Aareal Bank Group – Interim Report
1 January to 30 June 2011

Aareal Bank Group

Key Group Figures

	1 Jan-30 Jun 2011	1 Jan-30 Jun 2010	Change
	€ mn	€ mn	€ mn
Income Statement			
Operating profit	91	61	30
Net income after non-controlling interests	56	34	22
Indicators			
Cost/income ratio (%) [1]	45.5	48.2	
Earnings per share (€)	1.16	0.78	
RoE before taxes (%) [2]	8.3	5.4	
RoE after taxes (%) [2]	5.7	3.4	

	30 Jun 2011	31 Dec 2010	Change
	€ mn	€ mn	€ mn
Portfolio data			
Property financing	22,252	22,884	-632
of which: international	18,891	19,195	-304
Property financing under management [3]	22,527	23,251	-724
of which: international	18,891	19,195	-304
Equity	2,195	1,985	210
Total assets	40,867	41,217	-350
	%	%	
Regulatory indicators			
Tier 1 ratio pursuant to AIRBA [4]	15.8	12.9	
Total capital ratio pursuant to AIRBA [4]	19.9	16.5	

	30 Jun 2011	31 Dec 2010	
Rating			
Fitch Ratings			
Long-term	A-	A-	
Short-term	F1	F1	

[1] Only Structured Property Financing
[2] On an annualised basis
[3] Property financings under management include the € 0.3 billion property financing portfolio managed on behalf of Deutsche Pfandbriefbank AG
[4] Advanced Internal Ratings-Based Approach (AIRBA)

Contents

Letter to Shareholders

Dear shareholders, business associates and Aareal Bank staff,

Aareal Bank Group's successful business development continued into the second quarter of the current year – thanks to our performance during the first six months, we remain well on track for achieving our goals for 2011 as a whole.

At € 44 million, consolidated operating profit exceeded the previous year's figure by around 42 %, almost matching the extraordinary level seen during the first quarter of 2011. Aareal Bank Group thus once again proved its operative strength during the second quarter: a very solid performance, once again demonstrating that the bank's prudent and sustainable business policy pursued over recent years has paid off.

The economic environment during the second quarter was essentially shaped by the exacerbation of the sovereign debt crisis affecting the euro periphery, and by the resulting uncertainty and volatility on the financial and capital markets. Discussions in this context focused predominantly on increasing doubts regarding Greece's ability to service its debt, as well as on budget consolidation measures initiated (and related requirements). Notwithstanding the general agreement reached at the Brussels Summit on 21 July, significant uncertainty is set to prevail regarding the European sovereign debt crisis. Moreover, finding a sustainable solution to the US debt issue is a very important factor.

Meanwhile, the "real" global economy continued its growth path during the second quarter, albeit with slowing momentum. In the banking and insurance sectors, discussions have been ongoing regarding regulation, supervision and levies: unresolved issues include, in particular, the aggregate impact of the various planned measures on the financial sector and the real economy, and the international harmonisation of measures to be implemented in order to avoid competitive disadvantages.

Despite the prevailing uncertainty on financial and capital markets, Aareal Bank Group has stood its ground during the course of the year, further expanding its good position and sound reputation on the capital markets. In a capital markets environment that continued to be challenging, we not only completed our funding activities as scheduled, but also successfully executed a rights issue during the second quarter, raising gross issue proceeds of € 269.6 million. We will use the net proceeds from the capital increase to support the future growth of the Structured Property Financing segment, consistent with our credit risk strategy. We want to increasingly exploit the opportunities available for high-margin new business, strictly observing our stringent risk/return requirements. In this way, the capital increase will significantly contribute to further enhancing our market position, and our profitability. At the same time, the capital increase further strengthened Aareal Bank's regulatory capital base.

Moreover, we used a portion of the issue proceeds for further repayment of the SoFFin silent participation: € 75 million was transferred to SoFFin on 28 April 2011. We are also consistently reducing the guarantee facility provided by SoFFin for senior unsecured issues. During April 2011, we carried out an early redemption of the SoFFin-guaranteed € 2 billion bond maturing in June 2013, which the bank held on its own books, in agreement with SoFFin. This step is particular evidence of Aareal Bank's good refinancing situation. Against this background, we also invited investors holding the remaining SoFFin-guaranteed notes (maturing in March 2012) to redeem their notes early. This offer was taken up with an aggregate volume of just under € 0.8 billion.

Structured Property Financing: segment result once again exceeds the previous year's figure

During the course of 2011 to date, the property sector continued to improve gradually, reflecting the predominantly positive performance of the economy as a whole. In this economic environment, the business framework for the commercial property markets was stable to slightly positive: this also applied to rents and prices – particularly for first-class commercial properties, which users and investors continued to focus on in many places. Second-class properties, however, often lagged behind this development. These trends were evident for office, retail and logistics properties. In the hotel sector – which had already posted a marked recovery last year following a difficult year 2009 for hotels – key indicators during the second quarter of 2011 showed that the recovery is continuing.

Traded volumes on investment markets showed a further year-on-year increase. Investor yield requirements for purchases of commercial properties remained stable or declined slightly in numerous locations, consistent with a rising price trend. Investors continued to focus on first-class properties; nonetheless, there was some interest – higher than in the previous year, albeit on a selective basis – in properties which are not top of the range in terms of location or quality. However, the prices of such properties often still lacked the momentum seen with first-class properties, or those offering a stabilised cash flow.

For Aareal Bank, as expected this market situation offered attractive opportunities for high-margin new business. We continued to exploit these during the second quarter, maintaining our risk-sensitive lending policy. New business totalled € 1.8 billion from April to June, thus exceeding the figures for both the previous quarter (€ 1.4 billion) and for Q2 2010 (€ 1.6 billion). Aggregate new business originated during the first half of 2011 thus amounted to € 3.2 billion – up approximately 10 % year-on-year. Newly acquired business more than doubled compared to 2010, whilst the share of loan renewals declined signifinantly.

Operating profit in the Structured Property Financing segment of € 41 million for the second quarter of 2011 exceeded the previous year's figure of € 25 million by 64 %, and almost matched the extraordinarily strong results achieved in the first quarter (€ 43 million). The year-on-year increase was largely due to a marked increase in net interest income – reflecting higher margins – and lower allowance for credit losses, which amounted to € 24 million in the second quarter of 2011 (Q2 2010: € 33 million). Aggregate allowance for credit losses was therefore lower than the pro-rata forecast range of € 110 million to € 140 million for the full year, but within the fluctuation range we had expected.

Consulting/Services: volume of deposits remaining on a high level

Business in the institutional housing industry continued to develop steadily during the second quarter of 2011. Rental income generated from a highly-diversified tenant portfolio guarantees a solid foundation. The stability of rental cash flows is also bolstered by the fact that management tools for letting and rental claims handling are becoming more professional and more efficient all the time – a trend to which Aareal Bank Group is also making a major contribution, with its range of products and services for the institutional housing industry.

Aareon AG, our IT subsidiary, has performed on schedule during the current financial year to date. In particular, Aareon's enterprise resource planning software Wodis Sigma developed positively during the second quarter. ERP systems facilitate efficient process design in property management, together with a wealth of analyses to support management decisions. By the end of the second quarter, a total of 347 clients had opted for Wodis Sigma since its introduction, with 216 already using the software in a production environment. The majority of users of this successful product line previously worked with Aareon's WohnData solution, or with the legacy Wodis version. To service the strong demand properly, Aareon has invested further in expanding its advisory and support capacities. With the rollout of the new Wodis Sigma Release 3.0 in the fourth quarter of 2011, Aareon will increasingly be offering its clients an alternative software rental option ("SaaS" – software as a service) version, alongside the existing licence model. In this way, Aareon will enable its clients to benefit from the advantages of cloud computing tailored to the needs of the institutional housing industry. Against this background, some of the remaining WohnData clients have decided in favour of converting to the rental model. When using the software under such a rental scheme, Aareon's SaaS clients pay regular usage fees over a long-term period, but do not need to purchase a software licence – thus saving the related one-off cost.

We made further progress towards our strategic objectives in the Institutional Housing Unit during the second quarter: these objectives were to increase the volume of deposits by acquiring new clients, and to increase cross-selling of our broad product range in our existing client base. At an average € 4.7 billion, the volume of deposits was at a high level during the second quarter of 2011 – in fact, it has been rising continuously since the first quarter of 2010. Aareal Bank benefits from its strong market penetration, its extensive range of products and services, and from many years of experience as the lead bank to the German institutional housing industry. Our clients continue to make strong use of the combination of cash investment schemes, specialist services for automated mass electronic payments processing, and the optimisation of downstream processes (together with related advice) which we offer. This enables us to maintain a strong position in the market, despite strong competitive pressure on money market investment terms.

Operating profit in the Consulting/Services segment for the second quarter of 2011 amounted to € 3 million, compared to € 4 million for the first quarter. The decline was attributable to a higher level of investment in our future business, as indicated above, particularly in the Wodis Sigma product line. Due to consolidation effects (related to the acquisition of SG|automatisering bv), among others, the meaningfulness of any comparisons with the same quarter of the previous year (Q2 2010: € 6 billion) is limited.

Refinancing and equity: strong position strengthened further

Aareal Bank Group continued to successfully carry out its funding activities as planned during the second quarter of this year. The bank continues to enjoy a good liquidity status, which has also been evident in the early redemption of the majority of SoFFin-guaranteed bonds. Aareal Bank raised a total of € 1.7 billion in long-term funds on the capital markets during the period under review, with

Mortgage Pfandbriefe accounting for € 0.8 billion and unsecured funding for € 0.9 billion. Key funding transactions during the second quarter included in particular, a three-year bearer bond and the placement of a five-year Mortgage Pfandbrief on the capital market. Both transactions were sized at € 500 million each.

The bank raised a total of € 2.8 billion in long-term funds on the capital market through private and public transactions during the first six months of the financial year, comprising € 1.6 billion in Mortgage Pfandbriefe and € 1.2 billion in unsecured funding.

We further strengthened our already solid capital base via the capital increase executed during the second quarter. Aareal Bank's Tier 1 ratio as at 30 June 2011 stood at 15.8 %, which is also good by international standards, compared to 12.9 % at the year-end 2010, and 15.5 % (on a pro-forma basis) as at 31 March 2011. In this context, it is worth noting that we will only apply the portion of the proceeds from the capital increase earmarked for additional growth during the second half of the year, to originate additional new business.

The Aareal Bank share: rights issue successfully concluded

Not surprisingly, the rights issue announced in April triggered particular share price movements. On the first trading day of the subscription rights, the share price was "adjusted" for the theoretical value of the rights, which led to an adjusted end-of-quarter share price of € 20.371 (compared to an unadjusted price of € 22.63).

The successful rights issue not only increased the issued share capital and the total number of Aareal Bank AG shares outstanding. The free float also increased significantly – particularly due to the fact that the stake held by Aareal Holding Verwaltungsgesellschaft mbH, Aareal Bank AG's largest shareholder, declined from 37.23 % to 28.9 % in the course of the transaction. Moreover, Aareal Bank's market capitalisation increased to € 1.415 billion at the end of the second quarter, on account of the capital increase – compared to around € 975 million at the end of 2010.

Overall, the Aareal Bank share price developed positively during the second quarter, against the background of the continued positive operating performance, the successfully executed rights issue, and the sound medium- and long-term outlook for our business: the share price was up by 16 % (on an adjusted basis) compared to 31 March 2011.

The positive outlook communicated at the press conference to present the financial statements triggered a rally at the beginning of April, driving the share price by more than 14 % to € 23.292, before the euro zone debt crisis deteriorated once again with financial aid provided to Portugal – which burdened financial sector issues in particular. Thanks to the positive first-quarter results, the Aareal Bank share price was able to de-couple from this trend, reaching a high of € 24.465 by early June (having posted another 20 % rise), whilst the DAX and MDAX indices stagnated, and the CXPB bank index lost further ground. Having dropped again in June, reflecting discussions regarding another support package for Greece, the share price recovered towards the end of the quarter.

Aareal Bank considers the very successful rights issue, which was subscribed to at close to 100 %, and the robust performance following the capital increase, as dual vote of confidence by the market – and as an incentive to continue creating sustainable value for its shareholders.

Outlook: forecasts for the full year 2011 affirmed

Despite the Brussels Summit resolutions on 21 July 2011, the European sovereign debt crisis as well as the US debt issue are to remain at the top of the agenda of financial and capital markets.

It is thus fair to expect volatility on financial and capital markets to remain high for the time being. Overall, the risks in the financial system have increased.

Provided that the sovereign debt crises will not deteriorate further, Aareal Bank Group continues to see good potential for maintaining its positive business development during the remainder of the year, in this challenging environment. The bank is making good progress in achieving its targets for 2011, which were last raised in April.

Accordingly, 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. The volume of new business generated in the Structured Property Financing segment is expected to increase to between € 7 billion and € 8 billion. We project allowance for credit losses in a range of € 110 million to € 140 million during the 2011 financial year. As in the previous years, the bank cannot rule out additional allowances for unexpected credit losses that may be incurred during 2011. We believe that net commission income for the year 2011 will significantly exceed the previous year's figure. The net figure will benefit from relief due to lower guarantee fees, as a result of the partial redemption of SoFFin-guaranteed bonds. Overall, we continue to believe that during 2011 we will be able to once again markedly increase operating results over and above those for the 2010 financial year – results which were already good, in the context of the challenging market environment.

Yours sincerely,

The Management Board

Dr Wolf Schumacher **Dirk Große Wördemann** **Hermann J. Merkens** **Thomas Ortmanns**

Group Management Report

Business Environment

Global economy

In the second quarter, the economic climate was defined most notably by the deterioration of the debt crisis at the euro zone's periphery, and the resulting uncertainty and volatility on the financial and capital markets. The focal point of the discussion was above all the growing doubts regarding Greece's ability to service its debts, and about the measures initiated and the provisions required to balance the country's budget. Another uncertainty was the debate surrounding the involvement of the financial services industry and other private creditors in providing additional aid to Greece and the assessment of these measures by the rating agencies. The financial and capital markets reacted with uncertainty, which in turn led to sharp increases in foreign exchange and interest rate volatility.

Meanwhile, the global real economy continued to grow in the second quarter, although growth momentum eased.

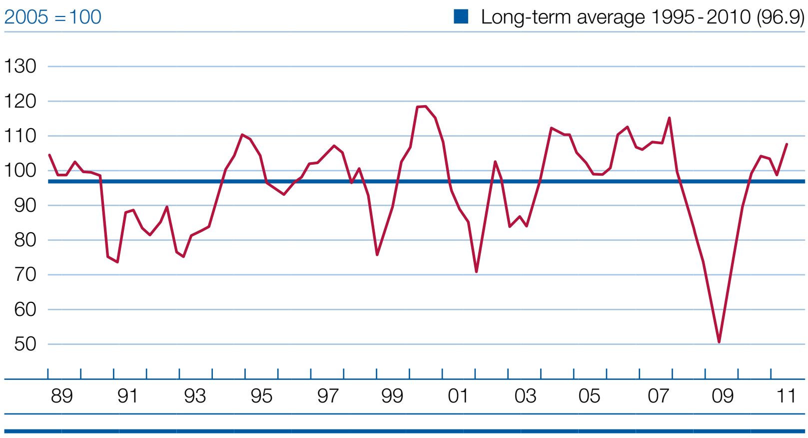
Economy

Global economic development remained on an upward trend – as it did at the start of the year. However, various indicators suggest that the pace of economic growth is slowing down somewhat. Although the ifo business climate index for Western Europe for the second quarter improved slightly over the first quarter, it was down significantly for North America. This index also fell in Asia, following the marked deterioration in sentiment, especially in Japan as a consequence of March's earthquake catastrophe.

The growth momentum of the individual regions continued to vary greatly. Global economic expansion continued to be dominated by the emerging market economies of Asia, even though there was evidence of a slight easing of momentum, for example in China, reflecting the impact of tighter monetary policy. Economic development in Japan was heavily influenced by the earthquake catastrophe. Damages and electricity supply problems there led to disruptions in supply chains and a slowdown in production. Furthermore, consumer spending was reticent. However, there were already signs of recovery in production and demand in Japan in the course of the second quarter. The pace of real economic recovery in the economies of North America and Europe was moderate. Economic recovery in Europe also varied among the individual countries. Germany and Poland for example, posted relatively high growth rates, while economic development was weak in some countries. In fact, it even declined year-on-year in a few countries such as Portugal and Greece. Similarly, economic development in the USA has been only moderate recently. The announcement by the US Treasury Department that the statutory debt ceiling will be reached at the start of August and current expenditure could therefore no longer be met from additional borrowings, plus the measures taken to implement budgetary consolidation and spending cuts, were at the forefront of the very controversial economic policy discussion in the US.

There was no marked improvement in the situation on the labour markets in the quarter under review, with unemployment persisting at a high level in most countries. Yet some countries – such as Germany, Belgium, Sweden, Finland and the Czech Republic – showed significantly lower unemployment rates compared with the previous

ifo Global Economic Climate*



* Arithmetic mean of the assessment of the current situation and expected developments
Source: ifo World Economic Survey (WES) II/2011

year. In contrast, unemployment even rose in other countries such as Ireland, Portugal and Spain, where the unemployment rate is now well above the 20 % mark. Having fallen in the two previous quarters, unemployment in the US was up again slightly in the second quarter of 2011. However, it is still down on last year's level.

Financial and capital markets, monetary policy and inflation

Many market participants and observers became increasingly doubtful in the second quarter about Greece's consolidation process and the ability to service its debt. The question of the provisions of additional relief measures by the European Union (EU) and the International Monetary Fund (IMF) was discussed on the markets as well as on a political and public level just as intensely as the question of debt restructuring with the participation of private creditors. The rating agency Standard & Poor's (S&P) downgraded Greece's rating to CCC (denoting a speculative investment that is at risk of default). The growing doubts regarding Greece's consolidation course and debt sustainability heightened the uncertainty and nervousness on financial and capital markets, resulting in very strong volatility. The risk premiums for Greek bonds and risk insurers increased further, reaching very high levels.

Risk premiums also rose for other euro zone periphery states. In April, Portugal did no longer see the possibility to refinance its borrowing requirements on the financial and capital markets at justifiable terms with-out the help of third parties, and therefore made a request for support measures. The IMF and the EU agreed upon a three-year, € 78 billion rescue package for Portugal. The funds will be used especially to cover Portugal's refinancing requirements and the current deficits, and – to a lesser extent – to stabilise the Portuguese banking sector.

Despite the increased uncertainty on financial and capital markets, the markets were still able to absorb securities issues from banks and corporates in the second quarter of 2011. However, financial and capital markets came under further strain during the quarter.

Foreign exchange and interest rate markets were defined by high volatility during the second quarter. The euro appreciated significantly until the middle of May vis-a-vis the US dollar, also against the background of the European Central Bank's (ECB) key rate hike. However, it gave up this appreciation again before it ended the quarter at only a slightly higher level over the US dollar than at the start of the quarter, having fluctuated strongly over the period. The euro was also volatile relative to the pound sterling: it ended the quarter higher compared with the start. The Swedish krona and the Canadian dollar also traded lower against the euro at the end of the quarter compared with the start. On the other hand, the euro depreciated continuously against the Swiss franc almost throughout the entire quarter. This suggests that investors consider the Swiss franc a safer bet than the euro.

While the long-term interest rates of the most important currencies in which we are active rose in the first quarter of the year, these declined considerably in the second quarter thus being on a low level. Short-term interest rate development was less uniform. While short-term euro interest rates were boosted by the key rate hike, short-term US dollar rates fell slightly. The short-term interest rates of the other important currencies in which we are active – such as the pound sterling – were largely unchanged or rose marginally – as with the Swedish krona – relative to the start of the quarter. The different levels achieved between the currencies are significant here. Short-term Swiss franc, Japanese yen and US dollar rates are very low. They are somewhat higher for the pound sterling, followed by the euro, while short-term Swedish krone interest rates are clearly distinguished by their relatively high level, also owing to several key rate hikes.

Annual inflation was above 2 % in the second quarter for most of the important economies. The rate of inflation was particularly pronounced in many emerging market economies. The last annual rate of inflation exceeded more than 6 % in China, and levels just short of 10 % in Russia. Inflation also reached levels above 4 % in some advanced economies, such as Poland and Great Britain; in the case of Great Britain, this was also due to the increase in value-added tax. Average inflation in the euro zone amounted to approximately 2.7 % in the second quarter. Inflation accelerated notably in the US since the end of last year and exceeded 3 % year-on-year in the second quarter. In Japan, prices remained largely unchanged from the previous year. Switzerland, Ireland, Norway and Sweden in particular, had low annual rates of inflation by European standards. Inflation was driven especially by higher commodity prices, especially for crude oil and foodstuffs.

These inflation rates prompted various central banks to tighten their monetary policy somewhat in the second quarter of 2011. China reacted to the high rate of inflation by continuing the policy pursued in the previous quarter of increasing the minimum reserve requirements for commercial banks on the one hand, and by raising the benchmark interest rates for deposits and loans on the other.

Growing concerns about inflation prompted the ECB to raise key rates slightly in April, by 0.25 percentage points to 1.25 %. The central banks of Sweden, Norway, Denmark and Russia also raised key rates. Poland‘s central bank even raised key rates in several steps by 0.75 percentage points. On the other hand, the US Federal Reserve (Fed), as well as the Bank of England (BoE) and the Bank of Japan (BoJ) kept key rates unchanged at a historically low level.

Furthermore, discussions continued on financial and capital markets concerning planned reforms to the regulatory and supervisory environment, and regarding levies to be charged to the banking sector. The issues of 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, are of major importance.

Global commercial property markets

Besides various property-specific factors, such as the location and modernity of the building, the development of rents and property values also depends on macroeconomic factors. Overall, this affects the development of macroeconomic output – measured in terms of the change in gross domestic product, for example –, the labour markets and long-term interest rates. Most of the countries where we are active continued to post positive economic output in the second quarter, albeit with somewhat slower momentum than in the previous quarters. Unemployment stagnated at a high level in many countries, and long-term interest rates fell in the most important countries in which we are active. In this respect, these factors created a stable to slightly positive environment for commercial property markets in the second quarter.

This was also duly reflected in the markets themselves: rents and values or prices were largely stable or, in some instances, slightly higher. This development was especially true for the first-class commercial property segment, which continued to be in the focus of users and investors in many places. Very few markets reported any drop in the rents and prices for first-class commercial property during the second quarter. Properties outside this segment – in relation to the factors determining rent and value – often continued to lag behind this development.

These trends were evident for office as well as for retail and logistics properties. The hotel sector, where there was already a clear upside trend last year, following the difficult year for the hotel industry in 2009, showed signs of further positive developments in the second quarter of 2011. The important indicator for a hotel’s success, namely the average revenues per available hotel room, rose in numerous hotel locations compared with the same period of the previous year. This was attributable in part to an improvement in the occupancy ratio, and also to an improvement in average room prices.

The overall volume of commercial property traded on the investment markets showed a further increase compared with the corresponding period of the previous year. However, it increased only slightly compared with the first three months of this year. Looking at the various regions, the rates of change differed considerably, though. Investors' yield requirements for newly-acquired commercial properties were largely stable on most markets. In fact, they fell on some markets in the premium segments and slight increases were only registered on a small number of markets in this segment. A decline in the yield requirements (assuming all other parameters remain the same) leads to higher prices, while correspondingly, higher yields lead to a price decline. Investors continued to focus on first-class properties. Nonetheless, there was some interest – higher than in the previous year, albeit on a selective basis – in properties which are not top of the range in terms of location or quality. Often, these properties lagged behind the high-quality properties or those with a stable cash flow, in terms of price performance.

Institutional housing industry

The institutional housing industry in Germany proved successful also in the second quarter of 2011.

Rents offered are currently some 2 % higher throughout Germany than in the second quarter of 2010. The rise in advertised rents was almost 3 % higher in the cities than in non-urban districts, where they rose by only approximately 1 %. All in all, the development is very heterogeneous.

The stability of rental cash flows is also bolstered by the fact that management tools for letting and rental claims handling are becoming more pro-fessional (and more efficient) all the time. The members of the GdW, the Federation of German Housing Enterprises, have reported a 34 % decline in unpaid rental claims since 2003, to € 496 million.

Another investment focus of the companies operating in the institutional housing industry is the enhancement of energy efficiency in residential buildings. The volume of loans subsidised by KfW for energy-efficient renovation was increased in June 2011, from € 1 billion to € 1.5 billion p. a. from 2012 to 2014, and legislation on climate-friendly urban development was agreed at the same time.

The positive development on the transaction market remained intact in the course of the year. Until mid-April, residential property with a value of € 1.8 billion was traded. International investors continue to define the transaction markets. Open-ended residential property funds are becoming increasingly important as buyers. The trend that was already evident since 2010 of rising demand for smaller portfolios in the core segment and a smaller number of larger transactions in the opportunistic sector remains intact.

The 21st Aareon Congress – a trade meeting for the property management sector – was held in Garmisch-Partenkirchen from 30 May to 1 June 2011. The main topics of interest covered were cloud computing, social media and future trends in the institutional housing industry.

Financial Performance

Operating profit in the first half of 2011 amounted to € 91 million (H1 2010: € 61 million). The year-on-year increase was largely due to higher net interest income and lower allowance for credit losses.

Net interest income of € 268 million was 12 % higher than the previous year (€ 239 million). The rise was attributable primarily to higher average margins generated in the lending business. Compared with the previous year, the low interest rate environment burdened the profitability of the deposit-taking business with the institutional housing industry.

The allowance for credit losses amounted to € 42 million during the first six months of the financial year (H1 2010: € 65 million). It was there-

Consolidated Income Statement of Aareal Bank Group

€ mn	1 Jan-30 Jun 2011	1 Jan-30 Jun 2010
Net interest income	268	239
Allowance for credit losses	42	65
Net interest income after allowance for credit losses	**226**	**174**
Net commission result	61	62
Net result on hedge accounting	0	4
Net trading income/expenses	-6	-7
Results from non-trading assets	4	14
Results from investments accounted for using the equity method	1	5
Results from investment properties	4	0
General administrative expenses	187	183
Net other operating income/expenses	-12	-8
Impairment of goodwill	0	0
Operating profit	**91**	**61**
Income taxes	26	18
Net income/loss	**65**	**43**
Allocation of results		
Net income/loss attributable to non-controlling interests	9	9
Net income/loss attributable to shareholders of Aareal Bank AG	56	34
Appropriation of profits		
Net income/loss attributable to shareholders of Aareal Bank AG	56	34
Silent participation by SoFFin	11	17
Consolidated profit/loss	**45**	**17**

fore lower than the pro-rata forecast range of € 110 to € 140 million, but within the fluctuation range we had expected.

Net commission result of € 61 million was slightly lower than the previous year (H1 2010: € 62 million). This figure includes costs of € 15 million (H1 2010: € 11 million) incurred for bonds guaranteed by SoFFin.

Net trading income / expenses of € -6 million were largely attributable to the measurement of trading derivatives used to hedge interest rate and currency risk, and to unrealised changes in value from sold hedging instruments on selected EU sovereign countries.

Net income of € 4 million from investment securities was largely due to the sale of fixed-income securities (H1 2010: € 14 million).

At € 187 million, administrative expenses were roughly unchanged from last year's level (H1 2010: € 183 million).

Net other operating income and expenses amounted to € -12 million (H1 2010: € -8 million), reflecting, in particular, expenses incurred in relation to a specific property.

Overall, consolidated operating profit for the first six months of the current financial year totalled € 91 million (H1 2010: € 61 million). Taking into consideration taxes of € 26 million and non-controlling interest income of € 9 million, net income attributable to shareholders of Aareal Bank AG amounted to € 56 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated income stood at € 45 million.

Segments

Structured Property Financing

Business development

We continued to pursue our risk-sensitive lending policy in the quarter under review, as well as consistently managing our loan portfolio. New business in the second quarter of 2011 came in at € 1.8 billion and was therefore higher than in the same period of the previous year (Q2 2010: € 1.6 billion). The volume of new business generated in the first half of 2011 stood at € 3.2 billion, compared with € 2.9 billion in the first half of the previous year. The share of loan renewals relative to new business declined considerably compared with the first half of 2010, and the volume of initial loan issues more than doubled.

At 80 %, Europe accounted for the largest share of new business by far in the first two quarters of 2011, followed by North America with 18 %. The volume of new business generated in Asia was low, accounting for only 2 %.[1)]

Europe

The stable trend in relation to the rents and prices of high-quality properties continued on the majority of European commercial property markets in the quarter under review. Against the background of the overall trend of stable rents and prices, some markets for first-class properties posted slight increases, whereas only very few markets in the premium segment were affected by declines. These developments applied to the different types of property – office, retail and logistics. Higher rents in the premium segment were reported for the second quarter in – for example – the office and logistics markets in Moscow, the office and retail markets in Stockholm, and in the retail markets in Frankfurt, Hamburg and Helsinki. On the other hand, top rents fell in only very few markets, such as the office markets in Madrid, or the office and logistics markets in The Hague, as well as the logistics markets in Milan and Munich. Rental development for properties in peripheral locations, or for those of lesser quality, generally lagged behind that of high-quality property.

The hotel sector shows signs of an improvement on many important markets compared with the same period of the previous year. This is evident on many markets from the rise in the key indicator for average revenues per available hotel room. When comparing the hotel indicators to the previous year, it has to be noted that the hotel sector had been influenced in the second quarter of the previous year by the restrictions imposed on air travel by the volcanic eruption in Iceland. Only few of the major European centres deviated from the positive development in the hotel sector.

Investor interest remained focused predominately on premium properties. Nonetheless, an increasing, albeit still selective interest was determined in properties that are not included in the first-class segment in relation to the factors determining value, or that show development potential. Transaction volumes in Europe in the second quarter of 2011 were moderately higher than the level seen in the corresponding period of the previous year, but slightly below the first quarter of 2011. Investor yield requirements for newly-acquired commercial properties were mostly stable in the second quarter. They declined in a few markets in this premium segment, such as the office, retail and logistics markets in Moscow, the office and retail markets in Stockholm or various logistics markets in Germany's most important economic centres. Together with constant or rising rents, this had a positive effect on market prices. There were very few markets where a slight increase in the yield requirements of first-class properties was recorded. These include for example, office markets in some Dutch centres.

[1)] 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.

In Europe, we generated new business in the amount of € 1.3 billion in the second quarter of 2011; this translates into € 2.6 billion for the first half of the year in total. Western Europe accounted for the highest share by far, followed by Northern Europe. The Southern and Eastern European shares lagged behind considerably.

North America (NAFTA states)

There was evidence of stabilising rents in North America. In the US, the national average for office, retail and logistics rents was virtually constant. However, some markets deviated from this trend, posting a slight increase in rents on average, with others recording a slight average decline. For example, central locations in New York City and Washington D.C. recorded a slight increase in average office rents. This increase was more pronounced in the centre of San Francisco, whereas office rents declined slightly in Los Angeles. Vacancy ratios persisted at a high level, and on average were largely unchanged or marginally lower.

On the American hotel market, national average revenues per available hotel room improved significantly compared with the second quarter of the previous year.

Investors remained focused on first-class properties in North America too, despite the growing, albeit selective interest seen in properties outside of the premium segment. Transaction volumes rose considerably in the second quarter of 2011, compared with the corresponding period of the previous year and the first quarter of this year. On average, investor yield requirements for newly-acquired commercial properties were down slightly.

Our volume of new business in North America during the second quarter of 2011 was € 0.5 billion, and therefore totalled € 0.6 billion for the first half of the year. We conducted this new business almost exclusively in the US, with a very small share generated in Mexico.

Asia

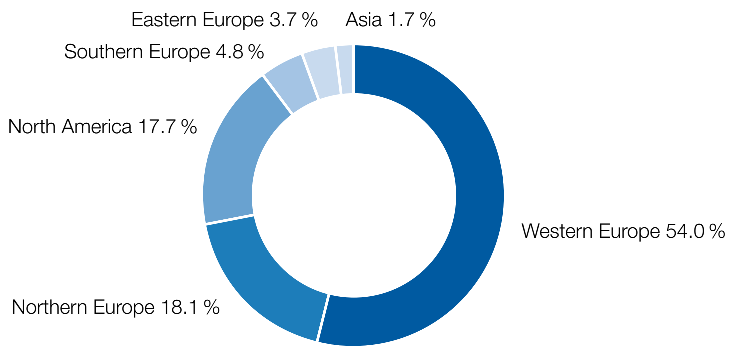
Rents for first-class commercial properties in China's most important locations and in Singapore continued to rise in the second quarter. This applied to office and retail, as well as to logistics properties. On average, retail rents in Singapore were the only segment to post a slight decline. Investor yield requirements for newly-acquired properties were stable or fell slightly in China and Singapore – on the whole, prices therefore continued to rise. While the volume of transactions in China in particular remained at a high, virtually unchanged level compared with the previous quarter, no hasty sales of commercial properties were determined on the Japanese investment market after the earthquake catastrophe in mid-March. However, there were some cancellations and postponements. The volume of investments in Japan was therefore low in the second quarter after a strong start to the year. This meant that the total volume invested in Asia was significantly lower than in the previous quarter.

Rental interest also remained reticent in Japan. The effects of the earthquake on the future progress of the Japanese commercial property market cannot be fully estimated at present.

The hotel market varied in the big East Asian cities. While the average revenues per available hotel room rose over the same quarter of the previous year in Beijing and Singapore, revenues per hotel room in Shanghai and Tokyo posted

New business 1 January-30 June 2011

by region (%) Total volume: € 3.2 billion



a marked decline. The decline in Shanghai is likely to be attributable largely to the fact that the city benefited considerably last year from the World Expo that ran from the start of May. The very high declines in Tokyo are attributable to the earthquake catastrophe and its consequences for travel.

The volume of new business conducted in Asia in the second quarter was low, at less than € 0.1 billion. We concluded no new business in Asia in the first quarter of 2011.

Segment result

At € 41 million, operating profit generated in the Structured Property Financing segment in the second quarter of 2011 was significantly higher than the previous year (Q2 2010: € 25 million) and almost matched the extraordinarily strong figure of the first quarter of 2011 (€ 43 million). The year-on-year increase was largely due to higher net interest income and lower allowance for credit losses.

Net interest income during the period under review was € 124 million, after € 111 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 in the second quarter amounted to € 24 million (Q2 2010: € 33 million). It was therefore lower than the pro-rata forecast range of € 110 to 140 million, but within the fluctuation range we had expected.

Net income of € 2 million from investment securities was largely due to the sale of fixed-income securities (Q2 2010: € 14 million).

Structured Property Financing segment result

€ mn	Quarter 2 2011	Quarter 2 2010
Net interest income	124	111
Allowance for credit losses	24	33
Net interest income after allowance for credit losses	**100**	**78**
Net commission result	-2	1
Net result on hedge accounting	2	2
Net trading income/expenses	2	-13
Results from non-trading assets	2	14
Results from investments accounted for using the equity method	–	5
Results from investment properties	2	0
General administrative expenses	54	55
Net other operating income/expenses	-11	-7
Impairment of goodwill	0	–
Operating profit	**41**	**25**
Income taxes	13	7
Segment result	**28**	**18**
Allocation of results		
Segment result attributable to non-controlling interests	4	4
Segment result attributable to shareholders of Aareal Bank AG	24	14

At € 54 million, administrative expenses in the second quarter were down slightly on the corresponding level of the previous year (Q2 2010: € 55 million).

Net other operating income and expenses amounted to € -11 million (Q2 2010: € -7 million), reflecting, in particular, expenses incurred in relation to a specific property.

Overall, operating profit for the Structured Property Financing segment was € 41 million (Q2 2010: € 25 million). Taking tax expenses of € 13 million into consideration (Q2 2010: € 7 million), the segment result was € 28 million (Q2 2010: € 18 million). According to the allocation of results, segment results of € 24 million in the second quarter were attributable to shareholders of Aareal Bank AG (Q2 2010: € 14 million).

Consulting / Services

Business development – institutional housing industry

Aareon AG

The positive development of the Wodis Sigma ERP system continued in the second quarter. A further 13 clients signed contracts, including for example, Freiburger Stadtbau GmbH, the largest commercial housing enterprise in southern Badenia. A total of 347 clients have opted for Wodis Sigma since its introduction, with 216 already using the software in production. Most of the existing clients of the successful product line previously used the Aareon ERP products Wodis and WohnData. To adequately service the strong demand, Aareon has invested further in expanding its advisory and support capacities. With the introduction of the new Release 3.0 in the fourth quarter of 2011, Aareon can offer its clients greater opportunities for using a software rental model (known as Software as a Service – "SaaS"), besides the licence model. Aareon can therefore pave the way for its clients to benefit from the advantages of cloud computing individually geared towards the institutional housing industry. Aareon Cloud is available exclusively for Aareon clients. The data is held in Aareon's Mainz data centre, which guarantees data security and pro-tection at the highest level. Against this background, some of the remaining WohnData clients have decided in favour of converting to the rental model. Wodis Sigma Release 3.0 will also allow the acquisition of additional applications from Aareon Cloud. Aareon Cloud clients pay regular usage fees over a long-term period, but do not need to purchase a software licence – thus saving the related one-off cost.

As expected, the market for SAP® projects remained muted. Larger projects for implementing SAP® were not tendered in the second quarter either. Demand was concentrated on Aareon's SAP® consultancy services. Blue Eagle Release 6.2 is in development at present, with the rollout planned for November 2011.

The business with the established GES system remains stable. Back in 2009, the WohnData Client Advisory Council and Aareon agreed on the WohnData run time: WohnData clients should determine their IT strategies, select their software and agree a conversion project for 2010/2011. A large number of clients already switched to another Aareon ERP product, and further conversion projects are already in operation or in the planning phase.

The Integrated Services product line continued to develop favourably. Demand was particularly high for the Mareon service portal, the document management system Aareon DMS, the insurance solution BauSecura and Aareon's invoicing service for the digitalisation of the invoicing process. One of Aareon's largest clients, Treureal GmbH, Mannheim, decided in favour of Mareon in the second quarter.

One of the particular highlights of the second quarter was the 21st Aareon Congress held in Garmisch-Partenkirchen – the trade meeting for the property management sector with some 1,000 participants. Conducted under the motto "Status. Trends.Visions", the key issues covered included cloud computing, social media and future trends in the institutional housing industry. The new

Aareon online shop was launched at the Congress, which offers a range of products to Wodis Sigma and GES clients.

Development in Aareon's international business has also been positive. In June, Aareon France SAS held its client convention at the Pavillon Royal in the Bois de Boulogne in Paris. This is one of the largest events held by the property management sector in France, with around 200 participants and an extensive exhibition of software partner institutions. The main points of interest included further streamlining of processes through digitalisation, intelligent buildings and customer relationship management in relation to the tenant. Business continues to develop favourably at the French subsidiary, in line with planning. Since the second quarter, Aareon UK is cooperating with Documotive, Sutton Coldfield, to provide document management solutions for the social institutional housing industry. In the Netherlands, SG|automatisering will launch the new Release 2.2 of the ERP solution SG|tobias^{AX} on the market in the third quarter. In April, the property management company Viverion in Lochem, which manages 5,700 residential units, signed a contract for SG|tobias^{AX}. The integration process of the Dutch subsidiary – acquired in the fourth quarter of last year – continues on schedule.

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 – the BK01 product family – to our commercial housing sector clients. Aareal Bank's objective is to increase the volume of deposits through new client acquisition, as well as to intensify the business relationships with existing clients.

At an average € 4.7 billion (Q1 2011: € 4.5 billion), the volume of deposits was at a high level during the second quarter of 2011 – in fact, it has been rising continuously since the first quarter of 2010.

Our clients continue to make strong use of the combination of cash investment schemes, specialist services for automated mass electronic payments processing, and the optimisation of downstream processes (together with related advice) which we offer. This enables us to maintain a strong position in the market, despite strong competitive pressure on money market investment terms.

This is also reflected in the number of new clients acquired for the deposit-taking and payments business. During the second quarter we again acquired new clients – 16 new institutional housing industry business partners, managing around 80,000 units. We also acquired four additional business partners from the energy supply sector.

Segment result

Operating profit in the Consulting/Services segment was € 3 million in the second quarter of 2011 (Q2 2010: € 6 million). The decline was attributable to a higher level of investment in our future business, particularly in the Wodis Sigma product line. The lower interest rate environment also burdened the profitability of the deposit-taking business in the Institutional Housing Unit compared to the previous year.

At € 48 million, revenues generated in the quarter under review were in line with the corresponding period of the previous year (€ 48 million). Compared with the previous year, the figure includes € 4 million of revenue generated by SG|automatisering bv, Aareon's Dutch subsidiary acquired in the fourth quarter of 2010. On the other hand, the interest margin generated by the deposit-taking business in the Institutional Housing Unit and reported in revenues was down on the corresponding level for the previous year.

The cost of materials, other operating income as well as depreciation and amortisation, were roughly in line with last year's levels.

Staff expenses in the quarter under review amounted to € 28 million. This figure included additional expenses for SG|automatisering bv, which Aareon had acquired in the fourth quarter of 2010.

Consulting/Services segment result

€ mn	Quarter 2 2011	Quarter 2 2010
Sales revenue	48	48
Own work capitalised	1	1
Changes in inventory	0	0
Other operating income	2	2
Cost of materials purchased	5	5
Staff expenses	28	25
Depreciation, amortisation and impairment losses	3	4
Results from investments accounted for using the equity method	1	–
Other operating expenses	13	11
Interest and similar income/expenses	0	0
Operating profit	**3**	**6**
Income taxes	1	2
Segment result	**2**	**4**
Allocation of results		
Segment result attributable to non-controlling interests	0	0
Segment result attributable to shareholders of Aareal Bank AG	2	4

Similarly, compared with the previous year, other operating expenses include (amongst other things) an additional € 1 million expenses resulting from SG|automatisering bv.

On balance, the Consulting/Services segment yielded a net contribution of € 3 million to consolidated operating profit (Q2 2010: € 6 million).

After deduction of taxes, the segment result for the second quarter of 2011 was € 2 million (Q2 2010: € 4 million).

Financial Position

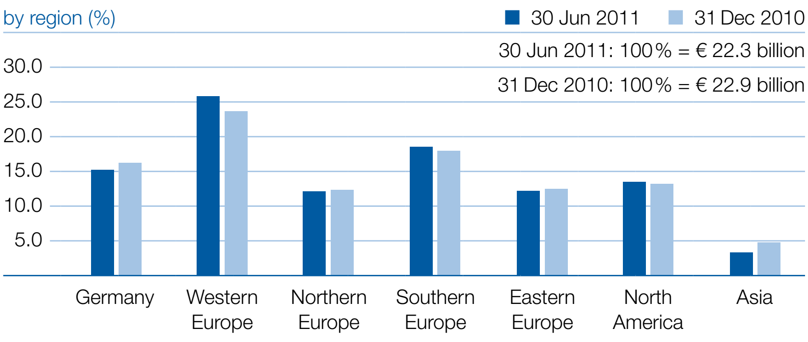
Aareal Bank Group's total assets as at 30 June 2011 amounted to € 40.9 billion, after € 41.2 billion as at 31 December 2010.

[1] As at 30 June 2011, the portfolio of property financings under management totalled € 22.5 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.

Property financing portfolio

The volume of Aareal Bank Group's property financing portfolio[1] stood at € 22.3 billion as at 30 June 2011. This equates to a slight decrease of 2.8 % from the 2010 year-end figure of € 22.9 billion. The international portfolio has also fallen slightly, from € 19.2 billion to € 18.9 billion, and now accounts for 85 % of the total portfolio (31 December 2010: 84 %). The chart below illustrates the very broad regional diversification overall.

Property financing volumes (amounts drawn)



The performance of the property financing portfolio was defined during the course of the 2011 financial year by a significant increase in new business activity compared with the same period of the previous year. Additionally, several large-volume repayments were reported in the first six months of this financial year. The repayment ratio exceeds our expectations slightly. Exchange rate performance in the course of the year also contributed to the slight decline in the portfolio value.

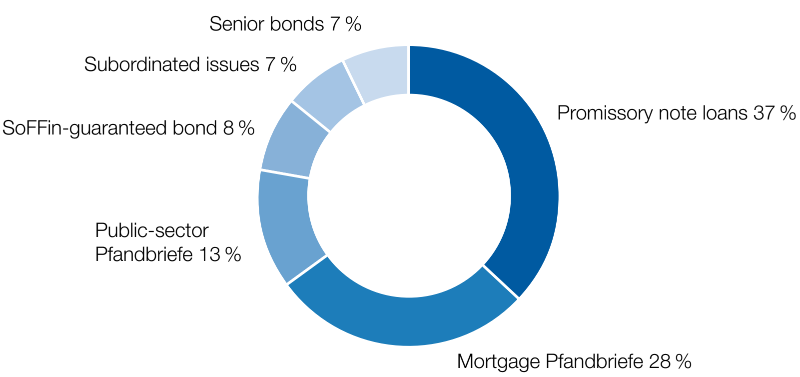
Securities portfolio

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 used to procure short-term liquidity, for example through repo transactions conducted on the money market.

As at 30 June 2011, the securities portfolio was measured at € 12.2 billion (with a nominal volume of € 11.6 billion), and comprised the four asset classes of public-sector borrowers, Pfandbriefe and covered bonds, bank bonds and asset-backed securities (ABS). 97 %[1] of the overall portfolio is denominated in euros. 99.9 %[1] of the portfolio has an investment grade rating[2].

Capital market refinancing mix as at 30 June 2011

% Total volume: € 25.1 billion



Refinancing and equity

Aareal Bank Group continued to successfully carry out refinancing activities in the second quarter of 2011, and also continues to enjoy a good liquidity situation. Long-term funding as at 30 June 2011 amounted to € 25.1 billion and comprised Pfandbriefe (German covered bonds), unsecured and subordinated issues. Aareal Bank also had € 4.7 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 € 5.0 billion.

€ 1.7 million of long-term funds were raised on the capital market in the second quarter. This comprises Mortgage Pfandbriefe in the amount of € 0.8 million as well as unsecured refinancing of € 0.9 million.

Key funding transactions during the second quarter included in particular, a three-year bearer bond and the placement of a five-year Mortgage Pfandbrief. Both transactions were sized at € 500 million each.

The bank raised a total of € 2.8 billion in long-term funds on the capital market through private and public placements during the first six months of the financial year, comprising € 1.6 billion in Mortgage Pfandbriefe and € 1.2 billion in unsecured funding. Aareal Bank has therefore maintained its long-term funding inventory at a high level.

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.

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

[1] Details based on the nominal volume
[2] The rating details are based on the composite ratings

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 million to € 180 million. The gross issue proceeds generated amounted to € 269.6 million.

On 28 April 2011, Aareal Bank AG made a second partial repayment, in the amount of € 75 million, related to the silent participation provided by the German Financial Markets Stabilisation Fund (SoFFin). The repayment reduced the silent participation to a residual amount of € 300 million.

Additionally, Aareal Bank Group 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 on 19 April 2011. 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.

Regulatory indicators

Regulatory indicators under AIRBA

	30 Jun 2011	31 Dec 2010
€ mn		
Tier 1 capital	2,494	2,284
Liable capital	3,137	2,910
Risk-weighted assets (incl. market risk)	15,738	17,663
%		
Tier 1 ratio	15.8	12.9
Total figure	19.9	16.5

Report on material events after the reporting date

After the end of the interim report period, Aareal Bank invited investors holding the remaining SoFFin-guaranteed issue to redeem all outstanding notes early. The three-year notes had an issue volume of € 2 billion and a maturity on 26 March 2012. The offer, which expired on 11 July 2011, was taken up with an aggregate volume of just under € 0.8 billion. Aareal Bank accepted all notes tendered for repurchase, and cancelled them in the meantime. The repurchase price was set at 100.816 %.

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

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.

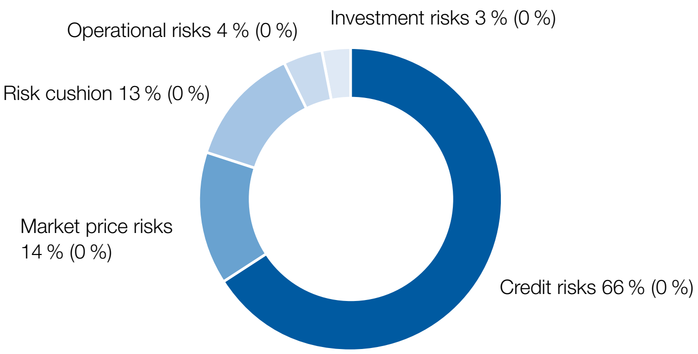
The business policy set by the Management Board, and approved by the Supervisory Board, provides the conceptual framework for Aareal Bank Group's risk management. Taking this as a basis, and strictly considering the bank's risk-bearing capacity, we have formulated detailed strategies for managing the 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 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 30 June 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", and in the 2010 Annual Report.

Allocation of aggregate risk cover

% (change from 31 December 2010 (% points)) as at 30 June 2011



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.

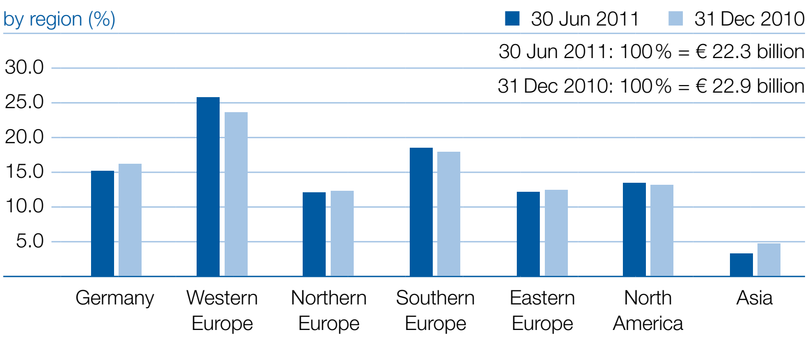
A credit risk report that complies with the Minimum Requirements for Risk Management (MaRisk) is prepared and submitted to the bank's senior management and Supervisory Board on a regular basis, at least quarterly. This report contains extensive information on the development of the credit portfolio (covering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

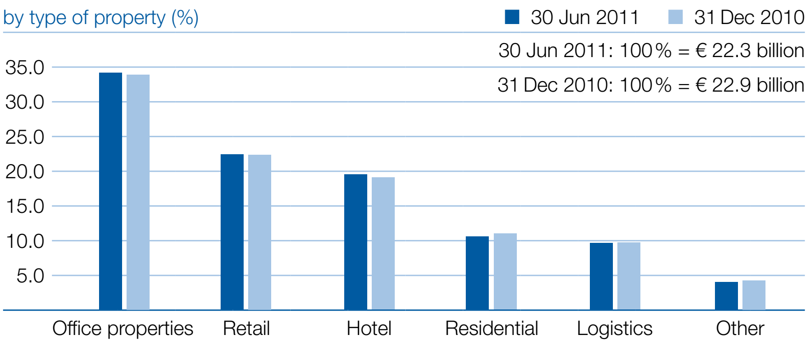
In principle, Aareal Bank pursues a "buy, manage and hold" strategy in managing its credit portfolio: this means that loans are generally held until maturity; sales of loans to third parties during their term are only used on a selective basis, and by selling parts of exposures. Loan syndication is used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

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

Property financing volumes (amounts drawn)



Property financing volumes (amounts drawn)



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 incurred before counter-measures take effect. Since this is a statistical approach, the forecast for the potential loss that may be incurred within a specific period of time is for a given confidence interval only.

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

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

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

Euro mn	MAX	MIN	Mean	Limit
Q2 2011 (2010 year-end values) 99 %, 10-day holding period				
Aareal Bank Group – general market price risk	66.5 (71.5)	43.3 (36.5)	55.3 (46.2)	– (–)
Group VaR (interest rates)	61.4 (67.5)	38.3 (30.6)	50.1 (40.9)	– (–)
Group VaR (FX)	13.9 (17.9)	12.5 (13.4)	13.3 (15.6)	– (–)
VaR (funds)	8.6 (11.9)	5.7 (6.0)	7.2 (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)	85.3 (71.4)	103.4 (96.2)	– (–)
Aggregate VaR – Aareal Bank Group	127.1 (122.2)	97.7 (85.4)	118.0 (108.0)	181.0 (181.0)

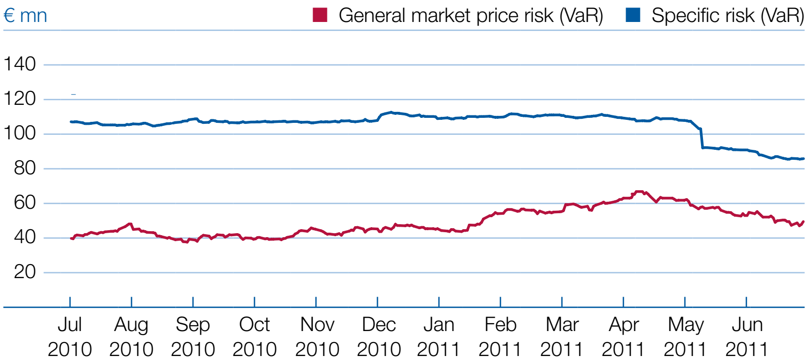
To ensure that Aareal Bank's figures are comparable to those published by other institutions, the risk parameters shown below were determined for a one-day holding period:

Euro mn	MAX	MIN	Mean	Limit
Q2 2011 (2010 year-end values) 99 %, 1-day holding period				
Aareal Bank Group – general market price risk	21.0 (22.6)	13.7 (11.5)	17.5 (14.6)	– (–)
Group VaR (interest rates)	19.4 (21.3)	12.1 (9.7)	15.8 (12.9)	– (–)
Group VaR (FX)	4.4 (5.7)	4.0 (4.2)	4.2 (4.9)	– (–)
VaR (funds)	2.7 (3.8)	1.8 (1.9)	2.3 (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)	27.0 (22.6)	32.7 (30.4)	– (–)
Aggregate VaR – Aareal Bank Group	40.2 (38.7)	30.9 (27.0)	37.3 (34.2)	57.2 (57.2)

Aggregate VaR – Aareal Bank Group

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

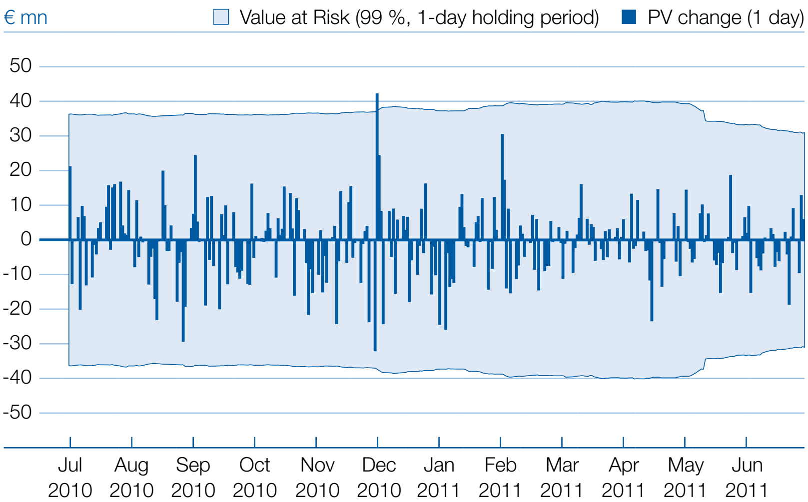
General market price risk and specific risk during 2010/2011



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 (≤ 5 for a 250-day period). The number of negative outliers at Group level never exceeded 2 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

Business environment

Global economy

Various indicators point towards moderate growth in the global economy during the second half of 2011, albeit at a slower pace than in the first half of the year, and below expectations at the beginning of the year. In this context, growth rates are set to diverge considerably across regions and countries.

Significant uncertainty remains regarding the economic outlook. Despite the fundamental agreement on a package of measures to overcome the Greek debt crisis reached at the Brussels Summit in July, the further development of the European sovereign debt crisis is set to remain a substantial factor of uncertainty, as well as the search for a sustainable solution to the US debt issue. It is thus fair to expect volatility on financial and capital markets to remain high for the time being. Overall, the risks in the financial system have increased.

Tax increases and reduced spending, which numerous countries have embarked upon, represent another uncertainty factor for global economic developments going forward. Whilst such measures may slow down overall demand as a consequence of lowering disposable incomes and government spending, at the same time they may strengthen investor confidence, thus boosting lending and investment activities – which would have a positive effect on economic developments. It is too early to determine which of the effects will be dominating. The current expansive monetary policy stance has a positive effect upon economic activity, even though a slight to moderate tightening can be expected from various central banks. Some economies or economic regions are facing the fundamental question as to how they can achieve sustainable growth.

Significant differences in economic developments across the various regions are expected to prevail. The developing Asian economies – China in particular – continue to lead the economic growth trend. Given the rising inflation in China, which has reached high levels, and the threat of an overheating economy, the Chinese central bank further tightened its monetary policy stance. Even though this is set to slow down economic momentum, China will nevertheless continue to post strong growth rates. In Japan, there are signs that the temporary collapse in production due to the earthquake disaster is easing: catch-up effects and re-building efforts are likely to add some boost to the Japanese economy during the second half of the year. Some problems which might affect production may still persist, however – with respect to power supply, for example. Therefore, only a slight decline in Japanese economic output is expected for the year as a whole – in spite of the earthquake disaster.

In Europe, we anticipate moderate growth on average for the remainder of this year, However, future economic developments will diverge across Europe: we anticipate relatively strong momentum in the German, Polish, Swedish and Turkish economies, whereas other countries will only post low growth rates. We only expect economic output to decline in a few countries such as Greece, Portugal and Ireland. The US economy is burdened by the high level of government debt, persistent high unemployment, consumer reticence, and by a business climate that deteriorated recently. In contrast, monetary policy – with an extremely low key interest rate – is providing a stimulus. We thus also expect the US economy to grow at a moderate pace.

The anticipated economic momentum in most countries will thus fall short of a level that would facilitate any notable improvement to employment this year. Accordingly, we expect unemployment to remain stagnant, or to fall slightly, until the end of the year: this means that it will persist at relatively high levels in many countries.

Inflation has been on the rise during the first half of the year, predominantly driven by commodity prices (and by crude oil prices in particular), but also by price increases for foodstuffs. Inflation has now reached pronounced levels, especially in emerging market economies. Given the strong influence of crude oil prices, which are driven by political factors and speculation, the outlook for inflation is difficult to judge. Nonetheless, the slower, moderate economic trend expected in developed countries would not indicate any material, extensive acceleration of inflation during the remainder of the year. We continue to expect high inflation rates in some Eastern European countries, and in the emerging economies of Asia.

ECB's medium-term target inflation rate is just under 2 % – a threshold that has been breached over recent months. For this reason, we see a possibility for a further tightening of ECB monetary policy, following the interest rate hike just after the end of the second quarter. However, we believe that any such tightening will remain moderate until the end of this year, which means that monetary policy is set to remain expansive. Other European central banks are expected to adopt a similar stance. In contrast to the ECB, the US Federal Reserve is committed to an employment target besides the goal of monetary stability. Given the prevailing high unemployment levels in the US, with a persistently high proportion of long-term unemployment, the Fed is likely to maintain its very expansive monetary policy for the remainder of this year. Facing considerable inflation, the central banks of some emerging market economies are set to take a different stance, however, with more restrictive monetary policy measures on the cards.

Against the background of an expected moderate tightening of monetary policy in many developed economies, assuming that all other conditions remain unchanged, we anticipate moderate increases in short-term as well as long-term interest rates in the currencies where we are active, for the remainder of the year.

Global commercial property markets

Developments on commercial property markets will strongly depend upon the future overall economic environment. Provided that the existing material risks threatening the economy as a whole do not materialise, on average we anticipate a stable to slightly positive development of rents and prices for commercial property. This outlook is supported by our expectation for moderate economic growth to prevail.

A cautious, conservative assessment of the development on commercial property markets going forward is also supported by persistently high unemployment levels in many countries, which we expect to remain mostly stagnant to slightly falling throughout the remainder of this year.

In principle, rising interest rates – particularly for long-term maturities – can burden commercial property prices. This is because higher interest rates tend to raise investor yield requirements (all other factors unchanged). However, we only anticipate moderate interest rate increases until the end of this year. The resulting burden is thus likely to be minor – yet such increases would also make any extremely dynamic price development unlikely.

The high volume of commercial property financings maturing before the end of this year, and in the years ahead, represents an uncertainty factor for global commercial property markets. This might lead to distressed sales and a burden upon prices if financings cannot be renewed or restructured, with potential buyers hard to find.

The trends described are expected to equally affect the different commercial property types – office, retail and logistics properties. We also expect market values of hotels to be stable to slightly positive. Average revenues per hotel room are set to improve further in many locations during the second half of the year, reflecting economic growth.

Looking at the different property classes, high-quality properties in prime locations are set to remain the focus of users and investors alike. Accordingly, these properties will develop more favourably – in terms of rents and prices – compared to those in less sought-after locations, or of lesser quality. Nonetheless, if economic development progresses and the number of vacancies are reduced, properties outside the first-class segment could enjoy a catch-up effect, leading to an increase in rents and prices. In any case, this will depend upon the specific situation of the respective sub-markets. Properties offering development potential through improvements are also expected to attract growing investor attention.

We assume stable to slightly rising rents and prices of commercial properties on average, for Europe and North America as well as for Asia. A regional differentiation in Europe is possible to the extent that rents and prices in countries with a relatively dynamic economic momentum will develop above average – whereas they might come under pressure in those countries with weak economic development and high unemployment. Considering that the US economy is expected to post moderate growth until year-end, we also anticipate commercial property prices in North America to be stable to slightly higher on average. The strongly expansive monetary policy might well be supportive for property markets there. Higher growth rates in the developing Asian economies relative to other international regions, especially in China, suggest positive performance from commercial property markets. However, the momentum is set to slow down somewhat; looking at the more restrictive monetary policy and the high volume of new buildings coming onto the market this year, we take a more cautious stance regarding rents and prices in China. As a consequence of the earthquake disaster, transaction volumes in the Japanese market will certainly be lower year-on-year, as some investors are likely to remain on the sidelines. Investors and tenants are expected to increasingly demand newer buildings with a high level of earthquake protection, with rents and prices of older buildings set to remain clearly behind. The situation in the Japanese hotel sector, with lower returns compared with the same period of the previous year, is expected to prevail during the second half of the year. Beyond this, it is still too early for a final assessment of how the earthquake will ultimately affect the future development of commercial property rents and prices.[1)]

Institutional housing industry

We expect the German institutional housing industry to continue to perform well during the remainder of this year, especially due to stable rental payments and constancy in values. Looking at the continued (albeit more moderate) economic growth, falling unemployment, and a moderate level of new construction, the German housing market is also expected to develop favourably. Housing prices are expected to increase by 3-4 % during the current year. In Germany's big cities in particular, growing demand combined with slowly-increasing supply may lead to rising rents and prices – whereas rural regions are more likely to experience falling housing demand.

Driven by the favourable market outlook, the number of new housing construction projects is set to increase, especially in prime locations. Overall, the forecast for new construction volume is a rise from 148,000 units in 2010 to approximately 156,000 units in 2011.

At the same time, housing enterprises will continue to focus on renovations with regard to energy efficiency, and in particular on the modification of their housing stock to suit elderly occupants. GdW, the Federation of German Housing Enterprises expects the aggregate investment volume of its members to increase by 6.7 %, to € 9.6 billion this year, including an increase in new construction activity.

We expect demand for residential property, as a valuable capital investment that offers a stable return, to continue. Assuming that the economic environment continues to develop favourably, the transaction market may gain further momentum during the current year, with metropolitan locations still gaining in attraction for residential property investors.

Cloud computing is one of the key trends in the IT industry, and one that is set to gain importance for property management software as well. Against the background of ever more complex IT solutions, relentless data volume growth, and faster-changing requirements, cloud computing offers new solutions: IT products can be procured as a service as and when needed, independently of any platform, via a network such as the internet.

Corporate Development

Structured Property Financing

The trend originally observed in 2010, but also during the first quarter of 2011, prevailed during the second quarter: besides a stabilisation, rents and market values of first-class commercial properties also saw a recovery on numerous markets. Whilst lesser-quality properties remained under pressure during the second quarter, there were initial signs of growing interest compared with the previous year – albeit on a very selective basis.

Despite a rather moderate economic growth in many countries, coupled with stagnating unemployment (expected to continue falling, but only very slowly), 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 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.

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

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 new 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 during the remainder of 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.

Despite the Brussels Summit resolutions on 21 July 2011, the European sovereign debt crisis is set to remain at the top of the agenda of financial and capital markets. It is thus fair to expect financial markets volatility to remain high for the time being. Should tension on financial and capital markets once again mount 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 a slight 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. One of the most prominent trends in the IT industry is cloud computing, where IT products can be procured as a service, and independently of any platform, via a network such as the internet. Designed for "SaaS" (software as a service) delivery, the new Wodis Sigma Release 3.0, which will be rolled out during the fourth quarter of this year, takes this trend into account. We anticipate a continued migration of WohnData and Wodis users to Wodis Sigma, and expect our SaaS business to grow. The respective business model is based on long-term fee payments by clients, and will replace a part of the licence-based business. We will continue to invest in the expansion of advisory and support resources for the Wodis Sigma product line.

We continue to expect demand for the SAP® solutions / Blue Eagle product line to be subdued, with a focus on Aareon's SAP® advisory services. With regard to the established GES system, we expect GES clients will increasingly convert to other Aareon ERP solutions, which will produce a revenue shift 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, the insurance service BauSecura, and the Aareon invoicing service. 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 in 2010.

We expect a significant increase in the revenues generated by the International Business product group, with the Dutch subsidiary SG|automatisering bv – acquired on 1 November 2010 – contributing a substantial share thereof. Release 2.2. of the new SG|tobias^{AX} product generation launched in 2010 will be rolled out during the third quarter of this year.

We believe that the market success of the ERP products Prem'Habitat 2.0 and PortalImmo 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 SG|automatisering bv.

Payments and deposit-taking

The process optimisation procedures for electronic mass payment services (BK 01 products) offered by the bank's Institutional Housing Unit continued to generate stable deposits for the bank's refinancing activities during the second quarter of 2011.

Following a slight increase at the beginning of the year, despite the ongoing predatory competition, the volume of deposits further increased to an average € 4.7 billion. 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 within rental guarantee deposits.

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

Despite the Brussels Summit resolutions on 21 July 2011, the European sovereign debt crisis and the US debt issue are to remain at the top of the agenda of financial and capital markets. It is thus fair to expect volatility on financial and capital markets to remain high for the time being. Overall, the risks in the financial system have increased.

Provided that the sovereign debt crises will not deteriorate further, Aareal Bank Group continues to see good potential for maintaining its positive business development during the remainder of the year, in this challenging market environment. The bank is making good progress in achieving its targets for 2011, which were last raised in April.

Accordingly, on the back of a moderately higher interest rate environment and expected revenues from additional new business, we expect net interest income for the 2011 financial year 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.

We project 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, especially in the event of negative developments in the business environment.

We believe that net commission income for the year 2011 will significantly exceed the previous year's figure. The net figure will benefit from relief due to lower guarantee fees, due to the partial redemption of SoFFin-guaranteed bonds.

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 the sale of hedges pertaining to the debt instruments of selected EU states, 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. Our target for new business is in a range between € 7 billion and € 8 billion for the current financial year.

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, for 2011 as a whole we believe that we will be able to once again markedly increase operating results over and above those for the 2010 financial year – results which were already good in the context of the challenging market environment.

Consolidated Financial Statements
Statement of Comprehensive Income

Income Statement

€ mn	Note	1 Jan-30 Jun 2011	1 Jan-30 Jun 2010
Interest income		525	422
Interest expense		257	183
Net interest income	1	**268**	**239**
Allowance for credit losses	2	42	65
Net interest income after allowance for credit losses		**226**	**174**
Commission income		93	89
Commission expenses		32	27
Net commission result	3	**61**	**62**
Net result on hedge accounting		0	4
Net trading income/expenses	4	-6	-7
Results from non-trading assets	5	4	14
Results from investments accounted for using the equity method		1	5
Results from investment properties		4	0
General administrative expenses	6	187	183
Net other operating income/expenses	7	-12	-8
Impairment of goodwill		0	0
Operating profit		**91**	**61**
Income taxes		26	18
Net income/loss		**65**	**43**
Allocation of results			
Net income/loss attributable to non-controlling interests		9	9
Net income/loss attributable to shareholders of Aareal Bank AG		56	34
Appropriation of profits			
Net income/loss attributable to shareholders of Aareal Bank AG		56	34
Silent participation by SoFFin		11	17
Consolidated profit/loss		**45**	**17**
€			
Earnings per share		**1.16**	**0.78**
Diluted earnings per share		**1.16**	**0.78**

Earnings per share are determined by dividing the earnings attributable to ordinary shareholders of Aareal Bank AG by the weighted average of shares outstanding during the reporting period.

Statement of Comprehensive Income

Reconciliation from Net Income/Loss to Total Comprehensive Income

€ mn	Note	1 Jan-30 Jun 2011	1 Jan-30 Jun 2010
Net income/loss		**65**	**43**
Changes in revaluation surplus	8	-22	-25
Changes in hedging reserves	8	–	0
Changes in currency translation reserves	8	0	2
Changes in reserves from transactions under common control	8	–	0
Gains and losses directly recognised in equity (after taxes)		**-22**	**-23**
Total comprehensive income		**43**	**20**
Allocation of total comprehensive income			
Total comprehensive income attributable to non-controlling interests		9	9
Total comprehensive income attributable to shareholders of Aareal Bank AG		34	11

Statement of Comprehensive Income

Income Statement (Quarterly Development)

€ mn	Quarter 2 2011	Quarter 1 2011	Quarter 4 2010	Quarter 3 2010	Quarter 2 2010
Interest income	273	252	250	231	215
Interest expense	139	118	111	100	93
Net interest income	**134**	**134**	**139**	**131**	**122**
Allowance for credit losses	24	18	8	32	33
Net interest income after allowance for credit losses	**110**	**116**	**131**	**99**	**89**
Commission income	46	47	56	42	44
Commission expenses	15	17	19	18	12
Net commission result	**31**	**30**	**37**	**24**	**32**
Net result on hedge accounting	2	-2	-4	-2	2
Net trading income/expenses	2	-8	13	2	-13
Results from non-trading assets	2	2	-23	-3	14
Results from investments accounted for using the equity method	1	0	0	0	5
Results from investment properties	2	2	-17	0	0
General administrative expenses	96	91	95	88	92
Net other operating income/expenses	-10	-2	-2	1	-6
Impairment of goodwill	0	–	0	–	0
Operating profit	**44**	**47**	**40**	**33**	**31**
Income taxes	14	12	11	11	9
Net income/loss	**30**	**35**	**29**	**22**	**22**
Allocation of results					
Net income/loss attributable to non-controlling interests	4	5	4	5	4
Net income/loss attributable to shareholders of Aareal Bank AG	26	30	25	17	18

Statement of Comprehensive Income

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

€ mn	Quarter 2 2011	Quarter 1 2011	Quarter 4 2010	Quarter 3 2010	Quarter 2 2010
Net income/loss	**30**	**35**	**29**	**22**	**22**
Changes in revaluation surplus	-10	-12	8	19	-43
Changes in hedging reserves	–	–	–	–	0
Changes in currency translation reserves	0	0	1	-2	2
Changes in reserves from transactions under common control	–	–	-1	0	–
Gains and losses directly recognised in equity (after taxes)	**-10**	**-12**	**8**	**17**	**-41**
Total comprehensive income	**20**	**23**	**37**	**39**	**-19**
Allocation of total comprehensive income					
Total comprehensive income attributable to non-controlling interests	4	5	4	5	4
Total comprehensive income attributable to shareholders of Aareal Bank AG	16	18	33	34	-23

Segment Reporting

Segment Results

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan-30 Jun 2011	1 Jan-30 Jun 2010	1 Jan-30 Jun 2011	1 Jan-30 Jun 2010	1 Jan-30 Jun 2011	1 Jan-30 Jun 2010	1 Jan-30 Jun 2011	1 Jan-30 Jun 2010
€ mn								
Net interest income	249	217	0	0	19	22	268	239
Net loan loss provisions	42	65					42	65
Net interest income after allowance for credit losses	**207**	**152**	**0**	**0**	**19**	**22**	**226**	**174**
Net commission result	-7	-3	87	88	-19	-23	61	62
Net result on hedge accounting	0	4					0	4
Net trading income/expenses	-6	-7					-6	-7
Results from non-trading assets	4	14		0			4	14
Results from investments accounted for using the equity method		5	1				1	5
Results from investment properties	4	0					4	0
General administrative expenses	105	107	82	77	0	-1	187	183
Net other operating income/expenses	-13	-9	1	1	0	0	-12	-8
Impairment of goodwill	0	0					0	0
Operating profit	**84**	**49**	**7**	**12**	**0**	**0**	**91**	**61**
Income taxes	24	14	2	4			26	18
Net income/loss	**60**	**35**	**5**	**8**	**0**	**0**	**65**	**43**
Allocation of results								
Net income/loss attributable to non-controlling interests	8	8	1	1			9	9
Net income/loss attributable to shareholders of Aareal Bank AG	52	27	4	7	0	0	56	34
Allocated equity	1,406	1,478	76	73	484	401	1,966	1,952
Cost/income ratio (%)	45.5	48.2	92.6	86.5			58.5	59.0
RoE before taxes (%)	10.9	5.7	13.7	29.1			8.3	5.4
Employees	**878**	**941**	**1,483**	**1,320**			**2,361**	**2,261**

Segment Reporting

Segment Results (Quarterly Development)

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	Q2 2011	Q2 2010	Q2 2011	Q2 2010	Q2 2011	Q2 2010	Q2 2011	Q2 2010
€ mn								
Net interest income	124	111	0	0	10	11	134	122
Allowance for credit losses	24	33					24	33
Net interest income after allowance for credit losses	**100**	**78**	**0**	**0**	**10**	**11**	**110**	**89**
Net commission result	-2	1	43	43	-10	-12	31	32
Net result on hedge accounting	2	2					2	2
Net trading income/expenses	2	-13					2	-13
Results from non-trading assets	2	14		0			2	14
Results from investments accounted for using the equity method		5	1				1	5
Results from investment properties	2	0					2	0
General administrative expenses	54	55	42	38	0	-1	96	92
Net other operating income/expenses	-11	-7	1	1	0	0	-10	-6
Impairment of goodwill	0						0	
Operating profit	**41**	**25**	**3**	**6**	**0**	**0**	**44**	**31**
Income taxes	13	7	1	2			14	9
Net income/loss	**28**	**18**	**2**	**4**	**0**	**0**	**30**	**22**
Allocation of results								
Net income/loss attributable to non-controlling interests	4	4	0	0			4	4
Net income/loss attributable to shareholders of Aareal Bank AG	24	14	2	4	0	0	26	18
Allocated equity	1,406	1,478	76	73	484	401	1,966	1,952
Cost/income ratio (%)	45.5	47.5	93.3	87.4			58.7	58.4
RoE before taxes (in %)	10.5	6.0	13.7	29.9			8.1	5.7

Segment Reporting

Consulting / Services Segment – Reconciliation of Income Statement

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

€ mn			Income statement classification – bank									
			Net interest income	Net commission result	Results from non-trading assets	Results from investments accounted for using the equity method	Administrative expenses	Net other operating income / expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	Q2 2011		0	43		1	42	1		**3**	1	**2**
	Q2 2010		0	43	0		38	1		**6**	2	**4**
Income statement classification – industrial enterprise												
Sales revenue	Q2 2011	48		48								
	Q2 2010	48		48								
Own work capitalised	Q2 2011	1					1					
	Q2 2010	1					1					
Changes in inventory	Q2 2011	0						0				
	Q2 2010	0						0				
Other operating income	Q2 2011	2						2				
	Q2 2010	2						2				
Cost of materials purchased	Q2 2011	5		5								
	Q2 2010	5		5								
Staff expenses	Q2 2011	28					28					
	Q2 2010	25					25					
Depreciation, amortisation and impairment losses	Q2 2011	3					3					
	Q2 2010	4					4					
Results from investments accounted for using the equity method	Q2 2011	1				1						
	Q2 2010											
Other operating expenses	Q2 2011	13					12	1				
	Q2 2010	11			0		10	1				
Interest and similar income / expenses	Q2 2011	0	0									
	Q2 2010	0	0									
Operating profit	**Q2 2011**	**3**	**0**	**43**		**1**	**42**	**1**				
	Q2 2010	**6**	**0**	**43**	**0**		**38**	**1**				
Income taxes	Q2 2011	1									1	
	Q2 2010	2									2	
Segment result	**Q2 2011**	**2**										
	Q2 2010	**4**										

Statement of Financial Position

€ mn	Note	30 Jun 2011	31 Dec 2010
Assets			
Cash funds		543	922
Loans and advances to banks	9	3,925	2,034
Loans and advances to customers	10	23,750	24,661
Allowance for credit losses		-322	-332
Positive market value of derivative hedging instruments		1,037	1,321
Trading assets	11	545	428
Non-trading assets	12	10,664	11,428
Investments accounted for using the equity method		2	3
Investment properties		214	220
Intangible assets	13	88	91
Property and equipment	14	97	95
Income tax assets		32	31
Deferred tax assets		89	69
Other assets	15	203	246
Total		**40,867**	**41,217**
Equity and liabilities			
Liabilities to banks	16	3,556	5,168
Liabilities to customers	17	24,048	22,846
Certificated liabilities	18	8,131	7,619
Negative market value of derivative hedging instruments		956	1,181
Trading liabilities	19	344	675
Provisions	20	210	237
Income tax liabilities		12	30
Deferred tax liabilities		28	27
Other liabilities	21	152	181
Subordinated equity	22	1,235	1,268
Equity	23, 24		
Subscribed capital		180	128
Capital reserves		721	511
Retained earnings		881	836
Other reserves		-130	-108
Silent participation by SoFFin		300	375
Non-controlling interest		243	243
Total equity		2,195	1,985
Total		**40,867**	**41,217**

Statement of Changes in Equity

€ mn	Subscribed capital	Capital reserves	Retained earnings	Other reserves		Silent participation by SoFFin	Total	Non-controlling interest	Total equity
				Revaluation surplus	Currency translation reserves				
Equity as at 1 January 2011	**128**	**511**	**836**	**-110**	**2**	**375**	**1,742**	**243**	**1,985**
Total comprehensive income for the period			56	-22	0		34	9	43
Capital increase	52	218					270		270
Costs of capital increase		-8					-8		-8
Payments to non-controlling interests								-9	-9
Dividends									
Silent participation by SoFFin						-75	-75		-75
Costs associated with the silent participation by SoFFin			-11				-11		-11
Other changes									
Equity as at 30 June 2011	**180**	**721**	**881**	**-132**	**2**	**300**	**1,952**	**243**	**2,195**

€ mn	Subscribed capital	Capital reserves	Retained earnings	Other reserves				Silent participation by SoFFin	Total	Non-controlling interest	Total equity
				Reserves from transactions under common control	Revaluation surplus	Hedging reserves	Currency translation reserves				
Equity as at 1 January 2010	**128**	**511**	**780**	**1**	**-112**	**0**	**1**	**525**	**1,834**	**243**	**2,077**
Total comprehensive income for the period			34	0	-25	0	2		11	9	20
Capital increase											
Costs of capital increase											
Payments to non-controlling interests										-9	-9
Dividends											
Silent participation by SoFFin											
Costs associated with the silent participation by SoFFin			-17						-17		-17
Other changes			-2						-2		-2
Equity as at 30 June 2010	**128**	**511**	**795**	**1**	**-137**	**–**	**3**	**525**	**1,826**	**243**	**2,069**

Statement of Cash Flows (condensed)

€ mn	2011	2010
Cash and cash equivalents as at 1 January	**922**	**990**
Cash flow from operating activities	-1,374	445
Cash flow from investing activities	767	-810
Cash flow from financing activities	228	29
Total cash flow	**-379**	**-336**
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 30 June	**543**	**654**

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 half-yearly financial report for the period ended 30 June 2011 was prepared pursuant to the provisions of section 37w in conjunction with section 37y no. 2 of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG"). It comprises the present interim condensed consolidated financial statements, as well as an interim group management report (see Group Management Report). The condensed consolidated financial statements were approved for publication by the Management Board on 4 August 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 315a (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 (€).

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

€ mn	1 Jan - 30 Jun 2011	1 Jan - 30 Jun 2010
Interest income from		
Property loans	319	263
Public-sector loans	17	10
Other lending and money market operations	86	57
Debt and other fixed-income securities	102	91
Current dividend income	1	0
Other interest income	–	1
Total interest income	**525**	**422**
Interest expenses for		
Bonds issued	60	43
Registered mortgage Pfandbriefe	33	19
Promissory note loans borrowed	75	54
Subordinated equity	16	13
Term deposits	53	39
Payable on demand	17	10
Other banking transactions	3	5
Total interest expenses	**257**	**183**
Total	**268**	**239**

(2) Allowance for credit losses

The allowance for credit losses amounted to € 42 million during the first six months of the financial year 2011 (H1 2010: € 65 million).

(3) Net commission result

€ mn	1 Jan-30 Jun 2011	1 Jan-30 Jun 2010
Commission income from		
Consulting and other services	73	72
Trustee loans and administered loans	1	2
Securities transactions	1	1
Securitisation transactions	–	1
Other lending and money market operations	14	8
Other commission income	4	5
Total commission income	**93**	**89**
Commission expenses for		
Consulting and other services	10	10
Securities transactions	16	11
Securitisation transactions	0	2
Other lending and money market transactions	5	1
Other commission expenses	1	3
Total commission expenses	**32**	**27**
Total	**61**	**62**

Commission income from consulting and other services primarily include commissions for IT services.

Commission expenses for securities transactions include expenses of € 15 million (H1 2010: € 11 million) for the guarantee facility extended by the German Financial Markets Stabilisation Fund (SoFFin).

(4) Net trading income / expenses

€ mn	1 Jan-30 Jun 2011	1 Jan-30 Jun 2010
Results from derivative financial instruments	-8	-8
Currency translation	2	0
Net income/expenses from other positions held for trading	–	1
Total	**-6**	**-7**

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

(5) Results from non-trading assets

€ mn	1 Jan-30 Jun 2011	1 Jan-30 Jun 2010
Result from debt securities and other fixed-income securities	5	14
of which: Loans and receivables	5	3
Available for sale	0	11
Result from equities and other non-fixed income securities	-1	1
of which: Available for sale	0	0
Designated as at fair value through profit or loss	-1	1
Results from equity investments (AfS)	0	-1
Total	**4**	**14**

Results of € 4 million from non-trading assets were mostly attributable to the disposal of fixed-income securities.

(6) General administrative expenses

€ mn	1 Jan-30 Jun 2011	1 Jan-30 Jun 2010
Staff expenses	114	110
Other administrative expenses	63	62
Depreciation, amortisation and impairment of property and equipment and intangible assets	10	11
Total	**187**	**183**

(7) Net other operating income/expenses

€ mn	1 Jan-30 Jun 2011	1 Jan-30 Jun 2010
Income from properties	3	4
Income from the reversal of provisions	0	6
Income from goods and services	2	2
Miscellaneous	6	6
Total other operating income	**11**	**18**
Expenses for property	11	8
Expenses for services used	0	0
Write-downs of trade receivables	0	0
Expenses for other taxes	1	1
Miscellaneous	11	17
Total other operating expenses	**23**	**26**
Total	**-12**	**-8**

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

€ mn	1 Jan-30 Jun 2011	1 Jan-30 Jun 2010
Net income/loss	**65**	**43**
Changes in revaluation surplus, after tax	**-22**	**-25**
Gains and losses on remeasuring available-for-sale financial instruments, before tax	-30	-33
Reclassifications to the income statement, before tax	0	2
Taxes	8	6
Changes in hedging reserves, after tax	**–**	**0**
Profit/loss from derivatives used to hedge future cash flows, before taxes	–	0
Reclassifications to the income statement, before tax	–	–
Taxes	–	0
Changes in currency translation reserves, after tax	**0**	**2**
Profit/loss from translating foreign operations' financial statements, before taxes	0	2
Reclassifications to the income statement, before tax	0	0
Taxes	–	–
Changes in reserves from transactions under common control, after tax	**–**	**–**
Gains and losses from transactions under common control, before tax	–	0
Reclassifications to the income statement, before tax	–	–
Taxes	–	–
Profit/loss directly recognised in equity, after taxes	**-22**	**-23**
Total comprehensive income	**43**	**20**

Notes to the Statement of Financial Position

(9) Loans and advances to banks

€ mn	30 Jun 2011	31 Dec 2010
Term deposits and current account balances	683	958
Public-sector loans	181	213
Receivables from securities repurchase transactions	2,978	811
Other loans and advances	83	52
Total	**3,925**	**2,034**

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

(10) Loans and advances to customers

€ mn	30 Jun 2011	31 Dec 2010
Property loans	21,743	22,392
Public-sector loans	1,526	1,641
Other loans and advances	481	628
Total	**23,750**	**24,661**

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

(11) Trading assets

€ mn	30 Jun 2011	31 Dec 2010
Positive market value of trading derivatives	545	428
Total	**545**	**428**

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

€ mn	30 Jun 2011	31 Dec 2010
Debt and other fixed-income securities	10,485	11,393
of which: loans and receivables (LaR)	5,966	6,463
Held to maturity (HtM)	233	557
Available for sale (AfS)	4,286	4,373
Equities and other non-fixed-income securities	178	34
of which: available for sale (AfS)	174	29
Designated as at fair value through profit or loss (dFVtPL)	4	5
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	1	1
Total	**10,664**	**11,428**

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:

€ mn	Carrying amount 30 Jun 2011	Fair value 30 Jun 2011	Carrying amount 31 Dec 2010	Fair value 31 Dec 2010
from AfS to LaR	**5,203**	**5,018**	**5,537**	**5,357**
Asset-backed securities	29	28	31	30
Bank bonds	914	931	984	1,004
Covered bonds	617	588	683	652
Public-sector issuer	3,643	3,471	3,839	3,671
from HfT to LaR	**340**	**314**	**388**	**347**
Asset-backed securities	340	314	382	341
Public-sector issuer	–	–	6	6
Total	**5,543**	**5,332**	**5,925**	**5,704**

If the bank had not opted for reclassification, this would have resulted in a € 15 million profit (before tax) (H1 2010: € 9 million) for the first six months of the current financial year, and € 5 million (after tax) (H1 2010: € -120 million) would have been recognised in the revaluation surplus.

Bonds of selected European countries

The following overview shows bonds of selected European countries included in non-trading assets of the measurement category "Loans and receivables" (LaR):

€ mn	Nominal amount 30 Jun 2011	Carrying amount 30 Jun 2011	Fair Value 30 Jun 2011	Nominal amount 31 Dec 2010	Carrying amount 31 Dec 2010	Fair Value 31 Dec 2010
LaR category						
Greece	–	–	–	–	–	–
Italy	914	960	880	914	979	896
Ireland	–	–	–	–	–	–
Portugal	–	–	–	–	–	–
Spain	–	–	–	–	–	–
Total	**914**	**960**	**880**	**914**	**979**	**896**

The revaluation surplus related to the above-mentioned government bonds of the LaR category amounted to € -73 million (before taxes) as at 30 June 2011 (31 December 2010: € -74 million). The revaluation surplus is attributable to government bonds which were reclassified in the years 2008 and 2009 from the measurement category "Available for sale" (AfS) to the measurement category "Loans and receivables" (LaR).

The following overview shows bonds of selected European countries included in non-trading assets of the measurement category "Available for sale" (AfS):

€ mn	Nominal amount 30 Jun 2011	Carrying amount 30 Jun 2011	Fair Value 30 Jun 2011	Nominal amount 31 Dec 2010	Carrying amount 31 Dec 2010	Fair Value 31 Dec 2010
AfS category						
Greece	–	–	–	–	–	–
Italy	410	402	402	410	401	401
Ireland	–	–	–	–	–	–
Portugal	100	64	64	100	88	88
Spain	300	286	286	225	211	211
Total	**810**	**752**	**752**	**735**	**700**	**700**

The revaluation surplus related to the above-mentioned government bonds of the AfS category amounted to € -66 million (before taxes) as at 30 June 2011 (31 December 2010: € -44 million).

The maturities of the bonds of selected European countries set out above are mainly within the long-term range.

(13) Intangible assets

€ mn	30 Jun 2011	31 Dec 2010
Goodwill	50	50
Proprietary software	23	26
Other intangible assets	15	15
Total	**88**	**91**

(14) Property and equipment

€ mn	30 Jun 2011	31 Dec 2010
Land and buildings and construction in progress	79	79
Office furniture and equipment	18	16
Total	**97**	**95**

(15) Other assets

€ mn	30 Jun 2011	31 Dec 2010
Property	110	125
Trade receivables (LaR)	20	27
Miscellaneous	73	94
Total	**203**	**246**

(16) Liabilities to banks

€ mn	30 Jun 2011	31 Dec 2010
Payable on demand	655	583
Term deposits	177	290
Promissory note loans borrowed	598	634
Liabilities from securities repurchase transactions and open-market operations	1,791	3,336
Registered mortgage Pfandbriefe	98	94
Registered public-sector Pfandbriefe	141	147
Miscellaneous	96	84
Total	**3,556**	**5,168**

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

(17) Liabilities to customers

€ mn	30 Jun 2011	31 Dec 2010
Payable on demand	4,038	3,813
Term deposits	5,701	5,093
Promissory note loans borrowed	8,607	8,370
Registered mortgage Pfandbriefe	2,597	2,448
Registered public-sector Pfandbriefe	3,105	3,122
Total	**24,048**	**22,846**

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

(18) Certificated liabilities

€ mn	30 Jun 2011	31 Dec 2010
Medium-term notes	1,573	1,197
Bearer mortgage Pfandbriefe	4,241	4,058
Bearer public-sector Pfandbriefe	98	99
Other debt securities	2,219	2,265
Total	**8,131**	**7,619**

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

(19) Trading liabilities

€ mn	30 Jun 2011	31 Dec 2010
Negative market value from trading derivatives	344	675
Total	**344**	**675**

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

(20) Provisions

€ mn	30 Jun 2011	31 Dec 2010
Provisions for pensions and similar obligations	93	92
Other provisions	117	145
Total	**210**	**237**

(21) Other liabilities

€ mn	30 Jun 2011	31 Dec 2010
Liabilities from outstanding invoices	7	8
Prepaid expenses	5	4
Liabilities from other taxes	24	29
Trade payables (LaC)	22	10
Other liabilities (LaC)	94	130
Other liabilities	**152**	**181**

(22) Subordinated equity

€ mn	30 Jun 2011	31 Dec 2010
Subordinated liabilities	530	560
Profit-participation certificates	482	480
Contributions by silent partners [1]	223	228
Total	**1,235**	**1,268**

[1] 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 (note 23).

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

(23) Equity

€ mn	30 Jun 2011	31 Dec 2010
Subscribed capital	180	128
Capital reserves	721	511
Retained earnings	881	836
Other reserves		
Revaluation surplus	-132	-110
Currency translation reserves	2	2
Silent participation by SoFFin	300	375
Non-controlling interest	243	243
Total	**2,195**	**1,985**

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 million to € 180 million. The gross proceeds generated amounted to € 270 million.

On 28 April, Aareal Bank AG made a second partial repayment, in the amount of € 75 million, related to the silent participation provided by the German Financial Markets Stabilisation Fund (SoFFin).

(24) Treasury shares

No treasury shares were held during the period under review.

Other Notes

(25) Contingent liabilities and loan commitments

€ mn	30 Jun 2011	31 Dec 2010
Contingent liabilities on guarantees and indemnity agreements	289	310
Loan commitments	1,728	1,697
of which: irrevocable	1,238	1,191

(26) Employees

	1 Jan-30 Jun 2011	1 Jan-31 Dec 2010
Salaried employees	2,280	2,217
Executives	81	77
Total	**2,361**	**2,294**
of which: Part-time employees	436	376

The number of employees is calculated as the average number of staff as at the quarterly dates within the period under review.

(27) Related party transactions

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

(28) Events after the interim reporting period

After the end of the interim reporting period, Aareal Bank made an offer to the investors of the remaining SoFFin-guaranteed bond to tender for early redemption the outstanding notes. The three-year bond had a volume of € 2 billion; its remaining term ends on 26 March 2012. The offer period ended on 11 July 2011. This offer was taken up with an aggregate volume of just under € 0.8 billion. Aareal Bank accepted and subsequently cancelled the notes tendered for repurchase. The repurchase price was set at 100.816 %.

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

Responsibility Statement

Statement pursuant to section 37y of the German Securities Trading Act (WpHG) in conjunction with section 37w (2) no.3 of the WpHG

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the material opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Wiesbaden, 4 August 2011

The Management Board

Dr Wolf Schumacher **Dirk Große Wördemann** **Hermann J. Merkens** **Thomas Ortmanns**

Review Report

To Aareal Bank AG, Wiesbaden

We have reviewed the condensed consolidated interim financial statements – comprising the statement of financial position, statement of comprehensive income, condensed statement of cash flows, statement of changes in equity and selected explanatory notes – and the interim group management report of Aareal Bank AG, Wiesbaden, for the period from 1 January 2011 to 30 June 2011 which are part of the half-year financial report pursuant to § (Article) 37w WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Frankfurt/Main, 4 August 2011

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

ppa. Hülsen

Roland Rausch	**ppa. Andreas Hülsen**
Wirtschaftsprüfer	**Wirtschaftsprüfer**
(German Public Auditor)	**(German Public Auditor)**

Executive Bodies

Supervisory Board

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

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

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

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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 [6], Saulheim
Aareon Deutschland GmbH

Dieter Kirsch [3] [6], Nackenheim
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Dr. Herbert Lohneiß [3] [4], Gräfelfing
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German Chartered Accountant, tax consultant

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

Helmut Wagner [6], Hahnheim
Aareon Deutschland GmbH

Management Board

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Chairman of the Management Board

Dirk Große Wördemann
Member of the Management Board

Hermann Josef Merkens
Member of the Management Board

Thomas Ortmanns
Member of the Management Board

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

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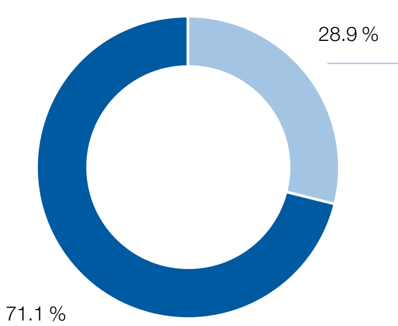
Shareholder Structure | Financial Calendar

Shareholder Structure



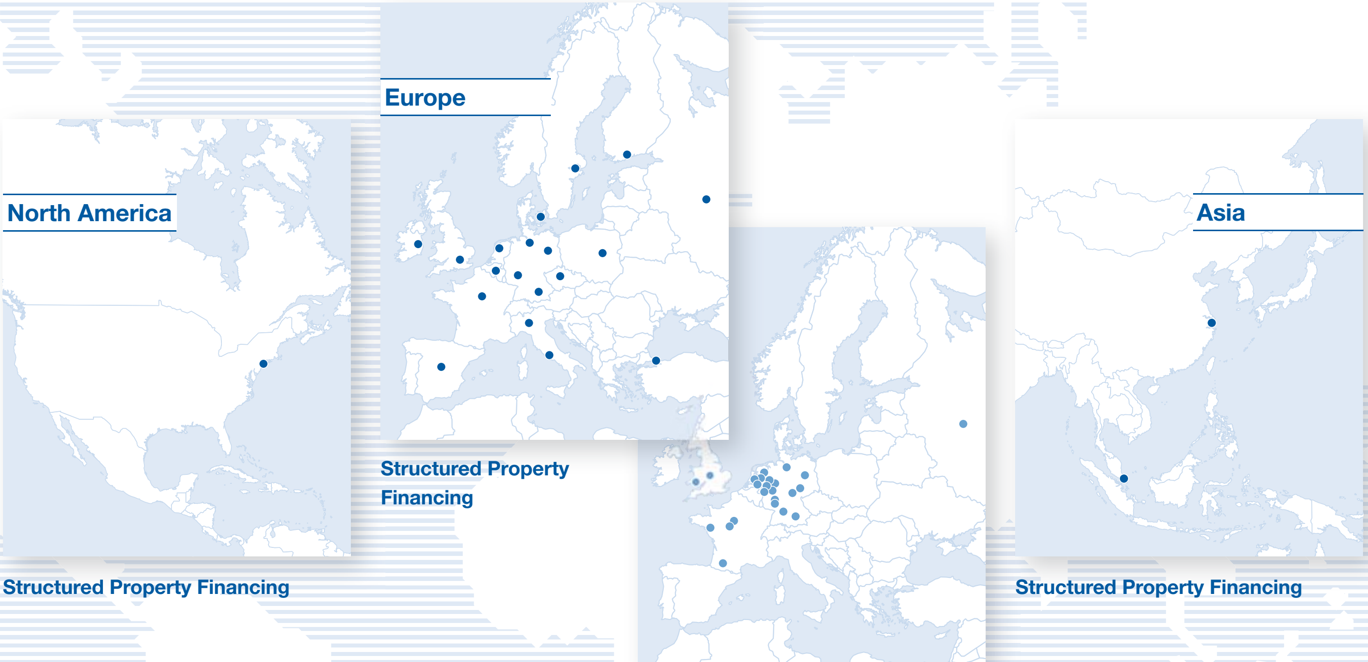
6.9 %	Bayerische Beamten-Lebensversicherung a.G.
6.9 %	Swiss Life AG
5.2 %	Versorgungsanstalt des Bundes und der Länder
4.7 %	Dr. August Oetker KG
2.7 %	Deutscher Ring Lebensversicherungs-AG und Deutscher Ring Sachversicherungs-AG
1.4 %	Deutscher Ring Krankenversicherungsverein a.G.
1.1 %	Condor-Lebensversicherungs Aktiengesellschaft

as at 30 June 2011

Financial Calendar

8 November 2011	Presentation of interim report as at 30 September 2011
May 2012	Annual General Meeting – Kurhaus, Wiesbaden

Locations



Structured Property Financing

Structured Property Financing

Structured Property Financing

Consulting / Services

Aareal Bank, Real Estate Structured Finance: Amsterdam, Berlin, Brussels, Copenhagen, Dublin, Hamburg, Helsinki, Istanbul, London, Madrid, Milan, Moscow, Munich, New York, Paris, Prague, Rome, Shanghai, Singapore, Stockholm, Warsaw, Wiesbaden | **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 30 June 2011

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Aareal Bank Group