



Press Release

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Aareal Bank Group posts markedly higher results for the 2010 financial year

- **Consolidated operating profit up by 54 per cent, to € 134 million**
- **New business generated in the Structured Property Financing segment grows from € 3.8 billion to € 6.7 billion**
- **Performance of the Consulting/Services segment remains on track**
- **Strong fourth quarter – consolidated operating profit of € 40 million**
- **CEO Dr Wolf Schumacher: "We once again proved our strength throughout 2010 – building the foundations for further expansion of our excellent market position in the years to come."**

Wiesbaden, 22 February 2011. Aareal Bank Group posted good results for the 2010 financial year, in a market environment that remained challenging. According to preliminary, unaudited figures, consolidated operating profit amounted to € 134 million, up 54 per cent year-on-year. Aareal Bank Group had in fact already achieved its original target - to beat the previous year's figure of € 87 million - after the end of the third quarter 2010. The strong performance was maintained during the fourth quarter, with consolidated operating profit rising to € 40 million - a 74 per cent increase compared with the fourth quarter of the previous year. At the same time, 2010's fourth quarter results were the highest quarterly figures that the Group had posted for two and a half years.

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 the unfavourable interest rate levels for the deposit-taking business.

Dr Wolf Schumacher, Chairman of Aareal Bank's Management Board, explained: "The results for 2010 show that we once again performed well, in a market environment that continued to be challenging, thereby proving the strength and soundness of our business model. We are thus in a very good position to leverage market opportunities to grow our lending business, in order to further expand our excellent market position to provide for profitable growth in the years to come."

2010 financial year: good results in a difficult environment

This increase in consolidated net interest income, to € 509 million (2009: € 460 million) was mainly attributable to higher average margins achieved in the lending business, resulting from 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. Results from non-trading assets of € -12 million (2009: € -22 million) were 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 results from investment properties, which amounted to € -17 million during the 2010 financial year (2009: € nil).

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

Net other operating income/expenses of € -9 million (2009: € -14 million) included project-related costs and provisions recognised for subsidiaries, amongst other factors.

Consolidated operating profit for the 2010 financial year totalled € 134 million, up from € 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 € 30 million interest payable on the SoFFin silent participation, consolidated net income stood at € 46 million (2009: € 23 million).

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 and the bank's other hybrid instruments.

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 focussing 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 opportunities available 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.

Taking into account net other operating income and expenses of € -9 million (2009: € -12 million), operating profit for the Structured Property Financing segment amounted to € 108 million (2009: € 67 million). After deduction of tax expenses of € 32 million and € 16 million in non-controlling interests, 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 continued intense 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 (2009: € 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 Credit Risk Standard Approach 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 Core 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.

Notes on the preliminary Income Statement for the fourth quarter of 2010

At € 40 million, Aareal Bank Group's consolidated operating profit was up significantly year-on-year (Q4 2009: € 23 million).

According to preliminary figures, net interest income in the final quarter of 2010 stood at € 139 million (Q4 2009: € 115 million), predominantly on account of the favourable interest rate environment during the fourth quarter.

Only € 8 million in allowance for credit losses was recognised during the fourth quarter. Even when taking into consideration the results from investment properties of € -17 million, aggregate allowance was at the lower end of the full-year projection. Net interest income after allowance for credit losses amounted to € 131 million (Q4 2009: € 80 million).

Net commission income for the fourth quarter was € 37 million (Q4 2009: € 39 million).

Net trading income/expenses for the fourth quarter totalled € 13 million (Q4 2009: € 3 million). Results from non-trading assets amounted to € -23 million (Q4 2009: € -3 million). Aareal Bank consistently pursued its de-risking strategy during the fourth quarter. The aggregate of net trading income/expenses and the result from non-trading assets amounted to € -10 million during the fourth quarter.

Consolidated administrative expenses amounted to € 95 million during the fourth quarter (Q4 2009: € 83 million). The increase during the fourth quarter was due in particular to the first-time consolidation of SG|automatisering, as well as to higher provisions for share-based remuneration, due to the positive performance of Aareal Bank's share price during the financial year under review.

Consolidated operating profit for the fourth quarter thus totalled € 40 million (Q4 2009: € 23 million). Taking into consideration income taxes of € 11 million and minority interest income of € 4 million, consolidated net income after non-controlling interest income amounted to € 25 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated income stood at € 19 million (Q4 2009: € 5 million).

Outlook: good prospects for maintaining the good performance

For the 2011 financial year, Aareal Bank Group sees good prospects for maintaining its good overall business performance, despite the market environment for commercial property finance – which is set to remain challenging during the current year.

The Management Board anticipates interest rates to increase in a moderate way during 2011: accordingly, net interest income compared with 2010 is expected to be stable or a little higher.

The gradual return of property markets to normality is expected to continue, even though some markets will still face losses during the current year; also, the various uncertainties and challenges involved in commercial property finance are likely to persist. Specifically, these include future developments in certain sub-markets, the situation on the capital markets, and the impact of the various regulatory actions. Against this background, Aareal Bank expects allowance for credit losses to remain within a range of € 110 million to € 140 million, during the 2011 financial year (the previous year's projection was a range of € 117 million to 165 million). As in the financial year under review, the bank cannot rule out additional allowances for unexpected credit losses that may be incurred during 2011.

Net trading income/expenses essentially comprises the results of hedge transactions related to refinancing the bank's core business, predominantly currency and interest rate hedges. Aareal Bank only engages in traditional own-account trading to a very limited extent. In the opinion of the Management Board, the valuation of hedging transactions will remain subject to a similar level of volatility as in the last two years, especially in the current environment. As a result, it is impossible to forecast net trading income/expenses for 2011.

Because of the consistent conservative risk policy pursued during recent years, the bank does not anticipate any material burden on the results from non-trading assets in 2011.

Administrative expenses 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 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 normal market environment.

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.

Income Statement of Aareal Bank Group
Preliminary results for the 2010 financial year
(unaudited, 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

Income Statement of Aareal Bank Group
Preliminary results for the fourth quarter of 2010
(unaudited, in accordance with IFRS):

	Quarter 4 2010	Quarter 4 2009	Change
	Euro mn	Euro mn	%
Net interest income	139	115	21
Allowance for credit losses	8	35	-77
Net interest income after allowance for credit losses	131	80	64
Net commission income	37	39	-5
Net result on hedge accounting	-4	1	
Net trading income / expenses	13	3	333
Results from non-trading assets	-23	-3	667
Results from investments accounted for using the equity method	-	1	
Results from investment properties	-17	-1	
Administrative expenses	95	83	14
Net other operating income / expenses	-2	-12	
Impairment of goodwill	-	2	
Operating Profit	40	23	74
Income taxes	11	5	120
Net income / loss	29	18	61
Allocation of results			
Net income / loss attributable to non-controlling interests	4	5	-20
Net income / loss attributable to shareholders of Aareal Bank AG	25	13	92
Appropriation of profits			
Net income / loss attributable to shareholders of Aareal Bank AG	25	13	92
Silent participation by SoFFin	6	8	-25
Consolidated profit / loss	19	5	280

Segment Results of Aareal Bank Group
Preliminary results for the 2010 financial year
(unaudited, 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 at equity	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

Segment Results (Quarterly Development) of Aareal Bank Group
Preliminary results for the fourth quarter of 2010
(unaudited, in accordance with IFRS):

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	Quarter 4 2010	Quarter 4 2009	Quarter 4 2010	Quarter 4 2009	Quarter 4 2010	Quarter 4 2009	Quarter 4 2010	Quarter 4 2009
Euro mn								
Net interest income	129	103	0	0	10	12	139	115
Allowance for credit losses	8	35					8	35
Net interest income after allowance for credit losses	121	68	0	0	10	12	131	80
Net commission income	-1	2	49	50	-11	-13	37	39
Net result on hedge accounting	-4	1					-4	1
Net trading income / expenses	13	3					13	3
Results from non-trading assets	-23	-3	0	0			-23	-3
Results from companies accounted for at equity	0	1		0			0	1
Results from investment properties	-17	-1					-17	-1
Administrative expenses	56	42	40	42	-1	-1	95	83
Net other operating income / expenses	-2	-10	0	-2	0	0	-2	-12
Impairment of goodwill		2		0				2
Operating profit	31	17	9	6	0	0	40	23
Income taxes	8	3	3	2			11	5
Net income / loss	23	14	6	4	0	0	29	18
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	19	10	6	3	0	0	25	13