

LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

Analyst Conference Call

Q3 2010 results

November 09, 2010

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



**Aareal Bank
Group**

Agenda Q3 2010 results

- Q3 2010 results at a glance
 - Group capital and funding position
 - Group figures Q3 2010
 - Asset quality
 - Outlook

 - Appendix
 - Definitions and Contacts
-



Q3 2010 results at a glance



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Q3 2010 results at a glance: Outperforming 2010-guidance

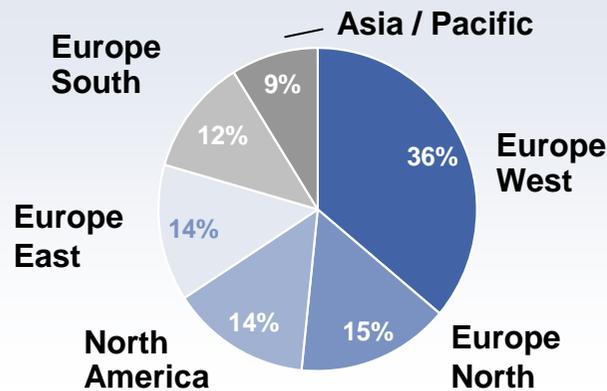
	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009 ¹⁾	Comments
Euro mn						
Net interest income	131	122	117	115	112	Higher margins “paying off”
Allowance for credit losses	32	33	32	35	36	Stable loan loss provisions proves portfolio quality
Net commission income	24	32	30	39	28	Burdened by costs for the additional SoFFin guarantee
Net trading result	2	-13	6	3	18	Reflects volatile markets
Administrative expenses	88	92	91	83	92	Cost discipline maintained
Operating profit	33	31	30	23	21	Solid performance
Tier 1 ratio (%) (according to German Banking Act - CRSA)	10.4	10.2	11.2	11.0	10.7	Solid Tier 1 ratio even after repayment of first tranche of SoFFin silent participation

1) Figures adapted

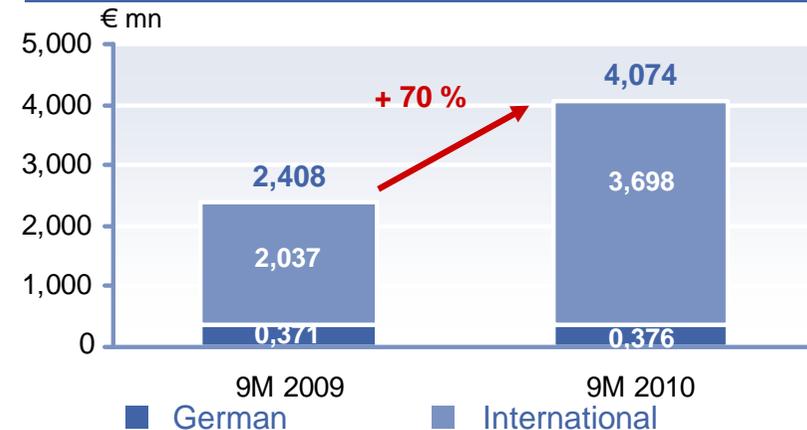


Structured property financing: New business with attractive risk-return profile

New business by region 9M 2010



New business origination



P&L SPF Segment	Q3 '10	Q2 '10	Q1 '10	Q4 '09	Q3 '09 ¹⁾
€ mn					
Net interest income	121	111	106	103	99
Loan loss provision	32	33	32	35	36
Commission income	-5	1	-4	2	-3
Net trading result	2	-13	6	3	18
Result non-trad. assets	-4	14	0	-3	-3
Admin expenses	54	55	52	42	53
Others	0	0	0	-11	-7
Operating profit	28	25	24	17	15

1) Figures adapted

- New business origination with a focus on attractive risk-return profile
 - Preferably loans eligible for Pfandbrief cover pool
- Still focussing 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)	Q3 '10	Q2 '10	Q1 '10	Q4 '09	Q3 '09
Euro mn					
Sales revenue	45	48	50	56	50
Own work capitalised	0	1	0	1	0
Changes in inventory	0	0	0	0	0
Other operating income	3	2	1	1	3
Cost of material purchased	6	5	5	6	6
Staff expenses	22	25	26	27	25
D, A, impairment losses	3	4	3	4	4
Results at equity acc. investm.	-	0	0	0	-
Other operating expenses	12	11	11	15	12
Results from interest and similar	0	0	0	0	0
Operating profit	5	6	6	6	6
Income taxes	1	2	2	2	2
Segment result	4	4	4	4	4
Segment result attributed to minority interests	1	0	1	1	0
Consolidated retained profit	3	4	3	3	4

IT-Business (Aareon)

- Long term contracts generate stable revenues
- SAP-based product lines still suffer from reduced implementation projects
- New product line Wodis Sigma with over 260 contracts signed and over 110 running systems

Deposit taking business (Aareal Bank)

- House bank of the German housing sector
- Low interest rate environment impacts net interest income longer than originally expected
- Deposits increased to € 4.2 bn



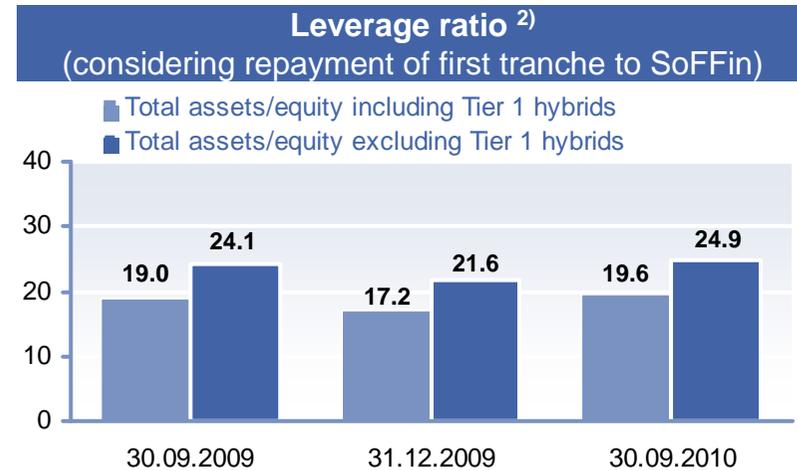
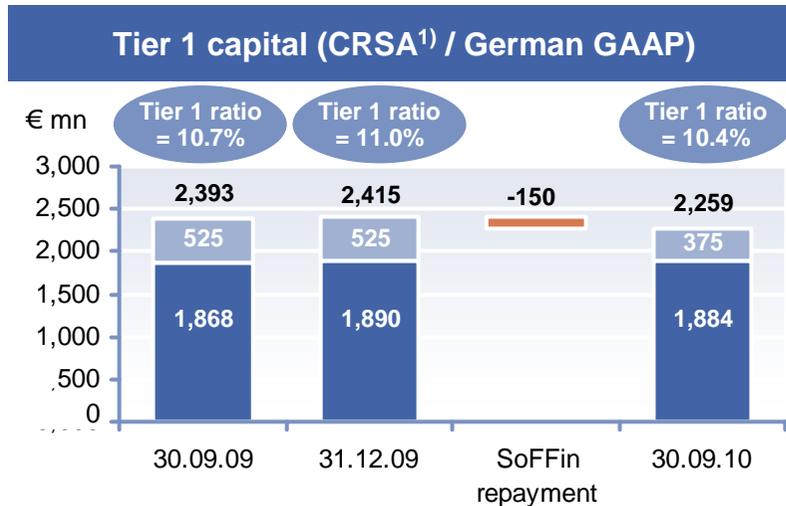
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Group capital and funding position



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Continuously comfortable Tier 1 ratio of 10.4% (CRSA) even after a repayment of € 150 mn



Composition of Tier 1 capital

	30.09.2010	31.12.2009	30.09.2009
€ mn			
Core Tier 1	1,789	1,945	1,923
Hybrid Tier 1	470	470	470
Hybrid ratio	21%	20%	20%
Total Tier 1	2,259	2,415	2,393

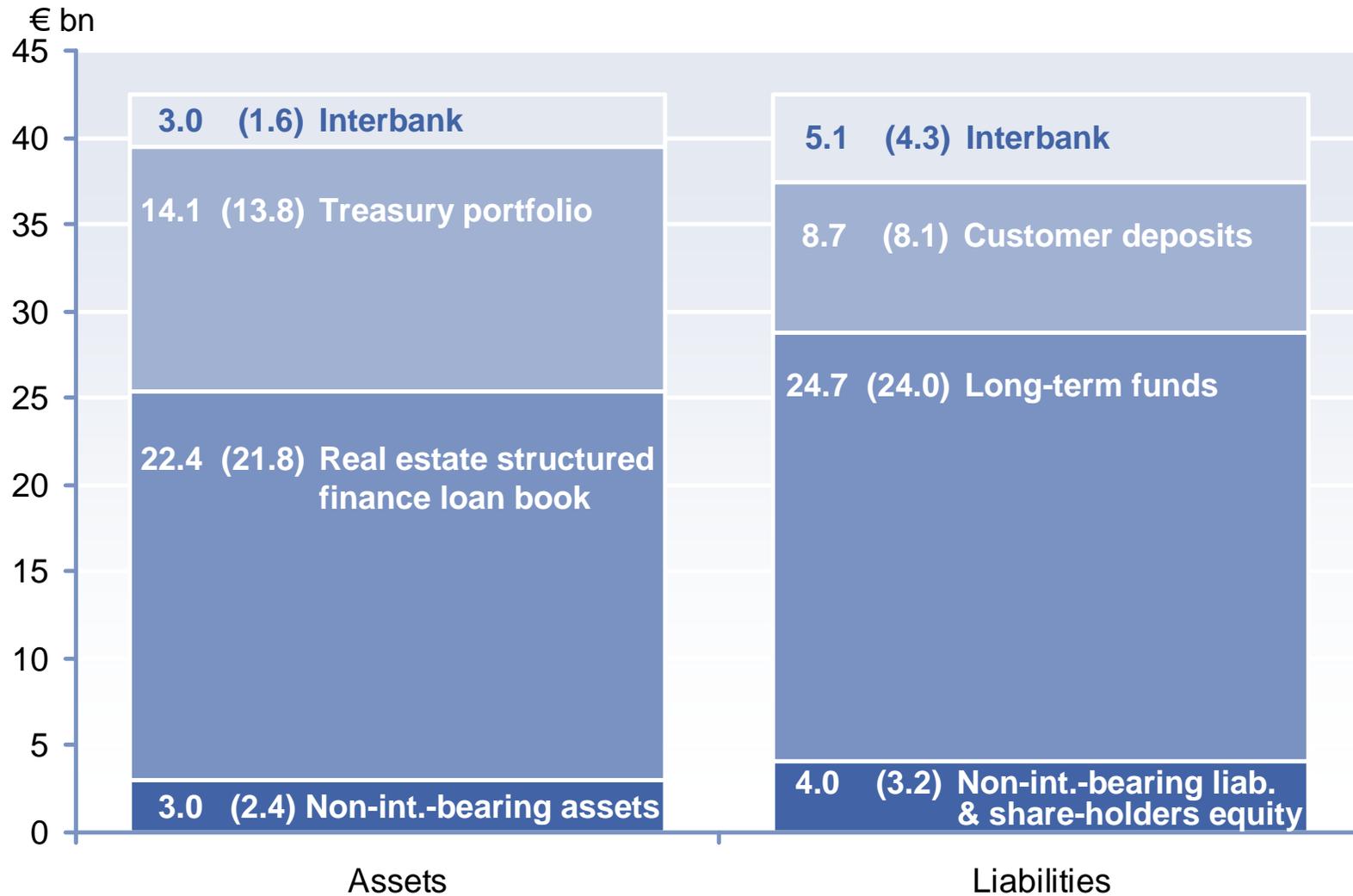
- Comfortable Tier 1 ratio of 10.4% (CRSA)
- Impact of proposed Basel III regulations (under IRB Advanced approach):
 - Minimum requirements will be achieved offhand (even without considering the silent participation by SoFFin)
 - Aareal expects to achieve its core Tier 1 target of 8% - 9% until 2013
- Additionally SoFFin's silent participation is grandfathered until 2018

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



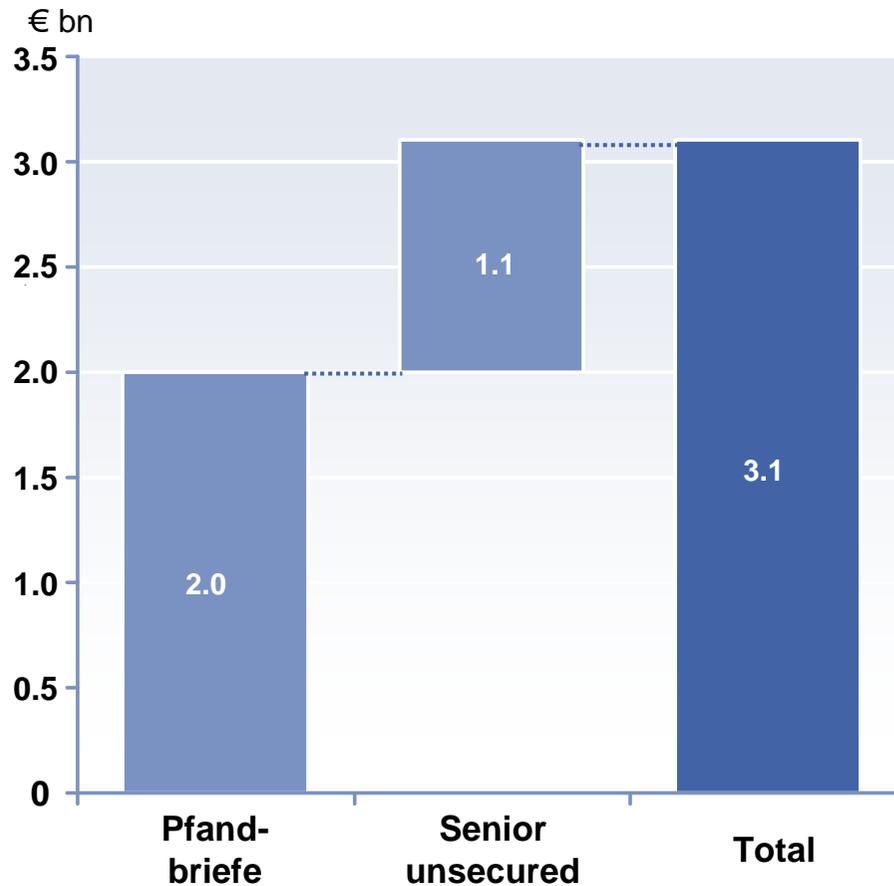
Asset- / Liability structure according to IFRS

As at 30.09.2010: € 42.5 bn (31.12.2009: € 39.6 bn)



Refinancing situation

Flexible use of unsecured and secured funding

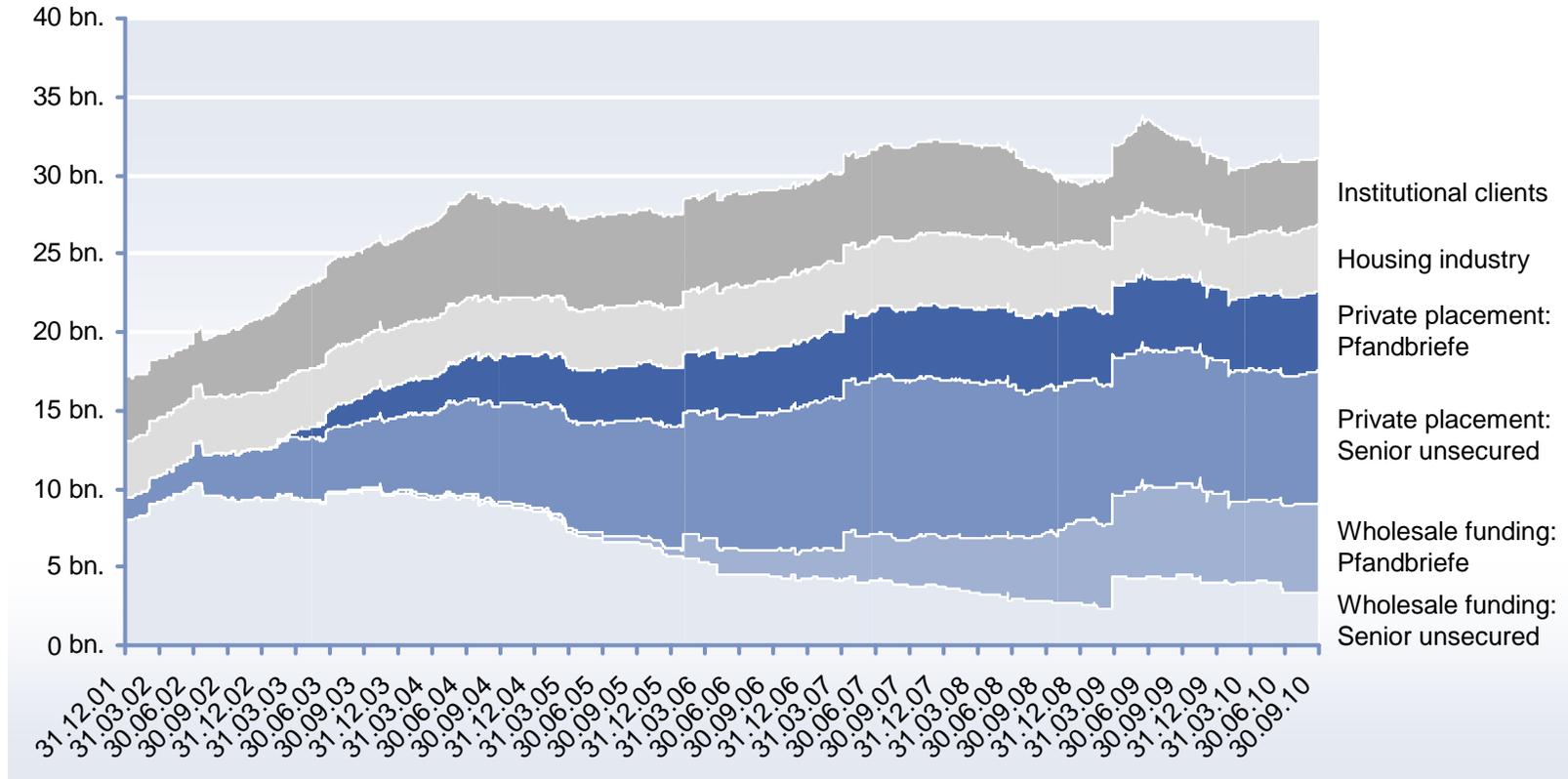


Total funding of € 3.1 bn in 9M 2010

- Pfandbriefe:
 - € 2.0 bn
- Senior unsecured:
 - € 1.1 bn
 - € 2.0 bn SoFFin-Bond 2010 onto own books and therefore not shown



Diversified funding sources and distribution channels



→ Aareal has reduced the significance of wholesale funding within it's funding mix (2002: 48% → 2010: 29%)

As at 30.09.2010

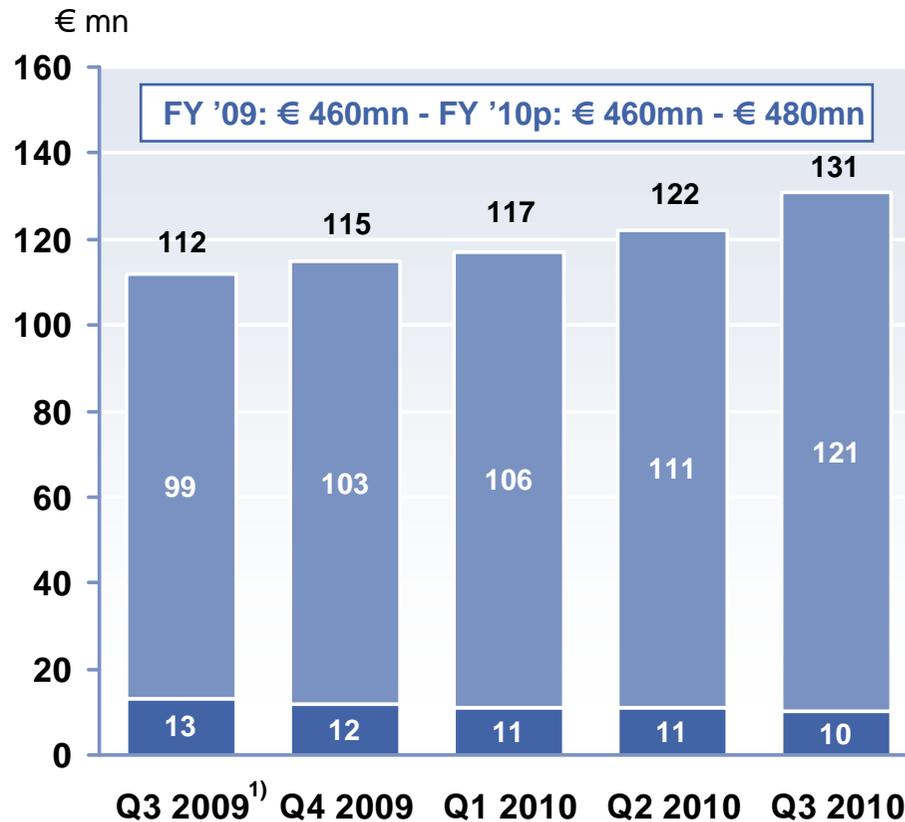


Group figures Q3 2010



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Net interest income: Higher margins “paying off”



- Net interest income Q3 2010: € 131 mn
- Q3 net interest income influenced by
 - SPF-business: Mainly results from higher margins
 - Consulting / Services: Historically low interest rate level still burdens the deposit taking business

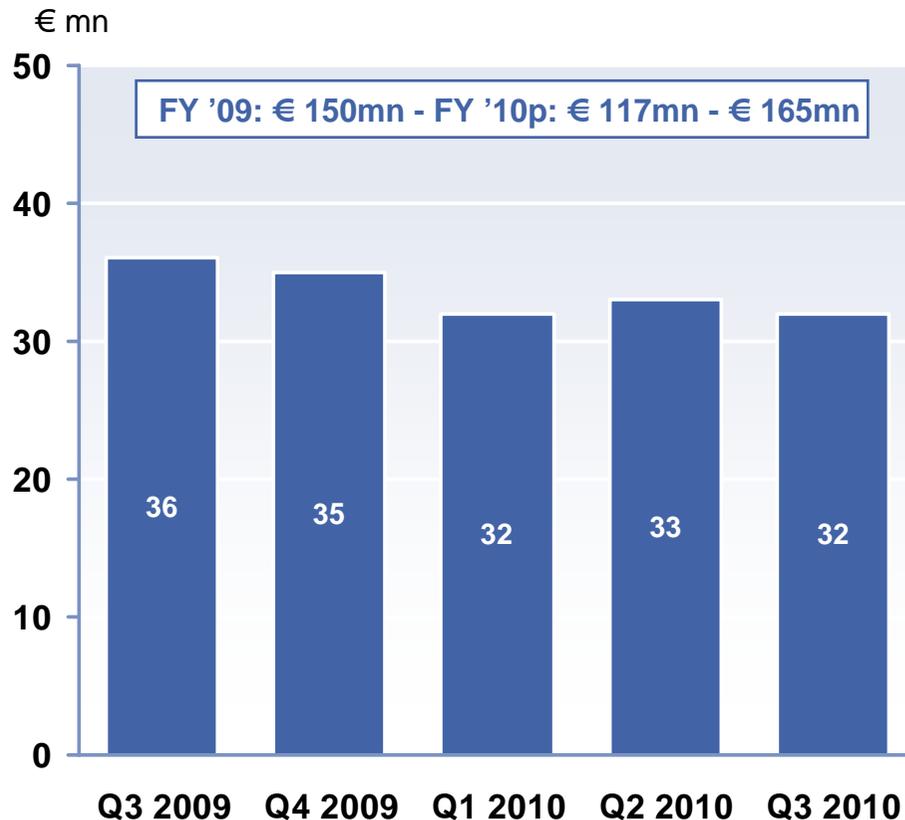
■ NII Structured Property Financing
 ■ NII Consulting / Services

1) Figures adapted



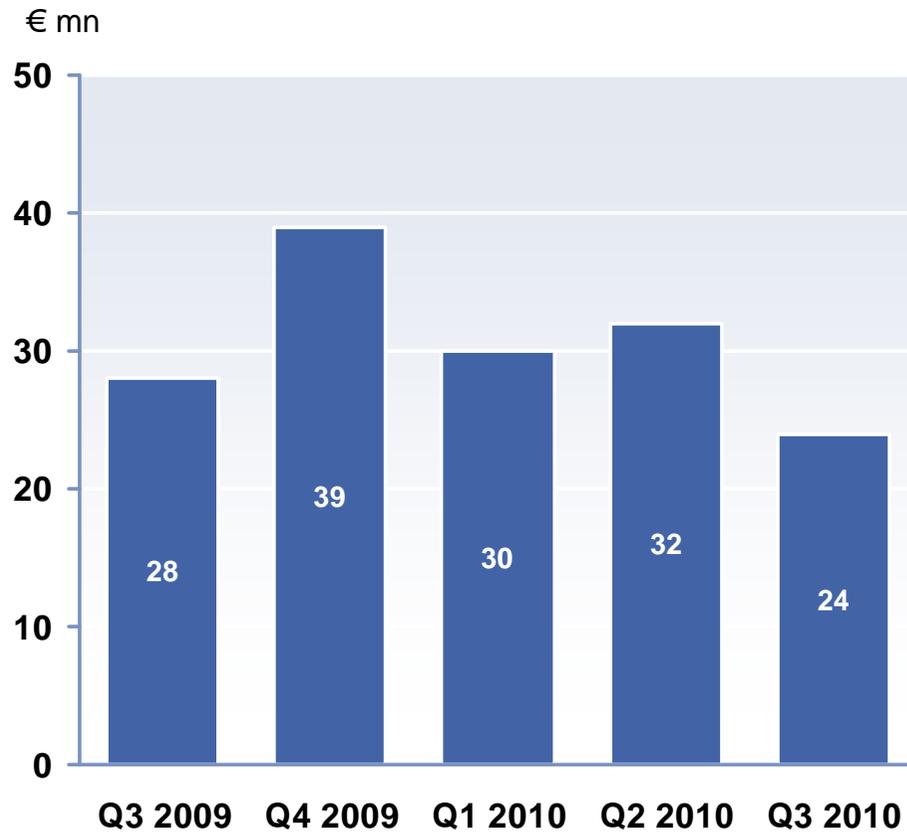
Loan loss provisions:

Stable loan loss provisions proving high portfolio quality



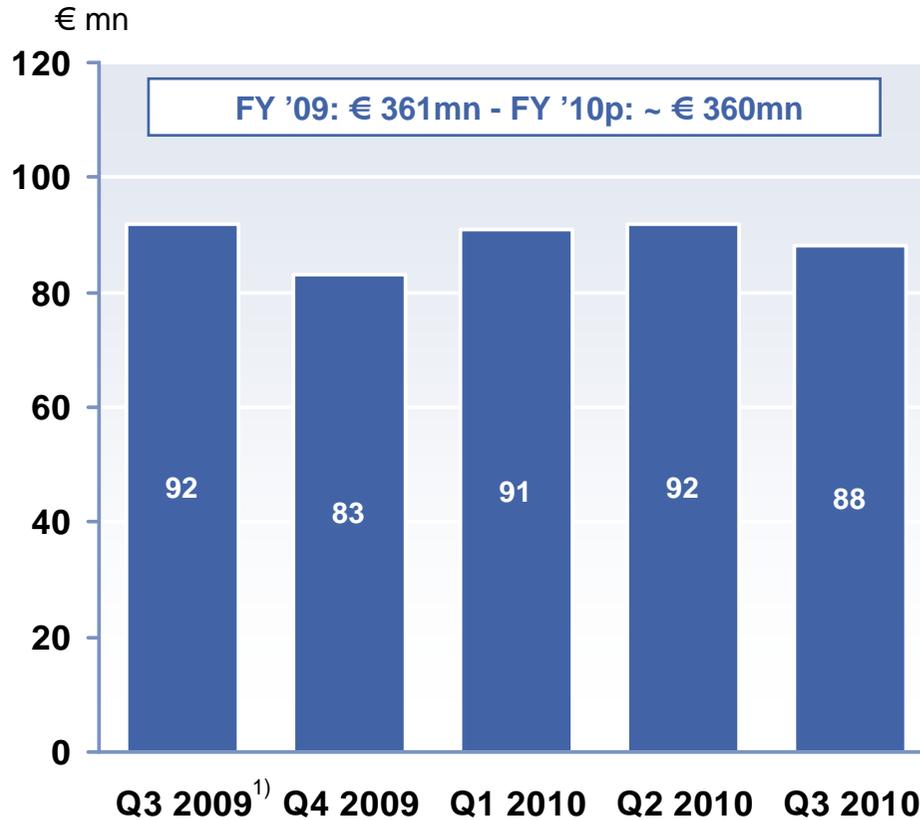
- Loan loss provisions stays in the given range for 2010 although they may vary quarter by quarter
- Close monitoring of our loan portfolio results in € 32 mn LLP in Q3
- € 48 mn General Portfolio LLP still untouched
- We expect a loan loss provision in the lower half of our given range between € 117 mn to € 165 mn
- Naturally we cannot rule out unexpected credit losses in 2010 but we consider them unlikely from today's point of view

Net commission income: Q3 burdened by costs for additional SoFFin guarantee



- All quarters shown are burdened with ~ € 5 mn costs for the first SoFFin guarantee facility
- Starting in Q3 the impact increases to ~ € 10 mn due to the additional SoFFin guarantee facility drawn at the end of Q2 (onto own book)

Admin expenses: Strict cost discipline maintained



- Q3 2010-figures with € 88 mn are below the Q3 2009-level
- Measures to raise efficiency still paying off and keeping the admin expenses continuously stable
- Administrative expenses of € 88 mn in Q3 are within the range for 2010 which is expected to be around the 2009-level

1) Figures adapted



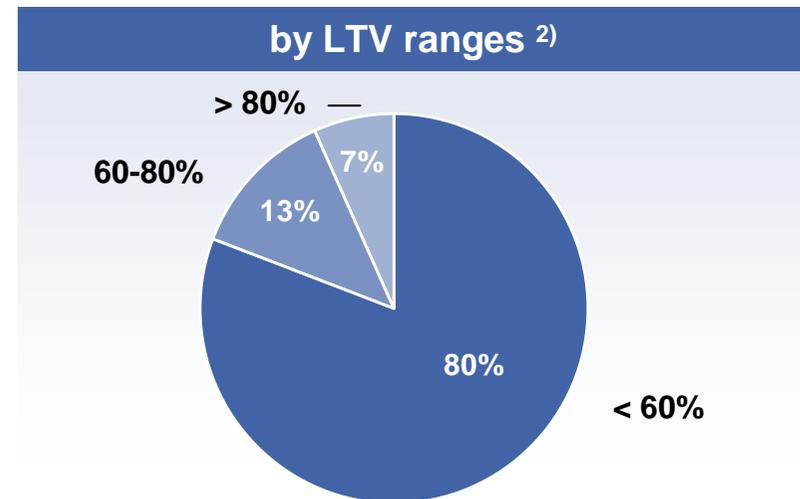
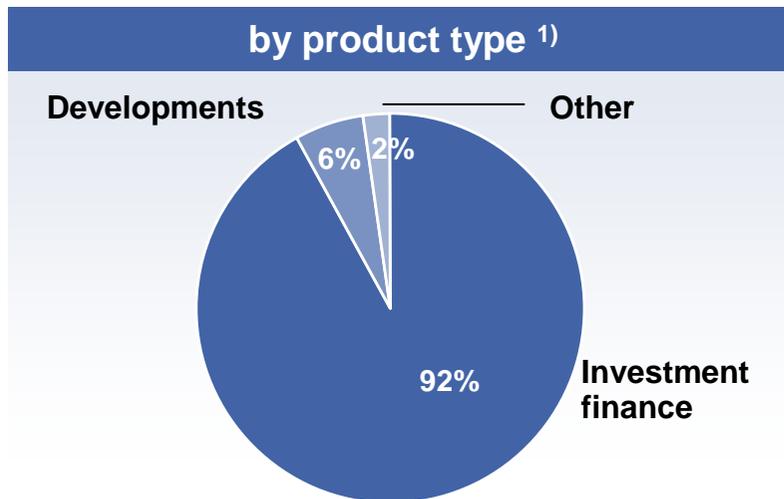
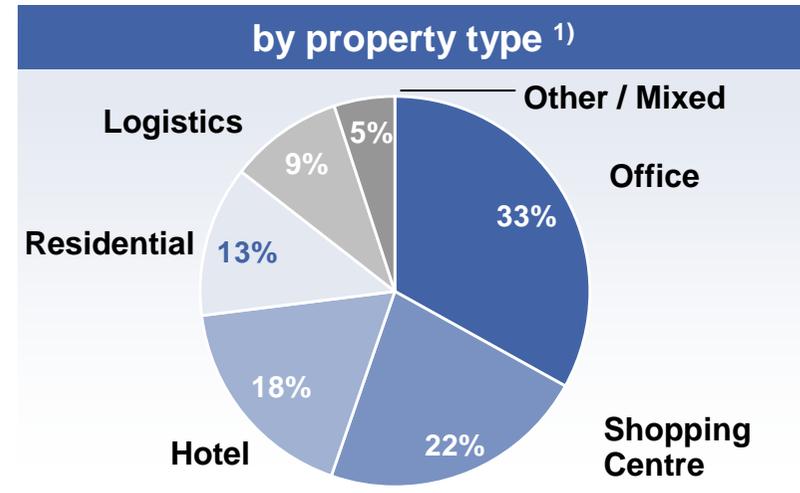
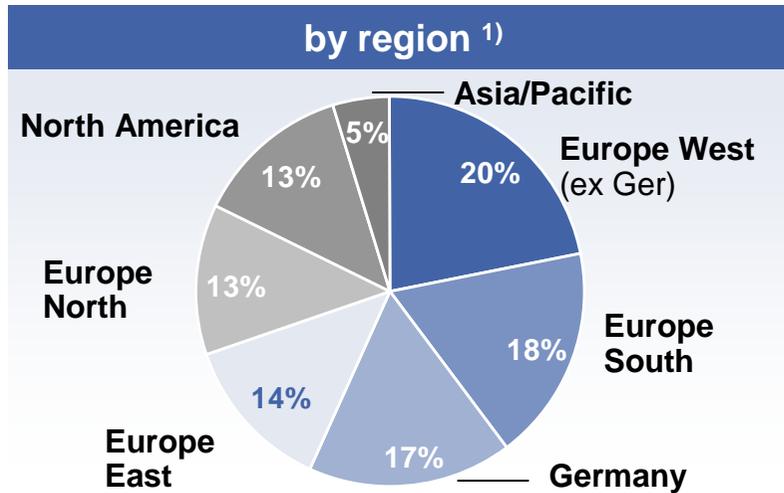
Asset quality



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Total property finance portfolio:

High diversification and sound asset quality



- 1) Total volume under management: € 22.8 bn as at 30.09.2010
 2) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages; values as at 30.09.2010



Total property finance portfolio: NPL-level stabilising with constant coverage ratios

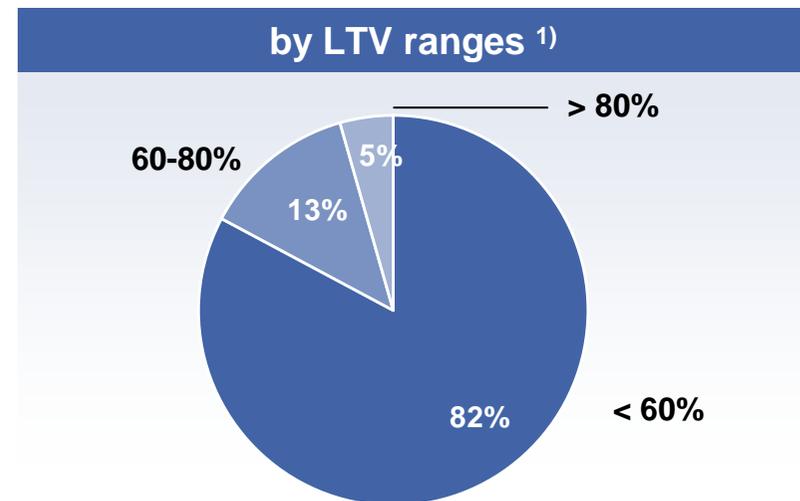
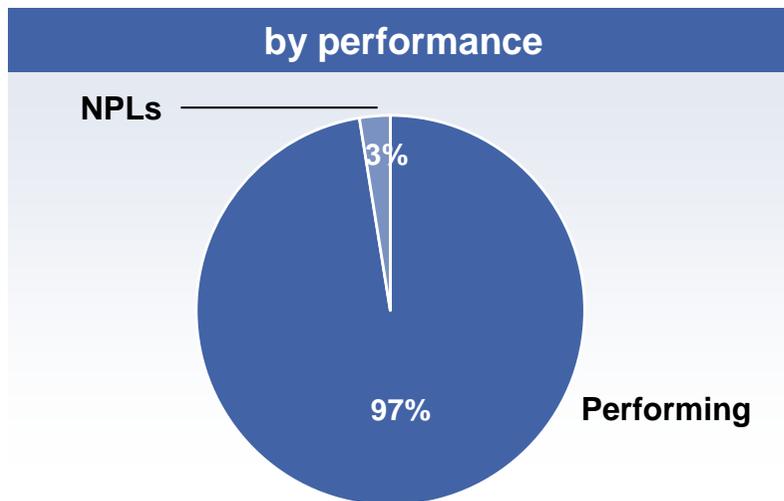
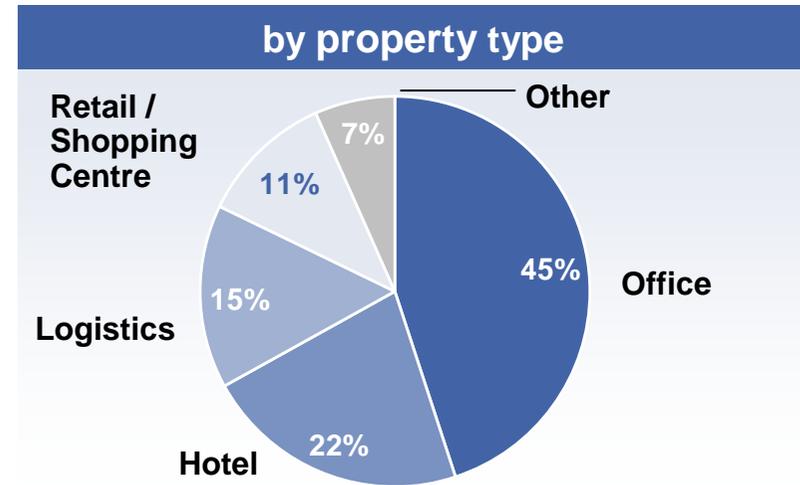
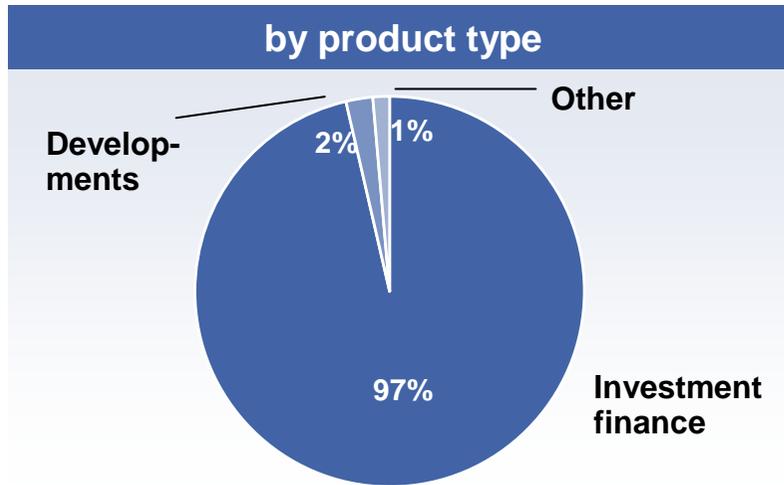
LLP- and NPL development				
	NPL Exposure ¹⁾	Specific Allowances ¹⁾	Portfolio Allowances	
			General LLP	General Portfolio LLP
Euro mn				
As at 31.12.2009	710	202	52	48
Utilisation 9M	-113	-29	-	-
Addition 9M	290	97	-	-
As at 30.09.2010	887	270	52	48
Coverage ratio specific allowances		30.4 %		
		270	52	
As at 30.09.2010	887	322		
Coverage ratio incl. General LLP		36.3 %		

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



Western Europe (ex Ger) credit portfolio

Total volume outstanding as at 30.09.2010: € 5.0 bn

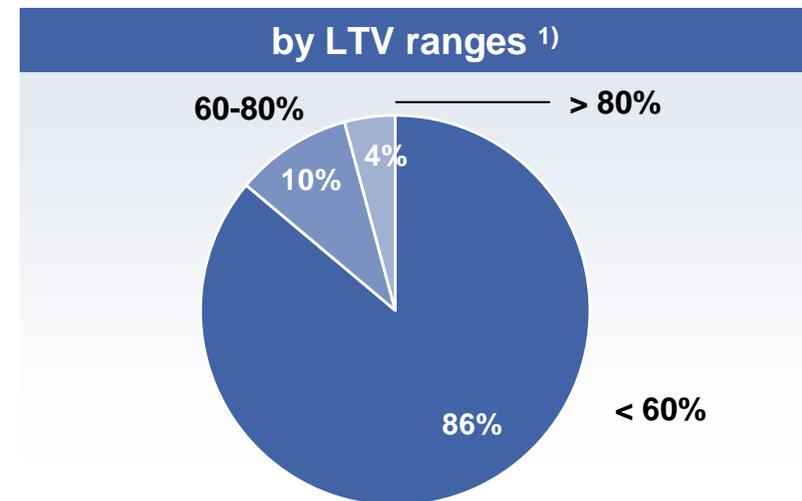
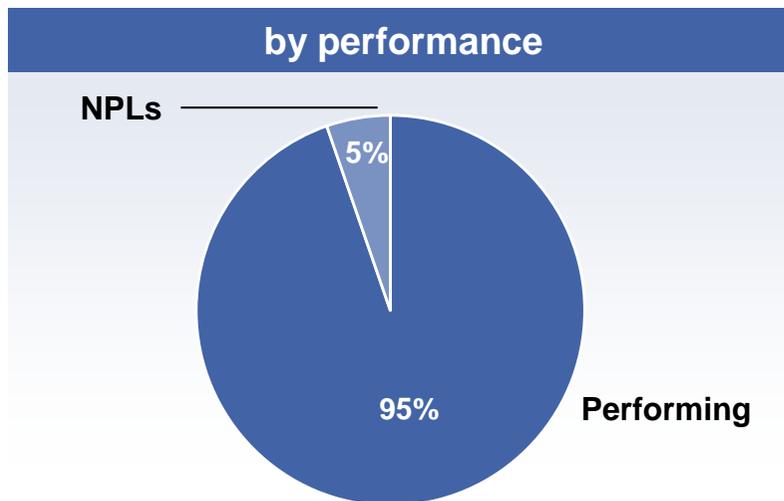
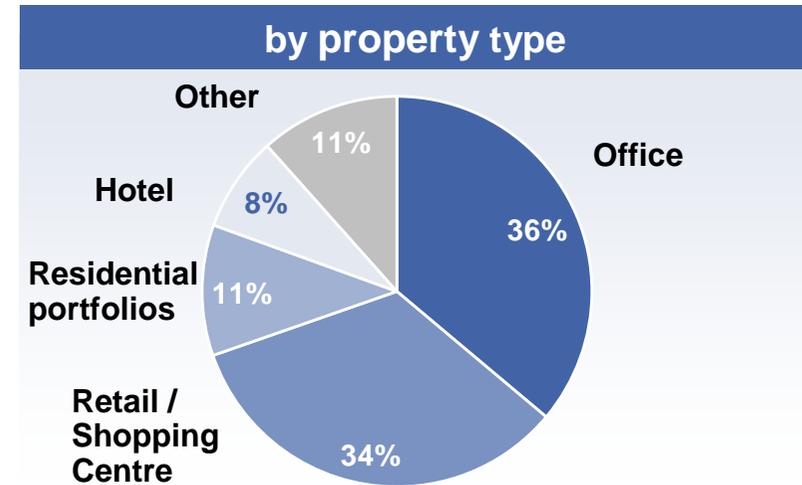
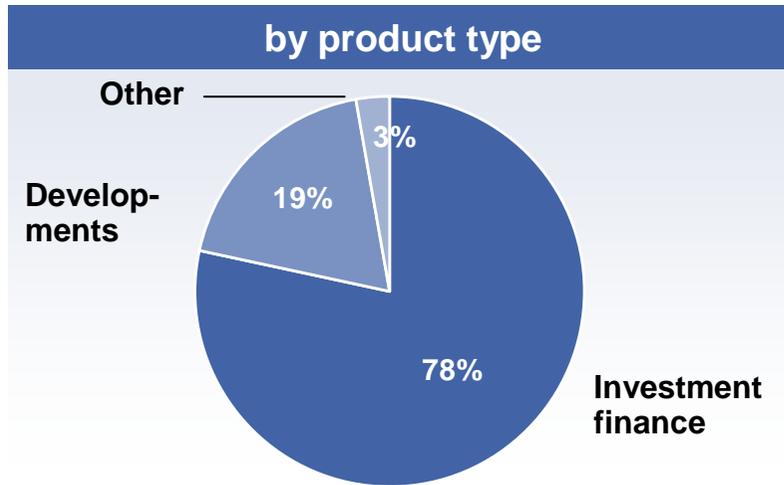


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



Southern Europe credit portfolio

Total volume outstanding as at 30.09.2010: € 4.1 bn

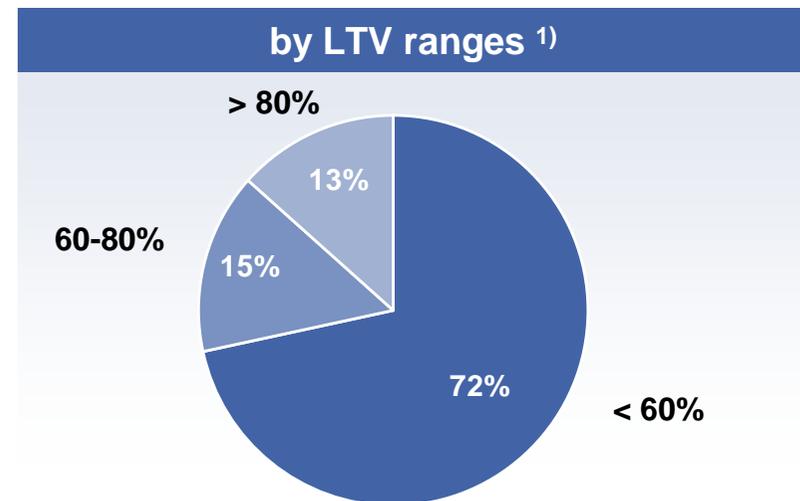
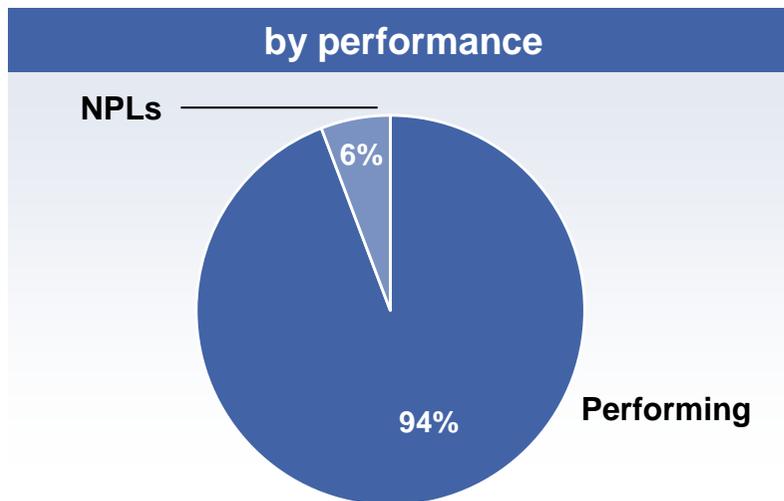
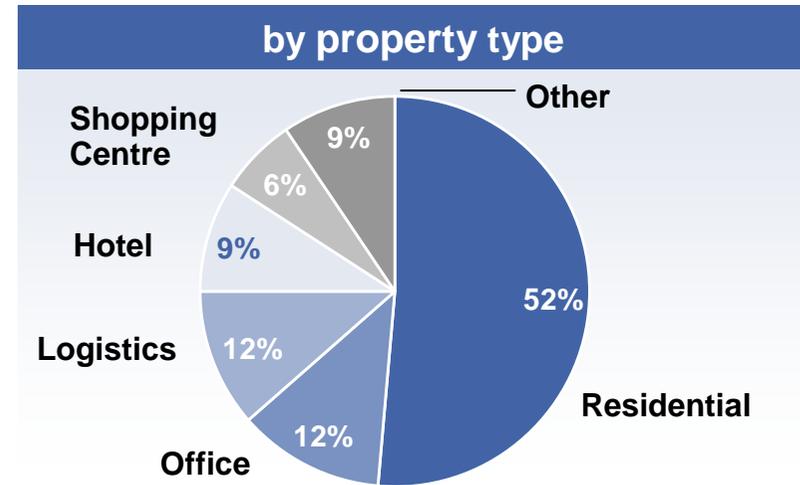
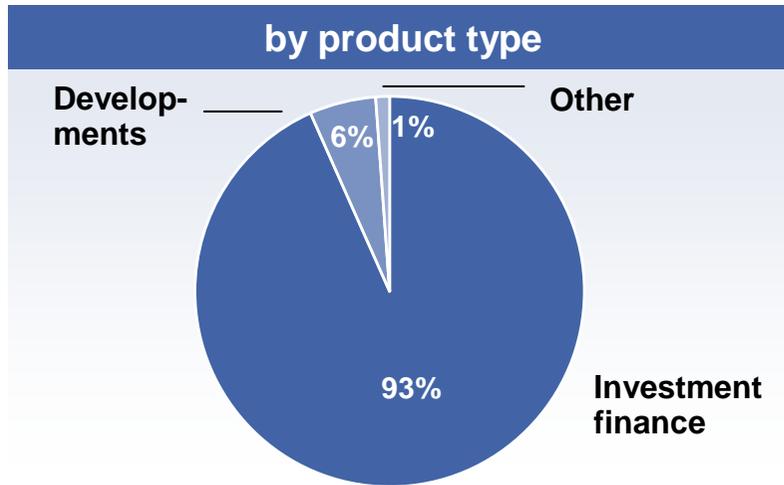


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



German credit portfolio

Total volume outstanding as at 30.09.2010: € 3.8 bn

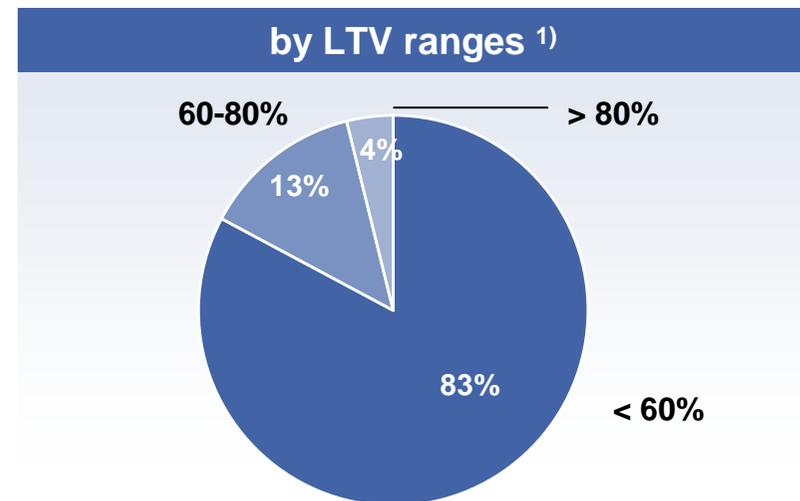
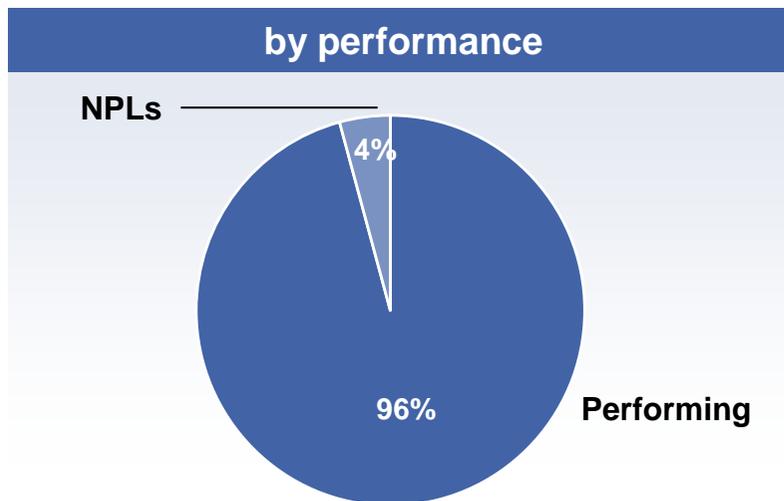
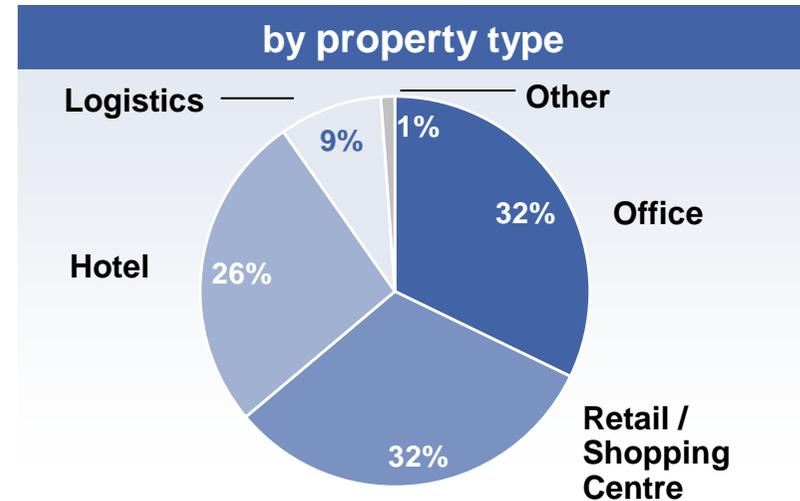
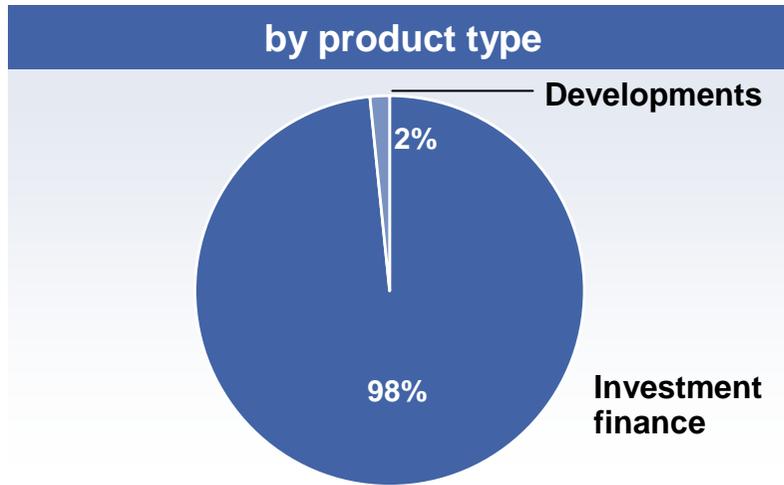


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



Eastern Europe credit portfolio

Total volume outstanding as at 30.09.2010: € 3.0 bn

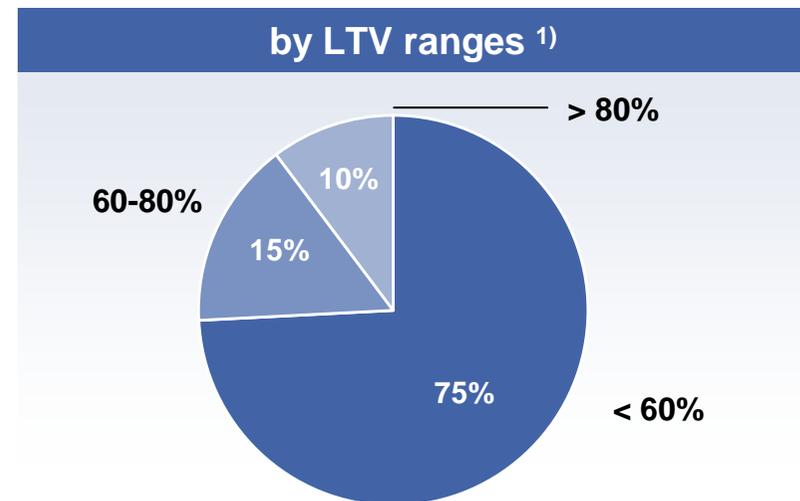
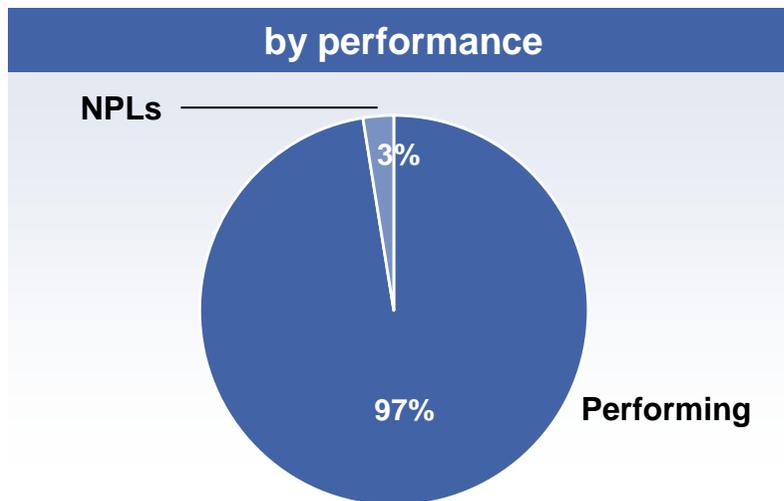
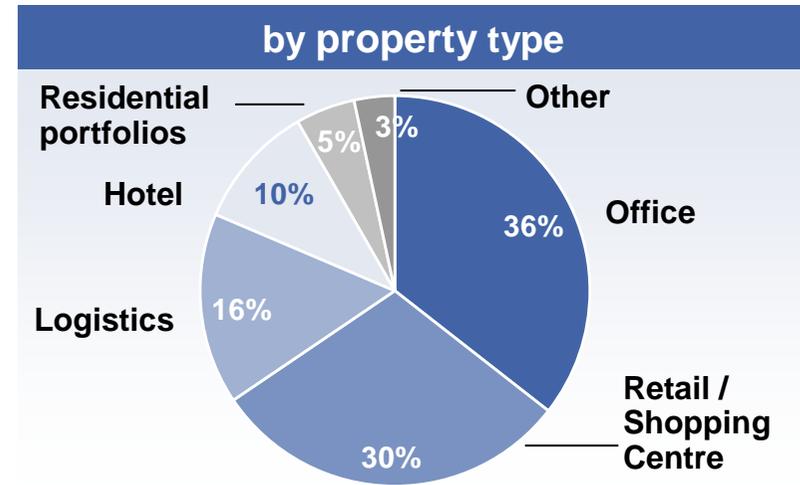
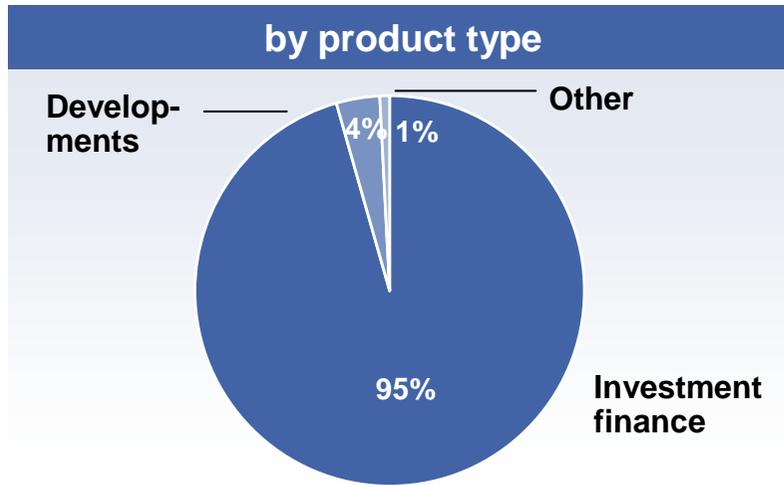


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



Northern Europe credit portfolio

Total volume outstanding as at 30.09.2010: € 2.8 bn

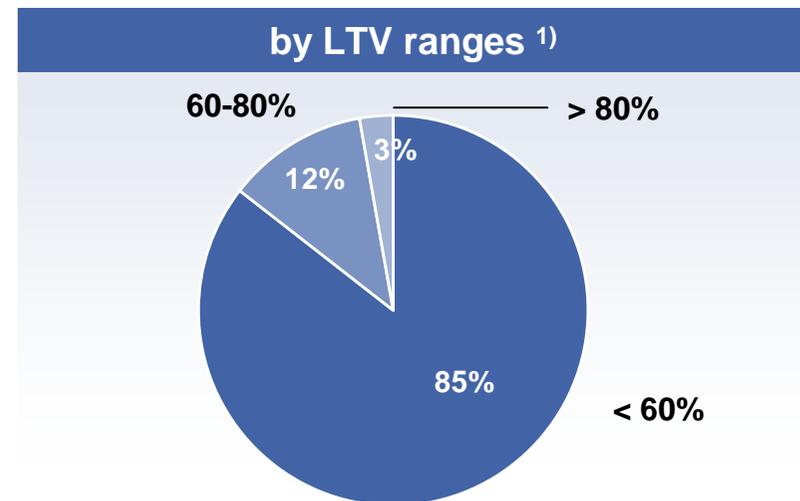
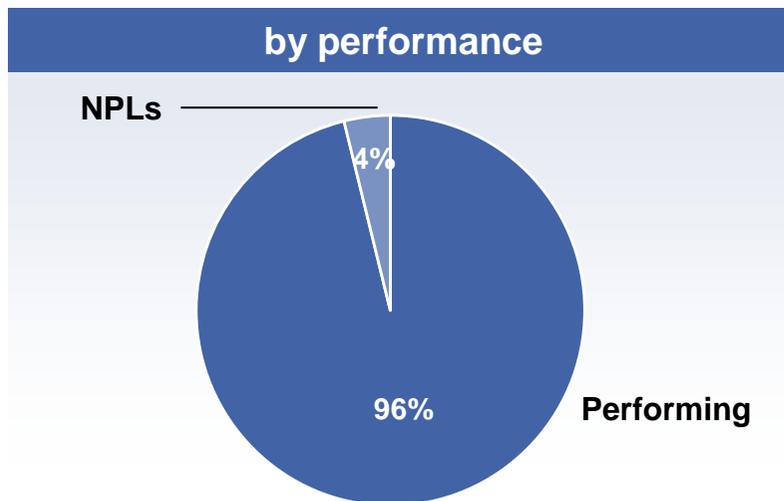
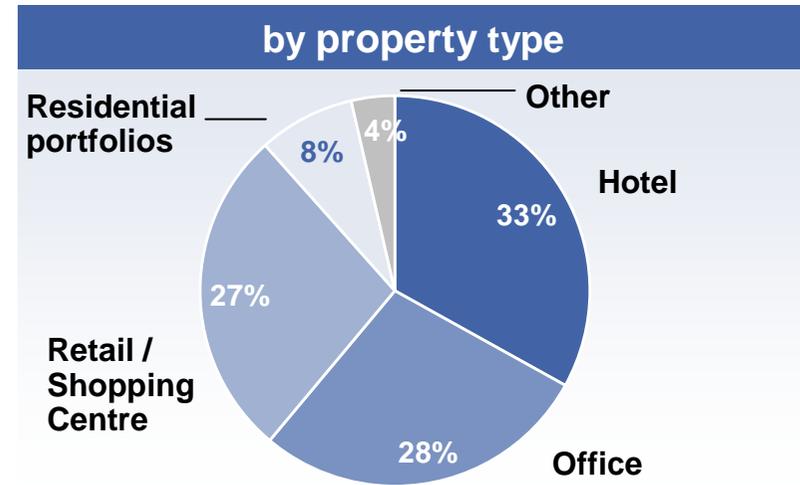
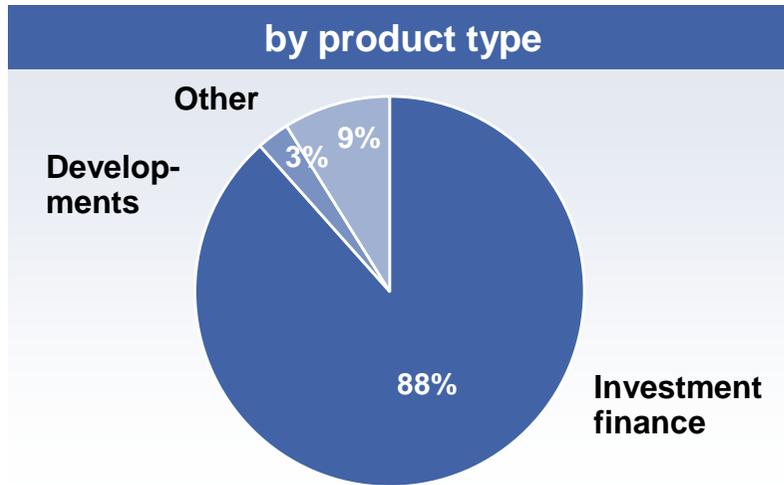


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



North America credit portfolio

Total volume outstanding as at 30.09.2010: € 3.0 bn

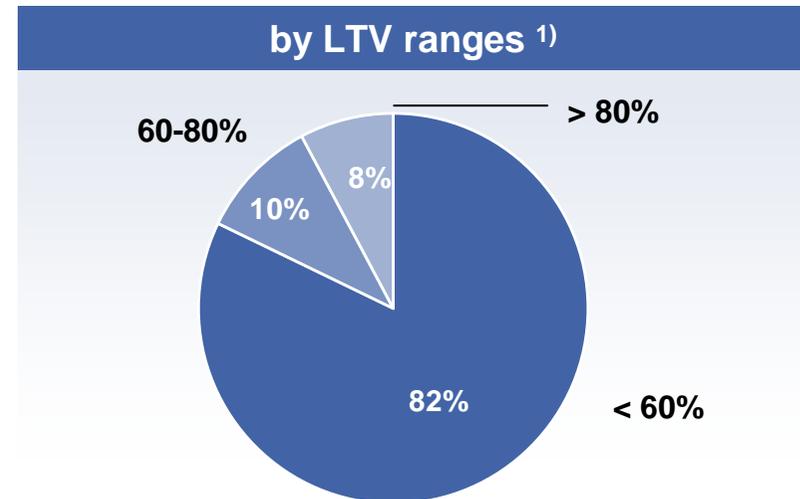
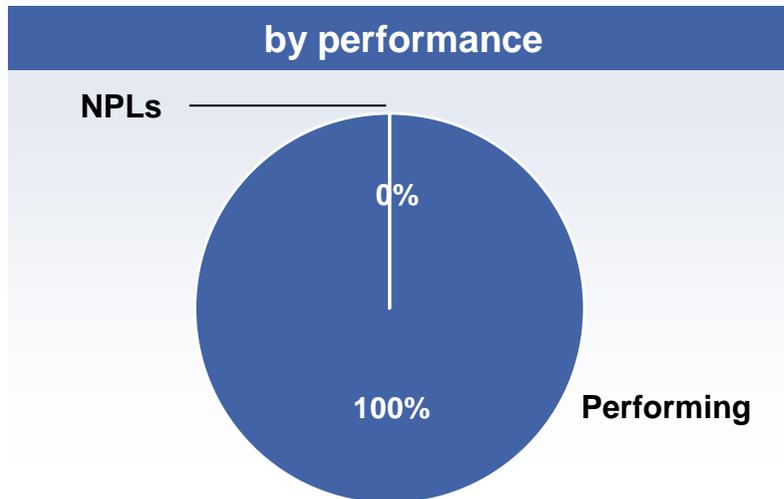
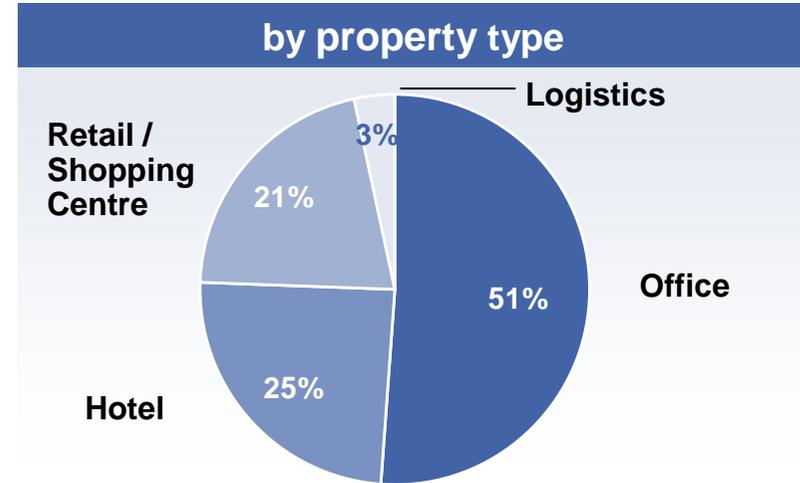
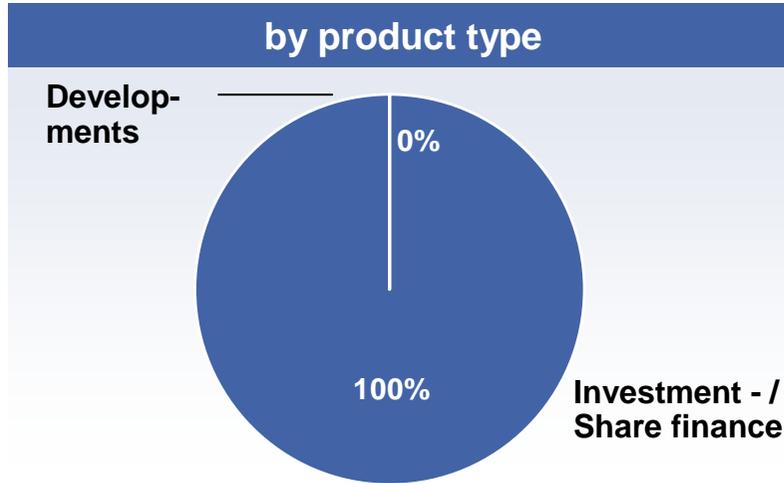


1) Mortgage collateralised performing business only; value does not take into account any collateral other than mortgages



Asia credit portfolio

Total volume outstanding as at 30.09.2010: € 1.1 bn

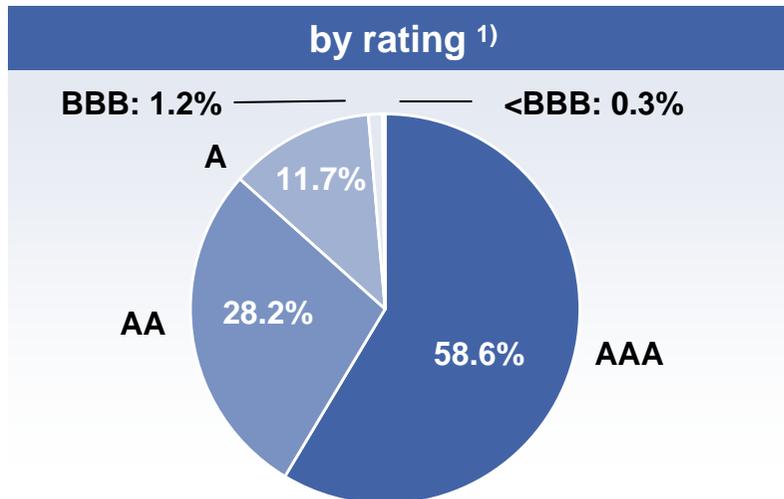
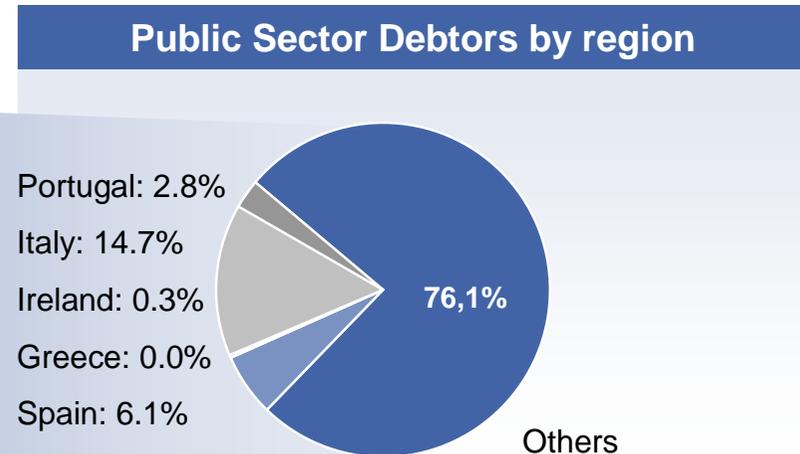
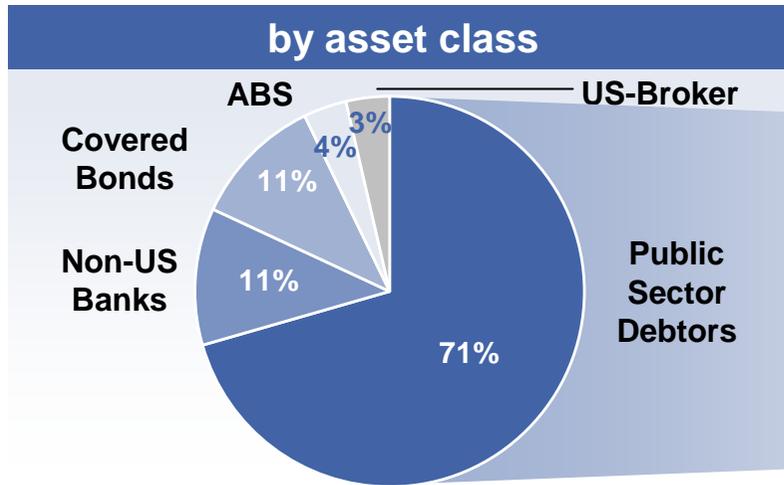


1) Chinese portfolio includes other collateral than mortgages.
Rest of Asia: mortgage collateralised performing business only;
value does not take into account any collateral other than mortgages.



Treasury portfolio

€ 12.7 bn of high quality assets



Others

- Germany: 45.0%
- Austria: 11.6%
- France: 6.2%
- Poland: 4.2%
- Japan: 2.7%
- Supra: 1.8%
- Great Britain: 1.4%
- Hungary: 1.2%
- Netherlands: 0.8%
- Czech Rep.: 0.3%
- Denmark: 0.3%
- Lithuania: 0.3%
- Sweden: 0.3%

As at 30.09.2010 – all figures are nominal amounts
 1) Fitch Rating (or Composite if no Fitch Rating available)



Outlook



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FY outlook 2010 raised

2010

Net interest income

- Will exceed the given target range of € 460 - € 480 mn
- No significant change in interest rate environment assumed

Net loan loss provisions

- Now expected in the lower half of the guided range (€ 117 mn to € 165 mn), depending of the extend to which the additional allowance for credit losses of € 48 million will be utilised
- Naturally we cannot rule out unexpected credit losses in 2010 but we consider them unlikely from today's point of view

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

- Full year target after 9M already outperformed, positive Q4 expected

Structured Property Financing

New business

- Expected to increase above the given range of € 4 - 5 bn

Consulting / Services

Operating profit

- Aareon in plan
- Deposit margins further burdened by continuously low interest environment



Appendix



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Aareal Bank Group

Key figures Q3 2010

	Quarter 3 2010 Euro mn	Quarter 3 2009 ¹⁾ Euro mn	Change
Profit and loss account			
Net interest income	131	112	17,0%
Allowance for credit losses	32	36	-11,1%
Net interest income after allowance for credit losses	99	76	30,3%
Net commission income	24	28	-14,3%
Net result on hedge accounting	-2	-4	-
Net trading income / expenses	2	18	-
Results from non-trading assets	-3	-3	-
Results from companies accounted for at equity	0	-	-
Results from investment properties	0	1	-
Administrative expenses	88	92	-4,3%
Net other operating income / expenses	1	-3	-
Impairment of goodwill	-	0	-
Operating Profit	33	21	57,1%
Income taxes	11	5	120,0%
Net income / loss	22	16	37,5%
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	17	12	41,7%
Appropriation of profits			
Silent partnership contribution by SoFFin	7	9	-22,2%
Consolidated retained profit / accumulated loss	10	3	233,3%

1) Figures adapted



Aareal Bank Group: Segment Reporting

Key figures Q3 2010

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation/ Other		Aareal Bank Group	
	01.07.- 30.09. 2010	01.07.- 30.09. 2009 ¹⁾	01.07.- 30.09. 2010	01.07.- 30.09. 2009	01.07.- 30.09. 2010	01.07.- 30.09. 2009	01.07.- 30.09. 2010	01.07.- 30.09. 2009 ¹⁾
	Euro mn							
Net interest income	121	99	0	0	10	13	131	112
Allowance for credit losses	32	36					32	36
Net interest income after allowance for credit losses	89	63	0	0	10	13	99	76
Net commission income	-5	-3	39	44	-10	-13	24	28
Net result on hedge accounting	-2	-4					-2	-4
Net trading income / expenses	2	18					2	18
Results from non-trading assets	-4	-3	1	0			-3	-3
Results from companies accounted for at equity	0						0	
Results from investment properties	0	1					0	1
Administrative expenses	54	53	35	39	-1	0	88	92
Net other operating income / expenses	2	-4	0	1	-1	0	1	-3
Impairment of goodwill				0				0
Operating profit	28	15	5	6	0	0	33	21
Income taxes	10	3	1	2			11	5
Net income / loss	18	12	4	4	0	0	22	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	14	8	3	4	0	0	17	12
Allocated equity	1,399	1,251	75	63	409	354	1,883	1,668
Cost/income ratio in %	47.2	51.1	87.4	85.1			57.8	61,1
RoE after taxes in % ²⁾	4.1	2.7	16.3	22.6			3.7	3.0

1) Figures adapted

2) On an annualised basis



Aareal Bank Group

Key figures 9M 2010

	01.01.- 30.09.2010 Euro mn	01.01.- 30.09.2009 ¹⁾ Euro mn	Change
Profit and loss account			
Net interest income	370	345	7,2%
Allowance for credit losses	97	115	-15,7%
Net interest income after allowance for credit losses	273	230	18,7%
Net commission income	86	94	-8,5%
Net result on hedge accounting	2	-3	-
Net trading income / expenses	-5	41	-
Results from non-trading assets	11	-19	-
Results from companies accounted for at equity	5	-	-
Results from investment properties	0	1	-
Administrative expenses	271	278	-2,5%
Net other operating income / expenses	-7	-2	-
Impairment of goodwill	0	0	-
Operating Profit	94	64	46,9%
Income taxes	29	15	93,3%
Net income / loss	65	49	32,7%
Allocation of results			
Net income / loss attributable to non-controlling interests	14	13	7,7%
Net income / loss attributable to shareholders of Aareal Bank AG	51	36	41,7%
Appropriation of profits			
Silent partnership contribution by SoFFin	24	18	33,3%
Consolidated retained profit / accumulated loss	27	18	50,0%

1) Figures adapted



Aareal Bank Group: Segment Reporting

Key figures 9M 2010

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation/ Other		Aareal Bank Group	
	01.01.- 30.09. 2010	01.01.- 30.09. 2009 ¹⁾	01.01.- 30.09. 2010	01.01.- 30.09. 2009	01.01.- 30.09. 2010	01.01.- 30.09. 2009	01.01.- 30.09. 2010	01.01.- 30.09. 2009 ¹⁾
	Euro mn							
Net interest income	338	307	0	0	32	38	370	345
Allowance for credit losses	97	115					97	115
Net interest income after allowance for credit losses	241	192	0	0	32	38	273	230
Net commission income	-8	-1	127	134	-33	-39	86	94
Net result on hedge accounting	2	-3					2	-3
Net trading income / expenses	-5	41					-5	41
Results from non-trading assets	10	-19	1	0			11	-19
Results from companies accounted for at equity	5						5	
Results from investment properties	0	1					0	1
Administrative expenses	161	159	112	121	-2	-2	271	278
Net other operating income / expenses	-7	-2	1	1	-1	-1	-7	-2
Impairment of goodwill	0			0			0	0
Operating profit	77	50	17	14	0	0	94	64
Income taxes	24	10	5	5			29	15
Net income / loss	53	40	12	9	0	0	65	49
Allocation of results								
Net income / loss attributable to non-controlling interests	12	12	2	1			14	13
Net income / loss attributable to shareholders of Aareal Bank AG	41	28	10	8	0	0	51	36
Allocated equity	1,399	1,251	75	63	409	354	1,883	1,668
Cost/income ratio in %	47.9	49.0	86.8	89.4			58.6	60.7
RoE after taxes in % ²⁾	4.0	3.0	17.1	15.9			3.6	2.9

1) Figures adapted

2) On an annualised basis



Aareal Bank Group: Segment Reporting

Key figures - quarter by quarter

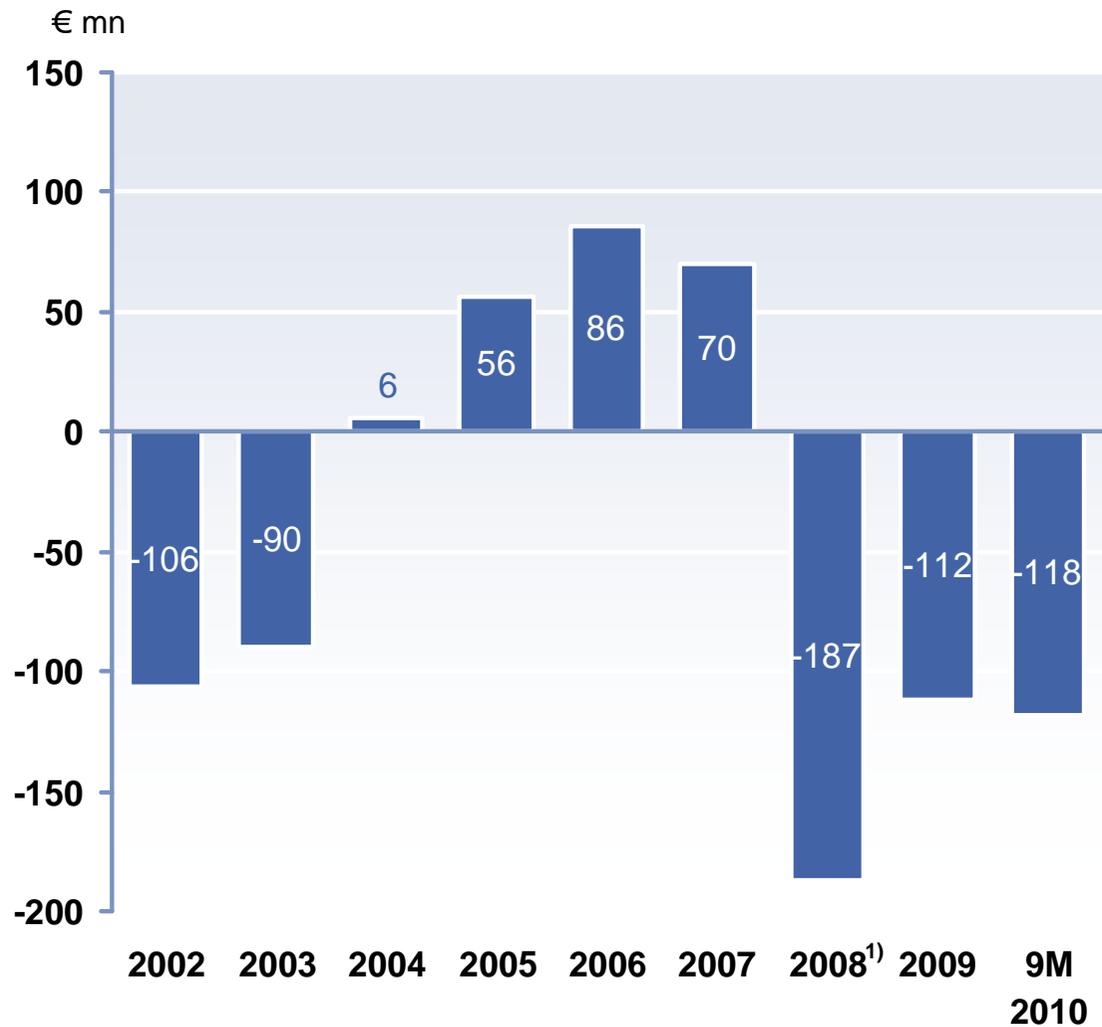
	Structured Property Financing					Consulting / Services					Consolidation / Reconciliation / Other					Aareal Bank Group				
	Q3	Q2	Q1	Q4	Q3	Q3	Q2	Q1	Q4	Q3	Q3	Q2	Q1	Q4	Q3	Q3	Q2	Q1	Q4	Q3
	2010	2010	2010	2009	2009 ¹⁾	2010	2010	2010	2009	2009	2010	2010	2010	2009	2009	2010	2010	2010	2009	2009 ¹⁾
Euro mn																				
Net interest income	121	111	106	103	99	0	0	0	0	0	10	11	11	12	13	131	122	117	115	112
Allowance for credit losses	32	33	32	35	36											32	33	32	35	36
Net interest income after allowance for credit losses	89	78	74	68	63	0	0	0	0	0	10	11	11	12	13	99	89	85	80	76
Net commission income	-5	1	-4	2	-3	39	43	45	50	44	-10	-12	-11	-13	-13	24	32	30	39	28
Net result on hedge accounting	-2	2	2	1	-4											-2	2	2	1	-4
Net trading income / expenses	2	-13	6	3	18											2	-13	6	3	18
Results from non-trading assets	-4	14	0	-3	-3	1	0		0	0						-3	14	0	-3	-3
Results from companies accounted for at equity	0	5		1					0							0	5		1	
Results from investment properties	0	0	0	-1	1											0	0	0	-1	1
Administrative expenses	54	55	52	42	53	35	38	39	42	39	-1	-1	0	-1	0	88	92	91	83	92
Net other operating income / expenses	2	-7	-2	-10	-4	0	1	0	-2	1	-1	0	0	0	0	1	-6	-2	-12	-3
Impairment of goodwill			0	2				0	0	0								0	2	0
Operating profit	28	25	24	17	15	5	6	6	6	6	0	0	0	0	0	33	31	30	23	21
Income taxes	10	7	7	3	3	1	2	2	2	2						11	9	9	5	5
Net income / loss	18	18	17	14	12	4	4	4	4	4	0	0	0	0	0	22	22	21	18	16
Allocation of results																				
Net income / loss attributable to non-controlling interests	4	4	4	4	4	1	0	1	1	0						5	4	5	5	4
Net income / loss attributable to shareholders of Aareal Bank AG	14	14	13	10	8	3	4	3	3	4	0	0	0	0	0	17	18	16	13	12

1) Figures adapted



Revaluation reserve:

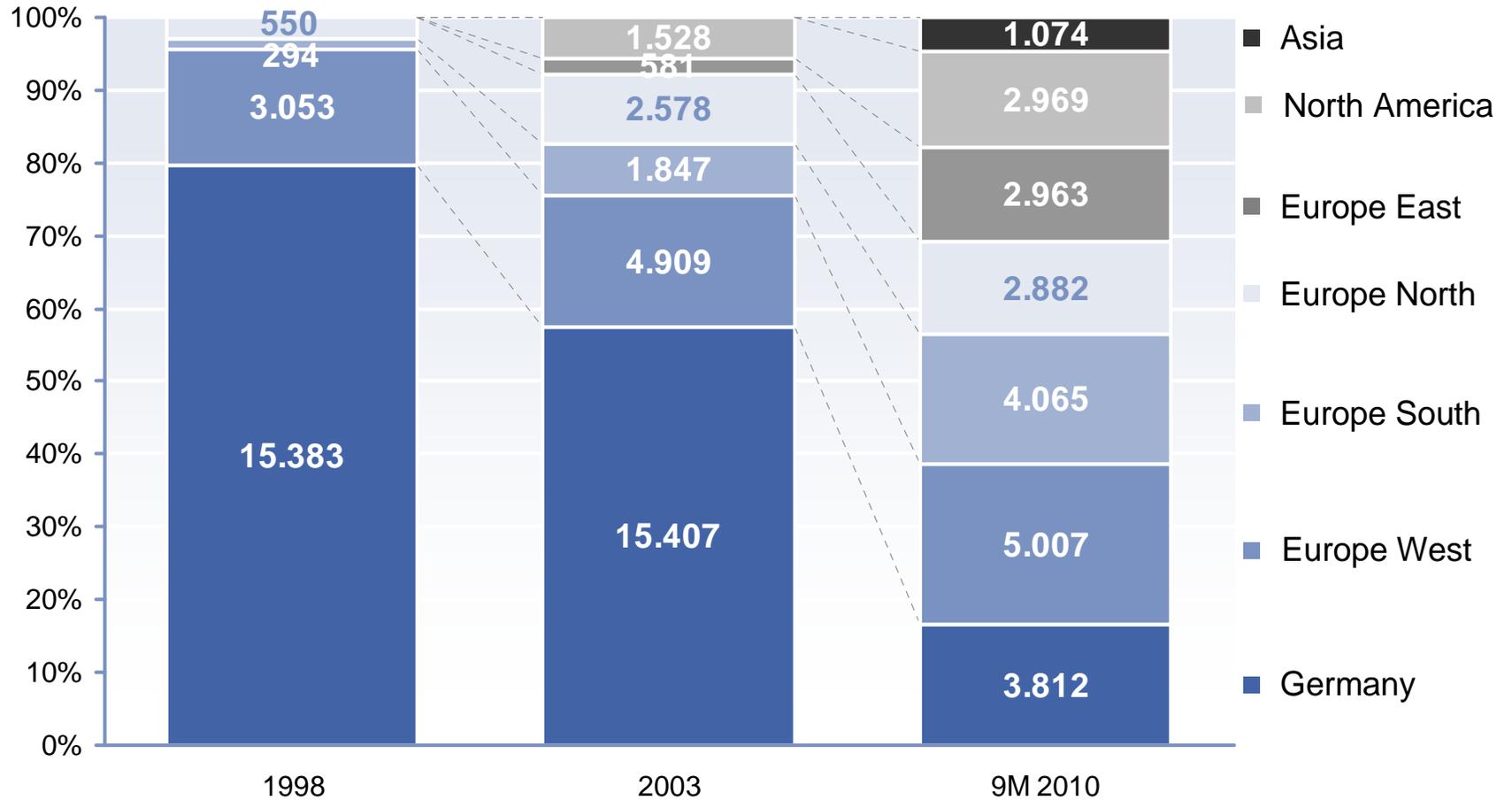
Change mainly driven by asset spreads



1) Figures adapted



Development property finance portfolio: Diversification continuously strengthened

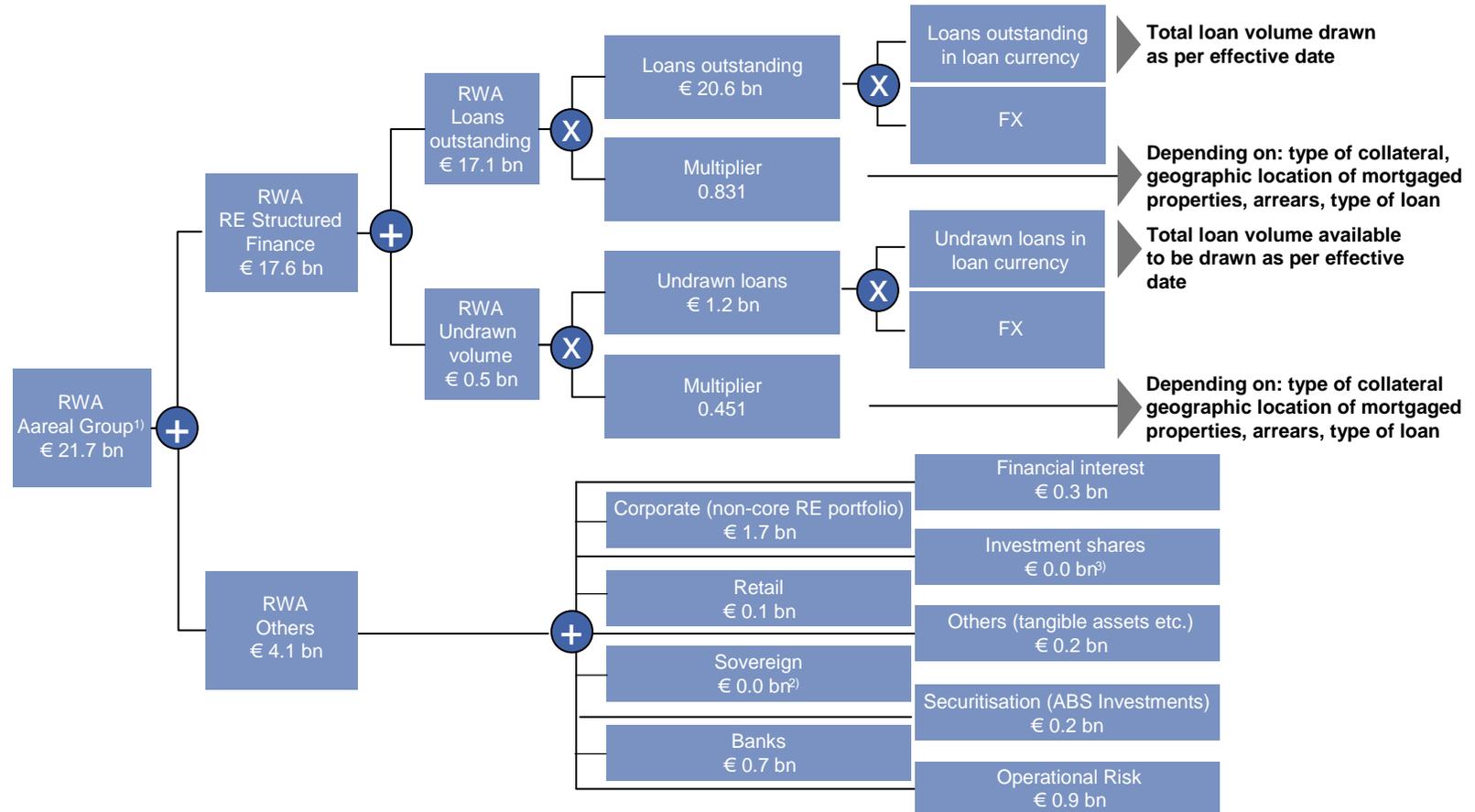


Property finance under management



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

Effective date 30/09/2010



- 1) Excl. of market risk
- 2) Exposure to sovereign governments amounts to € 12 mn
- 3) Exposure to investment shares amounts to € 29 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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