



Aareal Bank

Press Release

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Aareal Bank Group remains on course in the 2008 financial year

- **Significant improvement in second quarter operating profit compared with the first quarter**
- **Sharp increase in net interest income**
- **Positive development continues in Consulting/Services segment**

Wiesbaden, 12 August 2008 – Aareal Bank Group's positive development continues during the course of the 2008 financial year, despite the persistently challenging market environment. In the second quarter of 2008 the international property specialist posted operating profit of € 48 million (Q2 2007: € 53 million), after € 27 million in the first quarter of 2008. Supported by an increase in lending volume and higher margins over the same period of the previous year, consolidated net interest income posted a particularly positive development, rising by 9.6% from € 104 million to € 114 million.

In the **Structured Property Financing segment**, where it pursues a strict new business policy that focuses on quality and return, Aareal Bank benefited from the successful geographical diversification achieved within the scope of its three-continent strategy. Against the background of the current difficult market environment, Aareal Bank is aiming principally at expanding the interest-bearing business in Structured Property Financing, in order to further increase net interest income in this segment: in the second quarter of 2008, it rose by 6.7% to € 95 million (Q2 2007: € 89 million).

The **Consulting/Services segment** continued to perform well. The previous quarter's result (Q2 2007), which was defined by a € 5 million positive one-off effect from the shareholding in Immobilien Scout GmbH (which has been disposed of in the meantime), was almost matched in the second quarter of 2008, without the benefit of any non-recurring income. At € 11 million, the segment result before taxes was almost at the level of the same quarter of the previous year (Q2 2007: € 12 million). The greater importance of the segment as a stable

source of income, particularly during turbulent times on capital markets, is reiterated once again by the rise in operating profit to €22 million in the first half of this year, up from €19 million in the same period of the previous year. The segment is therefore within the target range to meet the forecast for the year as a whole; that is to say, operating profit of €40 to 50 million.

Consolidated administrative expenses fell in the second quarter, to €89 million from €91 million in the same period of the previous year, and in the first half-year from €180 million to €177 million – this is a reflection of the strict cost discipline Aareal Bank Group continues to pursue.

Dr Wolf Schumacher, Chairman of the Management Board of Aareal Bank, commented on the results of the first six months: “Aareal Bank Group is well on track in a market environment that remains difficult. Our solid business policy and business model comprising two strong pillars has proven successful in the course of the current financial year as well. Unlike many other international financial institutions, we have achieved a positive result in all quarters since the outbreak of the financial market crisis.”

Group profitability: stable allowance for credit losses and administrative expenditure

Net interest income for Aareal Bank Group for the second quarter of 2008 was €114 million, and therefore €221 million in the first half of the year (H1 2007: €202 million). Allowance for credit losses of €20 million in the second quarter was within the scope of our planning, and was slightly lower than the corresponding figure for the same quarter of the previous quarter (Q2 2007: €22 million). Net interest income after allowance for credit losses for the first six months was €181 million, compared with €158 million for the first half of 2007. This equates to an increase of 14.6%. Six-month allowance for credit losses stood at €40 million in 2008, after €44 million in the first half of 2007.

At €35 million, net commission income in the second quarter was just short of the figure for same period of the previous year (Q2 2007: €36 million). A lower net figure in the Structured Property Financing segment was offset by an increase in the Consulting/Services segment. Net commission income totalled €68 million for the first half of the year (H1 2007: €73 million).

Net trading income/expenses, which was burdened by the financial crisis in the three previous quarters, was minus €3 million for the period between April and June (Q2 2007: €5 million). Developments in the first quarter of 2008 reflected a charge of approx. €16 million, due to lower market-to-market valuations of asset-backed securities (ABS issues), in net trading income. There were no write-downs on ABS securities in the quarter under review, nor were there any defaults or rating downgrades on the portfolio with a residual nominal value of €616 million (after scheduled redemptions).

Net trading income also regularly includes ongoing expenditure for the bank's own securitisation transactions; as in the first quarter, these amounted to roughly €2 million in the second quarter. The remaining balance of €1 million was

attributable to stand-alone derivatives, bank bonds, government bonds issued by EU member states, interest payments, and currency effects. Net trading income for the first half of 2008 was minus €25 million, after a plus of €7 million in the first six months of 2007 achieved before the outbreak of the financial markets crisis.

The result from non-trading assets was minus €8 million in the second quarter (Q2 2007: €14 million). The decline was due mainly to the sale of securities held in the investment portfolio. The result from non-trading assets for the first half-year therefore stands at €1 million, compared with €26 million for the same period of the previous year.

Administrative expenses in the Group amounted to €89 million in the second quarter, and €177 million in the first half-year.

Net other operating income/expenses posted a positive balance of €16 million for the period from April to June, after minus €2 million in the same quarter of the previous year. Income of €7 million (Q2 2007: €2 million) from the Deutsche Interhotel investment is also reflected in this item, with an additional €3 million recognised in the result from investments accounted for using the equity method.

On balance, consolidated operating profit for the second quarter amounted to €48 million (Q2 2007: €53 million). After deduction of €16 million in income taxes and €4 million in income attributable to minority interests, consolidated net income after minority interests amounted to €28 million.

Aareal Bank's operating profits totalled €75 million in the first half of 2008, after €132 million for the same period of the previous year, which was defined by non-recurring income. Consolidated net income after minority interests was €41 million in the first six months, compared with €89 million for the same period of the previous year.

Structured Property Financing: expanding the interest-bearing business

Notwithstanding the difficult environment on a number of important markets that were affected by the financial markets crisis, Aareal Bank succeeded in expanding its interest-bearing business further. The property financing portfolio under management was €24.2 billion as at 30 June 2008, corresponding to an increase of 0.8% from year-end 2007. This increase was also supported by solid new business, which amounted to €1.8 billion in the second quarter and €2.9 billion in the first half-year.

The bank continued to expand its international financing business, which now accounts for 73% of the total loan portfolio. The entire sales structure is being aligned to the three-continent strategy, where the activities of related economic regions are aggregated into regional sales centres ('hubs'). A new hub for Central and Eastern Europe (CEE) is being established in Warsaw, which should further enhance Aareal Bank's market position in this region defined by strong growth. The establishment of our representative office in Moscow, which commenced operations on 1 July 2008, should also contribute to this expansion.

During the period under review, Aareal Bank continued its strategy of focusing on its core business, whereby it disposed of a portfolio of residential property loans totalling around € 1.47 billion to Deutsche Postbank AG. Aareal Bank has concentrated on commercial property finance since 2002. The successful transaction has reduced roughly 84% of the bank's residential property loan portfolio.

Consulting/Services: stable and positive sources of income

In the second quarter of 2008, Aareal Bank Group continued to strengthen its position as market leader for integrated payment systems for the property management sector. In the first half-year, the bank acquired eight additional users – managing a total of 40,000 rental units between them – as new clients for the BK 01 payments system.

The positive trend in the business development of Aareon AG, a leading European systems house for the commercial housing sector, also continued during the second quarter. The successful realignment of the segment and investments made in new products in recent years are increasingly paying off – across all business units. The marketing of the Blue Eagle property software followed up on the sales successes realised in the previous quarter.

The Consulting/Services segment generated stable sources of income that remained largely immune from the turbulences on the financial markets.

Refinancing: comfortable liquidity situation

Aareal Bank's liquidity profile remains comfortable. Aareal Bank Group successfully shaped its scope for refinancing on the capital market, even in the difficult market environment experienced in 2008. The bank raised a total of around € 1.7 billion in long-term funds during the first half-year: € 1.2 billion in the second quarter of 2008 alone.

The property financing portfolio to be refinanced totalled € 23.0 billion as at 30 June 2008. With € 20.1 billion in long-term funding and very stable deposit volumes from the institutional housing sector of € 4.5 billion, Aareal Bank's liquidity profile is comfortable indeed.

Outlook: developments in line with projections in the latter course of the year

The impact of the crisis affecting financial markets and accelerating inflationary pressures will continue to burden the world economy throughout the remainder of this year, extending into the start of 2009. This makes it generally more difficult to deliver forecasts. Backed by the good results for the first half-year, Aareal Bank Group remains cautiously optimistic for the remainder of the year as well.

Dr Wolf Schumacher, Chairman of the Management Board summarised thus:

“We sincerely believe that Aareal Bank Group's strategy of focusing consistently on two core segments has proven to be correct and sustainable. Aareal Bank is

well positioned to continue successfully along the path upon which it has embarked, even in the current market environment. Given no other major distortions on the financial markets, we continue to believe that operating profit in 2008 will match that of the previous year”.

Aareal Bank

Aareal Bank AG is one of the leading international specialist property banks. The Aareal Bank share is included in Deutsche Börse's mid-cap MDAX index. Aareal Bank operates on three continents: leveraging its successful European business model, the bank has established similar platforms in North America and in the Asia-Pacific region. It provides property financing solutions in more than 25 countries.

Aareal Bank Group: Key figures for the first six months of 2008

(in accordance with IFRS)

	1.1.-30.06.2008	1.1.-30.06.2007	Change
	€ mn	€ mn	%
Net interest income	221	202	9.4%
Net loan loss provisions	40	44	-9.1%
Net interest income after net loan loss provisions	181	158	14.6%
Net commission income	68	73	-6.8%
Net result on hedge accounting	2	5	-60.0%
Net trading income / expenses	-25	7	-
Results from non-trading assets	1	26	-96.2%
Results from companies accounted for at equity	3	5	-40.0%
Results from investment properties	0	1	-100.0%
Administrative expenses	177	180	-1.7%
Net other operating income / expenses	22	37	-40.5%
Impairment of goodwill			-
Operating Profit	75	132	-43.2%
Income taxes	25	34	-26.5%
Consolidated net income / loss	50	98	-49.0%
Allocation of results			
Consolidated net income / loss attributable to minority interests	9	9	0.0%
Consolidated net income / loss attributable to shareholders of Aareal Bank AG	41	89	-53.9%

	30.06.2008	31.12.2007	Change
	€ mn	€ mn	%
Portfolio data			
Property finance	22,999	22,550	2.0%
of which international	17,597	16,878	4.3%
Property finance under management	24,241	23,992	1.0%
of which international	17,597	16,878	4.3%
Shareholders' equity	1,559	1,627	-4.2%
Total assets	40,315	40,202	0.3%

	1.1.-30.06.2008	1.1.-30.06.2007
Key financial indicators		
Cost/Income ratio (%) *)	54.5	44.9
Earnings per share (€)	0.95	2.09
RoE after taxes (%) **)	6.2	16.8

*) only Structured Property Financing segment

***) on an annualised basis

Aareal Bank Group: Segment reporting by operating unit

(in accordance with IFRS)

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation/ Other		Aareal Bank Group	
	€ mn		€ mn		€ mn		€ mn	
	Quarter 2 2008	Quarter 2 2007	Quarter 2 2008	Quarter 2 2007	Quarter 2 2008	Quarter 2 2007	Quarter 2 2008	Quarter 2 2007
Net interest income	95	89	0	0	19	15	114	104
Provision for loan losses	20	22					20	22
Net interest income after net loan loss provisions	75	67	0	0	19	15	94	82
Net commission income	6	8	48	43	-19	-15	35	36
Net result on hedge accounting	0	3					0	3
Net trading income / expenses	-3	5					-3	5
Results from non-trading assets	-8	13	0	1			-8	14
Results from companies accounted for at equity	3			5			3	5
Results from investment properties	0	1			0	0	0	1
Administrative expenses	52	55	38	36	-1	0	89	91
Net other operating income / expenses	16	-1	1	-1	-1	0	16	-2
Impairment of goodwill								
Operating profit	37	41	11	12	0	0	48	53
Income taxes	12	8	4	3			16	11
Consolidated net income / loss	25	33	7	9	0	0	32	42
Allocation of results								
Consolidated net income / loss attributable to minority interests	4	4	0	0			4	4
Consolidated net income / loss attributable to shareholders of Aareal Bank AG	21	29	7	9	0	0	28	38
Allocated equity	920	804	72	76	322	179	1,314	1,059
Cost/income ratio in %	48.9	52.1	78.6	77.3			57.8	59.3
RoE after taxes in %	9.3	14.8	36.8	46.7			8.5	14.5