

LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

Analyst Conference Call

Q1 2010 results

May 11, 2010

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



**Aareal Bank
Group**

Agenda Q1 2010 results

- Q1 2010 results at a glance
 - Group capital and funding position
 - Group figures Q1 2010
 - Asset quality
 - Outlook

 - Appendix
 - Definitions and Contacts
-



Q1 2010 results at a glance



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Q1 2010 results at a glance:

In line with 2010-guidance

	Q1 2010	Q4 2009	Q3 2009 ¹⁾	Q2 2009 ¹⁾	Q1 2009 ¹⁾	Comments
Euro mn						
Net interest income	117	115	112	116	117	Back on Q1 2009 level
Allowance for credit losses	32	35	36	42	37	In line with guided range
Net commission income	30	39	28	30	36	<ul style="list-style-type: none"> ▪ Solid Aareon development ▪ Burdened by costs for the SoFFin guarantee
Net trading result	6	3	18	5	18	Reflects volatile markets
Administrative expenses	91	83	92	92	94	High cost discipline
Operating profit	30	23	21	19	24	Solid performance
Tier 1 ratio (%) (according to German Banking Act - CRSA)	11.2 ²⁾	11.0 ²⁾	10.7 ²⁾	10.4 ²⁾	10.2 ²⁾	Tier 1 ratio further strengthened

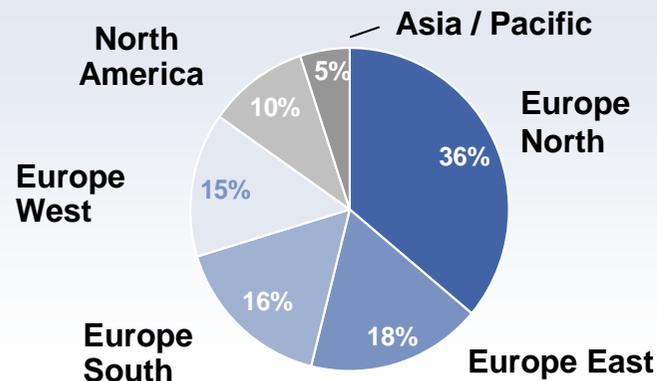
1) Figures adapted

2) Post SoFFin capital measure in 2009



Structured property financing: Growing new business – LLP in line

New business by region 3M 2010



New business origination



P&L SPF Segment	Q1 '10	Q4 '09	Q3 '09 ¹⁾	Q2 '09 ¹⁾	Q1 '09 ¹⁾
€ mn					
Net interest income	106	103	99	103	105
Loan loss provision	32	35	36	42	37
Commission income	-4	2	-3	-3	5
Net trading result	6	3	18	5	18
Result non-trad. assets	0	-3	-3	1	-17
Admin expenses	52	42	53	54	52
Others	0	-11	-7	2	1
Operating profit	24	17	15	12	23

1) Figures adapted

- Cautiously restarting new business origination
 - Focussing on existing client base
 - Preferably loans eligible for Pfandbrief cover pool
- Unchanged focus on portfolio monitoring and active management



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Consulting / Services:

Solid in IT & volumes – weak in deposit margins

P&L C/S Segment (industry format)	Q1 '10	Q4 '09	Q3 '09	Q2 '09	Q1 '09
Euro mn					
Sales revenue	50	56	50	52	51
Own work capital	0	1	0	1	0
Changes in inventory	0	0	0	0	0
Other operating income	1	1	3	2	1
Cost of material purchased	5	6	6	6	7
Staff expenses	26	27	25	27	30
<i>Excl. one-offs</i>	26	27	25	27	24
D, A, impairment losses	3	4	4	3	3
Results at equity acc. investm.	-	0	-	-	-
Other operating expenses	11	15	12	12	11
Results from interest and similar	0	0	0	0	0
Operating profit	6	6	6	7	1
Income taxes	2	2	2	3	0
Segment result	4	4	4	4	1
Segment result attributed to minority interests	1	1	0	1	0
Consolidated retained profit	3	3	4	3	1

IT-Business (Aareon)

- Long term contracts generate stable revenues
- SAP-based product lines suffers from reduced implementation projects as anticipated
- New product line Wodis Sigma with over 240 contracts signed (Q1 2010: 35 contracts)

Deposit taking business (Aareal Bank)

- House bank of the German housing sector
- Interest rate environment still impacts net interest income (NII)
- Stable deposits around € 3.9 bn



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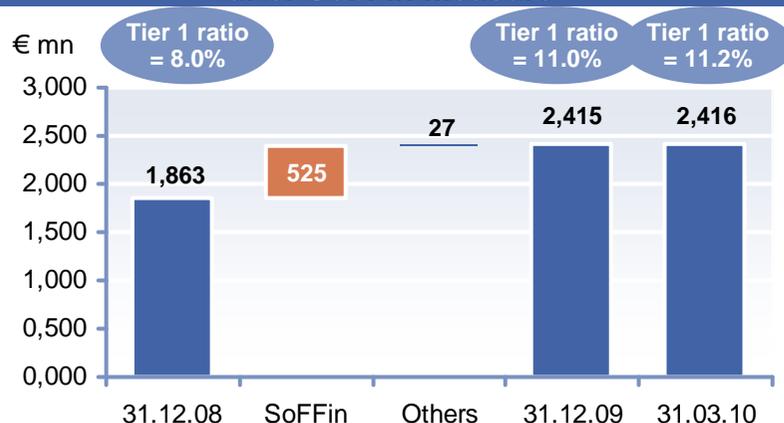
Group capital and funding position



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Tier 1 Ratio increased to 11.2% (CRSA)

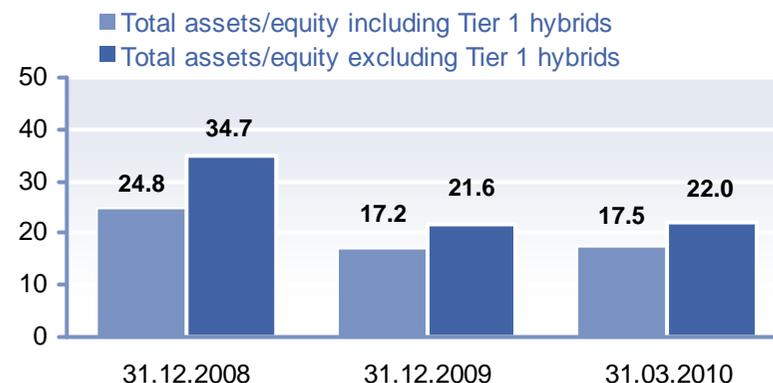
Tier 1 capital (CRSA¹) / German GAAP after SoFFin measure



Composition of Tier 1 capital

	31.03.2010	31.12.2009	30.12.2008
€ mn			
Core Tier 1	1,946	1,945	1,393
Hybrid Tier 1	470	470	470
Hybrid ratio	20%	20%	25%
Total Tier 1	2,416	2,415	1,863

Leverage ratio²



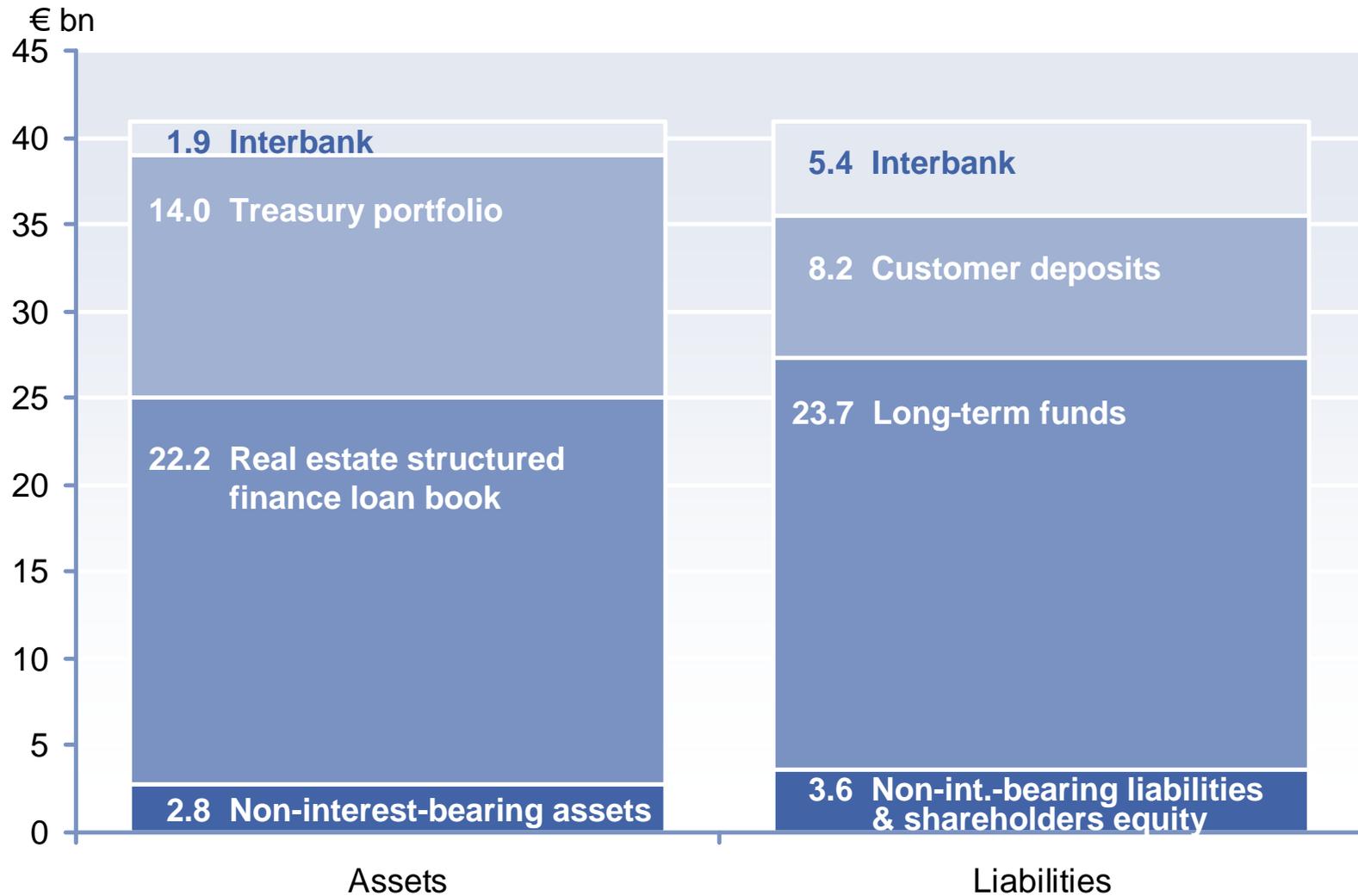
- Tier 1 ratio of 11.2% (CRSA) puts Aareal in a solid position in relation to peers and market requirements
- Already a very low balance sheet leverage compared to peers – no need for future adjustments

1) Credit risk standard approach
2) Gross IFRS numbers (particularly no netting of derivatives)



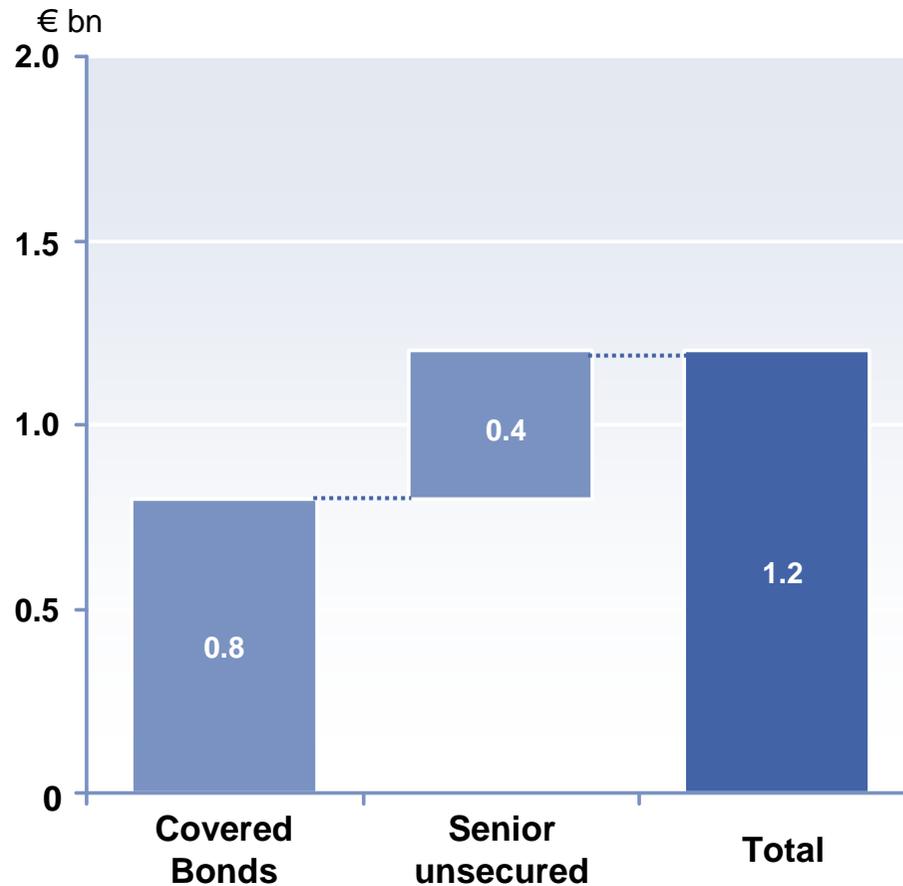
Asset- / Liability structure according to IFRS

As at 31.03.2010: € 40.9 bn



Refinancing situation

Flexible use of unsecured and secured funding



Total funding of € 1.2 bn in Q1 2010

- Covered bonds:
 - € 0.8 bn (Q1 '09: € 251 mn)
- Senior unsecured:
 - € 0.4 bn (Q1 '09: € 39 mn)

The actual trends are generally unchanged:

- Higher volumes
- Longer maturities
- Tighter spreads

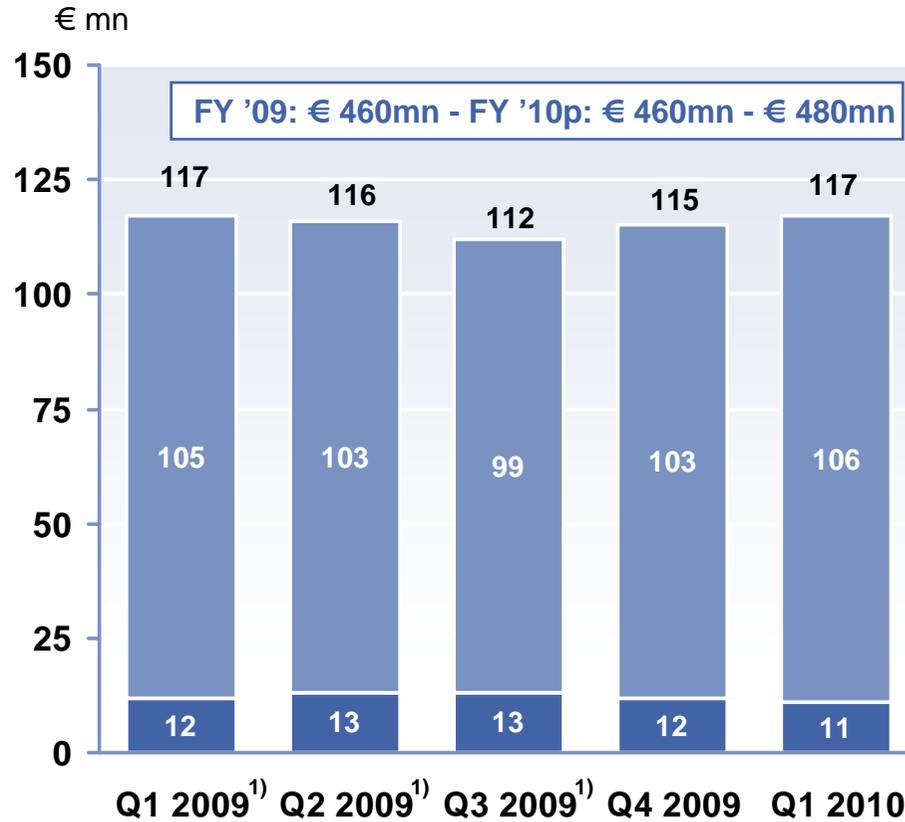
Group figures Q1 2010



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Net interest income:

Still reflecting conservative liquidity-, capital position



■ NII Structured Property Financing
 ■ NII Consulting / Services

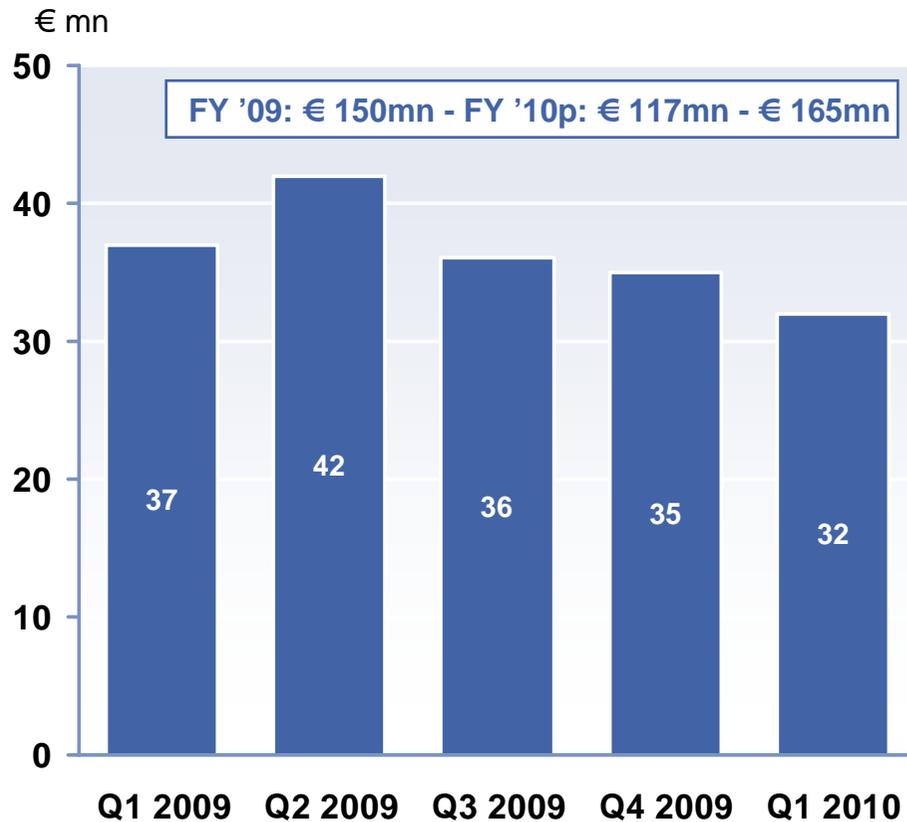
1) Figures adapted

- Net interest income Q1 2010: € 117 mn
- Back on Q1 2009-level
- Q1 net interest income influenced by
 - SPF-business: Results of higher margins in the SPF-business and a slowly reduction of the high liquidity position held throughout 2009
 - Consulting / Services: Historically low interest rate level still burdens the deposit taking business
- Q1 SoFFin burden of
 - € 5 mn guarantee fees in commission income
 - Net € 8 mn SoFFin coupon shown as appropriation of profits



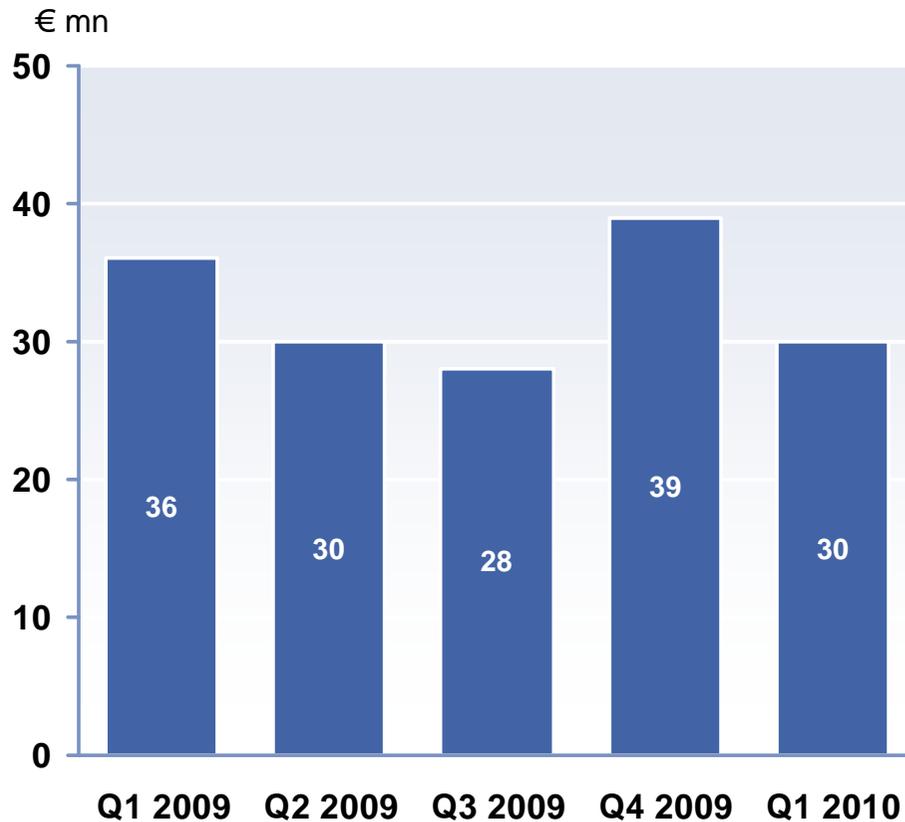
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Loan loss provisions: In line with guided range



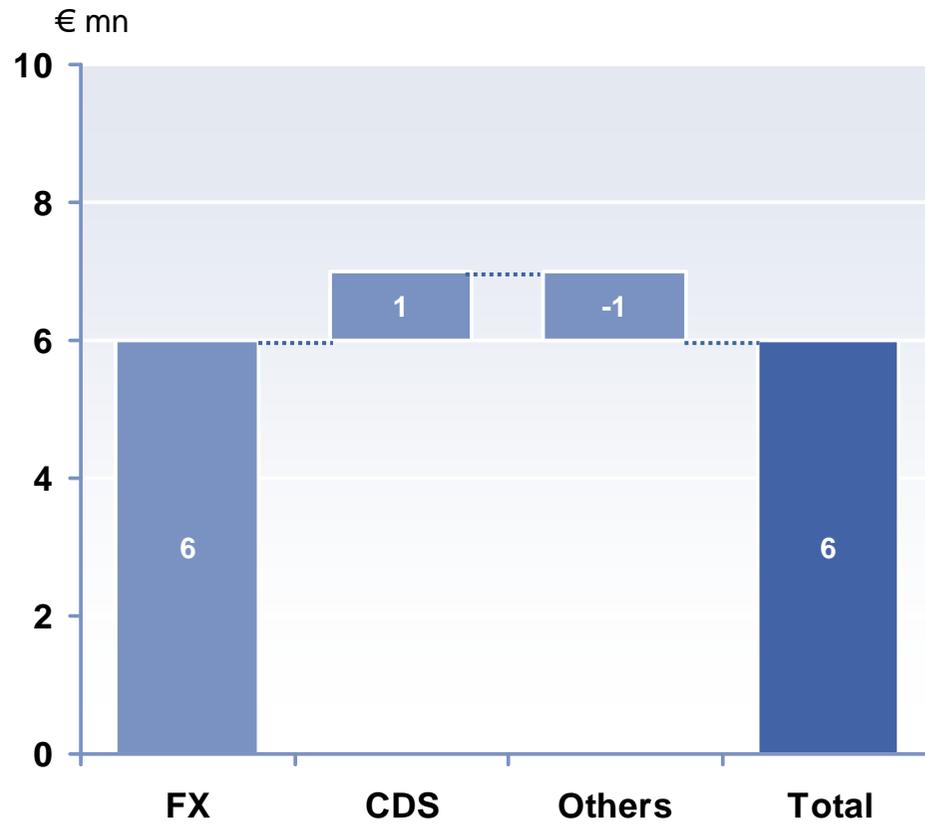
- Loan loss provisions stays in the given range for 2010 although they may vary quarter by quarter
- € 32 mn in Q1 reflects the close monitoring and management of our loan portfolio
- € 48 mn General Portfolio LLP still untouched
- LLP outlook confirmed with a range of € 117 mn to € 165 mn for 2010

Net commission income: Burdened by SoFFin guarantee

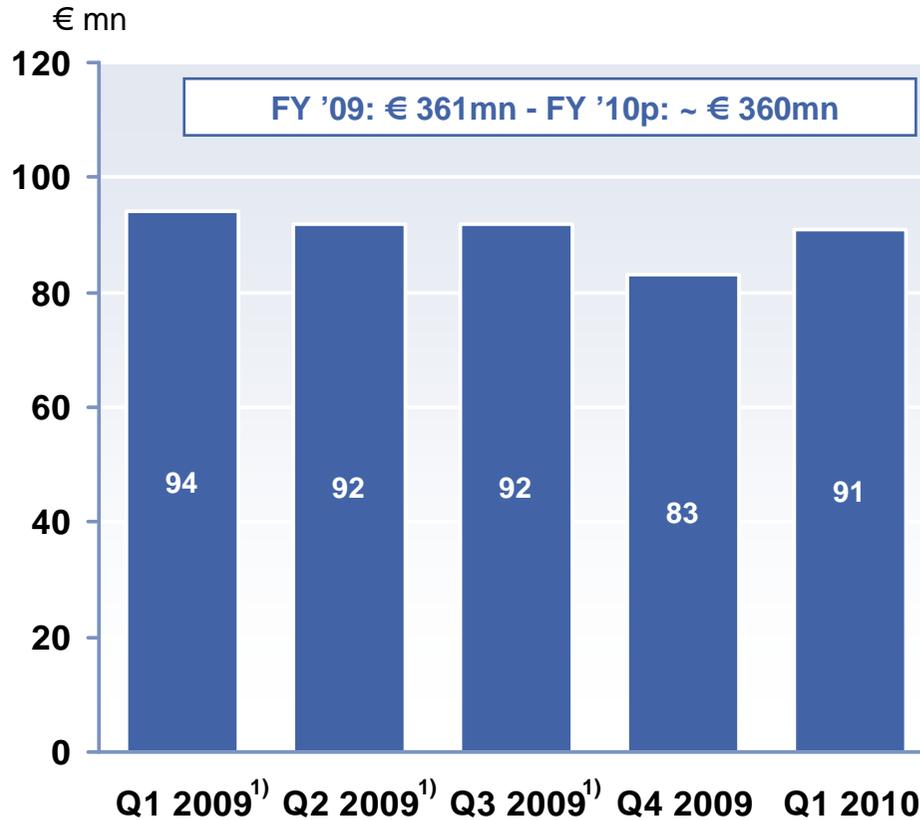


- Net commission income of € 30 mn including (or € 35 mn without) costs of the SoFFin guarantee facility in Q1 2010 is a good performance regarding the challenging environment
- Q4 includes seasonal effects, especially in the IT-business

Net trading income Q1 2010: Reflecting volatile derivative markets



Admin expenses: Strict cost discipline maintained



- Q1 2010-figures with € 91 mn are below the Q1 2009-level of € 94 mn
- Measures to raise efficiency still paying off and keeping the admin expenses continuously stable year on year
- Administrative expenses of € 91 mn in Q1 are within the range for 2010 which is expected to be around the 2009-level

1) Figures adapted



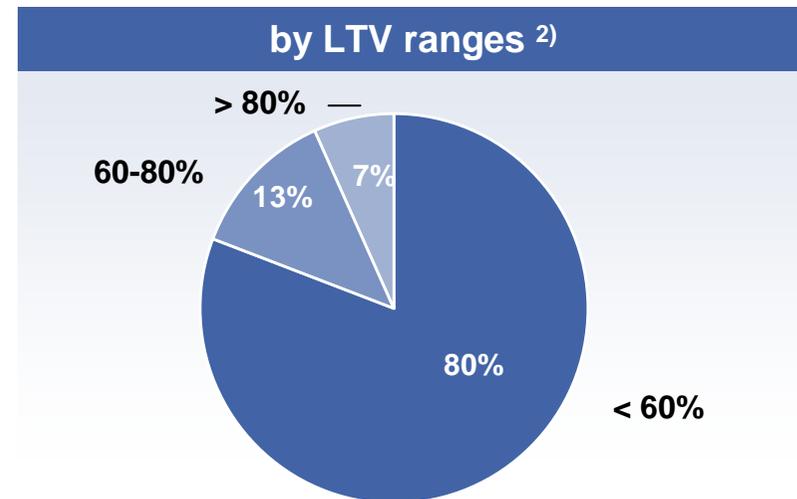
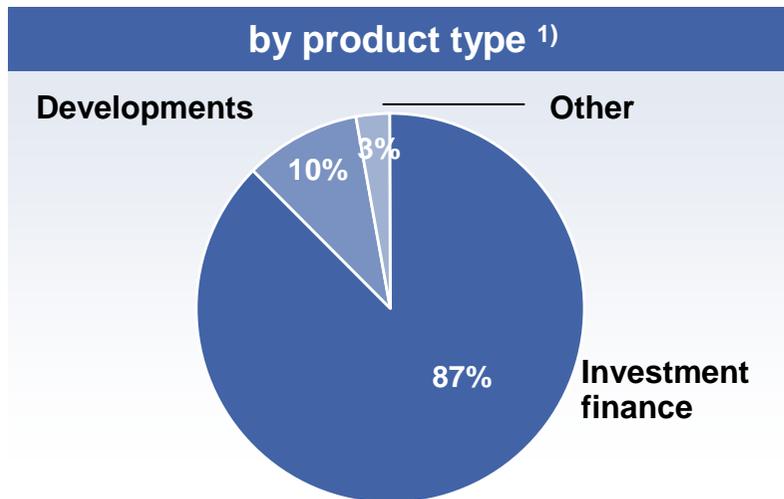
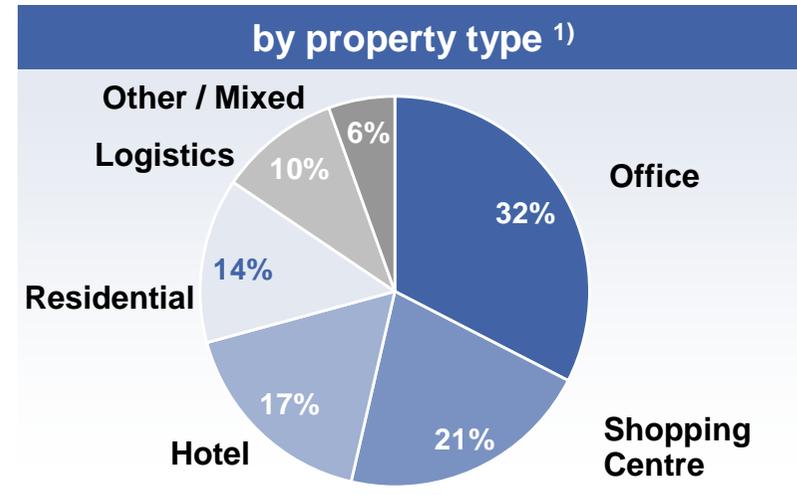
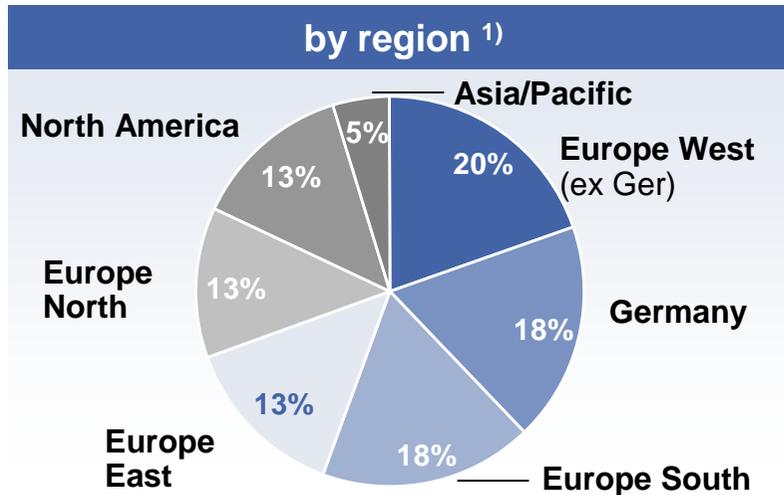
Asset quality



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Total property finance portfolio:

High diversification and sound asset quality



- 1) Total volume under management: € 22.6 bn as at 31.03.2010
 2) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages; values as at 31.03.2010



Total property finance portfolio:

Economic downturn expected to impact NPL-level

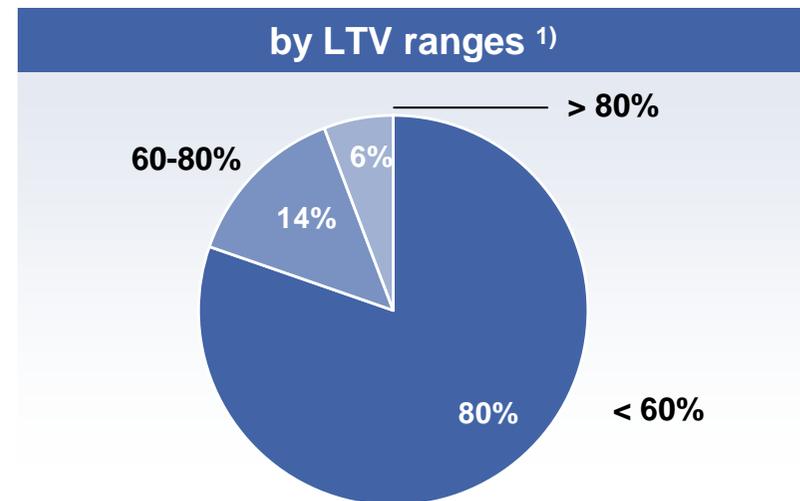
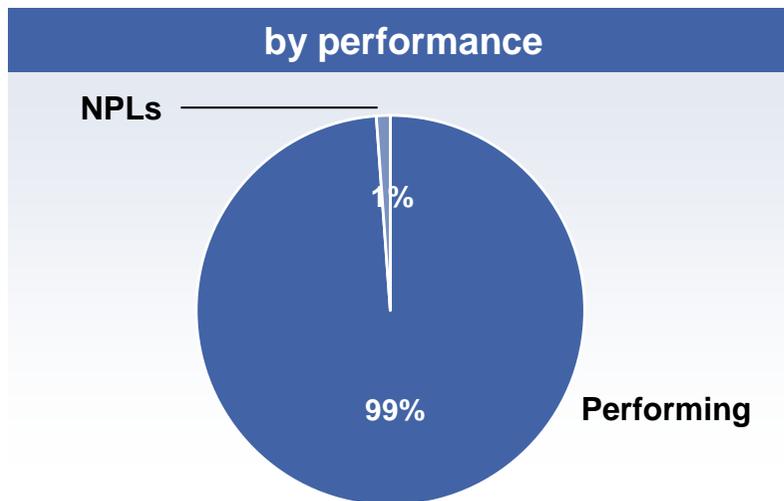
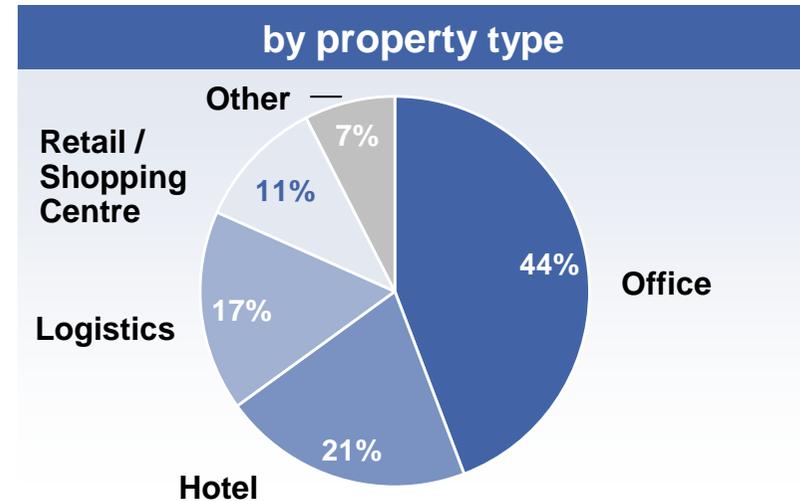
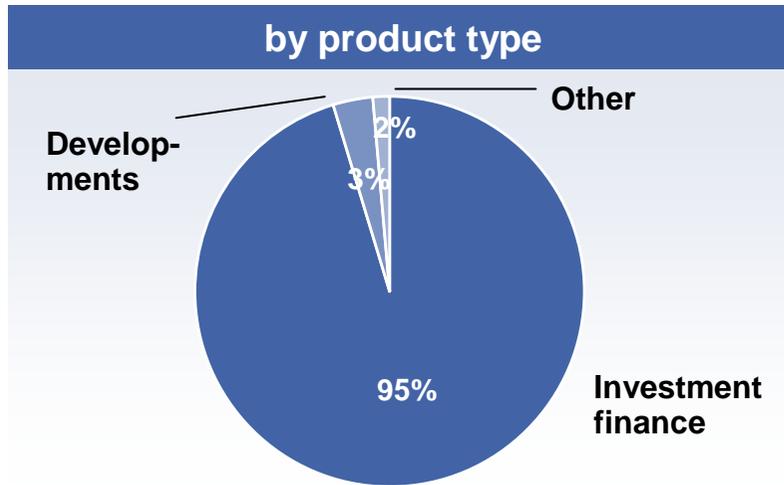
LLP- and NPL development				
	NPL Exposure ¹⁾	Specific Allowances ¹⁾	Portfolio Allowances	
			General LLP	General Portfolio LLP
Euro mn				
As at 31.12.2009	710	202	52	48
Utilisation 3M	- 9	- 2	-	-
Addition 3M	39	32	-	-
As at 31.03.2010	740	232	52	48
Coverage ratio specific allowances		31.4 %		
		232	52	
As at 31.03.2010	740	284		
Coverage ratio incl. General LLP		38.4 %		

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



Western Europe (ex Ger) credit portfolio

Total volume outstanding as at 31.03.2010: € 4.5 bn

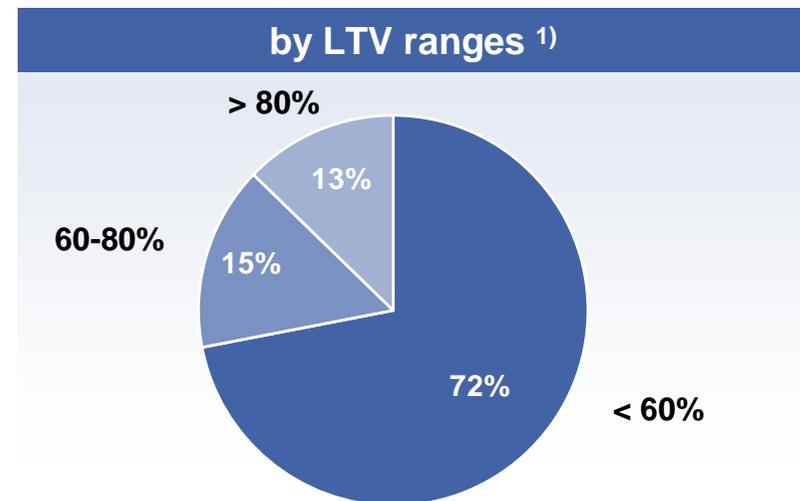
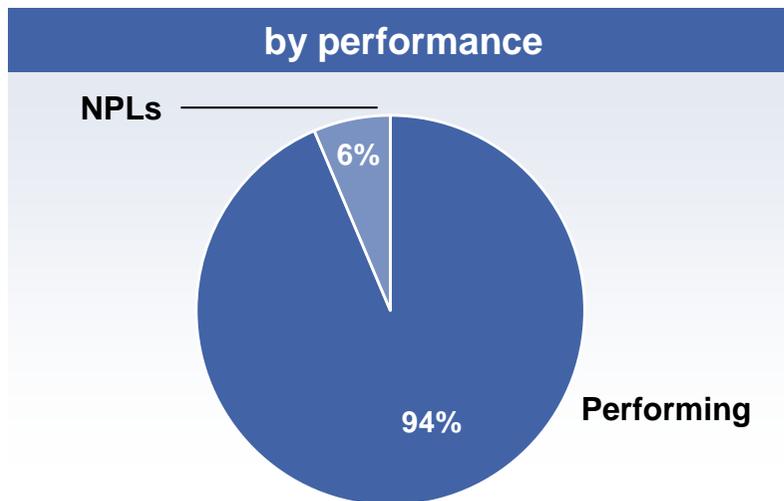
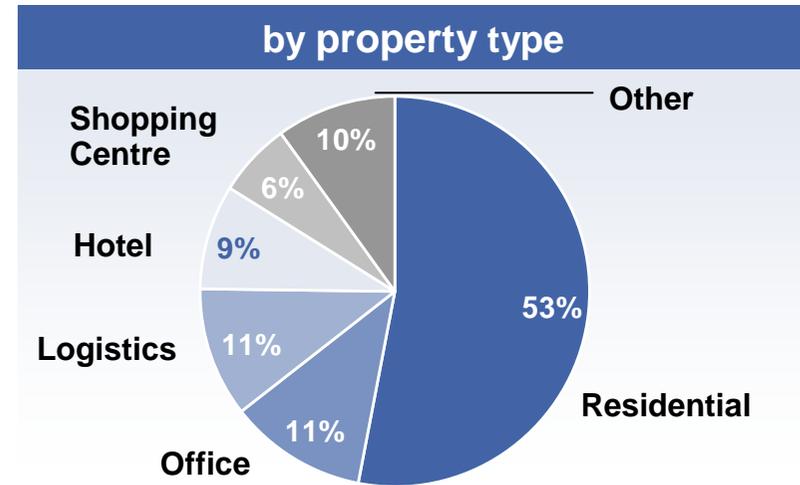
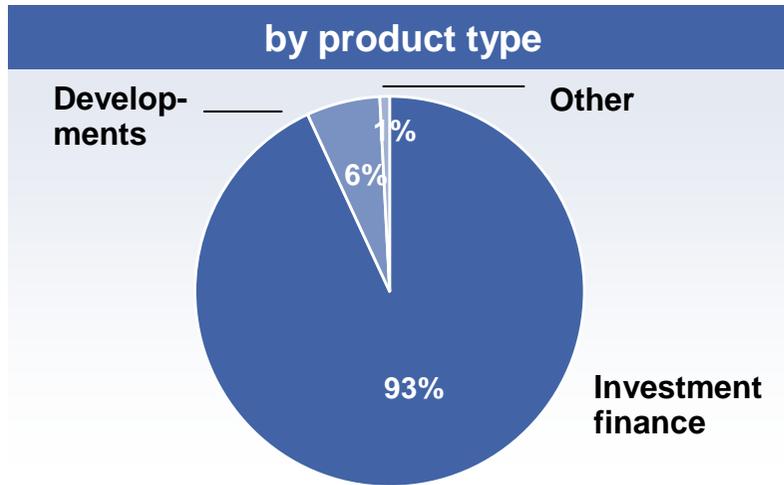


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



German credit portfolio

Total volume outstanding as at 31.03.2010: € 4.1 bn

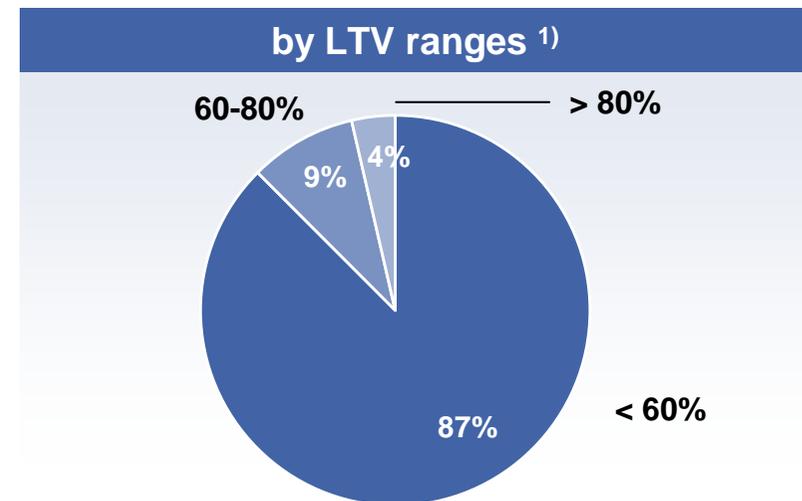
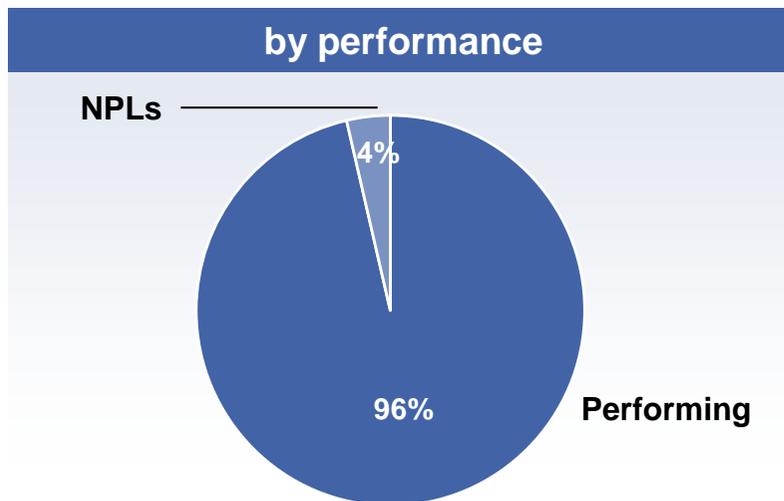
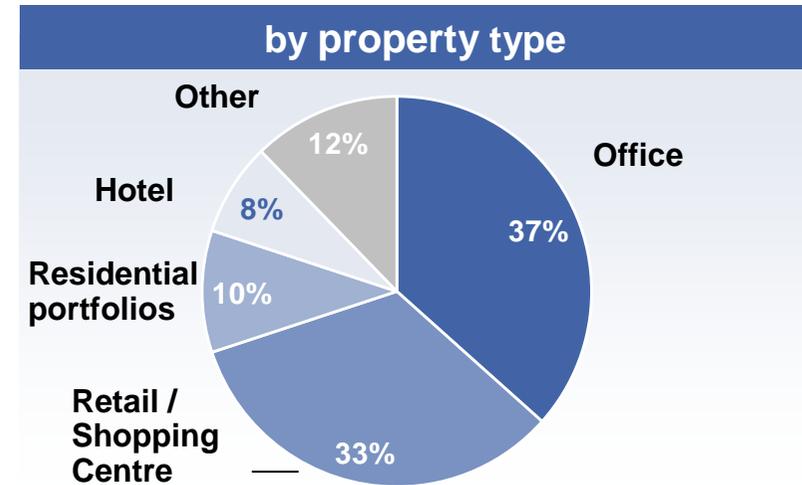
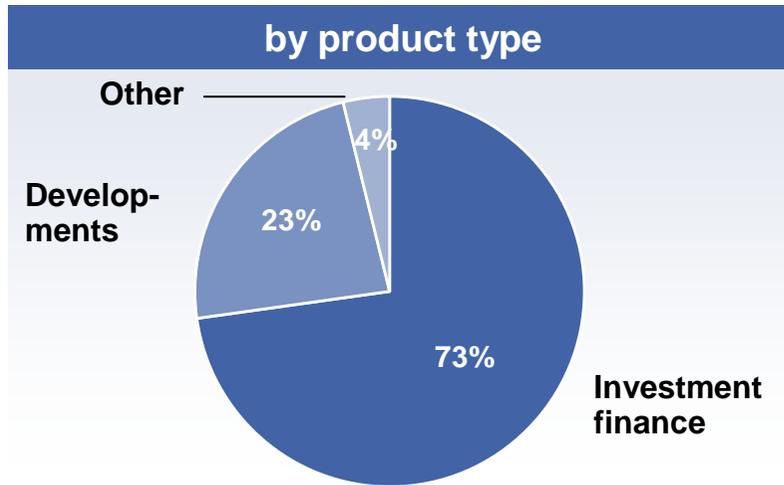


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



Southern Europe credit portfolio

Total volume outstanding as at 31.03.2010: € 4.0 bn

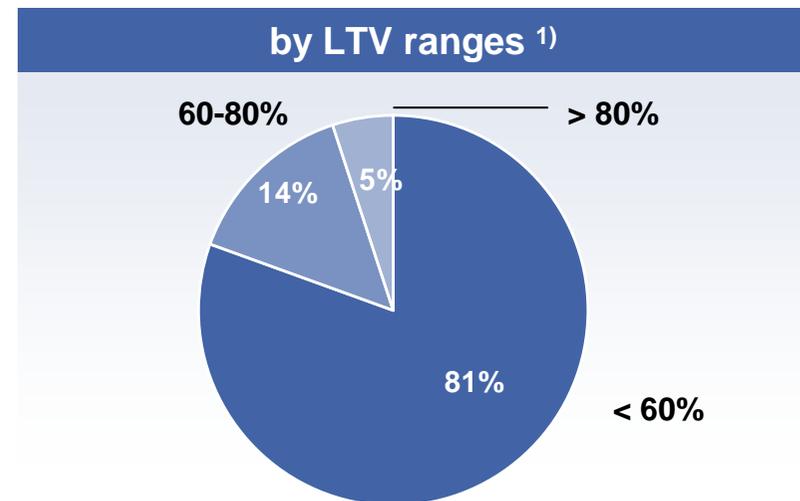
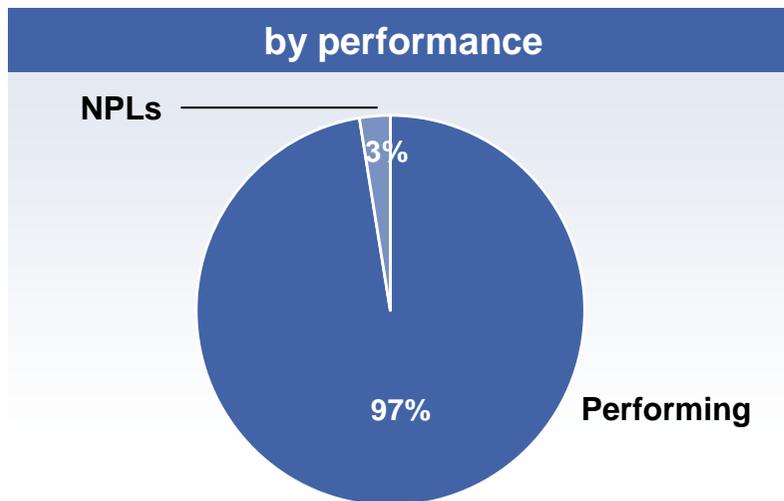
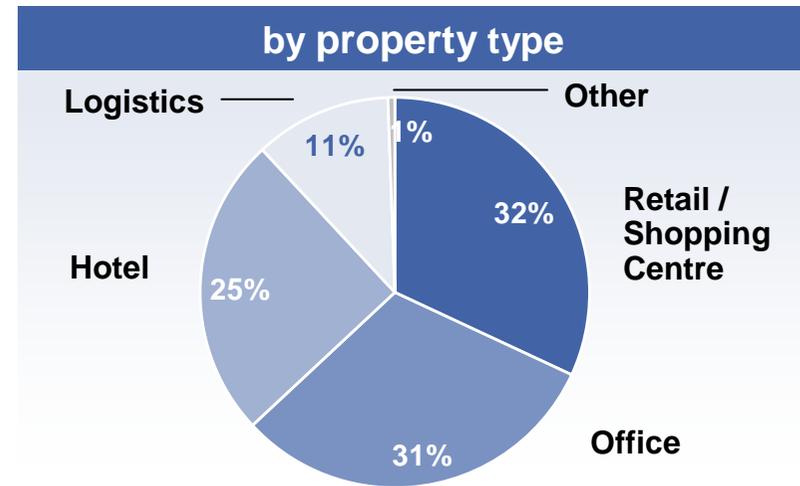
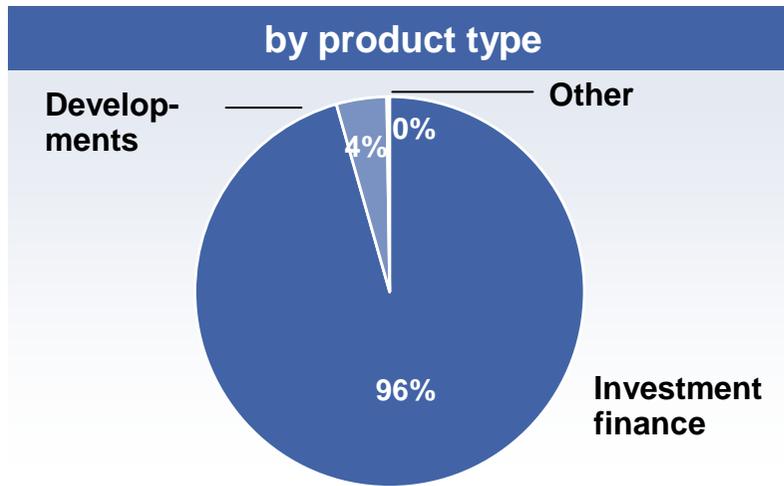


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



Eastern Europe credit portfolio

Total volume outstanding as at 31.03.2010: € 3.1 bn

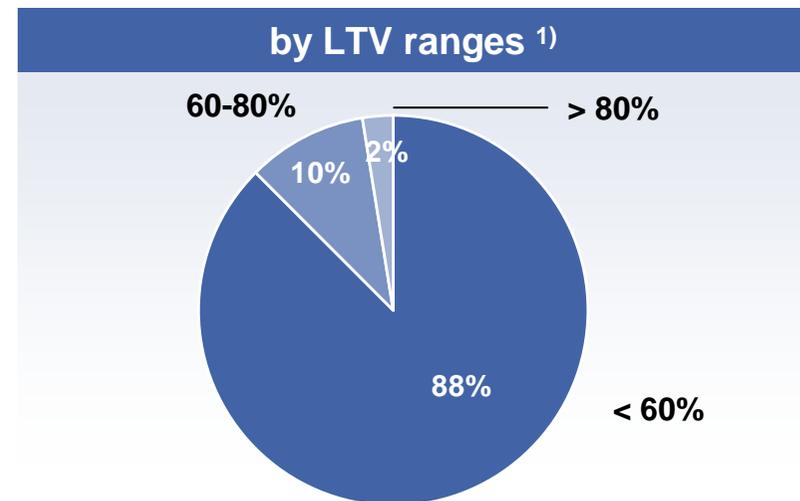
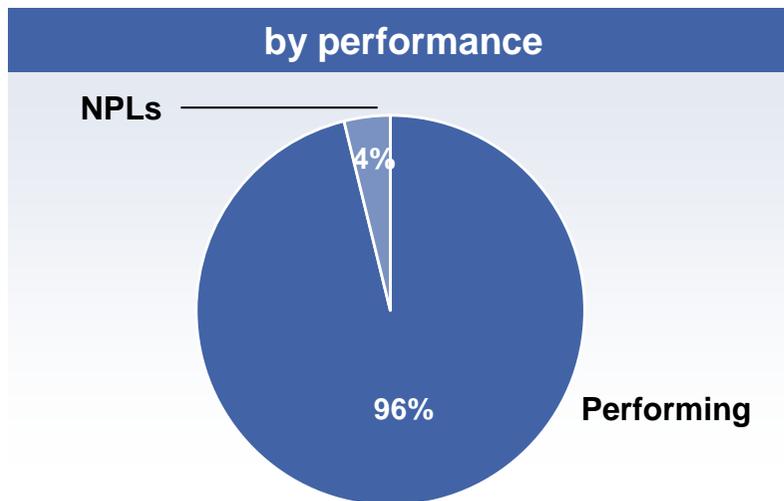
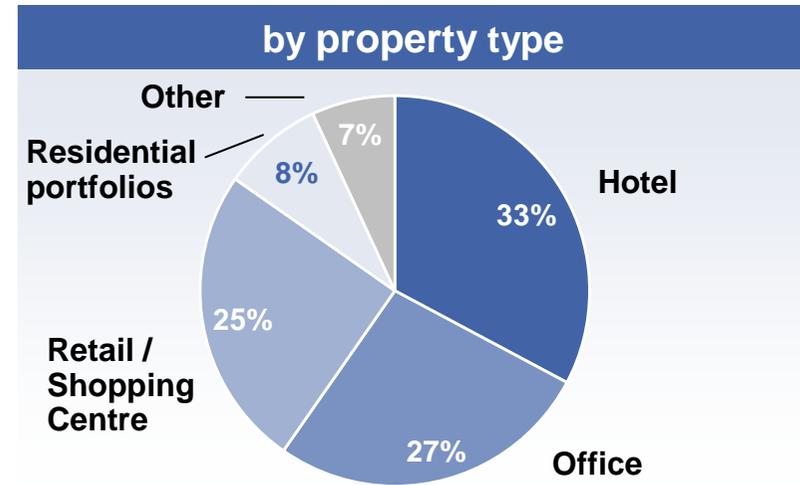
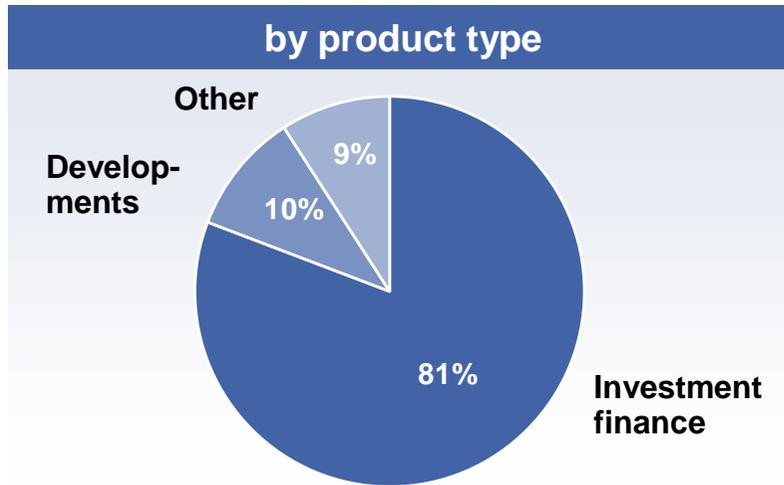


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



North America credit portfolio

Total volume outstanding as at 31.03.2010: € 3.0 bn

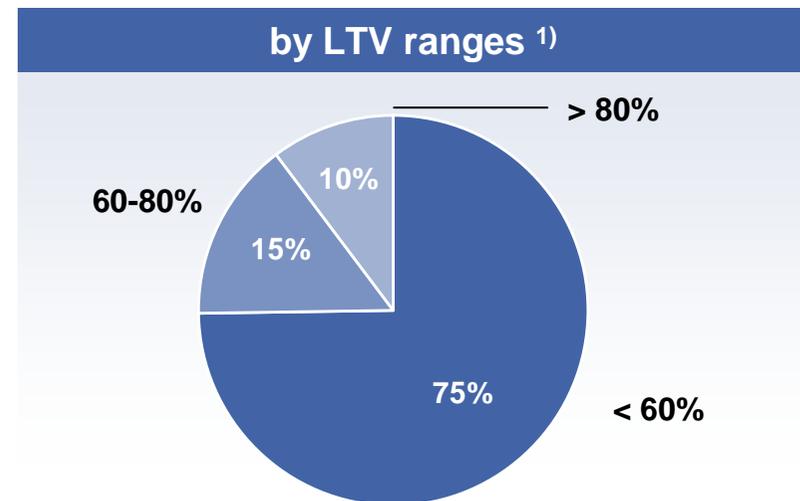
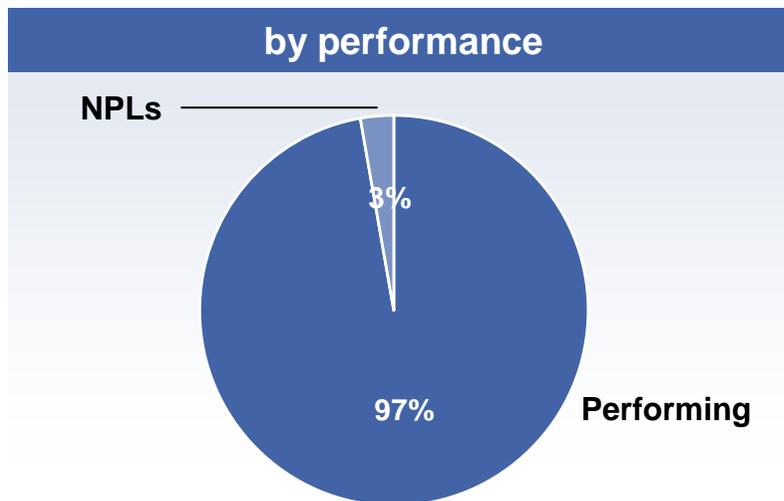
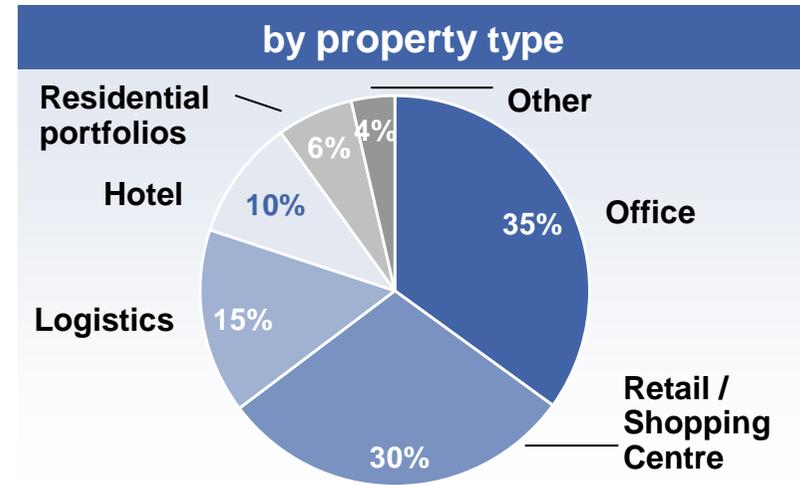
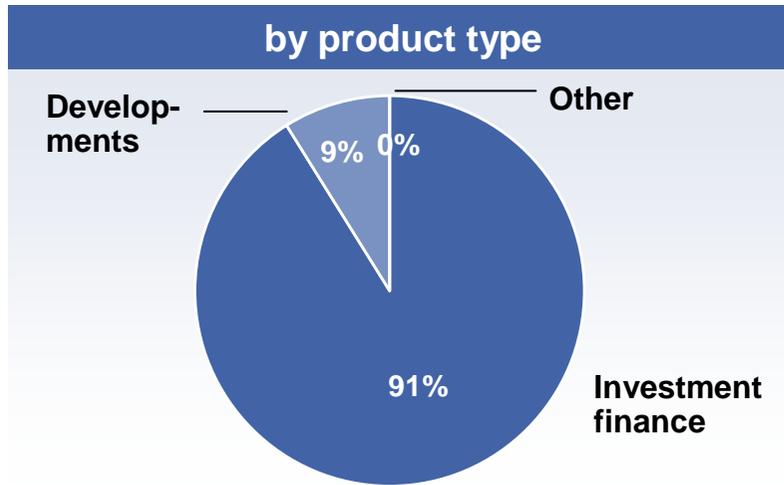


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



Northern Europe credit portfolio

Total volume outstanding as at 31.03.2010: € 2.8 bn

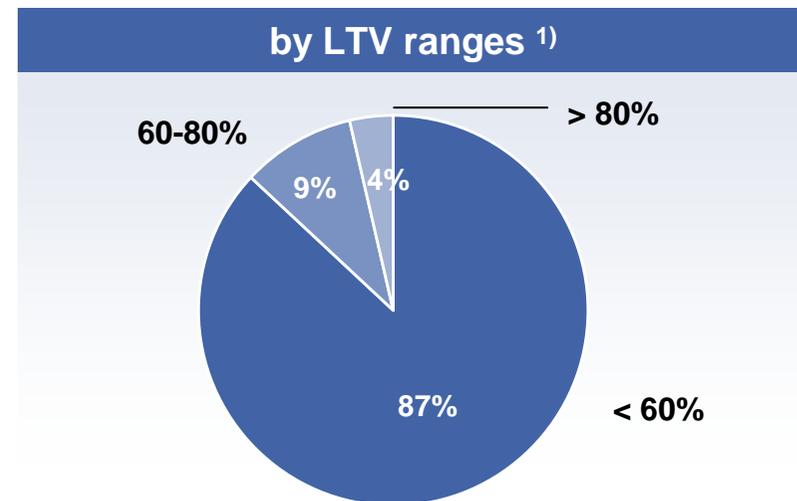
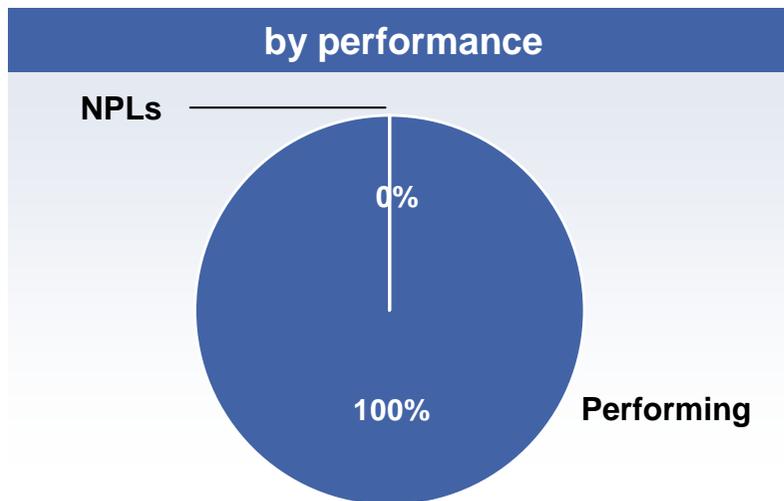
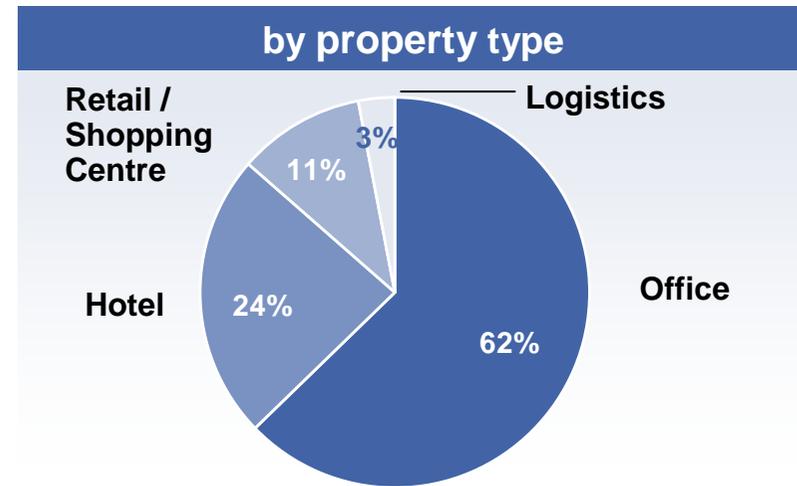
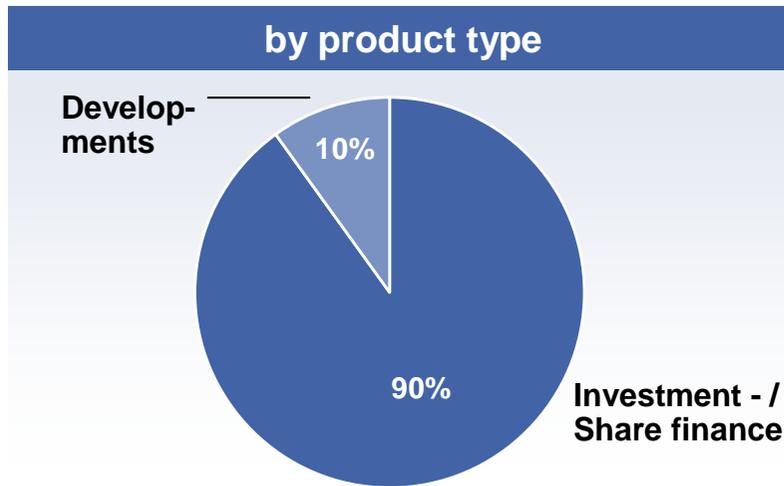


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



Asia credit portfolio

Total volume outstanding as at 31.03.2010: € 1.1 bn

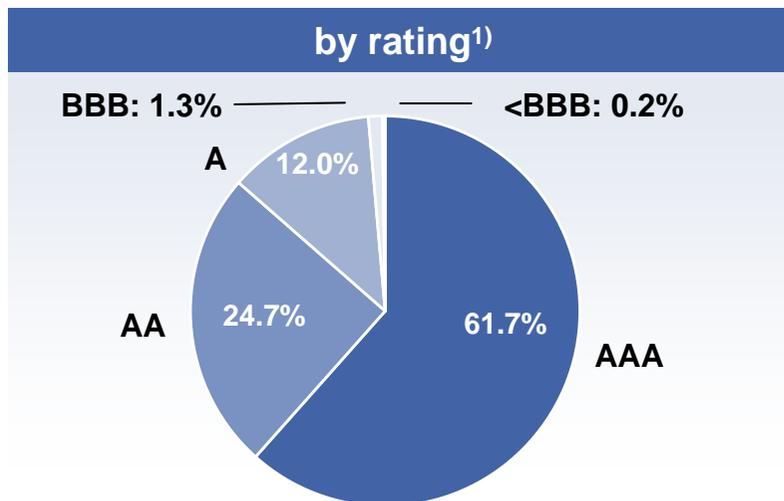
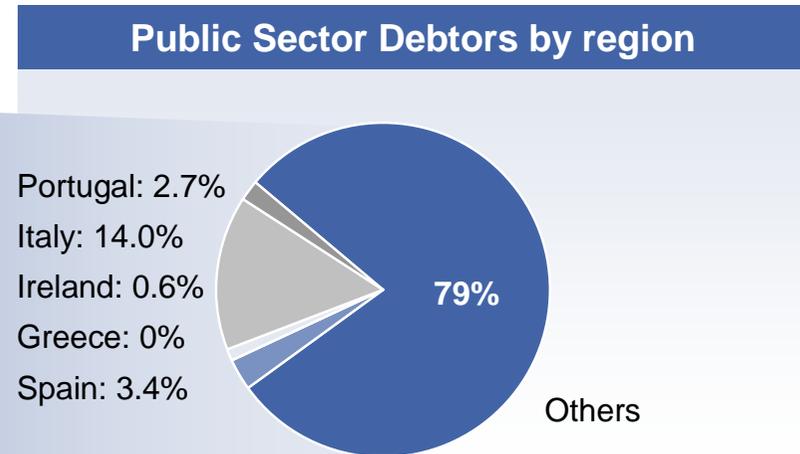
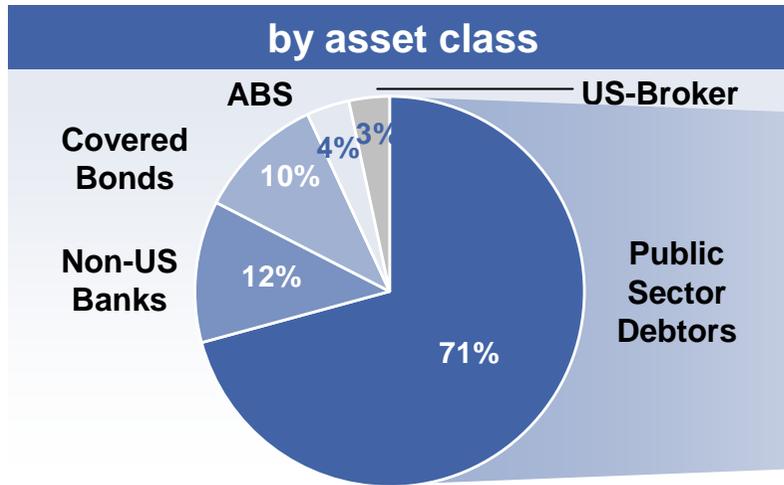


1) Chinese portfolio includes other collateral than mortgages.
Rest of Asia: mortgage collateralised performing business only;
value does not take into account any collateral other than mortgages.



Treasury portfolio

€ 13.4 bn of high quality assets



As at 31.03.2010

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



Outlook



**Aareal Bank
Group**

FY outlook 2010 confirmed

2010

Net interest income

- Target expected to improved to € 460 - € 480 mn
- Moderately increasing interest rate level assumed

Net loan loss provisions

- Expected to range between € 117 mn to € 165 mn
- Actual level will depend on the extend to which the additional allowance for credit losses of € 48 million will, in fact, be utilised
- As in 2009, the bank cannot rule out additional allowances for credit losses in 2010

Net trading result / results from non-trading assets

- Unpredictable in current markets / no significant burdens from non-trading assets expected

Admin expenses

- Under control around € 360 mn

Operating profit

- Good potential for increasing operating profit

Structured Property Financing

New business

- € 4 - 5 bn; focusing on existing client base but relatively fewer renewals

Consulting / Services

Operating profit

- Slightly above the clean 2009-level



Appendix



**Aareal Bank
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Aareal Bank Group

Key figures Q1 2010

	01.01.- 31.03.2010 Euro mn	01.01.- 31.03.2009 ¹⁾ Euro mn	Change
Profit and loss account			
Net interest income	117	117	0,0%
Allowance for credit losses	32	37	-13,5%
Net interest income after allowance for credit losses	85	80	6,3%
Net commission income	30	36	-16,7%
Net result on hedge accounting	2	1	100,0%
Net trading income / expenses	6	18	-66,7%
Results from non-trading assets	0	-17	-
Results from companies accounted for at equity	-	-	-
Results from investment properties	0	0	-
Administrative expenses	91	94	-3,2%
Net other operating income / expenses	-2	0	-
Impairment of goodwill	0	-	-
Operating Profit	30	24	25,0%
Income taxes	9	8	12,5%
Net income / loss	21	16	31,3%
Allocation of results			
Net income / loss attributable to non-controlling interests	5	4	25,0%
Net income / loss attributable to shareholders of Aareal Bank AG	16	12	33,3%
Appropriation of profits			
Silent partnership contribution by SoFFin	8	-	-
Consolidated retained profit / accumulated loss	8	12	-33,3%

1) Figures adapted



Aareal Bank Group: Segment Reporting

Key figures Q1 2010

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation/ Other		Aareal Bank Group	
	01.01.- 31.03. 2010	01.01.- 31.03. 2009 ¹⁾	01.01.- 31.03. 2010	01.01.- 31.03. 2009	01.01.- 31.03. 2010	01.01.- 31.03. 2009 ¹⁾	01.01.- 31.03. 2010	01.01.- 31.03. 2009 ¹⁾
	Euro mn							
Net interest income	106	105	0	0	11	12	117	117
Allowance for credit losses	32	37					32	37
Net interest income after allowance for credit losses	74	68	0	0	11	12	85	80
Net commission income	-4	5	45	44	-11	-13	30	36
Net result on hedge accounting	2	1					2	1
Net trading income / expenses	6	18					6	18
Results from non-trading assets	0	-17		0			0	-17
Results from companies accounted for at equity								
Results from investment properties	0	0					0	0
Administrative expenses	52	52	39	43	0	-1	91	94
Net other operating income / expenses	-2	0	0	0	0	0	-2	0
Impairment of goodwill	0						0	
Operating profit	24	23	6	1	0	0	30	24
Income taxes	7	8	2	0			9	8
Net income / loss	17	15	4	1	0	0	21	16
Allocation of results								
Net income / loss attributable to non-controlling interests	4	4	1	0			5	4
Net income / loss attributable to shareholders of Aareal Bank AG	13	11	3	1	0	0	16	12
Allocated equity	1,456	1,280	69	61	424	318	1,949	1,659
Cost/income ratio in %	49.0	46.1	85.7	97.4			59.6	60.3
RoE after taxes in % ²⁾	3.5	3.6	16.7	5.2			3.2	2.8

1) Figures adapted

2) On an annualised basis



Aareal Bank Group: Segment Reporting

Key figures Q1 2010 and 2009 quarter by quarter

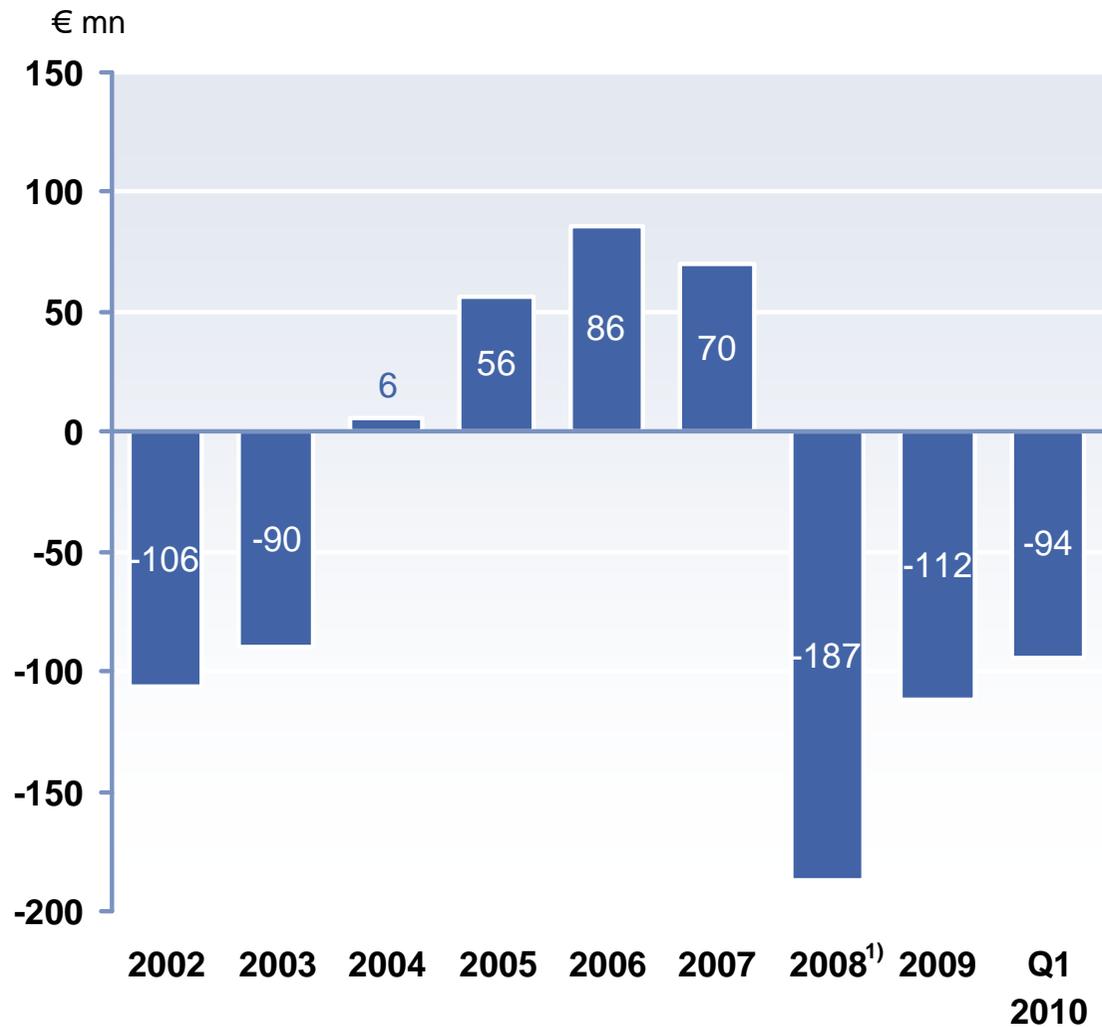
	Structured Property Financing					Consulting / Services					Consolidation / Reconciliation / Other					Aareal Bank Group				
	Q1 2010	Q4 2009	Q3 2009 ¹⁾	Q2 2009 ¹⁾	Q1 2009 ¹⁾	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q1 2010	Q4 2009	Q3 2009 ¹⁾	Q2 2009 ¹⁾	Q1 2009 ¹⁾
Euro mn																				
Net interest income	106	103	99	103	105	0	0	0	0	0	11	12	13	13	12	117	115	112	116	117
Allowance for credit losses	32	35	36	42	37											32	35	36	42	37
Net interest income after allowance for credit losses	74	68	63	61	68	0	0	0	0	0	11	12	13	13	12	85	80	76	74	80
Net commission income	-4	2	-3	-3	5	45	50	44	46	44	-11	-13	-13	-13	-13	30	39	28	30	36
Net result on hedge accounting	2	1	-4	0	1											2	1	-4	0	1
Net trading income / expenses	6	3	18	5	18											6	3	18	5	18
Results from non-trading assets	0	-3	-3	1	-17		0	0	0	0						0	-3	-3	1	-17
Results from companies accounted for at equity		1					0										1			
Results from investment properties	0	-1	1	0	0											0	-1	1	0	0
Administrative expenses	52	42	53	54	52	39	42	39	39	43	0	-1	0	-1	-1	91	83	92	92	94
Net other operating income / expenses	-2	-10	-4	2	0	0	-2	1	0	0	0	0	0	-1	0	-2	-12	-3	1	0
Impairment of goodwill	0	2					0	0								0	2	0		
Operating profit	24	17	15	12	23	6	6	6	7	1	0	0	0	0	0	30	23	21	19	24
Income taxes	7	3	3	-1	8	2	2	2	3	0						9	5	5	2	8
Net income / loss	17	14	12	13	15	4	4	4	4	1	0	0	0	0	0	21	18	16	17	16
Allocation of results																				
Net income / loss attributable to non-controlling interests	4	4	4	4	4	1	1	0	1	0						5	5	4	5	4
Net income / loss attributable to shareholders of Aareal Bank AG	13	10	8	9	11	3	3	4	3	1	0	0	0	0	0	16	13	12	12	12

1) Figures adapted



Revaluation reserve:

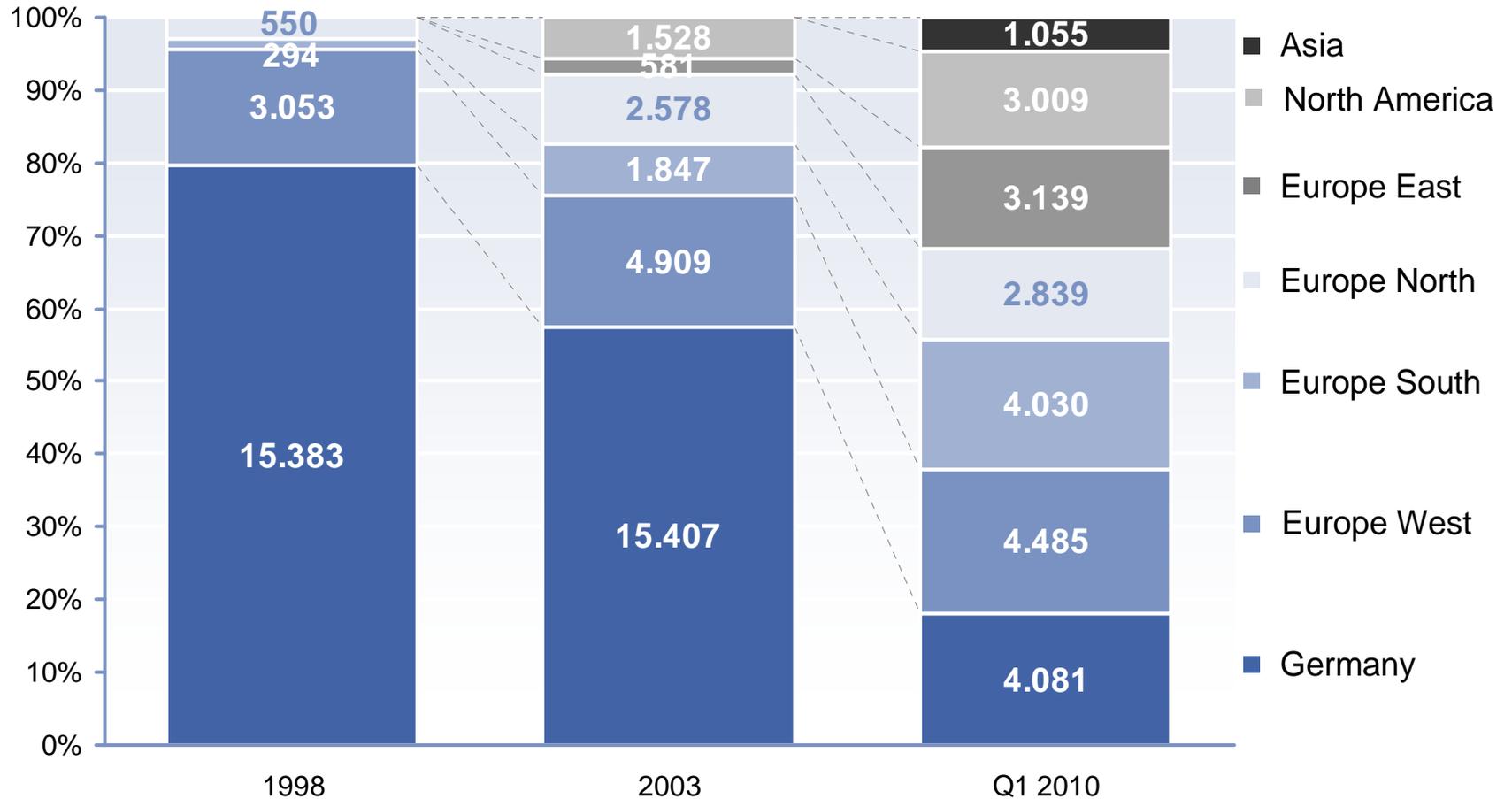
Change mainly driven by asset spreads



1) Figures adapted



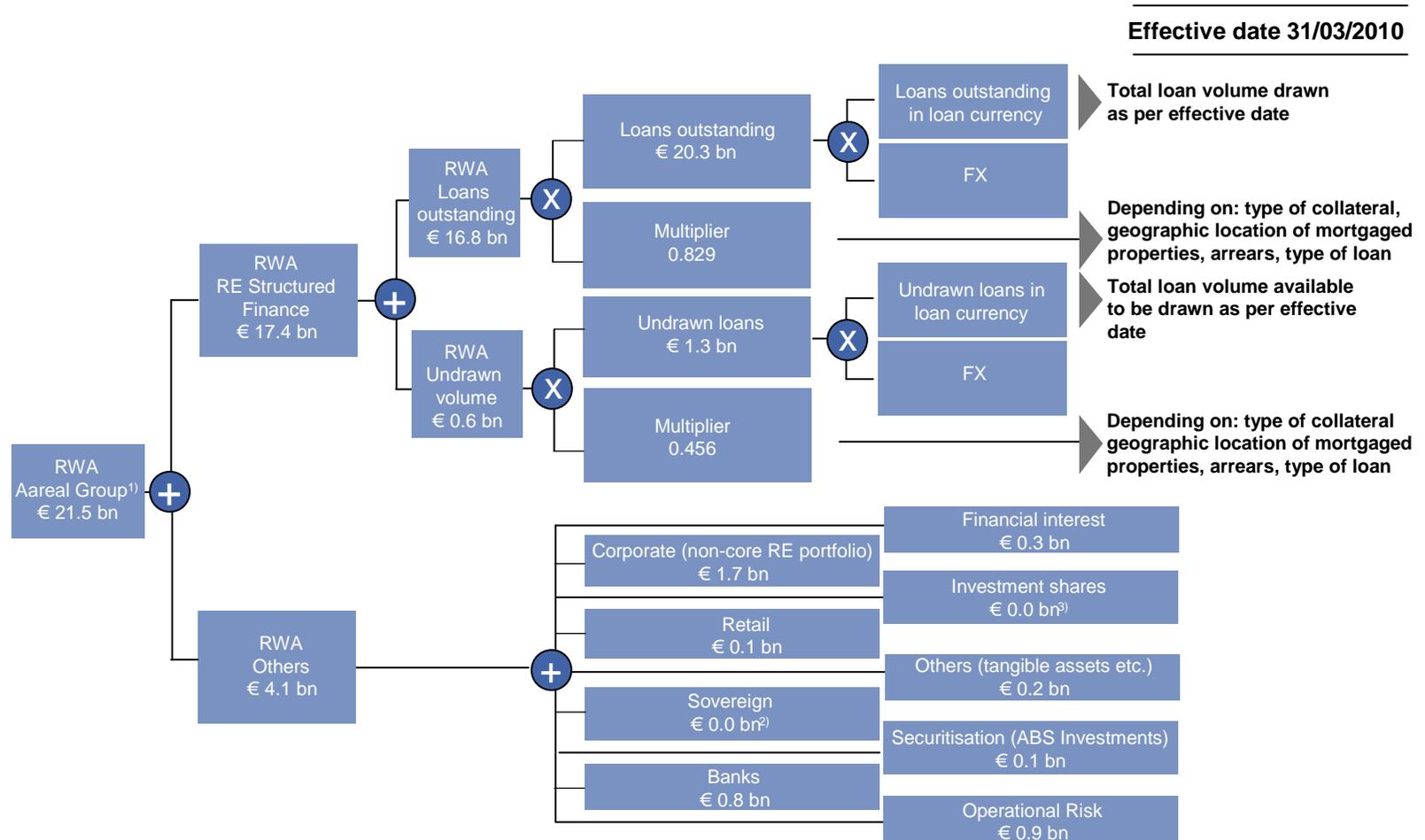
Development property finance portfolio: Diversification continuously strengthened



Property finance under management



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 € 11 mn
- 3) Exposure to investment shares amounts to € 26 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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