



Press Release

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Aareal Bank Group reports a marked increase in third-quarter profits

- **Nine-month operating profit already exceeds full-year 2009 results – Aareal Bank has thus achieved a key objective for the current financial year**
- **Full-year forecasts raised for key financial indicators**
- **Consolidated operating profit of €33 million, up from €21 million in Q3 2009**
- **Allowance for credit losses of €32 million for the third quarter remains at a manageable level**

Wiesbaden, 9 November 2010 – Aareal Bank Group continued to perform well during the current financial year, posting consolidated operating profit of €33 million for the third quarter – in a business environment that continues to be challenging. The bank's operative result thus not only exceeded the very satisfactory result posted for the previous quarter (€31 million) but also the figure for the same period of the previous year (€21 million). Once again, both of the Group's segments contributed to the strong results achieved in the third quarter. Aareal Bank Group's consolidated operating profit for the first nine months of the year thus amounts to €94 million, up by close to 47 per cent year-on-year (9m 2009: €64 million). At €32 million, allowance for credit losses recognised from July to September was slightly below the previous quarter (Q2 2010: €33 million), and clearly below the previous year's figure (Q3 2009: €36 million).

Dr Wolf Schumacher, Chairman of Aareal Bank's Management Board, commented on the figures: "Thanks to the strength and soundness of our business model, we once again performed very well in a market environment that continues to be truly challenging for the property sector. We continue to consistently exploit the market opportunities available, whilst maintaining a tight rein on our risk exposure. Our consolidated operating profit already exceeds the full-year results for 2009 – this means that we have already achieved a key objective for the current financial year after only three quarters in 2010."

Structured Property Financing segment: operating profit increases markedly

Aareal Bank once again boosted operating profit in the Structured Property Financing segment during the third quarter. At €28 million, it not only clearly exceeded the €15 million reported in the same quarter of the previous year, but also improved on the good results posted in the second quarter of 2010 (€25 million). Net interest income in the period under review was €121 million after €99 million in the comparable period of the previous year. The increase was largely due to higher margins achieved in the lending business.

Allowance for credit losses totalled €32 million in the third quarter (Q3 2009: €36 million), thus remaining within the normal fluctuation range, and so on a clearly manageable level, despite the persistently challenging environment. This fact once again highlights the high quality of Aareal Bank's property financing portfolio.

Even though the environment for the property sector has remained challenging throughout the year to date, Aareal Bank was able to leverage its strong capital and liquidity base to exploit several opportunities to generate attractive new business during the third quarter. As in the past, the bank did so selectively, with a strategy centred around quality and prudence. New business in the third quarter was €1.2 billion and thus significantly higher than in the same quarter of the previous year (Q3 2009: €0.7 billion). Aareal Bank therefore raised its new business to €4.1 billion in the first nine months of the year, an increase of €1.7 billion over the same period of the previous year. The share of loan renewals continued to decline.

Consulting/Services: interest rate environment remains unfavourable – Aareon continues to develop positively, in line with projections

At €5 million, operating profit generated by the Consulting / Services segment was slightly lower compared with the corresponding quarter of the previous year (Q3 2009: €6 million). Results were negatively impacted by a sustained low interest rate environment, which has persisted for longer than anticipated, and which in turn has adversely affected the profitability of the deposit business. Despite continued intense competition for client deposits, the volume of deposits from the institutional housing industry remained stable during the third quarter of 2010, averaging €4.2 billion.

Aareon AG's business activities developed according to plan, and were once again shaped by its successful Wodis Sigma product line. Introduced in 2009, this product generation has met with an exceptionally positive response from Aareon's clients. Since its introduction, more than 260 companies of all sizes, managing around a million housing units between them, have opted for Wodis Sigma. This includes many new clients.

Refinancing: successful issuance activities

Aareal Bank remains solidly financed. The bank continued its successful funding activities – as planned – during the third quarter of this year. Overall, the bank placed € 1.1 billion in unsecured issues during the first nine months of the year – € 400 million of which was during the third quarter – and placed € 2 billion in covered bonds (Pfandbriefe), of which € 300 million was during the period under review. The bank's enduringly solid and conservative refinancing and liquidity policy provides the basis for its robust operating business, and the secure foundation of its successful business model.

Aareal Bank's capitalisation remained very sound in the third quarter: as at 30 September 2010, the bank's Tier 1 ratio – measured in accordance with the Credit Risk Standard Approach (CRSA) – was 10.4 per cent, which is high by international standards.

Notes to Group financial performance

Net interest income in the third quarter of 2010 was € 131 million (Q3 2009: € 112 million), bringing the figure for the first nine months of the financial year to € 370 million (9m 2009: € 345 million). Net interest income including allowance for credit losses amounted to € 273 million for the first nine months (9m 2009: € 230 million).

Net commission income for the third quarter was € 24 million (Q3 2009: € 28 million), bringing the total figure for the first nine months to € 86 million (9m 2009: € 94 million). This item reflects € 20 million in running costs for the guarantee facility extended by SoFFin at the end of March 2009, for the period from January to September 2010 (9m 2009: € 11 million). It includes additional expenditure – incurred in the third quarter for the first time – for the precautionary utilisation of the remaining SoFFin guarantee facility. Taking this effect into account, net commission income was up slightly year-on-year.

Net trading income/expenses for the third quarter was € 2 million (Q3 2009: € 18 million), and € –5 million for the first nine months (9m 2009: € 41 million). The net result was largely attributable to the valuation of trading derivatives used to hedge interest rate and currency risks, and to realised and unrealised changes in value from sold hedging instruments on selected EU sovereign countries.

Results from non-trading assets amounted to € –3 million in the third quarter (Q3 2009: € –3 million). The corresponding figure for the first nine months of the financial year was positive, at € 11 million, compared to a net deficit of € 19 million for the first nine months of 2009.

Third-quarter administrative expenses were € 88 million (Q3 2009: € 92 million). The € 271 million figure for the first nine months was € 7 million lower year-on-year (9m 2009: € 278 million). This continues to reflect pursuance of the Group's strict cost discipline.

Net other operating income and expenses totalled € 1 million for the third quarter (Q3 2009: € -3 million), and € –7 million for the first nine months (9m 2009:

€-2 million). The net figure included project costs and provisions recognised for subsidiaries.

Consolidated operating profit for the third quarter thus totalled €33 million (Q3 2009: €21 million). Taking into consideration income taxes of €11 million and minority interest income of €5 million, consolidated net income after non-controlling interest income amounted to €17 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated income stood at €10 million (Q3 2009: €3 million).

Consolidated operating profit for the first nine months of the current year totalled €94 million (9m 2009: €64 million). Taking into consideration taxes of €29 million and minority interest income of €14 million, net income attributable to shareholders of Aareal Bank AG amounted to €51 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated income stood at €27 million.

Outlook: full-year forecasts raised for key financial indicators

Aareal Bank Group's business has outperformed expectations during the course of 2010 to date. Especially given the background of the positive results posted for the third quarter, the bank thus raised its forecasts for key financial indicators.

New business generated in the Structured Property Financing segment is currently projected to exceed the previously forecasted range of between €4 billion and €5 billion in 2010, with the share of renewals expected to decline further.

Owing to the positive developments in the course of the year to date, Aareal Bank now believes that the communicated target corridor for net interest income of between €460 and €480 million will also be exceeded. Although prevailing low interest rates will continue to depress margins generated on deposits from the institutional housing industry, this development will be offset especially by higher margins generated in the lending business.

The commercial property financing business environment remains challenging. After the first nine months of the year, Aareal Bank expects allowance for credit losses to be in the lower half of the forecast range between €117 million and €165 million. The exact figure depends especially on the utilisation of the additional allowance for credit losses, which was increased from €34 million to €48 million in the 2009 financial year. It is, however, still impossible to exclude additional impairments from unexpected losses. However, from today's perspective, Aareal Bank views this as a rather unlikely scenario.

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

In the Consulting / Services segment, Aareon continues to develop on schedule, whilst the ongoing low interest rate environment burdens profitability in the deposit-taking business.

Aareal Bank has already achieved its objective for 2010 full-year operating profit to exceed the previous year's figure after nine months. Although the market environment remains subject to uncertainty, the international property specialist is confident of its ability to post a solid profit again in the fourth quarter, and therefore to increase the operating profit even further at year-end.

"The positive overall performance we have seen over the last months has clearly affirmed our view that commercial property financing can look forward to a bright future", said CEO Dr Wolf Schumacher. "We continue to expect the market environment to normalise gradually during the current year, and especially in 2011. Our assumption is that markets will return to normal again as of 2012. Leveraging our sustainable business model that is based on two strong segments, and a business policy rooted in solidity and sustainability, Aareal Bank is best placed to capitalise on the impending market recovery. This will enable us to further expand our position as one of the leading providers in the markets we cover", Schumacher added.

Note to editors: The full interim report for the third quarter of 2010 is available on <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: Consolidated figures for the first nine months of 2010
(in accordance with IFRS)**

	01.01.- 30.09.2010	01.01.- 30.09.2009*	Change
	Euro mn	Euro mn	%
Profit and loss account			
Net interest income	370	345	7
Allowance for credit losses	97	115	-16
Net interest income after allowance for credit losses	273	230	19
Net commission income	86	94	-9
Net result on hedge accounting	2	-3	-167
Net trading income / expenses	-5	41	
Results from non-trading assets	11	-19	
Results from investments accounted for using the equity method	5	-	
Results from investment properties	0	1	
Administrative expenses	271	278	-3
Net other operating income / expenses	-7	-2	
Impairment of goodwill	0	0	
Operating profit	94	64	47
Income taxes	29	15	93
Net income / loss	65	49	33
Allocation of results			
Net income / loss attributable to non-controlling interests	14	13	8
Net income / loss attributable to shareholders of Aareal Bank AG	51	36	42
Appropriation of profits			
Net income / loss attributable to shareholders of Aareal Bank AG	51	36	42
Silent partnership contribution by SoFFin	24	18	33
Consolidated profit / loss	27	18	50

	30.09.2010	31.12.2009	Change
	Euro mn	Euro mn	%
Portfolio data			
Property financing	22,388	21,838	3
of which international	18,960	18,164	4
Property financing under management	22,772	22,348	2
of which international	18,960	18,164	4
Equity	1,948	2,077	-6
Total assets	42,531	39,569	7

	01.01.- 30.09.2010	01.01.- 30.09.2009*
Key financial indicators		
Cost / income ratio (%) **)	47.9	49.0
Earnings per share (Euro)	1.19	0.84
RoE after taxes (%) ***)	3.6	2.9

*) Figures adapted

**) Structured Property Financing segment only

***) on an annualised basis

Segment results for the first nine months of 2010 (in accordance with IFRS)

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	01.01. - 30.09. 2010	01.01.- 30.09. 2009*	01.01. - 30.09. 2010	01.01.- 30.09. 2009	01.01. - 30.09. 2010	01.01.- 30.09. 2009	01.01. - 30.09. 2010	01.01.- 30.09. 2009*
Euro mn								
Net interest income	338	307	0	0	32	38	370	345
Allowance for credit losses	97	115					97	115
Net interest income after allowance for credit losses	241	192	0	0	32	38	273	230
Net commission income	-8	-1	127	134	-33	-39	86	94
Net result on hedge accounting	2	-3					2	-3
Net trading income / expenses	-5	41					-5	41
Results from non-trading assets	10	-19	1	0			11	-19
Results from investments accounted for using the equity method	5						5	
Results from investment properties	0	1					0	1
Administrative expenses	161	159	112	121	-2	-2	271	278
Net other operating income / expenses	-7	-2	1	1	-1	-1	-7	-2
Impairment of goodwill	0			0			0	0
Operating profit	77	50	17	14	0	0	94	64
Income taxes	24	10	5	5			29	15
Net income / loss	53	40	12	9	0	0	65	49
Allocation of results								
Net income / loss attributable to non-controlling interests	12	12	2	1			14	13
Net income / loss attributable to shareholders of Aareal Bank AG	41	28	10	8	0	0	51	36
Allocated equity	1,399	1,251	75	63	409	354	1,883	1,668
Cost / income ratio (%)	47.9	49.0	86.8	89.4			58.6	60.7
RoE after taxes (%) **)	4.0	3.0	17.1	15.9			3.6	2.9

*) Figures adapted

**) on an annualised basis

Segment Reporting (Quarterly Development, in accordance with IFRS)

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation/ Other		Aareal Bank Group	
	Quarter 3 2010	Quarter 3 2009*	Quarter 3 2010	Quarter 3 2009	Quarter 3 2010	Quarter 3 2009	Quarter 3 2010	Quarter 3 2009*
Euro mn								
Net interest income	121	99	0	0	10	13	131	112
Allowance for credit losses	32	36					32	36
Net interest income after allowance for credit losses	89	63	0	0	10	13	99	76
Net commission income	-5	-3	39	44	-10	-13	24	28
Net result on hedge accounting	-2	-4					-2	-4
Net trading income / expenses	2	18					2	18
Results from non-trading assets	-4	-3	1	0			-3	-3
Results from investments accounted for using the equity method	0						0	
Results from investment properties	0	1					0	1
Administrative expenses	54	53	35	39	-1	0	88	92
Net other operating income / expenses	2	-4	0	1	-1	0	1	-3
Impairment of goodwill				0				0
Operating profit	28	15	5	6	0	0	33	21
Income taxes	10	3	1	2			11	5
Net income / loss	18	12	4	4	0	0	22	16
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	14	8	3	4	0	0	17	12
Allocated equity	1.399	1.251	75	63	409	354	1.883	1.668
Cost/income ratio in %	47.2	51.1	87.4	85.1			57.8	61.1
RoE after taxes in % **)	4.1	2.7	16.3	22.6			3.7	3.0

*) Figures adapted

**) on an annualised basis