



Aareal Bank

Press Release

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Aareal Bank Group remains profitable in the first quarter of 2009

- **Profit before taxes of €17 million for the first quarter of 2009, despite the financial markets and economic crisis**
- **Both segments of Aareal Bank Group remain profitable**
- **Outlook regarding key financial indicators for 2009 affirmed**
- **Dr Wolf Schumacher, Chairman of the Management Board: "We are in a good position to perform well throughout 2009."**

Wiesbaden, 12 May 2009 – Aareal Bank Group successfully held its course during the first quarter of 2009, in a market environment that continued to be challenging. In spite of the ongoing crisis affecting financial markets and the economy, the international property specialist continued to be profitable during the first three months of the year – once again, this applies to both the Structured Property Financing and the Consulting/Services segments. The Group posted a profit before taxes of € 17 million, compared to €27 million in the first quarter and € 11 million in the fourth quarter of 2008. Aareal Bank Group is therefore one of the few banks, both in Germany and abroad, to have achieved a positive result in all quarters since the outbreak of the financial markets crisis in summer of 2007.

Bearing in mind the difficult market environment, the positive quarterly result can be attributed to two aspects: on the one hand, Aareal Bank Group operates a sustainable business model that is based on the two strong segments of Structured Property Financing and Consulting/Services. On the other hand, Aareal Bank pursues a conservative business policy that is built on an appropriate ratio of risks and returns and is focused on sustainability.

"Having seen the performance during the first quarter, we remain convinced that Aareal Bank Group is well-positioned to deal with the challenges presented by the market environment", said Dr Wolf Schumacher, Chairman of the Management Board of Aareal Bank. "We are in a good position to perform well in the current financial year. Aareal Bank is fundamentally healthy and operates a coherent, sustainable business model", Schumacher commented on the quarterly results. "Aareal Bank is well positioned to deal with the challenges ahead – not least thanks to the agreement with the German Financial Markets Stabilisation Fund (SoFFin) on strengthening our capital base plus a guarantee facility for uncovered issues, which was finalised in March. At the same time, this will provide a good starting point for the post-crisis period", Schumacher added.

Structured Property Financing: net interest income increases

During the first quarter of 2009, Aareal Bank Group adhered to its policy in generating new business in the Structured Property Financing segment, where it imposed strict requirements in terms of quality and return. It also concentrated on transactions with attractive risk/return profiles. Aareal Bank concentrated predominately on its existing client base and on loan extensions for active financing projects. New business amounted to €510 million and is therefore in line with the target figure of €2 billion to €3 billion for the year 2009 as a whole.

Despite the ongoing turbulence on financial markets, Aareal Bank succeeded in increasing net interest income, from €92 million in the first quarter of 2008, to €102 million. The increase of approx. 11% over the previous year is largely attributable to a better interest rate environment and higher margins.

Aareal Bank increased its allowance for credit losses to €37 million in the first quarter of 2009 (Q1 2008: €20 million), as the bank adjusted its projection for the full year towards the upper end of its forecast range of €90-150 million, to reflect economic development. Nonetheless, at current levels, the allowance for credit losses is manageable for Aareal Bank.

Consulting/Services: robust development despite difficult market environment

The Consulting/Services segment performance continued to be robust overall, without being directly affected by the financial markets crisis. Deposits taken from the bank's institutional housing clients remained largely stable, averaging just under €4 billion in the first quarter. As expected, however, the further drop in interest rates in the first quarter burdened net interest income generated from the deposits of institutional housing clients.

As an additional burdening factor, Aareal Bank recognised expenses for capacity adjustments at its Aareon AG subsidiary in this segment, following the successful conclusion of developing its SAP-based property management software Blue Eagle, as well as for the discontinuation of non-core activities. The resulting aggregate non-recurring charges of €6 million were recognised in income for the first quarter.

Moreover, the economic slowdown caused some of Aareon's clients to be clearly reluctant regarding new investment. Given that this trend was evident in lower Aareon revenues during the first quarter, projections regarding full-year consultancy revenue were adjusted as a precautionary measure. Revenue from products already implemented on client systems is not exposed to the economic slowdown: these products continue to provide a stable, crisis-proof contribution to results.

Due to the effects described above, operating profit of €1 million generated by the Consulting / Services segment was significantly lower than the strong €11 million result achieved in the first quarter of 2008.

Successful benchmark bond – strengthening the capital base

Against the background of the continued difficult market situation, Aareal Bank took advantage of the SoFFin guarantee facility for the first time in March 2009, successfully placing a €2 billion government-guaranteed benchmark bond on the capital market. The strong demand by international investors, who subscribed 52% of the issue, was very positive. Additional unsecured long-term funds in the amount of roughly €40 million were raised in the first quarter and approx. €250 million in mortgage bonds were issued.

SoFFin provided the silent participation to Aareal Bank, as agreed, on 31 March 2009. As a result, Aareal Bank's Tier 1 ratio under the Credit Risk Standard Approach (CRSA) rose to 10.2% at the end of the first quarter of 2009 – a very good level by international standards as well.

Notes to consolidated results

Net interest income rose by roughly 7% in the first three months of the 2009 financial year, to €114 million (Q1 2008: €107 million). The increase is largely attributable to a more favourable interest rate environment, and higher margins on property finance.

Taking into consideration the considerably higher allowance for credit losses – compared to the previous year – of €37 million (Q1 2008: €20 million), to reflect the economic environment, net interest income after allowance for credit losses amounted to €77 million (Q1 2008: €87 million).

Net commission income was up by €3 million over the same period of the previous year, to €36 million (Q1 2008: €33 million). The slight fall in revenue in the Consulting / Services segment is offset by higher net commission income earned in the Structured Property Financing segment.

Net trading income/expenses of €16 million (Q1 2008: -€22 million) was largely attributable to the valuation of stand-alone derivatives. The positive valuation was accounted for mainly by the changed interest rate environment during the first quarter.

The results from non-trading assets of -€17 million (Q1 2008: €9 million) should be seen against the background of the crisis affecting financial markets and further restructuring of the securities portfolio that was undertaken to reflect a conservative risk policy.

Administrative expenses of €90 million (slightly above the €88 million figure reported for the first quarter of 2008) included €4 million in expenditure incurred within the scope of capacity adjustments in the Consulting/Services segment, as well as costs of €2 million from the discontinuation of non-core activities and expenses incurred for the consolidation of Sylogis.com. Without these special effects, administrative expenses would have been significantly lower, underlining the strict cost discipline Aareal Bank Group continues to maintain.

Net other operating income and expenses of -€6 million (Q1 2008: €6 million) includes project expenditure (including legal and advisory costs) incurred in conjunction with the support measures agreed upon between Aareal Bank and SoFFin.

On aggregate, the items resulted in consolidated operating profit of € 17 million. After deduction of € 6 million in taxes (Q1 2008: € 9 million) and income attributable to non-controlling interests of € 4 million (Q1 2008: € 5 million), consolidated net income attributable to shareholders of Aareal Bank AG for the first three months of 2009 amounted to € 7 million (Q1 2008: € 13 million).

Outlook: well-positioned to meet challenges emerging in the future

Given the numerous uncertain factors, due to the crisis and prevailing market conditions, it is still impossible to issue a reliable forecast for consolidated results for 2009 as a whole. Aareal Bank affirms its key statements communicated to date regarding key financial indicators: the Management Board expects consolidated net interest income of € 420-440 million and administrative expenses of approx. € 360 million (including consolidation effects) for 2009. As expected, full-year allowance for credit losses is likely to be at the upper end of the € 90-150 million range already forecasted. It is, however, impossible to exclude additional impairments from unexpected losses for 2009. New business generated in the Structured Property Financing segment is expected to range between € 2 billion and € 3 billion. As outlined at the Annual General Meeting on 7 May, Aareal Bank is targeting a Consulting/Services segment result before taxes of around € 40 million for the current financial year, due to the lower interest rate levels and the burdening effects outlined above. The target figure is roughly in line with the very good results posted in 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 small-cap SDAX 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:
Results for the first quarter of 2009 (in accordance with IFRS)

	1.1.-31.03.2009	1.1.-31.03.2008	Change
	€mn	€mn	%
Net interest income	114	107	6.5%
Net loan loss provisions	37	20	85.0%
Net interest income after net loan loss provisions	77	87	-11.5%
Net commission income	36	33	9.1%
Net result on hedge accounting	1	2	-50.0%
Net trading income / expenses	16	-22	-
Results from non-trading assets	-17	9	-
Results from companies accounted for at equity	-	0	-
Results from investment properties	0	0	-
Administrative expenses	90	88	2.3%
Net other operating income / expenses	-6	6	-
Operating Profit	17	27	-37.0%
Income taxes	6	9	-33.3%
Consolidated net income / loss	11	18	-38.9%
Allocation of results			
Consolidated net income / loss attributable to minority interests	4	5	-20.0%
Consolidated net income / loss attributable to shareholders of Aareal Bank AG	7	13	-46.2%

	31.03.2009	31.12.2008	Change
	€mn	€mn	%
Portfolio data			
Property finance	23,007	22,813	0.9%
of which international	18,903	18,655	1.3%
Property finance under management	23,596	23,462	0.6%
of which international	18,903	18,655	1.3%
Shareholders' equity	1,956	1,429	36.9%
Total assets	42,362	41,159	2.9%

	1.1.-31.03.2009	1.1.-31.03.2008
Key financial indicators		
Cost/Income ratio (%) *)	47.0	59.3
Earnings per share (€)	0.17	0.30
RoE after taxes (%) **)	1.7	3.9

*) 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 2009	Quarter 1 2008	Quarter 1 2009	Quarter 1 2008	Quarter 1 2009	Quarter 1 2008	Quarter 1 2009	Quarter 1 2008
Net interest income	102	92	0	0	12	15	114	107
Provision for loan losses	37	20					37	20
Net interest income after net loan loss provisions	65	72	0	0	12	15	77	87
Net commission income	5	3	44	46	-13	-16	36	33
Net result on hedge accounting	1	2					1	2
Net trading income / expenses	16	-22					16	-22
Results from non-trading assets	-17	9	0	0			-17	9
Results from companies accounted for at equity		0						0
Results from investment properties	0	0					0	0
Administrative expenses	48	52	43	37	-1	-1	90	88
Net other operating income / expenses	-6	4	0	2	0	0	-6	6
Operating profit	16	16	1	11	0	0	17	27
Income taxes	6	6	0	3			6	9
Consolidated net income / loss	10	10	1	8	0	0	11	18
Allocation of results								
Consolidated net income / loss attributable to minority interests	4	4	0	1			4	5
Consolidated net income / loss attributable to shareholders of Aareal Bank AG	6	6	1	7	0	0	7	13
Allocated equity	1,280	965	61	71	295	269	1,636	1,305
Cost/income ratio in %	47.0	59.3	97.4	77.5			61.9	65.5
RoE after taxes in %	2.0	2.5	5.2	38.2			1.7	3.9