



Aareal Bank

Press Release

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Aareal Bank Group posts solid results for the financial year and the fourth quarter of 2008, despite the financial market crisis – agreement with the German Financial Markets Stabilisation Fund ("SoFFin") is set to further strengthen the company

- **2008 profit before taxes of €117 million (based on preliminary, unaudited figures) – positive result also in the fourth quarter**
- **Aareal Bank safeguards its sound and proven business model by tapping the German government's stabilisation fund**
 - **Strengthening of the capital base through a €525 million silent participation by SoFFin – Tier 1 ratio to rise significantly**
 - **SoFFin guarantee facility for new issues with a maximum maturity of three years and a total volume of up to €4 billion**
 - **Business model validated: no changes to corporate governance**
 - **Aareal Holding supports measures, remains anchor shareholder with current of shares – voting agreement to be concluded by SoFFin and Aareal Holding, to maintain Aareal Holding's blocking minority**
- **CEO Dr Wolf Schumacher: "We are taking proactive measures to ensure we will weather future challenges and emerge strengthened as we continue to follow our successful business model – in the interest of our clients, investors and employees."**

Wiesbaden, 15 February 2009 – Aareal Bank Group posted a solid result for the 2008 financial year, in spite of the severe turmoil on financial markets and the palpable economic slowdown. Even amid the pressures from the crisis, profit before taxes according to preliminary, unaudited figures amounted to €117 million. In the fourth quarter of 2008, the most challenging quarter the financial sector has seen in decades, Aareal Bank Group posted a profit before taxes of €11 million. This means that Aareal Bank Group has remained profitable in every quarter since the onset of the financial market crisis in summer 2007, on a Group level as well as in each of its two business segments, Structured Property Financing and Consulting/Services.

To ensure the long-term future of its sustainably profitable business, Aareal Bank Group has entered into an agreement with the German Financial Markets Stabilisation Fund ("SoFFin")

on a comprehensive set of measures. In accordance with this agreement, SoFFin will make €525 million in capital available to Aareal Bank by way of a perpetual silent participation. The silent participation will bear interest of 9% p.a. In addition, SoFFin will grant Aareal Bank a guarantee facility for new, unsecured issues with a maximum maturity of 36 months for a total volume of up to €4 billion.

CEO Dr Wolf Schumacher's comment: "Aareal Bank Group is sound and has a coherent, sustainable business model. This is evident in our solid performance in the past financial year, which is also recognised by SoFFin. We have provided sufficient proof that we are able to overcome serious challenges such as the international financial markets crisis, and can do so using our own resources. Nevertheless, we have taken a proactive decision to access the government's stabilisation fund in order to further strengthen our solid base, and to maintain our successful business model in an environment characterised by dramatic changes," Schumacher explains. „In doing so, we are ensuring a level playing field for Aareal Bank as it competes with German and international banks that have been shored up with government aid. At the same time, we are making adequate preparations to weather future challenges, while maintaining flexibility in our funding operations and our operational capacity to act for the remainder of the crisis affecting financial markets and the economy. By taking these steps, Aareal Bank will also be in a good position to take advantage of an economic and financial-market recovery," Schumacher underlined.

Capital strengthening by way of silent participation protects shareholder interests

Taking into account the silent participation by SoFFin which is fully recognised as Tier 1 capital, Aareal Bank's Tier 1 ratio increased significantly. Excluding the silent participation, the ratio stood at 8.0% at the end of 2008.

After strengthening its capital base, Aareal Bank now matches the level of many international competitors (who have already recapitalised), and meets the market requirements which have increased over the course of the financial markets crisis. The strengthened capital base will also allow Aareal Bank to mitigate the impact of a recession looming in key markets.

The terms of the silent participation are economically viable for the company and reflect the fact that Aareal Bank is a fundamentally sound bank. The coupon is equivalent to approx. €47 million before taxes in annual interest payable. The financial burden (taking into account the reinvestment) will be approx. €16 million. The bank is committed to repay the silent participation as soon as possible. To that end, the Management Board will decide on feasible scenarios based on the prevailing general market situation. The bank has a variety of repayment options at the discretion of the Management Board, subject to regulatory approval.

This recapitalisation in form of a silent participation considers the interests of shareholders as it avoids a dilution of existing shareholdings. Aareal Holding Verwaltungsgesellschaft mbH, a major shareholder of Aareal Bank, has expressed its full support for the bank's move. Aareal Holding has committed that it will not reduce its 37.23% stake during the entire term of the silent participation. A voting agreement will be concluded by SoFFin and Aareal Holding, to maintain Aareal Holding's blocking minority. This will ensure the stability of the shareholder structure and the independence of Aareal Bank Group, with Aareal Holding as an anchor shareholder.

Refinancing options through guarantee facility

The guarantee facility agreed upon with SoFFin for new issues of debt securities with a maximum maturity of 36 months provides the bank with a solid base for its refinancing, broadening the bank's funding flexibility, as a lender to its existing client base, in the years to come.

Aareal Bank will pay SoFFin a commitment fee of 0.1% p.a. of the undrawn amount of the guarantee facility. The drawdown fee for guarantees used will be 0.5% p.a. for terms up to one year and 0.948% p.a. for terms beyond one year. Thanks to its sound funding base, Aareal Bank is in no rush to utilise the guarantee facility. The timing and volume of potential debt securities issues will depend on the prevailing market situation and the general environment.

Proven business model will remain unchanged

Beyond the applicable legal provisions, SoFFin has not set additional conditions for Aareal Bank Group. In particular, there will be no state influence on the company's corporate governance, nor will any changes be required to its proven business model. In the interest of a quick repayment of the silent participation, Aareal Bank will not distribute any dividends for the 2008 and 2009 financial years. Should Aareal Bank distribute dividends at a later point in time during the term of the silent participation, the coupon of the silent participation will increase on a pro rata basis, by 0.5 percentage points for each €0.25 in dividends per share.

The Management Board anticipates that these measures will allow Aareal Bank Group to emerge strengthened from the financial and economic crisis. "Aareal Bank Group is well prepared to meet the challenges of the coming years. Utilising the government's stabilisation fund ensures our company's stability and competitiveness as well as its continued success in the medium term and beyond," emphasised Schumacher. "This is a good move for the bank, its clients, investors and employees."

Successful financial year 2008 despite financial and economic crisis

Aareal Bank Group continued its successful business performance in 2008, a year of great turbulence for the entire financial sector. Based on preliminary unaudited figures, the Group ended the 2008 financial year with a profit before taxes of €117 million; the previous year's figure of €380 million was heavily influenced by positive one-off effects totalling €221 million. Adjusted for these special items, the pre-tax profit of €153 million in 2008 almost matched the results achieved in 2007 (€159 million).

Aareal Bank Group experienced particularly robust growth in consolidated net interest income, which was up close to 15%, from €411 million to €472 million. Higher margins from new business more than compensated for a slight drop in property finance volumes. This item also reflects the more favourable interest rate environment.

After inclusion of net loan loss provisions amounting to €80 million (2007: €77 million), the Group reported consolidated net interest income after risk provisions of €392 million (2007: €334 million). This represents an increase of some 17%.

Net commission income increased year-on-year by € 8 million to € 150 million. The Consulting/Services and Structured Property Financing segments both contributed to this rise.

Net trading income improved from € -26 million in 2007 to € -23 million in 2008; the figure reflects continued market distortions resulting from the financial market crisis. The positive effect of hedging transactions was offset by the negative effect of the reduced valuation of financial instruments in the trading portfolio and increased current securitisation expenses.

Results from non-trading assets were negative, at € -95 million. This figure is the result of measures to restructure our investment portfolio in line with our conservative risk policy designed to reduce the volatility of results. This also includes valuations of investments. The 2007 figure of € 206 million was largely influenced by extraordinary income of € 153 million from the disposal of our holdings in Immobilien Scout GmbH.

Administrative expenses were down € 14 million, or just under 4%, to € 347 million, a reflection of strict cost discipline at Aareal Bank Group.

Group net income after minority interests was € 60 million, down from a 2007 figure of € 290 million that was heavily shaped by one-off effects.

Both of Aareal Bank Group's business segments contributed to the very good results for 2008 in the face of difficult market conditions.

In the **Structured Property Financing segment**, Aareal Bank continued to pursue a highly selective new business strategy based on quality and earnings, while also focusing on financing activities with attractive risk/return profiles. In view of the changed business environment, on the back of the economic and financial crisis that worsened as the year progressed, new business was allowed to decline from € 11.7 billion to € 5.5 billion. Given the difficult market conditions in 2008, Aareal Bank considers this volume satisfactory.

Net loan loss provisions for the segment remained essentially unchanged, at € 80 million (2007: € 77 million), a reflection of Aareal Bank's high-quality credit portfolio.

The fall in the segment result before taxes, from € 197 million to € 73 million, is primarily a result of the financial market crisis and its impact on net trading income and results from non-trading assets which could not be offset by a sharp rise in net interest income. In addition, 2007 results were influenced by one-off effects.

The **Consulting/Services segment** delivered stable earnings in 2008. Operating profit came in at € 44 million, some 50% higher than last year's adjusted figure of € 30 million. Profits after taxes for the segment totalled € 30 million (2007: € 172 million incl. extraordinary income).

Aareon AG, a wholly-owned subsidiary of Aareal Bank AG, consolidated its market position in the financial year 2008 as the leading IT consulting and systems house in the property sector. It also reported origination successes across all product lines.

Aareal Bank was also able to expand its market share in the Institutional Housing Business. Deposits taken from the commercial housing sector averaged € 4.3 billion over the course of 2008. In spite of the ongoing financial market crisis, this was only slightly below the previous

year's average level of € 4.5 billion and serves to further underscore the faith that customers place in the financial performance and stability of Aareal Bank.

Notes on the preliminary Income Statement for the fourth quarter of 2008

In the fourth quarter of 2008 – the most challenging the banking sector has seen in decades – Aareal Bank Group also posted a profit. Group net income after minority interests totalled € 4 million.

According to preliminary figures, [consolidated] net interest income in the final quarter of 2008 rose to € 134 million (Q4 2007: € 109 million). Higher margins from new business more than offset a slight decrease in volume from property financing. Net interest income also benefited from a favourable interest rate environment. Net loan loss provisions remained stable at € 20 million, in spite of a deteriorating macroeconomic environment compared to previous quarters. Net commission income rose significantly, from € 37 million to € 48 million.

At € -23 million, net trading income remained close to the Q4 2007 figure of € -20 million, a reflection of the challenging market conditions that continue to persist. Results from non-trading assets in the fourth quarter was € -59 million (€ 18 million). The negative balance was the result of measures to restructure our investment portfolio in line with our conservative risk policy designed to reduce the volatility of results, and of mark-to-market effects.

Administrative expenses totalled € 86 million, which represents a slight reduction over the previous year (€ 88 million).

Taking into account net other operating income and expenses amounting to € 17 million (€ -9 million), fourth quarter operating income was € 11 million, down from € 16 million reported in Q4 2007.

Outlook

Aareal Bank Group enjoyed a satisfactory start to 2009 with operating business at normal levels in January. Aareal Bank Group anticipates the decline in new business volume in the Structured Property Financing segment to have a negative impact on net interest income for the current year. From today's perspective, new business will range between € 2 billion and € 3 billion, with a predominant focus on business with the existing client base.

The Management Board expects loan loss provisions to remain at a manageable level, and expects administrative expenses (after consolidation effects) to remain roughly unchanged year-on-year.

Aareal Bank Group expects the positive performance in the Consulting/Services segment to continue this year, with a further rise in profit.

It is not possible to give a reliable, comprehensive forecast for Group results at this time in light of the ongoing crisis affecting financial markets and the global economy.

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.

Consolidated income statement of Aareal Bank Group Preliminary figures Q4 (quarterly development, unaudited, in accordance with IFRS)

| | Quarter 4 2008 | Quarter 4 2007 | Change |
|--|-------------------|-------------------|---------------|
| | €mn | €mn | % |
| Net interest income | 134 | 109 | 22.9% |
| Net loan loss provisions | 20 | 14 | 42.9% |
| Net interest income after net loan loss provisions | 114 | 95 | 20.0% |
| Net commission income | 48 | 37 | 29.7% |
| Net result on hedge accounting | -3 | -3 | - |
| Net trading income | -23 | -20 | - |
| Results from non-trading assets | -59 | 18 | - |
| Results from companies accounted for at equity | 4 | 0 | - |
| Results from investment properties | -1 | 0 | - |
| Administrative expenses | 86 | 88 | -2.3% |
| Net other operating income | 17 | -9 | - |
| Impairment of goodwill | | 3 | -100.0% |
| Operating Profit | 11 | 27 | -59.3% |
| Income taxes | 3 | 5 | -40.0% |
| Consolidated net income / loss | 8 | 22 | -63.6% |
| Allocation of results | | | |
| Consolidated net income / loss attributable to minority interests | 4 | 4 | 0.0% |
| Consolidated net income / loss attributable to shareholders of Aareal Bank AG | 4 | 18 | -77.8% |

Consolidated income statement of Aareal Bank Group
Preliminary figures of the financial year 2008 (unaudited, in accordance with IFRS)

| | 1.1.-31.12.2008 | 1.1.-31.12.2007 | Change |
|--|-----------------|-----------------|---------------|
| | €mn | €mn | % |
| Net interest income | 472 | 411 | 14.8% |
| Net loan loss provisions | 80 | 77 | 3.9% |
| Net interest income after net loan loss provisions | 392 | 334 | 17.4% |
| Net commission income | 150 | 142 | 5.6% |
| Net result on hedge accounting | 0 | 1 | -100.0% |
| Net trading income | -23 | -26 | - |
| Results from non-trading assets | -95 | 206 | -146.1% |
| Results from companies accounted for at equity | 7 | 68 | -89.7% |
| Results from investment properties | -1 | 1 | -200.0% |
| Administrative expenses | 347 | 361 | -3.9% |
| Net other operating income | 34 | 18 | 88.9% |
| Impairment of goodwill | 0 | 3 | -100.0% |
| Operating Profit | 117 | 380 | -69.2% |
| Income taxes | 39 | 72 | -45.8% |
| Consolidated net income / loss | 78 | 308 | -74.7% |
| Allocation of results | | | |
| Consolidated net income / loss attributable to minority interests | 18 | 18 | 0.0% |
| Consolidated net income / loss attributable to shareholders of Aareal Bank AG | 60 | 290 | -79.3% |

| | 31.12.2008 | 31.12.2007 | Change |
|-----------------------------------|------------|------------|--------|
| | €mn | €mn | % |
| Portfolio data | | | |
| Property finance | 22,814 | 22,550 | 1.2% |
| of which international | 18,655 | 16,878 | 10.5% |
| Property finance under management | 23,462 | 23,992 | -2.2% |
| of which international | 18,655 | 16,878 | 10.5% |
| Shareholders' equity | 1,422 | 1,627 | -12.6% |
| Total assets | 41,177 | 40,202 | 2.4% |

| | 1.1.-31.12.2008 | 1.1.-31.12.2007 |
|---------------------------------|-----------------|-----------------|
| Key financial indicators | | |
| Cost/Income ratio (%) *) | 56.5 | 43.6 |
| Earnings per share (€) | 1.42 | 6.77 |
| RoE after taxes (%) | 4.5 | 25.0 |

*) Structured Property Financing segment

Preliminary segment reporting (unaudited, in accordance with IFRS) by operating unit

| | Structured Property Financing | | Consulting/ Services | | Consolidation/ Reconciliation/ Other | | Aareal Bank Group | |
|--|-------------------------------|----------------|----------------------|----------------|--------------------------------------|----------------|-------------------|----------------|
| | €mn | | €mn | | €mn | | €mn | |
| | Quarter 4 2008 | Quarter 4 2007 | Quarter 4 2008 | Quarter 4 2007 | Quarter 4 2008 | Quarter 4 2007 | Quarter 4 2008 | Quarter 4 2007 |
| Net interest income | 117 | 91 | 0 | 0 | 17 | 18 | 134 | 109 |
| Provision for loan losses | 20 | 14 | | | | | 20 | 14 |
| Net interest income after net loan loss provisions | 97 | 77 | 0 | 0 | 17 | 18 | 114 | 95 |
| Net commission income | 13 | 4 | 53 | 53 | -18 | -20 | 48 | 37 |
| Net result on hedge accounting | -3 | -3 | | | | | -3 | -3 |
| Net trading income / expenses | -23 | -20 | | | | | -23 | -20 |
| Results from non-trading assets | -59 | 18 | 0 | 0 | | | -59 | 18 |
| Results from companies accounted for at equity | 4 | | | | | | 4 | |
| Results from investment properties | -1 | 0 | | | | 0 | -1 | 0 |
| Administrative expenses | 46 | 48 | 41 | 42 | -1 | -2 | 86 | 88 |
| Net other operating income / expenses | 18 | -7 | -1 | -2 | 0 | 0 | 17 | -9 |
| Impairment of goodwill | | 1.000 | 0 | 2 | | | 0 | 3 |
| Operating profit | 0 | 20 | 11 | 7 | 0 | 0 | 11 | 27 |
| Income taxes | -1 | 3 | 4 | 2 | | | 3 | 5 |
| Consolidated net income / loss | 1 | 17 | 7 | 5 | 0 | 0 | 8 | 22 |
| 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 | -3 | 13 | 7 | 5 | 0 | 0 | 4 | 18 |
| Allocated equity | 964 | 926 | 72 | 67 | 292 | 163 | 1,328 | 1,156 |
| Cost/income ratio in % | 70.5 | 59.0 | 76.8 | 82.0 | | | 73.3 | 67.1 |
| RoE after taxes in % *) | -1.2 | 5.8 | 39.0 | 27.1 | | | 1.3 | 6.1 |

*) on an annualised basis

Preliminary segment reporting of the financial year 2008 (unaudited, in accordance with IFRS) by operating unit

| | Structured Property Financing | | Consulting/ Services | | Consolidation/ Reconciliation/ Other | | Aareal Bank Group | |
|--|-------------------------------|------------|----------------------|------------|--------------------------------------|-----------|-------------------|------------|
| | €mn | | €mn | | €mn | | €mn | |
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Net interest income | 403 | 347 | 0 | 0 | 69 | 64 | 472 | 411 |
| Provision for loan losses | 80 | 77 | | | | | 80 | 77 |
| Net interest income after net loan loss provisions | 323 | 270 | 0 | 0 | 69 | 64 | 392 | 334 |
| Net commission income | 29 | 24 | 193 | 186 | -72 | -68 | 150 | 142 |
| Net result on hedge accounting | 0 | 1 | | | | | 0 | 1 |
| Net trading income / expenses | -23 | -26 | | | | | -23 | -26 |
| Results from non-trading assets | -95 | 52 | 0 | 154 | | | -95 | 206 |
| Results from companies accounted for at equity | 7 | 63 | | 5 | | | 7 | 68 |
| Results from investment properties | -1 | 1 | | | 0 | 0 | -1 | 1 |
| Administrative expenses | 200 | 212 | 151 | 154 | -4 | -5 | 347 | 361 |
| Net other operating income / expenses | 33 | 25 | 2 | -6 | -1 | -1 | 34 | 18 |
| Impairment of goodwill | | 1 | 0 | 2 | | | 0 | 3 |
| Operating profit | 73 | 197 | 44 | 183 | 0 | 0 | 117 | 380 |
| Income taxes | 25 | 61 | 14 | 11 | | | 39 | 72 |
| Consolidated net income / loss | 48 | 136 | 30 | 172 | 0 | 0 | 78 | 308 |
| Allocation of results | | | | | | | | |
| Consolidated net income / loss attributable to minority interests | 16 | 16 | 2 | 2 | | | 18 | 18 |
| Consolidated net income / loss attributable to shareholders of Aareal Bank AG | 32 | 120 | 28 | 170 | 0 | 0 | 60 | 290 |
| Allocated equity | 964 | 926 | 72 | 67 | 292 | 163 | 1,328 | 1,156 |
| Cost/income ratio in % | 56.5 | 43.6 | 77.5 | 45.5 | | | 63.7 | 44.0 |
| RoE after taxes in % | 3.4 | 12.9 | 38.5 | 252.2 | | | 4.5 | 25.0 |