

LOCAL EXPERTISE  
MEETS GLOBAL EXCELLENCE



Aareal Bank Group – Interim Report  
1 January to 31 March 2011



**Aareal Bank  
Group**

## Key Group Figures

	1 Jan-31 Mar 2011	1 Jan-31 Mar 2010	Change
	Euro mn	Euro mn	Euro mn
<b>Income Statement</b>			
Operating profit	47	30	17
Net income after non-controlling interests	30	16	14
<b>Indicators</b>			
Cost/income ratio (%) <sup>1)</sup>	45.6	49.0	
Earnings per share (Euro)	0.70	0.37	
RoE before taxes (%) <sup>2)</sup>	9.1	5.1	
RoE after taxes (%) <sup>2)</sup>	6.5	3.2	

	31 Mar 2011	31 Dec 2010	Change
	Euro mn	Euro mn	Euro mn
<b>Portfolio data</b>			
Property financing	22,026	22,884	-858
of which: international	18,525	19,195	-670
Property financing under management <sup>3)</sup>	22,317	23,251	-934
of which: international	18,525	19,195	-670
Equity	1,997	1,985	12
Total assets	39,916	41,217	-1,301
	%	%	
<b>Regulatory indicators <sup>4)</sup></b>			
Tier 1 ratio pursuant to AIRBA <sup>5)</sup>	14.3	12.9	
Total capital ratio pursuant to AIRBA <sup>5)</sup>	18.6	16.5	

	31 Mar 2011	31 Dec 2010	
<b>Ratings</b>			
Fitch Ratings, London			
Long-term	A-	A-	
Short-term	F1	F1	

<sup>1)</sup> Structured Property Financing segment only

<sup>2)</sup> on an annualised basis

<sup>3)</sup> Property financings under management include the € 0.3 billion property financing portfolio managed on behalf of Deutsche Pfandbriefbank AG.

<sup>4)</sup> After confirmation of Aareal Bank AG's 2010 financial statements. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2010 is subject to approval by the Annual General Meeting.

<sup>5)</sup> Advanced Internal Ratings-Based Approach (AIRBA)

# Contents

<b>Key Group Figures</b>	<b>2</b>
<b>Letter to Shareholders</b>	<b>4</b>
<b>Group Management Report</b>	<b>8</b>
Business Environment	8
Financial Performance	11
Segments	13
Financial Position	17
Report on Material Events after the Reporting Date	19
Risk Report	20
Future Opportunities and Outlook	27
<b>Consolidated Financial Statements</b>	<b>34</b>
Statement of Comprehensive Income	34
Income Statement	34
Reconciliation from Net Income/Loss to Total Comprehensive Income	35
Income Statement (Quarterly Development)	36
Reconciliation from Net Income/Loss to Total Comprehensive Income (Quarterly Development)	37
Segment Reporting	38
Segment Results	38
Consulting/Services Segment – Reconciliation of Income Statement	39
Statement of Financial Position	40
Statement of Changes in Equity	41
Statement of Cash Flows (condensed)	42
Notes to the Consolidated Financial Statements (condensed)	43
Basis of Accounting	43
Notes to the Statement of Comprehensive Income	44
Notes to the Statement of Financial Position	47
Other Notes	53
<b>Executive Bodies</b>	<b>55</b>
<b>Offices</b>	<b>56</b>
<b>Shareholder Structure</b>	<b>58</b>
<b>Financial Calendar</b>	<b>58</b>
<b>Locations / Imprint</b>	<b>59</b>

## Letter to Shareholders

Dear shareholders, business associates and  
Aareal Bank staff,

Aareal Bank Group continued on its successful  
course as 2011 opened, and has achieved a very good  
result during the first quarter.

At € 47 million, operating profit generated in the first quarter exceeded the corresponding figure for the same period of the previous year (€ 30 million), as well as the already very strong fourth quarter of 2010 (€ 40 million). The sustained good business development once again confirms the operative strength of Aareal Bank Group and its excellent strategic positioning in a changing market and competitive environment.

Real economic recovery forged ahead during the first quarter of 2011, although growth rates continued to vary considerably from region to region. Some easing was evident on the financial markets – as is reflected in a large number of bond issues from banks, companies and sovereign issuers – even though normality has not yet been fully restored. This is evident for example, in the still very high risk premiums on bonds issued by countries such as Greece, Ireland and Portugal. Markets were also burdened at the end of the first quarter by the impact of the earthquake disaster in Japan. Furthermore, discussions continued concerning planned reforms to the regulatory and supervisory environment, and regarding levies charged to the sector. The main focus is on the

aggregate impact of these planned measures on banks and on the real economy, and on steps to safeguard a harmonised implementation of such measures on an international scale, to prevent competitive distortions.

The recovery on global property markets continued through the start of the year, whilst demand for financings showed a marked increase in some regions. As one of the few remaining international providers, Aareal Bank was able to take advantage of attractive opportunities for high-margin new business. Overall, this encourages our positive assessment of the outlook for commercial property financing in the future.

Against this background, on 14 April 2011 the Management Board and Supervisory Board of Aareal Bank resolved to increase the capital in the form of a rights issue against cash contributions. The transaction, which was successfully concluded at the beginning of May, generated gross issue proceeds of € 269,6 million. The net proceeds from the capital increase are intended to be used for supporting the future growth of the Structured Property Financing segment, consistent with our

current credit risk strategy. We want to increasingly exploit the opportunities for high-margin new business available in the current environment. At the same time, the capital increase further strengthened Aareal Bank's regulatory capital base. We also used some of the issuing proceeds to make another partial repayment of € 75 million on the SoFFin silent participation, on 28 April 2011. The capital increase is a key step in the continued expansion of our market position, and in further enhancing our profitability.

In addition to the capital increase, and also during April 2011, the Management Board carried out an early redemption of the SoFFin-guaranteed € 2 billion bond maturing on 5 June 2013, which the bank held on its own books, in agreement with SoFFin. This step reflects our assessment of a gradually stabilising market environment, as well as Aareal Bank's sound refinancing situation.

### **Structured Property Financing: segment result increases markedly**

Rents and values on many commercial property markets were stable or slightly rising during the first quarter. First-class properties in particular benefited from this trend. The performance of properties that require updating in terms of factors determining rent and value, such as location, modernity and floor space, and energy management, was less dynamic. However, in the course of the general market recovery, demand for these properties increased, too, albeit at a lower level. This trend has been evident across the different types of commercial property – office, retail and logistics. The hotel sector also performed well, with average revenues per room increasing year-on-year.

On the whole, the recovery in transaction volumes on the commercial property markets continued. We also expect the positive development to persist throughout 2011.

Our selective approach that is strictly oriented in quality, return and risk, together with our medium-sized structure, once again proved to be major

competitive advantages. Aareal Bank was therefore in a position to react quickly to market developments, and to efficiently exploit the opportunities that arose. Traditionally, the property business is somewhat weaker in the first quarter. New business rose over the same quarter of the previous year to € 1.4 billion (Q1 2010: € 1.3 billion). The share of newly acquired business increased significantly, a trend which is expected to continue during the coming months. The very positive performance in terms of new business origination in April 2011 already confirms our assessment of Aareal Bank's vast potential in the current market and competitive environment. The bank's new business pipeline is very well stocked, suggesting that this development is likely to prevail going forward.

At € 43 million, operating profit in the Structured Property Financing segment was not only up significantly year-on-year (Q1 2010: € 24 million), it was also above the very respectable level of the final quarter of 2010 (€ 31 million). Net interest income in the first quarter was € 125 million, after € 106 million in the comparable period of the previous year. The year-on-year rise was attributable predominantly to higher average margins generated in the lending business.

At € 18 million, allowance for credit losses in the first quarter of 2011 was just over half of the figure for the previous year (Q1 2010: € 32 million). It thus remained below the pro-rata full-year forecast range of € 110 to € 140 million, but within the fluctuation range we had expected.

### **Consulting/Services: deposits generated with the institutional housing industry increased further**

Operating profit in the Consulting/Services segment totalled € 4 million during the first quarter (Q1 2010: € 6 million). The low interest rate environment, which is unfavourable for the profitability of the deposit-taking business, prevails. Nonetheless, the volume of deposits generated from the institutional housing industry increased further, to average € 4.5 billion through the quarter.

Our long-standing, intensive and trusting co-operation with companies operating in the German institutional housing industry paid off once again.

Our subsidiary Aareon AG performed in line with expectations during the first quarter, which is traditionally the weakest phase of the year in its market. Aareon succeeded in winning an additional 13 new clients for its Wodis Sigma ERP system, so that a total of 334 clients – of all sizes – have decided in favour of the product to date. Aareon's international business has also developed favourably. The integration of the Dutch company SGI automatisering bv, Emmen, with effect from 1 November 2010, continues to develop successfully.

### **Refinancing activities implemented on schedule – Tier 1 ratio strengthened further**

Aareal Bank remains extremely solidly financed. In the first quarter of the current financial year, we successfully implemented all our planned refinancing activities in full – in a market environment that remained difficult, especially for unsecured issuance. Aareal Bank placed unsecured issues in the amount of € 0.3 billion, as well as Pfandbrief issues totalling € 0.8 billion.

During the first quarter of 2011, Aareal Bank continued the successful management of risk-weighted assets (RWA), and further strengthened its Tier 1 ratio. In February 2011, the bank applied the Advanced Internal Ratings-Based Approach (Advanced IRB Approach – "AIRBA") to determine its capital requirements for credit risks, with retrospective effect from 31 December 2010, replacing the Credit Risk Standard Approach (CRSA) applied to date. Compared to the Credit Risk Standard Approach, the AIRBA, which is based on internal models, allows for a more accurate measurement of credit risks, and hence for a more precise and risk-adequate allocation of capital. Calculated in accordance with the AIRBA, Aareal Bank's Tier 1 ratio stood at 14.3 % as at 31 March 2011. The

Tier 1 ratio in accordance with the AIRBA, excluding hybrid capital and the remaining silent participation by SoFFin, was 9.0 %.

One of the objectives of the capital increase conducted in April was to further strengthen the bank's capital base. As a result of the capital increase, the Tier 1 ratio in accordance with the AIRBA – before appropriating funds for additional new business and taking into account the further € 75 million repayment of the SoFFin silent participation – increased to 15.5 % on a pro-forma basis as at 31 March 2011. The Tier 1 ratio, excluding hybrid capital and the SoFFin silent participation, rose to 10.7 % on a pro-forma basis as at the end of March.

### **Aareal Bank share: market participants' confidence affirmed**

After closing 2010 at a year-end-price of € 22.80, the Aareal Bank share maintained this high level into the new financial year. In anticipation of good business data for the full year 2010, the share price continued to rise prior to the publication of preliminary results. The price increase of more than 9 % on 22 February 2011 – the day on which the preliminary figures for the 2010 financial year were published – reflected the high degree of confidence placed by the capital market participants in the bank and its management.

This positive trend continued after the publication of the preliminary results to reach an interim high of € 26.25 on 8 March 2011. Equities, financials in particular, were burdened again by the renewed deterioration of the EU debt crisis, which was triggered by further rating downgrades affecting Greece, Portugal and Spain. The earthquake disaster in Japan in mid-March also resulted in interim price losses on international markets, which also affected the Aareal Bank share.

Against the background of these developments, our share declined slightly by 0.8 %, to end the first quarter at a price of € 22.63 – a mere 17 cents below the year-end price of 2010.

Following the resolution to increase capital, the share price was subject to the usual volatility that is common with such transactions. The Aareal Bank share has been trading "ex subscription right" since 18 April 2011. With a closing price of € 20.47 at the end of the subscription period on 29 April 2011, it remained slightly above the closing price of € 20.37 for the quarter (adjusted for the price of the subscription right).

### Outlook: forecasts raised for 2011

Aareal Bank Group sees good prospects for maintaining its good overall business performance throughout the 2011 financial year.

Taking the expected positive effects of the capital increase – as well as the lower level of guarantee fees – into account, Aareal Bank has adjusted its outlook for the financial year 2011 as a whole, as follows: anticipating moderately higher interest rate levels, and considering the expected revenues

generated from additional new business compared with the previous year, the Management Board expects net interest income to increase. Thanks to the fact that relief from lower guarantee fees will occur earlier than expected, net commission income will show a more pronounced increase than has been forecast to date.

Moreover, applying funds raised via the capital increase, we can increase our target return on equity before taxes, to between 12 and 13 %, assuming normalised markets.

We are confident of our ability to continue growing our business profitably in the years to come, and to further extend our market position. Aareal Bank remains on course with its business model comprising two strong pillars. This will also benefit our clients, employees and not least, our shareholders, in the years ahead. We would like to extend our sincere thanks for the confidence you have placed in us, especially during the last few months.

Yours sincerely,

### The Management Board



Dr Wolf Schumacher



Dirk Große Wördemann



Hermann J. Merkens



Thomas Ortmanns

# Group Management Report

## Business Environment

### Macro-economic environment

The global economy continued to recover in the first quarter of this year. The diverging growth momentum between the individual countries and regions remained largely intact. Some easing was evident on the financial markets – as is reflected in a large number of bond issues from banks, companies and sovereign issuers. As we see it however, the financial markets have not yet returned fully to normal. In this context, the measures agreed by the European Council at the end of March on strengthening the bailout mechanism for euro zone member states are of importance. The financial markets were burdened at the end of the first quarter by the impact of the earthquake disaster in Japan.

### Economy

Global economic expansion continued in the first quarter. This was confirmed by production indicators as well as the performance of indicators such as the ifo business climate index, which increased considerably at the start of this year in Western Europe, Asia and in particular in North America. This is compared with the decline in the ifo busi-

ness climate index in Asia and North America at the end of 2010.

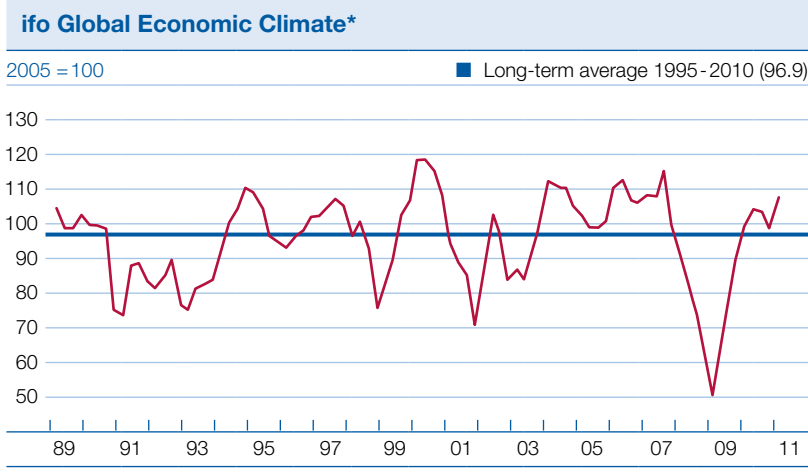
Despite the general positive development of the economic climate, notable differences were evident in the growth momentum of the individual regions. The economy remained particularly dynamic in the developing Asian economies, especially in China. Looking back on the first quarter of the year, the exact consequences of the earthquake catastrophe in Japan are difficult to assess at present. Because suppliers from Japan were unable to deliver, some manufacturing companies in other countries were forced to cut back their production towards the end of the first quarter.

Economic recovery in North America and Europe was affected to a lesser extent than the emerging economies of Asia, although economic development here was also positive in most countries. The US economy for example – supported by a still-expansive fiscal and monetary policy – recorded an increase over the same period of the previous year. The speed of economic recovery within Europe also varied. Germany remained one of the drivers of growth within the EU, whilst economic development was muted in the eurozone's periphery states. Only very few countries actually reported lower economic output than the previous year – Greece being one example.

Unemployment persisted at a high level in most economies. It was often virtually unchanged, or fell only slightly compared with the end of the previous year. The unemployment rate declined to a greater extent in the US in the first quarter.

### Financial markets, monetary policy and inflation

Some easing was evident on the financial markets. This was supported by, amongst other things, the large number of bond issues placed on the market by banks, companies and countries. Nonetheless, bonds from countries such as Greece, Ireland and Portugal, which are viewed by investors as higher-risk, continued to command very high risk premiums compared with bonds issued by other



\* Arithmetic mean of the assessment of the current situation and expected developments.

Source: ifo World Economic Survey (WES) 1/2011.



countries. Speculation increased at the end of the first quarter as to whether Portugal would have to call upon the European rescue facility. Consequently, the risk premiums on Portuguese government bonds widened significantly. Shortly after the end of the period under review, the Portuguese government declared its intention to apply for support from the rescue facility.

In March, the European Council agreed on various measures to strengthen the rescue mechanism for euro zone member states that were experiencing refinancing difficulties. These include new regulations on the financial resources of the EFSF (European Financial Stability Facility) and on the structure of its predecessor, the European Stability Mechanism (ESM), which should act as a permanent bailout fund as of mid-2013. The fund will be € 700 billion; of this amount, € 80 billion will be provided as a capital base, of which roughly half will be paid in by the year 2013, and the remainder over the next three years thereafter. The remaining € 620 billion will be provided by the member states as guarantees of indebtedness for ESM bonds. Since the ESM bonds will be over-collateralised by the member state guarantees above the maximum bond issuance volume possible, the actual sum available from the EMS is effectively € 500 billion. Unlike the previous regulation, the ESM can now directly buy government bonds of the member states. Another planned significant new regulation is that as of 2013, the government bonds issued by the member states will be structured in such a way that (in an emergency) private bond holders could (under special circumstances) participate in a country's restructuring. The euro zone governments and heads of state also agreed on various resolutions to strengthen the stability pact and enhance competitiveness.

Despite the large number of issues placed on the bond markets, financial markets have not yet returned fully to normal. Furthermore, the markets were also burdened at the end of the quarter by the effects of the earthquake disaster in Japan. Furthermore, discussions continued concerning planned reforms to the regulatory and supervisory environment, and regarding levies charged to the

sector. The main focus is on the aggregate impact of these planned measures on banks and on the real economy, and on steps to safeguard a harmonised implementation of such measures on an international scale, to prevent competitive distortions.

The still-pending normalisation of the financial markets is evident in the expansive monetary policy pursued in most countries – on the one hand against the background of providing the financial system with liquidity, and in supporting the economy on the other. The US Federal Reserve (the Fed), the Bank of England (BoE) as well as the European Central Bank (ECB) maintained their key rates at low levels during the first quarter. Shortly after the end of the period under review, the ECB decided to raise its key rate by 0.25 percentage points to 1.25 %. In early March, it decided to provide the banks with unlimited funding for the time being within the scope of the refinancing operations. The central banks of Poland and Sweden each raised their key rate by 0.25 percentage points in the first quarter of 2011.

Long-term interest rates in the currencies in which we are predominantly active increased in the course of the first quarter. By contrast, the rise in short-term rates was less pronounced for the most part. Short-term US dollar rates on the other hand, remained virtually unchanged. The rise in short-term interest rates was particularly pronounced in the Swedish krona as a consequence of the key rate hike.

The rate of inflation rose in many economic regions in the first quarter, largely on account of higher crude oil and other commodity prices. Higher demand in the course of the economic recovery, as well as uncertainties in conjunction with the political events in the Middle East and North Africa contributed to the increase. Annual inflation in the eurozone rose in the first quarter to average at around 2.4 %, and is still rising. Inflation in the US was down slightly on this rate. The rate of inflation in the developing economies such as Russia and China was significantly higher than in the eurozone and the US. In addition to com-

modities, the price of basic foodstuffs also rose in China.

In reaction to fears that the economy and the residential property market would overheat, the Chinese central bank increased its key rate. It also took additional measures by raising the minimum reserve rate for banks several times during the first quarter. The Russian central bank also increased its key rate slightly. In view of the earthquake catastrophe, the Bank of Japan (BoJ) agreed to increase its securities purchase programme from JPY 35 trillion to JPY 40 trillion (roughly € 350 billion) in order to stabilise the financial markets and the economy.

In the course of the first quarter, the euro appreciated against the currencies in which we are predominantly active. It appreciated significantly vis-a-vis the US dollar, the Canadian dollar, the Swiss franc and the Japanese yen, but only slightly against the pound sterling. In the course of the key rate hike of the Swedish Riksbank, the euro initially depreciated against the Swedish krone but recovered again during the quarter, so that the exchange rate at the end of the quarter was virtually the same as at the start of the quarter. At the start of the year, Estonia became the 17th state to join the euro zone.

## **Sector-specific environment**

### **Structured Property Financing**

The development of rents and property values depends on many factors, including macroeconomic factors such as economic growth, unemployment and interest rate developments. Most markets in which we are active showed positive development in terms of economic output, stability with regard to unemployment and a slightly rising trend in interest rates. All other factors being equal, the latter represents a disadvantage for the pricing of commercial property.

Expectations with regard to future economic development continued to be inclined upwards in

the first quarter. Accordingly, the property investment climate was stable to rising in many countries during the period. This development of the investment climate was also evident in the global transaction volumes in commercial property. In the first quarter of 2011, global transaction volumes rose significantly over the same period of the previous year – but were still down on the level recorded in the final quarter of 2010. However, transaction volumes can be greater in the final quarter of any year – as was the case last year – than in the other quarters.

Rents and property values on many commercial property markets were stable or slightly rising during the first quarter. This applies in particular to the segment of first-class properties. Those properties not included in this segment – in relation to the factors determining rent and value – mostly lagged behind this development.

The various commercial property types of office, retail and logistics were affected equally by the developments outlined.

The hotel sector remained positive, having already shown a clear upside trend the year before. The average revenue per room increased over the same period of the previous year; higher occupancy ratios and improved average price per room were important factors here.

Investors' yield requirements from newly-acquired commercial property were stable or fell slightly in many locations. A decline in the yield requirement on stable or rising rents means an increase in price. The focus here remained on first-class properties too. However, growing (albeit selective) interest is also evident in properties that are not in prime locations or which do not belong to the prime segments owing to other qualities.

### **Consulting/Services: Institutional Housing Industry**

The institutional housing industry in Germany proved to be a stable sector. This stability is largely due to the mainly constant rental agreements and

long-term financing structures. It is also helped by the sustained maintenance and development of the housing stock in the industry, especially in relation to increasing energy efficiency.

State aid continues to play an important role in funding investment activities. The resumption of the KfW residential housing rehabilitation programme on 1 March 2011 has simplified the promotion of energetic renovation measures. In addition to one-off total modernisations, subsidies are also available for gradual individual measures that improve the energy balance of the housing stock.

The housing market benefits from the good overall economic development in Germany. The number of households in the cities is growing continuously. The gradual increase in the demand for apartments, coupled with only a slight increase in supply, is not only driving up residential rents in the cities but across broader administrative districts as well. Newly contracted rents have increased in 81 % of West German cities and administrative districts.

Owing to the positive economic development in Germany, the continued recovery on the housing market, and the expectations for rising rents, the focus of domestic and international investors on residential property remained strong at the start of 2011. Although investor preference lies in the major cities, limited purchase opportunities have expanded investment focus also to cities with a population of more than 100,000 inhabitants. Supply is generated mainly by medium and large-sized property investors that dispose of properties for the purpose of adjusting their portfolios, as well as project developers and communities of heirs.

The "GdW-Zukunftswerkstatt Unternehmenstrends 2020" symposium held by the Federation of German Housing Enterprises (GdW Bundesverband deutscher Wohnungsunternehmen e.V.) showed that besides demographic development and active restoration, issues such as process efficiency, client information and the development of new business areas are set to become increasingly important in the industry. Furthermore, the recent economic and financial markets crisis has resulted in higher

demand for risk management (and risk management systems) within the scope of portfolio management. This also involves higher demands by the companies for IT systems support in order to structure internal processes more efficiently and to optimise the cooperation with the business partners.

## Financial Performance

Aareal Bank Group once again underlined the sustainability of its business model during the first quarter of 2011, in a market environment that remained challenging. Operating profit amounted to € 47 million (Q1 2010: € 30 million). Taking into consideration taxes and income attributable to non-controlling interests, consolidated net income after non-controlling interest income was € 30 million (Q1 2010: € 16 million).

Net interest income of € 134 million (Q1 2010: € 117 million) was € 17 million (or 15 %) higher than the same period of the previous year. The rise over the same quarter of the previous year was attributable predominately to higher average margins in the lending business. The low interest rate environment continues to burden the profitability of the deposit-taking business with the institutional housing industry.

Allowance for credit losses amounted to € 18 million (Q1 2010: € 32 million) for the first quarter of 2011. It was therefore lower than the pro rata forecast range for the year of € 110 to 140 million, but lies within the fluctuation range we had expected.

Unlike the same period of the previous year, net commission income of € 30 million (Q1 2010: € 30 million) reflects the running costs of € 5 million for the guarantee facility provided by SoFFin at the end of June 2010. Additionally, net commission income for the first quarter of 2011 includes € 3 million in revenue generated by SGI automatisering bv, a Dutch subsidiary acquired by Aareon during the fourth quarter of 2010. Adjusted for these effects, net commission income slightly exceeded last year's level.

Net trading income / expenses of € -8 million was largely attributable to the valuation of derivatives used to hedge the financial impact of interest rate and currency risks, and to unrealised changes in value from sold hedging instruments on selected EU sovereign countries.

Net income of € 2 million from investment securities was due to the sale of fixed-income securities (Q1 2010: € 0 million).

At € 91 million, administrative expenses were at last year's level (Q1 2010: € 91 million).

Net other operating income and expenses amounted to € -2 million (Q1 2010: € -2 million).

Consolidated operating profit for the first three months of 2011 totalled € 47 million (Q1 2010: € 30 million). Taking into consideration taxes of € 12 million and non-controlling interests income of € 5 million, net income attributable to shareholders of Aareal Bank AG amounted to € 30 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated income stood at € 24 million.

#### Consolidated Income Statement of Aareal Bank Group

Euro mn	1 Jan-31 Mar 2011	1 Jan-31 Mar 2010
Net interest income	134	117
Net loan loss provisions	18	32
<b>Net interest income after allowance for credit losses</b>	<b>116</b>	<b>85</b>
Net commission income	30	30
Net result on hedge accounting	-2	2
Net trading income/expenses	-8	6
Results from non-trading assets	2	0
Results from investments accounted for using the equity method	0	-
Results from investment properties	2	0
General administrative expenses	91	91
Net other operating income/expenses	-2	-2
Impairment of goodwill	-	0
<b>Operating profit</b>	<b>47</b>	<b>30</b>
Income taxes	12	9
<b>Net income/loss</b>	<b>35</b>	<b>21</b>
<b>Allocation of results</b>		
Net income/loss attributable to non-controlling interests	5	5
Net income/loss attributable to shareholders of Aareal Bank AG	30	16
<b>Appropriation of profits</b>		
Net income/loss attributable to shareholders of Aareal Bank AG	30	16
Silent participation by SoFFin	6	8
<b>Consolidated profit/loss</b>	<b>24</b>	<b>8</b>

## Segments

### Structured Property Financing

#### Business development

We continued to pursue our risk-sensitive lending policy in the first quarter of 2011, as well as the consistent management of our loan portfolio. New business in the first quarter of 2011 came in at € 1.4 billion, showing an increase over the corresponding quarter of the previous year (Q1 2010: € 1.3 billion). At 94.7 %, Europe accounted almost entirely for new business in the first quarter, with North America contributing a small share (5.3 %). We concluded no new business in Asia in the first quarter of 2011.<sup>1)</sup>

#### Europe

Rents and prices for high-quality commercial property were slightly positive in the first quarter of 2011 in many locations on the European commercial property markets, compared with the end of the previous year. Rents rose for example, in the prime segment on the office property markets in Berlin, Moscow, Paris and Warsaw, on the retail markets in Brussels and Warsaw, and on the logistics markets in Helsinki and Istanbul. In most other European economic metropolitan centers, rents for high-quality commercial property remained stable in the first quarter, while rents for first-class properties fell only sporadically over the end of the previous year, such as office rents in Barcelona and Madrid. On the other hand, the rents and prices of properties that are not attributable to the prime segment in relation to factors determining their value, tended to fall. This development applied to office, retail and logistics properties in many locations. Hotel property developed favourably on many markets compared with the corresponding period of the previous year, with rising average revenues per hotel room. However, this can also be attributable to individual events on individual markets: for example, average revenues increased significantly in Gothenburg during the Handball World Championship in January.

Investors continued to focus in particular on first-class commercial property, although there is evidence of slowly growing – albeit selective – interest in properties that are not attributable to the prime segment in relation to factors determining their value. Transaction volumes in Europe in the first quarter of 2011 were notably higher than in the first quarter of the previous year. France, UK and some East European countries in particular, posted very significant increases. On average however, transaction volumes in Europe were lower than the levels seen in the last quarter of 2010. Transaction volumes can often be more pronounced in the last quarter of any year – and 2010 was no exception.

In Europe, we generated new business in the amount of € 1.3 billion in the first quarter of 2011; Western Europe accounted for the major share, followed by Northern Europe.

#### North America (NAFTA states)

The North American commercial property markets lagged behind most European and Asian markets in terms of rental development. In the US, falling rents were still reported in some regions for first-class properties, while they were stable or even rose slightly in others. Vacancy ratios persisted at a high level. As in Europe, investors in North America were focused predominantly on first-class properties, although there is also evidence of slowly growing interest in properties that are not included in the prime segment. Transaction volumes in the first quarter of 2011 were considerably higher than in the corresponding period of the previous year. However, the volume of transactions was down slightly on the final quarter of 2010.

The hotel market in the US performed favourably in the first quarter, with higher average revenues per hotel room compared with the same period of the previous year.

<sup>1)</sup> New business is allocated to the individual regions on the basis of the location of the properties used as collateral. For exposures not collateralised by property, the allocation is based on the borrower's country of domicile.

We achieved new business in the amount of € 0.1 billion in North America during the first three months of the current year, which was accounted for exclusively by the US.

### Asia

The rents and prices for first-class commercial property in many Asian markets, especially China, rose compared with the same period of the previous year. Transaction volumes in Asia not only increased year-on-year over the first quarter of 2010, but also over the final quarter of the year as well. The Japanese market in particular, was very active at the start of the year.

As in Europe and the US, the average revenues per hotel room increased on many Asian markets.

However, it is not yet clear what effects the earthquake catastrophe in Japan has had – and will have – on the property markets there. Having extended very few property loans in Japan, our exposure there is minimal. The properties are located in Tokyo and Osaka. The lending volume totals € 0.3 billion, which accounts for approximately 1.2 % of our overall property financing portfolio.

There has been great concern for quite some time now about the rapid growth surrounding residential property prices in China's big cities and about the

fact that these markets might overheat. The Chinese government and central bank adopted various measures already last year to counteract any overheating of the market for residential property and a rise in lending volume. This policy was continued in the first quarter when the central bank decided to raise key rates and the minimum reserve rates for banks. Another increase in residential property prices over the same period of the previous year was reported again.

We concluded no new business in Asia in the first quarter of 2011.

### Segment result

At € 32 million, the result achieved in the Structured Property Financing segment was markedly higher than in the previous year (Q1 2010: € 17 million).

Net interest income during the period under review was € 125 million, after € 106 million in the comparable period of the previous year. The rise was attributable predominantly to higher average margins generated in the lending business.

Allowance for credit losses amounted to € 18 million (Q1 2010: € 32 million) for the first quarter of 2011. It was therefore lower than the pro-rata forecast range for the year of € 110 to 140 million, but within the fluctuation range we had expected.

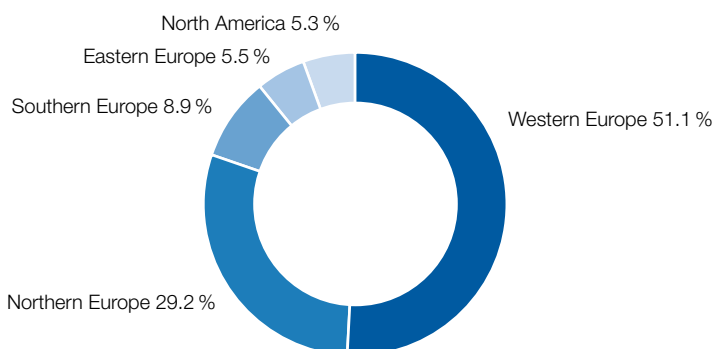
Unlike the same period of the previous year, the net commission income of € -5 million in the first quarter of 2011 (Q1 2010: € -4 million) reflected the running costs of € 5 million for the guarantee facility provided by SoFFin at the end of June 2010.

Net trading income/expenses of € -8 million was largely attributable to the valuation of derivatives used to hedge the financial impact of interest rate and currency risks, and to unrealised changes in value from sold hedging instruments on selected EU sovereign countries.

### New business 1 January-31 March 2011

by region (%)

Total volume: Euro 1.4 billion



**Structured Property Financing segment result**

	1 Jan-31 Mar 2011	1 Jan-31 Mar 2010
Euro mn		
Net interest income	125	106
Net loan loss provisions	18	32
<b>Net interest income after allowance for credit losses</b>	<b>107</b>	<b>74</b>
Net commission income	-5	-4
Net result on hedge accounting	-2	2
Net trading income/expenses	-8	6
Results from non-trading assets	2	0
Results from investments accounted for using the equity method	-	-
Results from investment properties	2	0
General administrative expenses	51	52
Net other operating income/expenses	-2	-2
Impairment of goodwill	-	0
<b>Operating profit</b>	<b>43</b>	<b>24</b>
Income taxes	11	7
<b>Segment result</b>	<b>32</b>	<b>17</b>
<b>Allocation of results</b>		
Segment result attributable to non-controlling interests	4	4
Segment result attributable to shareholders of Aareal Bank AG	28	13

Net income of € 2 million from investment securities was due to the sale of fixed-income securities (Q1 2010: € 0 million).

At € 51 million, administrative expenses in the first quarter were slightly below the previous year's figure.

Net other operating income and expenses amounted to € -2 million (Q1 2010: € -2 million).

Overall, operating profit for the Structured Property Financing segment was € 43 million (Q1 2010: € 24 million). Taking tax expenses of € 11 million into consideration (Q1 2010: € 7 million), the segment result for the first quarter of 2011 was € 32 million (Q1 2010: € 17 million). According to the allocation of results, segment results of € 28 million (Q1 2010: € 13 million) were attributable to shareholders of Aareal Bank AG.

**Consulting / Services****Business development – institutional housing industry****Aareon AG**

The positive development of the Wodis Sigma ERP system continued in the first quarter of 2011. The system was rolled out in a total of 35 companies during the period under review. A further 13 clients signed contracts for Wodis Sigma in the first quarter, so that 334 clients have decided in favour of the product to date. Wodis Sigma Release 2.0, which was presented in November 2010, was well received by the market. Its key points are to provide active support to management and users, and on expanding the functionality to include Customer Relationship Management (CRM). The new Release 3.0 is in the development phase, and will be available on the market in the fourth quarter of 2011. To do justice to the strong market

demand, Aareon has invested further in expanding its advisory and support capacities.

As expected, the market for SAP® projects was muted in the first quarter. Larger projects for implementing SAP® were not tendered. Aareon's SAP® advisory solutions in particular met with good demand. At the start of 2011, Blue Eagle Individual was rolled out on schedule for STADT UND LAND Wohnbautengesellschaft mbH, Berlin. Blue Eagle Release 6.2 is in development at present, with delivery planned for November 2011.

Business in the two established GES (ASP solution) and WohnData (in-house system) systems was stable.

The Integrated Services product line continued to develop favourably. Demand concentrated above all on the Mareon service portal, the document management system Aareon DMS, and the Bau-Secura insurance solution.

Development in Aareon's international business has also been positive. Aareon France succeeded in acquiring the important property management company Le Foyer Remois, Reims, which manages 17,000 rental units, as a client. In addition, two major extranet projects were concluded with Batigère, Metz, and Groupe Valophis, Saint-Maur-des-Fossés. Extranet extends the intranet in an area to which a defined user group has access. Further clients decided in favour of Prem'Habitat 2.0 and PortalImmo Habitat 2.0, the ERP product generations for managing residential property portfolios. Aareon UK, the subsidiary in Great Britain, was successfully represented at the Housing Technology Conference in Nottingham, which focuses on trends and technologies for property management companies. Further clients decided in favour of the ERP solution QL. The integration in the fourth quarter of 2010 of the Dutch subsidiary SG|automatisering bv is proceeding according to schedule. Market response to the takeover is very positive, and further distribution successes were achieved.

### Payments and deposit-taking

In cooperation with our wholly-owned Aareal First Financial Solutions AG subsidiary, our Institutional Housing Unit offers a highly-automated mass payments system to our commercial housing sector clients. Aareal Bank's objective is to increase the volume of deposits through new client acquisition, as well as intensify the business relationships with existing clients. Regularly reviewing our services with regard to customer orientation and the resulting development of our service range and the distribution focus, are therefore a part of the strategy.

Aareal Bank succeeded in further increasing the volume of deposits, which averaged € 4.5 billion in the first quarter of 2011. The volume of current account balances in particular, developed very favourably over the corresponding period of the previous year and stood at € 2.7 billion in the first quarter of 2011 (Q1 2010: € 2.2 billion). It must be noted here that the volume of key money rose once again – by 3 % over the previous quarter – to at least € 700 million.

In this industry, resources tend to be tied up in settling the previous year's accounts during the first quarter, which thus tends to be weak with regard to new client acquisition. Despite this, we succeeded in acquiring 21 new business partners from the housing and property management sector for our payment services and investment products. We also acquired an additional business partner from the energy supply sector.

### Segment result

Operating profit generated by the Consulting/ Services segment during the first quarter amounted to € 4 million (Q1 2010: € 6 million).

At € 49 million (Q1 2010: € 50 million), revenues for the quarter under review were in line with the corresponding period of the previous year, despite the persistently low interest rate environment being unfavourable for the profitability of the deposit-taking business. The figure included € 3 million in revenue generated by SG|automatisering bv, a



**Consulting/Services segment result**

	1 Jan-31 Mar 2011	1 Jan-31 Mar 2010
Euro mn		
Sales revenue	49	50
Own work capitalised	0	0
Changes in inventory	0	0
Other operating income	1	1
Cost of materials purchased	5	5
Staff expenses	28	26
Depreciation, amortisation and impairment losses	3	3
Results from investments accounted for using the equity method	0	–
Other operating expenses	10	11
Interest and similar income/expenses	0	0
<b>Operating profit</b>	<b>4</b>	<b>6</b>
Income taxes	1	2
<b>Segment result</b>	<b>3</b>	<b>4</b>
<b>Allocation of results</b>		
Segment result attributable to non-controlling interests	1	1
Segment result attributable to shareholders of Aareal Bank AG	2	3

Dutch subsidiary acquired by Aareon during the fourth quarter of 2010.

Cost of materials, other operating income and other operating expenses were also in line with last year's levels.

Staff expenses in the quarter under review amounted to € 28 million. Considering the additional expenses incurred in the fourth quarter of 2010 through the acquisition by Aareon of the Dutch subsidiary SG|automatisering bv, it was slightly higher than during the corresponding quarter of the previous year.

On balance, the Consulting/Services segment yielded a net contribution of € 4 million to consolidated operating profit (previous year: € 6 million).

After deduction of taxes, the segment result for the first quarter was € 3 million (Q1 2010: € 4 million).

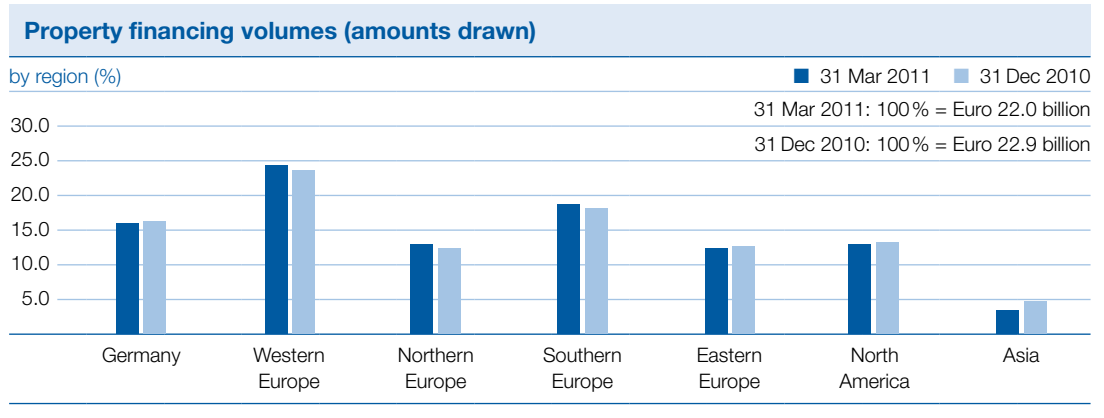
**Financial position**

Aareal Bank Group's total assets as at 31 March 2011 amounted to € 39.9 billion, after € 41.2 billion as at 31 December 2010.

**Property financing portfolio**

The volume of Aareal Bank Group's property financing portfolio<sup>1)</sup> stood at € 22.0 billion as at 31 March 2011. This equates to a 3.7 % decline over the 2010 year-end figure of € 22.9 billion. The international portfolio has also fallen, by 3.5 %, from € 19.2 billion to € 18.5 billion, and now accounts for around 84 % of the total portfolio.

<sup>1)</sup> As at 31 March 2011, the portfolio of property financings under management totalled € 22.3 billion (31 December 2010: € 23.3 billion). Property financings under management include the € 0.3 billion property financing portfolio managed on behalf of Deutsche Pfandbriefbank AG.



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

One reason for the change in the volume of property loans since the start of the year is due to the new business acquired in the quarter under review. This was offset by several large-volume repayments. However, the repayment ratio is in line with our expectations. The higher euro exchange rate – relative to 31 December 2010 – also led to a reduction in the volume of property loans reported. No syndications were conducted during the period under review.

### Securities portfolio

Commensurate with the still-volatile market environment, the (very adequate) liquidity reserves are invested in a high-quality securities portfolio. The securities portfolio can be liquidated quickly – for instance, via repo transactions on the money market.

As at 31 March 2011, the securities portfolio – worth € 12.7 billion (nominal volume of € 12.1 billion) – comprised the four assets classes of public-sector borrowers, covered bonds and Pfandbriefe, bank bonds and asset-backed securities (ABS). 96 %<sup>1)</sup> of the overall portfolio is denominated in euros. 99.9 %<sup>1)</sup> of the portfolio has an investment grade rating<sup>2)</sup>.

### Refinancing and equity

Aareal Bank Group continued to successfully conduct its funding activities in the first quarter of 2011, thereby securing its good liquidity situation. Long-term funding as at 31 March 2011 amounted to € 23.5 billion (31 December 2010: € 24.3 billion) and comprised Pfandbriefe, unsecured and subordinated issues. Aareal Bank also had € 4.6 billion (31 December 2010: € 4.5 billion) at its disposal from deposits generated from the business with the institutional housing industry, as well as institutional money market investor deposits in the amount of € 4.7 billion (31 December 2010: € 4.4 billion).

€ 1.1 billion of long-term funds were raised on the capital market in the first quarter. This comprised Mortgage Pfandbriefe in the amount of approx. € 800 million, Public Sector Pfandbriefe of approx. € 40 million, as well as unsecured refinancing of approx. € 260 million. Aareal Bank has therefore maintained the balance of long-term funding at a high level.

Of the public and private issues launched in the first quarter, the € 500 million Mortgage Pfandbrief with a three-year term to maturity issued in January is worth mentioning.

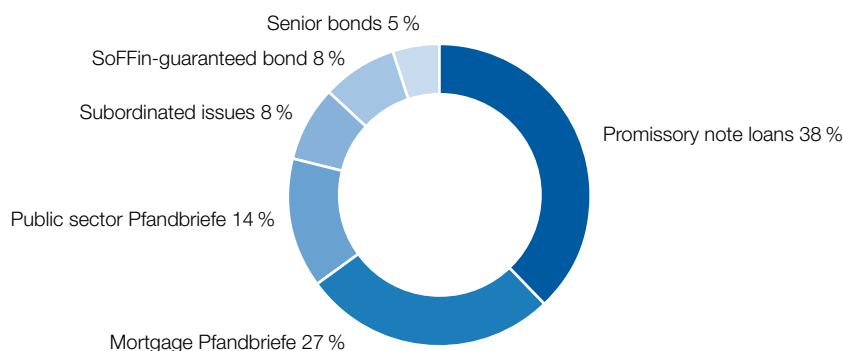
<sup>1)</sup> Details based on the nominal volume

<sup>2)</sup> The rating details are based on the composite ratings.

### Capital market refinancing mix as at 31 March 2011

%

Total volume: Euro 23.5 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. In return, we also accepted additional costs.

As in the previous quarters, no open-market transactions were concluded with the ECB during the first three months of the financial year.

#### Regulatory indicators

##### Regulatory indicators under AIRBA

	31 Mar 2011 <sup>1)</sup>	31 Dec 2010 <sup>1)</sup>
Euro mn		
Tier 1 capital	2,306	2,284
Liable capital	3,012	2,910
Risk-weighted assets (incl. market risk)	16,175	17,663
%		
Tier 1 ratio	14.3	12.9
Total capital ratio	18.6	16.5

<sup>1)</sup> After confirmation of Aareal Bank AG's financial statements for 2010. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2010 is subject to approval by the Annual General Meeting.

#### Report on material events after the reporting date

On 14 April, the Management Board of Aareal Bank AG resolved, with the approval of the Supervisory Board, to increase the Company's share capital via a rights issue against cash contributions. 17,102,062 new ordinary bearer shares with a proportionate share in the nominal share capital of € 3.00 per share were issued. As a result, the Company's share capital has increased from € 128,265,477 to € 179,571,663. The subscription price of the new shares was € 15.75. The gross proceeds generated amounted to € 269.6 million.

The net proceeds from the capital increase are intended to support the future growth of Aareal Bank AG's Structured Property Financing segment, consistent with its current credit risk strategy. At the same time, the proceeds are intended to strengthen Aareal Bank Group's regulatory capital base. Moreover, on 28 April 2011 Aareal Bank used € 75 million from the issue proceeds for the partial repayment of the SoFFin silent participation.

The capital increase was carried out in the form of an indirect subscription offer to Aareal Bank's existing shareholders, whereby the subscription rights conveyed by 5 existing shares gave the right

to subscribe to 2 new shares. The subscription period during which the Company's shareholders were able to exercise their subscription rights started on 16 April 2011 and ended on 29 April 2011. The underwriting banks had undertaken to subscribe to the new shares, acquire them at the subscription price, and to offer the shares to shareholders for subscription, pursuant to the terms and conditions of the Subscription Offer published on 15 April 2011.

Aareal Holding Verwaltungsgesellschaft mbH (Aareal Holding), which held a 37.23 % stake in the Company's issued share capital before the new shares were issued, supported the rights issue within the scope of a so-called "opération blanche". Aareal Holding continues to hold a 28.9 % stake in Aareal Bank AG's issued share capital after completion of the Offer.

In addition to the capital increase, the Management Board carried out early redemption of the SoFFin-guaranteed € 2 billion bond maturing on 5 June 2013, which the bank held on its own books, in agreement with SoFFin. The three-year bond was issued in June 2010 as a precautionary measure to enhance the flexibility in the refinancing business; however, due to the gradual stabilisation of the market environment, the issue was not

placed on the market and hence, not used for funding purposes. The cancellation of this bond results in a reduction of the guarantee fees payable by Aareal Bank to SoFFin of around € 19 million p.a. before taxes, and in a pro-rata reduction for the years 2011 and 2013. Overall, this has an accumulated positive effect of around € 41 million before taxes.

## Risk Report

### Aareal Bank Group Risk Management

The Annual Report 2010 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.

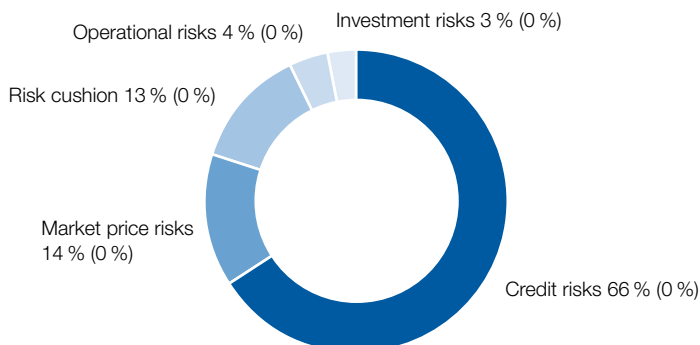
The business policy set by the Management Board, and approved by the Supervisory Board, provides the conceptual framework for Aareal Bank Group's risk management. Taking this as a basis, and strictly considering the bank's risk-bearing capacity, we have formulated detailed strategies for managing the 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 then 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 66%, credit risks account for the largest part of the bank's aggregate risk cover; 14 % is retained to cover market price risks, 4 % for operational risks and 3 % for investment risks. In addition, a substantial portion (13 %) of the aggregate risk cover serves as a risk cushion, which is not applied to

### Allocation of aggregate risk cover

% (change from 31 December 2010 (% points))

as at 31 March 2011



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 and economic crisis. The diagram below shows the allocation of aggregate risk cover to types of risk as at 31 March 2011. There were no changes compared to the allocation as at 31 December 2010.

Since aggregate risk cover is an inadequate measure to assess risk-bearing capacity, we have defined special tools for managing this type of risk. These tools are described in detail in the section "Liquidity risk" as well as in the 2010 Annual Report.

### Credit risks

Aareal Bank defines credit risk or counterparty credit 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 credit risk. Counterparty credit 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 credit 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 separation 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 all material risks at portfolio level, and for maintaining a targeted risk reporting system.

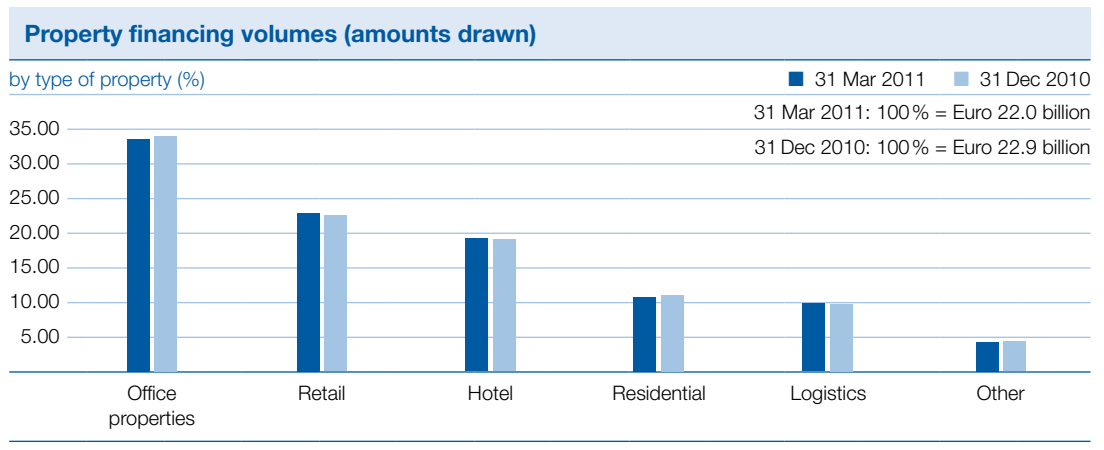
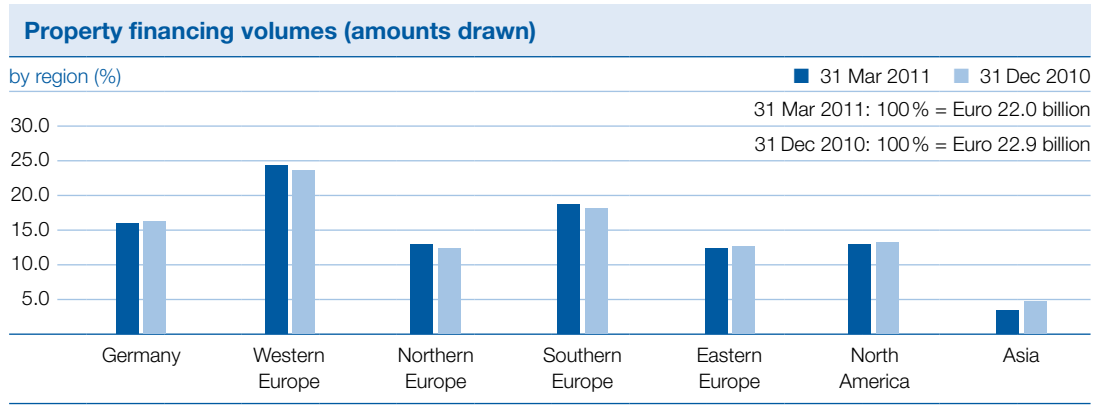
Aareal Bank employs various risk classification procedures for the initial, regular, or event-driven assessment of counterparty risk; these procedures are adapted specifically to meet the requirements of the relevant business activity and are subject to permanent review and improvement. Responsibility 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. Based on these models, the bank's decision-makers are regularly informed of the performance and risk content of property finance exposures, and of business with financial institutions. The model-based analysis and monitoring of risk concentrations is also carried out on the basis of the credit risk models used in the bank. The models in question allow the bank to include in particular, rating changes and diversification effects in the assessment of the risk concentrations.

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. 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 manage-

ment 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 division is responsible for the continuous

monitoring of country limits and for reporting on limit utilisation.

## 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 and swap curves) are taken into account. The risk exposure from bonds that is not related to market price or interest rate risks is managed as part of "specific risk", in particular, credit and liquidity risk exposure of the bond portfolio.

### 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 incur-

red 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. Determined on a daily basis for the Group and all its operating units, the VaR figure takes into account the correlation between individual risk types. 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 on the following page, it should be taken into account that these refer to the overall portfolio (thus including all non-trading positions). Hence, the analysis provided represents a very extensive disclosure of market price risks by industry standards.

	MAX	MIN	Mean	Limit
Euro mn				
<b>Q1 2011 (2010 year-end values) 99 %, 10-day holding period</b>				
Aareal Bank Group – general market price risk	61.9 (71.5)	43.3 (36.5)	54.0 (46.2)	– (–)
Group VaR (interest rates)	56.8 (67.5)	38.3 (30.6)	48.9 (40.9)	– (–)
Group VaR (FX)	13.9 (17.9)	12.7 (13.4)	13.3 (15.6)	– (–)
VaR (funds)	8.6 (11.9)	7.1 (6.0)	7.8 (7.7)	60.0 (60.0)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	20.0 (20.0)
Trading book VaR (interest rates)	0.0 (0.0)	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 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	111.6 (112.4)	108.7 (71.4)	110.1 (96.2)	– (–)
Aggregate VaR – Aareal Bank Group	126.9 (122.2)	117.8 (85.4)	123.3 (108.0)	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:

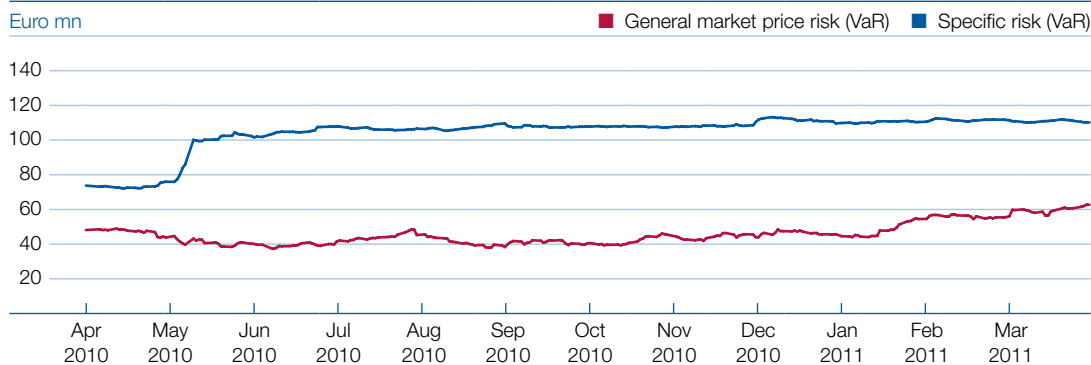
	MAX	MIN	Mean	Limit
Euro mn				
<b>Q1 2011 (2010 year-end values) 99 %, 1-day holding period</b>				
Aareal Bank Group – general market price risk	19.6 (22.6)	13.7 (11.5)	17.1 (14.6)	– (–)
Group VaR (interest rates)	18.0 (21.3)	12.1 (9.7)	15.5 (12.9)	– (–)
Group VaR (FX)	4.4 (5.7)	4.0 (4.2)	4.2 (4.9)	– (–)
VaR (funds)	2.7 (3.8)	2.2 (1.9)	2.5 (2.4)	19.0 (19.0)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	6.3 (6.3)
Trading book VaR (interest rates)	0.0 (0.0)	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 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	35.3 (35.5)	34.4 (22.6)	34.8 (30.4)	– (–)
Aggregate VaR – Aareal Bank Group	40.1 (38.7)	37.3 (27.0)	39.0 (34.2)	57.2 (57.2)



### Aggregate VaR – Aareal Bank Group

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

#### General market price risk and specific risk during 2010/2011

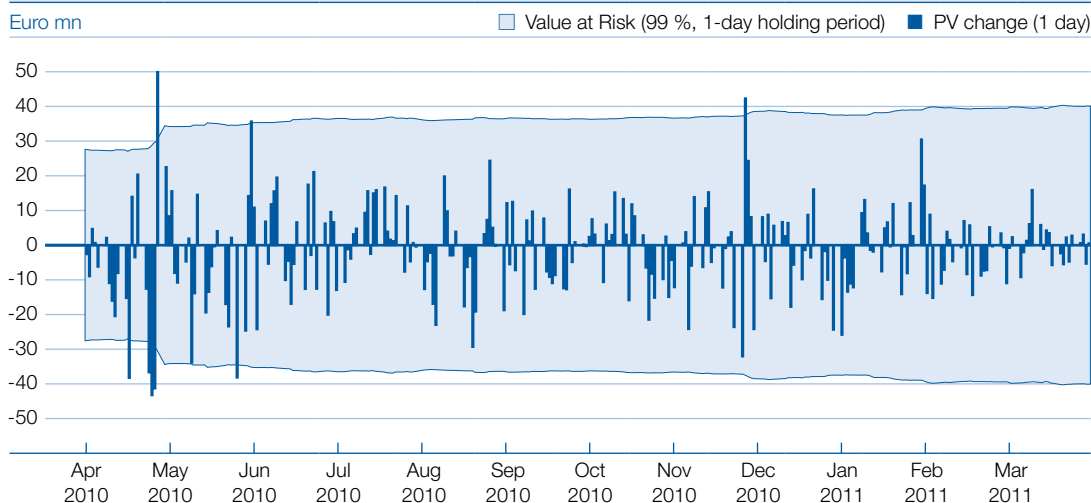


### Backtesting

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 ( $\leq 5$  for a 250-day period). The number of negative outliers at Group level never exceeded 5 during the last 250 trading days, affirming the high forecasting quality of the VaR model we use.

#### Present values and 1-day VaR during 2010/2011



### 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 that no such trades were concluded during the period under review, trading book risks played a negligible role in the overall risk scenario.

### 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 daily 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 2010 Annual Report contains a detailed description of controlling tools employed by the bank to manage operational risk, plus the relevant responsibilities.

The current analysis using these controlling tools has indicated that the Bank is not exposed to any disproportionate operational risks, nor did it indicate any material risk concentration.

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

### Investment risks

We define investment risk as the threat of unexpected losses incurred due to an impairment of the investment's carrying amount, or a default of loans extended to investees. The concept of investment risk also encompasses additional risks arising from contingencies vis-à-vis the 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 industry-specific environment

#### Global business environment

The upside trend in the global economy continued as the new year opened. There is growing evidence – for example, in the form of the positive development of the sentiment indicators – that the recovery will be increasingly self-supporting. However, there are many factors that could burden future global economic development and create uncertainties.

One of these potential factors is commodity price development. A further sharp rise in commodity prices – and in the price of oil in particular – is likely to significantly burden global economic expansion. A reduction in purchasing power brought about by the price increase would directly slow down consumer demand, and would also reduce investors' willingness to assume risks. Investor uncertainty surrounding the high debt levels and budget deficits of individual countries represents another risk for financial markets. If the refinancing ability of some EU states were called into question, this would place the bonds of the countries in question under pressure, and have a negative effect on further developments on the financial markets. Because of the high degree of economic integration in the euro zone, such effects could possibly impact significantly on countries such as Germany in second- or third-round effects, such as for example, through the deterioration of exports. However, the measures agreed by the European Council in the first quarter of 2011 – to strengthen the rescue facility for euro zone countries experiencing refinancing difficulties – could have a stabilising effect. Nonetheless, high risk premiums continue to be paid for government bonds that are regarded as high risk by the financial markets, since they show no signs of normalisation yet.

Many countries, especially in Europe, have implemented measures – in the form of tax increases and reduced spending – to reduce the high budget

deficits. These measures can result in positive as well as negative effects on economic development. Positive effects can arise where the consolidation measures have a stabilising effect on the financial markets. This should revive lending and strengthen the funding capacity of companies and their investment activities, thus driving economic development. On the other hand, government actions to reduce the budget deficits generate negative effects for economic development, whereby the restrictions on disposable income and reduction in government expenditure subdue overall economic demand. It is still too early to determine with any clarity what the dominating effects will be.

Whilst measures to reduce the high budget deficits have been implemented in many advanced economies, governments and central banks in some of the emerging economies are applying restrictive measures to counteract the threat of overheating markets.

Furthermore, high unemployment – combined with a high savings ratio that impacts on private consumer demand – has a burdening effect on further economic development in many advanced economies.

On the other hand, where monetary policy is still expansive (or only moderately tightening), this should have a positive effect on economic development. Economic sentiment has also improved, which – in addition to the increase in industrial production worldwide – suggests that economic development will be increasingly self-supporting.

In view of the signs of an increasingly self-supporting recovery as well as a series of burdening factors, we expect further economic recovery this year. On average however, it should come in lower than the growth rates of the previous year. The risk factors outlined above highlight the fact that setbacks cannot be ruled out. As we see it, another extensive recession is unlikely, although it cannot be ruled out entirely.

We are likely to continue seeing varying speeds of economic momentum. The emerging economies,

and Asia in particular, should grow considerably. China, which is the world's second-largest economy in terms of economic output, is of great significance. However, owing to the restrictive measures imposed by governments and central banks, together with less dynamic international demand, growth this year should be down slightly on the very dynamic previous year. In contrast, the advanced economies are seeing slower growth. Economic recovery in the US is expected to slightly exceed the EU average. This is supported by the very expansive monetary policy pursued by the Fed and the economic stimulus measures agreed last year. Economic development within Europe should also vary, with marked growth expected in Germany, Poland and Sweden, and lower growth rates for example, in Spain and Hungary. Only a few euro zone countries are likely to experience an actual fall in economic output this year, namely Greece, Ireland and Portugal. It is currently uncertain how the Japanese economy will develop after the earthquake catastrophe. Production stoppages and the long-term effects of the catastrophe, the extent of which cannot be estimated at present, have a burdening effect on the one hand. On the other, the momentum generated by the restoration operations following the earthquake is also impossible to predict as yet.

In view of the overall slower pace of economic growth that is expected, unemployment in many countries will fall only slowly (or virtually stagnate) this year. It is therefore likely to persist at a high level in many countries.

Higher commodity prices, especially the price of oil, have driven up inflation recently. The risks of a sharp rise in inflation for the year 2011 as a whole have increased. However, forecasting is hampered by the fact that political factors – especially current political developments in the Middle East and North Africa – as well as speculation on the commodity markets, impact significantly on the oil price. In view of the slower pace of economic growth that is expected and capacities that are not yet utilised, we expect only moderate inflation rates for the advanced economies, assuming the environment remains unchanged. Nonetheless,

average annual inflation could come in higher than in 2010. We expect high inflation rates in some Eastern European countries, and in the emerging economies of Asia.

Monetary policy is likely to remain largely expansive in the advanced economies. Although measures for tightening monetary policy are possible – such as the ECB's decision on 7 April to raise key rates – these measures are likely to remain moderate, even if more restrictive measures cannot be ruled out in the event of a sharp rise in inflation. In this respect, we expect moderate increases in short-term as well as long-term interest rates for the most important currencies in which we are active.

#### **Global commercial property markets**

At the start of the year, first-class commercial property rents and prices showed a stable to slightly positive development on many markets. Properties that are not attributable to the prime segment in relation to factors determining their value, lagged behind in this development.

The anticipated economic growth suggests further positive performance on the commercial property markets. However, given that economic growth is moderate in many areas and unemployment is stagnating at a high level or likely to only decline slowly, we are cautious vis-à-vis rent and price development: we therefore forecast largely stable to moderately higher rents and prices. We generally expect these developments for all types of commercial property. The anticipated moderate rise in interest rates could burden price development.

Demand by users and investors are expected to remain strong for properties which are special in terms of location and quality. As in 2010, this supports above-average rent and price development in the prime property segment. In this respect, moderate rises in value and rent are possible on many markets, especially for high-quality properties. On the other hand, property markets that are burdened by extremely weak or stagnating economic and labour market developments are likely to be less positive or even negative, even in the

segment for first-class properties. The demand for properties in peripheral locations or of lesser quality is likely to lag behind. We assume that properties of lesser quality will underperform first-class properties. Nonetheless, if economic development progresses and the number of vacancies are reduced, properties of lesser quality could enjoy a catch-up effect, leading to an increase in rent and prices.

Future developments on the property markets depend on the extent to which the various uncertainties are brought to bear on economic development as a whole. The situation on the financial markets in particular plays an important role – indirectly, through the influence of the financial markets on economic development, and directly, through the issue of the availability of credit to finance property purchases and new builds. If financial markets were subject to considerable tension again, for example as a consequence of the debt crisis, this could have negative implications for the commercial property markets, too.

The high volume of commercial property financings that will mature this year represents an element of uncertainty for commercial property markets. This could lead to forced sales, and burden prices if the funding options are not extended, and if potential buyers are hard to find – or if they speculate on discounts on the selling price.

We generally anticipate the developments described above for the North American, European and Asian markets. Rental development in the US has been lagging behind the other regions to date, to some extent. Although the stronger economic growth compared with Europe supports a more positive development of the rents and prices for commercial property in the US, large volumes of property financing are set to mature, especially in the US. This could increase the number of forced sales. In Europe, a regional split could emerge on the commercial property markets, between the countries with strong economic development and those where only very weak or stagnating economic growth is expected. Strong economic growth by international standards could

support the Asian market, especially China. However, China is faced with tightening monetary policy and a large volume of new builds coming to the market.<sup>1)</sup>

### Development of the German institutional housing industry

As we see it, the German institutional housing industry should enjoy stable business development for the remainder of 2011.

Corporate investments continue to focus on the renovation of the housing stock to create a sustainable quality of housing. Besides the necessity for active restoration, additional refurbishments to buildings that will generate affordable housing for families and the elderly are also required.

Against the background of the overall economic recovery, the positive sentiment is likely to persist on the housing market, too. This is reflected by the anticipated 2 % rise approximately in the volume of residential property construction. Rents are expected to rise by 2.5 % to 3 % throughout Germany within the scope of new rental contracts. This is connected with the fact that despite the slight increase in new build figures, demand for living space in cities with a sustained influx of workers continues to exceed the supply of residential properties. At the same time, the number of apartments explicitly allocated to social housing is falling, so that the supply of apartments for low-income families is also limited, especially in major cities.

In view of the still-volatile capital markets, security-oriented investors will remain active in the residential property sector for the remainder of the year. This could drive up residential property prices in excellent locations, while the value of housing stock in good and peripheral locations is seen as remaining stable.

<sup>1)</sup> Assessments on individual sub-markets and properties could deviate from the general assessment of the commercial property markets outlined.

Trades involving smaller and medium-sized property portfolios are expected to dominate the residential property investment market. Transaction volumes in 2011 are therefore likely to be up slightly on the previous year, to € 4 billion.

Cloud computing is currently one of the most important IT issues. This year's Aareon Congress, which will take place in Garmisch-Partenkirchen from 30 May to 1 June, will cover, amongst other topics, the manner in which the housing industry can benefit from this technology.

## Corporate development

### Structured Property Financing

Rents and prices on many markets in the segment for first-class commercial property stabilised or recovered during 2010. Properties of lesser quality on the other hand, remained under pressure. Overall, this trend remained intact during the first quarter of 2011.

Backed by the recovery of the investment climate on the one hand and economic growth on the other, commercial property markets are expected to develop favourably going forward.

Despite more moderate economic growth in many countries, coupled with stagnating unemployment (that is expected to continue falling at a slow pace only), we forecast stable to moderately higher rents and prices on average for the remainder of the year. However, the performance in those markets that are especially burdened by weak economic development and high unemployment could be weaker: rents and prices could in fact fall further.

These developments are also taken into account in our allowance for credit losses. We will continue to focus on consistently managing our loan portfolio, on active portfolio management, and on the broad diversification of our financing portfolio by region and property type.

We will continue to consistently pursue our lending policy that is oriented on risk and return in relation to new business, whereby the share of newly acquired business should increase further compared with 2010. However, the renewal ratios in 2011 will also exceed the ratios of the property market boom years of 2006 and 2007.

Loan syndication already showed signs of recovery last year. The opportunity to distribute credit risks for large-volume financings among several banks – and therefore achieve better diversification of individual credit risks – has clearly improved. The syndication markets are expected to recover further this year.

Subject to the performance of the relevant foreign currencies vis-à-vis the euro, we expect a slightly higher portfolio volume for the 2011 financial year. With regard to the forecast developments, we do not anticipate any serious tension on the financial markets, especially owing to the debt crisis of some euro zone countries, although financial markets are not expected to return fully to normal yet. Should tension rise again significantly, renewal ratios are likely to exceed expectations. This would curtail the syndication markets at the same time.

### Consulting/Services

#### Aareon AG

All in all, we expect higher sales and an improvement in the overall result in 2011 compared with the previous year.

Modern technology platforms are becoming increasingly important on the market for property management software. Systems are becoming more user-friendly, and new functionalities can be realised quicker. Aareon AG is very well-positioned with its Wodis Sigma ERP product generation. The product is being developed on schedule, so that the new Release 3.0 will be available on the market during the current financial year. We expect WohnData and Wodis clients to migrate to the Wodis Sigma product. Consequently, we expect higher revenues in the consulting business.

We see potential for acquiring major individual projects in the SAP® solutions and Blue Eagle product lines, and for the distribution of further advisory solutions. Both effects are expected to trigger growth in revenue. With regard to the established GES system, we expect GES clients will increasingly convert to other Aareon ERP solutions, which will lead to a shift in revenues to other product lines.

We expect higher revenues in the integrated services product line through distribution successes achieved; especially with the Mareon service portal, the document management system Aareon DMS, and the insurance service BauSecura. Unfortunately, the IT Outsourcing product line will only partially offset the decline in revenue owing to the end of a contractual relationship with a major client.

We expect a significant increase in the revenues generated by the International Business product group, with the Dutch subsidiary SGI automatisering bv that was acquired on 1 November 2010 contributing a substantial share thereof. The SGI tobiasAX software is about to be established on the market.

We believe that the market success of the ERP products Prem'Habitat 2.0 and Portallmmo Habitat 2.0 will continue for our French subsidiary Aareon France SAS. Despite the intensive price competition on the UK market, we expect higher revenues through new client business.

Aareon Group's total expenditure is expected to increase, especially owing to higher staff expenses. This is attributable in particular to the increase of around 170 in employee numbers through the acquisition of SGI automatisering bv.

#### Payments and deposit-taking

The process optimisation procedures for electronic mass payment services (BK01 products) offered by the bank's Institutional Housing Unit, generated stable deposits for the bank's refinancing activities in the first quarter of 2011 too.

The volume of deposits increased slightly in comparison to an already high average volume in the fourth quarter of 2010. We rate this as a sign of the confidence our clients place in the bank. We expect the positive trend to continue in the course of the year, especially in the area of deposits paid by tenants.

Given the ongoing low interest rate environment, we expect margins will continue to remain under pressure overall in 2011. Good opportunities should also arise in the course of the financial year to acquire new clients and intensify the business relationships with our existing client base. This also applies to our payments services for energy suppliers.

#### Group targets

For the course of the year, Aareal Bank Group sees good prospects for maintaining its good business performance, despite the market environment for commercial property financing – which is set to remain challenging during the current year. We raised our key forecasts after the end of the first quarter, and against the background of the anticipated positive effects of the capital increase and partial repayment of the guarantee facility.

On the back of a moderately higher interest rate environment and expected revenues from additional new business, we expect net interest income for 2011 to be higher than in the previous year. Higher margins achieved in new business in 2009 and 2010 resulted in an increase in the average margins in the lending business. Burdens could arise, especially from a change to the underlying interest rate environment on which the planning is based.

The gradual return of property markets to normality is expected to continue, even though some markets will still face losses during the current year; also, the various uncertainties and challenges involved in commercial property financing are likely to persist. Against this background, we expect allowance for credit losses in a range of € 110 million to

€ 140 million during the 2011 financial year. As in previous years, additional allowances for unexpected credit losses cannot be ruled out in an environment that is subject to negative change.

We believe that net commission income for the year 2011 will exceed the previous year considerably more than originally forecast. Specifically, the relief arising from the redemption of a € 2 billion SoFFin-guaranteed bond maturing in July 2013, which was held on the bank's own books, will have a positive effect.

Net trading income/expenses essentially comprises the results of hedge transactions related to the refinancing of 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 sold hedging instruments on selected EU sovereign countries, so-called credit default swaps (CDS). In our opinion, the measurement 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.

Because of the consistent conservative risk policy pursued during recent years, overall we do not anticipate any material burden on the results from non-trading assets in the current financial year.

Administrative expenses continue to be defined by the unchanged cost discipline, and the figure for the current year is expected to be marginally higher than the previous year, including the burden associated with the special bank levy.

With the capital increase, we want to increasingly exploit opportunities for high-margin new business in the Structured Property Financing segment that present themselves in the current market and competitive environment. Considering the significant potential available in our markets, we have raised our target for new business originated during the current year, to between € 7 billion and € 8 billion.

In the Consulting/Services segment, we anticipate the interest rate environment remaining difficult for the segment result in 2011. We therefore forecast operating profit to be slightly higher than for the previous financial year.

From today's perspective, we believe that we will be able to once again increase the operating profit for the 2010 financial year during the current year – results which were already good in the context of the challenging market environment.

Moreover, applying the funds raised via the capital increase, we can increase our target return on equity before taxes, to between 12 and 13 %, assuming normalised markets. This view is based on the expectation of an increase in net interest income until 2012, even though margins might come under pressure in normalised markets. Furthermore, we expect allowance for credit losses to gradually improve in line with an overall economic recovery. Net commission income is expected to increase, thanks to higher revenues in Aareon's international business as well as lower guarantee fees following the redemption of the € 2 billion SoFFin-guaranteed bond. Finally, we strive to reduce administrative expenses through efficiency enhancements and cost reductions.





# Consolidated Financial Statements

## Statement of Comprehensive Income

### Income Statement

	Note	1 Jan-31 Mar 2011	1 Jan-31 Mar 2010
Euro mn			
Interest income		252	207
Interest expense		118	90
<b>Net interest income</b>	1	<b>134</b>	<b>117</b>
Net loan loss provisions	2	18	32
<b>Net interest income after allowance for credit losses</b>		<b>116</b>	<b>85</b>
Commission income		47	45
Commission expenses		17	15
<b>Net commission income</b>	3	<b>30</b>	<b>30</b>
Net result on hedge accounting		-2	2
Net trading income/expenses	4	-8	6
Results from non-trading assets	5	2	0
Results from investments accounted for using the equity method		0	-
Results from investment properties		2	0
General administrative expenses	6	91	91
Net other operating income/expenses	7	-2	-2
Impairment of goodwill		-	0
<b>Operating profit</b>		<b>47</b>	<b>30</b>
Income taxes		12	9
<b>Net income/loss</b>		<b>35</b>	<b>21</b>
<b>Allocation of results</b>			
Net income/loss attributable to non-controlling interests		5	5
Net income/loss attributable to shareholders of Aareal Bank AG		30	16
<b>Appropriation of profits</b>			
Net income/loss attributable to shareholders of Aareal Bank AG		30	16
Silent participation by SoFFin		6	8
<b>Consolidated profit/loss</b>		<b>24</b>	<b>8</b>
in Euro			
<b>Earnings per share</b>		<b>0.70</b>	<b>0.37</b>
<b>Diluted earnings per share</b>		<b>0.70</b>	<b>0.37</b>

## Statement of Comprehensive Income

### Reconciliation from Net Income/Loss to Total Comprehensive Income

	Note	1 Jan-31 Mar 2011	1 Jan-31 Mar 2010
Euro mn			
<b>Net income/loss</b>		<b>35</b>	<b>21</b>
Changes in revaluation surplus	8	-12	18
Changes in hedging reserves	8	-	0
Changes in currency translation reserves	8	0	0
Changes in reserves from transactions under common control	8	-	-
<b>Gains and losses directly recognised in equity (after taxes)</b>		<b>-12</b>	<b>18</b>
<b>Total comprehensive income</b>		<b>23</b>	<b>39</b>
<b>Allocation of total comprehensive income</b>			
Total comprehensive income attributable to non-controlling interests		5	5
Total comprehensive income attributable to shareholders of Aareal Bank AG		18	34

# Statement of Comprehensive Income

## Income Statement (Quarterly Development)

	Quarter 1 2011	Quarter 4 2010	Quarter 3 2010	Quarter 2 2010	Quarter 1 2010
Euro mn					
Interest income	252	250	231	215	207
Interest expenses	118	111	100	93	90
<b>Net interest income</b>	<b>134</b>	<b>139</b>	<b>131</b>	<b>122</b>	<b>117</b>
Net loan loss provisions	18	8	32	33	32
<b>Net interest income after allowance for credit losses</b>	<b>116</b>	<b>131</b>	<b>99</b>	<b>89</b>	<b>85</b>
Commission income	47	56	42	44	45
Commission expenses	17	19	18	12	15
<b>Net commission income</b>	<b>30</b>	<b>37</b>	<b>24</b>	<b>32</b>	<b>30</b>
Net result on hedge accounting	-2	-4	-2	2	2
Net trading income/expenses	-8	13	2	-13	6
Results from non-trading assets	2	-23	-3	14	0
Results from investments accounted for using the equity method	0	0	0	5	-
Results from investment properties	2	-17	0	0	0
General administrative expenses	91	95	88	92	91
Net other operating income/expenses	-2	-2	1	-6	-2
Impairment of goodwill	-	0	-	0	0
<b>Operating profit</b>	<b>47</b>	<b>40</b>	<b>33</b>	<b>31</b>	<b>30</b>
Income taxes	12	11	11	9	9
<b>Net income/loss</b>	<b>35</b>	<b>29</b>	<b>22</b>	<b>22</b>	<b>21</b>
<b>Allocation of results</b>					
Net income/loss attributable to non-controlling interests	5	4	5	4	5
Net income/loss attributable to shareholders of Aareal Bank AG	30	25	17	18	16

## Statement of Comprehensive Income

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

	Quarter 1 2011	Quarter 4 2010	Quarter 3 2010	Quarter 2 2010	Quarter 1 2010
Euro mn					
<b>Net income/loss</b>	<b>35</b>	<b>29</b>	<b>22</b>	<b>22</b>	<b>21</b>
Changes in revaluation surplus	-12	8	19	-43	18
Changes in hedging reserves	-	-	-	0	0
Changes in currency translation reserves	0	1	-2	2	0
Changes in reserves from transactions under common control	-	-1	0	0	-
<b>Gains and losses directly recognised in equity (after taxes)</b>	<b>-12</b>	<b>8</b>	<b>17</b>	<b>-41</b>	<b>18</b>
<b>Total comprehensive income</b>	<b>23</b>	<b>37</b>	<b>39</b>	<b>-19</b>	<b>39</b>
<b>Allocation of total comprehensive income</b>					
Total comprehensive income attributable to non-controlling interests	5	4	5	4	5
Total comprehensive income attributable to shareholders of Aareal Bank AG	18	33	34	-23	34

# Segment Reporting

## Segment Results

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan- 31 Mar 2011	1 Jan- 31 Mar 2010	1 Jan- 31 Mar 2011	1 Jan- 31 Mar 2010	1 Jan- 31 Mar 2011	1 Jan- 31 Mar 2010	1 Jan- 31 Mar 2011	1 Jan- 31 Mar 2010
Euro mn								
Net interest income	125	106	0	0	9	11	134	117
Net loan loss provisions	18	32					18	32
<b>Net interest income after allowance for credit losses</b>	<b>107</b>	<b>74</b>	<b>0</b>	<b>0</b>	<b>9</b>	<b>11</b>	<b>116</b>	<b>85</b>
Net commission income	-5	-4	44	45	-9	-11	30	30
Net result on hedge accounting	-2	2					-2	2
Net trading income/expenses	-8	6					-8	6
Results from non-trading assets	2	0					2	0
Results from investments accounted for using the equity method			0				0	
Results from investment properties	2	0					2	0
General administrative expenses	51	52	40	39	0	0	91	91
Net other operating income/expenses	-2	-2	0	0	0	0	-2	-2
Impairment of goodwill		0						0
<b>Operating profit</b>	<b>43</b>	<b>24</b>	<b>4</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>47</b>	<b>30</b>
Income taxes	11	7	1	2			12	9
<b>Net income/loss</b>	<b>32</b>	<b>17</b>	<b>3</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>35</b>	<b>21</b>
<b>Allocation of results</b>								
Net income/loss attributable to non-controlling interests	4	4	1	1			5	5
Net income/loss attributable to shareholders of Aareal Bank AG	28	13	2	3	0	0	30	16
Allocated equity	1,438	1,456	75	69	349	424	1,862	1,949
Cost/income ratio (%)	45.6	49.0	91.8	85.7			58.3	59.6
RoE before taxes (%)	11.1	5.4	13.7	29.7			9.1	5.1
<b>Employees</b>	<b>894</b>	<b>945</b>	<b>1,481</b>	<b>1,328</b>			<b>2,375</b>	<b>2,273</b>



## Statement of Financial Position

	Note	31 Mar 2011	31 Dec 2010
Euro mn			
<b>Assets</b>			
Cash funds		605	922
Loans and advances to banks	9	2,730	2,034
Loans and advances to customers	10	23,642	24,661
Allowance for credit losses		-311	-332
Positive market value of derivative hedging instruments		938	1,321
Trading assets	11	520	428
Non-trading assets	12	11,021	11,428
Investments accounted for using the equity method		3	3
Investment properties		213	220
Intangible assets	13	90	91
Property and equipment	14	95	95
Income tax assets		31	31
Deferred tax assets		83	69
Other assets	15	256	246
<b>Total</b>		<b>39,916</b>	<b>41,217</b>
<b>Equity and liabilities</b>			
Liabilities to banks	16	4,819	5,168
Liabilities to customers	17	23,119	22,846
Certificated liabilities	18	6,929	7,619
Negative market value of derivative hedging instruments		917	1,181
Trading liabilities	19	410	675
Provisions	20	237	237
Income tax liabilities		30	30
Deferred tax liabilities		30	27
Other liabilities	21	179	181
Subordinated capital	22	1,249	1,268
Equity	23, 24		
Subscribed capital		128	128
Capital reserves		511	511
Retained earnings		860	836
Other reserves		-120	-108
Silent participation by SoFFin		375	375
Non-controlling interest		243	243
Total equity		1,997	1,985
<b>Total</b>		<b>39,916</b>	<b>41,217</b>



## Statement of Changes in Equity

				Other reserves			Silent participation by SoFFin	Non-controlling interest	Total equity
	Subscribed capital	Capital reserves	Retained earnings	Revaluation surplus	Currency translation reserves	Total			
Euro mn									
<b>Equity as at 1 January 2011</b>	<b>128</b>	<b>511</b>	<b>836</b>	<b>-110</b>	<b>2</b>	<b>375</b>	<b>1,742</b>	<b>243</b>	<b>1,985</b>
Total comprehensive income for the period			30	-12	0		18	5	23
Capital increase									
Capital reduction									
Payments to non-controlling interests								-5	-5
Dividends									
Silent participation by SoFFin									
Costs associated with the silent participation by SoFFin			-6				-6		-6
Other changes									
<b>Equity as at 31 March 2011</b>	<b>128</b>	<b>511</b>	<b>860</b>	<b>-122</b>	<b>2</b>	<b>375</b>	<b>1,754</b>	<b>243</b>	<b>1,997</b>

				Other reserves				Silent participation by SoFFin	Non-controlling interest	Total equity	
	Subscribed capital	Capital reserves	Retained earnings	Reserves from transactions under common control	Revaluation surplus	Hedging reserves	Currency translation reserves				
Euro mn											
<b>Equity as at 1 January 2010</b>	<b>128</b>	<b>511</b>	<b>780</b>	<b>1</b>	<b>-112</b>	<b>0</b>	<b>1</b>	<b>525</b>	<b>1,834</b>	<b>243</b>	<b>2,077</b>
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 the silent participation by SoFFin			-8						-8		-8
Other changes											
<b>Equity as at 31 March 2010</b>	<b>128</b>	<b>511</b>	<b>788</b>	<b>1</b>	<b>-94</b>	<b>0</b>	<b>1</b>	<b>525</b>	<b>1,860</b>	<b>244</b>	<b>2,104</b>

## Statement of Cash Flows (condensed)

	2011	2010
Euro mn		
<b>Cash and cash equivalents as at 1 January</b>	<b>922</b>	<b>990</b>
Cash flow from operating activities	-707	442
Cash flow from investing activities	409	-752
Cash flow from financing activities	-19	26
<b>Total cash flow</b>	<b>-317</b>	<b>-284</b>
Effect of changes in exchange rates	0	0
<b>Cash and cash equivalents as at 31 March</b>	<b>605</b>	<b>706</b>

# 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 finance and services group.

This quarterly financial report for the period ended 31 March 2011 was prepared pursuant to the provisions of section 37 y no. 3 of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG") in conjunction with section 37 x (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) and was approved for publication by the Management Board on 4 May 2011.

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 and 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 2010 were also applied in the preparation of 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:

- Improvements to IFRSs (issued by the IASB in May 2010)
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Amendment to IAS 32 Financial Instruments: Presentation: Classification of Rights Issues
- Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time adopters IFRS 7
- Revised IAS 24 Related Party Disclosures

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) Net interest income

	1 Jan - 31 Mar 2011	1 Jan - 31 Mar 2010
Euro mn		
Interest income from		
Property loans	154	126
Public sector loans	8	6
Other lending and money market operations	40	29
Debt and other fixed-income securities	50	46
Current dividend income	0	0
Other interest income	-	0
<b>Total interest income</b>	<b>252</b>	<b>207</b>
Interest expenses for		
Bonds issued	27	22
Registered mortgage Pfandbriefe	16	9
Borrowed funds	35	27
Subordinated equity	7	6
Term deposits	24	20
Payable on demand	7	5
Other banking transactions	2	1
<b>Total interest expenses</b>	<b>118</b>	<b>90</b>
<b>Total</b>	<b>134</b>	<b>117</b>

### (2) Net loan loss provisions

The allowance for credit losses amounted to € 18 million during the first three months of the financial year 2011 (Q1 2010: € 32 million).

### (3) Net commission income

	1 Jan - 31 Mar 2011	1 Jan - 31 Mar 2010
Euro mn		
Commission income from		
Consulting and other services	37	37
Trustee loans and administered loans	1	0
Securities transactions	1	0
Securitisation transactions	0	0
Other lending and money market operations	7	5
Other commission income	1	3
<b>Total commission income</b>	<b>47</b>	<b>45</b>

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	1 Jan - 31 Mar 2011	1 Jan - 31 Mar 2010
Euro mn		
Commission expenses for		
Consulting and other services	5	5
Securities transactions	10	6
Securitisation transactions	1	1
Other lending and money market transactions	0	2
Other commission expenses	1	1
<b>Total commission expenses</b>	<b>17</b>	<b>15</b>
<b>Total</b>	<b>30</b>	<b>30</b>

Commissions from consulting and services primarily include commissions for IT services. Commission expenses from securities transactions include expenses of € 9 million (Q1 2010: € 5 million) for the guarantee facility extended by the German Financial Markets Stabilisation Fund (SoFFin).

#### (4) Net trading income/expenses

	1 Jan - 31 Mar 2011	1 Jan - 31 Mar 2010
Euro mn		
Results from derivative financial instruments	-10	7
Currency translation	2	-1
<b>Total</b>	<b>-8</b>	<b>6</b>

Net trading income/expenses is primarily attributable to the valuation of derivatives used to hedge the financial impact of interest rate and currency risks, as well as from changes in value from the sale of hedges for selected EU sovereign countries.

#### (5) Results from non-trading assets

	1 Jan - 31 Mar 2011	1 Jan - 31 Mar 2010
Euro mn		
Result from debt securities and other fixed-income securities	2	0
of which: Loans and receivables	2	0
Available for sale	-	-
Result from equities and other non-fixed income securities	0	0
of which: Available for sale	0	0
Designated as at fair value through profit or loss	0	0
Results from equity investments (AfS)	-	-
<b>Total</b>	<b>2</b>	<b>0</b>

Net income of € 2 million from investment securities was due to the sale of fixed-income securities (Q1 2010: € 0 million).

**(6) General administrative expenses**

	1 Jan - 31 Mar 2011	1 Jan - 31 Mar 2010
Euro mn		
Staff expenses	56	56
Other administrative expenses	29	29
Depreciation, amortisation and impairment of property and equipment and intangible assets	6	6
<b>Total</b>	<b>91</b>	<b>91</b>

**(7) Net other operating income/expenses**

	1 Jan - 31 Mar 2011	1 Jan - 31 Mar 2010
Euro mn		
Income from properties	2	2
Income from the reversal of provisions	0	1
Income from goods and services	1	1
Miscellaneous	3	3
<b>Total other operating income</b>	<b>6</b>	<b>7</b>
Expenses for property	1	4
Expenses for services used	0	0
Write-downs of trade receivables	-	0
Expenses for other taxes	0	0
Miscellaneous	7	5
<b>Total other operating expenses</b>	<b>8</b>	<b>9</b>
<b>Total</b>	<b>-2</b>	<b>-2</b>

**(8) Reconciliation from net income/loss to total comprehensive income**

	1 Jan - 31 Mar 2011	1 Jan - 31 Mar 2010
Euro mn		
<b>Net income/loss</b>	<b>35</b>	<b>21</b>
<b>Changes in revaluation surplus, after tax</b>	<b>-12</b>	<b>18</b>
Gains and losses on remeasuring available-for-sale financial instruments, before tax	-18	13
Reclassifications to the income statement, before tax	0	12
Taxes	6	-7
<b>Changes in hedging reserves, after tax</b>	<b>-</b>	<b>0</b>
Profit/loss from derivatives used to hedge future cash flows (before taxes)	-	0
Reclassifications to the income statement, before tax	-	0
Taxes	-	0

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	1 Jan - 31 Mar 2011	1 Jan - 31 Mar 2010
Euro mn		
<b>Changes in currency translation reserves, after tax</b>	<b>0</b>	<b>0</b>
Profit/loss from translating foreign operations' financial statements (before taxes)	0	0
Reclassifications to the income statement, before tax	0	0
Taxes	-	-
<b>Changes in reserves from transactions under common control, after tax</b>	<b>-</b>	<b>-</b>
Gains and losses from transactions under common control, before tax	-	-
Reclassifications to the income statement, before tax	-	-
Taxes	-	-
<b>Profit/loss directly recognised in equity (after taxes)</b>	<b>-12</b>	<b>18</b>
<b>Total comprehensive income</b>	<b>23</b>	<b>39</b>

## Notes to the Statement of Financial Position

### (9) Loans and advances to banks

	31 Mar 2011	31 Dec 2010
Euro mn		
Term deposits and current account balances	535	958
Public sector loans	211	213
Receivables from securities repurchase transactions	1,915	811
Other loans and advances	69	52
<b>Total</b>	<b>2,730</b>	<b>2,034</b>

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

### (10) Loans and advances to customers

	31 Mar 2011	31 Dec 2010
Euro mn		
Property loans	21,477	22,392
Public sector loans	1,537	1,641
Other loans and advances	628	628
<b>Total</b>	<b>23,642</b>	<b>24,661</b>

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

**(11) Trading assets**

	31 Mar 2011	31 Dec 2010
Euro mn		
Positive market value of trading derivatives	520	428
<b>Total</b>	<b>520</b>	<b>428</b>

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**

	31 Mar 2011	31 Dec 2010
Euro mn		
Debt and other fixed-income securities	10,987	11,393
of which: loans and receivables (LaR)	6,175	6,463
Held to maturity (HtM)	483	557
Available for sale (AfS)	4,329	4,373
Equities and other non-fixed-income securities	33	34
of which: available for sale (AfS)	28	29
Designated as at fair value through profit or loss (dFVtPL)	5	5
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	1	1
<b>Total</b>	<b>11,021</b>	<b>11,428</b>

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

**Reclassified financial assets**

In the wake of the financial markets and economic crisis, Aareal Bank Group made use of the possibility to reclassify financial assets into another measurement category. Specifically, securities with an aggregate 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) during 2008 and 2009. In all cases, we opted for reclassification since there was no longer 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, Aareal Bank Group may use this reclassification option again in the future.



The following table compares the carrying amounts of the reclassified assets to their fair values:

	Carrying amount of reclassified financial assets 31 Mar 2011	Carrying amount of reclassified financial assets 31 Dec 2010	Fair value of reclassified financial assets 31 Mar 2011	Fair value of reclassified financial assets 31 Dec 2010
Euro mn				
<b>from AfS to LaR</b>	<b>5,289</b>	<b>5,537</b>	<b>5,145</b>	<b>5,357</b>
Asset-backed securities	30	31	29	30
Bank bonds	956	984	978	1,004
Covered bonds	661	683	639	652
Government bonds	3,642	3,839	3,499	3,671
<b>from HfT to LaR</b>	<b>373</b>	<b>388</b>	<b>341</b>	<b>347</b>
Asset-backed securities	367	382	335	341
Government bonds	6	6	6	6
<b>Total</b>	<b>5,662</b>	<b>5,925</b>	<b>5,486</b>	<b>5,704</b>

If the bank had not opted for reclassification, this would have resulted in a € 9 million profit (before tax) (Q1 2010: € 15 million) in the first quarter of 2011, and € 33 million (after tax) (Q1 2010: € 19 million) would have been recognised in the revaluation surplus.

### (13) Intangible assets

	31 Mar 2011	31 Dec 2010
Euro mn		
Goodwill	50	50
Proprietary software	25	26
Other intangible assets	15	15
<b>Total</b>	<b>90</b>	<b>91</b>

### (14) Property and equipment

	31 Mar 2011	31 Dec 2010
Euro mn		
Land and buildings and construction in progress	79	79
Office furniture and equipment	16	16
<b>Total</b>	<b>95</b>	<b>95</b>

**(15) Other assets**

	31 Mar 2011	31 Dec 2010
Euro mn		
Property	124	125
Trade receivables (LaR)	30	27
Miscellaneous	102	94
<b>Total</b>	<b>256</b>	<b>246</b>

**(16) Liabilities to banks**

	31 Mar 2011	31 Dec 2010
Euro mn		
Payable on demand	503	583
Term deposits	203	290
Promissory note loans borrowed	610	634
Liabilities from securities repurchase transactions and open-market operations	3,212	3,336
Registered mortgage Pfandbriefe	87	94
Registered public sector Pfandbriefe	142	147
Miscellaneous	62	84
<b>Total</b>	<b>4,819</b>	<b>5,168</b>

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

**(17) Liabilities to customers**

	31 Mar 2011	31 Dec 2010
Euro mn		
Payable on demand	3,609	3,813
Term deposits	5,677	5,093
Promissory note loans borrowed	8,274	8,370
Registered mortgage Pfandbriefe	2,518	2,448
Registered public sector Pfandbriefe	3,041	3,122
<b>Total</b>	<b>23,119</b>	<b>22,846</b>

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

**(18) Certificated liabilities**

	31 Mar 2011	31 Dec 2010
Euro mn		
Medium-term notes	986	1,197
Bearer mortgage Pfandbriefe	3,637	4,058
Bearer public sector Pfandbriefe	97	99
Other debt securities	2,209	2,265
<b>Total</b>	<b>6,929</b>	<b>7,619</b>

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

**(19) Trading liabilities**

	31 Mar 2011	31 Dec 2010
Euro mn		
Negative market value from trading derivatives	410	675
<b>Total</b>	<b>410</b>	<b>675</b>

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

**(20) Provisions**

	31 Mar 2011	31 Dec 2010
Euro mn		
Provisions for pensions and similar obligations	92	92
Other provisions	145	145
<b>Total</b>	<b>237</b>	<b>237</b>

**(21) Other liabilities**

	31 Mar 2011	31 Dec 2010
Euro mn		
Liabilities from outstanding invoices	7	8
Prepaid expenses	7	4
Liabilities from other taxes	25	29
Trade payables (LaC)	11	10
Other liabilities (LaC)	129	130
<b>Other liabilities</b>	<b>179</b>	<b>181</b>

**(22) Subordinated capital**

	31 Mar 2011	31 Dec 2010
Euro mn		
Subordinated liabilities	542	560
Profit-participation certificates	477	480
Contributions by silent partners <sup>1)</sup>	230	228
<b>Total</b>	<b>1,249</b>	<b>1,268</b>

<sup>1)</sup> The silent participation by SoFFin is classified as equity in accordance with IFRSs; it is therefore not reported under contributions by silent partners, but as a separate item in equity.

Items of subordinated capital are allocated to the measurement category "Liabilities measured at amortised cost" (LaC).

**(23) Equity**

	31 Mar 2011	31 Dec 2010
Euro mn		
Subscribed capital	128	128
Capital reserves	511	511
Retained earnings	860	836
Other reserves		
Revaluation surplus	-122	-110
Currency translation reserves	2	2
Silent participation by SoFFin	375	375
Non-controlling interest	243	243
<b>Total</b>	<b>1,997</b>	<b>1,985</b>

**(24) Treasury shares**

No treasury shares were held during the period under review.

**(25) Dividends**

The Management Board proposes to the Annual General Meeting that the net retained profit of Aareal Bank AG in the amount of € 400,000.00 for the financial year 2010, as reported under the German Commercial Code (HGB), be transferred to other retained earnings.

## Other Notes

### (26) Contingent liabilities and loan commitments

	31 Mar 2011	31 Dec 2010
Euro mn		
Contingent liabilities on guarantees and indemnity agreements	284	310
Loan commitments	1,649	1,697
of which: irrevocable	1,164	1,191

### (27) Employees

	31 Mar 2011	1 Jan-31 Dec 2010
Salaried employees	2,295	2,217
Executives	80	77
<b>Total</b>	<b>2,375</b>	<b>2,294</b>
of which: Part-time employees	437	376

### (28) Related party transactions

No material transactions with related parties were entered into during the first three months of the 2011 financial year.

### (29) Events after the interim reporting period

On 14 April 2011, the Management Board of Aareal Bank AG resolved, with the approval of the Supervisory Board, to increase the Company's share capital in a rights issue against cash contributions. 17,102,062 new ordinary bearer shares with a proportionate share in the nominal share capital of € 3.00 per share were issued. As a result, the Company's share capital has increased from € 128,265,477 to € 179,571,663. The subscription price of the new shares was € 15.75. The gross proceeds generated amounted to € 269.6 million.

The net proceeds from the capital increase are intended to support the future growth of Aareal Bank AG's Structured Property Financing segment, consistent with its current credit risk strategy. At the same time, the proceeds are intended to strengthen Aareal Bank Group's regulatory capital base. Moreover, on 28 April 2011 Aareal Bank used € 75 million from the issue proceeds for the partial repayment of the SoFFin silent participation.

The capital increase was carried out in the form of an indirect subscription offer to Aareal Bank's existing shareholders, whereby the subscription rights conveyed by 5 existing shares gave the right to subscribe to 2 new shares. The subscription period during which the Company's shareholders were able to exer-

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cise their subscription rights started on 16 April 2011 and ended on 29 April 2011. The underwriting banks had undertaken to subscribe to the new shares, and to acquire them at the subscription price, and to offer the shares to shareholders for subscription, pursuant to the terms and conditions of the Subscription Offer published on 15 April 2011.

Aareal Holding Verwaltungsgesellschaft mbH (Aareal Holding), which held a 37.23 % stake in the Company's issued share capital before the new shares were issued, supported the rights issue within the scope of a so-called "opération blanche". Aareal Holding continues to hold a 28.9 % stake in Aareal Bank AG's issued share capital after completion of the Offer.

In addition to the capital increase, the Management Board carried out the early redemption of the SoFFin-guaranteed € 2 billion bond maturing on 5 June 2013, which the bank held on its own books, on 19 April 2011 in agreement with SoFFin. The three-year bond was issued in June 2010 as a precautionary measure to enhance the flexibility in the refinancing business; however, due to the gradual stabilisation of the market environment, the issue was not placed on the market and hence not used for funding purposes. The cancellation of this bond results in a reduction of the guarantee fees payable by Aareal Bank to SoFFin of around € 19 million p.a. before taxes, and in a pro-rata reduction for the years 2011 and 2013. Overall, this has an accumulated positive effect of around € 41 million before taxes.

## Executive Bodies

### Supervisory Board

**Hans W. Reich** <sup>1) 2) 3) 4) 5)</sup>, **Kronberg**  
Chairman of the Supervisory Board  
Chairman Public Sector Group, Citigroup Inc.

**Erwin Flieger** <sup>1) 3) 4) 5)</sup>, **Geretsried**  
Deputy Chairman of the Supervisory Board  
Chairman of the Supervisory Boards of  
Bayerische Beamten Versicherungsgruppe

**York-Detlef Bülow** <sup>1) 2) 6)</sup>,  
**Katzeneinbogen**  
Deputy Chairman of the Supervisory Board  
Aareal Bank AG

**Christian Graf von Bassewitz** <sup>2) 3) 4)</sup>,  
**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

**Thomas Hawel** <sup>6)</sup>, **Saulheim**  
Aareon Deutschland GmbH

**Dieter Kirsch** <sup>3) 6)</sup>, **Nackenheim**  
Aareal Bank AG

**Dr. Herbert Lohneiß** <sup>3) 4)</sup>, **Gräfelfing**  
Former Chief Executive Officer  
of Siemens Financial Services GmbH (ret'd.)

**Joachim Neupel** <sup>2) 3) 4)</sup>, **Meerbusch**  
Chairman of the Accounts and Audit Committee  
German Chartered Accountant, tax consultant

**Prof. Dr. Stephan Schüller** <sup>1) 2)</sup>, **Hamburg**  
Spokesman of the General Partners of  
Bankhaus Lampe KG

**Wolf R. Thiel** <sup>1)</sup>, **Stutensee**  
President and Chairman of the  
Management Board of Versorgungsanstalt  
des Bundes und der Länder

**Helmut Wagner** <sup>6)</sup>, **Hahnheim**  
Aareon Deutschland GmbH

### Management Board

**Dr Wolf Schumacher**  
Chairman of the Management Board

**Dirk Große Wördemann**  
Member of the Management Board

**Hermann Josef Merkens**  
Member of the Management Board

**Thomas Ortmanns**  
Member of the Management Board

<sup>1)</sup> Member of the Executive Committee; <sup>2)</sup> Member of the Accounts and Audit Committee; <sup>3)</sup> Member of the Risk Committee;  
<sup>4)</sup> Member of the Committee for Urgent Decisions; <sup>5)</sup> Member of the Nomination Committee <sup>6)</sup> Employee representative

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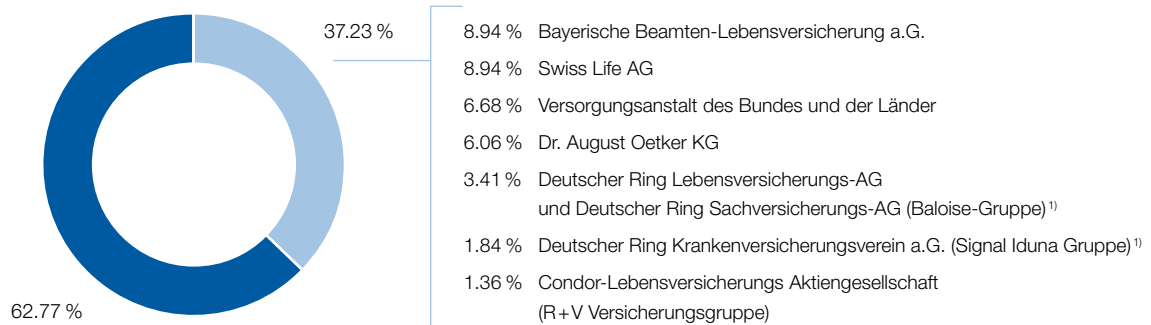
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Fax: +353 1 6702785

## Shareholder Structure | Financial Calendar

### Shareholder Structure

■ Free float ■ Aareal Holding Verwaltungsgesellschaft mbH



as at 31 March 2011

<sup>1)</sup> Information given on a separate basis due to de-merger of Deutsche Ring Group.

### Financial Calendar

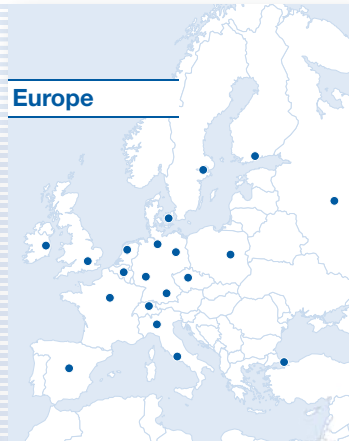
18 May 2011	Annual General Meeting – Kurhaus, Wiesbaden
9 August 2011	Presentation of interim report as at 30 June 2011
November 2011	Presentation of interim report as at 30 September 2011

# Locations



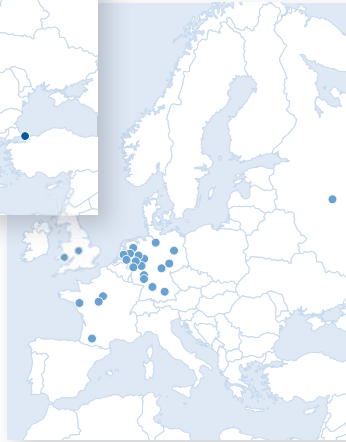
**North America**

Structured Property Financing

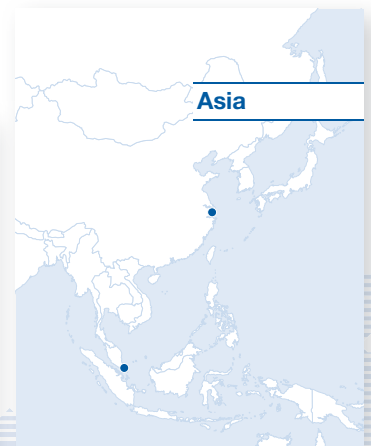


**Europe**

Structured Property Financing



Consulting/Services



**Asia**

Structured Property Financing

**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, Emmen, Enschede, Erfurt, Hamburg, Hückelhoven, Leipzig, Leusden, Mainz, Meudon-la-Forêt, Munich, Nantes, Oberhausen, Orléans, Son en Breugel, Stuttgart, Swansea, Toulouse | **Deutsche Bau- und Grundstücks-AG:** Berlin, Bonn, Moscow, Munich | **Aareal First Financial Solutions AG:** Wiesbaden | **Innovative Banking Solutions AG:** Wiesbaden

as at 31 March 2011

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05/2011



**Aareal Bank  
Group**