



Press Release

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Aareal Bank Group starts the 2008 financial year on a positive note, despite the challenging environment

- **Net interest income rises to € 107 million**
- **€ 27 million operating profit, despite write-downs on the ABS portfolio**
- **Structured Property Financing originates new business on a selective basis, with higher margins**
- **Continued improvement in results contributed by the Consulting/Services segment**

Wiesbaden, 14 May 2008 – Aareal Bank Group maintained its positive business momentum during the first months of 2008, in a market environment that continues to be difficult. The international property specialist posted operating profit of € 27 million for the first three months of the year. Adjusted for special effects, this figure was higher than in the same quarter of the previous year: the operating profit figure for the first quarter of 2007 (€ 79 million) included € 37 million (before taxes) in non-recurring income, whilst the figure for the period under review was burdened by € 16 million in charges from the revaluation of the ABS portfolio, as a result of the global financial crisis. Consolidated net income after minority interests amounted to € 13 million for the first quarter of 2008 (Q1 2007: € 51 million, including non-recurring effects).

In the **Structured Property Financing** segment, Aareal Bank pursues a strict, selective new business policy that focuses on quality and return, and on attractive high-margin market opportunities. In this context, the volume of business in the first three months declined, to € 1.1 billion (Q1 2007: € 2.2 billion), also due to the drop in transaction volumes on major property markets as a consequence of the financial crisis. At the same time, the bank achieved a significant year-on-year increase in interest margins on new business.

The **Consulting/Services** segment, serving the institutional housing sector, showed another strong performance during the first quarter of 2008. Posting a further increase in operating profit, to € 11 million (Q1 2007: € 7 million), the segment once again demonstrated its increasing importance as a stable source of income.

Dr Wolf Schumacher, Chairman of the Management Board of Aareal Bank, commented: "Aareal Bank Group performed very well during the first quarter of 2008, against a background of ongoing market difficulties. Our business model, incorporating the strong two columns of Structured Property Financing and Consulting/Services, is not only unique in our industry, but has also once again proved its robustness. We are well positioned to weather the challenges we face in the market. Over the coming months, we will continue to consistently – and selectively – exploit the opportunities available to our Structured Property Financing segment, and we will further expand our market position in Consulting/Services."

Financial performance: higher net interest income

Aareal Bank's consolidated net interest income for the first three months of 2008 was € 107 million, up 9.2% (Q1 2007: € 98 million). Provisions for loan losses were slightly lower, at € 20 million (Q1 2007: € 22 million). Net interest income after loan losses thus rose by 14.5%, to € 87 million (Q1 2007: € 76 million).

At € 33 million, net commission income was lower than in the same quarter of 2007 (Q1 2007: € 37 million), mainly due to the bank's more selective new business policy in 2008, and lower prepayments compared with the previous year. Higher net commission income generated in the Consulting/Services segment offset the respective decrease in Structured Property Financing to some extent.

Net trading income was down by € 24 million compared to the previous year's figure, to minus € 22 million. First-quarter developments reflected a charge of approx. € 16 million in lower mark-to-market valuations of Asset Backed Securities (ABS issues). Net trading income also regularly includes ongoing expenditure for the bank's own securitisations; these amounted to approx. € 2 million during the first quarter. The remaining balance was attributable to stand-alone derivatives, bank bonds, government bonds issued by EU member states, interest payments, and currency effects. Roughly 90% of the ABS issues held are rated AAA. These ratings have remained stable since the onset of the US financial crisis, with some issues even having been upgraded. Aareal Bank Group has no direct or indirect exposure to the US sub-prime market, nor does it hold any investments in US RMBS issues, CDOs, or in any transactions guaranteed by monoline insurers.

Results from non-trading assets of € 9 million (Q1 2007: € 12 million) were largely attributable to the disposal of securities from the available-for-sale portfolio. Net other operating income/expenses was positive, at € 6 million. The corresponding figure of € 39 million for the first quarter of 2007 included a € 37 million compensation payment received from DEPFA Deutsche Pfandbriefbank AG.

Administrative expenses were reduced from € 89 million in the first three months of 2007 to € 88 million in the first quarter of 2008.

Consolidated operating profit thus amounted to € 27 million. After deduction of € 9 million in income taxes and € 5 million in income attributable to minority

shareholders, consolidated net income after minority interests amounted to € 13 million.

Structured Property Financing successful across three continents

Aareal Bank continued to push ahead with the successful three-continent strategy adopted in its Structured Property Financing segment. Just under 90% of new business, totalling € 1.1 billion, was originated outside Germany: North America accounted for 15.9%, and the high-growth Asia/Pacific region 6.6%.

At € 23.7 billion (31 March 2008), the property financing portfolio under management contracted slightly, compared to the end-2007 figure of € 24 billion. This was primarily attributable to the selective stance adopted vis-à-vis new business. At the same time, the continued high proportion of new international commitments further enhanced the regional diversification of Aareal Bank's portfolio. At the end of the first quarter, the share of international financings amounted to 71% of the overall portfolio.

Consulting/Services: stable source of income

The Consulting/Services segment carried the strong performance shown in the previous financial year into the period under review. Results at the Aareon AG subsidiary slightly outperformed the seasonal budget, as the multi-product strategy implemented in 2006 and 2007 – comprising the four enterprise resource planning (ERP) systems Blue Eagle, GES, Wohndata and Wodis – continues to bear fruit. Aareal Bank Group further extended its client base in the payments and deposit-taking businesses: the Group envisages significant distribution potential for its 'BK01' family of mass payment products, also through an expansion of sales to other sectors beyond the commercial housing sector.

The operating profit generated in the Consulting/Services segment rose to € 11 million in the first three months of 2008 (Q1 2007: € 7 million). For seven quarters in a row now, the segment has been making a positive profit contribution, and has thus evolved into a key source of income and an integral part of Aareal Bank Group.

Refinancing: growing importance of Pfandbrief issuance

Aareal Bank successfully shaped its scope for refinancing during the first quarter of 2008. The bank raised € 490 million in long-term funds up until the end of March, with mortgage bonds accounting for € 400 million, public-sector covered securities for € 30 million, and senior unsecured issues for € 60 million. Thanks to the high quality and strict legal framework governing Pfandbrief issues, German covered bond issues are a key element of Aareal Bank's funding mix.

Aareal Bank is maintaining its plans to clearly expand the Pfandbrief share of refinancing activities in the medium term, from currently 35% in terms of the bank's property financing portfolio, the proportion of mortgage bond refinancing is planned to increase from 25% at present to around 30% by the end of 2008. The significant level of deposits attracted by the Group's Institutional Housing Business also offers competitive advantages on the

refinancing side, and clearly reduces dependency on the money and capital markets in the current volatile environment. Average deposits taken amounted to approx. € 4.5 billion during the first quarter of 2008.

Outlook: cautiously optimistic

The Management Board maintains its cautiously optimistic stance for the year 2008 as a whole: “Based on our performance during the first quarter, during which our business model once again demonstrated its resilience and sustainability, we still believe that we will be able to match 2007’s operating profit in the current year – unless the distortions on financial markets continue to prevail”, Schumacher explained. The Chairman of Aareal Bank’s Management Board added: “At the same time, we will undertake all internal measures required to sustain our competitiveness, within the scope of our adjusted growth programme “FUTURE 2010”. This will provide the basis for Aareal Bank Group’s continued success, regardless of the changing framework.”

The uncertainty affecting the current market situation continues to make a precise forecast for the Structured Property Financing segment difficult. During the remainder of the year, Aareal Bank will continue to pursue a selective new business origination policy, with strict requirements in terms of quality and returns, to consistently exploit available market opportunities. It is envisaged that the positive performance of the Consulting/Services segment will prevail.

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. Leveraging its successful European business model, Aareal Bank is active on three continents, having 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:
Results for the first quarter of 2008 (in accordance with IFRS)

	1.1.-31.03.2008	1.1.-31.03.2007	Change
	€ mn	€ mn	%
Net interest income	107	98	9.2%
Net loan loss provisions	20	22	-9.1%
Net interest income after net loan loss provisions	87	76	14.5%
Net commission income	33	37	-10.8%
Net result on hedge accounting	2	2	0.0%
Net trading income / expenses	-22	2	-
Results from non-trading assets	9	12	-25.0%
Results from companies accounted for at equity	0		-
Results from investment properties	0	0	-
Administrative expenses	88	89	-1.1%
Net other operating income / expenses	6	39	-84.6%
Impairment of goodwill			-
Operating Profit	27	79	-65.8%
Income taxes	9	23	-60.9%
Consolidated net income / loss	18	56	-67.9%
Allocation of results			
Consolidated net income / loss attributable to minority interests	5	5	0.0%
Consolidated net income / loss attributable to shareholders of Aareal Bank AG	13	51	-74.5%

	31.03.2008	31.12.2007	Change
	€ mn	€ mn	%
Portfolio data			
Property finance	22,333	22,550	-1.0%
of which international	16,715	16,878	-1.0%
Property finance under management	23,666	23,992	-1.4%
of which international	16,715	16,878	-1.0%
Shareholders' equity	1,552	1,627	-4.6%
Total assets	39,815	40,202	-1.0%

	1.1.-31.03.2008	1.1.-31.03.2007
Key financial indicators		
Cost/Income ratio (%) *)	61.4	38.5
Earnings per share (€)	0.30	1.18
RoE after taxes (%) **)	3.9	19.3

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