LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

III/2009

Aareal Bank Group – Interim Report

1 January to 30 September 2009

Aareal Bank Group

Key Group Figures

	1 Jan-30 Sep 2009	1 Jan-30 Sep 2008	Change
	€ mn	€ mn	€ mn
Income Statement			
Operating profit	67	106	-39
Net income/loss after non-controlling interests	44	56	-12
Indicators			
Cost/income ratio (%) [1]	46.7	53.5 [4]	
Earnings per share (€)	1.03	1.30	
RoE after taxes (%) [2]	3.6	5.6	

	30 Sep 2009	31 Dec 2008	Change
	€ mn	€ mn	€ mn
Portfolio Data			
Property finance	22,346	22,813	-467
of which: international	18,573	18,655	-82
Property finance under Management	22,887	23,462	-575
of which: international	18,573	18,655	-82
Equity	2,043	1,429	614
Total assets	40,649	41,159	-510
	%	%	
Regulatory Indicators (German Banking Act/CRSA [3])			
Tier 1 ratio	10.7	8.0	
Total capital ratio	14.7	12.0	

	30 Sep 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 previous year's figures were adjusted accordingly.

Contents

Letter to Shareholders

Dear shareholders, business associates and Aareal Bank staff,

Aareal Bank Group has remained well on course during the third quarter of 2009. Notwithstanding the persistently difficult market conditions, the solid business development of the previous quarters remained intact. Thanks to our tried and tested business model and prudent risk policy, we also succeeded in generating a satisfactory result for the period between July and September, despite the persistently challenging market environment.

The first two quarters of 2009 were defined by a sharp real economic downturn. Economic weakness worldwide resulted in rising risk costs across the industry. Since the middle of the year, the real economy has been showing signs of recovery, albeit at a very low level. Economic output in some countries – including Germany – has risen again slightly in recent months. Global trade, which had declined sharply up to and including the early part of the year, climbed again recently. Nonetheless, the global economic recovery could still suffer a major potential setback. The banking industry is expected to face additional burdens from loan defaults, especially as a result of the rising number of private and corporate insolvencies.

Financial markets stabilised to a more significant extent as of mid-year, although not across all asset classes. The easing was reflected in recent months for example in the form of successful securities issues, such as on the Pfandbrief market, from which Aareal Bank could also benefit. Risk premiums on higher-quality corporate bonds and sovereigns also narrowed. However, the situation has not yet completely returned to normal, especially with regard to the funding options available to banks.

The consequences of the global recession – a rise in the number of company insolvencies, increasing unemployment and a reluctant stance in relation to consumption and travel – have impacted on the commercial property markets in the form of higher vacancies and lower rents, translated into lower returns overall, across all types of property. The situation on these markets remains strained, especially since the full impact on the commercial property market of the aforementioned economic factors only becomes visible with a certain delay. Similarly, the positive effects of the signs of an economic recovery on these markets also unfold with a time lag.

Against the background of this challenging market environment, Aareal Bank Group once again held its position in the third quarter and generated a solid positive result – as it has done in every quarter since the onset of the crisis affecting the financial markets in summer 2007. The Group's profit before taxes for the period from July to September was € 25 million, after € 25 million in the second quarter and € 17 million in the first.

The satisfactory result – in a difficult environment – once again demonstrates the coherence and sustainability of our business model comprising two strong pillars that has proved to be repeatedly resilient. Overall, Aareal Bank Group's profitability remains high enough, not only to absorb the various difficulties thrown up by the financial markets crisis and the consequences of the weak economy but also to bear the additional costs incurred within the scope of the agreement with the German Financial Markets Stabilisation Fund (Finanzmarktstabilisierungsfonds – SoFFin).

Structured Property Financing: risk-conscious approach bears fruit

Aareal Bank Group has generated a positive contribution to results up to now with its Structured Property Financing business, even in the most severe economic crisis experienced for decades. This confirms our approach of pursuing a sustainable, cautious and conservative business policy. Aareal Bank's approach to lending from July to September remained very risk-aware, as it has been in the past. Within the scope of new business, we continued to focus on our existing client base and on loan extensions for existing financing projects. In light of the ongoing poor market situation, we consider the volume of new business of approx.

€ 2.4 billion generated in the first nine months of 2009 to be appropriate. This reflects on the one hand our unchanged commitment to act as a reliable and competent partner for our existing client base, and on the other the markedly lower transaction volumes on commercial property markets in the course of the current year.

Aareal Bank continues to adhere to its tried and tested three-continent strategy to ensure regional diversification of its business. We have no plans to cut back our international branch network. Quite the opposite, in fact: our local presence plays a key role in the segment's success, as Aareal Bank combines local expertise with in-depth sector know-how. As a senior lender, we mostly retain financings on our own books, within the scope of a "buy-manage-hold" approach. This requires risks to be handled extra carefully. Conservative loan-to-value ratios are very important within the scope of our financing. This means that the financings are adequately collateralised and have a solid structure. This cautious approach is also reflected in our allowance for credit losses, which remains at a clearly manageable level for Aareal Bank. Allowance for credit losses of € 36 million in the third quarter remained within the scope of our planning (Q2-2009: € 42 million).

Net interest income, which accounts for the most important share of income within the segment, developed in line with expectations. It amounted to € 98 million in the third quarter of 2009, after € 99 million in the comparable period of the previous year and € 101 million in the second quarter of 2009. Higher margins in the lending business continued to have a positive effect, while our very comfortable liquidity reserve had a slightly negative effect on net interest income owing to extremely low short-term interest rates. In this respect, we are currently faced with certain short-term opportunity costs that we accept knowingly. All in all, the Structured Property Financing segment generated income before taxes of € 19 million.

Consulting/Services: stable segment result

Against the background of the difficult general economic conditions, the segment's performance was satisfactory. Despite the low interest rate level that was very unfavourable for margins in the deposit-taking business, the segment posted a positive result for the third quarter, too. At € 6 million, operating profit was almost unchanged from the previous quarter (€ 7 million).

On the basis of income statement classification aligned to industrial companies (cf. page 38), third quarter sales revenue of € 50 million was down slightly on the previous quarter (€ 52 million) and on the corresponding quarter of the previous year (€ 54 million). In the industrial company classification, net interest income is allocated to sales revenue: the corresponding decline has largely been due to the unfavourable interest rate environment for the deposit-taking business with the institutional housing industry. Moreover, the weak economic environment resulted in a certain degree of investor reticence regarding new investment in specific customer segments of our subsidiary Aareon AG. Accordingly, the € 2 million decline in the cost of materials purchased to € 6 million – despite counter-effects from the consolidation of Sylogis.com – reflected lower sales revenue at Aareon. Aareon's new Wodis Sigma product, which was launched in the second quarter, was met with great interest. All in all, we expect Aareon to increase sales revenue in the fourth quarter.

Earnings development in the segment's banking business depends largely on interest rate development. However, at an average of € 3.9 billion during the third quarter, the volume of deposits originated from Institutional Housing Unit clients – which represent a key funding source for Aareal Bank – remained largely stable, irrespective of the unfavourable interest rate environment.

This shows the high level of confidence our clients place in Aareal Bank and the solid market position the Group enjoys in the German institutional housing industry. Aareal Bank maintains long-term contracts in this sector that are backed by long-term customer relationships; it has been the lead bank for the German institutional housing industry for more than five decades. This approach is paying off especially in a market environment defined by uncertainties, and once again highlights the function of the Consulting / Services segment as the Group's second strong pillar and reliable source of income – which requires lower capital backing relative to the lending business.

Solid refinancing situation and good capitalisation

Aareal Bank operates a forward-looking and conservative refinancing policy. We placed some very successful issues on the capital market, as well as within the scope of private placements in the course of the current year. We issued Pfandbriefe totalling € 2.2 billion in the first nine months of the year. The issuing volume of senior unsecured bonds – excluding our € 2 billion bond guaranteed by SoFFin – amounted to approx. € 800 million.

As a consequence of the comparatively large amount of long-term funds raised, Aareal Bank currently has a very comfortable liquidity reserve – which, due to the extremely low level of short-term interest rates, has a slightly negative impact on net interest income. However, we accept this in view of the uncertainties that continue to burden financial markets. We invest our available liquidity in a conservative manner, and ensure quick access to provide continued financing support to our existing clients as well as being well-equipped to deal with a potential deterioration of the situation on the financial markets. Aareal Bank is therefore prepared for an increase in investment activities and the associated demand for borrowing.

As at 30 September 2009, Aareal Bank's Tier 1 ratio measured in accordance with the Credit Risk Standardised Approach (CRSA) was 10.7 %, which is high by international standards. Good capitalisation provides us with the necessary scope to continue to act as a reliable financing partner for our existing clients and also to exploit selective market opportunities presented to us.

The Aareal Bank share: price recovery gathers pace

The Aareal Bank share continued to perform well in the third quarter. It climbed to € 16.35 at the end of September and reached its year-to-date high[1)] at € 18.02 on 12 October. This means that the price has risen more than fivefold since the year's low of January and has not only outperformed the German blue-chip DAX index but has clearly overtaken the CXPB banks index, too. The price increases not only reflect the general recovery of banking shares over recent months, but are also a clear indication of the sustainable confidence shown by the market in Aareal Bank Group, its business model and its management. Aareal Bank therefore sees the return of our share into Deutsche Börse's MDAX® index on 21 September as recognition for its excellent performance compared with its peers – and especially against the background of the challenging environment.

Outlook: expectations for key financial indicators confirmed

At the end of the third quarter, we confirm our projections for key financial indicators that we have communicated to date. In fact, we can provide more concrete guidance regarding certain indicators.

Consolidated net interest income is expected to be around € 455 million, and hence at the lower end of the € 455 - € 475 million range. Taking into account the € 35 million interest expense for the silent participation that is recognised under appropriation of profits, this equates to full-year net interest income of € 420 - € 440 million projected so far.

1) Xetra closing prices

Allowance for expected credit losses is anticipated at € 150 million for the current year and is therefore at the upper end of the forecasted target corridor, as has been communicated to date. It is, however, impossible to exclude additional impairments from unexpected losses for 2009.

Administrative expenses are expected in the region of € 360 million and are therefore almost the same as in the previous year.

From today's perspective, new business generated in the Structured Property Financing segment is expected to amount to € 3 billion for the year as a whole. Our particular focus for the remainder of the year will remain on loan term extensions, and on the financing requirements of existing clients.

We expect net commission income in the Consulting/Services segment to rise again in the fourth quarter, also thanks to increased sales revenues generated by Aareon through the new Wodis Sigma product line. We affirm our forecast of € 25 to € 30 million for the operative segment result before taxes and non-recurring effects – which remains dependant upon interest rate developments.

As we see it, owing to the ongoing real economic crisis, which will strike with a time lag on some property markets, the challenging environment will continue to impact on our business. Nonetheless, 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 – have put the best possible prerequisites in place to enable us to endure the crisis in the financial markets and the accompanying economic downturn. At the same time, our company has secured a good starting position for the post-crises period.

Yours sincerely

The Management Board

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

Group Management Report

Business Environment

Macro-economic environment

After the spring of 2009 was defined by an unprecedented downturn in economic activity and the relentless crisis affecting financial markets, the situation on the world's financial markets has eased noticeably and the global economic situation appears to have stabilised at a low level. The downward trend that had persisted up to then was stopped.

Economy

The global economy stabilised in summer 2009, following massive declines. The first signs of a slow economic recovery intensified. Economic indicators such as the ifo business climate index improved, the volume of orders received increased and economic output in some countries, including Germany, rose again slightly. Global trading, which had declined sharply up to and including the early part of the year, picked up again recently, benefiting the emerging markets in particular. However, the level of economic activity worldwide is very low compared with the third quarter of the previous year. The situation therefore remains difficult.

The trend toward stabilisation was evident in all three continents in which we operate. The business climate indices improved on all three continents in the third quarter. There was a revival of industrial production in North America, as well as in Asia and Europe. Economic development varied significantly in different regions, especially in Europe. There were positive trends for example in France, Italy and Germany. In Eastern Europe, a similar scenario applied to Poland and the Czech Republic. In contrast, there are places where the economic situation remained extremely critical, notably in the Baltic States, Hungary, Ireland and Spain. In Asia, the recovery was supported especially by the development in China, where growth rates have accelerated considerably of late and are impacting positively on trade across the entire region.

The economic downturn in spring drove up unemployment further in all industrialised nations, with a marked increase recorded in Spain and the US. However, in a number of countries the rate of the rise in unemployment has recently slowed.

A key element in the stabilisation of the global economy and the first upside movements was that the process of reducing inventory on hand has come to an end. Governments have initiated numerous economic stimulation measures that have now started to take effect, and the easing of pressure on financial markets has also been beneficial.

Financial markets

Growing stabilisation was evident on financial markets, reflected for example by the successful issuance on the primary market of government bonds, government-guaranteed bonds and Pfandbriefe. The appetite for risk amongst institutional investors has generally increased, so that following numerous unsecured issues of certain major banks the market was eventually once again receptive towards hybrid core capital issues towards the end of the third quarter. This development on the primary market was accompanied by a continuous narrowing of risk spreads for each of the three segments mentioned above.

Only a small number of banks received government support, or increased the level of support, in contrast to the preceding months. In recent months, several banks in the US have repaid the state capital funds received. Some banks in a number of European countries have started to deliberate repaying state aid, or – as is the case in Switzerland – converting state aid into shareholdings to be placed with private investors.

Inflation and monetary policy

Most of the industrial countries experienced negative or only slightly positive annual inflation rates. The annualised rate of inflation in the euro zone was -0.3 % in September, after -0.2 % in August and -0.7 % in July. At 0.3 %, the rate of inflation in the European Union was still slightly positive in September, after 0.6 % in August and 0.2 % in July. Inflation was still particularly high in the Central and Eastern European states of Hungary, Romania and Poland. The strongest negative inflation rates in the EU were recorded in Ireland and Portugal. Asia's two most prominent economies – Japan and China – also recorded considerably lower consumer price figures than last year. Likewise, the US consumer price index was lower year-on-year. The declines (or only very minor increases) in consumer prices is attributable to the significant fall in commodity prices, especially oil, compared with the previous year. Although crude oil prices have risen since the start of this year and continued to do so in the third quarter, they remain considerably lower than last year's record levels. Furthermore, consumer price development is also based on reticent demand amongst consumers.

The most important central banks left benchmark rates unchanged in the third quarter. However, the already very low level of key interest rates offered no (or very little) potential for further rate cuts. During the third quarter, we saw significant cuts in certain countries where we are active participants in the real estate markets – notably in Russia and Turkey, with cuts of 1.5 percentage points each. The central banks of the Czech Republic, Denmark, Mexico and Sweden also lowered benchmark rates slightly.

While the US Federal Reserve (the Fed), the European Central Bank (ECB) and the Bank of England (BoE) all launched – and in some cases increased – securities purchasing programmes in the first half of the year, the BoE was the only central bank to increase this facility during the third quarter, by GBP 50 billion to GBP 175 billion. The ECB conducted the first purchases at the start of July, within the scope of the purchase programme for covered bonds that was agreed in the second quarter. The ECB also continued to furnish the commercial banks with liquidity via repurchase agreements with full allocation.

Sector-specific environment

Structured Property Financing

Although stabilisation of the global economy improved the property investment climate in many regions, the situation surrounding the commercial property markets mostly remained strained during the third quarter of 2009.

Transaction volumes in the commercial property market showed signs of recovery in recent months compared with spring of this year. However, volumes were down significantly on the levels for the corresponding period of what was already a difficult previous year. The regeneration was most pronounced in Asia. Third quarter transaction volumes were also up in Europe over the previous quarter, by around 40 % to € 18 billion; however, they were still more than 50 % lower than the level for the third quarter of the previous year. Demand for commercial property remained cautious in an economic atmosphere that was still relatively weak, despite stabilisation. Not only demand, but also the supply of commercial property remained low, due to significant differences remaining between buyers' and sellers' price perceptions. Investor interest focused on top-quality properties that were, however, only offered sporadically.

Investors' return requirements showed signs of increasing slowly towards stabilisation, albeit with regional differences at present. Return requirements for top-class properties were seen to fall slightly in a few markets, such as – for example – London office property.

The rental markets were also difficult in the third quarter as a consequence of the economic crisis. This was indicated by lower office space turnover on the one hand and by rising vacancies accompanied by pressure on rents on the other. These developments impacted on commercial property markets across all regions and types of commercial property. Revenues from hotel properties were also down on the back of the weak economy, which was reflected in lower levels of tourism and cost savings on business trips. While a trend towards stability manifested itself in the return requirements, falling rents placed commercial property prices under further pressure.

Consulting/Services: institutional housing industry

The institutional housing industry remained stable. Rental income generated from a highly-diversified tenant portfolio guarantees a solid foundation even in times of crisis. The effects of the economic downturn have not yet spread to the property management companies, whose company philosophy is focused on the sustainable management and development of their properties.

Investment activity in the sector remained stable in the third quarter, after only recording a slight decline during the first half of the year. Companies are focused increasingly on refurbishing buildings to make them suitable for the elderly, benefiting from the KfW "senior housing conversion" subsidy programme that was introduced in April of this year.

Despite the regional differences, residential rents continued to develop robustly overall in Germany. Regions where the economy continues to contract are faced with a rise in the number of vacant apartments, but demand often exceeds supply in many urban areas. Rents have risen slightly in 78% of major German cities. Falling new construction activity also affects the supply situation.

Revived investor interest in apartments – evident since the start of the year – continued. The initiators of funds reacted to the shift in clients' investment requirements towards security and protection against inflation. Closed-end mutual funds are emerging increasingly as a buyer group on the residential property market to meet this demand. The fund providers concentrate predominately on existing properties in growth regions. DWS Access Wohnen, one of the largest mutual funds to date for German residential property, was launched in the third quarter of 2009; with a planned fund volume of € 120 million.

Special property funds also continue to invest in housing properties, allowing them to offer indirect investment opportunities in the residential housing market to their institutional clients (insurance companies and pension funds). Direct investment in residential property by high net worth private individuals is also enjoying a recovery. This buyer group has a mainly long-term investment horizon, and invests predominantly in multi-family homes in order to maintain the asset base.

The market for IT consultancy and property management software is also stable. Our experience is that the market is being split increasingly into ERP solutions using SAP® technology and non-SAP®-based solutions. Demand for customised solutions in an SAP® environment is rising, although there is some evidence emerging of cautious investment behaviour here. On the other hand, we are seeing increasing investor interest in the market segment for non-SAP® based solutions, where the MICROSOFT.NET development platform is becoming increasingly important.

Group Profitability

Income Statement of Aareal Bank Group

€ mn	1 Jan-30 Sep 2009	1 Jan-30 Sep 2008
Net interest income	339	338
Allowance for credit losses	115	60
Net interest income after allowance for credit losses	**224**	**278**
Net commission income	94	102
Net result on hedge accounting	-3	3
Net trading income/expenses	44	0
Results from non-trading assets	-19	-36
Results from investments accounted for using the equity method	–	3
Results from investment properties	1	0
Administrative expenses	266	261
Net other operating income/expenses	-8	17
Impairment of goodwill	0	–
Operating profit	**67**	**106**
Income taxes	10	36
Net income/loss	**57**	**70**
Allocation of results		
Net income/loss attributable to non-controlling interests	13	14
Net income/loss attributable to shareholders of Aareal Bank AG	44	56
Appropriation of profits		
Net income/loss attributable to shareholders of Aareal Bank AG	44	56
Silent participation by SoFFin	24	–
Consolidated retained profit/accumulated loss	**20**	**56**

In the third quarter of 2009, Aareal Bank Group once again demonstrated the sustainability of its business model – in a market environment that remained challenging – by producing a satisfactory operating profit of € 25 million. Consolidated operating profit for the first nine months of 2009 totalled € 67 million.

With net interest income of € 339 million for the first nine months of the financial year, Aareal Bank Group is slightly ahead of the € 338 million achieved in the same period of the previous year. Higher margins in the lending business were offset by the impact of the very comfortable liquidity reserve that is commensurate with the current market situation. Moreover, the unfavourable interest rate environment for the deposit-taking business with institutional housing industry clients had a negative effect on net interest income.

At € 115 million (9m 2008: € 60 million), the allowance for credit losses developed according to plan. Expected at € 150 million for the current financial year, it is therefore at the upper end of the forecasted target corridor, as has been communicated to date. It is, however, impossible to exclude additional impairments from unexpected losses for 2009.

Net commission income of € 94 million (9m 2008: € 102 million) reflected – amongst other things – € 11 million in running costs for the guarantee facility extended by SoFFin. Adjusted for this effect, net commission income slightly exceeded last year's level.

Net trading income / expenses of € 44 million was attributable mainly to the measurement of stand-alone derivatives, particularly attributable to recoveries of credit derivatives (+€ 36 million).

The result from non-trading assets for the first nine months of 2009 was -€ 19 million (9m 2008: -€ 36 million) and therefore down slightly on the level reported at the end of the first half of the year (-€ 16 million).

Taking into account the special charges of € 6 million incurred by Aareon AG, which were already communicated in the first quarter, administrative expenses of € 266 million were stable compared with the previous year (€ 261 million).

Net other operating income and expenses of -€ 8 million includes amongst other things, project expenditure (including legal and advisory costs) incurred in conjunction with the support measures agreed between SoFFin and the bank. Last year's figure included non-recurring income of € 7 million from the Interhotel exposure.

Consolidated operating profit for the first nine months of 2009 totalled € 67 million (9m 2008: € 106 million). Taking into consideration taxes of € 10 million and € 13 million in income attributable to non-controlling interests, net income attributable to shareholders of Aareal Bank AG amounted to € 44 million. After deduction of the return on the SoFFin silent participation, consolidated net income stood at € 20 million.

Segment Reporting

Structured Property Financing

Business development

We continued to pursue our risk-sensitive lending policy in the third quarter of 2009, as well as consistently managing our loan portfolio. New business continued to focus on our existing client base and in particular on granting loan extensions. New business in the third quarter itself amounted to € 0.7 billion. For the first nine months of this year, it was € 2.4 billion compared with € 5.0 billion for the same period last year. In light of the ongoing difficult market situation, we find this decline to be appropriate. It reflects our unchanged commitment to supporting our existing client base, as well as taking into account the difficult market conditions and considerably lower transaction volumes than in previous years.

Europe accounted for 90.1 % of our new business during the first nine months of this year, followed by North America with 8.6 % and Asia with 1.3 %.

Europe

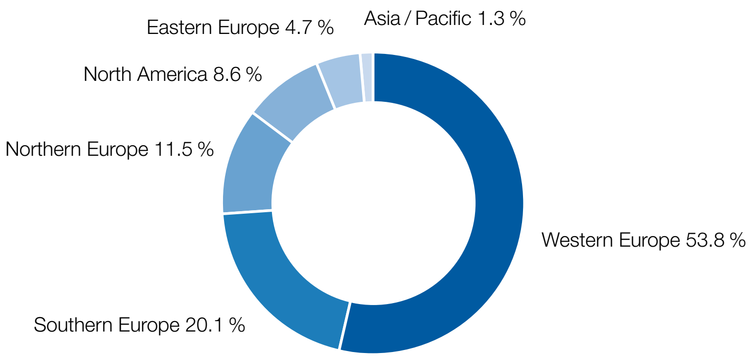
In the third quarter, the volume of transactions on the European commercial property markets was at a significantly lower level than last year, but succeeded in improving by around 40 % over the second quarter of 2009. Investors favoured top-quality properties in the Western European economic centres. At the same time, an improvement in the property investment environment was determined, even though it was still at a very low level compared with previous years. The trend in prior quarters for investors to look for a gradual rise in return requirements slowed down and even reversed slightly for top-quality properties in some markets such as in London or Paris. As the share of domestic investors rose gradually in the course of the crisis, we saw a significant increase in interest in cross-border investments in the third quarter, in markets such as the UK, Spain and France. Meanwhile, domestic investors in Germany, Sweden and Russia continued to gain in importance.

Rents remained under pressure in the third quarter too, and rental activities were low compared with previous years. Vacancies were running at a comparatively high level, which is attributable to the weak economy as well as to new building stock. In the coming years however, low construction activity should ease the pressure exercised by new properties on vacancy ratios. Higher vacancies and the attendant fall in rents put prices under pressure.

Our new business in Europe in the third quarter stood at € 0.6 billion in the second quarter and therefore totalled € 2.2 billion for the first three quarters. Western Europe accounted for the highest share, followed by Southern and Northern Europe.

New business – 1 Jan - 30 Sep 2009

by region (%) Total volume: € 2.4 billion



North America (NAFTA states)

The volume of investment in North American commercial property remained at a very low level. Investors' return requirements continued to rise during the third quarter of 2009. Very few locations, such as for example the office property market in Manhattan, reported stable or slightly rising yields. All types of commercial property were affected by the trend towards rising return requirements. Rents on commercial property remained under pressure, which also impacted on property prices. At the same time, vacancy levels in North America increased. The US and Canada were affected by these trends, although the fall in rents was somewhat less pronounced in Canada. Similarly, the national average for vacant office space in Canada is lower than the average throughout the USA. The Mexican market continues to be affected by the effects of the economic crisis as well as by the decline in travel as a consequence of the swine flu pandemic.

New business in North America amounted to € 0.1 billion in the third quarter and to € 0.2 billion in the first nine months of the year.

Asia / Pacific

Investment activity in Asia was quite buoyant compared with the European and North American commercial property markets. This was particularly noticeable recently in China. Prices showed the first signs of recovery in recent months following a significant drop in the spring, and thus stabilising investors' return requirements. In some cases, the return requirements on top-quality property in China and Hong Kong were even lower than in Europe and North America. The trend of falling rents decelerated, whilst vacancies rose. The region's highest vacancy levels were found amongst office buildings in China. At more than 20 %, vacancies were very high in Beijing in particular, with Shanghai and Guangzhou lagging behind considerably. Hong Kong also had a considerably lower vacancy ratio of around 10 %. Vacancy ratios of around 5 % in Tokyo and Singapore respectively remained low by worldwide standards.

We did not conduct any new business in the Asia / Pacific region in the third quarter. Our new business in this region remained therefore at under € 0.1 billion in the first three quarters of 2009.

Segment result

As in the preceding quarters, we again achieved in the third quarter a positive result in the Structured Property Financing segment that was in line with the previous quarters, despite the ongoing crisis in financial markets and the global economy.

Net interest income of € 98 million during the quarter almost matched the level of € 99 million achieved in the same period of the previous year, and fell just short of the level of the first two quarters of 2009. Higher margins in the lending business were offset by the impact of the very comfortable liquidity reserve. The liquidity reserve is commensurate with the current market situation and is largely due to the placement of various issues with medium-term maturities.

At € 36 million (Q3-2008: € 20 million), allowance for credit losses was higher than in the same quarter of the previous year, albeit at a manageable level. The change over the previous quarter (€ 42 million) is in line with the normal fluctuation range. On an annual basis, allowance for credit losses developed as planned. Expected at € 150 million for the current financial year, it is therefore at the upper end of the forecasted target corridor, as has been communicated to date. It is, however, impossible to exclude additional impairments from unexpected losses for 2009.

The net commission result of -€ 3 million (Q3-2008: € 7 million) reflects the running costs for the guarantee facility extended by SoFFin. Further influencing factors were the lower level of new business, and extremely low unscheduled repayments.

Net trading income/expenses of € 19 million in the third quarter is accounted for largely by the recovery in credit derivatives (+€ 18 million).

Segment result Structured Property Financing

€ mn	Quarter 3 2009	Quarter 3 2008
Net interest income	98	99
Allowance for credit losses	36	20
Net interest income after allowance for credit losses	**62**	**79**
Net commission income	-3	7
Net result on hedge accounting	-4	1
Net trading income/expenses	19	25
Results from non-trading assets	-3	-37
Results from investments accounted for using the equity method	–	–
Results from investment properties	1	0
Administrative expenses	49	50
Net other operating income/expenses	-4	-5
Impairment of goodwill	–	–
Operating profit	**19**	**20**
Income taxes	1	8
Segment result	**18**	**12**
Allocation of results		
Segment result attributable to non-controlling interests	4	4
Segment result attributable to shareholders of Aareal Bank AG	14	8

At € 49 million, administrative expenses in the third quarter were down slightly on the corresponding level of the previous year and the previous quarter, and are therefore very stable. This reflects our strict cost discipline.

Net other operating income and expenses for the third quarter was -€ 4 million (Q3-2008: -€ 5 million).

Overall, operating profit for the Structured Property Financing segment was € 19 million (Q3-2008: € 20 million). Taking tax expenses of € 1 million into consideration (Q3-2008: € 8 million), the segment result for the third quarter of 2009 was € 18 million.

Consulting / Services

Business development – Institutional Housing Unit

This segment offers a comprehensive range of services for managing and processing payment flows especially for German institutional housing industry clients. It comprises the Institutional Housing Unit and especially the activities of Aareon AG.

Aareon AG

During the third quarter, Aareon AG succeeded in significantly improving its profit contribution to the segment over the same quarter of 2008. The operating result was somewhat lower than in the previous quarter, owing to seasonal effects.

Aareon pursues a multi-product strategy that is continuously optimised and forward-looking. It offers solutions in the market segment for SAP®-based products as well as in the market for sector-specific ERP products.

At the Aareon Congress in the second quarter of 2009, Aareon presented Wodis Sigma, the new ERP product generation that is based on MICROSOFT.NET, the leading development platform world-wide. Since then, 17 clients (including two major WohnData users – TLG IMMOBILIEN GmbH, Berlin, and wbg Nürnberg GmbH, Nuremberg) managing around 73,000 residential units have opted for the introduction of the new ERP solution. Wodis Sigma Release 1.0 was completed on schedule on 31 July.

Business with the SAP®-based ERP solution Blue Eagle is stable and in line with expectations. In the third quarter, GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen (managing 68,600 units) signed a hosting agreement for Blue Eagle Individual.

Business with the established ERP systems WohnData and GES also remains stable. An agreement for a significant advisory project was concluded for GES. Preparations for the next GES version in November are running on schedule. The annual WohnData event was held in Hamburg at the end of September, at which the new WohnData Release 9.5 was presented.

Aareon continued with the positive development of the Integrated Services product group during the third quarter. It realised four product rollouts for the Mareon service portal, and concluded a further four contracts. The document management system Aareon DMS was successfully implemented with five customers. The company concluded the annual product update of Aareon NetOffice on schedule in August. Besides optimising the user-friendliness and technical architecture, an interface to Schufa, the German credit reference agency, was also integrated.

Aareon France, the market leader in the French institutional housing industry, continued to make positive progress in France during the third quarter. In September, the company presented the new product generations of the ERP software Portal-Immo 2.0 and Prem'Habitat 2.0 in Toulouse. These were greeted with approval amongst clients and interested parties. Aareon UK acquired additional projects in the UK.

Payments and deposit-taking

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

Despite predatory competition that exists owing to the market participants' different liquidity situations, the average volume of deposits remained high at € 3.9 billion in the third quarter 2009. The consistency of our deposit-taking business is a reflection of the stability of our business model, and of the relationship with our clients.

While overnight and term deposits continued to fluctuate owing to market developments, we again recorded growth in current account balances – further strengthening the business relationship with many clients.

In the third quarter, we once again succeeded in acquiring 14 new clients, managing some 65,000 residential units in total. So far in 2009, we have successfully acquired 25 new clients managing a total of just under 120,000 units, in a difficult market environment. We also expect positive developments from our Aareal Account product line and in relation to the BK 01 process for utilities and waste disposal companies.

Segment result [1)]

At € 6 million, operating profit generated by the Consulting/Services segment in the third quarter was at the same level as in the previous quarter. The segment continues to perform satisfactorily overall, against the background of an unfavourable interest rate environment.

Segment result Consulting / Services

€ mn	Quarter 3 2009	Quarter 3 2008
Sales revenue	50	54
Own work capitalised	0	0
Changes in inventory	0	0
Other operating income	3	3
Cost of materials purchased	6	8
Staff expenses	25	24
Depreciation, amortisation and impairment losses	4	3
Results from investments accounted for using the equity method	–	–
Other operating expenses	12	11
Interest and similar income/expenses	0	0
Results from ordinary activities	**6**	**11**
Income taxes	2	3
Segment result	**4**	**8**
Allocation of results		
Segment result attributable to non-controlling interests	0	1
Segment result attributable to shareholders of Aareal Bank AG	4	7

[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 38 of this interim report.

At € 50 million, third quarter revenue was down slightly year-on-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 also saw a certain degree of reticence in relation to new investments in some of Aareon AG's customer segments. Accordingly, the € 2 million decline in the cost of materials purchased, to € 6 million – despite counter-effects from the consolidation of Sylogis.com – reflected lower sales revenue at Aareon.

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

Staff expenses in the quarter under review amounted to € 25 million. Taking into consideration the additional expenditure incurred in conjunction with Sylogis.com, which has meanwhile been merged with Aareon France, the figure is more or less unchanged from the result of the previous quarter.

On balance, the Consulting / Services segment yielded a net contribution of € 6 million to third-quarter consolidated operating profit (Q3-2008: € 11 million).

After deduction of taxes, the segment result for the third quarter was € 4 million (Q3-2008: € 8 million).

Financial Situation

Total assets

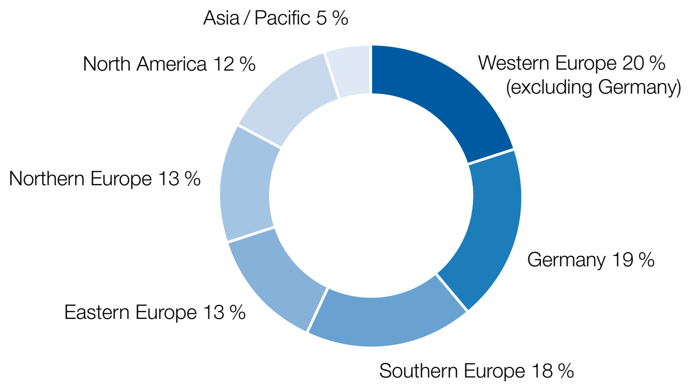
Consolidated total assets as at 30 September 2009 amounted to € 40.6 billion, after € 41.2 billion as at 31 December 2008.

Property financing portfolio

As at 30 September 2009, the property financing portfolio under management stood at € 22.9 billion. This equates to a slight decrease of 2.6 % from the 2008 year-end figure of € 23.5 billion. The international share of the portfolio remained quite stable at € 18.6 billion, accounting for just over 80 % of the total portfolio. The chart illustrates the very broad regional diversification of our portfolio overall.

Property financing portfolio as at 30 September 2009

by region (%) Total volume: € 22.9 billion [1]



[1] Property financing volume under management

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

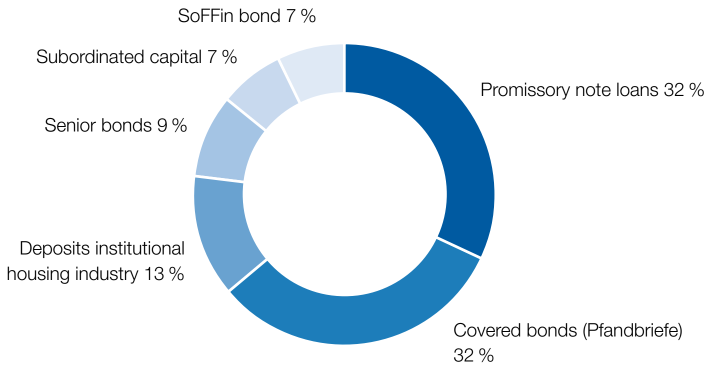
Refinancing and equity

Refinancing strategy and own issues

Aareal Bank Group successfully conducted its funding activities in the third quarter, thereby securing its good liquidity situation. As at 30 September 2009, the property financing portfolio to be refinanced totalled € 22.3 billion. This was refinanced by long-term funding of € 22.6 billion (mortgage bonds, unsecured and subordinated issues), € 3.7 billion in deposits generated from institu-

Long-term funding mix as at 30 September 2009

(%) Total volume: € 28.4 billion



tional housing sector clients (as at 30 September 2009) and € 5.3 billion in deposits from institutional money market investors. Although the institutional housing sector deposits fluctuate within the course of each month (in line with the liquidity flows that are typical for this industry), they form a stable base. Flows around the end of each month depend upon the exact date of direct debits.

A comparatively high volume of long-term funds was raised on the capital market during the first nine months of this year. The high level of liquidity reserves that are commensurate with the current market situation are invested in a high-quality securities portfolio. Owing to this 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 financial and economic crisis.

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 transactions were concluded with the ECB in the second and third quarters.

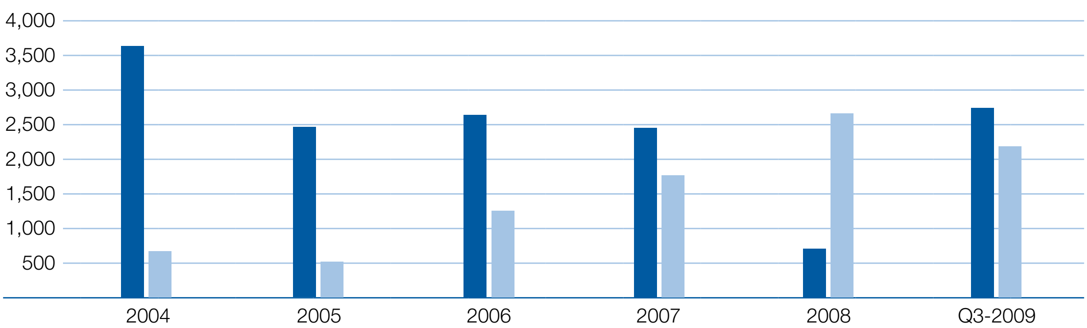
The bank raised a total of € 5 billion in long-term funds on the capital market during the first nine months of the year. This figure comprises unsecured refinancing in the amount of € 2.8 billion (made up of a € 2 billion government-guaranteed issue, € 200 million in public bearer bonds issued and approx € 600 million in privately-placed bearer bonds), and mortgage bonds in the amount of € 2.2 billion (including two bearer Pfandbriefe sold via a public placement).

We placed some very successful private as well as public issues on the capital market during the third quarter, which allowed us to raise long-term funds totalling € 730 million. Notable amongst these was the successful public placement of a € 200 million bearer bond in September.

As at 30 September 2009, the Tier I ratio measured in accordance with the Credit Risk Standardised Approach (CRSA) was 10.7 %, which is high by international standards.

Issuing activities – 2004 to Q3-2009

Issuing volume, € mn ■ uncovered ■ Mortgage bonds



Effects of the financial markets and economic crisis

The real economy has shown signs of recovery since mid-2009, albeit at a very low level. Despite these early and tentatively positive developments, the situation on the commercial property markets remained difficult for the most part. Property markets generally react to economic developments with a considerable time lag. Financial markets stabilised more significantly, although not across all asset classes. All in all, developments continue to be defined by uncertainty, especially any potential setback in the real economy.

Our business activities in the first nine months were influenced heavily by the effects of the financial markets crisis and the economic downturn. Against this background, we continued to pursue our risk-sensitive lending policy. Accordingly, credit risks were subject to intensive monitoring and were actively managed in line with our conservative business policy. In terms of new business, we continued to concentrate on existing clients and especially on loan extensions. In light of enduring poor market conditions on the commercial property markets, we consider the € 2.4 billion of new business volume generated in the first three quarters of this year to be appropriate. It not only reflects our unchanged commitment to support our existing client base, but also the difficult market conditions together with transaction volumes on the commercial property markets that are considerably lower than in previous years.

Our institutional housing investors' deposits remained stable and averaged € 3.9 billion through the quarter, while institutional money market investor deposits as at 30 September 2009 were approx. € 5.3 billion (€ 6.0 billion as at 30 June 2009).

The Pfandbrief market performed very well, especially after the ECB announced its intention to buy back up to € 60 billion in covered bonds. This development is reflected (amongst other things) in the rise in issuing volume during September, and in tighter spreads. Aareal Bank made use of the more open market for unsecured issues with a € 200 million public issue.

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 induced a caution amongst our clients regarding new investments.

We invest our available liquidity in a conservative manner and ensure quick access. Aareal Bank has a very comfortable liquidity reserve that is commensurate with current market conditions. We are therefore prepared for an increase in investment activities 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 third quarter.

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 horizon.

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 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 I ratio (in accordance with the CRSA) was 10.7 % as at 30 September 2009.

Regulatory indicators

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

	30 Sep 2009	31 Dec 2008
€ mn		
Tier 1 capital	2,393	1,863
Total equity	3,292	2,778
Risk-weighted assets (incl. market risk)	22,350	23,238
(%)		
Tier 1 ratio	10.7	8.0
Total capital ratio	14.7	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

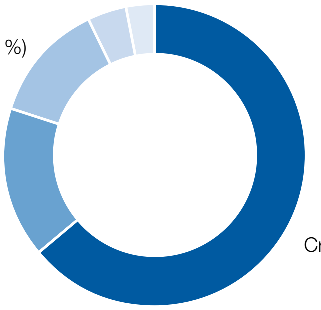
The Annual Report 2008 contains a comprehensive description of Aareal Bank Group's risk management approach, including the corresponding organisational structure and workflows in the lending and trading businesses, as well as the methods and procedures used for measuring and monitoring risk exposure. 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 64 %, credit risks account for the largest part of the bank's aggregate risk cover; 13 % is retained to cover market price risks, 4 % for operational risks and 3 % for investment risks. In addition, a substantial portion (16 %) 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 September 2009, and the changes compared to 31 December 2008.

Allocation of aggregate risk cover

in % (change in percentage points as at 31 Dec 2008) as at 30 Sep 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 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. As a result, portfolio information required to take risk management decisions is now available within a shorter timeframe.

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.

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.

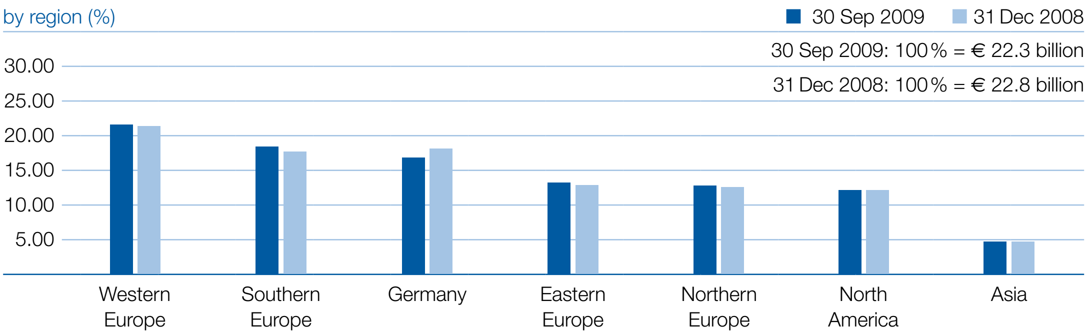
In principle, Aareal Bank pursues a "buy, manage and hold" strategy in managing its credit portfolio: this means that loans are generally held until maturity; sales of loans to third parties during their term are only used on a selective basis, and by selling parts of exposures. Loan syndication is used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

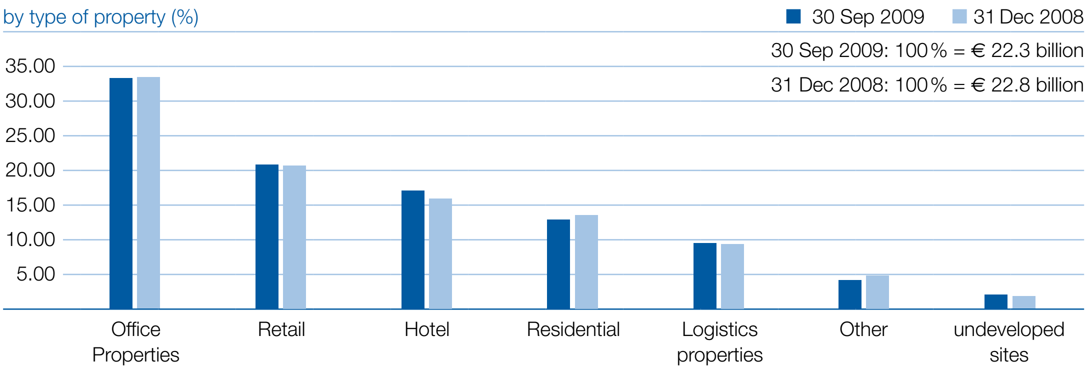
Property financing volumes (amounts drawn)

by region (%)



Property financing volumes (amounts drawn)

by type of property (%)



action, despite being willing and able to pay, due to restrictions being imposed on making payments to creditors (transfer risk). Country risk exposure is managed using a cross-divisional process. The respective country limits are determined on the basis of a country risk assessment carried out by the bank's senior management. The Risk Controlling division is responsible for the continuous monitoring of country limits and for reporting on limit utilisation.

Market price risks

Definition

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

Derivative financial instruments are entered into predominantly in 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 risk quantifies the exposure as a negative divergence from the current aggregate value of the bank's financial transactions. This absolute amount, expressed in euros, indicates the potential loss incurred before counter-measures take effect. Since this is a statistical approach, the forecast for the potential loss that may be incurred within a specific period of time is for a given confidence interval only.

	MAX	MIN	Mean	Limit
Q3-2009 (2008 values) 99 %, 10-day holding period				
Aareal Bank Group – general market price risks	74.8 (50.1)	39.4 (26.7)	59.0 (36.8)	– (–)
Group VaR (interest rates)	69.3 (35.6)	31.3 (7.3)	53.2 (22.3)	– (–)
Group VaR (FX)	23.1 (16.1)	15.1 (3.8)	20.7 (8.7)	– (–)
VaR (funds)	12.6 (29.9)	4.8 (10.3)	9.8 (24.1)	60.0 (60.0)
Aggregate VaR in the trading book (incl. specific VaR)	3.8 (12.4)	0.1 (1.3)	1.1 (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)	80.9 (40.1)	111.3 (65.4)	– (–)
Aggregate VaR – Aareal Bank Group	153.5 (118.3)	105.4 (51.3)	127.6 (75.3)	181.0 (181.0)

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). 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.

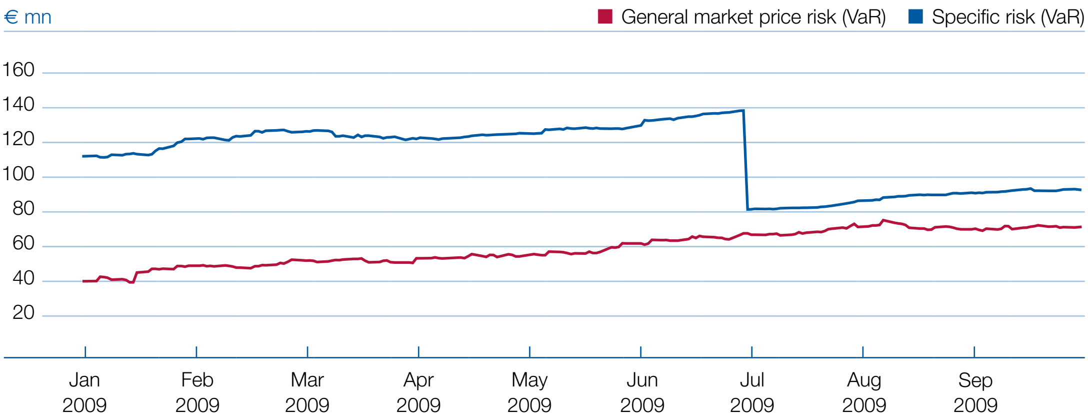
The limit set for the VaR figure is derived from the analysis of the bank's risk-bearing capacity, which is carried out at least once a year. Limits are defined at Group level, as well as for the individual Group entities. Being authorised to maintain a trading book, Aareal Bank AG has defined an additional 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 course of 2009

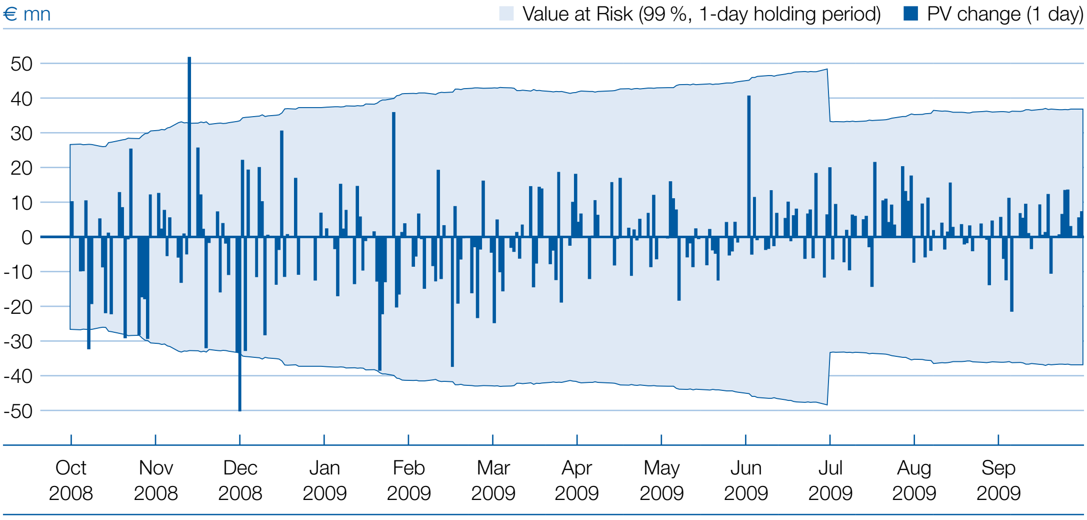


Back testing

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").

Within the scope of this regular review, we have recalibrated the risk calculation parameters for specific risks with effect from 1 July 2009, against the background of a marked decline in volatility over the course of the year, particularly in the bond markets. The VaR change resulting from this recalibration is illustrated in the chart above.

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



Following the recalibration, the number of negative outliers at Group level always remained lower than 4 during the previous 250 trading days, affirming the high forecasting quality of the VaR model we use.

Trading book

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

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

Liquidity risks

Liquidity risk in the narrower sense is defined as the risk that current or future payment obligations cannot be met 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, plus 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 equity 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.

Future Opportunities and Outlook

Macro-economic environment

The distortions on financial markets and the severe downturn of the global economy in spring have been followed recently by positive signals for financial markets as well as for the economy.

However, it remains to be seen to what extent this is sustainable. Uncertainties and threats to future global economic development still exist. It is for example questionable to what extent the current increase in orders received and production is merely a reaction to the sharp reduction in inventories during the economic downturn, or if they represent the start of an enduring recovery. Low capacity utilisation amongst companies suggests a hesitant turnaround in the demand for investment assets. Even though the rise in unemployment has slowed recently in many countries, certain regions are likely to experience a further rise in unemployment. This may occur where regulations governing redundancy mean that eventual unemployment only occurs after a delay, or after a period of short-term working. Unemployment is also expected to rise in many countries owing to the seasonal factor of the forthcoming winter months. Uncertainty also surrounds the effects that could arise when the economic stimulation packages launched by several governments come to an end. Although many governments will implement these measures during next year too, support in some sectors may disappear – such as for example the "scrappage premium" for old cars that has featured in some countries during the course of this year.

Economic output growth amongst the developed economies will be clearly negative this year, although economic activity is expected to increase in the second half of the year relative to the first. On the other hand, some emerging economies, especially in Asia (and China in particular) will achieve positive growth rates, albeit lower than in previous years.

With regard to economic development, the sustainability of the positive trend that is evident in many regions is subject to uncertainty. The rapid economic downturn at the end of 2008 and at the start of this year clearly shows how susceptible economic development is. We remain cautious about an economic recovery, and assume that this will be a slow process. Economic forecasts currently presume that economic output in the European industrialised nations will not return to pre-recession levels before the year 2012. The south-east Asian countries – with the exception of Japan – are expected to recover more quickly.

Annual inflation rates are currently low or negative, which is largely attributable to the fall in commodity prices since mid-2008. However, the resulting basis effect will no longer apply at year-end. It is difficult to forecast inflation, since commodity prices (which play a significant role) are also influenced by speculation or political factors. On a short-term horizon, the slow economic recovery that is expected implies that inflation will remain low to moderate. In the medium term, a stronger economic recovery combined with expansive fiscal and monetary policy could lead to rising inflation.

Development of international property markets

The uncertainties surrounding the issue of how sustainable the positive economic signals are also make it difficult to forecast how property markets will perform. We are cautious in relation to the performance of commercial property prices and rents. This view is supported by, amongst other things, the fact that property market performance tends to follow the economy with a significant time lag.

The anticipated rise in unemployment in most regions could place commercial property rents under further pressure. On the one hand, the demand for office space is affected directly by rising unemployment, while on the other hand retail and logistics properties are affected by the cautious stance of consumers and the associated restrictions on the movement of goods. Hotel incomes are also expected to remain under pressure. The threat of default by commercial property tenants still prevails, in line with the economic crisis.

The rise in investors' gross entry yields has slowed down recently: a shift towards stabilisation or a slight decline is evident with a few markets even showing a slight decline. This in turn will have the effect of stabilising prices, although it remains to be seen if this development can be sustained. The significant rise in gross entry yields to historical levels could also be used by investors as a buying opportunity, which again might lead to stabilisation of commercial property prices. A significant number of the profitable financings for many property transactions concluded were refinanced through CMBS (commercial mortgage-backed securities) securitisations. As many of them will mature or run off this year and in the next few years, this could lead to forced sales, which in turn would exercise further downside pressure on prices.

Given these risks, the uncertainties vis-à-vis general economic development plus the anticipated slow economic recovery, the careful outlook described above in relation to the development of commercial property rents and values could apply to most regions. We view the performance on most south-east Asian markets with somewhat more optimism, since economic recovery there has been more pronounced recently compared with Europe and North America. Transaction activity in Asia was also buoyant compared with the other continents. Overall, we expect transaction volumes to increase owing to the present attractive level of gross entry yields for investors. It must be taken into consideration here that this increase is starting from a very low level, compared with previous years.

Development of the German institutional housing industry

The energetic renovation, and in particular the modification of the housing stock to suit elderly occupants, will require substantial investment from the property management companies in the future. With the new German Energy Savings Ordinance (Energieeinsparverordnung – EnEV) that came into force on the 1st of October this year, requirements for the levels of energy efficiency to be reached, as well as standards of modernisation work on portfolio properties and of new builds, have all been raised. These changed provisions could restrain the impending investments of property management companies. To neutralise any potential negative effects of the higher EnEV standards, the state support programme for CO_2 buildings upgrades is set for a € 750 million increase.

Given that the number of let residential properties is falling despite the increasing number of households, we are likely to see moderate rent increases in the medium term. The demand for living space will grow quickest in urban areas with population forecasts that are more positive than in the rest of Germany. At the same time, demographic development plus the supply-related indicators that are evident today suggest that new construction activity, especially in multi-floor residential buildings, will remain low. The pending supply constraints should also lead to rising rents in the German regions that are flourishing financially.

The demand for residential property as a valuable capital investment that offers a stable return will continue. Insurance companies in particular are interested in extending their quota of residential property: further growth can therefore be expected in indirect investment in residential property funds. In order to make the residential property asset class available to a broader group of investors, mutual funds are also expected to step up their activities.

The German institutional property management industry has always been a guarantee for stable cash flows and stability in value. We believe that this consistent development is set to continue well into the future. If the economic crisis impacts on the labour market to a greater extent than expected, this is bound to have consequences for the institutional housing industry. Although the individual regions in Germany will be affected to varying degrees by the development, falling purchasing power would reduce tenants' solvency, so that the companies would be confronted with higher incidences of unpaid rent.

Corporate development

Aareal Bank Group

At the end of the third quarter, we confirm our projections for key financial indicators that we have communicated to date. In fact, we can provide more concrete guidance regarding certain indicators.

Consolidated net interest income is expected to be around € 455 million, and hence at the lower end of the € 455 - € 475 million range. Taking into account the € 35 million interest expense for the silent participation that is recognised under appropriation of profits, this equates to full-year net interest income of € 420 - € 440 million projected so far.

Allowance for expected credit losses is anticipated at € 150 million for the current year and is therefore at the upper end of the forecasted target corridor, as has been communicated to date. It is, however, impossible to exclude additional impairments from unexpected losses for 2009.

Administrative expenses are expected in the region of € 360 million and are therefore almost the same as in the previous year.

From today's perspective, new business generated in the Structured Property Financing segment is expected to amount to € 3 billion for the year as a whole. Our particular focus for the remainder of the year will remain on loan term extensions, and on the financing requirements of existing clients.

We expect net commission income in the Consulting / Services segment to rise again in the fourth quarter, also thanks to increased sales revenues generated by Aareon through the new

Wodis Sigma product line. We affirm our forecast of € 25 to € 30 million for the operative segment result before taxes and non-recurring effects – which remains dependant upon interest rate developments.

Structured Property Financing

Even though the first nine months of 2009 were defined by a sharp real economic downturn, financial markets succeeded in stabilising slightly 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 has characterised our property financing business during this financial year to date, and will continue to do so during the rest of the year. It will be reflected initially in a reduction in property values and also in property returns, and will probably lead to higher average loan-to-value ratios (LtV) on the loans we have granted. We have accounted for this development by already increasing our traditionally conservative allowance for credit losses, compared with 2008.

We have benefited – in relation to these developments – from our successful regional diversification in recent years, which has allowed us to partly offset the negative developments of individual property markets in the portfolio.

The fact that we continue to 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 in this difficult economic situation.

One of the key prerequisites for this success is our good refinancing structure, which we succeeded in strengthening continuously during the first nine months of the year. The successful issue of around € 2.2 billion in Pfandbriefe, our first government-guaranteed benchmark bond plus various privately- and publicly-placed uncovered bonds totalling just under € 0.8 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 affected directly by the financial markets crisis, the changed interest rate environment and the real economic crisis has nevertheless left their mark on this segment.

Aareon

Following the conclusion of the investment phase for the Blue Eagle / SAP® property management software, we expect to see further growth in the volume of residential units managed using Blue Eagle. We still expect revenue to rise, albeit at a later stage than originally anticipated, owing to the general economic development.

While Aareon essentially succeeded in maintaining its market shares for the existing products GES and WohnData in the first nine months of 2009 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 work on new product solutions.

Our successful efforts to integrate the Wodis IT product are rewarded by our customers' response. 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.

In addition, Aareon 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.

The economic slowdown has caused pronounced reluctance amongst some of our clients regarding new investment. 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.

Payments

The Institutional Housing Unit continues to generate a stable level of deposits for Aareal Bank's refinancing requirements, helped to a notable degree by the BK 01 product line, 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

€ mn	Note	1 Jan-30 Sep 2009	1 Jan-30 Sep 2008
Interest income		945	1,491
Interest expenses		606	1,153
Net interest income	1	**339**	**338**
Allowance for credit losses	2	115	60
Net interest income after allowance for credit losses		**224**	**278**
Commission income		133	143
Commission expenses		39	41
Net commission income	3	**94**	**102**
Net result on hedge accounting		-3	3
Net trading income/expenses	4	44	0
Results from non-trading assets	5	-19	-36
Results from investments accounted for using the equity method		–	3
Results from investment properties		1	0
Administrative expenses	6	266	261
Net other operating income/expenses	7	-8	17
Impairment of goodwill		0	–
Operating profit		**67**	**106**
Income taxes		10	36
Net income/loss		**57**	**70**
Allocation of results			
Net income/loss attributable to non-controlling interests		13	14
Net income/loss attributable to shareholders of Aareal Bank AG		44	56
Appropriation of profits			
Net income/loss attributable to shareholders of Aareal Bank AG		44	56
Silent participation by SoFFin		24	–
Consolidated retained profit/accumulated loss		**20**	**56**
€			
Earnings per share		**1.03**	**1.30**
Diluted earnings per share		**1.03**	**1.30**

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

€ mn	Note	1 Jan-30 Sep 2009	1 Jan-30 Sep 2008
Net income/loss		**57**	**70**
Changes in revaluation surplus	8	69	-140
Changes in hedging reserves	8	0	-1
Changes in currency translation reserves	8	1	0
Changes in reserves from transactions under common control	8	10	17
Other comprehensive income/loss, after tax		**80**	**-124**
Total comprehensive income/loss		**137**	**-54**
Allocation of total comprehensive income/loss			
Total comprehensive income/loss attributable to non-controlling interests		13	14
Total comprehensive income/loss attributable to shareholders of Aareal Bank AG		124	-68

Statement of Comprehensive Income

Income Statement (Quarterly Development)

€ mn	Quarter 3 2009	Quarter 2 2009	Quarter 1 2009	Quarter 4 2008	Quarter 3 2008
Interest income	261	308	376 [1]	511	512
Interest expenses	150	194	262 [1]	377	395
Net interest income	**111**	**114**	**114**	**134**	**117**
Allowance for credit losses	36	42	37	20	20
Net interest income after allowance for credit losses	**75**	**72**	**77**	**114**	**97**
Commission income	42	44	47	69	47
Commission expenses	14	14	11	21	13
Net commission income	**28**	**30**	**36**	**48**	**34**
Net result on hedge accounting	-4	0	1	-3	1
Net trading income/expenses	19	9	16	-23	25
Results from non-trading assets	-3	1	-17	-59	-37
Results from investments accounted for using the equity method	–	–	0	4	0
Results from investment properties	1	0	0	-1	0
Administrative expenses	88	88	90	86	84
Net other operating income/expenses	-3	1	-6	17	-5
Impairment of goodwill	0	–	0	–	–
Operating profit	**25**	**25**	**17**	**11**	**31**
Income taxes	3	1	6	3	11
Net income/loss	**22**	**24**	**11**	**8**	**20**
Allocation of results					
Net income/loss attributable to non-controlling interests	4	5	4	4	5
Net income/loss attributable to shareholders of Aareal Bank AG	18	19	7	4	15

[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)

€ mn	Quarter 3 2009	Quarter 2 2009	Quarter 1 2009	Quarter 4 2008	Quarter 3 2008
Net income/loss	**22**	**24**	**11**	**8**	**20**
Changes in revaluation surplus	52	24	-7	-113	-41
Changes in hedging reserves	0	0	0	-1	0
Changes in currency translation reserves	1	0	0	1	0
Changes in reserves from transactions under common control	8	2	0	1	3
Other comprehensive income/loss, after tax	**61**	**26**	**-7**	**-112**	**-38**
Total comprehensive income/loss	**83**	**50**	**4**	**-104**	**-18**
Allocation of total comprehensive income/loss					
Total comprehensive income/loss attributable to non-controlling interests	4	5	4	4	5
Total comprehensive income/loss attributable to shareholders of Aareal Bank AG	79	45	0	-108	-23

Segment Reporting

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	30 Sep 2009	30 Sep 2008	30 Sep 2009	30 Sep 2008	30 Sep 2009	30 Sep 2008	30 Sep 2009	30 Sep 2008
€ mn								
Net interest income	301	286	0	0	38	52	339	338
Allowance for credit losses	115	60					115	60
Net interest income after allowance for credit losses	**186**	**226**	**0**	**0**	**38**	**52**	**224**	**278**
Net commission income	-1	16	134	140	-39	-54	94	102
Net result on hedge accounting	-3	3					-3	3
Net trading income/expenses	44	0					44	0
Results from non-trading assets	-19	-36	0	0			-19	-36
Results from investments accounted for using the equity method		3						3
Results from investment properties	1	0				0	1	0
Administrative expenses	147	154	121	110	-2	-3	266	261
Net other operating income/expenses	-8	15	1	3	-1	-1	-8	17
Impairment of goodwill			0				0	
Operating profit	**53**	**73**	**14**	**33**	**0**	**0**	**67**	**106**
Income taxes	5	26	5	10			10	36
Net income/loss	**48**	**47**	**9**	**23**	**0**	**0**	**57**	**70**
Allocation of results								
Net income/loss attributable to non-controlling interests	12	12	1	2			13	14
Net income/loss attributable to shareholders of Aareal Bank AG	36	35	8	21	0	0	44	56
Allocated equity	1,251	981	63	73	328	266	1,642	1,320
Cost/income ratio (%) [1]	46.7	53.5	89.4	77.8			59.4	61.2
RoE after taxes (%)	3.9	4.8	15.9	37.5			3.6	5.6
Employees (average)	**999**	**1,096**	**1,406**	**1,379**			**2,405**	**2,475**

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

Segment Reporting

(Quarterly Development)

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	Q3-2009	Q3-2008	Q3-2009	Q3-2008	Q3-2009	Q3-2008	Q3-2009	Q3-2008
€ mn								
Net interest income	98	99	0	0	13	18	111	117
Allowance for credit losses	36	20					36	20
Net interest income after allowance for credit losses	**62**	**79**	**0**	**0**	**13**	**18**	**75**	**97**
Net commission income	-3	7	44	46	-13	-19	28	34
Net result on hedge accounting	-4	1					-4	1
Net trading income/expenses	19	25					19	25
Results from non-trading assets	-3	-37	0	0			-3	-37
Results from investments accounted for using the equity method								
Results from investment properties	1	0				0	1	0
Administrative expenses	49	50	39	35	0	-1	88	84
Net other operating income/expenses	-4	-5	1	0	0	0	-3	-5
Impairment of goodwill			0				0	
Operating profit	**19**	**20**	**6**	**11**	**0**	**0**	**25**	**31**
Income taxes	1	8	2	3			3	11
Net income/loss	**18**	**12**	**4**	**8**	**0**	**0**	**22**	**20**
Allocation of results								
Net income/loss attributable to non-controlling interests	4	4	0	1			4	5
Net income/loss attributable to shareholders of Aareal Bank AG	14	8	4	7	0	0	18	15
Allocated equity	1,251	981	63	73	328	266	1,642	1,320
Cost/income ratio (%) [1]	47.8	55.1	85.1	77.8			58.8	62.2
RoE after taxes (%)	4.3	3.3	22.6	38.8			4.3	4.5

[1] The calculation method to determine the cost/income ratio was changed as at 31 December 2008. The previous 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)

€ 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**
	Q3-2009		0	44	0		39	1	0	**6**	2	**4**
	Q3-2008		0	46	0		35	0		**11**	3	**8**
Income statement classification – industrial enterprise												
Sales revenue	Q3-2009	50		50								
	Q3-2008	54		54								
Own work capitalised	Q3-2009	0					0					
	Q3-2008	0					0					
Changes in inventory	Q3-2009	0						0				
	Q3-2008	0						0				
Other operating income	Q3-2009	3			0		0	3				
	Q3-2008	3					2	1				
Cost of materials purchased	Q3-2009	6		6								
	Q3-2008	8		8								
Staff expenses	Q3-2009	25					25					
	Q3-2008	24					24					
Depreciation, amortisation and impairment losses	Q3-2009	4					4		0			
	Q3-2008	3					3					
Results from investments accounted for using the equity method	Q3-2009											
	Q3-2008											
Other operating expenses	Q3-2009	12					10	2				
	Q3-2008	11			0		10	1				
Interest and similar income / expenses	Q3-2009	0	0									
	Q3-2008	0	0									
Results from ordinary activities	**Q3-2009**	**6**	**0**	**44**	**0**		**39**	**1**	0			
	Q3-2008	**11**	**0**	**46**	**0**		**35**	**0**				
Income taxes	Q3-2009	2									2	
	Q3-2008	3									3	
Segment result	**Q3-2009**	**4**										
	Q3-2008	**8**										

Statement of Financial Position

€ mn	Note	30 Sep 2009	31 Dec 2008
Assets			
Cash funds		675	693
Loans and advances to banks	9	1,387	1,165
Loans and advances to customers	10	24,499	24,771
Allowance for credit losses		-291	-232
Positive market value of derivative hedging instruments		1,346	1,256
Trading assets	11	895	2,168
Non-current assets held for sale and discontinued operations		8	8
Non-trading assets	12	11,520	10,654
Investments accounted for using the equity method		3	3
Investment properties		102	94
Intangible assets	13	80	86
Property and equipment	14	96	96
Income tax assets		59	60
Deferred tax assets		139	135
Other assets	15	131	202
Total		**40,649**	**41,159**
Equity and liabilities			
Liabilities to banks	16	4,472	8,977
Liabilities to customers	17	22,285	20,605
Certificated liabilities	18	8,498	6,424
Negative market value of derivative hedging instruments		958	1,313
Trading liabilities	19	566	649
Obligations from disposal groups held for sale and discontinued operations		–	–
Provisions	20	244	258
Income tax liabilities		12	21
Deferred tax liabilities		58	55
Other liabilities	21	248	162
Subordinated equity	22	1,265	1,266
Equity	23, 24		
Subscribed capital		128	128
Capital reserves		511	511
Retained earnings		748	738
Other reserves		-112	-192
Silent participation by SoFFin		525	–
Non-controlling interest		243	244
Total equity		2,043	1,429
Total		**40,649**	**41,159**

Statement of Changes in Equity

€ 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			44	10	69	0	1		124	13	137
Capital increase									0		0
Capital reduction									0		0
Payments to non-controlling interests									0	-14	-14
Dividends									0		0
Silent participation by SoFFin								525	525		525
Costs for silent participation by SoFFin			-24						-24		-24
Other changes			-10						-10		-10
Total equity as at 30 September 2009	**128**	**511**	**748**	**2**	**-115**	**-1**	**2**	**525**	**1,800**	**243**	**2,043**

€ 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			56	17	-140	-1	0	-68	14	-54
Capital increase								0		0
Capital reduction								0		0
Payments to non-controlling interests								0	-14	-14
Dividends			-21					-21		-21
Other changes			-2					-2		-2
Total equity as at 30 September 2008	**128**	**511**	**734**	**-9**	**-71**	**0**	**0**	**1,293**	**243**	**1,536**

Statement of Cash Flows (condensed)

€ mn	2009	2008
Cash and cash equivalents as at 1 January	**693**	**1,051**
Cash flow from operating activities	842	1,727
Cash flow from investing activities	-859	-1,717
Cash flow from financing activities	-1	-100
Total cash flow	**-18**	**-90**
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 30 September	**675**	**961**

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 quarterly financial report was prepared in accordance with section 37y no. 3 in conjunction with section 37x (3) 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, supplementing its income statement by adding a reconciliation from net income to total comprehensive income. The statement of changes in equity will include total comprehensive income/loss, condensed into a single line item. In accordance with applicable law, the amended accounting standard was 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 the 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 of these 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 and IAS 27 Cost of an Investment 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
- IFRIC 15 Agreements for the Construction of Real Estate
- Amendment to IAS 39 Reclassification of Financial Assets: Effective Date and Transition
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items

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) provided 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 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 incomes

€ mn	1 Jan-30 Sep 2009	1 Jan-30 Sep 2008
Interest income from		
Property loans	533	778
Public-sector loans	41	66
Other lending and money market operations	158	345
Fixed-income securities and debt register claims	212	291
Current dividend income	1	11
Other interest income	–	0
Total interest income	**945**	**1,491**
Interest expenses for		
Bonds issued	127	382
Borrowed funds	233	327
Subordinated equity	32	57
Term deposits	180	298
Payable on demand	27	87
Other banking transactions	7	2
Total interest expenses	**606**	**1,153**
Total	**339**	**338**

We use interest rate and currency derivatives within the framework of asset / liability management. Retrospectively as from 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 € 115 million during the first nine months of the financial year 2009 (first nine months 2008: € 60 million).

(3) Net commission income

€ mn	1 Jan-30 Sep 2009	1 Jan-30 Sep 2008
Commission income from		
Consulting and other services	108	106
Trustee loans and administered loans	4	8
Securities transactions	2	3
Securitisation transactions	1	–
Other lending and capital market transactions	10	12
Other commission income	8	14
Total commission income	**133**	**143**
Commission expenses for		
Consulting and other services	20	30
Trustee loans and administered loans	–	–
Securities transactions	12	1
Securitisation transactions	3	3
Other lending and capital market transactions	1	1
Other commission expenses	3	6
Total commission expenses	**39**	**41**
Total	**94**	**102**

Net commission income generated from securities transactions include expenses of € 11 million for the guarantee facility extended by the German Financial Markets Stabilisation Fund (SoFFin).

(4) Net trading income/expenses

€ mn	1 Jan-30 Sep 2009	1 Jan-30 Sep 2008
Results from derivative financial instruments	43	10
Currency translation	-1	1
Net income/expenses from other positions held for trading	2	-11
Total	**44**	**0**

(5) Results from non-trading assets

€ mn	1 Jan-30 Sep 2009	1 Jan-30 Sep 2008
Result from debt and other fixed-income securities	-2	18
of which: Loans and receivables	1	0
Held to maturity	–	–
Available for sale	-3	18
Result from equities and other non-fixed-income securities	-18	-54
of which: Available for sale	-18	-54
Designated as at fair value through profit or loss	0	–
Results from equity investments (AfS)	1	0
Total	**-19**	**-36**

(6) Administrative expenses

€ mn	1 Jan-30 Sep 2009	1 Jan-30 Sep 2008
Staff expenses	161	155
Other administrative expenses	89	90
Depreciation, amortisation and impairment of property and equipment and intangible assets	16	16
Total	**266**	**261**

(7) Net other operating income/expenses

€ mn	1 Jan-30 Sep 2009	1 Jan-30 Sep 2008
Income from properties	1	4
Income from the reversal of provisions	3	9
Income from goods and services	0	1
Other	11	26
Total other operating income	**15**	**40**
Expenses for properties	1	1
Expenses for services used	0	0
Write-downs of trade receivables	0	1
Expenses for other taxes	1	1
Other	21	20
Total other operating expenses	**23**	**23**
Total	**-8**	**17**

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

€ mn	1 Jan-30 Sep 2009	1 Jan-30 Sep 2008
Net income/loss	**57**	**70**
Changes in revaluation surplus, after tax	**69**	**-140**
Gains and losses on remeasuring available-for-sale financial instruments, before tax	83	-210
Reclassifications to the income statement, before tax	9	31
Taxes	-23	39
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	**1**	**0**
Gains and losses arising from translating the financial statements of a foreign operation, before tax	1	0
Reclassifications to the income statement, before tax	–	–
Taxes	–	–
Changes in reserves from transactions under common control, after tax	**10**	**17**
Gains and losses from transactions under common control, before tax	10	–
Reclassifications to the income statement, before tax	–	17
Taxes	–	–
Other comprehensive income/loss, after tax	**80**	**-124**
Total comprehensive income/loss	**137**	**-54**

Notes to the Statement of Financial Position

(9) Loans and advances to banks

€ mn	30 Sep 2009	31 Dec 2008
Term deposits and current account balances	401	845
Public-sector loans	253	286
Receivables from securities repurchase transactions	695	0
Other loans and advances	38	34
Total	**1,387**	**1,165**

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

(10) Loans and advances to customers

€ mn	30 Sep 2009	31 Dec 2008
Property loans	22,346	22,813
Public-sector loans	1,719	1,875
Other loans and advances	434	83
Total	**24,499**	**24,771**

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

(11) Trading assets

€ mn	30 Sep 2009	31 Dec 2008
Debt and other fixed-income securities	52	466
Positive market values of standalone derivatives	843	1,052
Other assets held for trading	–	650
Total	**895**	**2,168**

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

(12) Non-trading assets

€ mn	30 Sep 2009	31 Dec 2008
Debt and other fixed-income securities	11,103	10,344
of which: Loans and receivables	7,042	4,153
Held to maturity	407	412
Available for sale	3,654	5,779
Equities and other non-fixed income securities	412	305
of which: Available for sale	394	213
Designated as at fair value through profit or loss	18	92
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	5	5
Total	**11,520**	**10,654**

In the first quarter of 2009, Aareal Bank Group 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

€ 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 Sep 2009	Fair value of aggregate reclassified financial assets 30 Sep 2009
from AfS to LaR	**3,002**	**5,848**	**5,820**
Asset-backed securities	–	50	46
Bank bonds	806	1,232	1,255
Covered bonds	292	676	683
Government bonds	1,904	3,890	3,836
from HfT to LaR	**5**	**469**	**392**
Asset-backed securities	–	463	386
Government bonds	5	6	6
Total	**3,007**	**6,317**	**6,212**

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 € 22 million (before tax) to be recognised in the income statement and a recovery of € 108 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

€ mn	30 Sep 2009	31 Dec 2008
Goodwill	39	39
Internally generated software	29	34
Other intangible assets	12	13
Total	**80**	**86**

(14) Property and equipment

€ mn	30 Sep 2009	31 Dec 2008
Land and buildings and construction in progress	77	79
Office furniture and equipment	19	17
Total	**96**	**96**

(15) Other assets

€ mn	30 Sep 2009	31 Dec 2008
Properties	103	93
Trade receivables (LaR)	26	38
Other	2	71
Total	**131**	**202**

(16) Liabilities to banks

€ mn	30 Sep 2009	31 Dec 2008
Payable on demand	755	697
Term deposits	113	329
Promissory note loans borrowed	737	923
Liabilities from securities repurchase transactions and open-market operations	2,514	6,606
Registered mortgage bonds	209	286
Other	144	136
Total	**4,472**	**8,977**

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

(17) Liabilities to customers

€ mn	30 Sep 2009	31 Dec 2008
Payable on demand	3,546	2,846
Term deposits	5,482	4,464
Promissory note loans borrowed	8,480	8,591
Registered mortgage bonds	4,776	4,702
Other	1	2
Total	**22,285**	**20,605**

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

(18) Certificated liabilities

€ mn	30 Sep 2009	31 Dec 2008
Medium-term notes	1,967	2,001
Bearer mortgage bonds	3,922	3,720
Other debt securities	2,609	703
Total	**8,498**	**6,424**

Certificated liabilities are allocated to the measurement category ”liabilities measured at amortised cost“ (LaC). Other debt securities includes € 2.0 billion in state-guaranteed bonds.

(19) Trading liabilities

€ mn	30 Sep 2009	31 Dec 2008
Negative market values of stand-alone derivatives	465	510
Other liabilities held for trading	101	139
Total	**566**	**649**

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

(20) Provisions

€ mn	30 Sep 2009	31 Dec 2008
Provisions for pensions and similar obligations	115	112
Other provisions	129	146
Total	**244**	**258**

(21) Other liabilities

€ mn	30 Sep 2009	31 Dec 2008
Liabilities from outstanding invoices	5	20
Deferred income	6	26
Liabilities from other taxes	14	18
Trade payables (LaC)	7	8
Other liabilities (LaC)	216	90
Total	**248**	**162**

(22) Subordinated equity

€ mn	30 Sep 2009	31 Dec 2008
Subordinated liabilities	557	555
Profit-participation certificates	483	478
Contributions by silent partners	225	233
Total	**1,265**	**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, agreed on 15 February 2009 as part of the support measures. 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 interests of achieving repayment at the earliest opportunity 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

€ mn	30 Sep 2009	31 Dec 2008
Contingent liabilities on guarantees and indemnity agreements	358	560
Irrevocable loan commitments	1,810	2,959

(27) Employees

	1 Jan-30 Sep 2009	1 Jan-31 Dec 2008
Number of employees in the banking business	1,071	1,137
Number of employees in other businesses	1,334	1,345
Total	**2,405**	**2,482**
of which: Part-time employees	372	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 nine 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.

Executive Bodies

Supervisory Board

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

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

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

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

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

Tamara Birke [3) 6)], Wiesbaden
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Thomas Hawel [6)], Saulheim
Aareon Deutschland GmbH

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

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Prof. Dr. Stephan Schüller [1) 2)], Hamburg
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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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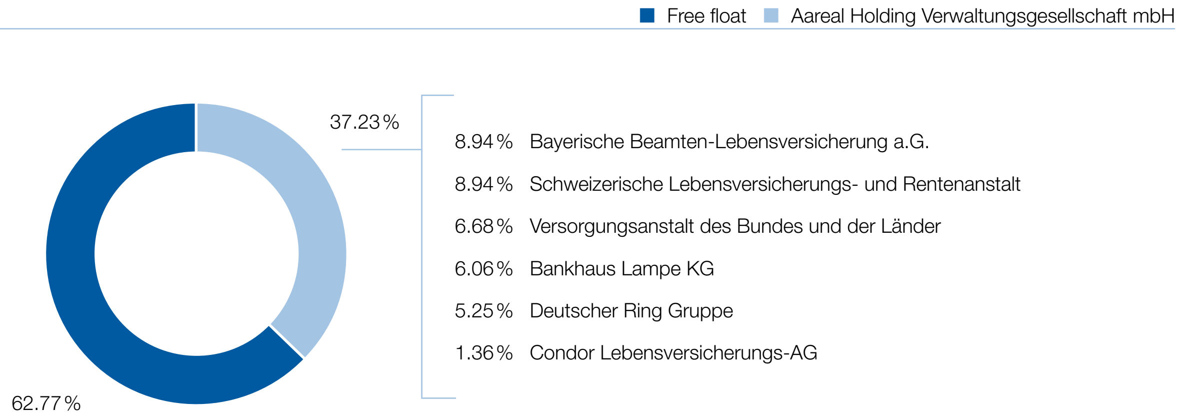
Shareholder Structure | Financial Calendar

Shareholder Structure



8.94 % Bayerische Beamten-Lebensversicherung a.G.
8.94 % Schweizerische Lebensversicherungs- und Rentenanstalt
6.68 % Versorgungsanstalt des Bundes und der Länder
6.06 % Bankhaus Lampe KG
5.25 % Deutscher Ring Gruppe
1.36 % Condor Lebensversicherungs-AG

Financial Calendar

31 March 2010	Presentation of annual report as at 31 December 2009
19 May 2010	Annual General Meeting – Rhein-Main-Hallen, Wiesbaden

North America

Europe

Asia/Pacific

- **Structured Property Financing**
- **Consulting/Services**

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

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

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