



Press Release

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Aareal Bank Group set for profitable growth

- **Further enhancements to results anticipated, following the successful financial year 2010**
- **Business development on schedule during early 2011 – positive outlook affirmed**
- **CEO Dr Wolf Schumacher: "We are determined to consistently exploit our competitive edge, and to further expand our market position"**

Wiesbaden, 31 March 2011 – Following its successful performance during the 2010 financial year, during which Aareal Bank achieved good results in a challenging environment, the bank sees itself in an excellent position for profitable growth, and for further boosting its market position during the coming months and years. "Leveraging our sustainable strategy, we are now determined to consistently exploit our competitive edge, to further expand our strong position on key markets", said Dr Wolf Schumacher, Chairman of the Management Board, presenting the bank's 2010 Annual Report.

Schumacher affirmed that Aareal Bank's outlook for the commercial property financing business remained generally positive: he observed that key markets had now concluded their bottom-building process – as predicted one year ago. According to Schumacher, demand for financings is picking up markedly in some segments, whilst the number of competitors has clearly diminished following the financial markets crisis.

"We are convinced that, as one of the few real estate finance providers left that maintains a broad international presence, we will be able to benefit from the ongoing normalisation of the markets we cover, to a greater extent than our competitors," Schumacher said, adding: "Our transaction pipeline is very well-stocked indeed – in the current market environment, a strongly-positioned institution such as Aareal Bank sees attractive opportunities for generating high-margin new business, with an adequate risk profile. We are determined to exploit these opportunities. In the interests of our shareholders, we will therefore retain

all options to boost our lending business, in line with our strategy, beyond our current planning – which would permit us to increase new business during the current year above the previous year's levels", Schumacher emphasised.

Positive outlook for the 2011 financial year affirmed

Aareal Bank Group started into the current financial year as planned: notably, the positive development of new business continued during the first quarter, which is traditionally rather weak for both of its segments.

Aareal Bank affirms its outlook for the financial year 2011 as a whole, as published on 22 February 2011. Against the background of moderately higher interest rate levels, the Management Board expects net interest income to be stable or slightly higher compared with the previous year. Due to the gradual normalisation of property markets, and although there are still various uncertainties, Aareal Bank expects allowance for credit losses for the 2011 financial year to be within a range of € 110 million to € 140 million. (The previous year's projection was a range of € 117 million to €165 million.) As in the previous year, additional allowance for unexpected credit losses that may be incurred during 2011 cannot be ruled out. Administrative expenses will continue to be defined by the unchanged cost discipline, and the figure for 2011 is expected to be marginally higher than the previous year, including the burden associated with the special bank levy.

Overall, Aareal Bank is confident, from today's perspective, that it will increase the good operating profit achieved during the 2010 financial year, in a challenging market environment. Despite the additional burdens facing banks as a result of the bank levy, Aareal Bank considers a return on equity before taxes of at least 12 per cent to be achievable in a normal market environment.

Significant increase in results for the 2010 financial year

Aareal Bank Group concluded the financial year under review with one of the best results in its corporate history – despite a difficult market environment. According to audited figures, consolidated operating profit amounted to € 134 million, up 54 per cent year-on-year (2009: €87 million). Aareal Bank Group had in fact already achieved its original target – to beat the previous year's figure – by the end of the third quarter of 2010.

Looking at full-year results, Aareal Bank Group not only clearly outperformed its operating profit target, but also exceeded its projections for other key financial indicators. For instance, consolidated net interest income of € 509 million – up 11 per cent year-on-year – was markedly higher than the € 460-480 million range projected. At the same time, allowance for credit losses of € 105 million was below the € 117 to 165 million range budgeted for the 2010 financial year. At € 6.7 billion, new business originated in the Structured Property Financing segment significantly exceeded the target corridor of € 4 billion to € 5 billion; compared to 2009, new business was up by 74 per cent. At € 26 million, operating profit for the Consulting / Services segment was in line with projections, despite an unfavourable interest rate environment for the deposit-taking business.

This increase in consolidated net interest income for the full year 2010, to € 509 million (2009: € 460 million) was mainly attributable to higher average margins achieved in the lending business, reflecting new exposures originated and renewals agreed upon during 2009 and 2010. Margins from the deposit-taking business with the institutional housing industry declined, due to lower interest rate levels – which persisted for longer than anticipated.

At € 105 million (2009: € 150 million), allowance for credit losses reflected the high quality of Aareal Bank Group's credit portfolio.

Net commission income of € 123 million (2009: € 133 million) reflected – amongst other things – € 30 million (2009: € 17 million) in running costs for the guarantee facility extended by SoFFin. Adjusted for these costs, net commission income exceeded the previous year's figure.

Net trading income/expenses of € 8 million (2009: € 44 million) 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 from sold hedging instruments on selected EU sovereign countries. The result from non-trading assets of € -12 million (2009: € -22 million) was mainly attributable to the sale of fixed-income securities.

A non-recurring expense of € 20 million was recognised for the realignment of an investment property during the financial year under review. This expense was reflected in the result from investment properties, which amounted to € -17 million during the 2010 financial year (2009: € 0 million).

Administrative expenses of € 366 million were virtually unchanged year-on-year (2009: € 361 million). This reflects the strict cost discipline pursued within the Group.

Taking into account net other operating income and expenses of € -9 million (2009: € -14 million), consolidated operating profit for the 2010 financial year totalled € 134 million, after € 87 million in 2009. Taking into consideration taxes of € 40 million and € 18 million in income attributable to non-controlling interests, net income attributable to shareholders of Aareal Bank AG amounted to € 76 million (2009: € 49 million). After deduction of the net € 30 million interest payable on the SoFFin silent participation, consolidated net income stood at € 46 million (2009: € 23 million).

Both of the business segments contributed to Aareal Bank Group's good results for 2010, in the face of difficult market conditions.

Aareal Bank adhered to its conservative business policy – strictly focusing on quality – in its **Structured Property Financing segment**. Benefiting from economic recovery, and leveraging growing transaction volumes on the commercial property markets, Aareal Bank increasingly exploited available opportunities to originate attractive new business, which increased to € 6.7 billion during the 2010 financial year – up from € 3.8 billion the year before.

Net interest income posted by the segment for the financial year under review amounted to € 467 million (2009: € 410 million). This increase was mainly attributable to higher average margins generated on new exposures and renewals during 2009 and 2010.

At € 217 million, administrative expenses in the Structured Property Financing segments exceeded the previous year's figure of € 201 million. One of the factors contributing to this increase was higher provisions for share-based remuneration, due to the positive performance of Aareal Bank's share price during the financial year under review.

Overall, operating profit for the Structured Property Financing segment was € 108 million (2009: € 67 million). Taking into consideration tax expenses of € 32 million and € 16 million in non-controlling interest income, the segment result was € 60 million (2009: € 38 million).

The **Consulting/Services segment** continued to show a stable performance during the 2010 financial year. While Aareon's business continued to develop on schedule, the prevailing low interest rate environment – which persisted for longer than anticipated – burdened profitability in the deposit-taking business.

Sales revenue amounted to € 199 million in the 2010 financial year (2009: € 209 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. Nonetheless, the volume of deposits from the institutional housing industry increased slightly, despite predatory competition, averaging around € 4.1 billion during the 2010 financial year. Sales revenue included € 5 million of revenue generated by SG|automatisering bv, a Dutch subsidiary acquired by Aareon during the fourth quarter of 2010.

On balance, operating profit for the Consulting / Services segment was € 26 million (2009: € 20 million). After deduction of € 8 million in taxes and € 2 million in non-controlling interest income, the segment result stood at € 16 million (2008: € 11 million).

Successful issuance and solid capitalisation

During the 2010 financial year, Aareal Bank successfully implemented its planned funding activities, in a market environment that continued to be difficult, especially for unsecured issues. Overall, Aareal Bank placed € 1.5 billion in unsecured issues – a confirmation of the trust that investors continue to place in Aareal Bank and its management. The bank also placed Pfandbrief issues totalling € 2.4 billion. Moreover, in June 2010 Aareal Bank exercised the option of drawing on the remaining € 2 billion available under the guarantee facility provided by the German Financial Markets Stabilisation Fund (SoFFin). This use of the guarantee facility was purely precautionary in nature; the bank continues to hold the guaranteed bond issued on its own books.

Aareal Bank has a solid capital base. The bank has applied the Advanced Internal Ratings-Based Approach (Advanced IRB Approach, "A-IRBA") to determine its capital requirements for credit risks, with retrospective effect from

31 December 2010, instead of the Credit Risk Standard Approach (CRSA) applied to date. Under the A-IRBA, Aareal Bank's Tier 1 ratio stood at 12.9 per cent as at 31 December 2010. Calculated according to the CRSA previously applicable, the bank's Tier 1 ratio would have amounted to 10.5 per cent on the same record date (30 September 2010: 10.4 per cent). The Tier 1 ratio according to the A-IRBA, excluding hybrid capital and the remaining SoFFin silent participation (of which Aareal Bank repaid an initial € 150 million tranche in July 2010), stood at 8.1 per cent as at the year-end. The capital ratios shown are based on the full reinvestment of profits generated during the 2010 financial year.

Note to editors:

The full annual report for 2010 is available from Aareal Bank's website:
<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 20 countries.

Aareal Bank Group: Key financial indicators for the 2010 financial year (in accordance with IFRS)

	1 Jan - 31 Dec 2010	1 Jan - 31 Dec 2009	Change
	Euro mn	Euro mn	%
Profit and loss account			
Net interest income	509	460	11
Allowance for credit losses	105	150	-30
Net interest income after allowance for credit losses	404	310	30
Net commission income	123	133	-8
Net result on hedge accounting	-2	-2	
Net trading income / expenses	8	44	-82
Results from non-trading assets	-12	-22	
Results from investments accounted for using the equity method	5	1	400
Results from investment properties	-17	0	
Administrative expenses	366	361	1
Net other operating income / expenses	-9	-14	
Impairment of goodwill	0	2	
Operating profit	134	87	54
Income taxes	40	20	100
Net income / loss	94	67	40
Allocation of results			
Net income / loss attributable to non-controlling interests	18	18	0
Net income / loss attributable to shareholders of Aareal Bank AG	76	49	55
Appropriation of profits			
Net income / loss attributable to shareholders of Aareal Bank AG	76	49	55
Silent participation by SoFFin	30	26	15
Consolidated profit / loss	46	23	100

	31 Dec 2010	31 Dec 2009	Change
	Euro mn	Euro mn	%
Portfolio Data			
Property finance	22,884	21,838	5
of which international	19,195	18,164	6
Property finance under management	23,251	22,348	4
of which international	19,195	18,164	6
Shareholders' equity	1,985	2,077	-4
Total assets	41,217	39,569	4

	1 Jan - 31 Dec 2010	1 Jan - 31 Dec 2009
Key financial indicators		
Cost/Income ratio (%) ¹⁾	50.4	47.9
Earnings per share (€)	1.78	1.14
RoE after taxes (%)	4.0	2.9

¹⁾ Structured Property Financing segment only

Aareal Bank Group: Segment results for the 2010 financial year (in accordance with IFRS)

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 31 Dec 2010	1 Jan - 31 Dec 2009	1 Jan - 31 Dec 2010	1 Jan - 31 Dec 2009	1 Jan - 31 Dec 2010	1 Jan - 31 Dec 2009	1 Jan - 31 Dec 2010	1 Jan - 31 Dec 2009
Euro mn								
Net interest income	467	410	0	0	42	50	509	460
Allowance for credit losses	105	150					105	150
Net interest income after allowance for credit losses	362	260	0	0	42	50	404	310
Net commission income	-9	1	176	184	-44	-52	123	133
Net result on hedge accounting	-2	-2					-2	-2
Net trading income / expenses	8	44					8	44
Results from non-trading assets	-13	-22	1	0			-12	-22
Results from companies accounted for using the equity method	5	1		0			5	1
Results from investment properties	-17	0					-17	0
Administrative expenses	217	201	152	163	-3	-3	366	361
Net other operating income / expenses	-9	-12	1	-1	-1	-1	-9	-14
Impairment of goodwill	0	2		0			0	2
Operating profit	108	67	26	20	0	0	134	87
Income taxes	32	13	8	7			40	20
Net income / loss	76	54	18	13	0	0	94	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	60	38	16	11	0	0	76	49
Allocated equity	1,502	1,241	83	68	312	360	1,897	1,669
Cost/income ratio in %	50.4	47.9	85.6	88.8			60.6	60.2
RoE after taxes in %	4.0	3.1	18.8	15.4			4.0	2.9