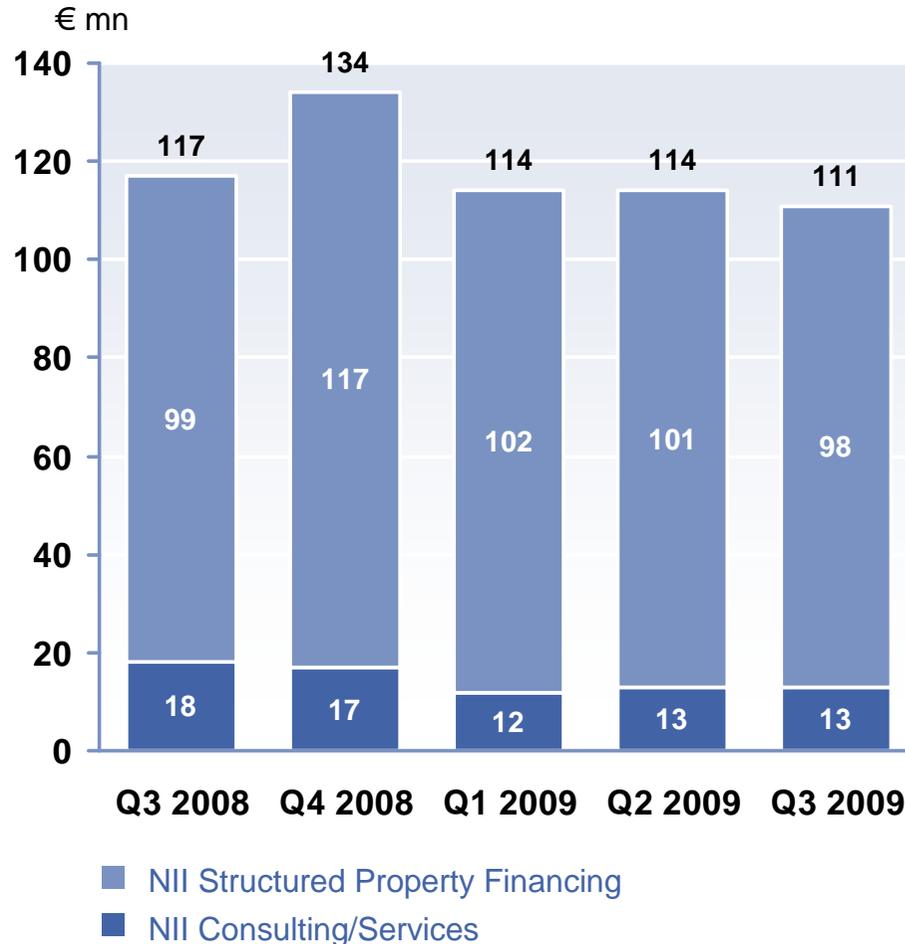
Group figures Q3 2009



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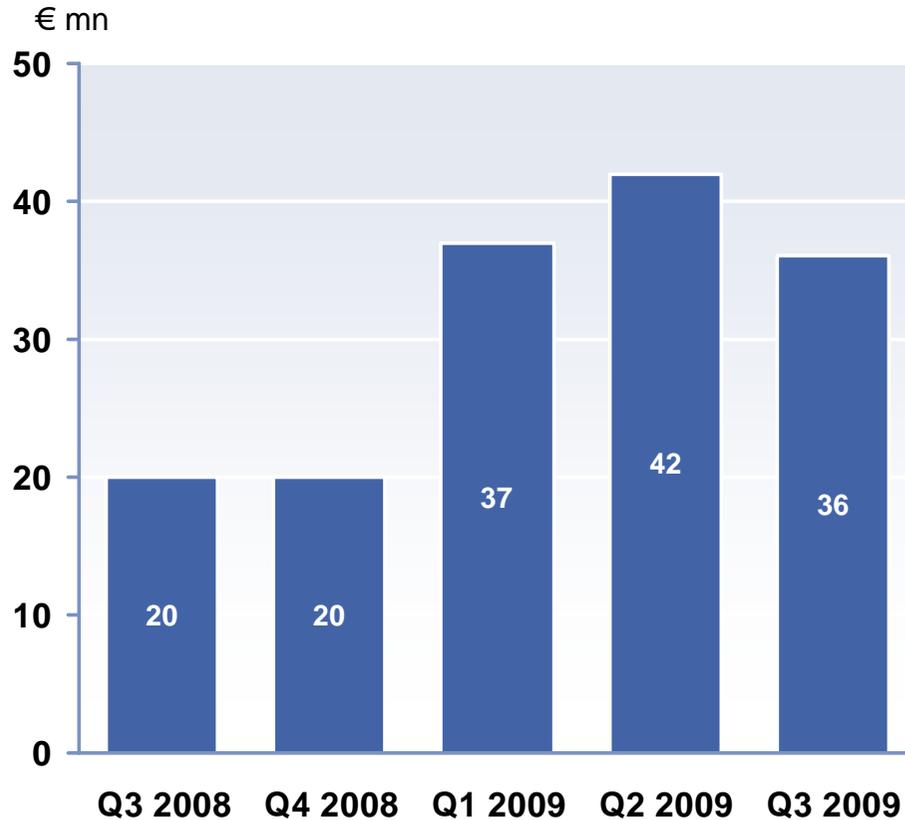
Net interest income:

Reflecting conservative liquidity-, capitalisation position



- Q3 net interest income influenced by
 - Results of higher margins in the RSF-business are negatively effected by a high liquidity position due to intensive funding activities in 2009
 - Consulting / Services: Historical low interest rate level still burdens the deposit taking business
- Q3 SoFFin burden of
 - € 5 mn guarantee fees in commission income
 - € 12 mn SoFFin coupon shown as appropriation of profits

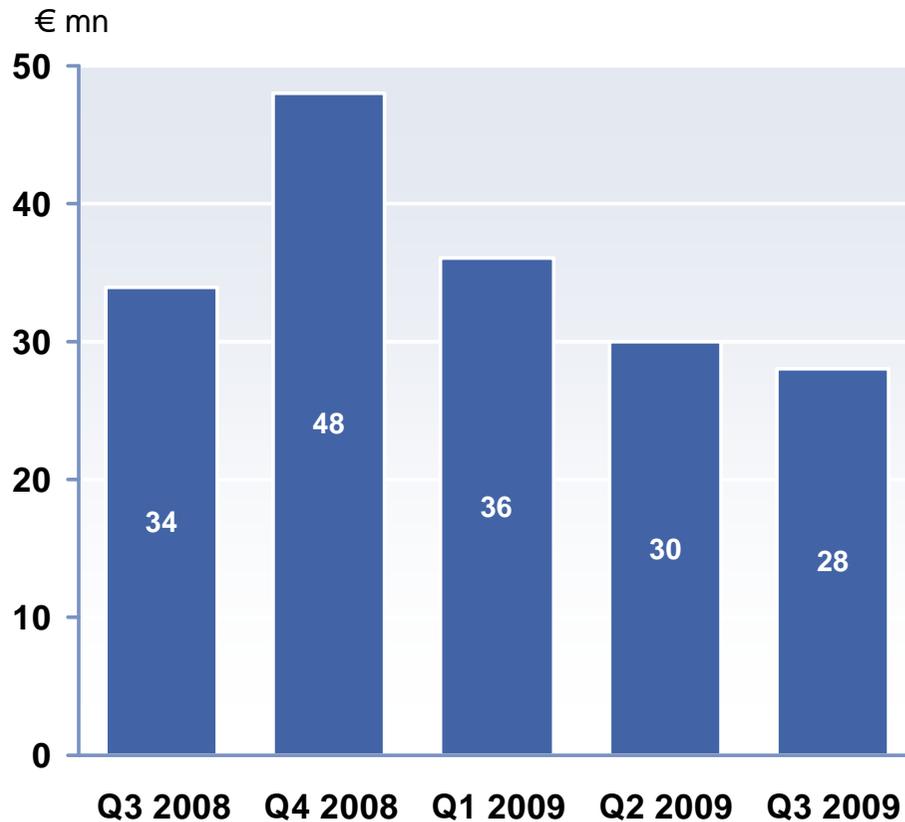
Loan loss provisions: Reflecting difficult economic environment



- Loan loss provisions stays in given range for 2009 although they vary quarter by quarter
- € 36 mn in Q3 still reflecting the close monitoring and management of our loan portfolio
- € 34 mn General Portfolio LLP from 2008 for challenging environment is still untouched
- LLP is expected to be € 150 mn (or around 65bp on our property financing portfolio) in 2009 - at the upper end of the target range



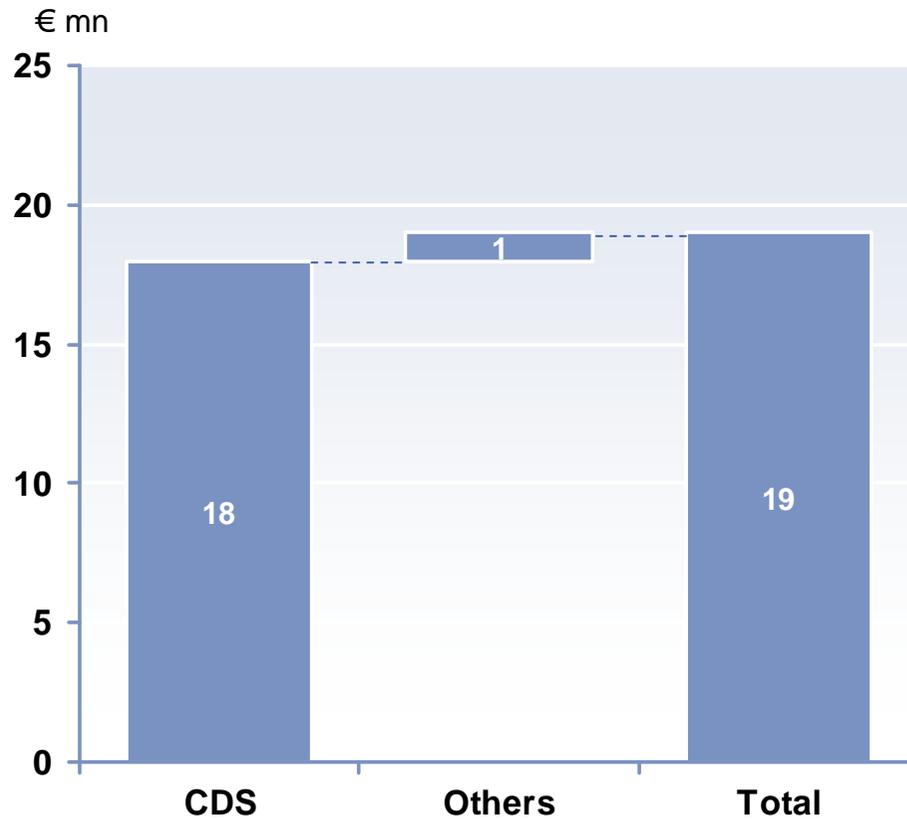
Net commission income: Burden by SoFFin guarantee



- Q2 and Q3 results are additionally burdened by the cost of the SoFFin guarantee facility of € 6 mn and € 5 mn
- Considering these facts € 94 mn including (or € 105 mn without) costs of the SoFFin guarantee facility in 9M 2009 (9M 2008: € 102 mn) is a good performance regarding the challenging environment



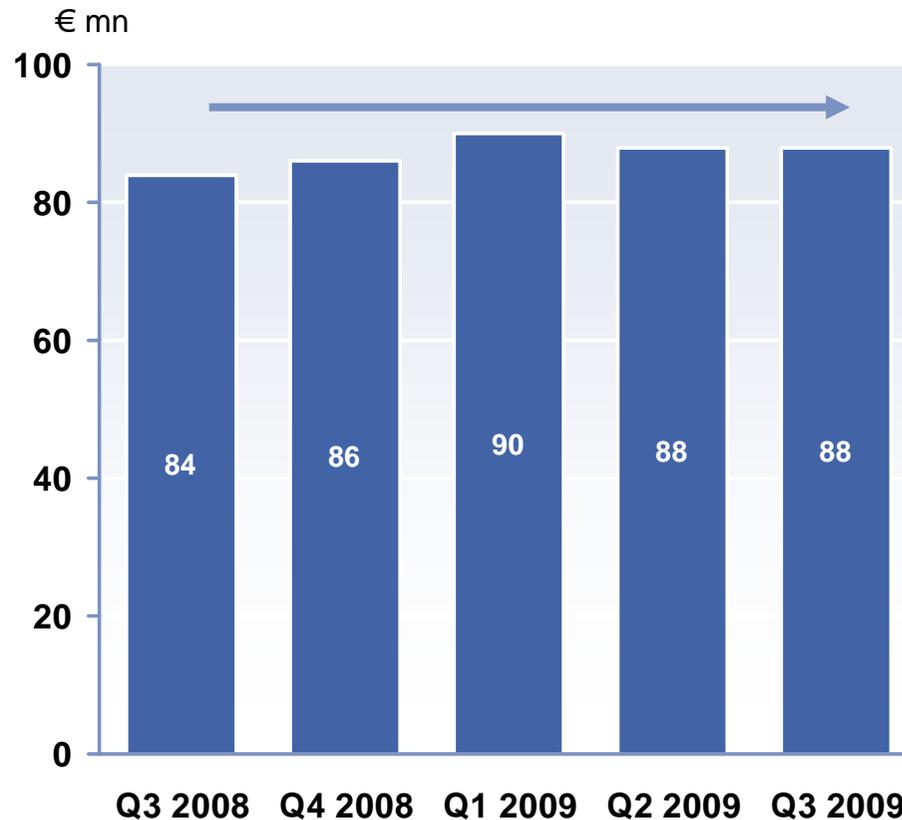
Net trading income Q3 2009: Reflecting volatile derivative markets



- CDS Portfolio:
Single Name EU Government Risk,
all investment grade



Admin expenses: Strict cost discipline maintained



- Measures to raise efficiency still paying off and keeping the admin expenses continuously stable
- 9M-figures with € 266 mn slightly above 2008-level, (9M 2008: € 261 mn) although included one-offs due to adaptations within Aareon structures (€ 6 mn)

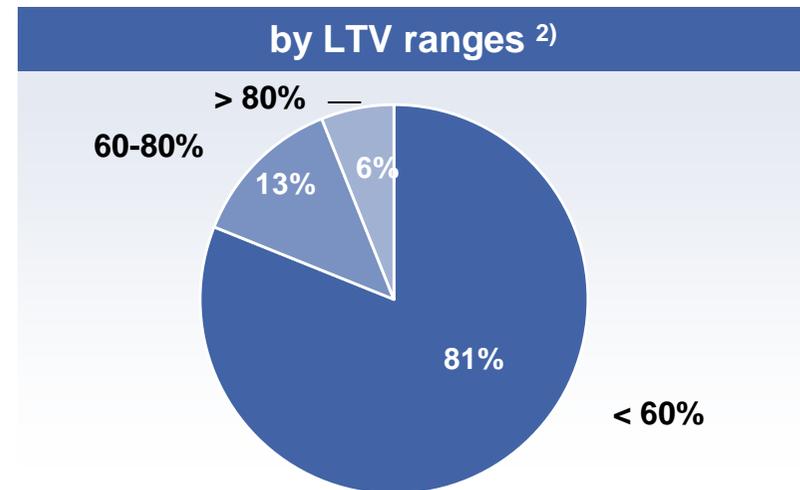
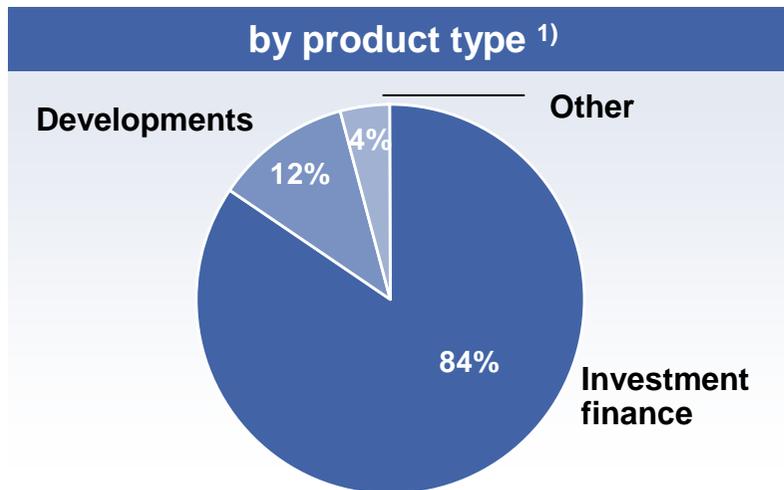
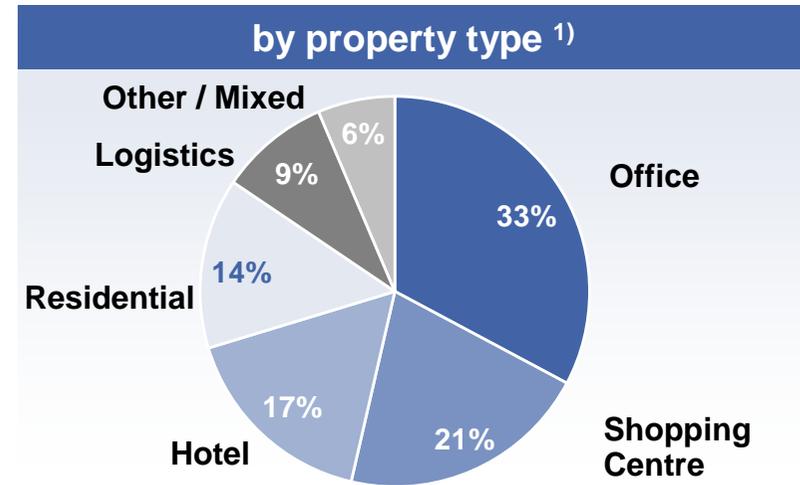
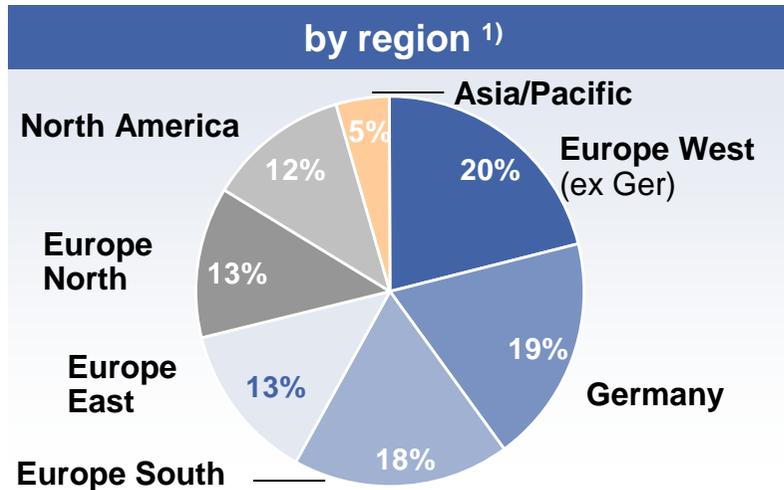
Asset quality



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Total property finance portfolio:

High diversification and sound asset quality



1) Total volume outstanding of € 22.9 bn as at 30.09.2009

2) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages; values as at 30.09.2009



Total property finance portfolio:

Economic downturn expected to impact NPL-level

LLP- and NPL development				
	NPL Exposure ¹⁾	Specific Allowances ¹⁾	Portfolio Allowances	
			General LLP	General Portfolio LLP
Euro mn				
As at 31.12.2008	452	176	51	34
Utilisation 9M	- 68 ²⁾	- 53 ²⁾	-	
Addition 9M	305	115	-	
As at 30.09.2009	689 ³⁾	237	51	
Coverage ratio specific allowances		34.4 %		
		237	51	
As at 30.09.2009	689	288		
Coverage ratio incl. General LLP		41.8 %		

1) Incl. property finance portfolio still on DEPFA's balance sheet

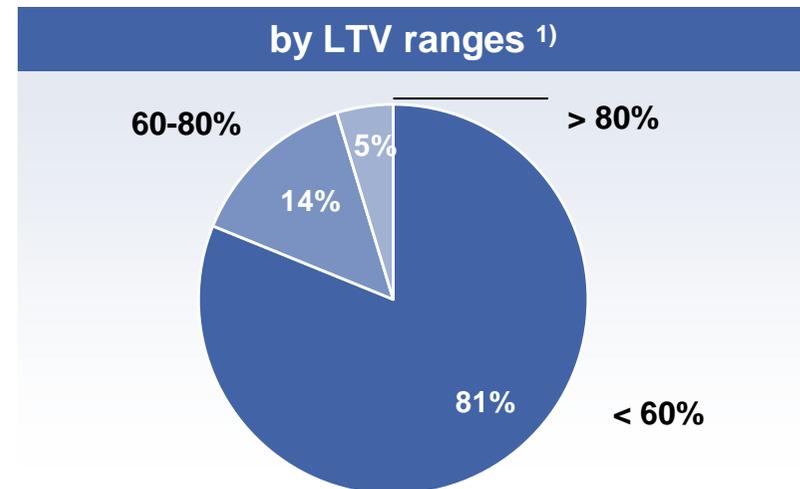
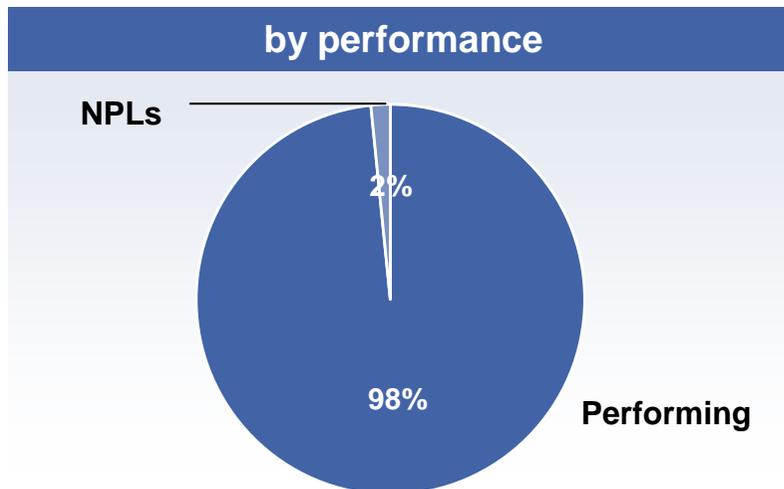
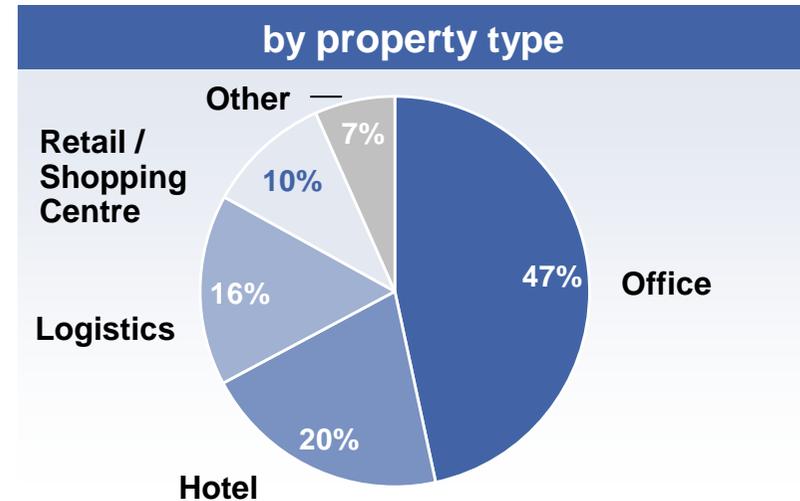
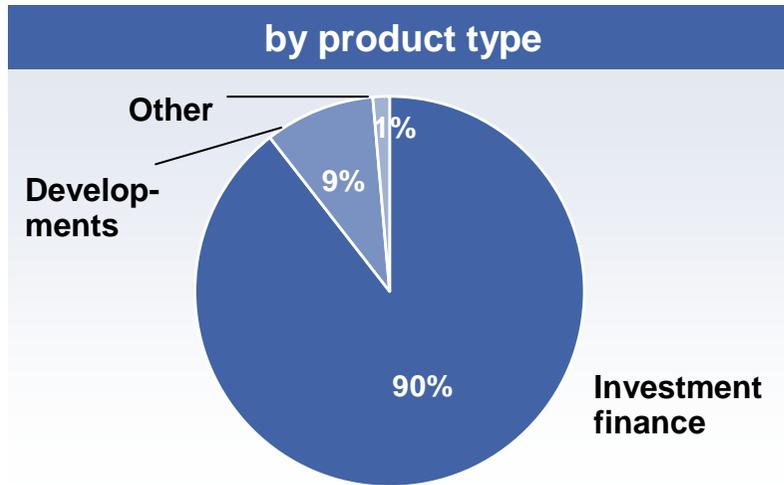
2) of which: € 45 mn drawdowns on legacy NPLs and direct write-downs on successfully restructured cases. Coverage on other cases: ~35% (23:8)

3) Successfully restructured cases unconsidered



Western Europe (ex Ger) credit portfolio

Total volume outstanding as at 30.09.2009: € 4.8 bn



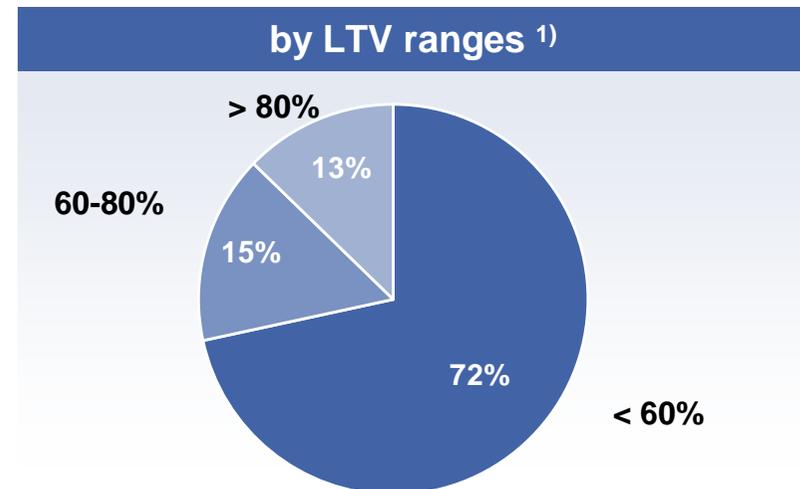
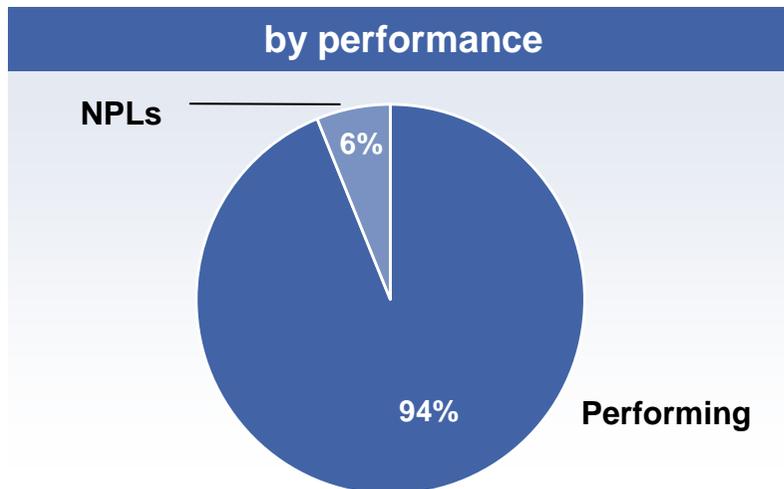
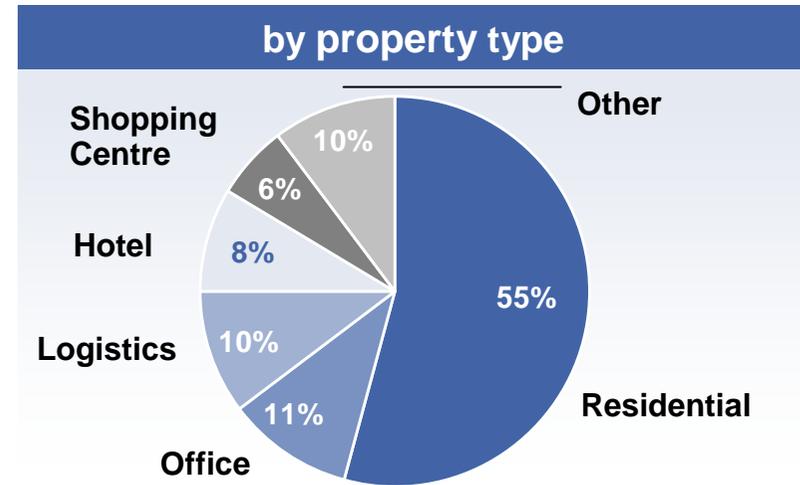
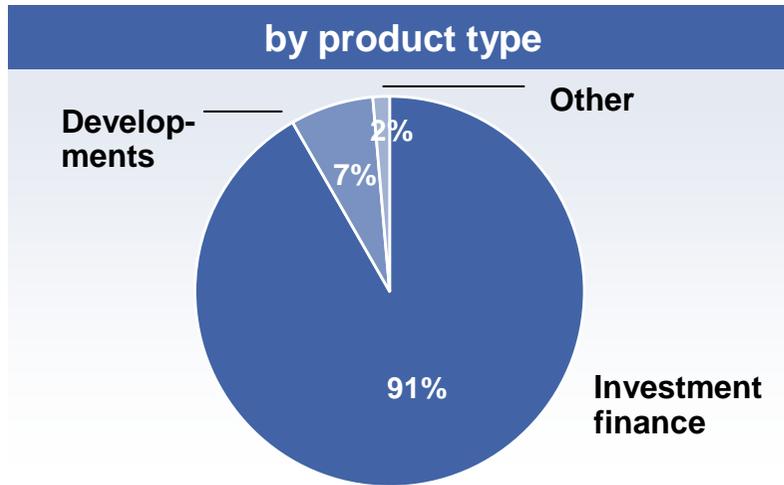
1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



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German credit portfolio

Total volume outstanding as at 30.09.2009: € 4.3 bn

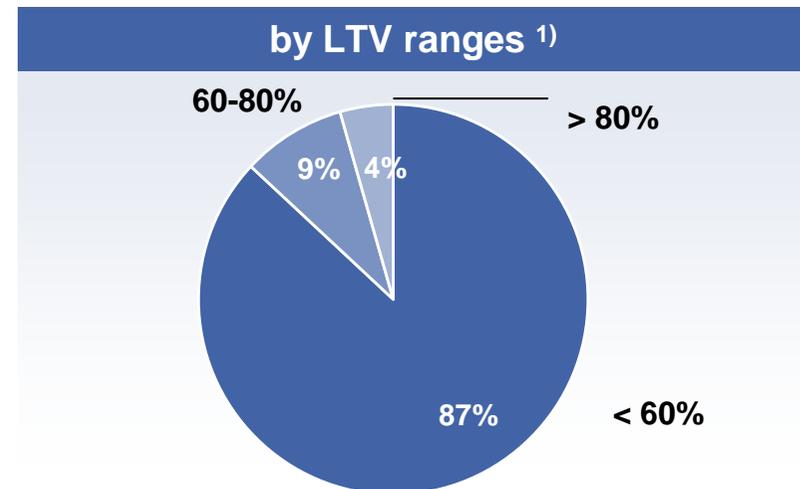
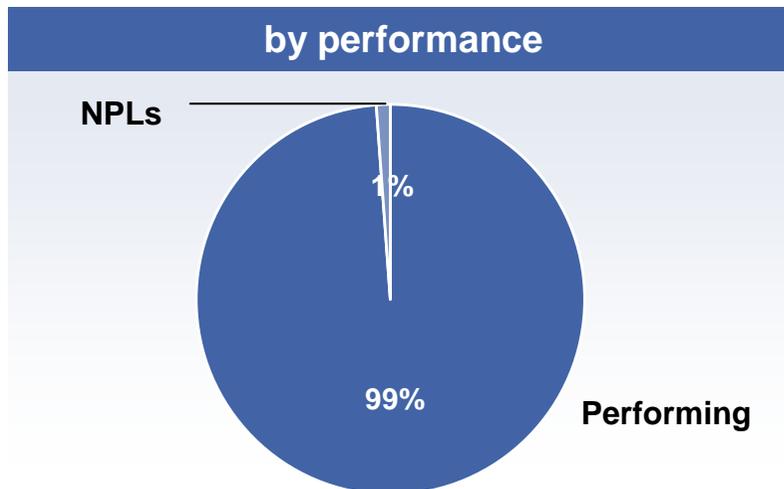
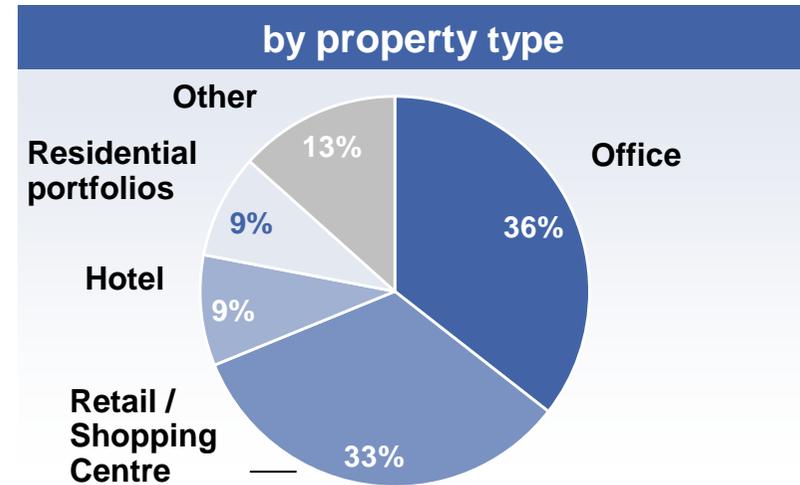
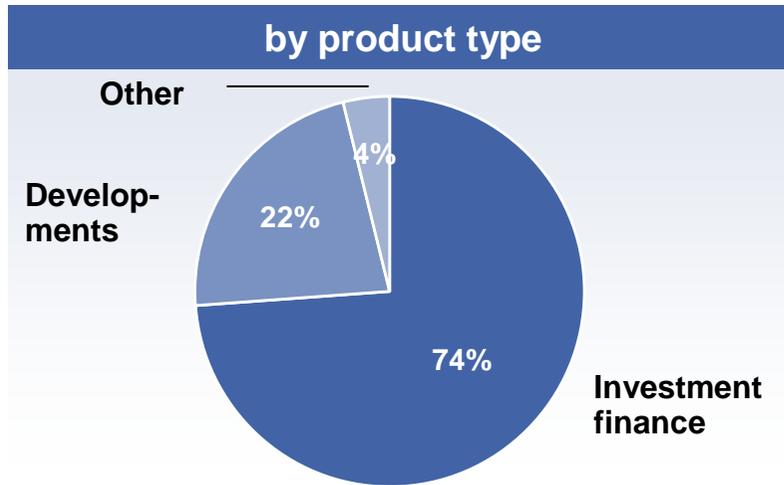


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



Southern Europe credit portfolio

Total volume outstanding as at 30.09.2009: € 4.1 bn

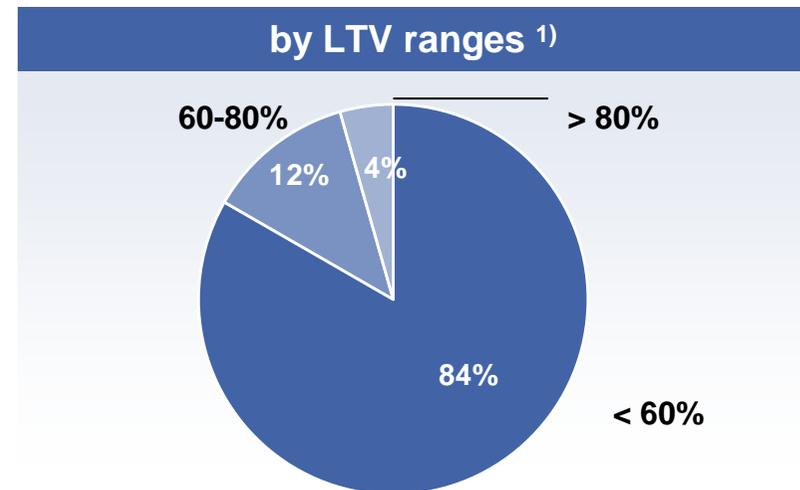
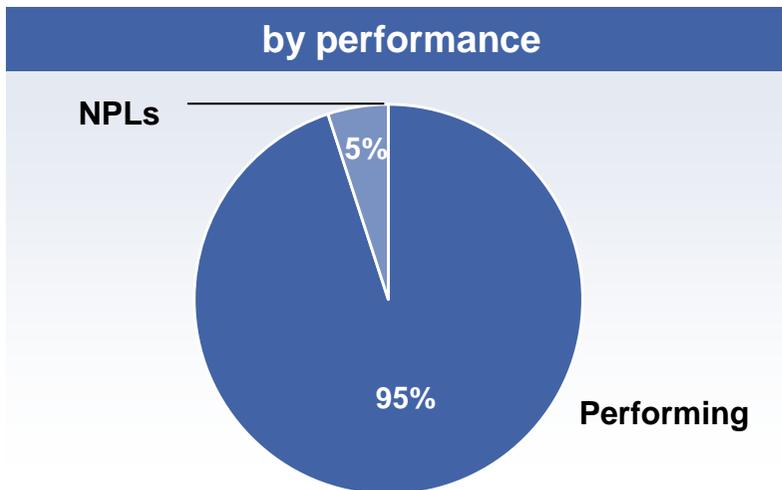
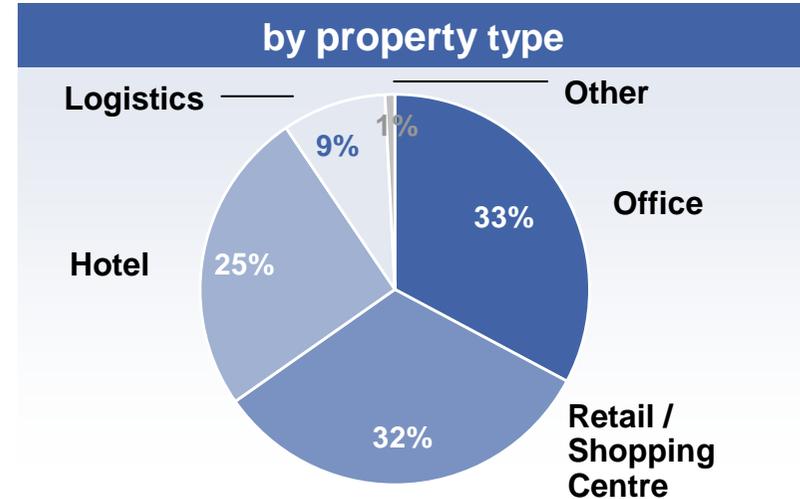
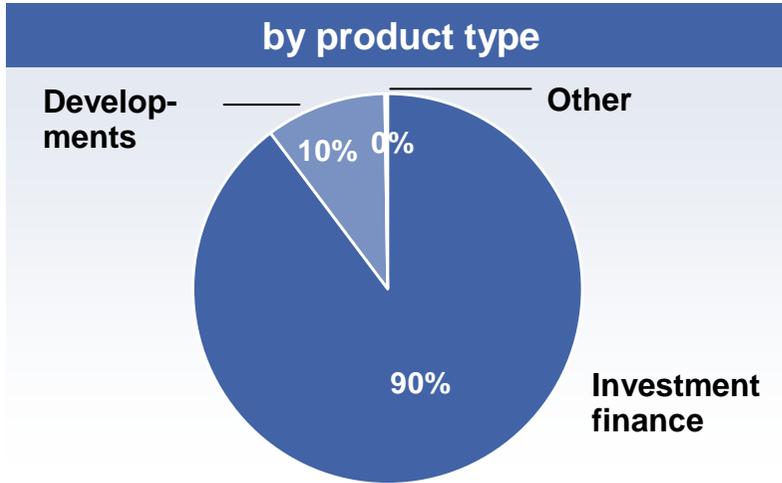


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



Eastern Europe credit portfolio

Total volume outstanding as at 30.09.2009: € 3.0 bn



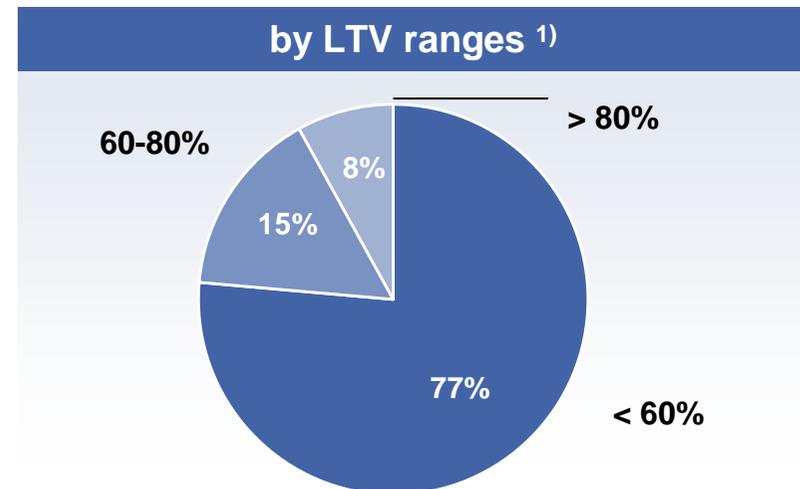
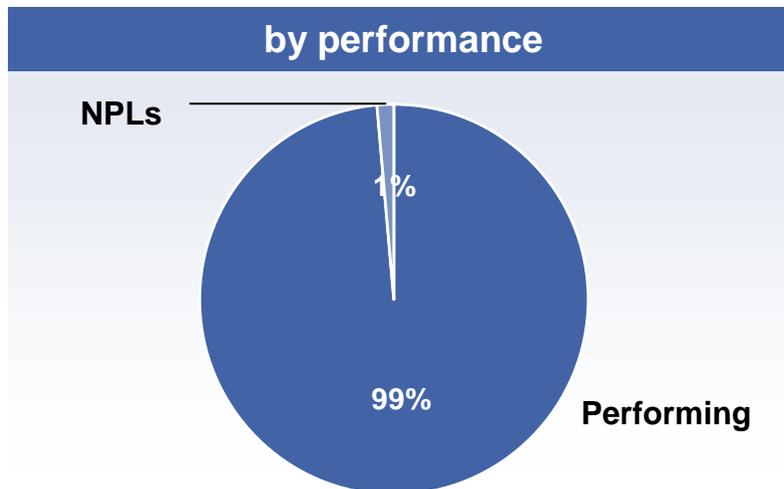
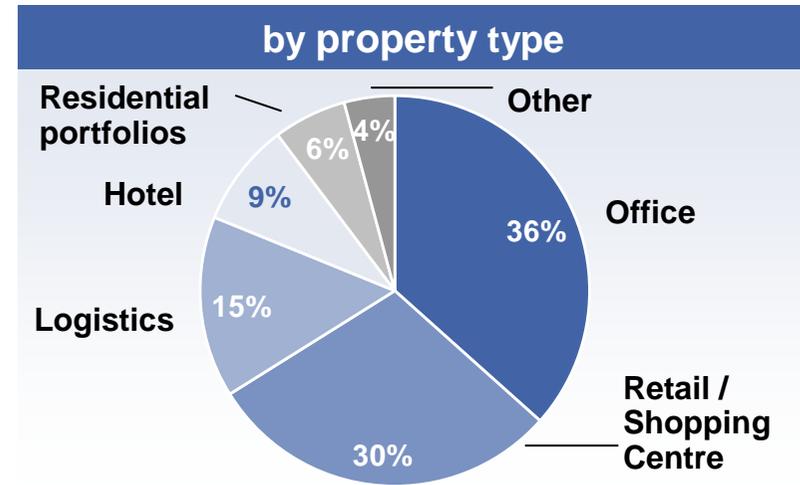
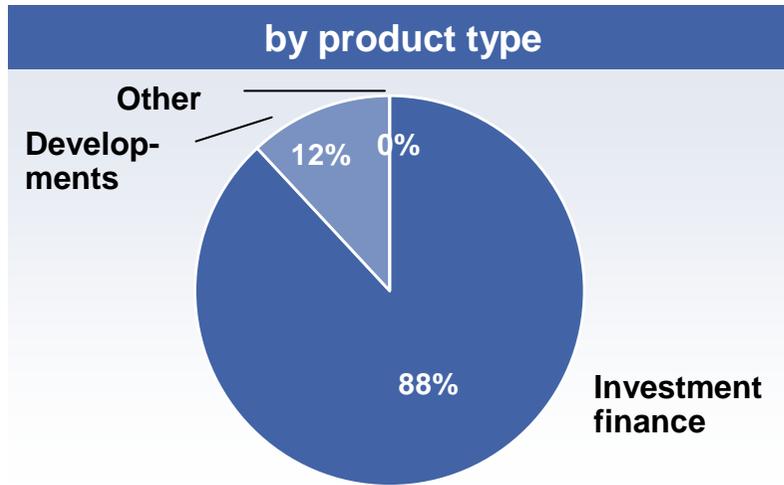
1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



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Northern Europe credit portfolio

Total volume outstanding as at 30.09.2009: € 2.9 bn



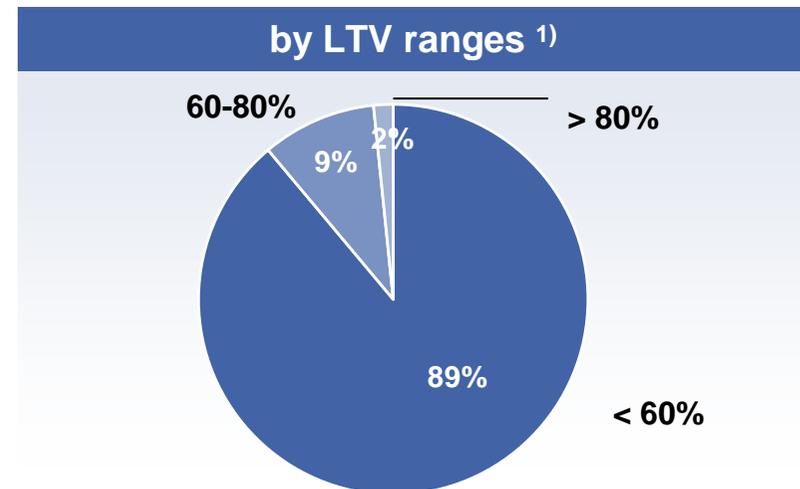
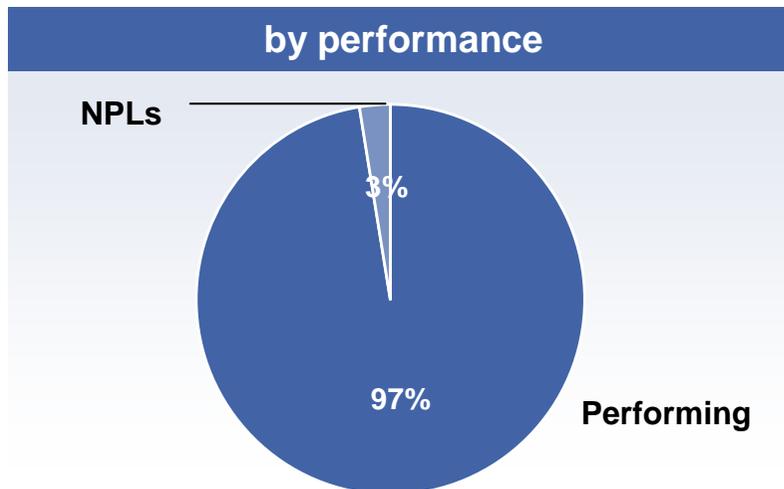
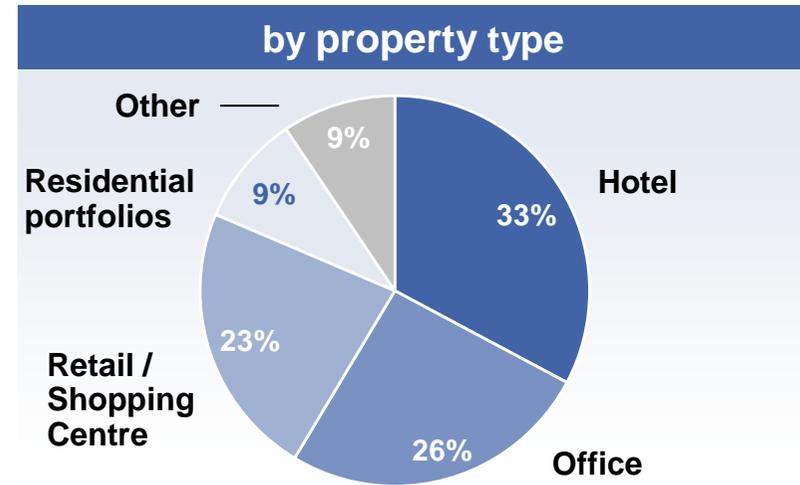
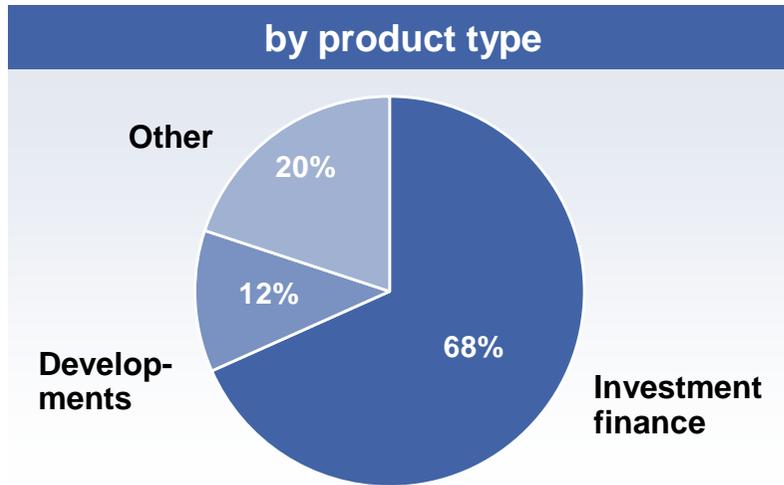
1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



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North America credit portfolio

Total volume outstanding as at 30.09.2009: € 2.7 bn

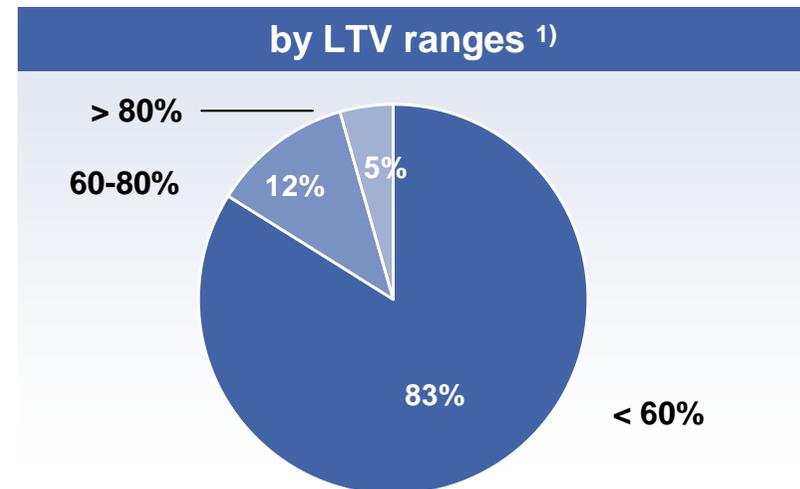
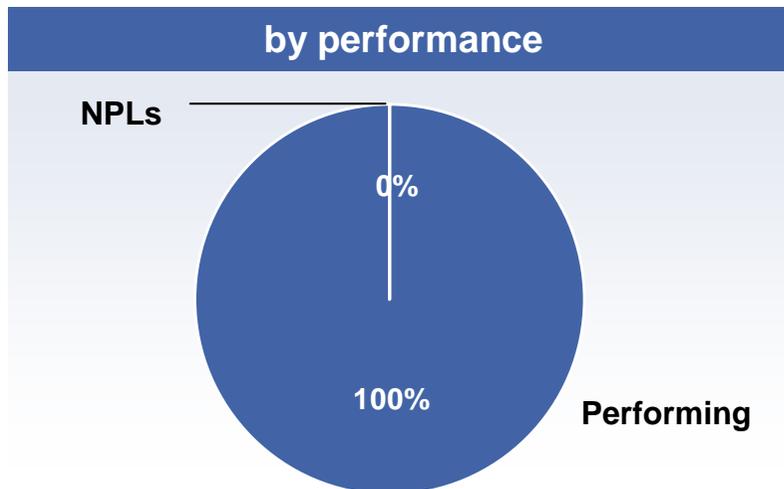
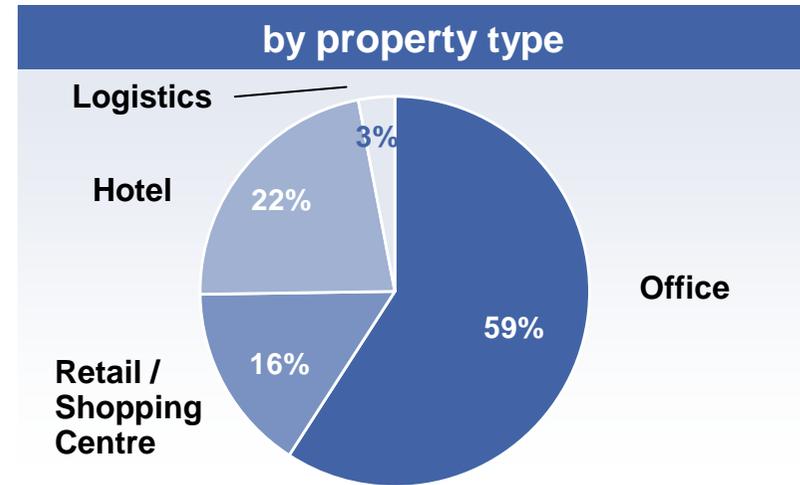
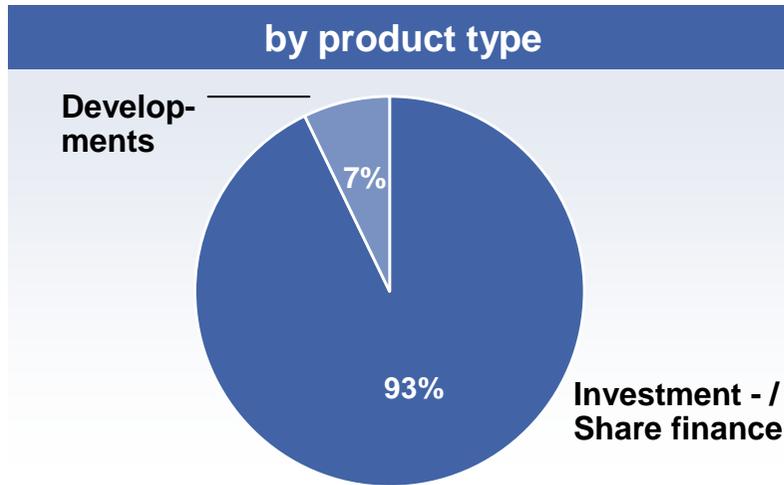


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



Asia credit portfolio

Total volume outstanding as at 30.09.2009: € 1.0 bn



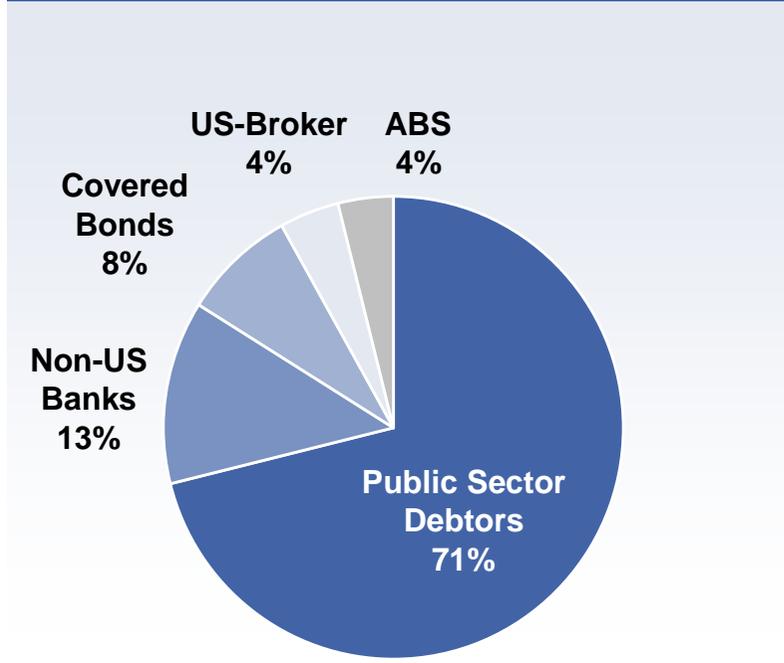
1) Chinese portfolio includes other collateral than mortgages.
Rest of Asia: mortgage collateralised performing business only;
value does not take into account any collateral other than mortgages.



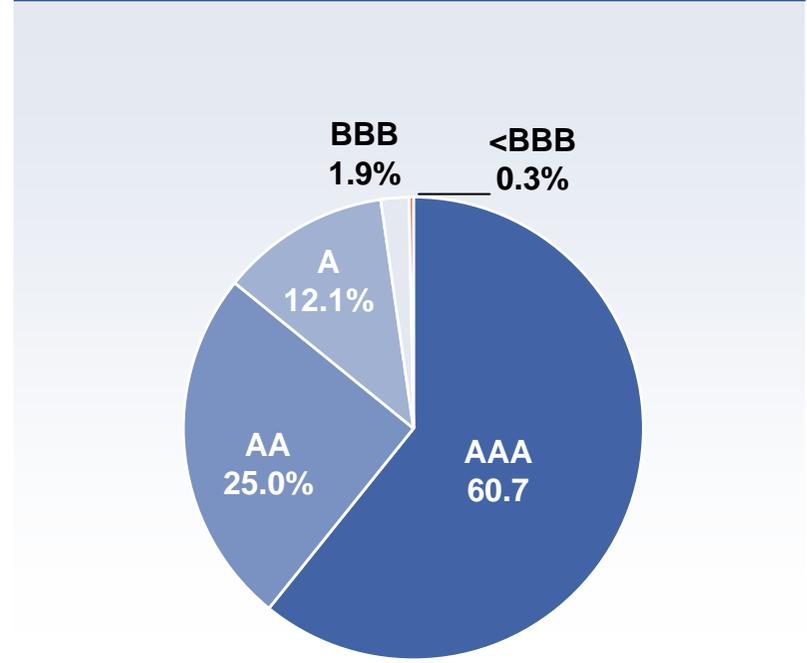
Treasury portfolio

€ 13.1 bn of high quality assets

By Asset Class



By Rating¹⁾



1) Fitch Rating (or Composite if no Fitch Rating available)



Outlook



**Aareal Bank
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Outlook

Group	
Net interest income	<ul style="list-style-type: none"> From today's perspective the expected NII will be 455 mn Euro – at the lower of the communicated target range.
Net loan loss provisions	<ul style="list-style-type: none"> LLP is expected to be € 150 mn (or around 65bp on our property financing portfolio) and therefore at the upper end of the target range. Loan loss provisions for unexpected loss due to extraordinary accumulation of defaults cannot be ruled out in 2009.
Net trading result / results from non-trading assets	<ul style="list-style-type: none"> Unpredictable in current markets / depending on future developments.
Revaluation reserve	<ul style="list-style-type: none"> Future market developments still unpredictable, improved in '09.
Admin expenses	<ul style="list-style-type: none"> Under control around € 360 mn from a yearly perspective, incl. Aareon one-offs.
Structured Property Financing	
New business	<ul style="list-style-type: none"> ~ € 3 bn with focus on client base / renewals.
Consulting / Services	
Clean operating profit	<ul style="list-style-type: none"> Target range of € 25 – 30 mn, depending on interest rate developments.

1) This corresponds to the original guidance of € 420 - € 440 mn after taking into account that the interest payments for the silent participation of SoFFin are not shown in net interest income but as "appropriation of profits"



Appendix



**Aareal Bank
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Aareal Bank Group

Key figures Q3 2009

P&L Aareal Bank Group	Quarter 3 2009	Quarter 3 2008	Change
	Euro mn	Euro mn	%
Net interest income	111	117	-5.1
Net loan loss provisions	36	20	80.0
Net interest income after net loan loss provisions	75	97	-22.7
Net commission income	28	34	-17.6
Net result on hedge accounting	-4	1	-
Net trading result	19	25	-24.0
Results from non-trading assets	-3	-37	-
Results from companies accounted for at equity	-	0	-
Results investment properties	1	0	-
Administrative expenses	88	84	4.8
<i>Others</i>	-3	-5	-
Operating profit	25	31	-19.4
Income taxes	3	11	-72.7
Consolidated net income	22	20	10.0
Consolidated net result attributed to minorities	4	5	-20.0
Silent participation by SoFFin	12	-	-
Consolidated retained profit	6	15	-60.0



Aareal Bank Group: Segment Reporting

Key figures Q3 2009 by operating units

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation/ Other		Aareal Bank Group	
	Q3 2009	Q3 2008	Q3 2009	Q3 2008	Q3 2009	Q3 2008	Q3 2009	Q3 2008
Euro mn								
Net interest income	98	99	0	0	13	18	111	117
Allowance for credit losses	36	20					36	20
Net interest income after allowance for credit losses	62	79	0	0	13	18	75	97
Net commission income	-3	7	44	46	-13	-19	28	34
Net result on hedge accounting	-4	1					-4	1
Net trading income / expenses	19	25					19	25
Results from non-trading assets	-3	-37	0	0			-3	-37
Results from companies accounted for at equity								
Results from investment properties	1	0				0	1	0
Administrative expenses	49	50	39	35	0	-1	88	84
Net other operating income / expenses	-4	-5	1	0		0	-3	-5
Impairment of goodwill			0				0	
Operating profit	19	20	6	11	0	0	25	31
Income taxes	1	8	2	3			3	11
Net income / loss	18	12	4	8	0	0	22	20
Allocation of results								
Net income / loss attributable to non-controlling interests	4	4	0	1			4	5
Net income / loss attributable to shareholders of Aareal Bank AG	14	8	4	7	0	0	18	15



Aareal Bank Group

Key figures 9M 2009

P&L Aareal Bank Group	01.01.- 30.09.2009	01.01.- 30.09.2008	Change
	Euro mn	Euro mn	%
Net interest income	339	338	0.3
Net loan loss provisions	115	60	91.7
Net interest income after net loan loss provisions	224	278	-19.4
Net commission income	94	102	-7.8
Net result on hedge accounting	-3	3	-
Net trading result	44	0	-
Results from non-trading assets	-19	-36	-
Results from companies accounted for at equity	-	3	-100.0
Results investment properties	1	0	100.0
Administrative expenses	266	261	1.9
<i>Others</i>	-8	17	-147.1
Operating profit	67	106	-37.0
Income taxes	10	36	-72.2
Consolidated net income	57	70	-18.6
Consolidated net result attributed to minorities	13	14	-
Silent participation by SoFFin	24	-	-
Consolidated retained profit	20	56	-64.3



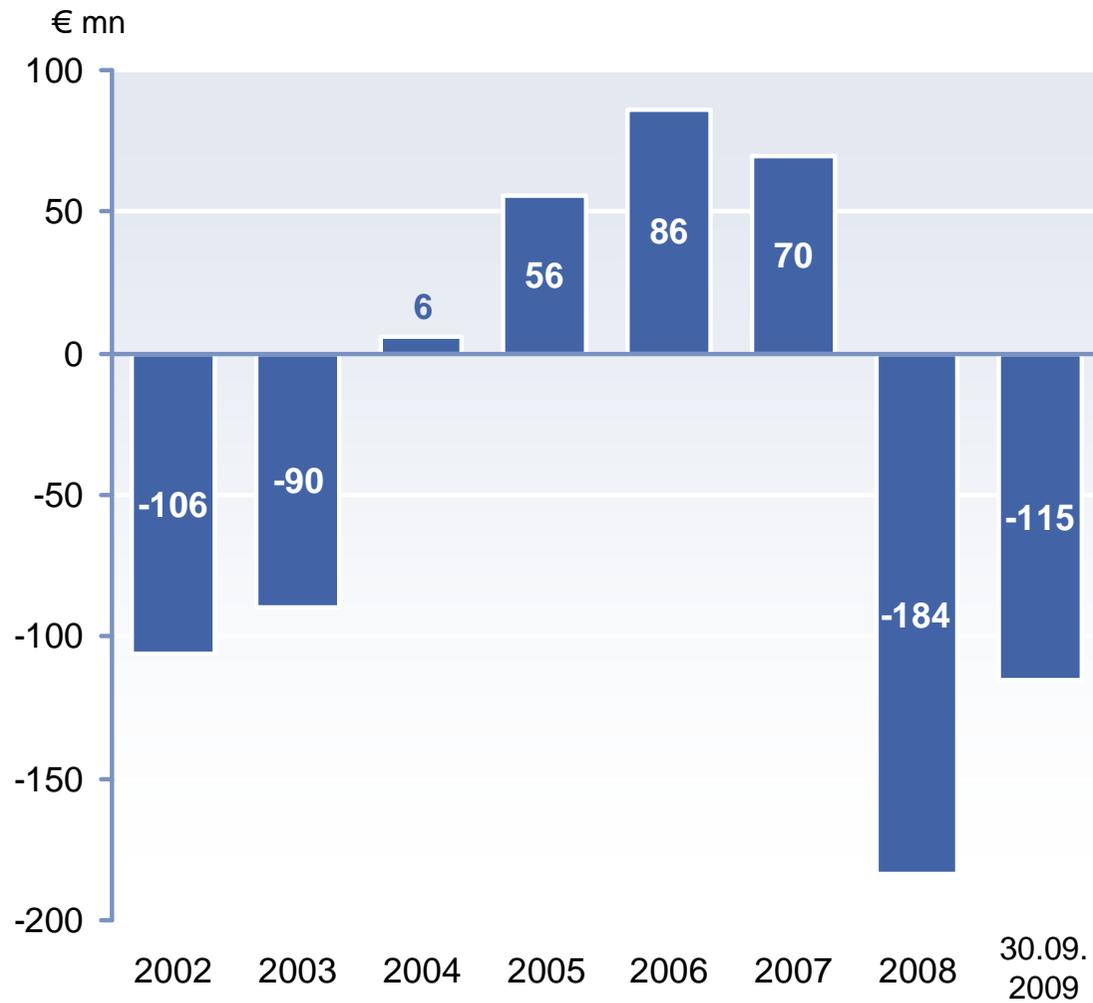
Aareal Bank Group: Segment Reporting

Key figures 9M 2009 by operating units

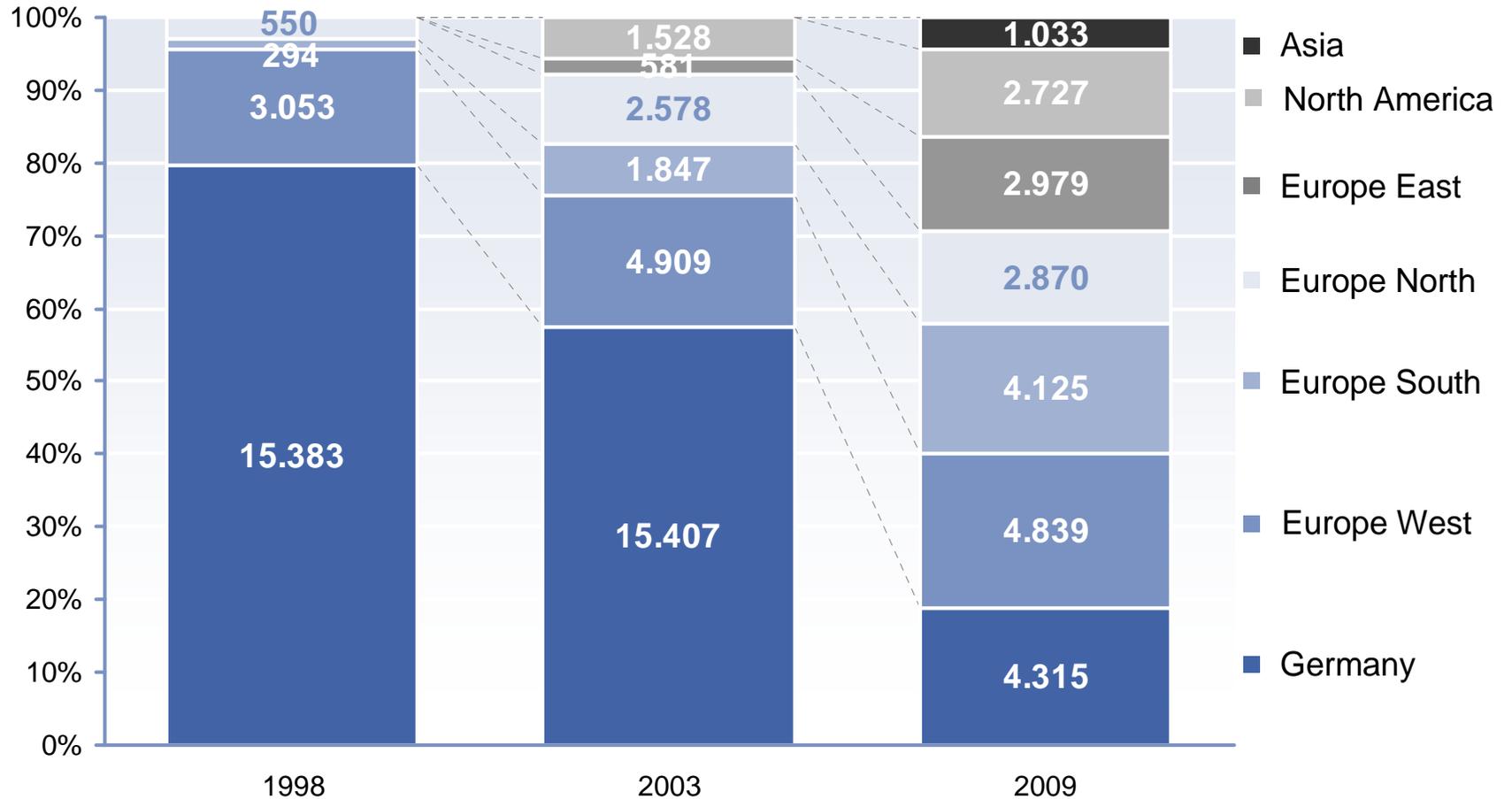
	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation/ Other		Aareal Bank Group	
	30.09. 2009	30.09. 2008	30.09. 2009	30.09. 2008	30.09. 2009	30.09. 2008	30.09. 2009	30.09. 2008
Euro mn								
Net interest income	301	286	0	0	38	52	339	338
Allowance for credit losses	115	60					115	60
Net interest income after allowance for credit losses	186	226	0	0	38	52	224	278
Net commission income	-1	16	134	140	-39	-54	94	102
Net result on hedge accounting	-3	3					-3	3
Net trading income / expenses	44	0					44	0
Results from non-trading assets	-19	-36	0	0			-19	-36
Results from companies accounted for at equity		3						3
Results from investment properties	1	0					1	0
Administrative expenses	147	154	121	110	-2	-3	266	261
Net other operating income / expenses	-8	15	1	3	-1	-1	-8	17
Impairment of goodwill			0				0	
Operating profit	53	73	14	33	0	0	67	106
Income taxes	5	26	5	10			10	36
Net income / loss	48	47	9	23	0	0	57	70
Allocation of results								
Net income / loss attributable to non-controlling interests	12	12	1	2			13	14
Net income / loss attributable to shareholders of Aareal Bank AG	36	35	8	21	0	0	44	56



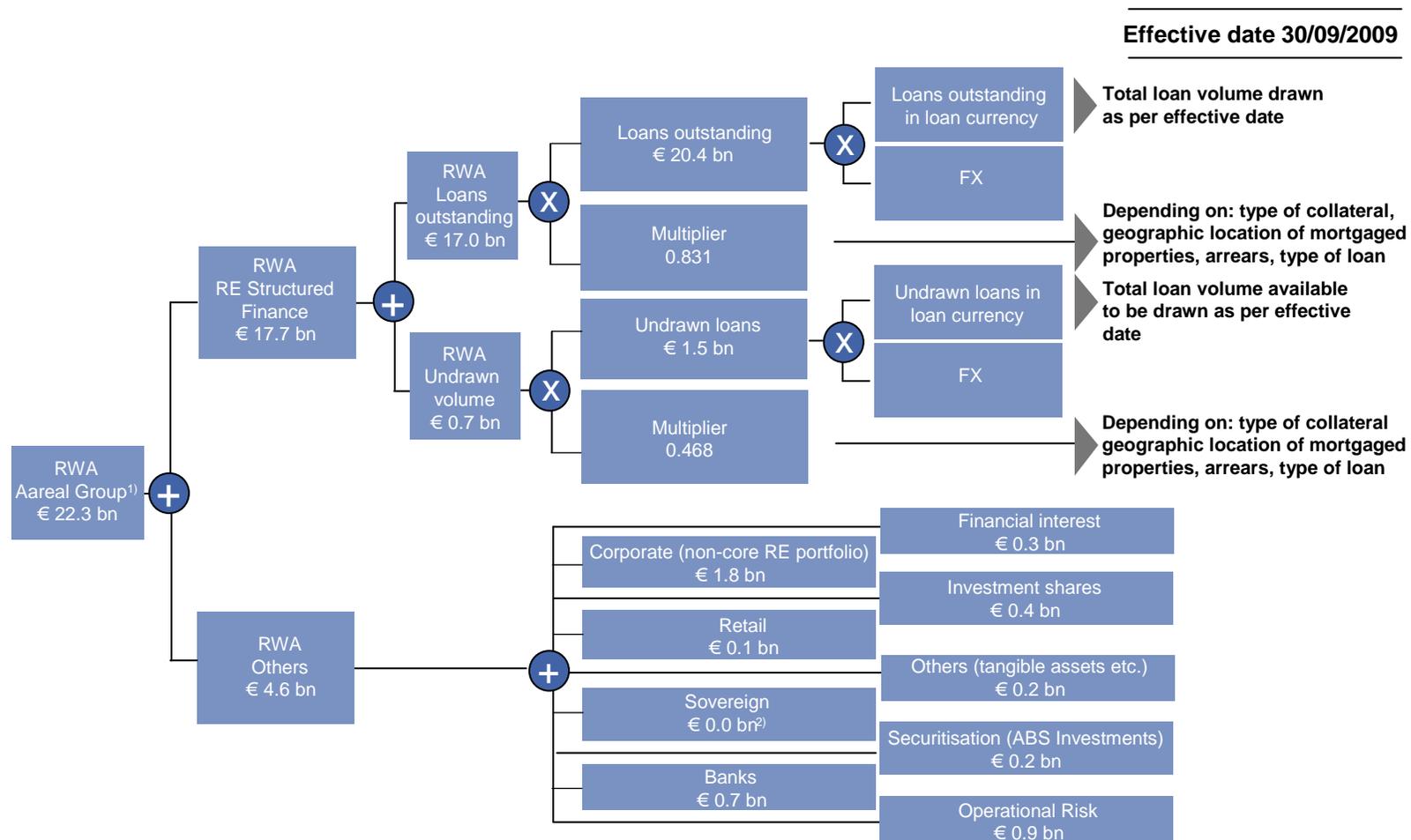
Revaluation reserve: Change mainly driven by asset spreads



Development property finance portfolio: Diversification continuously strengthened



From asset to risk weighted asset (RWA): Essential factors affecting volume of RWA



1) Excl. of market risk

2) Exposure to sovereign governments amounts to € 22 mn



Definitions and contacts



**Aareal Bank
Group**

Definitions

- **Property Financing Portfolio**
 - Paid-out financings on balance sheet
 - Incl. remaining property loans on DEPFA books
- **New Business**
 - Newly acquired business incl. renewals (excl. interest rate extensions)
 - Contract is signed by customer
 - Fixed loan value and margin
- **Net RoE =**
$$\frac{\text{Group net income after minority interests}}{\text{Allocated (average) equity}}$$
- **Allocated Equity**

Average of:

 - Equity (excluding minorities and revaluation surplus but including silent participation by SoFFin) start of period less dividends and
 - Equity (excluding minorities and revaluation surplus but including silent participation by SoFFin) end of period less expected dividends
- **CIR =**
$$\frac{\text{Admin expenses}}{\text{Net income}}$$
- **Net Income**
 - net interest income + net commission income + net result from hedge accounting + net trading income + results from non-trading assets + results from investments accounted for at equity + results from investment properties + net other operating income



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