Aareal Bank Group – Interim Report

1 January to 31 March 2010

Aareal Bank Group

Key Group Figures

	1 Jan-31 Mar 2010	1 Jan-31 Mar 2009 [6]	Change
	Euro mn	Euro mn	Euro mn
Income Statement			
Operating profit	30	24	6
Net income/loss after non-controlling interests	16	12	4
Indicators			
Cost/income ratio (%) [1]	49.0	46.1	
Earnings per share (Euro)	0.37	0.28	
RoE after taxes (%) [2]	3.2	2.8	

	31 Mar 2010	31 Dec 2009	Change
	Euro mn	Euro mn	Euro mn
Portfolio data			
Property financing	22,158	21,838	320
of which: international	18,557	18,164	393
Property financing under management [3]	22,638	22,348	290
of which: international	18,557	18,164	393
Equity	2,104	2,077	27
Total assets	40,936	39,569	1,367
	%	%	
Regulatory Indicators (German Banking Act/CRSA [4])			
Tier 1 ratio [5]	11.2	11.0	
Total capital ratio [5]	15.3	15.0	

	31 Mar 2010	31 Dec 2009	
Ratings			
Fitch Ratings, London			
Long-term	A-	A-	
Short-term	F1	F1	

[1] Structured Property Financing segment only
[2] on an annualised basis
[3] The figure for property financing under management includes property loans managed on behalf of DEPFA Deutsche Pfandbriefbank AG
[4] Credit Risk Standard Approach (CRSA)
[5] After confirmation of the financial statements 2009 of Aareal Bank AG. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2009 is subject to approval by the Annual General Meeting.
[6] Comparative figures for the previous year were adjusted. Further information is included in the Notes to the consolidated financial statements in the 2009 Annual Report.

Contents

Letter to Shareholders

Dear shareholders, business associates and Aareal Bank staff,

Despite the challenging environment for the property sector, Aareal Bank Group began the 2010 financial year as planned and further secured its position as the leading provider in its markets. In the first quarter, Aareal Bank increased its consolidated operating profit by € 7 million over the previous quarter to € 30 million, which was considerably higher than the previous year's level (€ 24 million). We were thus able to achieve a positive and satisfactory result, despite persistently difficult market conditions.

Business development throughout the first quarter once again affirmed that Aareal Bank Group is a sound company capable of weathering crisis with a profitable operational business. The result also attests to the viability of the Group's business model, which is built on two strong pillars. Aareal Bank Group is on a firm course to sustainably expand its market position. The Group is one of the few financial institutions to have retained its flexibility to act – both strategically and in operative terms.

However, the crisis is not entirely behind us. Though the financial markets have continued along the path to recovery during the first quarter, it would be premature to talk about a full return to normality in light of the prevailing uncertainty. Concerns about the drastic increases in certain national deficits have been particularly responsible for sustained volatility on the financial markets.

The upturn in the real economy that began to take hold in the middle of last year progressed globally in the first quarter of this year as well, though admittedly from a very low level and accompanied by low growth rates.

The impact of the previous year's global economic downturn was felt with the usual time-lag on the commercial property markets. The situation on the commercial property markets thus remains strained, despite the economic upturn seen in many locations. This applies in particular to the situation on the rental markets. Commercial property values in many regions are also still under pressure from the weak global economy.

However, difficult times also hold attractive opportunities. With its strong capital and liquidity base, Aareal Bank is one of the few financial institutions that can exploit these opportunities for business with a favourable return and risk profile. As in the past, we do so selectively, with a strategy centred around quality and prudence.

Structured Property Financing segment: increased net interest income

Aareal Bank Group believes that its approach of pursuing a sustainable, prudent and conservative business policy in the Structured Property Financing segment over the course of the first quarter has once again been confirmed. We maintained our focus on the financing requirements of our existing client base, and in addition selectively financed new investment projects for target clients. We increased our new business in the first quarter to € 1.3 billion compared with € 0.5 billion for the first quarter of the previous year.

At € 106 million, net interest was higher than in the previous quarter, and also higher than in the same period of the previous year (€ 103 million and € 105 million, respectively). Lower income as a consequence of the decline in the property financing portfolio was more than compensated for by higher margins from the lending business and a reduction in the – still comfortable – liquidity reserve.

Allowance for credit losses of € 32 million in the first quarter remained at a manageable level, and was within the normal fluctuation range (Q1 2009: € 37 million, Q4 2009: € 35 million). We are maintaining our forecast for the year as a whole within a € 117 to 165 million range for the allowance figure recognised in income.

At € 24 million, the segment result was slightly better than in the same quarter of the previous year (€ 23 million).

Consulting / Services segment: robust business development

Despite the continued unfavourable interest rate environment, the Consulting / Services segment showed robust development in the first quarter of 2010. Consolidated operating profit amounted to € 6 million, compared to € 1 million in the previous year. The volume of deposits from the institutional housing industry remained stable and averaged € 3.9 billion in the first quarter of 2010. This once again reflects the high level of confidence that German institutional housing industry clients place in Aareal Bank as their reliable banking partner.

The business activities of our IT subsidiary Aareon corresponded to seasonal expectations, business was thus within the target corridor. The new Wodis Sigma product line developed particularly well during the new financial year to date. In the first quarter alone, 35 contracts for the new product generation were signed.

Capitalisation and funding: solid and stable overall

Aareal Bank Group continues to have a solid funding base and remains well-capitalised. As at 31 March 2010, the Tier 1 ratio measured in accordance with the Credit Risk Standard Approach (CRSA) was 11.2 %, which is high by international standards.

Aareal Bank Group also successfully carried out its funding activities as planned in the first quarter of this year. We raised a total of nearly € 1.2 billion in long-term funds on the capital market via private and public transactions. This included mortgage bonds with a total volume of nearly € 800 million as well as unsecured funding totalling just under € 400 million. Notable amongst these was the successful public placement of a 5-year mortgage bond in excess of € 500 million in January of this year.

Aareal Bank share price: strong appreciation in the first quarter

Our share finished the first quarter of 2010 at € 16.20 – an increase by more than 20 %. This means that the Aareal Bank share once again clearly outperformed the Prime Banks Performance Index (CXPB) (+14 %), the DAX® (+3 %) and the MDAX® (+9%).

After a good start to 2010, the equity markets – and shares of financial institutions in particular – were adversely affected by the relatively dramatic rise in some countries' national debt, and by discussions on the future regulatory environment ("Basel III"). These issues also burdened the Aareal Bank share price.

The solid result of the 2009 financial year and the announced repayment of the first tranche of the SoFFin contribution (to begin until early 2011) further boosted our share's positive performance in the second half of the quarter.

Outlook for 2010 remains challenging: Aareal Bank is well-positioned to sustainably strengthen its market position

The 2010 financial year will not be any less challenging for our industry than 2009 was. From today's perspective, we do, however, see strong potential to increase our consolidated operating profit this year and confirm the outlook for 2010 we have communicated thus far. We expect the market environment to normalise gradually over the year. We assume that markets will return to normal again as of 2012.

We are convinced about the future potential for commercial property financing. This view is supported by the anticipated long-term increase in demand for property and property financings in many areas around the world, as well as the changes in the competitive environment and client behaviour as a consequence of the crisis. We aim to consistently take advantage of the opportunities for growth that are available, pursuing them from the basis of our lending policy rooted in solidity and stability, our pronounced proximity to clients and the market, our flexibility as a medium-sized company, our forward-looking funding policies as well as our sound balance sheet structure. Our coherent and viable business model has positioned us favourably, not only to overcome the current challenges confronting us, but also to sustainably further expand our market position and to continue to establish the bank as a leader in our business.

Yours sincerely

The Management Board

Dr Wolf Schumacher **Norbert Kickum** **Hermann J. Merkens** **Thomas Ortmanns**

Group Management Report

Business Environment

Macro-economic environment

The real economy continued to recover during the first quarter of this year – yet economic activity is still way below pre-crisis levels, especially in industrial nations such as Japan, the USA and even Germany. Pressure upon financial markets also continued to ease, even though they had to shoulder an additional burden in the form of the high level of government debt in some countries.

Economy

The economic recovery that set in in the middle of last year continued during the first quarter of the current year at a global level. This is also suggested by indicators such as the global purchasing managers index (EMI), or the German ifo business climate index. The positive development is also enhanced by first-quarter profits reported by exchange-listed companies. Positive earnings news from the EURO STOXX 50® constituents exceeded negative news recently. The speed at which the economy is recovering varies from region to region. Data concerning orders received and industrial production show that the economy in Europe is only recovering at a slow pace, and also with considerable variation in its speed. The upturn in Poland or the Czech Republic was more positive compared with weaker development in Denmark or Spain, for example. The German economy, which started to recover from the deep crisis quite early by European standards, was unable to make any further progress in the first quarter of 2010 compared with the previous quarter. The prolonged winter, amongst other things, is likely to have had a negative effect on developments. Having posted sharp growth in the last quarter of 2009, especially due to changes in business inventories, the economic indicators for the US economy painted a mixed picture for the first quarter of 2010. This indicates that the economic growth trend remained intact, albeit with less momentum. Performance of the economic sectors in the USA varied greatly. Whilst the production sectors progressed, development in the construction sector remained weak, and private consumption increased only slightly. The economic recovery in Asia remained intact through the first quarter of 2010.

Market attention focused increasingly on high public-sector deficits and the rise in government debt, occurring as a consequence of lower revenues and higher spending due to the economic situation. This affects European countries as well as the USA and Japan. This means that fiscal policy is currently facing a dilemma: budgets need to be consolidated quickly, whilst there is a danger that the measures designed to support economic recovery – which is slow and fraught with uncertainty – will cease too quickly. Some countries, such as Spain and Portugal, have already announced consolidation measures for the current year, while others such as Germany or France, intend to start next year. Meanwhile, concerns about the solvency of a number of smaller industrial countries – Greece in particular – have increased. This triggered an extensive debate about support measures from the European Union (EU) and the International Monetary Fund (IMF), after which (in early April) the EU developed a contingency plan and a rescue package.

Unemployment rose sharply worldwide in the course of the economic crisis. There has been evidence of a cautious stabilisation in recent months, with average unemployment increasing only slightly in the EU. A slightly falling trend in the unemployment rate was seen in the US. Nonetheless, it is too early to talk about a significant rise in employment in the United States. There is no evidence yet of positive signs for a sustained recovery of private consumption at present.

Financial markets, inflation and monetary policy

The trend of easing on the financial markets that was seen in the second half of 2009 remained intact in the first quarter of 2010. There are signs of many markets having returned to full working order. Markets once again permitted the placement of securitised transactions, especially in the automotive sector. However, in light of the prevailing uncertainties, it remains too early to refer to the situation as having returned entirely to normal.

Monetary policy is still very expansive in most countries, even though there is evidence that some of the more expansive monetary policy instruments are being gradually withdrawn. In mid-December, the European Central Bank (ECB) conducted the last long-term (12-month) refinancing tender for commercial banks. In March, it announced its intention to gradually withdraw special monetary policy measures. In this context, the ECB decided to return to its regular longer-term (three-month) fixed-amount repurchasing transactions for commercial banks as of the end of April, whilst the main refinancing operations will continue to be conducted as a fixed-price auction with full allocation. In the USA, the programmes launched by the US Federal Reserve ("Fed") to buy long-term bonds, which represented an important component of the expansive American fiscal policy for the provision of liquidity, ended as the quarter drew to a close. In February, the Fed hiked the discount rate (which has relatively little importance in the funding operations of commercial banks) from 0.25 % to 0.75 %, and reduced the maximum term of the discount business to one day. The programme launched by the Bank of England (BoE) to buy assets against providing central bank funds in the amount of GBP 200 billion has meanwhile expired. The BoE's key interest rates remained unchanged at a low level in the first quarter, in line with the ECB and the Fed. Only a few central banks, such as the Central Bank of Australia, raised their key rates in the first quarter. On the other hand, the Russian and Danish central banks continued to pursue their policy of cutting rates.

Interest rate developments varied, depending on maturity: whilst short-term euro and US dollar interest rates remained largely unchanged at very low levels, in the first quarter, long-term rates for both currencies fell slightly.

As a result of the debate surrounding Greece's credit standing, the euro depreciated against the US dollar in particular during the first quarter of 2010, but also against other currencies such as the Swiss franc and the Swedish krona. However, it remained stable vis-à-vis the pound sterling.

Inflation rose in many places in the first quarter of 2010. This was attributable to higher energy prices in particular, as well as statistical basis effects. Having stood at 1.0 % and 0.9 % in January and February respectively, the annualised rate of inflation in the euro zone climbed to 1.4 % in March. Inflation in some Eastern European countries such as Romania and Poland was very pronounced, whilst it remained negative in the Baltic States. Annualised inflation in Japan was also negative. China and the USA on the other hand, reported higher inflation: the annual rate of inflation in both countries exceeded 2 %.

Lending volume in China rose strongly at the end of last year and into 2010. Fears that the economy would overheat drove the government and the central bank to take various countermeasures, such as raising the minimum reserve for commercial banks. The measures taken appear to have defused the sharp growth in lending during the first quarter.

Sector-specific environment

Structured Property Financing

Developments on commercial property markets serve as a relatively late indicator in the economic cycle – a scenario which is also evident in the current situation. Although the economic recovery continued in many sectors during the first quarter, the situation on commercial property markets remained difficult.

This was particularly evident regarding the state of rental markets. Demand for rental space remained low, which continued to put downward pressure on rents. This development applied to each of the different types of commercial property – office, retail and logistics – and is the result of high unemployment and hesitant consumption, as well as a fall-off in global trade, which has by no means returned to pre-crisis level, despite the upward trend. Europe, North America and Asia were affected by the pressure on rents: certain properties in selected first-class locations, such as retail properties in Shanghai, were able to escape the trend of falling rents and rose slightly. As a consequence of the economic crisis, revenues on hotel properties were under pressure and remained at a low level. Compared with the first quarter of last year, when such revenues had already fallen sharply, there were signs of a slight improvement in some locations in the first quarter of this year. This was evident in Germany as well as in China. On the other hand, the average revenues per room for hotels in Russia, the US and Mexico was negative compared with the values from the first quarter of 2009.

The recovery in the property investment climate in the second half of 2009 continued during the first quarter of 2010. Despite this, transaction volumes on commercial property markets are low compared with the pre-crisis years. However, compared with the very low turnover in the first quarter of 2009, transaction volumes have risen on many markets. The East Asian market is currently more active than the European – and in particular the North American – commercial property markets.

At the moment, global demand is concentrated especially on high-quality properties in prime locations, with long-term rental contracts and solid tenants, since these secure continuous income for investors. Yield requirements of investors were lower for these types of prime-quality properties in particular. In many places however, yields that had risen very sharply at the start of last year, continued to stabilise in the first quarter of this year. The yield requirements on commercial property markets at present remain higher than before the outbreak of the economic crisis. This also applies to the markets where prime yields are falling.

This development had a positive effect on the market values in prime locations and for prime-quality properties, where investors' yield requirements decreased. Nonetheless, it must be stated that market values remain under pressure owing to the trend towards falling rents.

Consulting/Services: Institutional Housing Industry

Despite the still-challenging environment, companies operating in the German institutional housing industry achieved stable rental income at the start of the year and confirmed their solid business development.

Most commercial housing enterprises believe that the more difficult market conditions in general will not impact on corporate financing. Their investment activities continue to remain stable. The energetic restoration of existing housing properties remains in focus: in addition to opportunities for enhancing energy efficiency, demographic issues are increasingly gaining importance in relation to existing property, in order to adjust housing to meet the requirements of households with older members.

The German rental market is largely immune to economic fluctuations, since its development is mainly determined by long-term factors such as population and income prospects. However, there are different regional trends. Regions where the economy continues to contract are faced with a rise in the number of vacant apartments, whereas demand often exceeds supply in urban areas.

The transaction market, which was at a low level in 2009, showed a slight trend towards recovery in the first quarter of 2010. As the quarter drew to a close, more than 30 housing portfolios comprising a total of around 20,600 residential units had been sold, equating to a transaction volume of around € 1.3 billion. This is the highest quarterly volume of housing portfolios traded since 2008. Property funds remain the key players on the buying side, whereby special property funds for institutional investors were the most active. Sellers mainly consist of domestic property management companies and insurers.

Investors once again focused on locations in Southern Germany, where there is evidence of surplus demand on the rental market already today. German insurance companies and closed-end funds show rising interest in high-quality planned new buildings in good locations, which are particularly interesting for this target group on account of their higher rents and lower risk of being exposed to repairs and maintenance.

On the market for property management software, industry products based on state-of-the-art technology – such as Microsoft®.NET™ – are increasingly in demand. Aareon offers such solutions. In parallel, large property companies have issued tenders for customised SAP® solutions. Competition differentiates between SAP® and non-SAP® providers: in the SAP® environment, it is particularly fierce.

Financial Performance

Consolidated Income Statement of Aareal Bank Group [1)]

Euro mn	1 Jan-31 Mar 2010	1 Jan-31 Mar 2009
Net interest income	117	117
Allowance for credit losses	32	37
Net interest income after allowance for credit losses	**85**	**80**
Net commission income	30	36
Net result on hedge accounting	2	1
Net trading income/expenses	6	18
Results from non-trading assets	0	-17
Results from investments accounted for using the equity method	–	–
Results from investment properties	0	0
Administrative expenses	91	94
Net other operating income/expenses	-2	0
Impairment of goodwill	0	–
Operating profit	**30**	**24**
Income taxes	9	8
Net income/loss	**21**	**16**
Allocation of results		
Net income/loss attributable to non-controlling interests	5	4
Net income/loss attributable to shareholders of Aareal Bank AG	16	12
Appropriation of profits		
Net income/loss attributable to shareholders of Aareal Bank AG	16	12
Silent participation by SoFFin	8	–
Consolidated profit/loss	**8**	**12**

[1)] Comparative figures for the previous year were adjusted. Further information is included in the Notes to the consolidated financial statements in the 2009 Annual Report.

Aareal Bank Group, faced with what remained a challenging market environment, has once again underlined the sustainability of its business model, achieving a satisfactory operating profit of € 30 million for the first quarter of 2010 (Q1 2009: € 24 million). Taking taxes and income attributable to non-controlling interests into consideration, consolidated net income after non-controlling interest income was € 16 million (Q1 2009: € 12 million).

With net interest income of € 117 million for the first three months of the financial year, Aareal Bank Group is back in line with the first quarter of 2009 (€ 117 million) after slight declines in the preceding quarters. Lower income as a consequence of the decline in the property financing portfolio was more than compensated for by higher margins from the lending business and a reduction in the – still comfortable – liquidity reserve. The margin from the deposit-taking business in the institutional housing industry is down slightly due to lower interest rate levels, compared with the same quarter of the previous year.

Allowance for credit losses for the first quarter of 2010 of € 32 million (Q1 2009: € 37 million) remained manageable and within the normal fluctuation range.

In contrast to the previous year, net commission income of € 30 million (2008: € 36 million) reflected € 5 million in running costs for the guarantee facility extended by SoFFin. Taking into account this effect, net commission income was in line with the figure posted for the same quarter of the previous year.

Net trading income / expenses of € 6 million was largely attributable to the valuation of trading derivatives used to hedge interest rate and currency risk.

There were no charges from the net results from investment securities (Q1 2009: € -17million). At € 91 million, administrative expenses were down from last year's level (Q1 2009: € 94 million).

Net other operating income and expenses amounted to € -2 million (Q1 2009: € 0 million).

Consolidated operating profit for the first three months of 2010 totalled € 30 million (Q1 2009: € 24 million). Taking into consideration taxes of € 9 million and non-controlling interest income of € 5 million, net income attributable to shareholders of Aareal Bank AG amounted to € 16 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated income stood at € 8 million.

Segments

Structured Property Financing

Business development

We continued to pursue our risk-sensitive lending policy in the first quarter of 2010, as well as consistently managing our loan portfolio. Our new business increased to € 1.3 billion, after € 0.5 billion in the first quarter of the previous year. Europe accounted for 85 % of new business in the first three months of 2010, North America for 10 % and Asia for 5 %.

Europe

The European commercial property markets were defined in many places by pressure on rents across all the different types of property markets, and by the low volume of new rentals. Office, as well as retail and logistics properties were affected by the pressure on rents. On average, it was retail property rents that performed best. The hotel sector was also adversely affected by the consequences of the economic crisis, although a slight trend towards improvement is evident in some markets. In Germany for example, the average revenue per hotel room improved somewhat compared with the weak first quarter of 2009. Investors' yield requirements from commercial property have stabilised in many places. Yields have even fallen on top-class properties in prime locations, for example in London or Paris. This had a positive effect on market values. Nonetheless, market values remain under pressure on most European markets, owing to the trend towards falling rents.

Our new business in Europe amounted to € 1.1 billion in the first quarter of 2010. Northern Europe accounted for the highest share, followed by Eastern and Southern Europe.

North America (NAFTA states)

The North American commercial property market remained difficult, which was reflected especially in pressure on rents and returns. This led to a rise in vacancy ratios in many places: moreover, it was a development seen across the spectrum of commercial property. The volume of investment in North America remained low compared with the years before the crisis, and investors' yield requirements remained high.

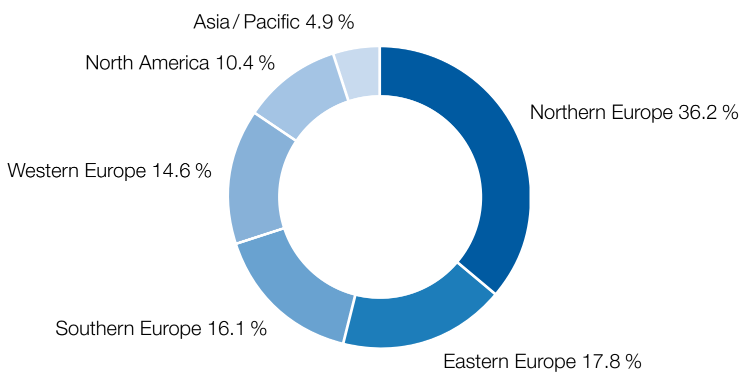
We achieved new business of € 0.1 billion in North America in the first quarter of 2010. This was generated exclusively in the USA.

Asia/Pacific

In the course of the rapid economic recovery in Asian countries, the investment market there was comparatively active. Pressure on rents was evident in the Asian locations, although some prime locations succeeded in escaping this development.

New business 1 January-31 March 2010

by region (%) Total volume: Euro 1.3 billion



Key developments in China during the first quarter included the rapid growth in residential property prices in the big Chinese cities, as well as concerns about further overheating in this market segment. Besides taking measures to contain credit growth, the Chinese government took additional measures to counteract this overheating on the market for residential property. These included, for example, extending the speculation period during which a speculation tax is levied on property sold, or requiring higher levels of equity – relative to borrowings – from buyers. Other countermeasures include instruments such as extensive new construction projects and the modernisation of social housing properties, as well as instructing certain state-owned companies not to carry out any further property transactions.

Our new business in the Asian region, which focused on commercial property in China, amounted to € 0.1 billion in the first quarter.

Segment result

At € 17 million, the result achieved in the Structured Property Financing segment was slightly higher than the figure for the first quarter of 2009 (€ 15 million).

Net interest income in the first quarter of 2010 was € 106 million, after € 105 million in the comparable period of the previous year. Lower income as a consequence of the decline in the property financing portfolio was more than compensated for by higher margins from the lending business and a reduction in the – still comfortable – liquidity reserve.

Allowance for credit losses for the first quarter of 2010 was recognised in an amount of € 32 million (Q1 2009: € 37 million); it therefore remains at a manageable level, and within the normal fluctuation range.

Net commission income of € -4 million (Q1 2009: € 5 million) in the first quarter of 2010 reflects the running costs of € 5 million for the guarantee facility extended by SoFFin, which were not incurred in the previous year.

Structured Property Financing segment result[1)]

Euro mn	Quarter 1 2010	Quarter 1 2009
Net interest income	106	105
Allowance for credit losses	32	37
Net interest income after allowance for credit losses	**74**	**68**
Net commission income	-4	5
Net result on hedge accounting	2	1
Net trading income/expenses	6	18
Results from non-trading assets	0	-17
Results from investments accounted for using the equity method	–	–
Results from investment properties	0	0
Administrative expenses	52	52
Net other operating income/expenses	-2	0
Impairment of goodwill	0	–
Operating profit	**24**	**23**
Income taxes	7	8
Segment result	**17**	**15**
Allocation of results		
Segment result attributable to non-controlling interests	4	4
Segment result attributable to shareholders of Aareal Bank AG	13	11

Net trading income / expenses of € 6 million was largely attributable to the valuation of trading derivatives used to hedge interest rate and currency risk.

There were no charges from the net results from investment securities (Q1 2009: € -17 million). At € 52 million, administrative expenses in the first quarter were in line with the previous year's figure.

Net other operating income and expenses amounted to € -2 million (Q1 2009: € 0 million).

Overall, operating profit for the Structured Property Financing segment was € 24 million (Q1 2009: € 23 million). Taking tax expenses of € 7 million into consideration (Q1 2009: € 8 million), the segment result for the first quarter of 2010 was € 17 million (Q1 2009: € 15 million). According to the allocation of results, segment results of € 13 million (Q1 2009: € 11 million) were attributable to shareholders of Aareal Bank AG.

Consulting / Services

Business development – institutional housing industry

Aareon AG

Aareon AG's business model, with its multi-product strategy, has stood the test of time on the market. As part of the further development of its product portfolio, the consultancy and IT systems house successfully launched the new Wodis Sigma product generation onto the market in the first half

[1)] Comparative figures for the previous year were adjusted. Further information is included in the Notes to the consolidated financial statements in the 2009 Annual Report.

of 2009. The positive response to Wodis Sigma also continued in the first quarter of 2010: 35 new clients were acquired. This means that up to around 240 clients have signed up for the new Wodis Sigma product since it was launched. The development of Wodis Sigma Release 2.0 is also on schedule.

The market for solutions for the property management sector operating on the basis of SAP is highly competitive. Interest in customised solutions is increasing in this segment. Aareon's clients Neuland Wohnungsgesellschaft mbH, Wolfsburg, and Nibelungen-Wohnbau-GmbH, Braunschweig, decided in favour of company-specific customisation of the existing Blue Eagle solution.

The business with the established GES (ASP solution) and WohnData (in-house solution) systems was stable.

The Integrated Services product group continued to develop favourably. The Mareon service portal, the document management system Aareon DMS, and the BauSecura insurance solution were especially in demand.

Customer response in France to the Prem'habitat 2.0 and PortalImmo habitat 2.0 products remained very good. In the United Kingdom, Aareon UK built upon last year's success, producing increasingly attractive consultancy revenue due to the acquisition of numerous new clients during 2009.

Payments and deposit-taking

In cooperation with our wholly-owned subsidiary, Aareal First Financial Solutions AG, the Institutional Housing Unit offers a highly-automated mass payments system to our institutional housing clients. Aareal Bank's objective is to increase the volume of deposits through new client acquisition as well as the consistent penetration of existing client relationships with as broad a product range as possible. Regularly reviewing our services with regard to customer orientation, together with making the corresponding adjustments to our service range and the distribution focus, are therefore a part of the strategy.

Despite predatory competition on terms, the average volume of deposits remained high, at € 3.9 billion during the first quarter.

Thanks to the high quality and process efficiency of our products in the payments and deposit-taking business, we successfully enhanced loyalty amongst our existing client base in the first quarter of 2010, as well as acquiring new clients.

Segment result

At € 6 million (Q1 2009: € 1 million), operating profit generated by the Consulting/Services segment was clearly higher compared to the same quarter of the previous year which had been burdened additionally by expenses for capacity adjustments and the suspension of non-core activities. On the whole, the result remains stable against the background of the unfavourable interest rate environment.

At € 50 million (Q1 2009: € 51 million), sales revenue was down slightly year-on-year. 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 placed by this client group remains stable.

We successfully reduced the cost of materials purchased over the previous year by € 2 million, to € 5 million.

Other operating income and expenses were in line with last year's levels.

Staff expenses in the quarter under review amounted to € 26 million.

On balance, the Consulting/Services segment yielded a net contribution of € 6 million to consolidated operating profit (Q1 2009: € 1 million). After deduction of taxes, the segment result for the first quarter was € 4 million (Q1 2009: € 1 million).

Consulting / Services segment result

	Quarter 1 2010	Quarter 1 2009
Euro mn		
Sales revenue	50	51
Own work capitalised	0	0
Changes in inventory	0	0
Other operating income	1	1
Cost of materials purchased	5	7
Staff expenses	26	30
Depreciation, amortisation and impairment losses	3	3
Results from investments accounted for using the equity method	–	–
Other operating expenses	11	11
Interest and similar income / expenditure	0	0
Operating profit	**6**	**1**
Income taxes	2	0
Segment result	**4**	**1**
Allocation of results		
Segment result attributable to non-controlling interests	0	0
Segment result attributable to shareholders of Aareal Bank AG	1	1

Financial Position

Consolidated total assets as at 31 March 2010 amounted to € 40.9 billion, after € 39.6 billion as at 31 December 2009.

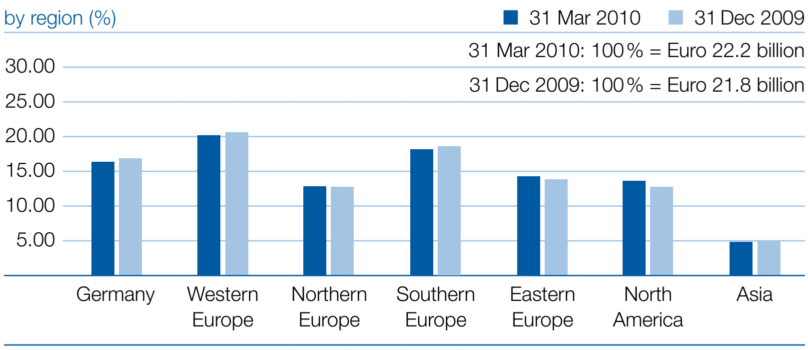
Property financing portfolio

The volume of Aareal Bank Group's property financing portfolio [1] stood at € 22.2 billion as at 31 March 2010. This equates to a slight increase of 1.4 % over the 2009 year-end figure of € 21.8 billion. The international share of the portfolio has also risen, by 2.2 %, from € 18.2 billion to € 18.6 billion, and now accounts for around 84 % of the total portfolio.

[1] As at 31 March 2010, the portfolio of property financing under management totalled € 22.6 billion (31 December 2009: € 22.3 billion). Property financings under management include the property financing portfolio managed for Deutsche Pfandbriefbank AG.

The following chart illustrates the very broad regional diversification of our portfolio overall.

Property financing volumes (amounts drawn)



The performance of the property financing portfolio over the course of the 2010 financial year to date has been defined in particular by renewing loans to our existing client base. The share of loan renewals relative to new business therefore remains high. There is also evidence of rising new business activity, combined with greater transaction volumes worldwide. Last year's low repayment ratio increased slightly in the first three months of this financial year, and is in line with our expectations.

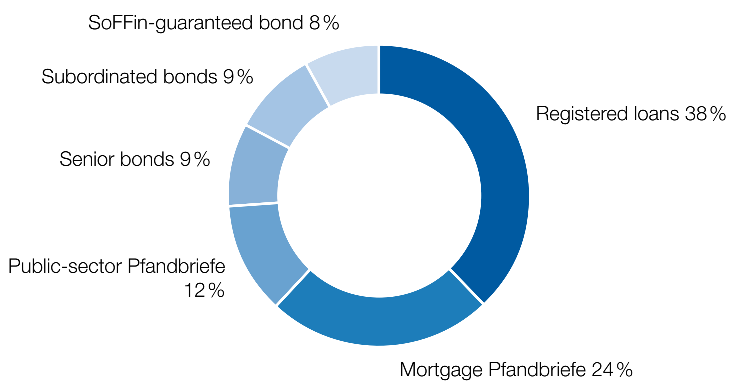
Refinancing and equity

Aareal Bank Group conducted its funding activities successfully during the first quarter of this year, thereby securing its comfortable liquidity situation. The property financing portfolio to be refinanced totalled € 22.2 billion as at 31 March 2010. This was refinanced as at 31 March 2010 by long-term funding of € 23.7 billion (mortgage bonds, unsecured and subordinated issues), € 3.9 billion in deposits from institutional housing industry clients and € 4.3 billion in deposits from institutional money market investors. Deposits from the Institutional Housing Unit averaged € 3.9 billion in the first quarter of 2010. Excess liquidity is invested in a portfolio of high-quality securities.

Just under € 1.2 billion in long-term funds were raised on the capital market during the first three months of this year, through private and public-sector transactions. Aareal Bank has therefore maintained long-term funding at a high level. This comprises mortgage bonds in the amount of just under € 800 million as well as unsecured refinancing of just under € 400 million. Notable is the successful public placement of a € 500 million 5-year mortgage bond in January of this year.

Capital market refinancing mix as at 31 March 2010

% Total volume: € 23.7 billion



As at 31 March 2010, the Tier I ratio measured in accordance with the Credit Risk Standard Approach (CRSA) was 11.2 %, which is high by international standards.

Impact of the financial markets and economic crisis

The real economy continued to recover in the first quarter of this year. Nonetheless, economic output in the industrial nations was significantly lower than before the crisis. Pressure upon financial markets also continued to ease, even though they have had to shoulder an additional burden in the form of the high level of government debt in some countries.

Developments on commercial property markets serve as a relative late indicator in the economic cycle, which is also evident in the current situation. The situation on financial markets therefore remains difficult, despite the economic recovery. This applies in particular to the situation on the rental markets. The demand for rental space remained low during the first quarter of 2010, and rents are still under pressure. On the other hand, commercial property market purchases showed an upward trend in terms of transaction volume – and actually increased relative to the very weak first quarter of 2009. However, transaction volumes remain significantly lower than in the pre-crisis boom years. The yield requirements of commercial property investors have stabilised on many markets, and were even down for prime-quality properties in individual markets.

We duly continued to adhere to our risk-aware approach to lending, whilst also consistently managing our credit portfolio in the first quarter of 2010. New business in the Structured Property Financing segment amounted to € 1.3 billion, after € 0.5 billion in the same quarter of the previous year. In light of the increase in transaction volumes and continued recovery of the real economy, but also taking into consideration the still-difficult situation on the commercial property markets, we find this increase to be appropriate.

Despite the good issuer ratings, capital markets volatility led to fluctuations in the value of our securities portfolio during the first quarter of 2010. Overall, the portfolio valuation as at 31 March 2010 was up slightly against the year-end 2009.

Against the background of the crisis affecting financial markets and the economy, we made use of the option of reclassifying financial assets. Specifically, in the years 2008 and 2009 securities with a volume of € 6.2 billion were reclassified from the IFRS measurement categories "available for sale" (AfS) and "held for trading" (HfT), to "loans and receivables" (LaR). In all cases, we opted for reclassification since there no longer was an active market for the securities concerned (in spite of their good quality), and due to our intention to hold these issues for a longer term. Depending on prevailing market conditions, we may use this re-classification option again in the future.

The return to normality that emerged on the money market over the course of 2009 continued in the first quarter of 2010. The volume of longer-term term deposits of institutional money market investors has increased continuously since the start of the year, so that the average volume of all deposits of this investor group amounted to € 5.0 billion in the first quarter of 2010. As at the balance sheet date of 31 March 2010, the volume amounted to € 4.3 billion.

As a result of our business activities in a range of foreign currencies, we have secured our foreign currency liquidity over the longer term by means of appropriate measures.

The stable Consulting / Services segment was also unable to completely escape the effects of the financial and economic crisis as far as its deposit-taking business was concerned. The low interest rate environment, which is very unfavourable in terms of income earned from deposits in the housing industry, had a negative impact. The volume of deposits from the housing industry remained stable, averaging around € 3.9 billion during the first quarter of 2010.

To ensure the sustainability of its business model and, at the same time, to overcome the very difficult market situation, Aareal Bank Group and the German Financial Markets Stabilisation Fund (SoFFin) entered into an agreement on 15 February 2009 whereby SoFFin provided Aareal Bank with a perpetual silent participation of € 525 million, as well as providing a guarantee facility for new unsecured issues with a total volume of up to € 4 billion. Aareal Bank Group used this facility to place a € 2 billion bond in March 2009.

Against the background of a sound performance to date throughout the crisis affecting financial markets and the economy, and the bank's solid capitalisation, Aareal Bank plans to start repayment of the SoFFin silent participation, until early 2011. Aareal Bank also assumes that in view of its solid refinancing situation, it will not need to draw on the remaining € 2 billion SoFFin guarantee facility for unsecured issues during the current year.

Regulatory indicators

Regulatory indicators pursuant to KWG (CRSA[1])

	31 Mar 2010	31 Dec 2009
Euro mn		
Core capital	2,416	2,415
Liable capital	3,285	3,290
Risk-weighted assets (incl. market risk)	21,525	21,875
%		
Core capital ratio[2]	11.2	11.0
Total capital ratio[2]	15.3	15.0

[1] Credit Risk Standard Approach (CRSA)
[2] After confirmation of the financial statements 2009 of Aareal Bank AG. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2009 is subject to approval by the Annual General Meeting.

Report on Material Events after the Reporting Date

There have been no material events subsequent to the end of the period under review that need to be disclosed at this point.

Risk Report

Aareal Bank Group Risk Management

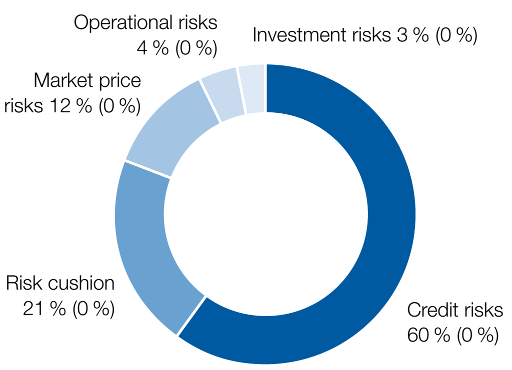
The Annual Report 2009 contains a comprehensive description of Aareal Bank Group's risk management approach, including the corresponding organisational structure and workflows in the lending and trading businesses, as well as the methods and procedures used for measuring and monitoring risk exposure. Within the scope of this interim report, we will once again briefly outline the key components of our risk management structure, together with the key developments during the period under review.

The business policy set by the Management Board, and approved by the Supervisory Board, provides the conceptual framework for Aareal Bank Group's risk management. Taking this as a basis, and strictly considering the bank's risk-bearing capacity, we have formulated detailed strategies for managing the various types of risk. These risk strategies, as well as the bank's business strategy, are adapted to the changed environment at least once a year, and the new strategies are adopted by the Management Board and the Supervisory Board. Suitable risk management and risk control processes are deployed to implement the risk strategies, and to ascertain the bank's uninterrupted ability to bear risk.

At 60 %, credit risks account for the largest part of the bank's aggregate risk cover; 12 % is retained to cover market price risks, 4 % for operational risks and 3 % for investment risks. In addition, a substantial portion (21 %) of the aggregate risk cover serves as a risk cushion, which is not applied to risk limits, and is thus available for risk types that cannot be quantified (for example, reputational or strategic risks). Overall, aggregate risk cover and risk limits are harmonised to ensure Aareal Bank's ability to bear risk at any time, based on the going concern assumption – even against the background of market distortions as a result of the financial markets crisis. The diagram below shows the allocation of aggregate risk cover to types of risk as at 31 March 2010. There were no changes compared to the allocation as at 31 December 2009.

Allocation of aggregate risk cover

% (change from 31 Dec 2009 (% points)) as at 31 Mar 2010



Since aggregate risk cover is an inadequate measure to assess risk-bearing capacity regarding liquidity risk, we have defined special tools for managing this type of risk. These tools are described in detail in the section "Liquidity risk", and in the 2009 Annual Report.

Credit risks

Aareal Bank defines credit risk or counterparty risk as the risk of losses being incurred due to (i) a business partner defaulting on contractual obligations; (ii) collateral being impaired; or (iii) a risk arising upon realisation of collateral. Both credit business and trading activities may be subject to counterparty risk. Counterparty risk exposure from trading activities may refer to risk exposure vis-à-vis counterparties or issuers. Country risk is also defined as a form of counterparty risk.

Aareal Bank's structural organisation and business processes are consistently geared towards effective and professional risk management. The organisation of operations and workflows in the credit and trading business comply with extensive regulatory requirements.

Processes in the credit and trading businesses are designed to consistently respect the clear functional division of Sales units and Credit Management, up to and including senior management level. An independent Risk Controlling division is responsible for identifying, quantifying and monitoring ll material risks at portfolio level, and for maintaining a targeted risk reporting system.

Aareal Bank employs various risk classification procedures for the initial, regular, or event-driven assessment of counterparty risk. These procedures are adapted specifically to meet the requirements of the relevant business activity, and are subject to permanent review and improvement. Responsibility for development, quality-assurance and monitoring implementation of risk classification procedures is outside the Sales units.

Methods used to measure and monitor concentration and diversification effects on a portfolio level include two diverse credit risk models. As a result, portfolio information required to take risk management decisions is now available within an even shorter timeframe than before.

The bank uses specific tools to monitor individual exposures on an ongoing basis where this is required: besides the tools already described, this includes rating reviews, monitoring of construction phase loans or residential property developers, the monitoring of payment arrears, and the regular, individual analysis of the largest exposures.

A credit risk report that complies with the Minimum Requirements for Risk Management (MaRisk) is prepared and submitted to the bank's senior management and Supervisory Board on a regular basis, at least quarterly. This report contains extensive information on the development of the credit portfolio (covering countries, types of property and product types, risk classes and types of collateral), with a particular focus on risk concentrations.

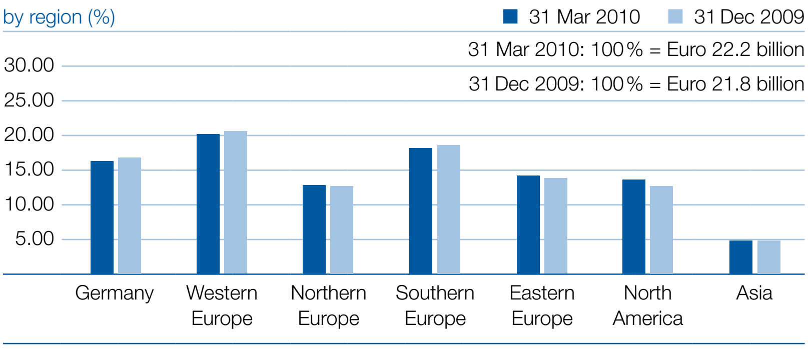
Trading activities are generally restricted to counterparties for whom the requisite limits are in place. All trades are immediately taken into account for the purposes of borrower-related limits. Compliance with limits is monitored in real time by Risk Controlling. Persons holding position responsibility are informed about relevant limits and their current usage, regularly and without delay.

In principle, Aareal Bank pursues a "buy, manage and hold" strategy in managing its credit portfolio: this means that loans are generally held until maturity; sales of loans to third parties during their term are only used on a selective basis, and by selling parts of exposures. Loan syndication is used as an active element of portfolio management.

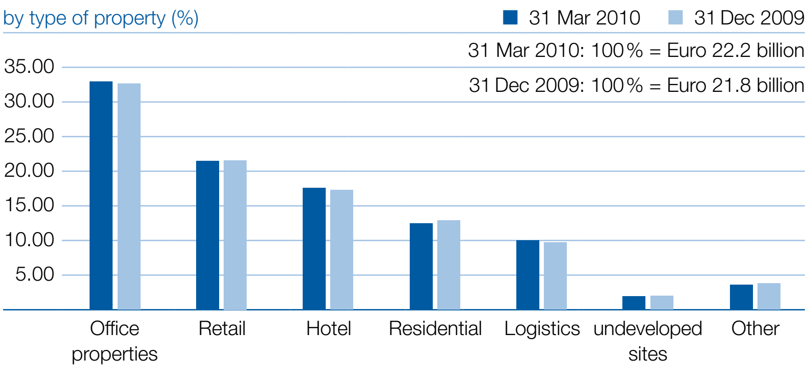
In summary, during the period under review, the existing set of tools and methods continued to enable the bank to adopt suitable risk management or risk mitigation measures, where required, at an early stage.

Our comprehensive approach to risk management also includes measuring and monitoring country risk exposure. When defining country risk, in addition to the risk of sovereign default or default of state entities, Aareal Bank also considers the risk that a counterparty could become unable to meet its payment obligations as a result of government action, despite being willing and able to pay, due to restrictions being imposed on making payments to creditors (transfer risk). Country risk exposure is managed using a cross-divisional process. The respective country limits are determined on the basis of a country risk assessment carried out by the bank's senior management. The Risk Controlling unit is responsible for the continuous monitoring of country limits and for reporting on limit utilisation.

Property financing volumes (amounts drawn)



Property financing volumes (amounts drawn)



Market price risks

Definition

Market price risk is broadly defined as the threat of losses due to changes in market parameters. Aareal Bank's market price risk exposure predominantly comprises interest rate risks, whilst currency risks are largely eliminated through hedges. Commodity and other price risks are irrelevant for the bank's business. Hence, the primary market price risk exposures are related to the risk parameters interest rates, equity prices, exchange rates, and implied volatilities. All relevant parameters are covered by our management and monitoring tools.

Derivative financial instruments are entered into almost exclusively in the trading book, and are primarily used as hedging instruments. Spread risks between the various yield curves (e.g. government / Pfandbrief / swap curve) are also taken into account. The risk exposure from bonds that is not related to market price or interest rate risks – in particular, credit and liquidity risk exposure of the bond portfolio – is managed as part of "specific" risk.

Risk measurement and monitoring

Risk Controlling informs the members of the Management Board responsible for Treasury and risk monitoring about the risk position and the market price risk exposure on a daily basis. In addition, the entire Management Board is informed on a monthly basis, within the scope of an extensive risk report. A quarterly report is submitted to the Supervisory Board.

Value-at-risk (VaR) has been broadly accepted as the predominant method for measuring general market price risk. The VaR for market price risk quantifies the exposure as a negative divergence from the current aggregate value of the bank's financial transactions. This absolute amount, expressed in euros, indicates the potential loss incurred before counter-measures take effect. Since this is a statistical approach, the forecast for the potential loss that may be incurred within a specific period of time is for a given confidence interval only.

A variance-covariance approach (delta-normal method) is used throughout the Group to determine the VaR indicator. VaR is calculated on a daily basis, for the Group and all its operating entities, taking into consideration the correlations between the individual types of risk. Statistical parameters used in the VaR model are calculated directly from 250-day historical data maintained within the bank. The loss potential is determined applying a 99 % confidence interval and a ten-day holding period.

By its very nature, VaR calculations are based on numerous assumptions regarding the future development of the business, and the related cash flows. Key assumptions used include current account balances which are factored into calculations for a period of two years, using the average residual amount of deposits observed in the past. Loans are taken into account using their fixed-interest period (for fixed-rate exposures), or using their expected maturity (variable-rate exposures). Aareal Bank's equity is not taken into account as a risk-mitigating item. This tends to overstate VaR, demonstrating the conservative approach adopted in our risk measurement processes.

The limit set for the VaR figure is derived from the analysis of the bank's risk-bearing capacity, which is carried out at least once a year. Limits are defined at Group level, as well as for the individual Group entities. Being authorised to maintain a trading book, Aareal Bank AG has defined an additional trading book limit, plus a separate value-at-risk limit for fund assets held.

When interpreting the VaR figures stated below, it should be noted that these refer to the overall portfolio (thus including all non-trading positions as defined in IFRS). Hence, the analysis provided represents a very extensive disclosure of market price risks compared to industry standards.

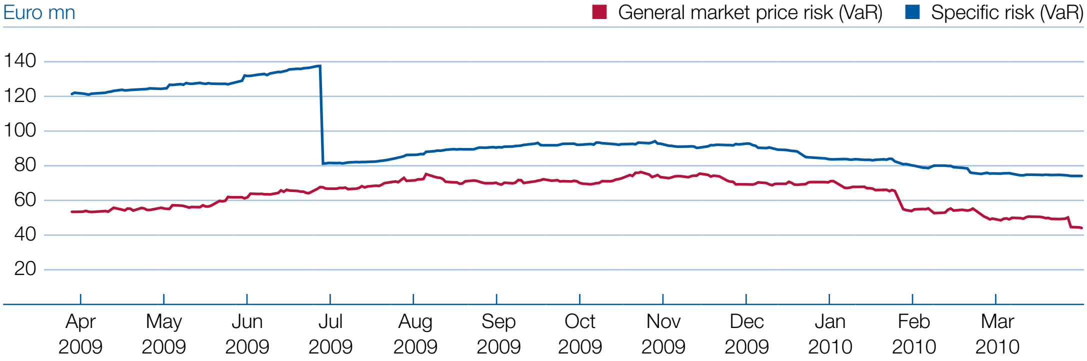
	MAX	MIN	Mean	Limit
Q1 2010 (2009 values) 99 %, 10-day holding period				
Aareal Bank Group – general market price risks	71.5 (76.0)	46.6 (39.4)	58.6 (62.2)	– (–)
Group VaR (interest rates)	67.5 (71.3)	43.2 (31.3)	54.6 (56.8)	– (–)
Group VaR (FX)	17.9 (23.1)	14.7 (15.1)	16.0 (20.6)	– (–)
VaR (funds)	11.3 (12.6)	7.1 (4.0)	9.1 (9.0)	60.0 (60.0)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (3.8)	0.0 (0.0)	0.0 (0.8)	20.0 (20.0)
Trading book VaR (interest rates)	0.0 (1.5)	0.0 (0.0)	0.0 (0.1)	– (–)
Trading book VaR (FX)	0.0 (0.1)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.6)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	83.7 (137.3)	73.4 (80.9)	78.0 (106.0)	– (–)
Aggregate VaR – Aareal Bank Group	110.4 (153.5)	87.6 (105.4)	98.2 (124.6)	181.0 (181.0)

To ensure that Aareal Bank's figures are comparable to those published by other institutions, the risk parameters shown below were determined for a one-day holding period.

	MAX	MIN	Mean	Limit
Q1 2010 (2009 values) 99 %, 1-day holding period				
Aareal Bank Group – general market price risks	22.6 (24.0)	14.7 (12.5)	18.5 (19.7)	– (–)
Group VaR (interest rates)	21.3 (22.6)	13.7 (9.9)	17.3 (18.0)	– (–)
Group VaR (FX)	5.7 (7.3)	4.6 (4.8)	5.1 (6.5)	– (–)
VaR (funds)	3.6 (4.0)	2.2 (1.3)	2.9 (2.8)	19.0 (19.0)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (1.2)	0.0 (0.0)	0.0 (0.3)	6.3 (6.3)
Trading book VaR (interest rates)	0.0 (0.5)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.2)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	26.5 (43.4)	23.2 (25.6)	24.7 (33.5)	– (–)
Aggregate VaR – Aareal Bank Group	34.9 (48.5)	27.7 (33.3)	31.1 (39.4)	57.2 (57.2)

Aggregate VaR – Aareal Bank Group

General market price risk and specific risk during 2009/2010

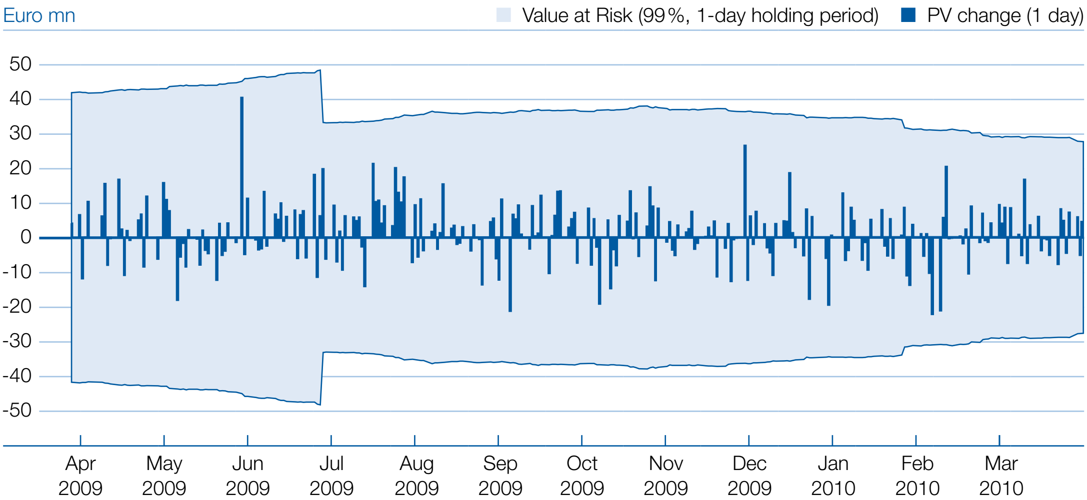


Limits were unchanged during the quarter under review. No limit breaches were detected.

Backtesting

The quality of forecasts made using this statistical model is checked through a weekly backtesting process. The quality of the statistical procedure used to measure risk is checked using a binomial test, whereby daily profits and losses from market fluctuations are compared with the upper projected loss limit (VaR) forecast on the previous day (known as "clean backtesting"). In line with the selected confidence level of 95 %, only a small number of events are expected to break out of the VaR projection (≤5 for a 250-day period). Within the scope of this regular review, we have recalibrated the risk calculation parameters for specific risks with effect from 1 July 2009, against the background of a marked decline in volatility over the course of the year 2009, particularly in the bond

Present values and 1-day VaR during 2009/2010



markets. Following the recalibration, the number of negative outliers at Group level always remained lower than 1 during the previous 250 trading days, affirming the high forecasting quality of the VaR model we use.

Trading book

Being authorised to maintain a trading book, Aareal Bank AG is the Group entity that is in a position to assign transactions to the trading portfolio as defined by the German Banking Act. Given the small number of transactions and low volumes concluded during the quarter under review, trading book risks played a low role in the overall risk scenario.

During the period under review, the processes employed proved to be able to quantify the risks arising from market price fluctuations in a timely and accurate manner.

Liquidity risks

Liquidity risk in the narrower sense is defined as the risk that current or future payment obligations cannot be met in full or on time. Aareal Bank's liquidity risk management system is designed to ensure that the bank has sufficient cash and cash equivalents to honour its payment obligations at any future point in time. The risk management and monitoring processes have been designed to cover refinancing and market liquidity risks in addition to liquidity risk in the narrower sense.

Treasury is responsible for managing liquidity risks, whilst Risk Controlling ensures the continuous monitoring, including a weekly liquidity report submitted to Treasury, and a contribution to the monthly risk report to the entire Management Board.

The appropriateness of the bank's liquidity is assessed in a liquidity report prepared using an internal liquidity risk model: the aggregate of all potential cash inflows and outflows over a three-month period is compared to the liquidity stock. There were no liquidity shortages throughout the period under review. The requirements of the liquidity ratio in accordance with the Liquidity Ordinance, which is relevant to liquidity management, were always complied with, as were the limits set by reference to the liquidity run-off profile. Further details are provided in the comments on the bank's liquidity in the section on "Refinancing and Equity".

Operational Risks

Aareal Bank defines operational risk as the threat of losses caused by inappropriate internal procedures, human resources and systems (or their failure); or through external events. This includes legal risks. In contrast, strategic, reputational and systematic risks are not covered by operational risk management. These risks are managed largely through qualitative measures.

Aareal Bank's policy for managing and monitoring operational risks is geared to achieving a risk-minimising or loss-limiting effect at an early stage, by employing a pro-active approach. The Risk Report in the Annual Report 2009 contains a detailed description of controlling tools employed by the bank to manage operational risk, plus the relevant responsibilities.

A current analysis of control instruments employed has shown that the bank is not exposed to disproportionate operational risks; nor did it indicate any material risk concentration.

Operational risk management also includes the reporting to the bank's senior management on outsourced activities and processes.

Investment risks

Aareal Bank defines equity investment risk as the threat of unexpected losses incurred due to an impairment of the investment's carrying amount, or a default of equity-surrogate loans. The concept of investment risk also encompasses risks arising from contingencies vis-à-vis relevant Group entities.

Due to the special character of some exposures (e.g. marketing risks), special methods and procedures are employed to deal with investment risk. All relevant Group entities are subject to regular audits, including a review and assessment of their risk situation. A quarterly investment risk report is submitted to the bank's Management Board. There were no significant changes in investment risk during the period under review.

Future Opportunities and Outlook

Macroeconomic and sector-specific environment

Global business environment

Economic activity worldwide is showing signs of recovery since the middle of last year, spearheaded by the East Asian countries. This recovery started from a very low level in most countries. Despite positive signals – such as the business climate indicators – we do not expect a quick, strong recovery for most parts of the global economy. The uncertainty that still prevails, and the processes of adjustment as a consequence of the crisis, are too significant at the moment. These include unemployment that has risen to a high level, the greater propensity among households to save as well as the cautious investment behaviour among companies as a result of lower capacity utilisation and greater aversion to risk. Uncertainty engulfing the financial markets has not yet been eliminated entirely, despite having eased considerably. The high level of national debt represents a new burden, making it necessary for the USA, the EU states and Japan to consolidate their budgets. Measures to this effect have already been put in place in some countries. These and the end in part of some economic stimulus programmes this year are likely to burden future economic development. The question as when and to what extent the expansive fiscal and monetary policy will be scaled back, will become increasingly important in future economic processes.

We therefore believe that the economy will recover only very slowly. This should apply in particular to most European countries, which were in deep recession in the course of the economic crisis. We are somewhat more positive about developments in the USA, after the significant recovery especially in the last quarter of 2009. However, we cannot assume that the strength of this trend will remain intact since it is attributable to a large extent to the changes to companies' inventory management and to the state economic recovery programme. We continue to forecast positive development in the East Asian countries and especially in China, as is suggested by various indicators, such as business climate indicators. In China, concerns about overheating are at the forefront, which the government counters with various economic policy measures.

Despite the trend towards stabilisation on the labour market, economic recovery is set to be rather slow. This suggests that unemployment is not set to peak in many countries until this year. The subsequent decline in unemployment is likely to be a slow process.

Inflation rates have increased recently, due to rising energy prices and statistical basis effects. However, against the background of the expected hesitant economic recovery, we believe that most countries will post a moderate increase only in inflation this year. The rise in the annual inflation rate could be stronger in some East European countries and China – in view of the strong economic recovery and credit growth at the end of last year and the start of this year.

With regard to the performance of short- and long-term interest rates, we expect largely moderate increases for the currencies in which we are active.

Global commercial property markets

We assume that the expected slow economic recovery and the associated uncertainties will keep most property markets under pressure this year. Properties, especially those that do not belong to the prime segment, in terms of quality, location, remaining term of the rental contracts and tenant soundness, are likely to be affected by a further decline in rents and prices. Trailing economic indicators such as the peak in unemployment expected for this year plus the large number of company insolvencies continue to exercise pressure on rents and return on property. The different types of property as well as the different regions should be affected by this general trend. However, regional differences are quite conceivable. Performance on the German market, for example, might turn out to be more stable since it did not enjoy the high increases in value seen in other markets in previous years.

Investor yields are stabilising across many markets, and yields on first-class properties are even falling in some markets. The latter should have a positive impact on prices. Our assessment of market performance is cautious in view of the high volume of commercial property financing that will mature this year and in the coming years. These pose the threat of distressed sales and of price pressure. Because of the pressure on rents, we expect prices will generally remain under pressure this year.

Assuming the economy continues to recover next year, rents and prices should find a general stable base. However, given the ambiguity surrounding general economic development, this development is subject to uncertainty. The sharp decline in new construction activities in recent years could have a positive effect in the medium term, where the supply of modern new buildings could become scarce when the economy gains momentum.

The brighter outlook for the property investment environment this year should lead to somewhat higher commercial property transaction volumes. Nonetheless, the volume of transactions should be down considerably from the high levels seen before the crisis.[1)]

[1)] Evaluations on individual sub-markets and properties could deviate from the general assessment of the commercial property markets outlined above.

Development of the German institutional housing industry

Traditionally, the German institutional housing industry is defined by continuous cash flows and low volatility in relation to the performance of its portfolios. We assume that the industry's sustained, stable performance will continue in the course of the year.

Investment in residential property is set to increase, as a reaction to the crisis affecting financial markets and the economy, and against the background of the search for solid portfolio values. We therefore forecast higher investment volume in 2010. The typical funding structure of opportunistic investors who bought housing portfolios during the boom phase of the transaction market in 2005/2006 and whose financings are now maturing, could drive these property owners to dispose of their holdings in the future. Besides large property management companies, funds, insurance companies and wealthy private investors are found on the buyer side.

Up to now, the German Energy Savings Ordnance (Energieeinsparverordnung – "EnEV") that came into force at the end of 2009 has had little effect on the investment activities of the property management companies. However, there is a risk that, in view of the higher demands for insulation and energy efficiency, assuming investment remains unchanged, fewer apartments will be built or renovated in the future. However, the federal government's support programme for building upgrades to reduce carbon dioxide emissions, which was increased by an additional € 400 million in February 2010, should stimulate an increase in investment activity.

Future demand for living space depends on the regional economic strength. Failure for the economy to recover permanently bears the risk of falling rents in urban areas on account of the trend towards falling income. On the other hand, further stabilisation of the overall economic situation can have a positive effect on developments on the rental market.

A moderate increase in rents is largely expected for the current business year, albeit with regional differences. Whilst rents in areas affected by migration, in rural areas and small cities are falling sightly, new-build rents in the economic hubs are rising by up to 2 %, despite the slight increase forecasted in the number of completed apartments.

Corporate development

After the end of the first quarter, we continue to believe the 2010 financial year will be equally challenging as 2009 – this is taken into consideration in our forecast for future business development.

Structured Property Financing

The situation on the commercial property markets was largely strained in the first quarter of 2010, following the collapse of the global economy last year. We expect market values for commercial property to remain under pressure in 2010.

We assume that the anticipated development of the market environment will be reflected in a reduction in the earnings and values of property, and will probably lead to higher average loan-to-value ratios (LtV) on the loans we have granted. We have accounted for this development with the corresponding allowance for credit losses for 2010. We will also continue to focus on the consistent management of our credit portfolio. Thanks to our active portfolio management and broad diversification by region and property types, we expect to maintain the allowance for credit losses at a manageable level, even in this challenging environment.

We once again demonstrated our role as a reliable partner for our existing client base in the first quarter of 2010. After the positive start to the new financial year, we aim to further increase and consistently pursue our acquisition activities in the current year.

Because of the expected economic conditions in 2010, we believe that the repayment ratio will remain roughly at 2009 levels.

Similarly, we do not expect much improvement in the framework for the placement of credit risks through securitisation and syndication in 2010 over 2009.

Subject to the performance of the relevant foreign currencies vis-à-vis the euro, we expect a stable or slightly higher portfolio volume of property financings for 2010.

Our three-continent strategy will continue to define the regional distribution in the property financing portfolio during 2010.

Consulting / Services

Although the Consulting / Services segment is not affected directly, the real economic crisis has also left its mark indirectly on this segment.

Aareon

After the end of the first quarter, despite a slight overall economic recovery, we expect a slightly higher, but still cautious propensity in some areas for IT investment plans in the property management sector in the course of the 2010 financial year. These assumptions are confirmed by the small number of tenders since the start of the year, so that levels are expected to remain low during the course of the year. Against the background of these conditions, we expect roughly constant turnover in 2010. Nonetheless, cost reductions should increase in the contribution to the segment result, which will be supported especially by lower staff costs as a consequence of the measures taken in 2009.

Aareon's integrated product portfolio is being developed continuously. Further major migrations are planned for the SAP-based Blue Eagle product line, and the market launch of the new Wodis Sigma product generation in 2009 has been a great success since then. On the basis of the very positive experiences made up to now, we assume that numerous customers will convert to Wodis Sigma, which will be significantly contributed to by the planned introduction of Wodis Sigma Release 2.0 with additional functional extensions. We expect the market share of the established GES system to remain largely stable this year.

We also expect positive performance in the course of 2010 of the integrated services that are networked with the ERP products. The positive trend in customer acquisition of the first quarter should continue, especially for the document management system Aareon DMS, the insurance service BauSecura and the service portal Mareon.

Payments and deposit-taking

The process optimisation procedures for electronic mass payments services (BK 01 products) offered by the bank's Institutional Housing Unit has continued to generate stable deposits for the bank's refinancing activities in the first quarter of 2010.

Deposit volumes remained high, despite massive competition regarding terms. We rate this as a sign of the confidence our clients place in the Bank. We expect the positive trend to continue in 2010, especially in the area of deposits.

Given the ongoing low interest rate environment, we expect margins will continue to remain under pressure. In light of the positive trend of success in acquiring new customer acquisition and product penetration with existing customers that continued in the first quarter, we see good opportunities for achieving similar successes in 2010, too.

This also applies to our payments services for energy suppliers: our "BK 01 immoconnect" product, which offers benefits to institutional housing enterprises as well as to utilities and disposal companies, has met with good market response.

Group targets

We continue to affirm our key forecasts for the year as a whole after the end of the first quarter. Against the background of a slight to moderate increase expected in interest rates, we continue to expect an increased net interest income of € 460 million to € 480 million for the current financial year. This projection is based on higher lending margins, together with a lower burden from liquidity reserves. Burdens could arise especially from a change to the underlying interest rate environment on which the planning is based.

As we see it, the business environment in commercial property financing will remain just as challenging in the course of the current financial year as in 2009. Accordingly, we expect allowance for credit losses to remain at clearly manageable levels for the year as a whole. Allowance for credit losses recognised in income is expected to range between € 117 million to € 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 credit losses that may be incurred during 2010.

We also expect a moderate year-on-year rise in net commission income for the year 2010 as a whole, over the previous year.

Net trading income / expenses essentially comprises the results of hedge transactions related to refinancing our core business, predominantly currency and interest rate hedges. We only engage in traditional own-account trading to a very limited extent. The item also includes changes in value from the sale of hedges for selected EU governments, so-called credit default swaps (CDS). Furthermore, the costs for our securitisation transactions that are still outstanding, are included in net trading income / expenses. In our opinion, the valuation of the hedging transactions remains subject to the same high 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 2010.

Because of the consistent conservative risk policy we have pursued in recent years, we anticipate no material burden on the results from non-trading assets in 2010.

Administrative expenses continue to be defined by the unchanged cost discipline, and are thus expected to remain unchanged from 2009 levels.

From today's perspective, Aareal Bank sees good potential for increasing 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 to range between € 4 billion and € 5 billion in 2010. We will continue to concentrate on the funding requirements of our existing client base. The increase in the volume of new business will reduce the share of loan renewals relative to new business.

In the Consulting/Services segment, we anticipate the interest rate environment to remain difficult for segment results in 2010. We thus expect profit before taxes to be slightly higher than adjusted operating profit for the financial year under review.

Consolidated Financial Statements
Statement of Comprehensive Income[1)]

Income Statement

	Note	1 Jan-31 Mar 2010	1 Jan-31 Mar 2009
Euro mn			
Interest income		207	379
Interest expenses		90	262
Net interest income	1	**117**	**117**
Allowance for credit losses	2	32	37
Net interest income after allowance for credit losses		**85**	**80**
Commission income		45	47
Commission expenses		15	11
Net commission income	3	**30**	**36**
Net result on hedge accounting		2	1
Net trading income/expenses	4	6	18
Results from non-trading assets	5	0	-17
Results from investments accounted for using the equity method		–	–
Results from investment properties		0	0
Administrative expenses	6	91	94
Net other operating income/expenses	7	-2	0
Impairment of goodwill		0	–
Operating profit		**30**	**24**
Income taxes		9	8
Net income/loss		**21**	**16**
Allocation of results			
Net income/loss attributable to non-controlling interests		5	4
Net income/loss attributable to shareholders of Aareal Bank AG		16	12
Appropriation of profits			
Net income/loss attributable to shareholders of Aareal Bank AG		16	12
Silent participation by SoFFin		8	–
Consolidated profit/loss		**8**	**12**
Euro			
Earnings per share		**0.37**	**0.28**
Diluted earnings per share		**0.37**	**0.28**

[1)] Comparative figures for the previous year were adjusted. Further information is included in the Notes to the consolidated financial statements in the 2009 Annual Report.

Statement of Comprehensive Income

Reconciliation from Net Income/Loss to Total Comprehensive Income

Euro mn	Note	1 Jan-31 Mar 2010	1 Jan-31 Mar 2009
Net income/loss		**21**	**16**
Changes in revaluation surplus	8	18	-7
Changes in hedging reserves	8	0	0
Changes in currency translation reserves	8	0	0
Changes in reserves from transactions under common control	8	–	0
Other		–	-4
Profit/loss directly recognised in equity (after taxes)		**18**	**-11**
Total comprehensive income		**39**	**5**
Allocation of Total comprehensive income			
Total comprehensive income attributable to non-controlling interests		5	4
Total comprehensive income attributable to shareholders of Aareal Bank AG		34	1

Statement of Comprehensive Income

Income Statement (Quarterly Development)

Euro mn	Quarter 1 2010	Quarter 4 2009	Quarter 3 2009	Quarter 2 2009	Quarter 1 2009
Interest income	207	209	262	310	379
Interest expenses	90	94	150	194	262
Net interest income	**117**	**115**	**112**	**116**	**117**
Allowance for credit losses	32	35	36	42	37
Net interest income after allowance for credit losses	**85**	**80**	**76**	**74**	**80**
Commission income	45	55	42	44	47
Commission expenses	15	16	14	14	11
Net commission income	**30**	**39**	**28**	**30**	**36**
Net result on hedge accounting	2	1	-4	0	1
Net trading income/expenses	6	3	18	5	18
Results from non-trading assets	0	-3	-3	1	-17
Results from investments accounted for using the equity method	–	1	–	–	–
Results from investment properties	0	-1	1	0	0
Administrative expenses	91	83	92	92	94
Net other operating income/expenses	-2	-12	-3	1	0
Impairment of goodwill	0	2	0	–	–
Operating profit	**30**	**23**	**21**	**19**	**24**
Income taxes	9	5	5	2	8
Net income/loss	**21**	**18**	**16**	**17**	**16**
Allocation of results					
Net income/loss attributable to non-controlling interests	5	5	4	5	4
Net income/loss attributable to shareholders of Aareal Bank AG	16	13	12	12	12

Statement of Comprehensive Income

Reconciliation from Net Income/Loss to Total Comprehensive Income (Quarterly Development)

Euro mn	Quarter 1 2010	Quarter 4 2009	Quarter 3 2009	Quarter 2 2009	Quarter 1 2009
Net income/loss	**21**	**18**	**16**	**17**	**16**
Changes in revaluation surplus	18	6	52	24	-7
Changes in hedging reserves	0	0	0	0	0
Changes in currency translation reserves	0	-2	1	0	0
Changes in reserves from transactions under common control	–	-1	8	2	0
Others	–	–	–	–	-4
Profit/loss directly recognised in equity (after taxes)	**18**	**3**	**61**	**26**	**-11**
Total comprehensive income	**39**	**21**	**77**	**43**	**5**
Allocation of total comprehensive income					
Total comprehensive income attributable to non-controlling interests	5	5	4	5	4
Total comprehensive income attributable to shareholders of Aareal Bank AG	34	16	73	38	1

Segment Reporting[1)]

Segment Results

Euro mn	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan-31 Mar 2010	1 Jan-31 Mar 2009	1 Jan-31 Mar 2010	1 Jan-31 Mar 2009	1 Jan-31 Mar 2010	1 Jan-31 Mar 2009	1 Jan-31 Mar 2010	1 Jan-31 Mar 2009
Net interest income	106	105	0	0	11	12	117	117
Allowance for credit losses	32	37					32	37
Net interest income after allowance for credit losses	**74**	**68**	**0**	**0**	**11**	**12**	**85**	**80**
Net commission income	-4	5	45	44	-11	-13	30	36
Net result on hedge accounting	2	1					2	1
Net trading income/expenses	6	18					6	18
Results from non-trading assets	0	-17		0			0	-17
Results from investments accounted for using the equity method								
Results from investment properties	0	0					0	0
Administrative expenses	52	52	39	43	0	-1	91	94
Net other operating income/expenses	-2	0	0	0	0	0	-2	0
Impairment of goodwill	0						0	
Operating profit	**24**	**23**	**6**	**1**	**0**	**0**	**30**	**24**
Income taxes	7	8	2	0			9	8
Net income/loss	**17**	**15**	**4**	**1**	**0**	**0**	**21**	**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	13	11	3	1	0	0	16	12
Allocated equity	1,456	1,280	69	61	424	318	1,949	1,659
Cost/income ratio (%)	49.0	46.1	85.7	97.4			59.6	60.3
RoE after taxes (%)	3.5	3.6	16.7	5.2			3.2	2.8
Employees	**945**	**1,027**	**1,328**	**1,427**			**2,273**	**2,454**

[1)] Comparative figures for the previous year were adjusted. Further information is included in the Notes to the consolidated financial statements in the 2009 Annual Report.

Segment Reporting

Consulting / Services Segment – Reconciliation of Income Statement

Reconciliation of the segment result from the income statement classification aligned to an industrial enterprise to a bank income statement classification (which is used for the purposes of segment reporting)

			Income statement classification – bank									
Euro mn			Net interest income	Net commission income	Results from non-trading assets	Results from investments accounted for using the equity method	Administrative expenses	Net other operating income / expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	Q1 2010		0	45			39	0		**6**	2	**4**
	Q1 2009		0	44	0		43	0		**1**	0	**1**
Income statement classification – industrial enterprise												
Sales revenue	Q1 2010	50		50								
	Q1 2009	51		51								
Own work capitalised	Q1 2010	0					0					
	Q1 2009	0					0					
Changes in inventory	Q1 2010	0						0				
	Q1 2009	0						0				
Other operating income	Q1 2010	1						1				
	Q1 2009	1						1				
Cost of materials purchased	Q1 2010	5		5								
	Q1 2009	7		7								
Staff expenses	Q1 2010	26					26					
	Q1 2009	30					30					
Depreciation, amortisation and impairment losses	Q1 2010	3					3					
	Q1 2009	3					3					
Results from investments accounted for using the equity method	Q1 2010											
	Q1 2009											
Other operating expenses	Q1 2010	11					10	1				
	Q1 2009	11			0		10	1				
Interest and similar income / expenses	Q1 2010	0	0									
	Q1 2009	0	0									
Operating profit	**Q1 2010**	**6**	**0**	**45**			**39**	**0**				
	Q1 2009	**1**	**0**	**44**	**0**		**43**	**0**				
Income taxes	Q1 2010	2									2	
	Q1 2009	0									0	
Segment result	**Q1 2010**	**4**										
	Q1 2009	**1**										

Statement of Financial Position

Euro mn	Note	31 Mar 2010	31 Dec 2009
Assets			
Cash funds		706	990
Loans and advances to banks	9	1,425	801
Loans and advances to customers	10	23,668	23,459
Allowance for credit losses		-317	-283
Positive market value of derivative hedging instruments		1,474	1,244
Trading assets	11	572	689
Non-current assets held for sale and discontinued operations		8	8
Non-trading assets	12	12,683	11,929
Investments accounted for using the equity method		3	3
Investment properties		104	103
Intangible assets	13	76	78
Property and equipment	14	98	99
Income tax assets		46	47
Deferred tax assets		120	121
Other assets	15	270	281
Total		**40,936**	**39,569**
Equity and liabilities			
Liabilities to banks	16	6,260	5,083
Liabilities to customers	17	21,553	21,361
Certificated liabilities	18	7,437	7,862
Negative market value of derivative hedging instruments		1,081	940
Trading liabilities	19	682	490
Provisions	20	255	256
Income tax liabilities		10	10
Deferred tax liabilities		76	70
Other liabilities	21	182	151
Subordinated equity	22	1,296	1,269
Equity	23, 24		
Subscribed capital		128	128
Capital reserves		511	511
Retained earnings		788	780
Other reserves		-92	-110
Silent participation by SoFFin		525	525
Non-controlling interest		244	243
Total equity		2,104	2,077
Total		**40,936**	**39,569**

Statement of Changes in Equity[1)]

				Other reserves							
Euro mn	Subscribed capital	Capital reserves	Retained earnings	Reserves from transactions under common control	Revaluation surplus	Hedging reserves	Reserves from currency translation	Silent participation by SoFFin	Total	Non-controlling interest	Total equity
Equity as at 1 January 2010	**128**	**511**	**780**	**1**	**-112**	**0**	**1**	**525**	**1,834**	**243**	**2,077**
Total comprehensive income for the period			16		18	0	0		34	5	39
Capital increase											
Capital reduction											
Payments to non-controlling interests										-4	-4
Dividends											
Silent participation by SoFFin											
Costs associated with silent participation by SoFFin			-8						-8		-8
Other changes											
Equity as at 31 March 2010	**128**	**511**	**788**	**1**	**-94**	**0**	**1**	**525**	**1,860**	**244**	**2,104**

				Other reserves							
Euro mn	Subscribed capital	Capital reserves	Retained earnings	Reserves from transactions under common control	Revaluation surplus	Hedging reserves	Reserves from currency translation	Silent participation by SoFFin	Total	Non-controlling interest	Total equity
Equity as at 1 January 2009	**128**	**511**	**738**	**-8**	**-184**	**-1**	**1**		**1,185**	**244**	**1,429**
Adjustments to comparative figures			24		-3	1	1		23		23
Equity as at 1 January 2009 (adjusted)	**128**	**511**	**762**	**-8**	**-187**	**0**	**2**		**1,208**	**244**	**1,452**
Total comprehensive income for the period			8	0	-7	0	0		1	4	5
Capital increase											
Capital reduction											
Payments to non-controlling interests										-4	-4
Dividends											
Silent participation by SoFFin								525	525		525
Costs associated with silent participation by SoFFin			0								
Other changes			2						2		2
Equity as at 31 March 2009 (adjusted)	**128**	**511**	**772**	**-8**	**-194**	**0**	**2**	**525**	**1,736**	**244**	**1,980**

[1)] Comparative figures for the previous year were adjusted. Further information is included in the Notes to the consolidated financial statements in the 2009 Annual Report.

Statement of Cash Flows (condensed)

Euro mn	2010	2009
Cash and cash equivalents as at 1 January	**990**	**693**
Cash flow from operating activities	442	-692
Cash flow from investing activities	-752	133
Cash flow from financing activities	26	546
Total cash flow	**-284**	**-13**
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 31 March	**706**	**680**

Notes to the Consolidated Financial Statements (condensed)

Basis of Accounting

Legal Framework

Aareal Bank AG is a listed public limited company incorporated under German law, with its registered office in Wiesbaden, Germany. It is the parent company of an international property financing and services group.

This quarterly financial report was prepared pursuant to the provisions of section 37y no. 3 of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG") in conjunction with section 37x (3) of the WpHG. It comprises the present interim condensed consolidated financial statements, as well as an interim group management report (see Group Management Report).

Aareal Bank AG prepares its condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) applicable within the European Union (EU) as at the reporting date, in connection with the provisions pursuant to section 315 a (1) of the German Commercial Code (Handelsgesetzbuch – "HGB"). In particular, the interim consolidated financial statements comply with the requirements for interim financial reporting set out in IAS 34. The reporting currency is the euro (EUR).

Scope of consolidation

All subsidiaries of Aareal Bank AG have been consolidated. Joint ventures are consolidated proportionally, whilst associates have been accounted for using the equity method in the present interim consolidated financial statements.

There were no material changes to the scope of consolidation during the period under review.

Accounting policies

Unless specifically indicated otherwise, the accounting policies applied in the preparation of the consolidated financial statements 2009 were also applied for these condensed interim consolidated financial statements, including the calculation of comparative figures.

The following financial reporting standards (IAS / IFRS) and interpretations (SICs and IFRICs) were required to be applied for the first time in the reporting period:

- IFRIC 12 Service Concession Arrangements
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- Amendments to IAS 27 Consolidated and Separate Financial Statements
- Revised IFRS 3 Business Combinations
- IFRIC 15 Agreements for the Construction of Real Estate
- Amendment to IAS 39 Reclassification of Financial Assets: Effective Date and Transition
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items
- Revised IFRS 1: First Time Adoption of IFRS
- IFRIC 17 Distribution of Non-Cash Assets to Owners
- Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions
- Improvements to IFRSs (issued by the IASB in April 2009)

The new and revised standards and interpretations do not have any material consequences for the consolidated financial statements of Aareal Bank Group.

Notes to the Statement of Comprehensive Income[1)]

(1) Net interest income

Euro mn	1 Jan-31 Mar 2010	1 Jan-31 Mar 2009
Interest income from		
Property loans	126	208
Public-sector loans	6	15
Other lending and money market transactions	29	68
Fixed-income securities and debt register claims	46	87
Current dividend income	0	1
Other interest income	0	0
Total interest income	**207**	**379**
Interest expenses for		
Bonds issued	22	55
Registered mortgage bonds	9	41
Borrowed funds	27	54
Subordinated equity	6	14
Term deposits	20	85
Payable on demand	5	12
Other banking transactions	1	1
Total interest expenses	**90**	**262**
Total	**117**	**117**

(2) Allowance for credit losses

The allowance for credit losses amounted to € 32 million during the first three months of the financial year 2010 (Q1 2009: € 37 million).

[1)] Comparative figures for the previous year were adjusted. Further information is included in the Notes to the consolidated financial statements in the 2009 Annual Report.

(3) Net commission income

Euro mn	1 Jan-31 Mar 2010	1 Jan-31 Mar 2009
Commission income from		
Consulting and other services	37	37
Trustee loans and administered loans	0	3
Securities transactions	0	1
Securitisation transactions	0	0
Other lending and money market operations	5	3
Other commission income	3	3
Total commission income	**45**	**47**
Commission expenses for		
Consulting and other services	5	8
Securities transactions	6	0
Securitisation transactions	1	1
Other lending and money market operations	2	0
Other fee and commission expenses	1	2
Total commission expenses	**15**	**11**
Total	**30**	**36**

Commissions from consulting and services primarily include commissions for IT services.

Commission expenses for securities transactions include expenses of € 5 million (previous year: € 0 million) for the guarantee facility extended by the German Financial Markets Stabilisation Fund (SoFFin).

(4) Net trading income/expenses

Euro mn	1 Jan-31 Mar 2010	1 Jan-31 Mar 2009
Results from derivative financial instruments	7	17
Currency translation	-1	-1
Net income/expenses from other positions held for trading	–	2
Total	**6**	**18**

Net trading income / expenses primarily result from the measurement of trading derivatives used to hedge interest rate and currency risks.

(5) Results from non-trading assets

Euro mn	1 Jan-31 Mar 2010	1 Jan-31 Mar 2009
Result from debt securities and other fixed-income securities	0	-3
of which: Loans and receivables	0	0
Available for sale	–	-3
Result from equities and other non-fixed income securities	0	-15
of which: Available for sale	0	-15
Designated as at fair value through profit or loss	0	–
Results from equity investments (AfS)	–	1
Total	**0**	**-17**

(6) Administrative expenses

Euro mn	1 Jan-31 Mar 2010	1 Jan-31 Mar 2009
Staff expenses	56	59
Other administrative expenses	29	30
Depreciation, amortisation and impairment of property and equipment and intangible assets	6	5
Total	**91**	**94**

(7) Net other operating income/expenses

Euro mn	1 Jan-31 Mar 2010	1 Jan-31 Mar 2009
Income from properties	2	1
Income from the reversal of provisions	1	0
Income from goods and services	1	0
Miscellaneous	3	4
Total other operating income	**7**	**5**
Expenses for property	4	1
Expenses for services used	0	0
Write-downs of trade receivables	0	–
Expenses for other taxes	0	0
Miscellaneous	5	4
Total other operating expenses	**9**	**5**
Total	**-2**	**0**

(8) Reconciliation from Net Income/Loss to Total Comprehensive Income

Euro mn	1 Jan-31 Mar 2010	1 Jan-31 Mar 2009
Net income/loss	**21**	**16**
Changes in revaluation surplus, after tax	**18**	**-7**
Gains and losses on remeasuring available-for-sale financial instruments, before tax	13	-36
Reclassifications to the income statement, before tax	12	23
Taxes	-7	6
Changes in hedging reserves, after tax	**0**	**0**
Profit/loss from derivatives used to hedge future cash flows, before taxes	0	0
Reclassifications to the income statement, before tax	0	–
Taxes	0	0
Changes in currency translation reserves, after tax	**0**	**0**
Profit/loss from translating foreign operations financial statements, before taxes	0	0
Reclassifications to the income statement, before tax	0	–
Taxes	–	–
Changes in reserves from transactions under common control, after tax	**–**	**0**
Gains and losses from transactions under common control, before tax	–	–
Reclassifications to the income statement, before tax	–	0
Taxes	–	-
Other Changes, after taxes	**–**	**-4**
Other Changes, before taxes	–	-6
Taxes	–	2
Profit/loss directly recognised in equity, after taxes	**18**	**-11**
Total comprehensive income	**39**	**5**

Notes to the Statement of Financial Position

(9) Loans and advances to banks

Euro mn	31 Mar 2010	31 Dec 2009
Term deposits and current account balances	1,135	521
Public-sector loans	239	234
Receivables from securities repurchase transactions	–	–
Other loans and advances	51	46
Total	**1,425**	**801**

Loans and advances to banks are allocated to the measurement category "Loans and receivables" (LaR).

(10) Loans and advances to customers

Euro mn	31 Mar 2010	31 Dec 2009
Property loans	21,272	21,288
Public-sector loans	1,731	1,717
Other loans and advances	665	454
Total	**23,668**	**23,459**

Loans and advances to customers are allocated to the measurement category "Loans and receivables" (LaR).

(11) Trading assets

Euro mn	31 Mar 2010	31 Dec 2009
Debt and other fixed-income securities	1	1
Positive market value of trading derivatives	571	688
Other assets held for trading	–	–
Total	**572**	**689**

Trading assets are allocated to the measurement category "Held for trading" (HfT).

The trading derivatives reported are mainly used to hedge the economic market price risks.

(12) Non-trading assets

Euro mn	31 Mar 2010	31 Dec 2009
Debt and other fixed-income securities	12,347	11,817
of which: Loans and receivables (LaR)	7,086	7,039
Held to maturity (HtM)	414	412
Available for sale (AfS)	4,847	4,366
Equities and other non-fixed-income securities	332	108
of which: Available for sale (AfS)	326	98
Designated as at fair value through profit or loss (dFVtPL)	6	10
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	4	4
Total	**12,683**	**11,929**

The item "Debt and other fixed-income securities" mainly consists of securities and promissory notes issued by public-sector entities as well as asset-covered bonds (Pfandbriefanleihen) and bank bonds.

Reclassified financial assets

In the years 2008 and 2009, Aareal Bank Group has made use of the possibility to reclassify financial assets into another measurement category. The following table compares the carrying amounts of the reclassified assets to their fair values:

Euro mn	Carrying amount of reclassified financial assets 31 Mar 2010	Carrying amount of reclassified financial assets 31 Dec 2009	Fair value of reclassified financial assets 31 Mar 2010	Fair value of reclassified financial assets 31 Dec 2009
from AfS to LaR	**5,821**	**5,729**	**5,777**	**5,706**
Asset-backed securities	32	50	29	46
Bank bonds	1,244	1,234	1,274	1,260
Covered bonds	687	673	686	676
Government bonds	3,858	3,772	3,788	3,724
from HfT to LaR	**433**	**455**	**402**	**410**
Asset-backed securities	427	449	395	403
Government bonds	6	6	7	7
Total	**6,254**	**6,184**	**6,179**	**6,116**

If the bank had not opted for reclassification, the measurement of the reclassified financial assets would have resulted in a € 15 million income (before tax) (Q1 2009: loss of € 36 million), and € 19 million (after tax) (Q1 2009: € -148 million) would have been recognised in the revaluation surplus.

(13) Intangible assets

Euro mn	31 Mar 2010	31 Dec 2009
Goodwill	37	37
Proprietary software	27	28
Other intangible assets	12	13
Total	**76**	**78**

(14) Property and equipment

Euro mn	31 Mar 2010	31 Dec 2009
Land and buildings and construction in progress	78	78
Office furniture and equipment	20	21
Total	**98**	**99**

(15) Other assets

Euro mn	31 Mar 2010	31 Dec 2009
Properties	155	160
Trade receivables (LaR)	28	26
Miscellaneous	87	95
Total	**270**	**281**

(16) Liabilities to banks

Euro mn	31 Mar 2010	31 Dec 2009
Payable on demand	481	509
Term deposits	204	247
Promissory note loans borrowed	595	595
Liabilities from securities repurchase transactions and open-market operations	4,566	3,236
Registered mortgage bonds	221	211
Miscellaneous	193	285
Total	**6,260**	**5,083**

Liabilities to banks are allocated to the measurement category ”Liabilities measured at amortised cost“ (LaC).

(17) Liabilities to customers

Euro mn	31 Mar 2010	31 Dec 2009
Payable on demand	3,456	3,543
Term deposits	4,743	4,523
Promissory note loans borrowed	8,338	8,518
Registered mortgage bonds	5,015	4,776
Miscellaneous	1	1
Total	**21,553**	**21,361**

Liabilities to customers are allocated to the measurement category ”Liabilities measured at amortised cost“ (LaC).

(18) Certificated liabilities

Euro mn	31 Mar 2010	31 Dec 2009
Medium-term notes	1,818	1,791
Bearer mortgage bonds	3,316	3,745
Other debt securities	2,303	2,326
Total	**7,437**	**7,862**

Certificated liabilities are allocated to the measurement category ”Liabilities measured at amortised cost“ (LaC).

(19) Trading liabilities

Euro mn	31 Mar 2010	31 Dec 2009
Negative market value of trading derivatives	682	490
Other assets held for trading	–	–
Total	**682**	**490**

Trading liabilities are allocated to the measurement category ”Held for trading“ (HfT).

(20) Provisions

Euro mn	31 Mar 2010	31 Dec 2009
Provisions for pensions and similar obligations	118	117
Other provisions	137	139
Total	**255**	**256**

(21) Other liabilities

Euro mn	31 Mar 2010	31 Dec 2009
Liabilities from outstanding invoices	6	10
Deferred income	9	6
Liabilities from other taxes	10	15
Trade payables (LaC)	8	10
Other liabilities (LaC)	149	110
Other liabilities	**182**	**151**

(22) Subordinated equity

Euro mn	31 Mar 2010	31 Dec 2009
Subordinated liabilities	571	559
Profit-participation certificates	494	482
Contributions by silent partners[1)]	230	228
Total	**1,295**	**1,269**

[1)] The silent participation by SoFFin is classified as equity in accordance with IFRS and therefore is not reported under contributions by silent partners, but as a separate item in equity.

Items of subordinated equity are allocated to the measurement category ”Liabilities measured at amortised cost“ (LaC).

(23) Equity

Euro mn	31 Mar 2010	31 Dec 2009
Subscribed capital	128	128
Capital reserves	511	511
Retained earnings	788	780
Other reserves		
Reserves from transactions under common control	1	1
Revaluation surplus	-94	-112
Hedging reserves	0	0
Currency translation reserves	1	1
Silent participation by SoFFin	525	525
Non-controlling interest	244	243
Total	**2,104**	**2,077**

On 31 March 2009, the German Financial Markets Stabilisation Fund (SoFFin) provided the € 525 million silent participation to Aareal Bank, as agreed upon as part of the package of support measures on 15 February 2009. This silent participation, which has no fixed maturity, bears interest at 9 % p.a.; in the statement of financial position, it is shown as a separate line item under equity. The costs associated with this silent participation are reduced by the related income tax benefits and directly offset with equity.

(24) Treasury shares

No treasury shares were held during the period under review.

(25) Dividends

In the interest of achieving repayment of the silent participation by SoFFin at the earliest opportunity, Aareal Bank will not distribute any dividends to its shareholders for the 2008 and 2009 financial years.

Other Notes

(26) Contingent liabilities and irrevocable loan commitments

Euro mn	31 Mar 2010	31 Dec 2009
Contingent liabilities on guarantees and indemnity agreements	301	323
Loan commitments	1,992	1,970
of which: irrevocable	1,528	1,486

(27) Employees

	31 Mar 2010	1 Jan-31 Dec 2009
Number of employees in the banking business	1,027	1,062
Number of employees in other businesses	1,246	1,321
Total	**2,273**	**2,383**
of which: Part-time employees	368	369

(28) Related party transactions

No material transactions with related parties were entered into during the first three months of the 2010 financial year.

(29) Events after the interim reporting period

There have been no material events subsequent to the end of the interim reporting period under review that need to be disclosed at this point.

Executive Bodies

Supervisory Board

Hans W. Reich [1) 2) 3) 4) 5)], Kronberg
Chairman of the Supervisory Board
Chairman Public Sector Group, Citigroup

Erwin Flieger [1) 3) 4) 5)], Geretsried
Deputy Chairman of the Supervisory Board
Chairman of the Supervisory Boards of
Bayerische Beamten Versicherungsgruppe

York-Detlef Bülow [1) 2) 6)], Katzenelnbogen
Deputy Chairman of the Supervisory Board
Aareal Bank AG

Christian Graf von Bassewitz [2) 3) 4)], Dusseldorf
Banker (ret'd.)
(former Spokesman of the General Partners
of Bankhaus Lampe KG)

Manfred Behrens, Hannover
Chairman of the Management Board
AWD Holding AG

Tamara Birke [3) 6)], Wiesbaden
Aareal Bank AG

Thomas Hawel [6)], Saulheim
Aareon Deutschland GmbH

Dr. Herbert Lohneiß [3) 4)], Gräfelfing
Former Chief Executive Officer
of Siemens Financial Services GmbH (ret'd.)

Joachim Neupel [2) 3) 4)], Meerbusch
Chairman of the Accounts and Audit Committee
German Chartered Accountant, tax consultant

Prof. Dr. Stephan Schüller [1) 2)], Hamburg
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Wolf R. Thiel [1)], Stutensee
President and Chairman of the
Management Board of Versorgungsanstalt
des Bundes und der Länder

Helmut Wagner [6)], Hahnheim
Aareon Deutschland GmbH

Management Board

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Chairman of the Management Board

Norbert Kickum
Member of the Management Board

Hermann Josef Merkens
Member of the Management Board

Thomas Ortmanns
Member of the Management Board

[1)] Member of the Executive Committee; [2)] Member of the Accounts and Audit Committee; [3)] Member of the Credit and Market Risk Committee;
[4)] Member of the Committee for Urgent Decisions; [5)] Member of the Nomination Committee [6)] Employee representative

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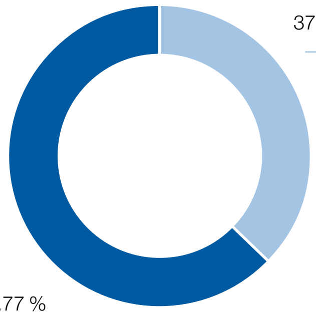
Shareholder Structure | Financial Calendar

Shareholder Structure

■ Free float ■ Aareal Holding Verwaltungsgesellschaft mbH



8.94 % Bayerische Beamten-Lebensversicherung a.G.

8.94 % Schweizerische Lebensversicherungs- und Rentenanstalt

6.68 % Versorgungsanstalt des Bundes und der Länder

6.06 % Bankhaus Lampe KG

5.25 % Deutscher Ring Gruppe

1.36 % Condor Lebensversicherungs-AG

Financial Calendar

19 May 2010	Annual General Meeting – Rhein-Main-Hallen, Wiesbaden
10 August 2010	Presentation of interim report as at 30 June 2010
November 2010	Presentation of interim report as at 30 September 2010

North America

Europe

Asia / Pacific

- Structured Property Financing
- Consulting / Services

Aareal Bank, Real Estate Structured Finance: Amsterdam, Berlin, Brussels, Copenhagen, Dublin, Hamburg, Helsinki, Istanbul, London, Madrid, Milan, Moscow, Munich, New York, Paris, Prague, Rome, Shanghai, Singapore, Stockholm, Warsaw, Wiesbaden, Zurich | **Aareal Valuation GmbH:** Wiesbaden | **Aareal Estate AG:** Berlin, Wiesbaden

Aareal Bank, Institutional Housing Unit: Berlin, Essen, Hamburg, Leipzig, Munich, Stuttgart, Wiesbaden | **Aareon AG:** Berlin, Coventry, Dortmund, Dresden, Erfurt, Hamburg, Hanover, Hückelhoven, Leipzig, Lyon, Mainz, Meudon La Foret, Milan, Munich, Nantes, Oberhausen, Orléans, Paris, Rostock, Rome, Stuttgart, Swansea, Toulouse | **Deutsche Bau- und Grundstücks-AG:** Berlin, Bonn, Moscow, Munich | **Aareal First Financial Solutions:** Wiesbaden | **Innovative Banking Solutions AG:** Wiesbaden

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05/2010

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