



Press Release

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Aareal Bank Group remains on course in the second quarter of 2010

- **Second-quarter consolidated operating profit rises to €31 million (Q2 2009: €19 million)**
- **Allowance for credit losses of €33 million remains at a manageable level**
- **New Structured Property Financing business expanded to €1.6 billion**
- **Consulting / Services segment: Aareon performs well, and on schedule – interest rate environment remains unfavourable for deposit-taking**
- **Outlook for the full year 2010 affirmed**

Wiesbaden, 10 August 2010 – Aareal Bank Group continues to develop on schedule during the current financial year, posting very satisfactory results for the second quarter of 2010, in a challenging market environment. At €31 million, consolidated operating profit clearly exceeded the results of the same quarter of the previous year (€19 million). Half-year consolidated operating profit of €61 million was also markedly higher year-on-year (H1 2009: €43 million). Both of the bank's business segments continued to contribute to this positive development.

Dr Wolf Schumacher, Chairman of the Management Board, commented on Aareal Bank's second-quarter results: "We continue to perform well during the 2010 financial year. Our good results for the second quarter – which was once again characterised by uncertainty and turbulence on the capital markets – is further evidence that our business model is viable and sustainable."

Against the background of a sound operating performance and the bank's solid capitalisation, Aareal Bank announced at the end of the second quarter that it would repay a first tranche of the silent participation by the German Financial Markets Stabilisation Fund (SoFFin). The €150 million tranche was repaid on 16 July, making Aareal Bank the first bank to start repaying capital support provided by SoFFin.

"We have achieved solid consolidated results in a demanding market environment. We also markedly accelerated repayment of SoFFin funds – these are clear signs of Aareal Bank Group's strong operating performance, and the good shape the bank is in. We continue to have our risk exposure well under control; the bank has a very solid capitalisation and is well-positioned for the future", said Dr Schumacher.

**Structured Property Financing segment:
marked increases in operating profit and new business**

Operating in a commercial property market environment that remains challenging – regardless of some early signs of improvement – Aareal Bank's Structured Property Financing segment once again performed well. The bank consistently pursued its sustainable, prudent and conservative business policy during the second quarter, increasingly exploiting opportunities for attractive new business which emerged. Overall, the bank increased the volume of new business originated during the second quarter to € 1.6 billion, whereby the share of renewals declined. This brings the aggregate new business figure for the first half of the year to € 2.9 billion – a level that is appropriate, considering the state of the sector.

At € 25 million, operating profit in the Structured Property Financing segment was significantly up year-on-year (Q2 2009: € 12 million). At € 111 million, net interest income in the segment was higher than in the previous quarter, and also higher than in the same period of the previous year (€ 106 million and € 103 million, respectively). The increase was largely due to the higher margins achieved in the lending business. The net figure also includes a € 2 million payment received from Deutsche Interhotel Holding GmbH & Co. KG.

At € 33 million, allowance for credit losses has remained at a clearly manageable level (Q2 2009: € 42 million); in spite of turbulence on some key markets, the figure was virtually unchanged from the previous quarter and remained within the normal fluctuation range – once again, evidence to the high quality of Aareal Bank's property financing portfolio.

**Consulting / Services segment: Aareon performs well, and on schedule –
interest rate environment remains unfavourable**

Aareon's positive performance has been on schedule: the subsidiary's business activities continue to develop within the defined target range. Around 250 businesses of all sizes have signed up for Wodis Sigma since this product generation was launched in 2009. Aareon acquired twelve additional Wodis Sigma accounts during the second quarter of this year alone.

The interest rate environment remained unfavourable for the profitability of the deposit-taking business during the second quarter of 2010. Nonetheless, the Consulting / Services segment once again showed a robust performance, generating operating profit of € 6 million (Q2 2009: € 7 million). Despite ongoing predatory competition for customer deposits in terms of pricing during the second quarter, the volume of deposits taken from the institutional housing industry averaged € 4.1 billion, up slightly compared to the previous quarter (Q1 2009:

€3.9 billion). This reflects the high level of confidence that institutional housing industry clients in Germany continue to place in Aareal Bank as their reliable banking partner.

Successful funding activities – capitalisation remains solid

Aareal Bank's refinancing remains solid after the first six months of the current financial year. The bank was successful in its refinancing activities carried out during the year to date: raising some €1.3 billion in long-term funding via private and public placements on the capital market during the second quarter; this included around €1 billion in Pfandbrief issues and approximately €300 million in unsecured issues. Overall, the bank placed €700 million in unsecured issues during the first half of the year, and placed €1.8 billion in Pfandbriefe.

To retain its ability to respond quickly and flexibly at all times to possible market distortions over the medium term, Aareal Bank took the decision during the second quarter to draw on the remaining €2 billion tranche of the SoFFin guarantee facility for a shelf bond issue, which the bank has taken onto its own books. This utilisation of the framework guarantee is purely precautionary in nature, and there are no plans at present to place it on the market.

Aareal Bank continues to demonstrate solid capitalisation as at 30 June 2010: the Tier 1 ratio measured in accordance with the Credit Risk Standard Approach (CRSA) was 10.2 per cent, which continues to be high by international standards. The figure reported includes the partial repayment of the SoFFin silent participation, which was effected after the reporting date.

Notes to Group financial performance

Net interest income for the second quarter of 2010 was €122 million (Q2 2009: €116 million), thus amounting to €239 million for the first six months of the financial year (H1 2009: €233 million). Net interest income after allowance for credit losses for the first half of the year totalled €174 million (H1 2009: €154 million).

Net commission income was €32 million in the second quarter (Q2 2009: €30 million), bringing the total figure for the first half of the year to €62 million (H1 2009: €66 million). This item reflects €11 million in running costs for the guarantee facility extended by SoFFin at the end of March 2009, for the period from January to June 2010 (H1 2009: €6 million). Taking into account this effect, net commission income was in line with the figure posted for the same period of the previous year.

Net trading income/expenses for the second quarter was €-13 million (Q2 2009: €5 million) and €-7 million for the first half of the year (H1 2009: €23 million). The net result was largely attributable to the valuation of trading derivatives used to hedge interest rate and currency risk, and to realised and unrealised changes in value recognised on the sale of protection on selected EU government bonds.

Sales of fixed-income securities executed during the second quarter resulted in a positive result from non-trading assets of €14 million (Q2 2009: €1 million). As in

the previous quarter, the measurement of non-trading assets did not result in any burdens on income during the second quarter; the figure for the first six months was also positive, at € 14 million (H1 2009: € -16 million).

Administrative expenses in the Group amounted to € 92 million in the second quarter (unchanged year-on-year), and € 183 million in the first half-year, down € 3 million (H1 2009: € 186 million). This continues to reflect pursuance of the Group's strict cost discipline.

Net other operating income and expenses in the second quarter amounted to € -6 million (Q2 2009: € 1 million), bringing the total figure for the first half of the year to € -8 million (H1 2009: € 1 million). The net figure includes project costs and provisions recognised for subsidiaries.

The payment by Deutsche Interhotel Holding GmbH & Co KG was recognised in the result of investments accounted for using the equity method, in an amount of € 5 million for the second quarter; this was also the figure for the first half of the year (H1 2009: nil).

On balance, consolidated operating profit for the second quarter amounted to € 31 million (Q2 2009: € 19 million). After deduction of € 9 million in income taxes and € 4 million in income attributable to non-controlling interests, net income after minority interests amounted to € 18 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at € 9 million (Q2 2009: € 3 million).

Aareal Bank Group's consolidated operating profit for the first six months of 2010 totalled € 61 million (H1 2009: € 43 million). Taking into consideration taxes of € 18 million and non-controlling interest income of € 9 million, net income attributable to shareholders of Aareal Bank AG amounted to € 34 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at € 17 million (H1 2009: € 15 million).

Outlook: forecasts affirmed in an environment that continues to be challenging

Notwithstanding the indications of a slight improvement on property markets, at the mid-year point Aareal Bank continues to expect the 2010 financial year to remain as challenging as 2009.

However, the bank adheres to its cautiously optimistic outlook for business performance during the remainder of the year, and affirms its forecasts communicated to date, with net interest income projected to increase to € 460 million to € 480 million. Allowance for credit losses recognised in income is expected to range between € 117 million and € 165 million: the actual level will depend in particular on the extent to which the additional allowance for credit losses (which was increased from € 34 million to € 48 million in the 2009 financial year) will, in fact, be utilised. As in the previous year, the bank cannot rule out additional allowances for unexpected credit losses that may be incurred during the 2010 financial year.

Consolidated administrative expenses are expected to remain in line with the previous year, reflecting the Group's continued strict cost discipline.

The measures resolved during the second quarter – the utilisation of the remaining SoFFin guarantee facility, and the early partial repayment of the silent participation – impact on net commission income and on the appropriation of profits. The additional fees payable for the utilisation of the remaining framework guarantee burden operating profit. In contrast, the relief on income due to the early partial repayment of the silent participation (which virtually offsets the higher fees) is not reported in operating profit, but in the appropriation of profits. Despite this effect which burdens operating profit, from today's perspective Aareal Bank continues to anticipate potential for increasing consolidated operating profit for the full 2010 financial year, even though the market environment continues to be fraught with uncertainty.

New business generated in the Structured Property Financing segment is currently expected at the upper end of the range between € 4 billion and € 5 billion in 2010, with a lower share of renewals. In the Consulting / Services segment, Aareon continues to develop on schedule, whereas the ongoing low interest rate environment burdens profitability in the deposit-taking business.

"We will continue to adhere to our conservative business and risk policies, which have paid off for the bank, during the remaining months of 2010," said CEO Dr Schumacher, adding: "At the same time, we will increasingly exploit opportunities for attractive new business with appropriate risk/return ratios, which are emerging on a broader scale now. Leveraging our sustainable business model that is based on two strong segments, and a business policy rooted in solidity and stability, Aareal Bank will be better placed than its sector peers to capitalise on the impending market recovery. Our close proximity to clients and markets, our forward-looking funding policy, and our flexibility as a medium-sized company – these are the prerequisites for further expanding our leading market position during the years to come", Schumacher explained.

Note to editors: Aareal Bank's full interim report for the second quarter of 2010 is available for download from <http://www.aareal-bank.com/en/investor-relations/financial-reports/>.

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 first half of 2010 (in accordance with IFRS)

	01.01.- 30.06.2010	01.01.- 30.06.2009*	Change
	Euro mn	Euro mn	%
Profit and loss account			
Net interest income	239	233	3
Allowance for credit losses	65	79	-18
Net interest income after allowance for credit losses	174	154	13
Net commission income	62	66	-6
Net result on hedge accounting	4	1	300
Net trading income / expenses	-7	23	
Results from non-trading assets	14	-16	
Results from companies accounted for at equity	5	-	
Results from investment properties	0	0	
Administrative expenses	183	186	-2
Net other operating income / expenses	-8	1	
Impairment of goodwill	0	-	
Operating Profit	61	43	42
Income taxes	18	10	80
Net income / loss	43	33	30
Allocation of results			
Net income / loss attributable to non-controlling interests	9	9	
Net income / loss attributable to shareholders of Aareal Bank AG	34	24	42
Appropriation of profits			
Net income / loss attributable to shareholders of Aareal Bank AG	34	24	42
Silent partnership contribution by SoFFin	17	9	89
Consolidated retained profit/accumulated loss	17	15	13

	30.06.2010	31.12.2009	Change
	Euro mn	Euro mn	%
Portfolio data			
Property finance	22,783	21,838	4
of which international	19,300	18,164	6
Property finance under management	23,209	22,348	4
of which international	19,300	18,164	6
Shareholders' equity	2,069	2,077	0
Total assets	42,530	39,569	7

	01.01.- 30.06.2010	01.01.- 30.06.2009*
Key financial indicators		
Cost/Income ratio (%) **)	48.2	47.9
Earnings per share (€)	0.78	0.58
RoE after taxes (%) ***)	3.4	2.9

*) Figures adapted

**) Structured Property Financing segment only

***) on an annualised basis

**Segment results for the first half of the 2010 financial year
(in accordance with IFRS)**

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation/ Other		Aareal Bank Group	
	01.01. - 30.06. 2010	01.01.- 30.06. 2009*	01.01. - 30.06. 2010	01.01.- 30.06. 2009	01.01. - 30.06. 2010	01.01.- 30.06. 2009	01.01. - 30.06. 2010	01.01.- 30.06. 2009*
	Euro mn							
Net interest income	217	208	0	0	22	25	239	233
Allowance for credit losses	65	79					65	79
Net interest income after allowance for credit losses	152	129	0	0	22	25	174	154
Net commission income	-3	2	88	90	-23	-26	62	66
Net result on hedge accounting	4	1					4	1
Net trading income / expenses	-7	23					-7	23
Results from non-trading assets	14	-16	0	0			14	-16
Results from companies accounted for at equity	5						5	
Results from investment properties	0	0					0	0
Administrative expenses	107	106	77	82	-1	-2	183	186
Net other operating income / expenses	-9	2	1	0	0	-1	-8	1
Impairment of goodwill	0						0	
Operating profit	49	35	12	8	0	0	61	43
Income taxes	14	7	4	3			18	10
Net income / loss	35	28	8	5	0	0	43	33
Allocation of results								
Net income / loss attributable to non-controlling interests	8	8	1	1			9	9
Net income / loss attributable to shareholders of Aareal Bank AG	27	20	7	4	0	0	34	24
Allocated equity	1,478	1,281	73	61	401	320	1,952	1,662
Cost/income ratio in %	48.2	47.9	86.5	91.5			59.0	60.5
RoE after taxes in % **)	3.7	3.2	18.0	13.2			3.4	2.9

*) Figures adapted

**) on an annualised basis

Segment results – quarterly development (in accordance with IFRS)

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation/ Other		Aareal Bank Group	
	Quarter 2 2010	Quarter 2 2009*	Quarter 2 2010	Quarter 2 2009	Quarter 2 2010	Quarter 2 2009	Quarter 2 2010	Quarter 2 2009*
Euro mn								
Net interest income	111	103	0	0	11	13	122	116
Allowance for credit losses	33	42					33	42
Net interest income after allowance for credit losses	78	61	0	0	11	13	89	74
Net commission income	1	-3	43	46	-12	-13	32	30
Net result on hedge accounting	2	0					2	0
Net trading income / expenses	-13	5					-13	5
Results from non-trading assets	14	1	0	0			14	1
Results from companies accounted for at equity	5						5	
Results from investment properties	0	0					0	0
Administrative expenses	55	54	38	39	-1	-1	92	92
Net other operating income / expenses	-7	2	1	0	0	-1	-6	1
Impairment of goodwill								
Operating profit	25	12	6	7	0	0	31	19
Income taxes	7	-1	2	3			9	2
Net income / loss	18	13	4	4	0	0	22	17
Allocation of results								
Net income / loss attributable to non-controlling interests	4	4	0	1			4	5
Net income / loss attributable to shareholders of Aareal Bank AG	14	9	4	3	0	0	18	12
Allocated equity	1,478	1,281	73	61	401	320	1,952	1,662
Cost/income ratio in %	47.5	49.8	87.4	86.0			58.4	60.7
RoE after taxes in % **)	3.8	2.8	20.0	22.2			3.6	3.0

*) Figures adapted

**) on an annualised basis