



Aareal Bank

Press Release

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Aareal Bank Group is well-positioned for the future

- **Market environment is expected to gradually improve, returning to normal as of 2012**
- **Outlook for 2010 confirmed – first-quarter performance on schedule**
- **Sound results achieved in 2009**
- **CEO Dr Wolf Schumacher: "We are well-positioned to master the current challenges we face, and to consistently exploit future growth opportunities."**

Wiesbaden, 31 March 2010 – Aareal Bank Group expects a gradual improvement in the market environment, both during the current year and in 2011. The bank assumes that markets will return to normal again as of 2012. Commenting on the results at the bank's press conference to present the financial statements in Frankfurt/Main, the Chairman of Aareal Bank's Management Board, Dr Wolf Schumacher, explained that Aareal Bank Group will derive above-average benefits, thanks to a lending policy that is focused on soundness and sustainability, the bank's dedicated proximity to clients and markets, a prudent funding policy and a sound balance sheet structure. He added that Aareal Bank Group survived the crisis relatively unscathed, pointing out that it is one of the few finance providers to have retained its flexibility to act – both strategically and in operative terms. "Thanks to our coherent and viable business model, we are in a good position to deal with current challenges, to further sustainably expand our market position in key markets and to establish ourselves as a leading player in our business", Schumacher added.

Allowance for credit losses remains manageable

Aareal Bank Group affirmed its outlook for the current year. Accordingly, the property financing specialist – active on three continents – sees good potential for improving consolidated operating profit. Net interest income is expected to increase to between €460 million and €480 million. Allowance for credit losses recognised in income is expected to range between €117 million and €165 million, which means that it will remain at a clearly manageable level. From

today's perspective, new business generated in the Structured Property Financing segment is expected to increase to between € 4 billion and € 5 billion – with a reduction in the share of loan renewals. Operating profit in the Consulting/Services segment is expected to increase slightly over adjusted 2009 operating profit. Consolidated administrative expenses are expected to remain in line with the previous year, reflecting the Group's continued strict cost discipline.

This outlook is confirmed by the business development to date in the current year: Aareal Bank's performance was on schedule during the first months of 2010, in spite of a market environment that continued to be challenging.

Against the background of a sound operating performance and a very satisfactory capitalisation, the Management Board is aiming to already start repaying the silent participation from the German Financial Markets Stabilisation Fund (SoFFin) by early 2011.

The Management Board anticipates a further improvement in consolidated operating profit for the 2011 financial year, with both segments expected to contribute to this result. Net interest income is expected to continue to rise next year; at present, allowance for credit losses and administrative expenses are both expected to remain roughly at 2010 levels.

Significant increase in return on equity targeted in the medium-term

"We believe in the future of commercial property financing, and expect markets to return to normal from 2012 onwards. This view is supported by the long-term increase in demand for property and property financings, as well as the changes in the competitive environment and client behaviour as a consequence of the crisis. Against this background, our competitive advantages – proximity to clients, flexibility provided by our mid-sized structure, sector expertise and our two-pillar business model – will be particularly effective", Dr Schumacher stated.

Aareal Bank Group is aiming for sustained profitable growth and a significant improvement in its financial indicators, expecting a return to normal conditions in the markets. For the Structured Property Financing segment, consistent implementation of its three-continent growth strategy will lead to significant growth in the credit portfolio, and accordingly, in income. Contributions from the Consulting/Services segment are also expected to increase significantly, thanks to anticipated improvement in the interest rate environment for its deposit-taking business. Exploring new client groups, for example in the energy sector, will contribute to this scenario. All in all, the Management Board expects that as of 2012, enhanced cost-efficiency amongst others will allow the bank to generate a consolidated return on equity before taxes of at least 12 to 13 per cent.

"The winners in the crisis will be those banks that combine property-specific expertise with prudent judgement in their risk policy. We have proven our success in this respect in the past, and will continue to consistently exploit the growth opportunities presented to us in the future", Dr Schumacher continued.

Successful crisis management in the 2009 financial year; sound results generated at Group level

Despite the difficult market environment, Aareal Bank Group posted a sound result for the 2009 financial year. Having achieved a positive result in all quarters since the outbreak of the financial markets crisis in summer of 2007, the bank remained on course, even in conditions that continue to remain challenging for the financial services industry. According to the audited figures, Aareal Bank Group concluded the 2009 financial year with a pre-tax result of € 87 million (2008: € 110 million). This means that Aareal Bank will service all of its subordinated refinancing vehicles for the 2009 financial year. This includes the silent participation by SoFFin.

Comparative figures for the full year 2008 differ from the values published in the 2008 Annual Report. 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' results.

Net interest income for the 2009 financial year amounted to € 460 million (2008: € 500 million). Higher margins in the lending business were offset by the impact of the low interest rate environment on the very comfortable liquidity reserve. Moreover, the unfavourable interest rate environment for the deposit-taking business with institutional housing industry clients had a negative effect on results. 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: € -102 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: € 30 million), consolidated operating profit for the 2009 financial year totalled € 87 million, after € 110 million in 2008. Taking into account taxes of € 20 million and non-controlling interest income of € 18 million, net income attributable to shareholders of Aareal Bank AG amounted to € 49 million (2008: € 47 million). 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.

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

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

Net interest income posted by the segment for the financial year under review amounted to € 410 million (2008: € 431 million).

Overall, operating profit for the Structured Property Financing segment was € 67 million, and thus slightly higher than last year's figure of € 66 million. Taking into consideration tax expenses of € 13 million and € 16 million attributable to non-controlling interests, the segment result was € 38 million (2008: € 19 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, averaging around € 4.0 billion in the 2009 financial year. This reflects the high level of confidence that institutional housing industry clients in Germany have been placing in Aareal Bank – as their long-standing, sound and reliable banking partner – for decades.

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 the Aareon Group subsidiary remained stable, thanks to its continued successful multi-product strategy, and despite the general economic weakness, which led to lower volumes of project tenders in the market – especially in the first half-year. 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 on the one hand due 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 non-controlling 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 during 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.

Note to editors: the full 2009 Annual Report is available for download at <http://www.aareal-bank.com/financialreports>.

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 results for the 2009 financial year
(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	460	500	-8
Allowance for credit losses	150	80	88
Net interest income after allowance for credit losses	310	420	-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	-102	-78
Results from companies accounted for at equity	1	7	-86
Results from investment properties	0	-1	
Administrative expenses	361	364	-1
Net other operating income / expenses	-14	30	-147
Impairment of goodwill	2	0	
Operating Profit	87	110	-21
Income taxes	20	45	-56
Net income / loss	67	65	3
Allocation of results			
Net income / loss attributable to non-controlling interests	18	18	
Net income / loss attributable to shareholders of Aareal Bank AG	49	47	4
Appropriation of profits			
Net income / loss attributable to shareholders of Aareal Bank AG	49	47	4
Silent partnership contribution by SoFFin	26	-	
Consolidated retained profit/accumulated loss	23	47	-51

	31.12.2009	31.12.2008*	Change
	Euro mn	Euro mn	%
Portfolio data			
Property finance	21,838	22,813	-4
of which international	18,164	18,655	-3
Property finance under management	22,348	23,462	-5
of which international	18,164	18,655	-3
Shareholders' equity	2,077	1,452	43
Total assets	39,569	41,023	-4

	01.01.- 31.12.2009	01.01.- 31.12.2008*
Key financial indicators		
Cost/Income ratio (%) ¹⁾	47.9	59.8
Earnings per share (€)	1.14	1.1
RoE after taxes (%)	2.9	3.4

1) Structured Property Financing segment only

*) Figures adapted

2009 segment reporting by operating unit (in accordance with IFRS)

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation/ Other		Aareal Bank Group	
	2009	2008*	2009	2008	2009	2008*	2009	2008*
Euro mn								
Net interest income	410	431	0	0	50	69	460	500
Allowance for credit losses	150	80					150	80
Net interest income after allowance for credit losses	260	351	0	0	50	69	310	420
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	-102	0	0			-22	-102
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	29	-1	2	-1	-1	-14	30
Impairment of goodwill	2		0	0			2	0
Operating profit	67	66	20	44	0	0	87	110
Income taxes	13	31	7	14			20	45
Net income / loss	54	35	13	30	0	0	67	65
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	19	11	28	0	0	49	47
Allocated equity	1,241	964	68	72	360	327	1,669	1,363
Cost/income ratio in %	47.9	59.8	88.8	77.5			60.2	65.7
RoE after taxes in %	3.1	2.0	15.4	38.5			2.9	3.4

*) Figures adapted