



Aareal Bank

Press Release

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Aareal Bank Group posts solid results for the 2009 financial year

- **Profit before taxes of €86 million for the full year 2009 – €23 million for the fourth quarter**
- **Allowance for credit losses of €150 million, in line with projections**
- **Tier 1 ratio of 11.0% pursuant to the Credit Risk Standard Approach (CRSA)**
- **Initial partial redemption of SoFFin contribution planned by early 2011**
- **CEO Dr Wolf Schumacher: "We have performed very well during the crisis. From today's perspective, we see good potential for increasing operating profit in 2010, even though the market environment is still fraught with uncertainty."**

Wiesbaden, 23 February 2010 – Aareal Bank Group concluded the financial year 2009 with a solid result, in a challenging market environment. According to the preliminary, unaudited figures, consolidated operating profit amounted to €86 million, after €110 million the year before. Operating profit of €23 million was generated in the fourth quarter of 2009, equating to an increase of €13 million over the final quarter of 2008.

The comparative figures for the 2008 financial year and the fourth quarter of 2008, as well as those posted for the first three quarters of 2009, show a slight divergence from the figures released previously. This marks the successful conclusion of an IFRS accounting project Aareal Bank has conducted over several years: the related accounting change required minor adjustments to prior periods.

Against the background of a sound performance to date throughout the crisis affecting financial markets and the economy, and the bank's solid capitalisation, the Management Board aims to start repayment of the silent participation provided by the German Financial Markets Stabilisation Fund ("SoFFin"). The bank intends to repay the first tranche – the volume of which will be agreed upon in due course – already until the beginning of 2011. Aareal Bank has various

options for funding the repayment; the specifics have yet to be decided upon. In any case, the high Tier 1 ratio of 11.0% (in accordance with the CRSA) offers some room for manoeuvre, when compared to the medium-term target of 10%. Aareal Bank assumes that in view of its solid refinancing situation, it will not need to draw on the remaining € 2 billion SoFFin guarantee facility for unsecured issues during the current year.

Dr Wolf Schumacher, Chairman of Aareal Bank's Management Board, explained: "We have weathered the crisis affecting financial markets and the economy satisfactorily up to now. On the basis of our business model comprising two pillars, we have performed well during the challenging 2009 financial year. We have achieved the targets we forecasted for the period. Furthermore, the positive results mean that Aareal Bank will service all of its subordinated refinancing vehicles for the 2009 financial year. This includes the silent participation by SoFFin. From today's perspective, we see good potential for increasing operating profit in 2010, even though the market environment is still fraught with uncertainty. Although the persistently fragile market environment calls for a careful stance, the anticipated business development in 2010 should offer us the opportunity to further strengthen our competitive position."

2009 financial year: on track in a difficult market environment

Consolidated net interest income totalled € 459 million for 2009 (2008: € 495 million). Higher margins in the lending business were offset by lower returns on the very comfortable level of liquidity reserves maintained. The unfavourable interest rate environment also burdened results in the deposit-taking business with the institutional housing industry. The figure for the previous year was characterised by an extraordinarily strong net interest income for the fourth quarter, reflecting the favourable interest rate environment at the time.

Allowance for credit losses was recognised in an amount of € 150 million (2008: € 80 million), in line with projections. Additional allowance for credit losses in an amount of € 34 million recognised in 2008, on account of the difficult market environment, was not utilised in the financial year under review; in fact, it was increased by an additional € 14 million, bringing the total additional allowance to € 48 million.

Net commission income of € 133 million (previous year: € 149 million) reflected – amongst other things – € 17 million in running costs for the guarantee facility extended by SoFFin.

Net trading income/expenses of € 44 million (2008: € -31 million) was mainly accounted for by the measurement of financial instruments in the trading portfolio. This figure was due primarily to a recovery in the value of credit derivatives.

Restructuring the securities portfolio – conducted at the beginning of 2009 within the scope of the conservative risk policy adopted – was a main influencing factor upon the result from non-trading assets of € -22 million (2008: € -101 million). No further material burdens to non-trading assets were recognised during the remainder of 2009.

Administrative expenses of € 361 million were virtually unchanged year-on-year (2008: € 364 million). This reflects the strict cost discipline pursued within the Group.

Taking into account net other operating income and expenses of € -14 million (2008: € 34 million), consolidated operating profit for the 2009 financial year totalled € 86 million, after € 110 million in 2008. Taking into consideration taxes of € 19 million and minority interest income of € 18 million, net income attributable to shareholders of Aareal Bank AG amounted to € 49 million (unchanged from the previous year). After deduction of the net € 26 million cost of the SoFFin silent participation (taking into account the related tax effects), consolidated net income stood at € 23 million.

Both of the business segments contributed to Aareal Bank Group's satisfactory results for 2009 in the face of difficult market conditions.

Aareal Bank continued to pursue its conservative policy, with a strict focus on quality, in the **Structured Property Financing segment**, and achieved a positive result, despite the impact of the crisis affecting financial markets and the economy.

The focus in originating new business was on the existing client base, and on extending loan terms for existing financing projects. At € 3.8 billion, the volume of new business, including renewals, exceeded the target corridor of € 2 to 3 billion announced originally.

Net interest income posted by the segment for the financial year under review amounted to € 409 million (2008: € 426 million). Higher margins in the lending business were offset by lower returns on the very comfortable level of liquidity reserves maintained. Aareal Bank has built up a liquidity cushion, within the framework of its conservative liquidity management policy in a market environment defined by uncertainty. Low short-term interest rates meant that this liquidity cushion could only be invested at low yields, which had a negative effect on net interest income.

Overall, operating profit for the Structured Property Financing segment was € 66 million, unchanged from the previous year's figure (€ 66 million). Taking into consideration tax expenses of € 12 million and € 16 million in minority interest income, the segment result was € 38 million (2008: € 21 million).

The **Consulting/Services segment** also highlighted its importance as Aareal Bank Group's second pillar in the difficult environment during 2009. The volume of deposits from the institutional housing industry remained virtually stable and averaged at around € 4.0 billion in the 2009 financial year. This reflects the high level of confidence that institutional housing industry clients in Germany place in Aareal Bank as their reliable banking partner. This relationship of trust built up over many decades is bearing fruit, especially in an uncertain market environment.

Sales revenue amounted to € 209 million in the 2009 financial year (2008: € 229 million). The decline was largely due to the low interest rate environment,

which impacted unfavourably on profitability of the deposit-taking business with the institutional housing industry. Revenue generated by our subsidiary group Aareon AG remained stable, despite the general economic weakness, which led to a lower volume of project tenders in the market – especially in the first half of the year. This reflected the successful continuation of Aareon's multi-product strategy. The new Wodis Sigma product, which was launched in the second quarter, was met with great interest.

On balance, operating profit for the Consulting / Services segment was €20 million (2008: €44 million). The year-on-year decline was due on the one hand to the effects of the historically low interest rate environment, which significantly impacted on the results generated in the deposit-taking business. On the other hand, non-recurring expenses for capacity adjustments at Aareon, as well as expenditure for the suspension of non-core activities, also affected results. Taking into account these non-recurring effects, which amounted to an aggregate €6 million, the segment's operating profit was within the communicated range of €25-30 million.

After deduction of €7 million in taxes and €2 million in minority interest income, the segment result stood at €11 million (2008: €28 million).

Solid refinancing situation and good capitalisation

Aareal Bank continued to adhere to its forward-looking refinancing policy during the year under review. Several private placements as well as public issues were successfully distributed to a broad investor base over the course of the year. Pfandbriefe totalling €2.3 billion were issued within the scope of the bank's refinancing activities in the 2009 financial year. Aareal Bank benefited from an easing of market sentiment that was evident from mid-year onwards, to increase its placements of unsecured bonds and promissory note loans. The issuing volume for the year as a whole amounted to €1.1 billion, plus a €2 billion unsecured bond issue guaranteed by SoFFin.

As at 31 December 2009, Aareal Bank's Tier 1 ratio – measured in accordance with the Credit Risk Standard Approach (CRSA) – was 11.0 %, which is high by international standards. The Tier 1 ratio is thus clearly above the medium-term target ratio of 10%, as defined by the Management Board. Good capitalisation provides Aareal Bank with the necessary scope to continue to act as a reliable financing partner for its existing clients, and also to increasingly exploit the market opportunities presented to it.

Notes on the preliminary Income Statement for the fourth quarter of 2009

Aareal Bank Group also posted a profit in the fourth quarter of 2009. Consolidated net income after minority interests and the net interest cost on the SoFFin silent participation amounted to €6 million, after €3 million in the same quarter of the previous year.

According to preliminary figures, net interest income in the final quarter of 2009 stood at €115 million (Q4 2008: €140 million), up €3 million from the third quarter of 2009. Allowance for credit losses for the period amounted to

€ 35 million (Q4 2008: € 20 million). Net commission income for the fourth quarter was € 39 million in the fourth quarter (Q4 2008: € 48 million).

Net trading income/expenses in the final quarter of 2009 was € 3 million, compared with € -25 million in the same quarter of the previous year. Results from non-trading assets in the fourth quarter were € -3 million (Q4 2008: € - 61 million).

Administrative expenses amounted to € 83 million in the fourth quarter (Q4 2008: € 90 million), also below the third quarter of 2009 (€ 92 million).

On balance, operating profit for the fourth quarter was € 23 million (Q4 2008: € 10 million). After deduction of € 4 million in income taxes and € 5 million in income attributable to minority interests, consolidated net income after minority interests amounted to € 14 million (Q4 2008: € 3 million). After deduction of € 8 million in net interest payable on the SoFFin silent participation, consolidated net income stood at € 6 million.

Outlook: rising net interest income expected for 2010, allowance for credit losses will remain manageable

Aareal Bank Group anticipates a slight overall improvement in business development for the current financial year – even though the environment for commercial property finance is expected to be equally as challenging as in 2009.

Against the background of a slight to moderate increase in interest rates, the Management Board expects net interest income to grow to a range of € 460-480 million. This projection is based on higher lending margins, together with a lower burden from liquidity reserves.

Aareal Bank expects allowance for credit losses to remain at manageable levels during the 2010 financial year. Allowance for credit losses recognised in income is expected to range between € 117 million to € 165 million: the actual level will depend in particular on the extent to which the additional allowance for credit losses of € 48 million will, in fact, be utilised. As in the previous year, the bank cannot rule out additional allowances for credit losses that may be incurred during 2010.

Aareal Bank Group expects a moderate year-on-year rise in net commission income.

Although Aareal Bank does not engage in proprietary trading in the conventional sense, it is impossible to forecast net trading income/expenses owing to market-related fluctuations, the measurement of hedges within the scope of refinancing the bank's core business, as well as the measurement of financial instruments held in our trading portfolio.

Administrative expenses continue to be defined by the continued strict cost discipline, and the figure for 2010 is expected to be roughly in line with last year.

From today's perspective, Aareal Bank sees good potential for increasing operating profit in 2010, even though the market environment continues to be fraught with uncertainty.

New business generated in the Structured Property Financing segment is currently expected to range between € 4 billion and € 5 billion in 2010. Aareal Bank will continue to concentrate on the funding requirements of its existing client base. The increase in the volume of new business will reduce the share of loan term extensions relative to new business.

The Management Board believes the challenging interest rate environment will continue to impact on the segment result for Consulting/Services: profit before taxes are expected to slightly above the adjusted operating profit of the previous financial 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.

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the 2009 financial year
(unaudited, in accordance with IFRS):

	01.01.- 31.12.2009	01.01.- 31.12.2008*	Change
	Euro mn	Euro mn	%
Profit and loss account			
Net interest income	459	495	-7
Allowance for credit losses	150	80	88
Net interest income after allowance for credit losses	309	415	-26
Net commission income	133	149	-11
Net result on hedge accounting	-2	2	
Net trading income / expenses	44	-31	
Results from non-trading assets	-22	-101	-78
Results from companies accounted for at equity	1	7	-84
Results from investment properties	0	-1	
Administrative expenses	361	364	-1
Net other operating income / expenses	-14	34	
Impairment of goodwill	2	0	
Operating Profit	86	110	-22
Income taxes	19	43	-56
Net income / loss	67	67	0
Allocation of results			
Net income / loss attributable to non-controlling interests	18	18	0
Net income / loss attributable to shareholders of Aareal Bank AG	49	49	0
Appropriation of profits			
Silent partnership contribution by SoFFin	26	-	0
Consolidated retained profit/accumulated loss	23	49	-52

* Figures for the 2008 financial year adjusted

**Preliminary Segment Reporting for the 2009 financial year by operating unit
(unaudited, in accordance with IFRS)**

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	2009	2008*	2009	2008	2009	2008	2009	2008*
Euro mn								
Net interest income	409	426	0	0	50	69	459	495
Allowance for credit losses	150	80	-	-	-	-	150	80
Net interest income after allowance for credit losses	259	346	0	0	50	69	309	415
Net commission income	1	28	184	193	-52	-72	133	149
Net result on hedge accounting	-2	2	-	-	-	-	-2	2
Net trading income / expenses	44	-31	-	-	-	-	44	-31
Results from non-trading assets	-22	-101	0	0	-	-	-22	-101
Results from companies accounted for at equity	1	7	0	-	-	-	1	7
Results from investment properties	0	-1	-	-	-	0	0	-1
Administrative expenses	201	217	163	151	-3	-4	361	364
Net other operating income / expenses	-12	33	-1	2	-1	-1	-14	34
Impairment of goodwill	2	-	0	0	-	-	2	0
Operating profit	66	66	20	44	0	0	86	110
Income taxes	12	29	7	14	-	-	19	43
Net income / loss	54	37	13	30	0	0	67	67
Allocation of results								
Net income / loss attributable to non-controlling interests	16	16	2	2	-	-	18	18
Net income / loss attributable to shareholders of Aareal Bank AG	38	21	11	28	0	0	49	49

* Figures for the 2008 financial year adjusted

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the fourth quarter of 2009
(unaudited, in accordance with IFRS):

	Quarter 4 2009	Quarter 4 2008*	Change
	Euro mn	Euro mn	%
Net interest income	115	140	-18
Allowance for credit losses	35	20	75
Net interest income after allowance for credit losses	80	120	-33
Net commission income	39	48	-19
Net result on hedge accounting	1	-2	
Net trading income / expenses	3	-25	
Results from non-trading assets	-3	-61	-95
Results from companies accounted for at equity	1	4	-73
Results from investment properties	-1	-1	0
Administrative expenses	83	90	-8
Net other operating income / expenses	-12	17	
Impairment of goodwill	2	0	0
Operating Profit	23	10	127
Income taxes	4	3	33
Net income / loss	19	7	167
Allocation of results			
Net income / loss attributable to non-controlling interests	5	4	22
Net income / loss attributable to shareholders of Aareal Bank AG	14	3	358

* Figures for the 2008 financial year adjusted

**Preliminary Segment Reporting by operating unit (quarterly comparison)
(unaudited, in accordance with IFRS)**

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	Quarter 4 2009	Quarter 4 2008*	Quarter 4 2009	Quarter 4 2008	Quarter 4 2009	Quarter 4 2008	Quarter 4 2009	Quarter 4 2008*
Euro mn								
Net interest income	103	123	0	0	12	17	115	140
Allowance for credit losses	35	20	-	-	-	-	35	20
Net interest income after allowance for credit losses	68	103	0	0	12	17	80	120
Net commission income	2	13	50	53	-13	-18	39	48
Net result on hedge accounting	1	-2	-	-	-	-	1	-2
Net trading income / expenses	3	-25	-	-	-	-	3	-25
Results from non-trading assets	-3	-61	0	0	-	-	-3	-61
Results from companies accounted for at equity	1	4	0	-	-	-	1	4
Results from investment properties	-1	-1	-	-	-	-	-1	-1
Administrative expenses	42	50	42	41	-1	-1	83	90
Net other operating income / expenses	-10	18	-2	-1	0	0	-12	17
Impairment of goodwill	2	-	0	0	-	-	2	0
Operating profit	17	-1	6	11	0	0	23	10
Income taxes	2	-1	2	4	-	-	4	3
Net income / loss	15	0	4	7	0	0	19	7
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	11	-4	3	7	0	0	14	3

* Figures for the 2008 financial year adjusted