LOCAL EXPERTISE
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II/2009

Aareal Bank Group – Interim Report

1 January to 30 June 2009

Aareal Bank
Group

Key Group Figures

	1 Jan-30 Jun 2009	1 Jan-30 Jun 2008	Change
	Euro mn	Euro mn	Euro mn
Income Statement			
Operating profit	42	75	-33
Net income/loss after non-controlling interests	26	41	-15
Indicators			
Cost/income ratio (%) [1]	46.1	52.7 [4]	
Earnings per share (Euro)	0.62	0.95	
RoE after taxes (%) [2]	3.2	6.2	

	30 Jun 2009	31 Dec 2008	Change
	Euro mn	Euro mn	Euro mn
Portfolio Data			
Property finance	22,780	22,813	-33
of which: international	18,835	18,655	180
Property finance under Management	23,344	23,462	-118
of which: international	18,835	18,655	180
Equity	1,990	1,429	561
Total assets	42,150	41,159	991
	%	%	
Regulatory Indicators (German Banking Act/CRSA [3])			
Tier 1 ratio	10.4	8.0	
Total capital ratio	14.4	12.0	

	30 Jun 2009	31 Dec 2008	
Ratings			
Fitch Ratings, London			
Long-term	A-	A-	
Short-term	F1	F2	

[1] Structured Property Financing segment only
[2] on an annualised basis
[3] Credit Risk Standardised Approach
[4] The calculation method to determine the cost/income ratio was changed as at 31 December 2008. The prior year's figures were adjusted accordingly.

Contents

Letter to Shareholders

Dear shareholders, business associates and Aareal Bank staff,

Aareal Bank Group's solid business development continued into the second quarter of the current year. Against the background of a difficult market environment, the Group once again achieved a satisfactory result, therefore remaining well on track.

The first half of 2009 was defined by a sharp global economic downturn, and by the crisis that continues to affect financial markets. The major collapse in economic activity worldwide – that had already set in the year before – continued into the first half of this year. Similarly, the role of financial markets was impaired, despite some positive signals on the capital markets. Nevertheless, Aareal Bank Group succeeded in once again posting a positive result for the second quarter of the current financial year. The Group's profit before taxes improved to € 25 million in the second quarter of 2009, after € 17 million in the first quarter. Both segments – Structured Property Financing and Consulting / Services – operated at a profit.

Aareal Bank Group is therefore one of the few banks, in Germany and abroad, to have achieved a positive result in all quarters since the outbreak of the financial markets crisis two years ago. This demonstrates the sustainability and consistency of our business model. The second quarter result also proved that our profitability is high enough to meet the costs arising from the utilisation of the German government's support programme comprising a silent participation and SoFFin guarantee facilities.

Structured Property Financing: sustainable business policy bears fruit

In the Structured Property Financing segment, during the first half of the year we adhered to our strict and selective new business policy that focuses on quality and return. New business amounted to € 1.7 billion in the first six months, and is therefore in line with the target figure of € 2 billion to € 3 billion forecasted for the year 2009 as a whole. We continued to concentrate predominantly on our existing client base, and on active financing projects.

Net interest income in the Structured Property Financing segment amounted to € 101 million in the quarter under review, after € 95 million in the same quarter of the previous year. The increase is largely due to the higher margins achieved in the lending business. As a consequence of the comparatively large amount of long-term funds raised on the capital market in the first half-year, Aareal Bank holds a high level of excess liquidity which is commensurate with the current market situation. Extremely low short-term interest rates had a slightly negative effect on net interest income.

Thus far, we have coped well with the consequences of the worst recession in recent decades. Even though at € 42 million (Q2 2008: € 20 million), allowance for credit losses in the second quarter of 2009 was higher than in the same period of the previous year, it remained at a manageable level. The increase over the previous quarter (Q1 2009: € 37 million) was in line with the normal fluctuation range. Allowance for credit losses for the full year continues to remain within the projected target corridor of € 90 to € 150 million, and is expected to reach the upper end of this range.

Even though we have not been spared from the effects of the global recession, we believe that the performance of the second quarter (and hence, the first half of the year) confirms the wisdom of our approach: to pursue a sustainable, cautious and conservative business policy in the Structured Property Financing segment.

Consulting/Services: satisfactory development

At € 7 million, operating profit in the Consulting/Services segment in the second quarter was considerably higher than the € 1 million reported in the previous quarter. However, it was down on the second quarter of the previous year (€ 11 million). Against the background of the economic environment, and the low margins in the deposit-taking business due to market developments, the segment's performance was satisfactory overall.

Revenues amounted to € 52 million in the second quarter and were therefore € 1 million higher than in the previous quarter. This represented a decline of € 5 million in the same quarter of the previous year, largely due to the unfavourable interest rate environment for the deposit-taking business with the institutional housing industry. The volume of deposits placed by this client group remains stable.

Our subsidiary Aareon AG succeeded in improving its profit contribution to the segment in the second quarter of 2009 over the first quarter, in line with expectations. The capacity adjustments to the Blue Eagle product line were completed at the end of the second quarter.

While Aareon's revenue from products implemented with our existing client base remained stable in the second quarter, revenue from new client business was slightly lower than in the same period of the previous year. This was due to two reasons in particular; on the one hand, the industry is experiencing a certain degree of investor reticence owing to the continued difficult market situation, especially for SAP-based products. On the other hand, customers delayed their investment decisions on non-SAP-based products due to the impending launch of our new "Wodis Sigma" product, presented at the end of May at the traditional Aareon Congress held in Garmisch-Partenkirchen.

Solid refinancing situation and good capitalisation

Aareal Bank Group successfully conducted its funding activities in the second quarter and thus further expanded its good liquidity situation. We placed some very successful issues on the capital market, as well as within the scope of private placements. Our refinancing activities focused on the issue of two € 500 million benchmark mortgage Pfandbriefe with terms of three and five years respectively. We achieved a very attractive funding level with a spread of 0.45 % over mid-swaps for both issues.

As at 30 June 2009, Aareal Bank's Tier 1 ratio – measured in accordance with the credit risk standardised approach (CRSA) – was 10.4 %, which is high by international standards.

The Aareal Bank share: strong price recovery

The positive development in the first quarter was reflected by the performance of our share price in the second quarter too, rising to a price of € 8.48 per share at the start of June, before the share (and the equity market in general) entered a sideways trend, characterised by profit-taking. The share price recovered again at the end of the second quarter, reaching a preliminary annual high of € 9.98 on 31 July.

This means that the Aareal Bank share price has almost trebled since the annual low in January, and has not only outperformed the German blue-chip DAX index but the CXPB banks index as well. As we see it, this performance is justified and reflects the confidence the market has placed in Aareal Bank and its management.

Outlook: the environment remains challenging

Because of the current challenging market environment, characterised by continued uncertainty, it remains impossible to make substantiated earnings forecasts for the full year 2009. However, we continue to adhere to the key projections for important indicators that we have communicated to date.

We continue to expect consolidated net interest income to range between € 420 million and € 440 million for the year as a whole.

Given the general economic developments, allowance for (expected) credit losses will clearly exceed the previous year's figures, but will remain manageable, within the communicated range of € 90 to € 150 million for the full year (even though from today's perspective, at the upper end of the projected range). It is, however, impossible to exclude additional impairments from unexpected losses for 2009.

Administrative expenses are expected in the region of € 360 million. Adjusted for non-recurring effects and the impact of the first-time consolidation of Sylogis.com, this would represent only a minor increase over the previous year.

From today's perspective, new business generated in the Structured Property Financing segment is expected to range between € 2 billion and € 3 billion. Our particular focus is on extensions of existing exposures, and on financing requirements of existing clients.

We expect the net commission income in the Consulting / Services segment to rise again in the second half of the year, and especially during the fourth quarter – due to rising revenues generated by Aareon through the new Wodis Sigma product line. However, intensified margin pressure in the deposit-taking business will force us to again make adjustments to our projections for pre-tax profits in this segment. From today's perspective, this will lead to lower returns of roughly € 10 to € 15 million compared with first-quarter projections. The forecast for the operative segment result before taxes and non-recurring effects has therefore been reduced from around € 40 million to between € 25 and € 30 million, depending on interest rate developments.

We remain convinced that Aareal Bank Group's coherent business model and conservative business policy – and also thanks to the precautionary usage of the measures agreed with SoFFin – has put in place the prerequisites to enable us to endure the crisis in the financial markets and the accompanying economic downturn. At the same time, our company is in a good starting position to deal with the period after the crisis has been overcome.

Yours sincerely

The Management Board

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

Group Management Report

Business Environment

Macro-economic environment

The first half of 2009 was determined by an unprecedented, sharp real economic downturn and the relentless crisis affecting financial markets.

Economy

The slump in economic activity worldwide continued during the first half of the year. The economic downturn was driven above all by drastic declines in the production of capital goods and by a sharp drop in global trading. More recently, some indicators – such as the global purchasing managers index (PMI) or the ifo global economic climate index – have implied a decline in the speed of the downturn and the possible emergence of a stable base. However, even if a bottom is reached, the starting point for a recovery is extremely low.

No uniform trend developed in private consumer demand around the globe. While some countries posted a fall, consumer demand remained stable or rose slightly in others. Despite regional differences, the general trend is evident, whereby private consumption has been more robust compared with corporate investment demand and exports.

All of the developed economies in North America, Europe and Asia were characterised by the recession, especially countries with a high share of exports, such as Germany and Japan. Some Central and Eastern European economies, such as the Baltic States and Hungary, were hit especially hard. The economic downturn was less pronounced in other Central and Eastern European countries, such as the Czech Republic and Poland. Russia was adversely affected by the marked fall in commodity prices compared with the middle of last year. Having already provided support to Hungary, the Ukraine and Latvia last year, the International Monetary Fund (IMF) extended loans to Romania and Poland, too, this year. Poland was granted a flexible credit line from the IMF's new crisis prevention programme launched in March. This credit line differs from IMF's other lending instruments in so far as it is not tied to economic policy requirements imposed upon the country in question. A credit line was extended to Mexico in April within the scope of the same programme.

Economic development in the Asian economies was also very weak in the first half of the year, largely owing to the collapse in foreign demand. The Chinese economy cooled down, too, compared with the previous year, even though economic output continues to grow. All in all, many Asian countries were showing signs of a growth trend again at the end of the reporting period.

On a global scale, countries launched or stepped up economic recovery plans to varying degrees and intensity. The severe recession also led to a sharp rise in unemployment worldwide. The rise was particularly pronounced in the USA, the Baltic States, Ireland and Spain.

Financial markets crisis

Despite a number of positive signals on the capital markets, such as for example the successful Pfandbrief issues in Germany or the fall in the previously very high risk premiums on various financial and capital market products (such as for government or corporate bonds), the role of the financial markets remained impaired in the first half of the year.

Many countries took additional measures in the first half of the year in order to stabilise financial markets and thus support their economy. Various banks for example, took advantage of state funds, in the form of bond guarantees or equity capital, or increased the level of support already drawn upon. The so-called "bad bank" models constituted a key element. One of the initiatives taken by the US Treasury Department in this context was the Public Private Investment Program (PPIP), designed to provide relief to the US banking sector by buying up impaired securities. The programme also incorporates private capital to be provided in order to restructure the banking sector. After 19 leading banks in the USA were subjected to a stress test to determine the appropriateness of their capitalisation, some have meanwhile raised fresh capital on the equity market or have repaid the state capital contributions received.

The German federal government passed draft legislation in May that has meanwhile been approved by both chambers of German parliament (the Bundestag and the Bundesrat). This act provides the framework for impaired securities to be transferred to special purpose entities (SPEs, referred to as "bad banks"), at a discount to their carrying amount. In return, the banks receive bonds from the SPE that are guaranteed by the German Financial Markets Stabilisation Fund ("SoFFin"). The transferring banks remain liable for losses anticipated from the transferred securities until maturity. The objective behind all of these models is to spread the losses arising from impaired securities over several years.

Inflation and monetary policy

The annual rate of inflation declined continuously in the course of the first half of the year. In June, most European countries experienced deflation or very low year-on-year inflation; the average year-on-year change in this month was -0.1 % in the euro zone. Inflation was only higher in certain Central and Eastern European countries such as the Baltic States, Romania or Poland. In July, the consumer price index figures released for China and Japan for April, and for May for the US, show that average inflation in these countries was lower than one year ago. The decline was due primarily to commodity prices, which were down significantly on the middle of last year, despite having climbed again since the start of this year.

Many central banks cut their benchmark rates further in the first half of the year, with a view to combating the recession. The European Central Bank (ECB) cut its main refinancing rate in several steps, with the most recent cut to 1.0 % on 13 May. The Bank of England (BoE) had already cut its benchmark rate in the first quarter to 0.5 %. This remained unchanged throughout the second quarter. The US Federal Reserve (Fed) has also left its key rate unchanged, having already cut it in December of last year to a corridor of between 0.0 % and 0.25 %. Other central banks cut their key rates in the first half-year, some to a very low level, such as for example the Swedish Riksbank, which cut its key rates to 0.5 % in April.

In view of the low levels reached by key interest rates, various central banks turned to open market instruments that are not limited in terms of volume, to stimulate the market. The Fed also increased its purchasing programme for mortgage-backed securities by up to USD 750 billion, and intends to purchase up to USD 300 billion in longer-dated government bonds. In May, the BoE also increased its securities purchasing programme to GBP 125 billion, and the ECB announced its intention to buy up to € 60 billion in covered securities during the second quarter.

Because of the disruptions to the interbank market, the ECB fulfilled the important duty of furnishing the commercial banks with liquidity through refinancing operations in the form of fixed-price repurchase agreements, with full allocation. At the end of June, it extended the term for these refinancing operations from six to twelve months.

Sector-specific environment

Structured Property Financing

Developments on the commercial property markets were determined in the first half of 2009 by the grave recession and distortions in the financial sector. The remarkable downtrend in the economy – causing considerable uncertainty and increased aversion to risk among investors – triggered further sharp declines in transaction volumes on the commercial property markets compared with what was already a weak previous year. The downtrend is thought to have slowed down in the second quarter. According to initial estimates, transaction volumes in the second quarter fell by roughly two-thirds year-on-year. The focus shifted to small-volume transactions, which took on increased importance. Price perceptions between buyers and sellers continued to differ significantly due to diverging views on how the market is set to develop further. This also contributed to the low investment volume.

The effects of the recession are meanwhile impacting on the rental markets for commercial property. Rising unemployment has lowered demand for office space, leading to a higher proportion of vacant properties and falling rents. Property markets worldwide were affected, albeit to varying degrees. To give some examples of the broad range on the market, the declines in Singapore and Hong Kong were considerable whilst office rents in German and Swiss top locations were comparatively robust. The pressure on rental markets not only led to falling contract rents, but also to growing rental incentives, such as rent-free periods or improvements at the landlord's expense. The collapse in international trade and consumer reticence were also factors leading to a significant drop in logistics and retail property rentals. The recession, plus cost-saving measures among companies, also saw earnings in the hotel sector come increasingly under pressure. Investors' return requirements for the different types of property continued to rise. This, together with falling rents, led to notable price declines, albeit within the scope of the significant fall in the volume of investment referred to above.

Consulting / Services: Institutional Housing Business

Regardless of the global economic recession, the German institutional housing industry consistently pursues its sustainable business model. Although this sector has also been affected by more restrictive market conditions and financing terms, the decline of investment activity in construction amongst the commercial housing enterprises has not been significant to date, despite the economic and financial markets crisis. Investment activities continue to focus on renovating the housing stock, in order to ensure a sustainable quality of housing. At the same time, this has a stabilising effect on the economy as a whole. In addition to opportunities for optimising energy consumption, qualitative issues such as location enhancement and utilisation flexibility are increasingly prominent with regard to renovation activity of housing portfolios.

As the markets continue to decline overall, demand rises for housing in regions where economic activity remains dynamic, whilst shrinking regions experience an excess supply of residential housing. The majority of major German cities are at present characterised by a moderate rise in residential property rental levels. New construction activity however, is at an all-time low everywhere.

The stable value of German residential property and the outlook for rising rents owing to the limited supply of housing in urban areas is generating interest amongst institutional investors. The turbulence on financial markets is giving tangible assets a further boost as an alternative investment. German companies with high levels of capital are increasingly behind residential property transactions. The number of residential property funds that were launched predominantly as investment vehicles for insurance companies and pension funds is rising, which in turn is leading to a slight recovery in transactions at the time of writing, due to increased demand from the residential property funds. Key transactions in the first half of the year included the sale of Hamburg-based DAWAG, a holding company of the German trade union ver.di, managing 6,000 residential units.

Cautious investment behaviour on the market for property management software is reflected in lower tender volume. Competition for clients is intensive and characterised by predatory behaviour. We are seeing greater differentiation between SAP-based and non-SAP-based packages in relation to the property management software on the market. The large commercial housing enterprises in particular use customised, SAP-based solutions. Modern software technology, together with functionality and operating concepts, will be central success factors in future competition amongst system providers in the non-SAP market.

Group Profitability

Against the background of a market environment that continues to be challenged by difficulties, Aareal Bank Group achieved satisfactory operating profit figures of € 25 million across both segments in the second quarter, after € 17 million in the previous quarter.

Net interest income in the first six months of the financial year was € 228 million after € 221 million in the comparable period of the previous year. The increase was largely due to the higher margins achieved in the lending business.

Income Statement of Aareal Bank Group

Euro mn	1 Jan-30 Jun 2009	1 Jan–30 Jun 2008
Net interest income	228	221
Allowance for credit losses	79	40
Net interest income after allowance for credit losses	**149**	**181**
Net commission income	66	68
Net result on hedge accounting	1	2
Net trading income/expenses	25	-25
Results from non-trading assets	-16	1
Results from investments accounted for using the equity method	–	3
Results from investment properties	0	0
Administrative expenses	178	177
Net other operating income/expenses	-5	22
Impairment of goodwill	–	–
Operating profit	**42**	**75**
Income taxes	7	25
Net income/loss	**35**	**50**
Allocation of results		
Net income/loss attributable to non-controlling interests	9	9
Net income/loss attributable to shareholders of Aareal Bank AG	26	41
Appropriation of profits		
Net income/loss attributable to shareholders of Aareal Bank AG	26	41
Silent participation by SoFFin	12	–
Consolidated retained profit/accumulated loss	**14**	**41**

As a consequence of the comparatively large amount of long-term funds raised on the capital market in the first half-year, Aareal Bank holds a high level of excess liquidity which is commensurate with the current market situation. Extremely low short-term interest rates had a slightly negative effect on net interest income. On the other hand, net interest income from the deposit-taking business with the institutional housing industry declined on the back of the low interest rate environment.

At € 79 million, allowance for credit losses was higher than in the same period of the previous year (€ 40 million), albeit at a manageable level. Year-on-year allowance for credit losses is developing on schedule and is expected to reach the upper end of the forecasted target corridor of € 90 to € 150 million.

Net commission income of € 66 million (H1 2008: € 68 million) reflected – amongst other things – € 6 million in running costs for the guarantees extended by SoFFin.

Net trading income / expenses of € 25 million was attributable mainly to the measurement of standalone derivatives. In addition to offsetting effects – in part from the measurement of interest rate and currency derivatives employed as economic hedges – the positive result is due to the significant recovery in the value of credit derivatives (+€ 18 million), especially in the second quarter.

Despite the difficult market environment, we managed to post a slightly positive result from non-trading assets (€ 1 million) in the second quarter of 2009. This reflects the conservative risk policy we pursued in the past, and the quality of our existing securities portfolio. The result of -€ 16 million for the first half of 2009 is mainly attributable to the restructuring of the securities portfolio that was undertaken in the first quarter.

Administrative expenses of € 178 million were almost unchanged from the same period of the previous year, despite special charges of € 6 million incurred by Aareon AG and additional expenditure sustained in conjunction with the consolidation of Sylogis.com. This continues to reflect pursuance of the Group's strict cost discipline.

Net other operating income and expenses of -€ 5 million includes project expenditure (including legal and advisory costs) of € 6 million that were incurred in the first quarter in conjunction with the support measures agreed upon between SoFFin and the Aareal Bank. Last year's figure included, amongst other things, non-recurring income of € 7 million from the Interhotel exposure.

Consolidated operating profit for the first half of 2009 totalled € 42 million (H1 2008: € 75 million). Taking into consideration taxes of € 7 million and income attributable to non-controlling interests of € 9 million, net income attributable to shareholders of Aareal Bank AG amounted to € 26 million. After deduction of the return on the SoFFin silent participation, consolidated net income stood at € 14 million.

Segments

Structured Property Financing

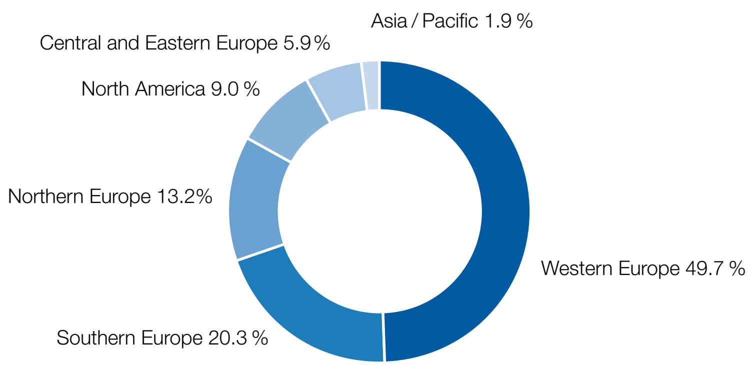
Business development

We continued to manage our credit portfolio consistently during the second quarter. Our new business origination was focused in particular on granting loan extensions to our existing client base. New business amounted to € 0.7 billion in the second quarter, so that total new business in the first half of 2009 was reduced to € 1.7 billion (H1 2008: € 2.9 billion), in line with the aforementioned strategy.

Europe accounted for 89 % of new business in the first half of 2009, North America for 9 % and Asia for 2 %.

New business – 1 Jan-30 Jun 2009

by region (%) Total volume: Euro 1.7 billion



Europe

The volume of commercial property transactions in Europe was very low compared with the previous year. However, the decline was halted in the second quarter of 2009, and the volume of transactions was on par with the first quarter of this year. Rents were under pressure and in decline across all types of commercial property. Some markets experienced massive declines, for example top office rents in Moscow, while other markets, such as the top office rents in Germany, were only moderately lower. Investors' return requirements continued to rise in the first half-year. However, the current yields on some regional markets are based increasingly on estimates, given the lack of comparable transactions. The increase in return requirements and the fall in rents resulted in very substantial price declines in part, although major regional differences are found here too.

In Europe, we generated new business in the amount of € 0.6 billion in the second quarter of 2009 and € 1.5 billion in the first half of the year in total. The major part of new business was accounted for by Western Europe, followed by Southern Europe.

North America (NAFTA states)

The investment market for commercial property in North America has collapsed compared with the previous year. Investors' return requirements climbed further in the first half of 2009. Swift and severe staff reductions across a broad swathe of US companies freed up office space, thus driving up the vacancy ratios and the decline in rents. Besides office property, other types of commercial property were affected too by falling rents. The region also experienced a substantial fall in prices.

Our new business in North America in the second quarter was less than € 0.1 billion, therefore totalling less than € 0.2 billion for the first half-year as a whole.

Asia/Pacific

The Asian commercial property markets were also defined by rising vacancies, falling rents and increased return requirements from investors, leading to sharp price declines in some instances. The markets in Singapore and Hong Kong, as well as the most significant commercial property markets in the Chinese urban centres, were affected by these developments. The first positive signs have emerged recently. In Hong Kong for example, individual floors of office buildings were sold at considerably higher prices in the second quarter than other floors in the same buildings at the start of the year.

Our new business in the Asia/Pacific region was less than € 0.1 billion in the second quarter, and also less than € 0.1 billion for the two first quarters of this year on aggregate.

Segment result

At € 18 million, we posted positive operating income again in the second quarter.

Net interest income was € 101 million, after € 95 million in the comparable period of the previous year and therefore in line with the first quarter of 2009.The increase was largely due to the higher margins achieved in the lending business. As a consequence of the comparatively large amount of long-term funds raised on the capital market in the first half-year, Aareal Bank holds a high level of excess liquidity which is commensurate with the current market situation. Extremely low short-term interest rates had a slightly negative effect on net interest income.

At € 42 million, allowance for credit losses was higher than in the same period of the previous year (Q2 2008: € 20 million), albeit at a manageable level. The change over the previous quarter is in line with the normal fluctuation range. Year-on-year allowance for credit losses is developing on schedule and is expected to reach the upper end of the forecasted target corridor of € 90 to € 150 million.

The net commission expense of € 3 million in the second quarter of 2009 (Q2 2008: net income of € 6 million) was mainly attributable to running costs of € 6 million for the guarantee facilities extended by SoFFin and less new business, and the very low level of prepayments.

Segment result Structured Property Financing

Euro mn	Quarter 2 2009	Quarter 2 2008
Net interest income	101	95
Allowance for credit losses	42	20
Net interest income after allowance for credit losses	**59**	**75**
Net commission income	-3	6
Net result on hedge accounting	0	0
Net trading income/expenses	9	-3
Results from non-trading assets	1	-8
Results from investments accounted for using the equity method	–	3
Results from investment properties	0	0
Administrative expenses	50	52
Net other operating income/expenses	2	16
Impairment of goodwill	–	–
Operating profit	**18**	**37**
Income taxes	-2	12
Segment result	**20**	**25**
Allocation of results		
Segment result attributable to non-controlling interests	4	4
Segment result attributable to shareholders of Aareal Bank AG	16	21

Net trading income of € 9 million in the second quarter is accounted for largely by two diverging effects: the significant recovery in the value of credit derivatives (credit default swaps or CDS, up € 19 million), which were offset by effects from the measurement of currency derivatives employed as hedges (-€ 12 million) within the scope of refinancing.

Despite the difficult market environment, we managed to post a slightly positive result from non-trading assets (€ 1 million) in the second quarter of 2009. This reflects the conservative risk policy we pursued in the past, and the quality of our existing securities portfolio.

At € 50 million, administrative expenses were € 2 million lower than the corresponding figure for the previous year (€ 52 million). We were able to achieve further reductions in staff expenses from last year. Our strict cost discipline continues to be reflected in stable non-staff expenses.

Net other operating income and expenses for the second quarter was € 2 million (Q2 2008: € 16 million). The previous year's figure included non-recurring income of € 7 million from the Interhotel exposure.

Overall, operating profit for the Structured Property Financing segment was € 18 million. Taking the tax position into consideration, the segment result for the second quarter of 2009 was € 20 million.

Consulting/Services

Business development – Institutional Housing Industry

This segment offers a comprehensive range of services for managing and processing payment flows for institutional housing industry clients. It comprises the bank's Institutional Housing Business and the Aareon AG subsidiary.

Aareon AG

During the second quarter of 2009, Aareon AG succeeded in improving its profit contribution to the segment over the first quarter, in line with expectations. The capacity adjustments to the Blue Eagle product line were completed at the end of the second quarter.

While Aareon's revenue from products implemented with our existing client base remained stable in the second quarter, revenue from new client business was slightly lower than in the same period of the previous year. This was due to two reasons in particular; on the one hand, the industry is experiencing a certain degree of investor reticence owing to the continued difficult market situation, especially for SAP-based products. On the other hand, customers delayed their investment decisions on non-SAP based products because of the impending introduction of a new product.

Aareon is gradually optimising its well-established multi-product strategy on the property management market. It presented the new Wodis Sigma product generation at the Aareon Congress held in Garmisch-Partenkirchen in May. Wodis Sigma is based on the leading international development platform Microsoft.NET. The application is defined by modern and user-friendly operating concepts that are closely related to Microsoft Office standards. Pilot projects with the new technical platform have already been launched. Although a certain degree of caution was evident in relation to Wodis at the start of the year, two clients – Dortmund-based Volkswohl Bund Versicherungen, and Wohnungsgenossenschaft Essen-Nord eG – signed contracts for the new software, shortly after Wodis Sigma was announced.

Following the capacity adjustment, the Blue Eagle business is on schedule, with various large-scale implementation projects continuing to develop successfully.

Business with the established GES and WohnData systems was also stable during the second quarter of 2009. With the new GES version that was launched on schedule in May 2009, Aareon implemented standardised reporting of key indicators for improved business management. Client demand for additional services was increasing, such as – for example – the integration of queries and notifications related to SCHUFA, the German credit reference agency, in all ERP systems.

The integrated services product line also developed favourably. Mareon had seven product rollouts in the second quarter of 2009. The document management system Aareon DMS was implemented with three clients.

Following the takeover of the French software specialist Sylogis.com in the autumn of 2008, Aareon merged the company with Aareon France at the start of June. The new Aareon France is the market leader in the French commercial housing sector. The first synergies in product development were already achieved in the new version of the ERP software Prem'Habitat 2.0. Right after the product had been announced on the market, eight clients had already decided in favour of the system. In the second quarter, Aareon UK succeeded in winning eight out of ten tenders in the UK, and thus was able to further extend its market share.

Payments and deposit-taking

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

Following the single-digit percentage drop in the volume of our institutional housing investors' deposits at the start of the year, we recorded a continuous rise in the course of the second quarter. The volume of deposits averaged € 4.2 billion during the second quarter. The expansion of our business relationships with many clients is reflected above all in the rise in current account balances. On the other hand, overnight and term deposits fluctuated to a greater degree, owing to market developments.

Given the fluctuations in money market interest rates, we expect a certain degree of volatility in the future. As in the past, we will manage such fluctuations within the framework of optimising our funding mix.

Given the sudden and unexpectedly sharp drop in interest rates, we could only take limited countermeasures to defend our client deposit business. If money market interest rates remain at the current low level on a medium-term horizon, this will have a significant effect on income from deposit-taking in 2009. We will therefore focus increasingly on forging new client relationships in the future. In the second quarter of 2009, we already succeeded in acquiring 10 new institutional housing industry clients (managing some 53,000 units), as well as a large asset manager for commercial property. On the other hand, we are concentrating strongly on rent deposit accounts; this type of business has a stable structure similar to that of classic savings deposits.

As a partner to the institutional housing industry, we have continued to support our clients throughout the difficult economic environment, as a lender and broker of financing solutions.

Segment result [1)]

At € 7 million, operating profit generated by the Consulting / Services segment in the second quarter was considerably higher than the € 1 million achieved in the previous quarter. However, it is down on the second quarter of the previous year (€ 11 million).

[1)] Results for the Consulting/Services segment are reported using an income statement classification aligned to industrial companies. A reconciliation to the segment result shown in the segment reporting can be found on page 36 of this interim report.

Segment result Consulting/Services

Euro mn	Quarter 2 2009	Quarter 2 2008
Sales revenue	52	57
Own work capitalised	1	–
Changes in inventory	0	0
Other operating income	2	3
Cost of materials purchased	6	9
Staff expenses	27	24
Depreciation, amortisation and impairment losses	3	4
Results from investments accounted for using the equity method	–	–
Other operating expenses	12	12
Interest and similar income/expenses	0	0
Results from ordinary activities	**7**	**11**
Income taxes	3	4
Segment result	**4**	**7**
Allocation of results		
Segment result attributable to non-controlling interests	1	0
Segment result attributable to shareholders of Aareal Bank AG	3	7

The segment continues to perform satisfactorily overall, against an unfavourable background.

At € 52 million, second quarter revenue was € 1 million higher than the previous quarter and down € 5 million on the same quarter of the previous year. The decline is largely due to the unfavourable interest rate environment for the deposit-taking business with the institutional housing industry. However, the volume of deposits from this area remains stable.

We achieved a € 3 million reduction in the cost of materials purchased over the previous year, to € 6 million.

Net other operating income/expenses was roughly in line with last year.

Staff expenses in the quarter under review amounted to € 27 million. Taking into consideration the additional expenditure incurred in conjunction with the consolidation of Sylogis.com, the figure is more or less unchanged from last year.

On balance, the Consulting/Services segment yielded a net contribution of € 7 million to (quarterly) consolidated operating profit (Q2 2008: € 11 million).

After deduction of taxes, the segment result for the second quarter was € 4 million (Q2 2008: € 7 million).

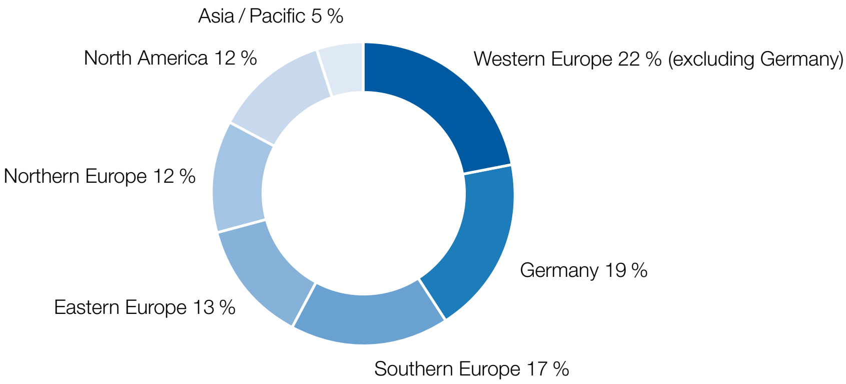
Financial Situation

Total assets

Consolidated total assets as at 30 June 2009 amounted to € 42.2 billion, after € 41.2 billion as at 31 December 2008.

Property financing portfolio as at 30 June 2009

by region (%) Total volume: Euro 23.3 billion [1)]



1) Property financing volume under management

Property financing portfolio

As at 30 June 2009, the property financing portfolio under management stood at € 23.3 billion. This equates to a slight decrease of 0.5 % from the 2008 year-end figure of € 23.5 billion. The international share of the portfolio rose by 1.0 % to € 18.8 billion and now accounts for just over 80 % of the total portfolio. The chart illustrates the very broad regional diversification overall.

The performance of the property financing portfolio over the course of the 2009 financial year to date has been defined in particular by extending maturing loans for our existing client base, as well as a very selective new business policy. The low ratio of prepayments seen in the 2008 financial year massively fell again in the first half of 2009.

Refinancing and equity

Refinancing strategy and issues

Aareal Bank Group successfully carried out refinancing activities in the second quarter and further expanded its good liquidity situation.

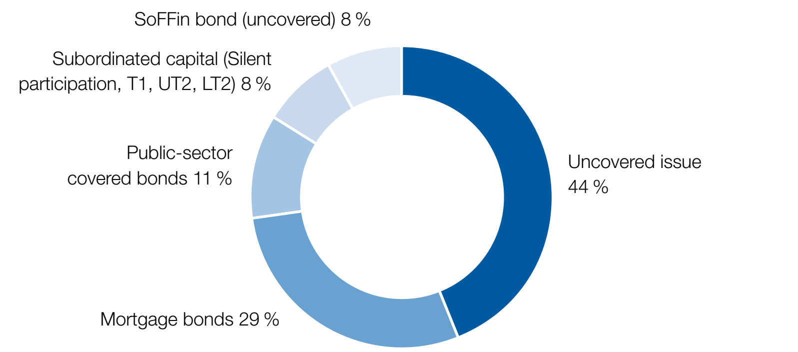
The property financing portfolio to be refinanced totalled € 22.8 billion as at 30 June 2009. This was refinanced by long-term funding of € 24.5 billion (mortgage bonds, unsecured and subordinated issues), € 4.0 billion in deposits from the institutional housing industry (as at 30 June 2009) and € 6.0 billion in deposits from institutional money market investors. Although the institutional housing industry deposits fluctuate within the course of each month (in line with the liquidity flows that are typical for this industry), there is a stable base of deposits that regularly corresponds to the month-end deposit volume.

We succeeded in increasing institutional money market investor deposits in the first quarter, and again in the second quarter. A comparatively large amount of long-term funds was raised on the capital market in the first half-year. Excess liquidity is invested in a portfolio of high-quality securities.

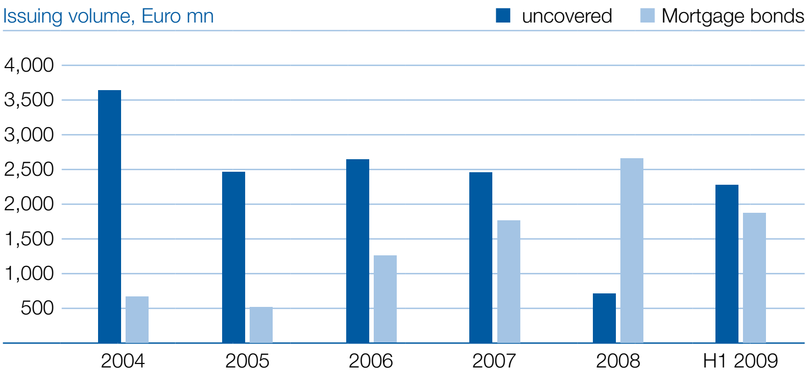
Owing to its good liquidity base, Aareal Bank is a reliable financing partner to its existing client base, and is well-equipped to deal with any potential deterioration of the crisis affecting financial markets and the economy. The portion of the securities portfolio serving as a liquidity reserve can be quickly deployed, for example through repurchase transactions on the money market. No open-market

Long-term refinancing mix as at 30 June 2009

(%) Total volume: Euro 24.5 billion



Institutional money market activities 2004 to H1 2009



transactions were concluded with the ECB during the second quarter.

The bank raised a total of € 4.2 billion in long-term funds on the capital market during the first six months of 2009. This figure comprises unsecured refinancing in the amount of € 2.3 billion (made up of a € 2 billion government-guaranteed issue, € 220 million in promissory notes, and € 112 million in privately-placed bearer bonds) and just under € 1.9 billion in mortgage bonds.

Long-term funding accounted for € 1.9 billion in the second quarter, comprising € 1.6 billion in mortgage bonds issued, plus € 0.3 billion in long-term unsecured refinancing. We placed some very successful issues on the capital market, as well as within the scope of private placements, during the second quarter. Our refinancing activities focused on the issue of two € 500 million benchmark mortgage Pfandbriefe with terms of three and five years respectively. We achieved a very attractive funding level with a spread of 0.45 % over mid-swaps for both issues.

As at 30 June 2009, the Tier 1 ratio measured in accordance with the Credit Risk Standardised Approach (CRSA) was 10.4 %, which is high by international standards.

Effects of the financial markets and economic crisis

The first half of 2009 was defined by a major collapse in economic activity worldwide, as well as the ongoing uncertainty on financial markets.

Our business activities in the first half of the year were influenced heavily by the effects of the financial market crisis and the economic downturn. We therefore continued to pursue our very risk-sensitive lending policy throughout the first six months of the financial year. Credit risk exposures were subject to intensive monitoring and were actively managed. We recorded a moderate increase in the average mortgage loan-to-value ratios across all regions, compared with the first quarter of 2009.

In terms of new business, Aareal Bank continued to concentrate mainly on existing clients, and especially on loan extensions for active financing projects. In the light of enduring poor market conditions, we consider the volume of new business of approx. € 1.7 billion generated in the first half of 2009 to be appropriate. It not only reflects the difficult environment that continues to define the market, but also the markedly lower transaction volumes on commercial property markets.

Our institutional housing investors' deposits remained stable, averaging € 4.2 billion during the second quarter of 2009, while institutional money market investor deposits as at 30 June 2009 increased considerably – by more than € 1 billion compared with 31 March 2009 – to € 6 billion. This excellent performance demonstrates the high level of confidence that the depositors place in our bank.

The Pfandbrief market is showing the first signs of easing, especially after the ECB announced its intention to buy up € 60 billion in covered bonds. This development is reflected in higher issuing volume during the first half of the year, and in the tighter spreads. Along with other banks, Aareal Bank made use of the favourable market environment – and of its own good standing – to place Pfandbriefe totalling € 1.9 billion on the market.

The performance of the Consulting / Services segment was satisfactory overall. However, the low interest rate environment impacted on earnings from the deposit-taking business with the institutional housing industry. Moreover, the economic slowdown brought about a marked caution among our clients regarding new investments, burdening revenues.

We invest our available liquidity in a conservative manner and ensure quick access, in order to provide continued financing support to our existing clients as well as being well-equipped to deal with a potential deterioration of the financial and economic crisis. We are therefore prepared for an increase in investment activity and the associated demand for borrowing.

Despite the high quality of our securities portfolio, the development on some capital markets resulted in price declines, especially at the start of the first half-year. However, these declines were reversed for the most part by the end of the first six months.

On 2 January 2009, we exercised the option to reclassify financial instruments, whereby securities with a nominal volume of approx. € 3 billion in the available-for-sale (AfS) and held-for-trading (HfT) IFRS measurement categories were transferred to the loans and receivables (LaR) category. In all cases we opted for reclassification since there no longer was an active market for the securities concerned, and due to our intention to hold these issues for a longer term. We continuously review market conditions, in order to verify the existence of active markets. If we find there are no active markets, we will also allow for these market circumstances in the future and reclassify if necessary, if it is our intention to hold these issues over a longer term.

In order to permanently sustain its profitable business and at the same time overcome the very difficult market environment, Aareal Bank Group reached an agreement with the German Financial Markets Stabilisation Fund (SoFFin) on 15 February 2009, whereby SoFFin extended a silent participation in the amount of € 525 million to Aareal Bank for an unlimited period, plus a guarantee facility for new unsecured issues up to a total of € 4 billion. Aareal Bank made use of the SoFFin guarantee for the first time in March 2009, successfully placing a € 2 billion government-guaranteed bond on the capital market.

SoFFin provided the silent participation to Aareal Bank on 31 March 2009. As a result, Aareal Bank's Tier 1 ratio (in accordance with the CRSA) was 10.4 % as at 30 June 2009.

Regulatory indicators

Regulatory indicators as defined by the German Banking Act (CRSA [1])

	30 Jun 2009	31 Dec 2008
Euro mn		
Tier 1 capital	2,394	1,863
Total equity	3,299	2,778
Risk-weighted assets (incl. market risk)	22,938	23,238
(%)		
Tier 1 ratio	10.4	8.0
Total capital ratio	14.4	12.0

[1] Credit Risk Standardised Approach (CRSA)

Report on Material Events after the Reporting Date

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

Risk Report

Aareal Bank Group Risk Management

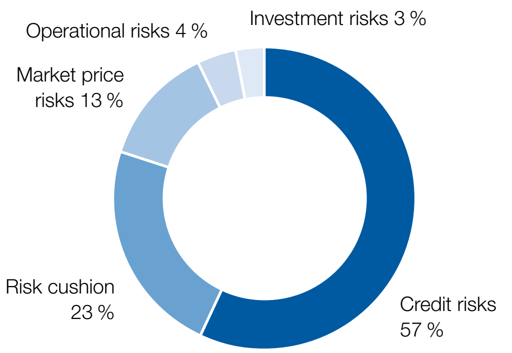
The Annual Report 2008 contains a comprehensive description of Aareal Bank Group's risk management approach, including the corresponding organisational structure and workflows in the lending and trading businesses, as well as the methods and procedures used for measuring and monitoring risk exposure. 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.

In general, 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 are 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 57 %, the major part of the bank's aggregate risk cover continues to be related to credit risks. 13 % of the cover assets pool is retained to cover market risks, 4 % for operational risks and 3 % for investment risks. As in previous quarters, a substantial portion (23 %) 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, limits are set in a way so as to ensure Aareal Bank's ability to bear risk at any time – even against the background of market distortions as a result of the financial markets crisis. The diagram below shows the allocation of aggregate risk cover to types of risk as at 30 June 2009. There were no changes compared to the allocation as at 31 December 2008.

Allocation of aggregate risk cover

(%) as at 30 June 2009



Since aggregate risk cover is an inadequate measure to assess risk-bearing capacity regarding liquidity risk, we have defined special tools for managing this type of risk. These tools are described in detail in the section "Liquidity risk", and in the 2008 Annual Report.

Credit risks

Aareal Bank defines credit risk or counterparty risk as the risk of losses being incurred due to (i) a business partner defaulting on contractual obligations; (ii) collateral being impaired; or (iii) a risk arising upon realisation of collateral. Both credit business and trading activities may be subject to counterparty risk.

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

Processes in the credit and trading businesses are designed to consistently respect the clear functional division of sales and credit management units, up to and including senior management level. An independent Risk Controlling unit 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 the development, quality-assurance and monitoring of the implementation of risk classification procedures is outside the sales units.

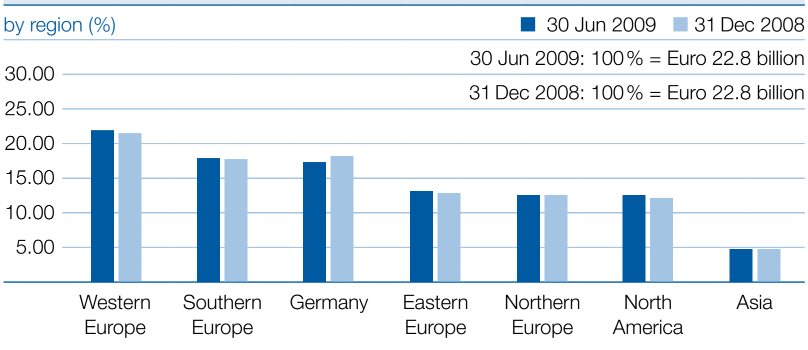
Methods used to measure and monitor concentration and diversification effects on a portfolio level include two diverse credit risk models. The scenario analyses conducted on the basis of these models were expanded during the quarter under review, by including a scenario involving increased default correlations in the property finance business.

The bank uses specific tools to monitor individual exposures on an ongoing basis: 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 on a regular basis, at least quarterly. The report provides extensive information and analyses regarding the key structural counterparty risk properties of the credit portfolio.

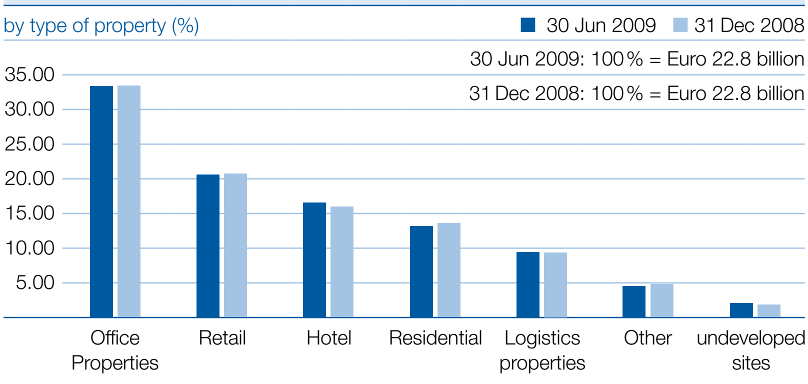
Property financing volumes (amounts drawn)

by region (%)



Property financing volumes (amounts drawn)

by type of property (%)



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

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

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

Our comprehensive approach to risk management also includes measuring and monitoring country risk exposure. When defining country risk, in addition to the risk of sovereign default or default of state entities, Aareal Bank also considers the risk that a counterparty could become unable to meet its payment obligations as a result of government action, despite being willing and able to pay, due to restrictions being imposed on making payments to creditors (transfer risk). Country risk exposure is managed using a cross-divisional process. The respective country limits are determined on the basis of a country risk assessment carried out by the bank's senior management. The Risk Controlling 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 predominantly entered into the trading book, whilst in the banking book they are primarily used as hedging instruments. Spread risks between the various yield curves (e.g. government / Pfandbrief / swap curve) are also taken into account. The risk exposure from bonds that is not related to market price or interest rate risks – in particular, credit and liquidity risk exposure of the bond portfolio – is managed as part of "specific" risk.

Risk measurement and monitoring

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

Value-at-risk (VaR) has been broadly accepted as the predominant method for measuring general market price risk. The VaR for market price risks 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, it takes into account the correlation between the individual types of risk. The statistical parameters used in the VaR model are calculated on the basis of an in-house data pool over a period of 250 days. The loss potential is determined applying a 99 % confidence interval and a ten-day holding period.

By its very nature, VaR calculations are based on numerous assumptions regarding the future development of the business, and the related cash flows. Key assumptions used include current account balances which are factored into calculations for a period of two years, using the average residual amount of deposits observed in the past. Loans are taken into account using their fixed-interest period (for fixed-rate exposures), or using their expected maturity (variable-rate exposures).

	MAX	MIN	Mean	Limit
H1-2009 (2008 values) 99 %, 10-day holding period				
Aareal Bank Group – general market price risks	67.3 (50.1)	39.4 (26.7)	53.2 (36.8)	– (–)
Group VaR (interest rates)	61.1 (35.6)	31.3 (7.3)	47.1 (22.3)	– (–)
Group VaR (FX)	23.1 (16.1)	15.1 (3.8)	20.1 (8.7)	– (–)
VaR (funds)	12.6 (29.9)	9.2 (10.3)	11.0 (24.1)	60.0 (60.0)
Aggregate VaR in the trading book (incl. specific VaR)	3.8 (12.4)	0.1 (1.3)	1.7 (4.1)	20.0 (20.0)
Trading book VaR (interest rates)	1.5 (11.8)	0.1 (0.1)	0.2 (2.0)	– (–)
Trading book VaR (FX)	0.1 (0.2)	– (–)	– (–)	– (–)
VaR (equities)	0.6 (1.9)	0.0 (0.0)	0.0 (0.2)	– (–)
Group VaR (specific risks)	137.3 (112.0)	110.5 (40.1)	124.0 (65.4)	– (–)
Aggregate VaR – Aareal Bank Group	153.5 (118.3)	118.7 (51.3)	135.6 (75.3)	181.0 (181.0)

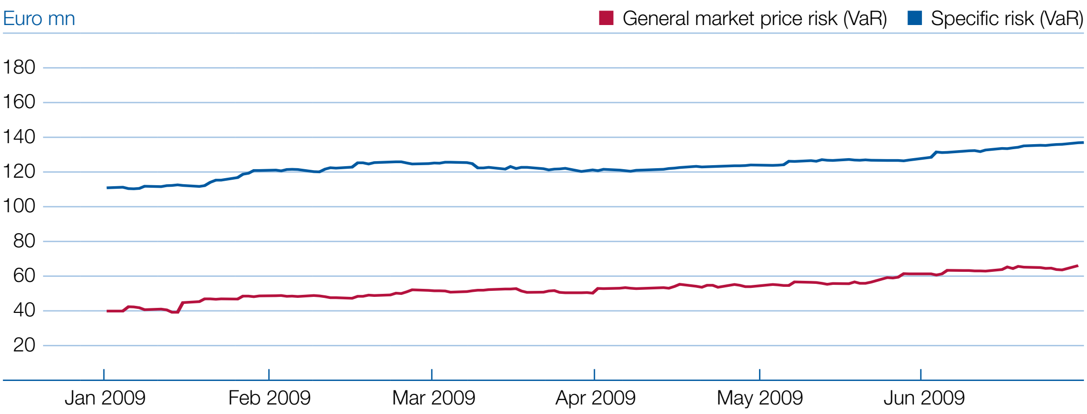
Aareal Bank's equity is not taken into account as a risk-mitigating item. This tends to overstate VaR, demonstrating the conservative approach adopted in our risk measurement processes. The limit set for the VaR figure is derived from the analysis of the bank's risk-bearing capacity, which is carried out at least once a year. Limits are defined at Group level, as well as for the individual Group entities. Being authorised to maintain a trading book, Aareal Bank AG has defined an additional trading book limit, plus a separate value-at-risk limit for fund assets held.

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

Aggregate VaR – Aareal Bank Group

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

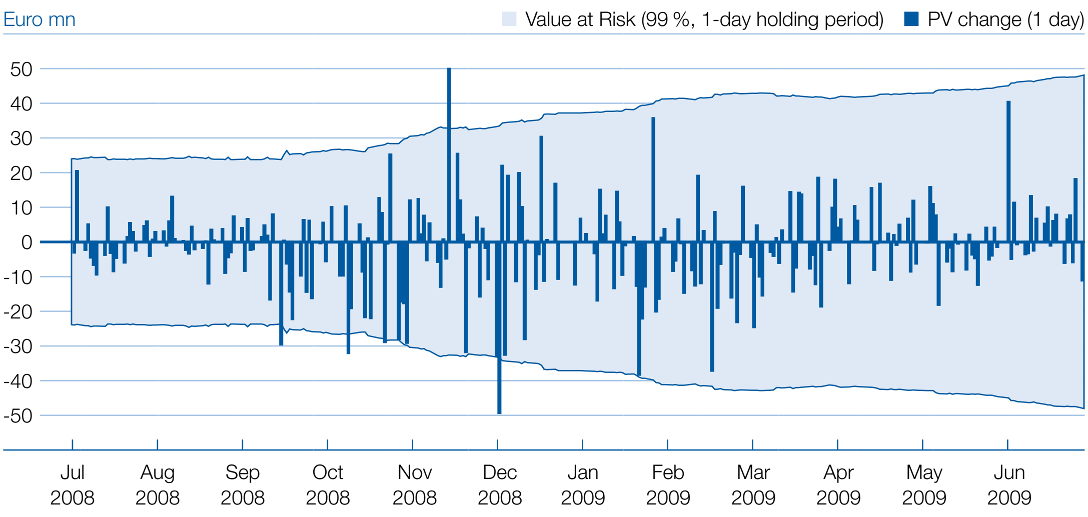
General market price risk and specific risk during the first half of 2009



Backtesting

The quality of forecasts made using the statistical model is checked through a weekly backtesting process. Within the scope of this model, 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"). The number of negative outliers at Group level was always lower than 5 during the previous 250 trading days, affirming the high forecasting quality of the VaR model we use.

Present values and 1-day VaR during the course of 2008/2009



Trading book

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

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

Liquidity risks

Liquidity risk in the narrower sense is defined as the risk that current or future payment obligations cannot be met 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 senior management.

The appropriateness of the bank's liquidity is assessed in a liquidity report prepared using an internal liquidity risk model: the aggregate of all potential cash inflows and outflows over a three-month period is compared to the liquidity stock. There were no liquidity shortages throughout the period under review. The requirements of the liquidity ratio in accordance with the Liquidity

Ordinance, which is relevant to liquidity management, were always complied with, as were the limits set by reference to the liquidity run-off profile. Further details are provided in the comments on the bank's liquidity in the section on "Refinancing and Equity".

Operational risks

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

Aareal Bank's policy for managing and monitoring operational risks is geared to achieving a risk-minimising or loss-limiting effect at an early stage, by employing a pro-active approach. The Risk Report in the Annual Report 2008 contains a detailed description of controlling tools employed by the bank to manage operational risk, and the relevant responsibilities.

A current analysis using these controlling tools has not indicated any disproportionate operational risk exposure during the period under review. Operational risk management also includes the reporting to the bank's senior management on outsourced activities and processes.

Investment risks

Aareal Bank defines 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 risks arising from contingencies vis-à-vis relevant Group entities.

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

Report on Expected Developments

Macro-economic environment

The global economy was caught in a severe recession during the first half of the year. Despite some positive indicators, economic development remained at a low level. Hence, uncertainty abounds and the threat to future positive development persists. This includes for example rising unemployment, which should bring about a reluctant stance in relation to private consumption. The demand for capital goods is unlikely to be revived in view of the current, very low capacity utilisation levels. However, production could enjoy positive effects if the reductions presently seen in company inventories lead to a shift in order activity. The ongoing poor sentiment also represents a threat. In view of these potential uncertainties, we are cautious as to whether the global economy will experience any lasting stability or make any significant recovery in the near-term. Our stance is also supported by the fact that the enormous economic slump has spread across all regions at the same time.

Growth in the developed economies will be particularly negative this year. Although positive growth rates are being achieved in some emerging countries, such as China, they are lower than in previous years. Economic stimulation programmes launched by governments could have a certain positive effect in the second half of the year. In Germany for example, the funds drawn down from the public investment programmes have been low, so that the effects will only start to feed through some time in the future.

Although commodity prices increased again in the first half of the year, they still remained below the high values seen in the middle of last year. This will lead to a basis effect, so that low inflation (and even deflation) in some countries can be expected well into the second half of the year. It is difficult to forecast developments when the basis effect no longer applies, since commodity price trends – which are difficult to assess – play a significant role. On a short-term horizon, the weak economic development implies that inflation will be low. In the medium-term, a recovering economy combined with expansive fiscal and monetary policy could lead to rising inflation.

Economic performance is subject to so many uncertainties at present that only a very limited forecast is possible.

Development of international property markets

The uncertainties surrounding the economy continue to make it difficult at present to forecast how international commercial property markets will perform.

The anticipated fall in employment as a result of the economic downturn represents a threat to commercial property markets. Falling employment also leads to a drop in the demand for office property, resulting in a rise in vacant properties and therefore to a further drop in rents. At the same time, there are concerns about the evident cautious stance amongst private consumers and in tourism, and a decline in the movement of goods – which in turn adversely affect income generated on retail, hotel and logistics property. The threat of potential defaults by tenants is growing, in line with the advancing economic crisis. The increased aversion to risk and uncertainty among investors is also likely to continue excercising pressure on sales prices. On the other hand, the significant fall in prices we have seen meanwhile, and the sharp rise in investors' gross entry yields, could indicate an investment opportunity at these levels.

The financings for many transactions conducted – especially during the boom years – on commercial property markets will mature this year and the next. A significant number of these transactions were refinanced through CMBS securitisations (commercial mortgage-backed securities). The maturity of these financings could lead to a rise in the number of forced sales, which would exercise further downside pressure on prices. This would affect the USA in particular, but also Europe. Asia on the other hand, would be affected to a lesser extent.

Given these risks for the commercial property markets, we view the development of property values and rents with caution. Since commercial property markets generally lag economic cycles, we believe the effects from the economic and financial market crisis will continue to be felt well into next year.

This will put additional pressure on property values and returns in all of our markets. We forecast another average price decline for the full-year 2009 on the commercial property markets in which we are active, from the already significantly reduced levels seen in 2008. We are forecasting declines of between a minimum of 5 % and a maximum of 20 %, depending on the market. The individual values of a specific property can deviate significantly from this overall market observation and depends on individual factors, such as the location or rental situation.

Development of the German institutional housing industry

We believe that the German institutional housing business will continue to show a stable performance, thanks mainly to largely constant rental returns and long-term financing structures.

Given the applicable prerequisites for subsidised KfW financing, the commercial housing enterprises are likely to continue to invest heavily in construction. Besides energetic modernisation, the focus will remain on adjusting existing property to meet the demand of changing living requirements.

However, the scope of investment projects depends on diverging trends in the regional housing markets. Commercial housing enterprises are confronted increasingly with vacancies, falling prices and lower rents in shrinking markets. The competitive situation is heightened in this market environment, and the commercial housing enterprises concentrate their investment activities mainly on differentiating and upgrading their housing portfolio. Low construction activity in growth regions coupled with a growing population leads to a shortage of supply and ultimately to rising rents. This will increase demand for new construction projects in those urban areas that are flourishing financially.

Against the background of volatile investment markets, residential property is a stabilising portfolio element. We can therefore assume that the interest shown by institutional and high net worth private investors in housing investments will grow. The outlook for rising rents, due to a scarcity of housing stock and against the background of inflationary fears, could further stimulate transaction activities.

The housing market also lags economic decline. A lasting and real economic crisis will drive up demand in the affordable housing segment, which can limit the scope for rent adjustment and investment activity in the commercial housing industry. At the same time, regional disparities on the housing markets are set to increase.

Corporate development

Aareal Bank Group

We continue to expect consolidated net interest income to range between € 420 million and € 440 million for the year as a whole. We also affirm the published forecast in relation to our budgeted allowance for credit losses. Given the general economic developments, allowance for (expected) credit losses will clearly exceed the previous year's figures, but will remain manageable, within the communicated range of € 90 to € 150 million for the full year (even though from today's perspective, at the upper end of the projected range). It is, however, impossible to exclude additional impairments from unexpected losses for 2009.

Administrative expenses are expected in the region of € 360 million. Adjusted for non-recurring effects and the impact of the first-time consolidation of Sylogis.com, this would represent only a minor increase over the previous year.

From today's perspective, new business generated in the Structured Property Financing segment is expected to range between € 2 billion and € 3 billion. Our particular focus is on extensions of existing exposures, and on financings for existing clients.

We expect the net commission income in the Consulting / Services segment to rise again in the second half of the year, and especially during the fourth quarter – due to rising revenues generated by Aareon through the new Wodis Sigma product line. However, intensified margin pressure in the deposit-taking business will force us to again make adjustments to our projections for pre-tax profits in this segment. From today's perspective, this will lead to lower returns of roughly € 10 to € 15 million compared with first-quarter projections. The forecast for the operative segment result before taxes and non-recurring effects has therefore been reduced from around € 40 million to between € 25 and € 30 million, depending on interest rate developments.

Structured Property Financing

Even though the first half of 2009 was defined by a sharp real economic downturn, financial markets succeeded in stabilising somewhat compared with the fourth quarter of 2008. However, in view of the considerable uncertainty that still prevails on the international financial and property markets, the all-clear cannot be sounded yet.

This uncertainty characterised our property financing business in the first half of the year, and will continue to do so during the second half. It will be reflected initially in a reduction in property values and also in property returns. Year-on-year allowance for credit losses is developing on schedule and is expected to reach the upper end of the forecasted target corridor of € 90 to € 150 million. However, it is impossible to exclude additional impairments from unexpected losses for 2009. We have benefited – in relation to these developments – from our successful regional diversification of recent years, which has allowed us to partly offset the negative developments of individual property markets in the portfolio.

The fact that we uphold our reputation as a reliable partner, especially in 2009, is expressed in our new business to date, the bulk of which consisted of loan extensions. This represents the clear commitment to our existing clients, whom we will continue to support sustainably, even in this difficult economic situation.

One of the key prerequisites for this success is our good refinancing structure, which we succeeded in strengthening continuously in the first six months of the year. The successful issue of just under € 2 billion in Pfandbrief issues, our first government-guaranteed € 2 billion benchmark bond, plus various private placements of uncovered bonds totalling € 0.3 billion, secured adequate funding early on in the current year, enabling us to provide our clients with the necessary loans for their projects.

Consulting / Services

Although the Consulting / Services segment is not directly affected by the financial markets crisis, the changed interest rate environment and the real economic crisis have also left their mark on this segment.

Aareon

With the investment phase for the Blue Eagle / SAP property management software now concluded, we expect to see further growth in the volume of residential units managed by using Blue Eagle. However, the associated rise in revenues is expected at a later time than originally anticipated, owing to the general economic situation.

Whilst Aareon essentially succeeded in maintaining its market shares with existing products GES and WohnData in the first half-year, we forecast a decline in relation to GES and WohnData in the medium term, as customers switch to other Aareon ERP products. We also continue to enhance our product range and to work on new product solutions.

Our efforts to integrate the Wodis IT product in Aareon AG's service range are being rewarded. Moreover, Wodis clients increasingly make use of the additional integrated services available to them. Thanks to the increased use of our ERP products, the added value offered by integrated services will represent another key feature to differentiate us from our competitors in the future.

Furthermore, Aareon has refined its Wodis product line, having transferred the product onto a new technology platform within the scope of a new release. "Wodis Sigma", the new product generation based on this platform, was introduced in May, at the Aareon Congress – the company's premier client event. The new development will secure long-term earnings. The first client reactions have already confirmed these expectations.
We expect the product line to result in a marked increase in revenues during the fourth quarter.

The economic slowdown has resulted in marked caution among our clients regarding new investments. Products already implemented on our clients' systems are not exposed to the economic slowdown: these continue to provide a stable, crisis-proof contribution to results. All in all, we expect Aareon's third quarter revenues to come in roughly on a par with the second quarter, followed by a substantial rise in the fourth quarter.

Payments

Aareal Bank's Institutional Housing Business continues to generate a stable level of deposits for the bank's funding requirements, helped to a notable degree by the BK01 products, which are a family of leading market applications for optimised mass electronic payments processing. However, in view of current developments in the interest rate environment, we believe that margins in this business will remain under significant pressure.

New client acquisition, together with improved penetration of the existing client base, is even more important in the course of the current financial year. Positive segment results here will produce sustainable profitability for the Group.

Consolidated Financial Statements
Statement of Comprehensive Income

Income Statement of Aareal Bank Group

	Note	1 Jan-30 Jun 2009	1 Jan-30 Jun 2008
Euro mn			
Interest income		684	979
Interest expenses		456	758
Net interest income	1	**228**	**221**
Allowance for credit losses	2	79	40
Net interest income after allowance for credit losses		**149**	**181**
Commission income		91	96
Commission expenses		25	28
Net commission income	3	**66**	**68**
Net result on hedge accounting		1	2
Net trading income/expenses	4	25	-25
Results from non-trading assets	5	-16	1
Results from investments accounted for using the equity method		–	3
Results from investment properties		0	0
Administrative expenses	6	178	177
Net other operating income/expenses	7	-5	22
Impairment of goodwill		–	–
Operating profit		**42**	**75**
Income taxes		7	25
Net income/loss		**35**	**50**
Allocation of results			
Net income/loss attributable to non-controlling interests		9	9
Net income/loss attributable to shareholders of Aareal Bank AG		26	41
Appropriation of profits			
Net income/loss attributable to shareholders of Aareal Bank AG		26	41
Silent participation by SoFFin		12	–
Consolidated retained profit/accumulated loss		**14**	**41**
Euro			
Earnings per share		**0.62**	**0.95**
Diluted earnings per share		**0.62**	**0.95**

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 financial year.

Statement of Comprehensive Income

Reconciliation from Net Income/Loss to Total Comprehensive Income of Aareal Bank Group

Euro mn	Note	1 Jan-30 Jun 2009	1 Jan-30 Jun 2008
Net income/loss		**35**	**50**
Changes in revaluation surplus	8	17	-99
Changes in hedging reserves	8	0	-1
Changes in currency translation reserves	8	0	0
Changes in reserves from transactions under common control	8	2	14
Other comprehensive income/loss, after tax		**19**	**-86**
Total comprehensive income/loss		**54**	**-36**
Allocation of total comprehensive income/loss			
Total comprehensive income/loss attributable to non-controlling interests		9	9
Total comprehensive income/loss attributable to shareholders of Aareal Bank AG		45	-45

Statement of Comprehensive Income

Income Statement (Quarterly Development)

Euro mn	Quarter 2 2009	Quarter 1 2009	Quarter 4 2008	Quarter 3 2008	Quarter 2 2008
Interest income	308	376 [1]	511	512	494
Interest expenses	194	262 [1]	377	395	380
Net interest income	**114**	**114**	**134**	**117**	**114**
Allowance for credit losses	42	37	20	20	20
Net interest income after allowance for credit losses	**72**	**77**	**114**	**97**	**94**
Commission income	44	47	69	47	49
Commission expenses	14	11	21	13	14
Net commission income	**30**	**36**	**48**	**34**	**35**
Net result on hedge accounting	0	1	-3	1	0
Net trading income/expenses	9	16	-23	25	-3
Results from non-trading assets	1	-17	-59	-37	-8
Results from investments accounted for using the equity method	–	–	4	–	3
Results from investment properties	0	0	-1	0	0
Administrative expenses	88	90	86	84	89
Net other operating income/expenses	1	-6	17	-5	16
Impairment of goodwill	–	–	0	–	–
Operating profit	**25**	**17**	**11**	**31**	**48**
Income taxes	1	6	3	11	16
Net income/loss	**24**	**11**	**8**	**20**	**32**
Allocation of results					
Net income/loss attributable to non-controlling interests	5	4	4	5	4
Net income/loss attributable to shareholders of Aareal Bank AG	19	7	4	15	28

[1] The amounts were adjusted. Please see Note (1) for more information.

Statement of Comprehensive Income

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

Euro mn	Quarter 2 2009	Quarter 1 2009	Quarter 4 2008	Quarter 3 2008	Quarter 2 2008
Net income/loss	**24**	**11**	**8**	**20**	**32**
Changes in revaluation surplus	24	-7	-113	-41	5
Changes in hedging reserves	0	0	-1	0	0
Changes in currency translation reserves	0	0	1	0	0
Changes in reserves from transactions under common control	2	0	1	3	2
Other comprehensive income/loss, after tax	**26**	**-7**	**-112**	**-38**	**7**
Total comprehensive income/loss	**50**	**4**	**-104**	**-18**	**39**
Allocation of total comprehensive income/loss					
Total comprehensive income/loss attributable to non-controlling interests	5	4	4	5	4
Total comprehensive income/loss attributable to shareholders of Aareal Bank AG	45	0	-108	-23	35

Segment Reporting

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	30 Jun 2009	30 Jun 2008	30 Jun 2009	30 Jun 2008	30 Jun 2009	30 Jun 2008	30 Jun 2009	30 Jun 2008
Euro mn								
Net interest income	203	187	0	0	25	34	228	221
Allowance for credit losses	79	40					79	40
Net interest income after allowance for credit losses	**124**	**147**	**0**	**0**	**25**	**34**	**149**	**181**
Net commission income	2	9	90	94	-26	-35	66	68
Net result on hedge accounting	1	2					1	2
Net trading income/expenses	25	-25					25	-25
Results from non-trading assets	-16	1	0	0			-16	1
Results from investments accounted for using the equity method		3						3
Results from investment properties	0	0				0	0	0
Administrative expenses	98	104	82	75	-2	-2	178	177
Net other operating income/expenses	-4	20	0	3	-1	-1	-5	22
Impairment of goodwill								
Operating profit	**34**	**53**	**8**	**22**	**0**	**0**	**42**	**75**
Income taxes	4	18	3	7			7	25
Net income/loss	**30**	**35**	**5**	**15**	**0**	**0**	**35**	**50**
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	22	27	4	14	0	0	26	41
Allocated equity	1,281	920	61	72	300	322	1,642	1,314
Cost/income ratio (%) [1]	46.1	52.7	91.5	77.8			59.6	60.7
RoE after taxes (%)	3.5	5.9	13.2	37.2			3.2	6.2
Employees (average)	**1,014**	**1,106**	**1,416**	**1,371**			**2,430**	**2,477**

[1] The calculation method to determine the cost/income ratio was changed as at 31 December 2008. The prior year's figures were adjusted accordingly.

Segment Reporting

(Quarterly Development)

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	Q2-2009	Q2-2008	Q2-2009	Q2-2008	Q2-2009	Q2-2008	Q2-2009	Q2-2008
Euro mn								
Net interest income	101	95	0	0	13	19	114	114
Allowance for credit losses	42	20					42	20
Net interest income after allowance for credit losses	**59**	**75**	**0**	**0**	**13**	**19**	**72**	**94**
Net commission income	-3	6	46	48	-13	-19	30	35
Net result on hedge accounting	0	0					0	0
Net trading income/expenses	9	-3					9	-3
Results from non-trading assets	1	-8	0	0			1	-8
Results from investments accounted for using the equity method		3						3
Results from investment properties	0	0				0	0	0
Administrative expenses	50	52	39	38	-1	-1	88	89
Net other operating income/expenses	2	16	0	1	-1	-1	1	16
Impairment of goodwill								
Operating profit	**18**	**37**	**7**	**11**	**0**	**0**	**25**	**48**
Income taxes	-2	12	3	4			1	16
Net income/loss	**20**	**25**	**4**	**7**	**0**	**0**	**24**	**32**
Allocation of results								
Net income/loss attributable to non-controlling interests	4	4	1	0			5	4
Net income/loss attributable to shareholders of Aareal Bank AG	16	21	3	7	0	0	19	28
Allocated equity	1,281	920	61	72	300	322	1,642	1,314
Cost/income ratio (%) [1)]	45.4	47.3	86.0	78.0			57.5	56.5
RoE after taxes (%)	4.9	9.3	22.2	36.8			4.8	8.5

[1)] The calculation method to determine the cost/income ratio was changed as at 31 December 2008. The prior year's figures were adjusted accordingly.

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)

Euro mn			Income statement classification – bank									
			Net interest income	Net commission income	Results from non-trading assets	Results from investments accounted for using the equity method	Administrative expenses	Net other operating income / expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	Q2-2009		0	46	0		39	0		**7**	3	**4**
	Q2-2008		0	48	0		38	1		**11**	4	**7**
Income statement classification – industrial enterprise												
Sales revenue	Q2-2009	52		52								
	Q2-2008	57		57								
Own work capitalised	Q2-2009	1					1					
	Q2-2008											
Changes in inventory	Q2-2009	0						0				
	Q2-2008	0						0				
Other operating income	Q2-2009	2			0		0	2				
	Q2-2008	3			0			3				
Cost of materials purchased	Q2-2009	6		6								
	Q2-2008	9		9								
Staff expenses	Q2-2009	27					27					
	Q2-2008	24					24					
Depreciation, amortisation and impairment losses	Q2-2009	3					3					
	Q2-2008	4					4					
Results from investments accounted for using the equity method	Q2-2009											
	Q2-2008											
Other operating expenses	Q2-2009	12			0		10	2				
	Q2-2008	12			0		10	2				
Interest and similar income / expenses	Q2-2009	0	0									
	Q2-2008	0	0									
Results from ordinary activities	**Q2-2009**	**7**	**0**	**46**	**0**		**39**	**0**				
	Q2-2008	**11**	**0**	**48**	**0**		**38**	**1**				
Income taxes	Q2-2009	3									3	
	Q2-2008	4									4	
Segment result	**Q2-2009**	**4**										
	Q2-2008	**7**										

Statement of Financial Position of Aareal Bank Group

Euro mn	Note	30 Jun 2009	31 Dec 2008
Assets			
Cash funds		629	693
Loans and advances to banks	9	3,639	1,165
Loans and advances to customers	10	24,596	24,771
Allowance for credit losses		-266	-232
Positive market value of derivative hedging instruments		1,296	1,256
Trading assets	11	853	2,168
Non-current assets held for sale and discontinued operations		8	8
Non-trading assets	12	10,724	10,654
Investments accounted for using the equity method		3	3
Investment properties		99	94
Intangible assets	13	82	86
Property and equipment	14	100	96
Income tax assets		61	60
Deferred tax assets		142	135
Other assets	15	184	202
Total		**42,150**	**41,159**
Equity and liabilities			
Liabilities to banks	16	5,537	8,977
Liabilities to customers	17	23,090	20,605
Certificated liabilities	18	8,268	6,424
Negative market value of derivative hedging instruments		957	1,313
Trading liabilities	19	614	649
Provisions	20	238	258
Income tax liabilities		9	21
Deferred tax liabilities		63	55
Other liabilities	21	120	162
Subordinated equity	22	1,264	1,266
Equity	23, 24		
Subscribed capital		128	128
Capital reserves		511	511
Retained earnings		755	738
Other reserves		-173	-192
Silent participation by SoFFin		525	–
Non-controlling interest		244	244
Total equity		1,990	1,429
Total		**42,150**	**41,159**

Statement of Changes in Equity

Euro mn	Subscribed capital	Capital reserves	Retained earnings	Other reserves: Reserves from transactions under common control	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Currency translation reserve	Silent participation by SoFFin	Total	Non-controlling interest	Total equity
Total equity as at 1 January 2009	**128**	**511**	**738**	**-8**	**-184**	**-1**	**1**	**0**	**1,185**	**244**	**1,429**
Total comprehensive income/loss for the period			26	2	17	0	0		45	9	54
Capital increase									0		0
Capital reduction									0		0
Payments to non-controlling interests									0	-9	-9
Dividends									0		0
Silent participation by SoFFin								525	525		525
Costs for silent participation by SoFFin			-12						-12		-12
Other changes			3						3		3
Total equity as at 30 June 2009	**128**	**511**	**755**	**-6**	**-167**	**-1**	**1**	**525**	**1,746**	**244**	**1,990**

Euro mn	Subscribed capital	Capital reserves	Retained earnings	Other reserves: Reserves from transactions under common control	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Currency translation reserve	Total	Non-controlling interest	Total equity
Total equity as at 1 January 2008	**128**	**511**	**701**	**-26**	**69**	**1**	**0**	**1,384**	**243**	**1,627**
Total comprehensive income/loss for the period			41	14	-99	-1		-45	9	-36
Capital increase								0		0
Capital reduction								0		0
Payments to non-controlling interests								0	-9	-9
Dividends			-21					-21		-21
Other changes			-2					-2		-2
Total equity as at 30 June 2008	**128**	**511**	**719**	**-12**	**-30**	**0**	**0**	**1,316**	**243**	**1,559**

Statement of Cash Flows (condensed)

Euro mn	2009	2008
Cash and cash equivalents as at 1 January	**693**	**1,051**
Cash flow from operating activities	7	634
Cash flow from investing activities	-70	-506
Cash flow from financing activities	-1	-57
Total cash flow	**-64**	**71**
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 30 June	**629**	**1,122**

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.

The present half-yearly financial report was prepared in accordance with 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).

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

Reporting entity structure

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

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

Accounting policies

Unless specifically indicated otherwise, the accounting policies applied in the preparation of the consolidated financial statements 2008 were also applied for these condensed interim consolidated financial statements, including the calculation of comparative figures.

The International Accounting Standards Board (IASB) published the revised IAS 1 "Presentation of Financial Statements" (rev. 2007) in September 2007; the revised standard was adopted by the European Commission in January 2009. The amendments to IAS 1 (rev. 2007) led to changes in the presentation of the income statement and the statement of changes in equity. Accordingly, the income statement needs to be supplemented by income / loss recognised directly in equity, together forming a statement of comprehensive income. Aareal Bank Group has implemented this requirement under the amended Standard by supplementing its income statement by adding a reconciliation from net income to total comprehensive income. The statement of changes in equity include total comprehensive income / loss, condensed into a single line item. In accordance with applicable law, the amended accounting standard has been applied for the first time in the interim financial statements as at 31 March 2009.

Based on the new accounting rules, we have adjusted the presentation of the statement of financial position by including this year's net income attributable to shareholders of Aareal Bank AG directly in retained earnings.

As a result of the implications from the crisis on the financial markets, certain securities were characterised in the past by a lack of an active market. Therefore, the fair value of these securities was determined on the basis of measurement models. In the current financial year, an active market has developed again for some securities to the extent that regular price quotations are now available for these securities. In these cases, the market prices observable in the market are used for the purpose of determining fair values.

The following financial reporting standards (IAS / IFRS) and interpretations (SICs and IFRICs) were adopted by the EU Commission in the reporting period:

- Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to IFRS 1 und IAS 27 Cost of an Investments in a Subsidiary, Jointly-Controlled Entity or Associate
- Improvements to IFRSs (issued by the IASB in May 2008)
- IFRIC 12 Service Concession Arrangements
- IFRIC 16 Hedges of a Net Investment in A Foreign Operation
- Amendments to IAS 27 Consolidated and Separate Financial Statements
- Revised IFRS 3 Business Combinations

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

German Financial Markets Stabilisation Fund (SoFFin)

The German Financial Markets Stabilisation Fund (SoFFin) extended a € 525 million silent participation to Aareal Bank for an unlimited period as at 31 March 2009. Please refer to Note (23) for details regarding this participation. In addition, SoFFin has extended a guarantee facility with a total volume of up to € 4 billion and a maximum term of 36 months to Aareal Bank for new, unsecured issues. The agreement is subject to approval by the EU Commission. The bank pays a commitment fee of 0.1 % p.a. on the undrawn portion of the guarantee facility. The drawdown fee for issuing guaranteed debt securities is 0.5 % p. a. for terms of up to one year and approx. 0.95 % p.a. for terms beyond one year.

Notes to the Statement of Comprehensive Income

(1) Net interest income

Euro mn	1 Jan-30 Jun 2009	1 Jan-30 Jun 2008
Interest income from		
Property loans	360	509
Public-sector loans	30	45
Other lending and money market operations	134	244
Fixed-income securities and debt register claims	159	175
Current dividend income	1	6
Other interest income	0	0
Total interest income	**684**	**979**
Interest expenses for		
Bonds issued	190	254
Borrowed funds	77	223
Subordinated equity	25	38
Term deposits	138	185
Payable on demand	21	55
Other banking transactions	5	3
Total interest expenses	**456**	**758**
Total	**228**	**221**

We use interest and currency derivatives within the framework of asset/liability management. Retrospectively as at 1 January 2009, interest received from such derivatives is reported by reference to the relevant hedged items in the items of the income statement where the interest from the relevant hedged items is also recognised. This method is designed to increase the informational value. Until 31 December 2008, interest from these derivatives had been reported on a net basis in a separate item (depending on the actual balance in the item "Other interest income/expenses from banking transactions").

(2) Allowance for credit losses

The allowance for credit losses amounted to € 79 million during the first six months of the financial year 2009 (H1 2008: € 40 million).

(3) Net commission income

Euro mn	1 Jan-30 Jun 2009	1 Jan-30 Jun 2008
Net commission income from		
Consulting and other services	59	53
Trustee loans and administered loans	3	6
Securities transactions	-5	0
Securitisation transactions	-1	-3
Other lending and capital market transactions	7	9
Net other commission income	3	3
Total	**66**	**68**

Net commission income generated from securities transactions include expenses of € 6 million for the guarantee facility extended by the German Financial Markets Stabilisation Fund (SoFFin).

(4) Net trading income/expenses

Euro mn	1 Jan-30 Jun 2009	1 Jan-30 Jun 2008
Results from derivative financial instruments	24	-12
Currency translation	-1	4
Net income/expenses from other positions held for trading	2	-17
Total	**25**	**-25**

(5) Results from non-trading assets

Euro mn	1 Jan-30 Jun 2009	1 Jan-30 Jun 2008
Results from securities sales	-14	3
Results from the measurement of securities	-3	-2
Results from equity investments	1	0
Total	**-16**	**1**

(6) Administrative expenses

Euro mn	1 Jan-30 Jun 2009	1 Jan-30 Jun 2008
Staff expenses	108	104
Other administrative expenses	60	63
Depreciation, amortisation and impairment of property and equipment and intangible assets	10	10
Total	**178**	**177**

(7) Net other operating income/expenses

Euro mn	1 Jan-30 Jun 2009	1 Jan-30 Jun 2008
Income from properties	1	2
Income from the reversal of provisions	1	4
Income from goods and services	0	0
Other	8	26
Total other operating income	**10**	**32**
Expenses for properties	1	1
Expenses for services used	0	0
Write-downs of trade receivables	0	0
Expenses for other taxes	0	0
Other	14	9
Total other operating expenses	**15**	**10**
Total	**-5**	**22**

Other operating expenses include, amongst others, project expenditure (including legal and advisory costs) in the amount of € 6 million incurred in relation to the support measures agreed upon between Aareal Bank and the German Financial Markets Stabilisation Fund (SoFFin).

(8) Reconciliation from Net Income/Loss to Total Comprehensive Income of Aareal Bank Group

Euro mn	1 Jan-30 Jun 2009	1 Jan-30 Jun 2008
Net income/loss	**35**	**50**
Changes in revaluation surplus, after tax	**17**	**-99**
Gains and losses on remeasuring available-for-sale financial instruments, before tax	12	-101
Reclassifications to the income statement, before tax	7	-18
Taxes	-2	20
Changes in hedging reserves, after tax	**0**	**-1**
Gains and losses from derivatives used to hedge changes of future cash flows, before tax	0	-1
Reclassifications to the income statement, before tax	–	–
Taxes	0	0
Changes in currency translation reserves, after tax	**0**	**0**
Gains and losses arising from translating the financial statements of a foreign operation, before tax	0	0
Reclassifications to the income statement, before tax	–	–
Taxes	–	–
Changes in reserves from transactions under common control, after tax	**2**	**14**
Gains and losses from transactions under common control, before tax	–	–
Reclassifications to the income statement, before tax	2	14
Taxes	–	–
Other comprehensive income/loss, after tax	**19**	**-86**
Total comprehensive income/loss	**54**	**-36**

Notes to the Statement of Financial Position

(9) Loans and advances to banks

Euro mn	30 Jun 2009	31 Dec 2008
Term deposits and current account balances	1,289	845
Public-sector loans	251	286
Receivables from securities repurchase transactions	2,073	0
Other loans and advances	26	34
Total	**3,639**	**1,165**

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

(10) Loans and advances to customers

Euro mn	30 Jun 2009	31 Dec 2008
Property loans	22,780	22,813
Public-sector loans	1,782	1,875
Other loans and advances	34	83
Total	**24,596**	**24,771**

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

(11) Trading assets

Euro mn	30 Jun 2009	31 Dec 2008
Debt and other fixed-income securities	51	466
Positive market values of standalone derivatives	802	1,052
Other assets held for trading	–	650
Total	**853**	**2,168**

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

(12) Non-trading assets

Euro mn	30 Jun 2009	31 Dec 2008
Debt and other fixed-income securities	10,488	10,344
of which: Loans and receivables	7,085	4,153
Held to maturity	405	412
Available for sale	2,998	5,779
Equities and other non-fixed income securities	231	305
of which: Available for sale	181	213
Designated as at fair value through profit or loss	50	92
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	5	5
Total	**10,724**	**10,654**

In the first quarter of 2009, the Aareal Bank Group again made use of the reclassification options provided for by the amended IAS 39.50 et seq. Specifically, government bonds, other public-sector bonds, and bank bonds were reclassified from the IFRS measurement categories available for sale (AfS) and held for trading (HfT) to loans and receivables (LaR), as at 2 January 2009. Reclassification was based on the fair value applicable as at the date of reclassification. Until the date of reclassification, the financial assets had been measured at fair value. These securities are now measured at amortised cost.

Reclassified financial assets

Euro mn	Carrying amount of financial assets reclassified in the current financial year, as at the date of reclassification	Carrying amount of aggregate reclassified financial assets 30 Jun 2009	Fair value of aggregate reclassified financial assets 30 Jun 2009
from AfS to LaR	**3,002**	**5,871**	**5,661**
Asset-backed securities	–	52	46
Bank bonds	806	1,226	1,198
Covered bonds	292	672	650
Government bonds	1,904	3,921	3,767
from HfT to LaR	**5**	**488**	**396**
Asset-backed securities	–	482	390
Government bonds	5	6	6
Total	**3,007**	**6,359**	**6,057**

If the bank had not opted for reclassification, fair value measurement of the aggregate reclassified financial assets performed in the current reporting period would have resulted in a loss of € 36 million (before tax) to be recognised in the income statement and a loss of € 25 million (after tax) would have been recognised in the revaluation surplus. Reclassifications carried out during the previous year avoided a loss of € 56 million (before tax) that would have been recognised in the income statement, and provided € 129 million (after tax) in relief for the revaluation surplus (both figures for the full year 2008).

(13) Intangible assets

Euro mn	30 Jun 2009	31 Dec 2008
Goodwill	39	39
Internally generated software	30	34
Other intangible assets	13	13
Total	**82**	**86**

(14) Property and equipment

Euro mn	30 Jun 2009	31 Dec 2008
Land and buildings and construction in progress	81	79
Office furniture and equipment	19	17
Total	**100**	**96**

(15) Other assets

Euro mn	30 Jun 2009	31 Dec 2008
Properties	92	93
Trade receivables (LaR)	30	38
Other	62	71
Total	**184**	**202**

(16) Liabilities to banks

Euro mn	30 Jun 2009	31 Dec 2008
Payable on demand	675	697
Term deposits	119	329
Promissory note loans borrowed	788	923
Liabilities from securities repurchase transactions and open-market operations	3,532	6,606
Registered mortgage bonds	224	286
Other	199	136
Total	**5,537**	**8,977**

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

(17) Liabilities to customers

Euro mn	30 Jun 2009	31 Dec 2008
Payable on demand	4,083	2,846
Term deposits	5,859	4,464
Promissory note loans borrowed	8,393	8,591
Registered mortgage bonds	4,754	4,702
Other	1	2
Total	**23,090**	**20,605**

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

(18) Certificated liabilities

Euro mn	30 Jun 2009	31 Dec 2008
Medium-term notes	1,750	2,001
Bearer mortgage bonds	4,426	3,720
Other debt securities	2,092	703
Total	**8,268**	**6,424**

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

In the first six months of the financial year 2009, new issues amounted to a total volume of € 4.2 billion (of which € 2.0 billion related to issues guaranteed by SoFFin).

(19) Trading liabilities

Euro mn	30 Jun 2009	31 Dec 2008
Negative market values of standalone derivatives	510	510
Other liabilities held for trading	104	139
Total	**614**	**649**

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

(20) Provisions

Euro mn	30 Jun 2009	31 Dec 2008
Provisions for pensions and similar obligations	113	112
Other provisions	125	146
Total	**238**	**258**

(21) Other liabilities

Euro mn	30 Jun 2009	31 Dec 2008
Liabilities from outstanding invoices	5	20
Deferred income	20	26
Liabilities from other taxes	14	18
Trade payables (LaC)	11	8
Other liabilities (LaC)	70	90
Total	**120**	**162**

(22) Subordinated equity

Euro mn	30 Jun 2009	31 Dec 2008
Subordinated liabilities	552	555
Profit-participation certificates	489	478
Contributions by silent partners	223	233
Total	**1,264**	**1,266**

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

(23) Equity

On 31 March 2009, SoFFin extended the € 525 million silent participation to Aareal Bank for an unlimited period, as agreed upon as part of the support measures on 15 February 2009. The silent participation bears interest at 9 % p. a.; in the balance sheet, it is shown as a separate line item under equity. Interest expenses incurred on the silent participation are recognised directly in equity, without affecting the statement of comprehensive income.

(24) Treasury shares

No treasury shares were held during the period under review.

(25) Dividends

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

Other explanatory notes

(26) Contingent liabilities and irrevocable loan commitments

Euro mn	30 Jun 2009	31 Dec 2008
Contingent liabilities on guarantees and indemnity agreements	422	560
Irrevocable loan commitments	2,194	2,959

(27) Employees

	1 Jan-30 Jun 2009	1 Jan-31 Dec 2008
Number of employees in the banking business	1,082	1,137
Number of employees in other businesses	1,348	1,345
Total	**2,430**	**2,482**
of which: Part-time employees	374	358

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

(28) Related party transactions

No major transactions with related parties were carried out during the first six months of the financial year 2009.

(29) Events after the interim reporting period

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

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 principal opportunities and risks associated with the expected development of the group during the remaining months of the financial year.

Wiesbaden, 5 August 2009

The Management Board

Dr Wolf Schumacher   Norbert Kickum   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 2009 to 30 June 2009 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 Management Board. 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, 5 August 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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Chairman of the Supervisory Board
Chairman Public Sector Group, Citigroup

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

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

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Chairman of the Management Board
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Tamara Birke [3) 6)], Wiesbaden
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President and Chairman of the
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des Bundes und der Länder

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Management Board

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Chairman of the Management Board

Norbert Kickum
Member of the Management Board

Hermann Josef Merkens
Member of the Management Board

Thomas Ortmanns
Member of the Management Board

[1)] Member of the Executive Committee; [2)] Member of the Accounts and Audit Committee; [3)] Member of the Credit and Market Risk Committee;
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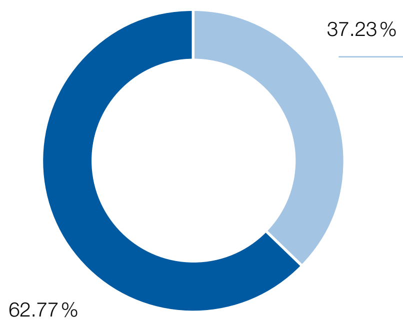
Shareholder Structure | Financial Calendar

Shareholder Structure

■ Free float ■ Aareal Holding Verwaltungsgesellschaft mbH



8.94 % Bayerische Beamten-Lebensversicherung a.G.

8.94 % Schweizerische Lebensversicherungs- und Rentenanstalt

6.68 % Versorgungsanstalt des Bundes und der Länder

6.06 % Bankhaus Lampe KG

5.25 % Deutscher Ring Gruppe

1.36 % Condor Lebensversicherungs-AG

Finanzkalender

10 November 2009	Presentation of interim report as at 30 September 2009
19 Mai 2010	Annual General Meeting – Rhein-Main-Hallen, Wiesbaden

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