LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

III/2010

Aareal Bank Group – Interim Report
1 January to 30 September 2010

Aareal Bank
Group

Key Group Figures

	1 Jan-30 Sep 2010	1 Jan-30 Sep 2009 [5]	Change
	Euro mn	Euro mn	Euro mn
Income Statement			
Operating profit	94	64	30
Net income after non-controlling interests	51	36	15
Indicators			
Cost/income ratio (%) [1]	47.9	49.0	
Earnings per share (Euro)	1.19	0.84	
RoE after taxes (%) [2]	3.6	2.9	

	30 Sep 2010	31 Dec 2009	Change
	Euro mn	Euro mn	Euro mn
Portfolio data			
Property financing	22,388	21,838	550
of which: international	18,960	18,164	796
Property financing under management [3]	22,772	22,348	424
of which: international	18,960	18,164	796
Equity	1,948	2,077	-129
Total assets	42,531	39,569	2,962
	%	%	
Regulatory Indicators (German Banking Act/CRSA [4])			
Tier 1 ratio	10.4	11.0	
Total capital ratio	13.8	15.0	

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

[1] Structured Property Financing segment only
[2] on an annualised basis
[3] The figure for property financing under management includes property loans managed on behalf of Deutsche Pfandbriefbank AG
[4] Credit Risk Standard Approach (CRSA)
[5] Comparative figures for the previous year were adjusted. Further information is included in the Notes to the consolidated financial statements in the 2009 Annual Report.

Contents

Letter to Shareholders

Dear shareholders, business associates and Aareal Bank staff,

Aareal Bank Group's business developed favourably in the third quarter of 2010, with operating profit up significantly year-on-year during the reporting period.

At € 33 million, the result was € 12 million higher than the same quarter of the previous year. Allowances for credit losses also remained at a manageable level during the third quarter. Given the prevailing high level of nervousness on the financial markets, and the challenging conditions that have persisted on the property markets (despite some signs of improvement), Aareal Bank achieved satisfactory quarterly results. Our business development yet again attests to the bank's strength, and the solidity of our business model. It is also the result of our company's long-term orientation, and the sustained success of the cooperation between Aareal Bank's staff and managers.

Despite the positive development overall, we believe that our cautious market assessment was the right position to adopt. The continued debate about the European sovereign debt crisis meant that risk premiums for certain European government bonds remained high. Uncertainty surrounding the formulation of various regulatory initiatives influenced certain segments of the capital markets. Whilst the proposals submitted by the Basel Committee helped to assuage the markets somewhat, it is too soon to talk of normalisation. Particularly with regard to the financial markets, volatility is likely to remain high, and further market turbulence can be expected.

The environment for the property sector has also remained challenging throughout the year to date. Aareal Bank Group was nevertheless able to continue its business as planned, and to further secure its position as one of the leading providers in the market. On the whole, we are cautiously optimistic about the development of the global property markets. The low point seems to have been reached in many regions. Property values have stopped falling in several markets – and in some, they are again on the rise. Furthermore, the trend of falling rents has come to a halt in many markets. Transaction volumes are up considerably year-on-year, providing opportunities for additional new business.

Structured Property Financing: segment result increases markedly

Investors' keen awareness of quality also continued on the international property markets in the third quarter. They continued to focus on first-class properties in top locations. In contrast, the situation on the rental markets remained tense for "B" locations, and for properties that no longer match state-of-the-art specifications.

The "bottom-building" in many markets was reflected by factors like stable or slightly declining yield requirements that positively impacted market values and purchase prices, yet regional differences were once again apparent. Whilst a clear upwards trend was visible in Asian rents and prices, it was predominantly first-class properties in top locations that showed stability in Europe. Although rent prices declined slightly in North America, prices showed increasing signs of stabilisation.

By and large, the recovery on the commercial property markets also continued during the third quarter of 2010, and we accordingly expect an increase for 2010 as a whole compared with the previous year.

At € 28 million, operating profit in the Structured Property Financing segment was not only up significantly year-on-year (Q3 2009: € 15 million), it is also above the good level of the previous quarter, (Q2 2010), which amounted to € 25 million. Net interest income in the period under review was € 121 million after € 99 million in the comparable period of the previous year. The increase was largely due to the higher margins achieved in the lending business.

After all, attractive opportunities also exist in challenging environments. Thanks to its strong capital and liquidity base, Aareal Bank is one of the financial institutions able to exploit these opportunities to originate business with a favourable return and risk profile. As in the past, we do so selectively, with a strategy centred around quality and prudence. New business in the third quarter was € 1.2 billion and thus significantly higher than the same quarter of the previous year (Q3 2009: € 0.7 billion). Aareal Bank raised its new business to € 4.1 billion in the first nine months of the year, an increase of € 1.7 billion over the same period of the previous year. This brings us to a level that we consider to be appropriate, considering the state of the sector. The share of loan renewals continued to decline.

Allowance for credit losses totalled € 32 million in the third quarter (Q3 2009: € 36 million), thus remaining within the normal fluctuation range, and so on a manageable level, despite the persistently challenging environment. We consider this a testament to the high quality of our property financing portfolio.

Consulting/Services: Wodis Sigma continues to develop favourably

Despite continued intense competition for client deposits, the volume of deposits from the institutional housing industry remained stable during the third quarter of 2010, averaging € 4.2 billion. We were once again able to benefit from the confidence that institutional housing industry clients in Germany have placed in Aareal Bank – as their reliable banking partner – for quite some time. Operating profit in this segment was negatively impacted by sustained low interest rates, which persisted for longer than anticipated, and in turn adversely affected the profitability of the deposit business. At € 5 million, the result was slightly lower than the same quarter of the previous year (€ 6 million).

Aareon AG's business activities did, however, proceed according to plan and were once again heavily shaped by the Wodis Sigma product line. Introduced in 2009, this product generation has met with an exceptionally positive response from our clients. Since its introduction, more than 260 companies of all sizes, managing around a million housing units between them, have opted for Wodis Sigma. This includes many new clients.

Refinancing: successful issuance activities

Aareal Bank remains solidly financed. We once again successfully carried out our funding activities in the third quarter. Overall, the bank placed € 1.1 billion in unsecured issues during the first nine months of the year – € 400 million of which was during the period under review – and placed € 2.0 billion in covered bonds (Pfandbriefe). Our enduringly solid and conservative refinancing and liquidity policy provides the basis for our robust operating business, and the secure foundation of our successful business model.

Aareal Bank's very solid capital base continues to be high by international standards. Under the Credit Risk Standard Approach (CRSA), the Tier 1 ratio was 10.4 % as at 30 September.

Aareal Bank share price: positive performance in the third quarter

On the whole, the German equity markets developed positively during the third quarter. The DAX® picked up +4.4 % and the MDAX® gained +9.5 %. Industrials were able to diverge from bank shares, which were adversely affected by negative headlines, as the comparison with the Prime Banks Performance Index (CXPB) -3.7 % for the third quarter shows. The negative force of the EU debt crisis primarily impacted the prices of financial issues.

Beating this trend, the Aareal Bank share price performed very well during the same period. With a 18.4 % gain in share price in the third quarter (+23.1 % since the beginning of the year), it was once again able to clearly outperform not only every relevant index for the third quarter, but also for the year as a whole (DAX +5 %; MDAX +17 %; CXPB -7 %).

Aareal Bank's positive business results for the year to date, an early start (and ahead of schedule) to repaying the first tranche of the SoFFin silent participation, together with the positive outlook, were accordingly paid tribute by the market.

Outlook: forecasts increased for 2010

Commercial property financing can look forward to a bright future. This view is supported by the anticipated long-term increase in demand for property and property financings in many areas around the world, as well as the changes in the competitive environment and client behaviour as a consequence of the crisis. We expect that the markets will gradually return to normal in the course of next year, and we believe that this process should come to an end in 2012. This forecast is based on the assumption of a lastingly positive, and thus healthy, market recovery. Amongst other things, this rules out transaction volumes reaching the exaggerated heights of the 2006 and 2007 boom years.

In the last three months of this year, the market environment will continue to be shaped by uncertainty. However, the positive course that business has taken for the bank, which has exceeded our expectations, makes it possible to increase our forecasts for the entire year. We reached our target – to outperform our 2009 annual result for 2010 – after only nine months. Although the market environment continues to be fraught with uncertainty, we are confident that we will continue to be profitable in the fourth quarter as well, and that we will thus be able to increase our annual operating profit.

This long-term and solid positive development shows that Aareal Bank remains well-positioned and sustainably on track, thanks to its two-pillar model and three-continent strategy. That is reason enough to express our gratitude to Aareal Bank's shareholders, its clients and its employees, for their trust and commitment.

Yours sincerely,

The Management Board

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

Group Management Report

Business Environment

Macro-economic environment

Following a period of immense nervousness and uncertainty on financial markets as a consequence of the debt crisis in Greece, financial markets settled down again somewhat in the third quarter. However, there are no real signs of normalisation so far. There has been – and still is – considerable concern amongst market participants that the debt crisis could spill over to other euro zone countries. This has been reflected in the prevailing high risk premiums for government bonds of various countries, amongst other factors. While the global economy continued to recover in many regions, economic growth diminished in some countries.

Economy

Although the economy continued to recover in most countries during the third quarter, it became increasingly evident that growth was in fact slowing down. Sentiment indicators also deteriorated. The business climate indices for North America and Asia published by ifo, a German economic research institute, fell in the third quarter. While the Asian index remained high, it fell in North America to just below its long-term average. On the other hand, the ifo business climate index showed a slight uptrend in Western Europe, although economic momentum slowed down here too. Asia once again enjoyed the strongest economic growth, while North America and Europe posted moderate growth rates. Economic trends diverged significantly across Europe, with Greece, Ireland, Portugal and Spain facing a critical situation. In contrast, Germany, Poland and Sweden posted economic recovery, albeit with a slowing momentum. In view of the severe levels of public sector debt and high budget deficits, many European countries adhered to the measures being taken to reduce their deficits.

Unemployment, which had risen across the globe in the wake of the economic crisis, stabilised in many countries as it had already done in the second quarter. Nonetheless, the unemployment rate fell in a few countries only. This was the case for example in Germany and Austria, for example which recorded low unemployment by international standards, alongside the Netherlands and Luxembourg. The Baltic States and Spain, where employment levels stagnated or even continued to fall, had the highest unemployment rates of around 20 %. The situation on the labour market remained difficult in the US and Japan as well, where unemployment remained at a historically high level in both countries.

Financial markets, inflation and monetary policy

When Greece deemed itself no longer in a position to meet its funding requirements on the capital market without external support – which became evident in April of this year, on account of the severe debt situation and high budget deficit – this resulted in massive distortions and uncertainty on the financial markets. The situation stabilised somewhat as a reaction to the € 750 billion support package passed by the European Union (EU) and the International Monetary Fund (IMF). This development continued in the third quarter, although normality was not restored, and investors remained averse to risk. It led in turn to a significant widening of risk premiums on government bonds issued by countries with a weaker capital market standing, especially from the middle of the third quarter onwards. The yields on those government bonds considered as more stable remained at a very low level, resulting in a considerable widening of sovereign yield differentials. Equity markets were characterised by a high level of volatility in the third quarter.

In May, the European Central Bank (ECB) added another measure to reduce tension on the financial markets, launching a programme to buy public-sector and private debt securities, which it extended into the third quarter. At the same time, the ECB's twelve-month covered debt securities purchasing programme totalling € 60 billion expired on 30 June, as planned. The US Federal Reserve ("Fed") also continued to adhere to its expansive monetary policy in August. It resolved to maintain the volume of securities in its portfolio at a consistently high level.

Virtually all major central banks maintained an expansive stance in relation to benchmark interest rates, which remained very low during the quarter under review. Canada and Sweden were the only countries whose central banks raised their benchmark rates slightly. Short-term interest rates showed diverging trends in the third quarter: whilst short-term rates (Euribor) rose in the euro zone, US dollar rates (LIBOR) fell significantly, despite already being at a very low level. At the end of the quarter, short-term GBP interest rates (LIBOR) were virtually at the same level as at the start of the quarter. In contrast, long-term interest rate swap rates fell in all three currencies, especially in the US dollar.

Following the devaluation of the euro vis-a-vis other important currencies as the debt crisis came to a head in early 2010, the currency recovered substantially in the third quarter. The euro exchange rate at the end of the third quarter was much higher relative to the US dollar and pound sterling compared with the start of the quarter, albeit with severe fluctuations.

The annual inflation rate remained moderate in most countries during the third quarter, marking little change. The annual rate of inflation recently averaged 1.8 % in the euro zone, and 2.2 % in the EU. At around 1 % recently reported, annual inflation was somewhat lower by comparison in the US, where a slight decline relative to previous quarters was identified. Inflation rates in Great Britain and China were slightly over 3 %. Greece and some East European countries continued to register comparatively high inflation. Annualised inflation in Japan remained negative.

Sector-specific environment

Structured Property Financing

The largely positive economic recovery in the course of the year to date – although it has eased recently – had a stabilising to positive effect on many commercial property markets in the third quarter as well. As a result, numerous commercial property markets showed signs of bottoming out, with property values even rising slightly on some markets. Furthermore, the trend of falling rents was halted in numerous markets, particularly for first-class properties.

However, the development varied greatly from region to region. Top rents for first-class properties in prime locations remained stable in most European countries. These fell in a very small number of prime locations only, and even showed a slight increase in some locations. Asia's economies on the other hand posted a largely rising trend for top rents in prime locations. Top rents continued to fall in North America, although this downtrend showed signs of a slowdown in the third quarter. Within each region, these trends in rental developments applied to office and retail properties, as well as to logistics properties. Rents for properties in peripheral locations, or of lesser quality, were more frequently under pressure.

Occupancy ratios in the hotel sector in Europe, Asia and North America improved over the corresponding period of the previous year. On the other hand, the development of average prices per hotel room was inconsistent. The improvement in the occupancy ratios led to higher average hotel revenues per room over the previous year in most locations.

Indices reflecting the property investment climate[1] showed some divergence across individual countries. Whilst improving in some European countries, such as for example in Germany, declines were evident in other countries, such as the United Kingdom. The property investment climate index for the US was also lower, whilst it remained practically unchanged for China.

[1] The property investment climate indices are determined on the basis of a survey of experts and/or companies from the property management sector in relation to their assessment of the current and anticipated situation in the property sector.

Transaction volumes on the commercial property markets were largely stable, and in line with the course of the current year to date. Investor demand continued to concentrate on high-quality properties in the best locations. Investors' yield requirements for first-class properties stabilised or fell slightly in the last quarter, which had a positive effect on market values. The yield requirements for new investments were lower compared with the same period of the previous year, but remained higher than the level seen before the outbreak of the crisis affecting financial markets and the economy.

Summing up, it can be said that rents and prices for first-class properties in top locations have remained largely stable, despite regional differences. The rents and prices for properties in less attractive locations and of lower quality remained under pressure. Even though we believe the industry-specific environment has stabilised, it continues to represent a challenge.

Consulting/Services: Institutional Housing Industry

The institutional housing industry remained stable in an economic environment that is on the slow road to recovery. The stable cash flow resulting from the highly-diversified tenant structure ensured solid business development for commercial housing enterprises.

Investment activity of the companies operating in the sector still concentrated on modernising their housing stock. They focused largely on the challenges arising from demographic shifts, and the implementation of energy optimisation opportunities. The industry continued to prioritise the renovation of housing inventory over new construction.

Positive rental development on the German residential property market prevailed in general, albeit with regional differences. The number of vacant apartments increased in regions with contracting economic strength, whilst demand exceeded supply especially in cities with a growing number of single households. One of the factors where this is reflected is the increase of approx. 5 % in new rental contracts in the major cities compared with the third quarter of 2009. Demand is enhanced additionally by settlement in the growth regions driven by job creation.

The rise in investments in residential property in the course of the year continued unabated in the third quarter, too. Against the background of the ongoing volatility on international capital markets, the value of residential property shored up investment interest.

A broad investor base, comprising mainly mutual and special funds, remained active in portfolio trading with residential property during the third quarter. International investors also rediscovered the German residential property market, and became active as buyers. At the same time, the size of the traded portfolios increased with almost half of the traded packages featuring a minimum investment amount of € 100 million.

Investors focused on regions that offered robust rental growth and rising property prices. This regional demand varied from portfolios in the lower price segment to high-quality project developments in good residential locations.

The application of modern and user-friendly technologies continues to gain importance on the market for property management software – in particular, easy-to-use interfaces and the opportunity for integrating services and additional products. The market is divided into SAP® and non-SAP® providers and products.

Financial Performance

Aareal Bank Group, faced with what was still a challenging market environment, continued to underline the sustainability of its business model, achieving satisfactory operating profit of € 94 million for the first nine months of 2010 (Q3 2009: € 64 million). Taking into consideration taxes and income attributable to non-controlling interests, consolidated net income after non-controlling interest income was € 51 million (Q3 2009: € 36 million).

Consolidated Income Statement of Aareal Bank Group[1)]

Euro mn	1 Jan-30 Sep 2010	1 Jan-30 Sep 2009
Net interest income	370	345
Allowance for credit losses	97	115
Net interest income after allowance for credit losses	**273**	**230**
Net commission income	86	94
Net result on hedge accounting	2	-3
Net trading income/expenses	-5	41
Results from non-trading assets	11	-19
Results from investments accounted for using the equity method	5	–
Results from investment properties	0	1
Administrative expenses	271	278
Net other operating income/expenses	-7	-2
Impairment of goodwill	0	0
Operating profit	**94**	**64**
Income taxes	29	15
Net income/loss	**65**	**49**
Allocation of results		
Net income/loss attributable to non-controlling interests	14	13
Net income/loss attributable to shareholders of Aareal Bank AG	51	36
Appropriation of profits		
Net income/loss attributable to shareholders of Aareal Bank AG	51	36
Silent participation by SoFFin	24	18
Consolidated profit/loss	**27**	**18**

Net interest income of € 370 million generated during the period under review was € 25 million higher than the result for the same period of 2009 (€ 345 million). The increase was largely due to the positive margin development achieved in the lending business. The margin from the deposit-taking business with the institutional housing industry fell slightly year-on-year, due to low interest rate levels which persisted for longer than anticipated.

Allowance for credit losses, which amounted to € 97 million (Q3 2009: € 115 million), was within the normal fluctuation range and therefore remained manageable.

Net commission income of € 86 million (Q3 2009: € 94 million) reflected € 20 million (previous year: € 11 million) in running costs for the guarantee facility extended by SoFFin at the end of March 2009. These costs include additional expenses for the precautionary utilisation of the remaining € 2 billion tranche of the guarantee facility provided by SoFFin, as announced at the end of June, which were incurred during the third quarter for the first time. Taking into account the resulting costs, net commission income was slightly higher than the figure posted for the same period of the previous year.

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

Net trading income / expenses of € -5 million was largely attributable to the valuation of trading derivatives used to hedge interest rate and currency risks, and to realised and unrealised changes in value from sold hedging instruments on selected EU sovereign countries.

Sales of fixed-income securities contributed significantly to net income from investment securities of € 11 million (Q3 2009: € -19 million).

The payment received from Deutsche Interhotel Holding GmbH & Co. KG in the second quarter was recognised in the result of investments accounted for using the equity method, in an amount of € 5 million.

Administrative expenses remained stable at € 271 million, down € 7 million on the corresponding figure for the previous year (€ 278 million).

Net other operating income and expenses amounted to € -7 million (Q3 2009: € -2 million). The net figure included project costs and provisions recognised for subsidiaries.

Consolidated operating profit for the first nine months of the current year totalled € 94 million (Q3 2009: € 64 million). Taking into consideration taxes of € 29 million and non-controlling interest income of € 14 million, net income attributable to shareholders of Aareal Bank AG amounted to € 51 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated income stood at € 27 million.

Segments

Structured Property Financing

Business development

During the third quarter of 2010 we duly continued to adhere to our risk-aware approach to lending, whilst also consistently managing our credit portfolio. At € 1.2 billion, new business was significantly up on the third quarter of the previous year (€ 0.7 billion), bringing new business in the first nine months of this year to a total of € 4.1 billion. New business in the corresponding period of the previous year was € 2.4 billion. The increase in the volume of new business reduced the share of renewals compared with the previous year.

At 77 %, Europe accounted for the highest share of our new business during the first three quarters of this year, followed by North America with 14 % and Asia / Pacific with 9 %.

Europe

Top rents for first-class properties in prime locations on European commercial property markets were largely stable in the third quarter, falling only sporadically and rising slightly for first-class properties in some locations. Office markets which posted rising top rents included the City of London, Paris and Stockholm. However, even the rents commanded on markets that featured a slight increase in the top rents were still lower than the levels seen before the outbreak of the economic crisis. Rents for properties of lesser quality and in peripheral locations remained under pressure. This rental development was evident for office, retail and logistics properties.

Average hotel revenues per room increased for hotel properties in the majority of markets compared with the previous year. This recovery was driven by the increase in the occupancy ratio. On the other hand, the development of average prices per hotel room was inconsistent.

Investors' yield requirements for first-class property on most markets remained stable or fell slightly in the third quarter, too, resulting in a positive impact on market prices.

Our new business in Europe in the third quarter stood at € 0.9 billion and therefore totalled € 3.1 billion for the first three quarters. Western Europe accounted for the highest share of new business in the first three quarters, followed by Northern Europe.

North America (NAFTA states)

Rental activity on the American commercial property markets clearly picked up compared with the previous year, albeit from a very low level. The recovery saw average vacancy ratios stabilise slowly, having increased substantially in the previous quarters as a reflection of the economic crisis. On average, rents for office, retail and logistics properties continued to fall in the US, although it is evident that this trend is slowing down. Average rental development in Canada was somewhat more favourable than in the US.

Average hotel revenues per room increased in North America too, especially due to the improvement in the occupancy ratio compared with the previous year.

Investors' yield requirements for commercial property declined slightly. However, the demand for commercial property concentrated on high-quality properties in prime locations.

Our new business in North America amounted to € 0.1 billion in the third quarter, and total new business in the first nine months of 2010 was € 0.6 billion.

Asia/Pacific

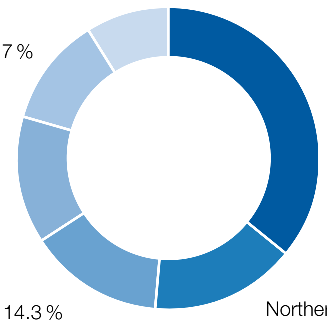
Rent developments in Asian economies were more positive than in Europe and North America. In China and in Singapore, top rents for various first-class property types in the prime locations mostly increased. Rents in Tokyo stabilised, following their previous downtrend. The top rents here remained virtually unchanged.

Average hotel revenues per room rose in Asia over the previous year – except in Japan, where they more or less stagnated. Growth in average hotel revenues was particularly pronounced, particularly in China and there especially in Shanghai, where the hotel sector benefited from the Expo 2010 which ran from May to the end of October.

Investors' yield requirements for first-class properties continued to fall in Asia, too. Together with rising rents, this led to rising property prices.

New business 1 January-30 September 2010

by region (%) Total volume: Euro 4.1 billion



In China, the significant increase in residential property prices last year and the first half of this year led to concerns of overheating in this market segment. The Chinese government has taken various measures to dampen this development. Although the average price level for residential property is up markedly year-on-year, prices have stabilised in recent months and were recently virtually unchanged. Aareal Bank is not exposed to the Chinese residential property market.

Our new business in the Asia-Pacific region amounted to € 0.2 billion in the quarter under review, so that we achieved new business in an aggregate amount of € 0.4 billion in the first three quarters of this year.

Segment result

At € 28 billion, operating profit generated in the Structured Property Financing segment during the third quarter was up € 13 million over the corresponding period of the previous year (€ 15 million).

Net interest income during the period under review was € 121 million, after € 99 million in the comparable period of the previous year. The increase was largely due to the positive margin development achieved in the lending business.

Structured Property Financing segment result[1]

Euro mn	Quarter 3 2010	Quarter 3 2009
Net interest income	121	99
Allowance for credit losses	32	36
Net interest income after allowance for credit losses	**89**	**63**
Net commission income	-5	-3
Net result on hedge accounting	-2	-4
Net trading income/expenses	2	18
Results from non-trading assets	-4	-3
Results from investments accounted for using the equity method	0	–
Results from investment properties	0	1
Administrative expenses	54	53
Net other operating income/expenses	2	-4
Impairment of goodwill	–	–
Operating profit	**28**	**15**
Income taxes	10	3
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 € -5 million, the net commission result was down € 2 million compared to the same quarter of the previous year (€ -3 million). This was attributable to additional expenses for the precautionary utilisation of the remaining € 2 billion tranche of the guarantee facility provided by SoFFin, announced at the end of June, which were incurred during the third quarter for the first time.

Allowance for credit losses of € 32 million for the third quarter of 2010 (previous year: € 36 million) was within the normal fluctuation range and therefore remained at a manageable level.

Net trading income / expenses of € 2 million was attributable – amongst other factors – to the valuation of trading derivatives used to hedge interest rate and currency risk, and to realised and unrealised changes in value from sold hedging instruments on selected EU sovereign countries.

At € 54 million, administrative expenses in the third quarter roughly matched the corresponding level of the previous year (€ 53 million).

Net other operating income and expenses amounted to € 2 million (Q3 2009: € -4 million).

Overall, operating profit for the Structured Property Financing segment was € 28 million (Q3 2009: € 15 million). Hence, taking into consideration tax expenses of € 10 million (Q3 2009: € 3 million), the segment result for the third quarter of 2010 was € 18 million (Q3 2009: € 12 million). According to the allocation of results, segment results of € 14 million (Q3 2009: € 8 million) were attributable to shareholders of Aareal Bank AG.

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

Consulting / Services

Business development

Aareon AG

The new Wodis Sigma product generation made further progress on the market during the third quarter. 68 client installations were rolled out, bringing the total number of clients now working with Wodis Sigma to 116. Since it was launched, a total of some 266 companies have signed contracts for Wodis Sigma, 10 of which during the third quarter. Wodis Sigma Release 2.0 entered the test client phase on schedule and will be presented at the Wodis Forum in Bochum in the fourth quarter.

The market for solutions for the property management sector operating on the basis of SAP® remained highly competitive. Nonetheless, Aareon's SAP® advisory solutions in particular met with increased demand. Blue Eagle Release 6.1 is on schedule in the test phase.

The business with the established GES (ASP solution) and WohnData (in-house system) systems was stable in the third quarter as well.

The Integrated Services product line continued to develop favourably. Demand concentrated above all on the Mareon service portal, the document management system Aareon DMS and the insurance solution BauSecura. 13 new contracts were concluded for Mareon, including the Berlin-based WodisSigma client WBM Wohnungsbaugesellschaft Mitte mbH. Eight additional clients opted for Aareon DMS in the third quarter.

Business development in France was favourable: our French subsidiary acquired additional clients in the third quarter, including Logement Français, one of France's leading commercial housing enterprises. Aareon UK acquired two new accounts in the UK market that is defined by aggressive competition.

Payments and deposit-taking

The bank's Institutional Housing Unit, in cooperation with subsidiary Aareal First Financial Solutions AG, mainly provides specialised banking and electronic banking services. The automated processing of mass payments and optimisation of downstream processes are additional services offered. Aareal Bank's objective is to increase the volume of deposits through new client acquisition as well as the consistent penetration of existing client relationships with as broad a product range as possible. By continuously developing its portfolio, Aareal Bank aims to further deepen its business relationships with existing clients, and expand its client base in the housing and commercial property management segment as well as in the energy sector.

In the first nine months of 2010, the market was defined by predatory competition. Despite this tight competition, the volume of deposits, which averaged at € 4.2 billion, remained at the previous quarter's level during the third quarter.

Although we already achieved high penetration within the institutional housing industry, we once again exploited cross-selling potential with our range of products and solutions in the third quarter, and increased the range of services we offer to our existing client base. We also acquired 16 new institutional housing industry accounts managing a total of around 12,000 residential units between them. Our business in the energy sector target group was also expanded, where we succeeded in acquiring four new clients.

Segment result

At € 5 million, operating profit generated by the Consulting / Services segment during the third quarter was slightly lower compared with the corresponding quarter of the previous year (€ 6 million). While Aareon's business continued to develop on schedule, low interest rates which persisted for longer than anticipated burdened profitability in the deposit-taking business.

Consulting/Services segment result

Euro mn	Quarter 3 2010	Quarter 3 2009
Sales revenue	45	50
Own work capitalised	0	0
Changes in inventory	0	0
Other operating income	3	3
Cost of materials purchased	6	6
Staff expenses	22	25
Depreciation, amortisation and impairment losses	3	4
Results from investments accounted for using the equity method	–	–
Other operating expenses	12	12
Interest and similar income/expenses	0	0
Operating profit	**5**	**6**
Income taxes	1	2
Segment result	**4**	**4**
Allocation of results		
Segment result attributable to non-controlling interests	1	0
Segment result attributable to shareholders of Aareal Bank AG	3	4

Revenues for the third quarter fell by € 5 million, to € 45 million (Q3 2009: € 50 million). The decline was largely due to the low interest rate environment, which impacted unfavourably on the profitability of the deposit-taking business with the institutional housing industry. The high level of deposit volumes from this sector could be maintained, despite massive competition regarding terms.

Cost of materials (€ 6 million) was roughly in line with last year's level.

Staff expenses in the quarter under review amounted to € 22 million, which represents a € 3 million year-on-year decline.

Other operating income and expenses, as well as depreciation and amortisation, were roughly in line with last year's levels.

On balance, the Consulting/Services segment yielded a net contribution of € 5 million to consolidated operating profit (previous year: € 6 million).

After deduction of taxes, the segment result for the third quarter was € 4 million (previous year: € 4 million).

Financial position

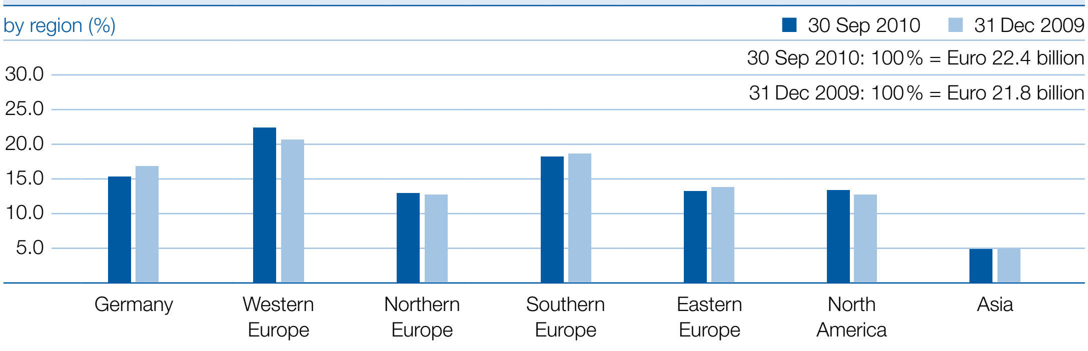
Aareal Bank Group's total assets as at 30 September 2010 amounted to € 42.5 billion, after € 39.6 billion as at 31 December 2009.

Property financing portfolio

Aareal Bank Group's property financing portfolio[1)] was drawn at an aggregate amount of € 22.4 billion as at 30 September 2010, which equates to a 2.4 % increase over the 2009 year-end figure of € 21.8 billion. The international share was

[1)] As at 30 September 2010, the portfolio of property financing under management totalled € 22.8 billion (31 December 2009: € 22.3 billion). Property financings under management include the property financing portfolio managed for Deutsche Pfandbriefbank AG.

Property financing volumes (amounts drawn)



€ 19.0 billion, corresponding to around 85 % of the overall portfolio. The chart on the following page illustrates the very broad regional diversification overall.

We increasingly exploited opportunities for attractive new business during the third quarter, too, and successfully boosted the volume of new business originated in the first three quarters of this financial year compared with the same period of the previous year – whilst further reducing the share of renewals at the same time. In conjunction with the higher transaction volumes on the property markets, the repayment ratio in the first three quarters of this financial year increased slightly compared with the previous year. The repayments in the portfolio were in line with expectations.

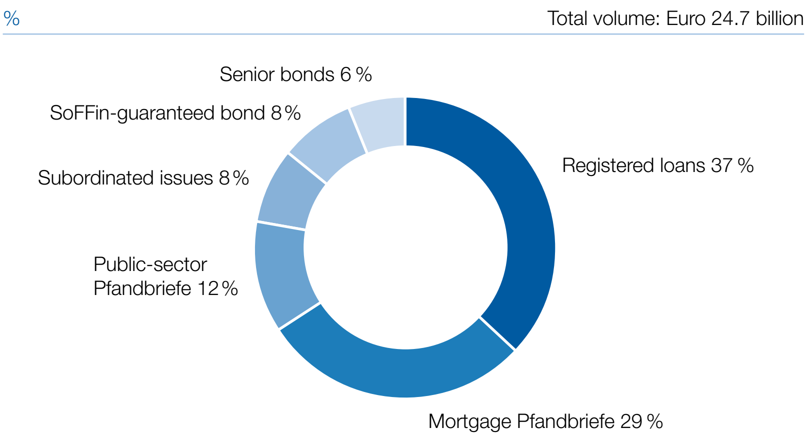
Refinancing and equity

Aareal Bank Group continued to successfully conduct its funding activities in the third quarter of 2010, thereby securing its good liquidity situation. Long-term funding as at 30 September 2010 amounted to € 24.7 billion and comprised covered bonds (Pfandbriefe), unsecured and subordinated issues. Furthermore, as at the record date, Aareal Bank has € 4.2 billion generated from institutional housing industry clients at its disposal, plus another € 4.5 billion in deposits from institutional money market investors.

Excess liquidity is invested in a portfolio of high-quality securities. The portion of the securities portfolio serving as a liquidity reserve can be quickly deployed, for example through repurchase transactions in the money market. No open-market transactions were carried out with the ECB during the first nine months of the 2010 financial year.

Approx. € 700 million in long-term funds – comprising mortgage Pfandbriefe in the amount of approx. € 250 million, public-sector Pfandbriefe of approx. € 50 million, as well as unsecured refinancing of approx. € 400 million – was raised on the capital market in the third quarter. Aareal Bank has therefore maintained long-term funding at a high level.

Capital market refinancing mix as at 30 September 2010



We raised a total of € 3.1 billion in long-term funds on the capital market through private and public transactions during the first nine months of the financial year. These comprise mortgage Pfandbriefe in the amount of € 1.9 billion, public-sector Pfandbriefe of € 0.1 billion and unsecured refinancing of € 1.1 billion.

As at 30 September 2010, the Tier I ratio – measured in accordance with the Credit Risk Standard Approach (CRSA) – was 10.4 %, which remains high by international standards.

Effects of the financial markets, economic and debt crises

Following a period of immense nervousness and uncertainty on financial markets as a consequence of the debt crisis in Greece, financial markets settled down again somewhat in the third quarter. However, there is no sign of normalisation so far. There has been – and still is – considerable concern amongst market participants that the debt crisis could spill over to other euro zone countries. This has been reflected in the prevailing high risk premiums for government bonds of various countries, amongst other factors. While the global economy continued to recover in many regions, economic growth diminished in some countries. Regional differences continued to exist nevertheless.

Developments on the commercial property markets stabilised in the third quarter, impacting on the top rents of first-class properties as well as on investors‘ yield requirements. Regional differences were also evident here. While top rents rose for the most part in Asia and remained largely unchanged in Europe, they fell slightly in North America, with some signs for a slowdown in the decline. On average, the yield requirements for first-class properties in Europe tended to fall slightly or stabilise. Yields fell slightly in North America and Asia, which had a positive effect on property price development. The rents and prices of properties of lesser quality or in peripheral locations remained largely under pressure. Investments continued to concentrate on first-class properties. Despite the trend towards stabilisation, the property management business environment remained challenging.

During the third quarter we duly continued to adhere to our risk-aware approach to lending, whilst also consistently managing our credit portfolio. We achieved new business of € 1.2 billion in the Structured Property Financing segment during the third quarter, after € 0.7 billion in the corresponding quarter of the previous year – new business thus amounted to € 4.1 billion in the first three quarters of 2010. In light of prevailing transaction volumes on the commercial property markets and the slow economic recovery, but also taking into consideration that financial markets have not yet returned fully to normal, we find this volume to be appropriate.

Despite the good issuer ratings, the volatile development on capital markets led to fluctuations in the value of our securities portfolio during the third quarter of 2010 as well.

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

The return to normality that emerged on the money market over the course of 2009 remained intact up to 30 September 2010. The average volume of all deposits of this investor group amounted to € 4.8 billion in the first three quarters of 2010. As at the balance sheet date of 30 September 2010, the volume amounted to € 4.5 billion. The volume of longer-term term deposits from this investor group has increased continuously since the start of the year.

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

The Consulting / Services segment was also unable to completely escape the effects of the financial and economic crisis as far as margins in its deposit-taking business were concerned. The low interest rate environment which persisted for longer than anticipated and which is very unfavourable in terms of income earned from deposits from the institutional housing industry, had a negative impact. Nonetheless, the volume of deposits from the institutional housing industry remained stable, averaging around € 4.2 billion during the third quarter.

In order to protect its sustainable business model, and at the same time overcome the very difficult market environment, Aareal Bank Group had reached an agreement with the German Financial Markets Stabilisation Fund (SoFFin) on 15 February 2009, whereby SoFFin extended a perpetual silent participation in the amount of € 525 million to Aareal Bank, plus a guarantee facility for new unsecured issues up to a total of € 4 billion. We used € 2 billion of this framework guarantee to place a bond issue in March 2009. In addition, we opted to draw on the remaining € 2 billion available under SoFFin's guarantee facility in June 2010. This measure is purely precautionary in nature and the bond will be held on our own books. There are no plans at present to place it on the market.

Against the background of sound operating performance and the bank's solid capitalisation, Aareal Bank accelerated the repayment of SoFFin's silent participation. A first tranche of € 150 million was repaid on 16 July 2010, reducing the residual amount of the silent participation to € 375 million.

Regulatory indicators

Regulatory indicators pursuant to KWG (CRSA[1])

	30 Sep 2010	31 Dec 2009
Euro mn		
Core capital	2,259	2,415
Liable capital	3,005	3,290
Risk-weighted assets (incl. market risk)	21,713	21,875
%		
Tier 1 ratio	10.4	11.0
Total capital ratio	13.8	15.0

[1] Credit Risk Standard Approach (CRSA)

Report on Material Events after the Reporting Date

Aareon AG acquired 100 % of the capital of SG Automatisering B.V., effective 1 November 2010.

Risk Report

Aareal Bank Group Risk Management

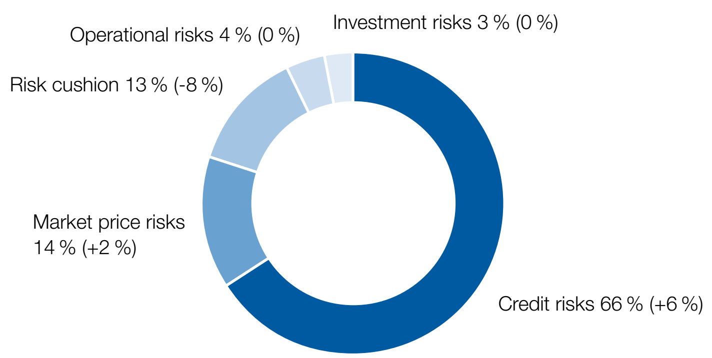
The Annual Report 2009 contains a comprehensive description of Aareal Bank Group's risk management approach, including the corresponding organisational structure and workflows in the lending and trading businesses, as well as the methods and procedures used for measuring and monitoring risk exposure.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

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

At 66 %, credit risks account for the largest part of the bank's aggregate risk cover; 14 % is retained to cover market price risks, 4 % for operational risks and 3 % for investment risks. In addition, a substantial portion (13 %) of the aggregate risk cover serves as a risk cushion, which is not applied to risk limits, and is thus available for risk types that cannot be quantified (for example, reputational or strategic risks). Overall, aggregate risk cover and risk limits are harmonised to ensure Aareal Bank's ability to bear risk at any time, based on the going concern assumption – even against the background of market distortions as a result of the financial markets crisis. The diagram below shows the allocation of aggregate risk cover to types of risk as at 30 September 2010.

Allocation of aggregate risk cover

% (change from 31 December 2009 (% points)) as at 30 September 2010



Please note that the absolute limits for the various types of risk were kept largely unchanged from their levels as at 31 December 2009. The changes in relative shares were mainly attributable to the update of aggregate risk cover, in connection with the partial repayment of the silent participation by the German Financial Markets Stabilisation Fund (SoFFin).

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

Credit risks

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

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

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

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

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

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

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

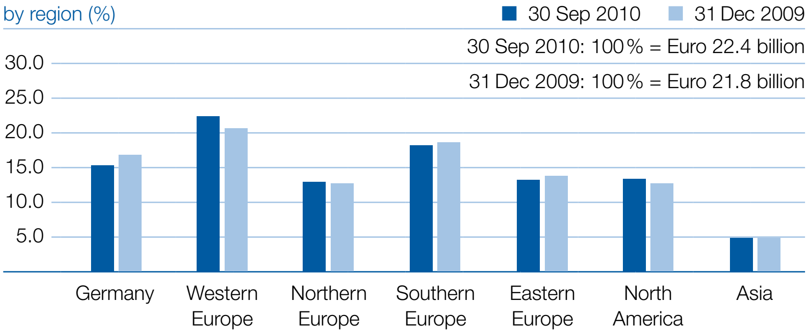
Trading activities are generally restricted to counterparties for whom the requisite limits are in place. All trades are immediately taken into account for the purposes of borrower-related limits. Compliance with limits is monitored in real time by Risk Controlling. Persons holding position responsibility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

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

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

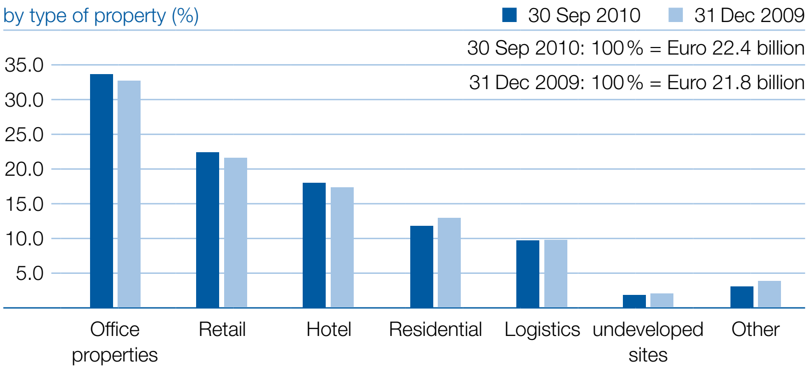
Property financing volumes (amounts drawn)

by region (%)



Property financing volumes (amounts drawn)

by type of property (%)



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

Market price risks

Definition

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

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

Risk measurement and monitoring

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

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

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

By its very nature, VaR calculations are based on 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 taken into account that these refer to the overall portfolio (thus including all non-trading positions as defined in IFRS). Hence, the analysis provided represents a very extensive disclosure of market price risks by industry standards. The graph on page 24 depicting the development of "specific" risk also reflects the higher volatility on the bond markets.

	MAX	MIN	Mean	Limit
Q3 2010 (2009 values) 99%, 10-day holding period				
Aareal Bank Group – general market price risk	71.5 (76.0)	36.5 (39.4)	47.1 (62.2)	– (–)
Group VaR (interest rates)	67.5 (71.3)	30.6 (31.3)	42.0 (56.8)	– (–)
Group VaR (FX)	17.9 (23.1)	14.1 (15.1)	15.8 (20.6)	– (–)
VaR (funds)	11.9 (12.6)	6.0 (4.0)	8.0 (9.0)	60.0 (60.0)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (3.8)	0.0 (0.0)	0.0 (0.8)	20.0 (20.0)
Trading book VaR (interest rates)	0.0 (1.5)	0.0 (0.0)	0.0 (0.1)	– (–)
Trading book VaR (FX)	0.0 (0.1)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.6)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	108.6 (137.3)	71.4 (80.9)	92.0 (106.0)	– (–)
Aggregate VaR – Aareal Bank Group	116.3 (153.5)	85.4 (105.4)	104.9 (124.6)	181.0 (181.0)

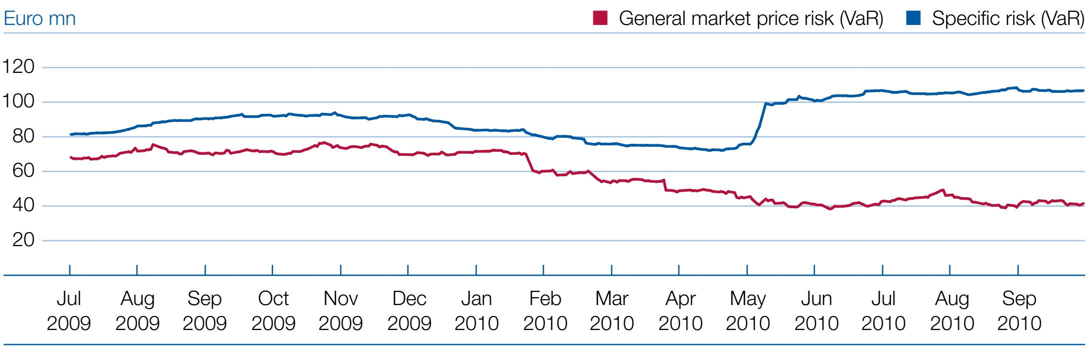
To ensure that Aareal Bank's figures are comparable to those published by other institutions, the risk parameters shown below were determined for a one-day holding period.

	MAX	MIN	Mean	Limit
Q3 2010 (2009 values) 99%, 1-day holding period				
Aareal Bank Group – general market price risk	22.6 (24.0)	11.5 (12.5)	14.9 (19.7)	– (–)
Group VaR (interest rates)	21.3 (22.6)	9.7 (9.9)	13.3 (18.0)	– (–)
Group VaR (FX)	5.7 (7.3)	4.5 (4.8)	5.0 (6.5)	– (–)
VaR (funds)	3.8 (4.0)	1.9 (1.3)	2.5 (2.8)	19.0 (19.0)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (1.2)	0.0 (0.0)	0.0 (0.3)	6.3 (6.3)
Trading book VaR (interest rates)	0.0 (0.5)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.2)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	34.3 (43.4)	22.6 (25.6)	29.1 (33.5)	– (–)
Aggregate VaR – Aareal Bank Group	36.8 (48.5)	27.0 (33.3)	33.2 (39.4)	57.2 (57.2)

Aggregate VaR – Aareal Bank Group

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

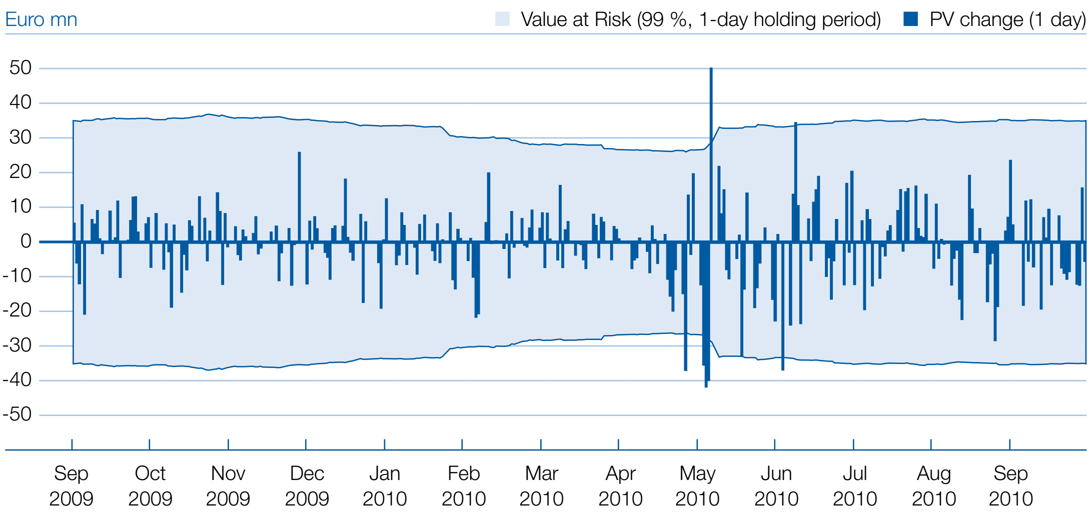
General market price risk and specific risk during 2009/2010



Backtesting

The quality of forecasts made using this statistical model is checked through a weekly backtesting process. The quality of the statistical procedure used to measure risk is checked using a binomial test, whereby daily profits and losses from market fluctuations are compared with the upper projected loss limit (VaR) forecast on the previous day (known as "clean backtesting"). In line with the selected confidence level of 95 %, only a small number of events are expected to break out of the VaR projection (≤5 for a 250-day period). The number of negative outliers at Group level never exceeded 5 during the last 250 trading days, affirming the high forecasting quality of the VaR model we use.

Present values and 1-day VaR during 2009/2010



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. No transactions were concluded in the trading book in the previous quarter.

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

Liquidity risks

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

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

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

Operational risks

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

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

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

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

Investment risks

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

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

Future Opportunities and Outlook

Macroeconomic and industry-specific environment

Global business environment

In view of the prevailing uncertainties regarding economic development, we believe that economic recovery will be a slow process in most of the industrialised nations. Uncertainty and burdening factors are currently being generated by the high level of unemployment in many countries, which is attributable to the fact that capacity utilisation remains low in most industrial companies, the result of which is that a significant portion of the recovery is due to the replenishment of inventories. This process should come to an end in the near future. Additionally, the high levels of government debt in many countries – created via savings programmes, tax increases and economic stimulus programmes that are now being phased out in many places – are impacting on overall economic demand. Furthermore, these high debt levels continue to fuel uncertainty on the financial markets. Although pressure in the financial markets has eased slightly, following the support programmes launched in May by the EU and by the IMF for euro zone countries, the high risk premiums on some countries' government bonds highlight the fact that normality has not been restored and that capital market prices remain affected by uncertainty and volatility.

Despite the burdening factors and uncertainties, we expect positive economic development this year and the next in the vast majority of countries, albeit only moderate. This should be supported on the one hand by monetary policy, which remains clearly expansive, and on the other hand by import demand from Asian countries that are enjoying dynamic economic growth. The present slowdown in economic growth in many countries can be currently interpreted as the result of the phasing out of temporary effects, such as the inventory cycle or economic programmes, rather than the onset of a double-dip recession for the global economy.

Economic development in Europe should vary greatly from region to region for the remainder of this year and the next. Greece, Ireland and Spain can expect negative growth rates for the full year 2010. With the exception of Greece, these countries also should return to slightly positive growth rates in 2011. In contrast, above-average growth by European standards is expected in Poland, Russia, Turkey, Sweden and Finland for this year and the next. Germany should also report above-average growth rates for 2010 as a whole. However, growth is expected to slow down next year. Signs of a slowdown in economic growth are becoming increasingly evident in North America, especially in the US. Nonetheless, it should remain positive. Dynamic growth in Asia is likely to continue, even though China's more restrictive economic policy and statistical effects suggest that 2011's growth rates will not be as high as in 2010. Japan's economic growth, on the other hand, should be more hesitant – along the lines of the economies of many European countries.

The trend on labour markets has recently been mostly stable. In view of the anticipated moderate economic growth, employment in many countries is expected to rise at a slow pace during the coming year.

Inflation rates have mainly been moderate since the start of the year, and are expected to stay that way for the remainder of this year and for 2011. This forecast is supported by the expected slow economic recovery as well as low capacity utilisation. Higher inflation rates are possible in some Eastern European countries, such as Russia, and in the Asian emerging market economies. Japan is likely to face slight deflation or stagnating prices.

With regard to developments in short-term and long-term interest rates, we are expecting only slight changes in the currencies in which we are active. However, we see a trend towards rising interest rates for the coming year.

Global commercial property markets

Many of the commercial property markets are currently defined by a stabilisation of rents as well as investors' yield requirements for first-class properties. In some cases, the yield requirements continue to fall slightly, resulting in positive price effects, whereas rents and prices for properties in peripheral locations (or of lesser quality) remain under pressure.

In view of the moderate economic growth expected, prevailing high levels of unemployment in many countries, and possible interest rate hikes next year, we have adopted a cautious stance in relation to further rental and price development. This should impact in particular on properties of lesser quality, or in peripheral locations. On the other hand, there is evidence of increased interest in rentals as well as for purchases of top-quality properties in prime locations on many markets. We believe that rental and price development will continue to stabilise for first-class properties. If economic growth remains positive next year, and provided the financial markets enjoy stability, moderate increases in value are possible in many countries. However, price developments on markets burdened by extremely weak or stagnating economic growth are likely to be less positive or even negative, including the segment for first-class properties.

Further developments on property markets will be influenced by the extent to which uncertain economic factors, such as low capacity utilisation in industrial companies, will dominate overall economic development. The future situation on the financial markets will be of particular importance to the performance of the property markets. Persistent distortions on financial markets could result in negative feedback on the property markets. The high volume of commercial property finance that will mature in the next few years represents another element of uncertainty. This could significantly increase the number of distressed sales. In contrast, persistently low new construction activity (as a consequence of the economic crisis) could have a positive effect on property rents and values, since the supply of modern new buildings is limited in many places.[1)]

Development of the German institutional housing industry

Stable cash flows and values define the German institutional housing industry. Owing to the largely reliable rental income, and the long-term financing structure that characterises most companies in the sector, we believe that the current stability will be sustainable.

Steady investment activity by the commercial housing enterprises is expected during the course of the year. Besides energetic modernisation, the focus will remain on adjusting existing property holdings, to meet the demand of changing living requirements. However, in view of the ongoing discussion about the applicable prerequisites for subsidised financing in the event that urban development funding is reduced, investment activity amongst commercial housing enterprises is likely to be impaired during 2011. In any case, the scope of investment projects will be driven by various trends in the regional housing markets.

Discernible overall economic recovery and predicted low new construction activity should lead to solid price development on the German residential property market. According to the latest forecasts, a moderate increase in property prices is expected for 2010 and 2011. The prices of apartments with simple specifications, centrally located in urban areas and university cities, are expected to rise above average in the future.

In turn, positive development on the residential property market should provide the market for portfolio transactions with a further boost. German institutional investors are keen on further increasing the share of residential properties in their portfolios.

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

If high investor demand for residential property in economically-strong regions meets with limited supply, portfolio trading could extend to other locations and therefore to another segment where opportunities present themselves. All in all, the transaction figures for the full year 2010 are likely to exceed the rather low volume of the previous year.

Corporate development

Structured Property Financing

For 2010's final quarter, we expect a trend towards further stabilisation in many markets, especially in prime locations. Although we expect the pressure in some markets to weaken further, it will continue to have a notable effect on the market values for commercial property. Further reductions in property returns might be expected in some sub-markets, which could lead to a slight increase in the average loan-to-value ratios on the loans we have extended. We will continue to focus on the consistent management of our credit portfolio. Thanks to our active portfolio management and broad diversification by region and property type, we expect to continue to maintain allowance for credit losses at a manageable level, even in this challenging environment.

Prevailing economic conditions in 2010 suggest that the repayment ratio will remain at a low level.

Similarly, and taking 2010 as a whole, we do not expect much improvement in the framework for the placement of credit risks through securitisation and syndication over 2009's level of activity.

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

Our three-continent strategy has defined the regional distribution in the property financing portfolio so far during 2010, and will continue to do so for the remainder of the year.

Consulting / Services

Aareon

The response to the new Wodis Sigma product generation has been very positive since its market launch in 2009. The number of client contracts for the Wodis Sigma ERP system, which is based on new technology, has increased substantially. We expect Wodis Sigma Release 2.0 (with additional functionality), which will be presented at the Wodis Forum event to be held in Bochum in November, will contribute significantly to this success. Furthermore, we expect the market share of the established GES system to remain largely stable this year.

After the end of the third quarter, despite initial signs of a slight economic recovery for the remainder of the year, we expect a still-cautious propensity for SAP®-based investments in the property management sector. This assumption has been affirmed by the low number of large-sized tender processes since the beginning of the year. On the other hand, the interest in individual advisory solutions has been positive.

During 2010 we also continue to expect positive performance from the integrated services that are networked with the ERP products. This applied in particular to the Mareon service portal, the document management system Aareon DMS, and the insurance solution BauSecura.

All in all, we expect Aareon to post a result that exceeds the same period of the previous year.

Payments and deposit-taking

The process optimisation procedures for electronic mass payment services (BK 01 products) offered by the bank's Institutional Housing Unit will continue to generate very stable deposits for the bank's refinancing activities.

We were able to slightly increase deposit volumes, despite massive competition on terms. We rate this as a sign of the confidence that our clients place in the bank. We expect the positive trend to continue for the remainder of 2010, especially in the area of deposits paid by tenants. However, given the ongoing low interest rate environment, we expect margins to continue to remain under pressure for the remainder of the year. In light of the positive performance in successfully acquiring new clients (and retaining existing ones) achieved throughout the first nine months of the year, we see good opportunities for achieving similar successes in 2010, too.

This also applies to our payments services for the energy sector. Our "BK 01 immoconnect" product, which offers benefits to the institutional housing industry as well as to the energy sector, has met with good market response.

Group targets

The positive business development, which has exceeded our expectations, will allow us to raise our forecast for the 2010 financial year.

Owing to the positive development in net interest income in the course of the year to date, we believe we can exceed the upper end of our original target corridor of between € 460 and € 480 million. Low interest rates which have persisted for longer than anticipated will continue to depress margins generated on deposits from the institutional housing industry. However, this development will be offset especially by higher margins generated in the lending business.

The commercial property financing business environment remains challenging. As we see it, allowance for credit losses (recognised in income) will continue to range between € 117 million and € 165 million. However, based on the developments of the first nine months, we assume that allowance for credit losses will be within the lower half of the range. The exact figure depends especially on the utilisation of the additional allowance for credit losses, which was increased from € 34 million to € 48 million in the 2009 financial year. Given the market environment, we cannot entirely rule out additional allowances for unexpected credit losses. However, from today's perspective, we view this as a more unlikely scenario.

The utilisation of the remaining tranche of the guarantee facility provided by SoFFin, announced at the end of June as a precautionary measure, should lead to a corresponding decline in the net commission result for the full year 2010, compared with the previous year. While this decline burdens the net commission result, and therefore operating profit, the relief on income due to the early partial repayment of the silent participation (which virtually offsets the higher fees) is not reported in operating profit, but in the appropriation of profits.

Net trading income / expenses essentially comprises the results of hedge transactions related to refinancing our core business, predominantly currency and interest rate hedges. The item also includes realised and unrealised changes in value from the sale of hedging instruments for selected EU government bonds, so-called credit default swaps (CDS). Furthermore, the costs for our outstanding securitisation transactions are included in net trading income/expenses. We only engage in traditional own-account trading to a very limited extent. In our opinion, the valuation of hedging transactions will remain subject to the same high volatility as in the last two years, especially in the current environment. As a result, it is impossible to forecast net trading income / expenses for 2010.

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

Administrative expenses continue to be defined by the unchanged cost discipline, and are thus expected to remain unchanged from 2009 levels. Our objective for 2010 full-year operating income to exceed the 2009 result has already been achieved after nine months. Although the market environment remains subject to uncertainty, we are confident of our ability to post a solid profit again in the fourth quarter and therefore increase the operating result even further at year-end.

New business generated in the Structured Property Financing segment is currently expected at the upper end of the forecasted range of between € 4 billion and € 5 billion in 2010. The increase in the volume of new business will further reduce the share of loan renewals relative to new business.

In the Consulting / Services segment, Aareon continues to develop on schedule, whereas the low interest rate environment which persisted for longer than anticipated burdens profitability in the deposit-taking business.

Consolidated Financial Statements
Statement of Comprehensive Income[1)]

Income Statement

	Note	1 Jan-30 Sep 2010	1 Jan-30 Sep 2009
Euro mn			
Interest income		653	951
Interest expenses		283	606
Net interest income	1	**370**	**345**
Allowance for credit losses	2	97	115
Net interest income after allowance for credit losses		**273**	**230**
Commission income		131	133
Commission expenses		45	39
Net commission income	3	**86**	**94**
Net result on hedge accounting		2	-3
Net trading income/expenses	4	-5	41
Results from non-trading assets	5	11	-19
Results from investments accounted for using the equity method	6	5	–
Results from investment properties		0	1
Administrative expenses	7	271	278
Net other operating income/expenses	8	-7	-2
Impairment of goodwill		0	0
Operating profit		**94**	**64**
Income taxes		29	15
Net income/loss		**65**	**49**
Allocation of results			
Net income/loss attributable to non-controlling interests		14	13
Net income/loss attributable to shareholders of Aareal Bank AG		51	36
Appropriation of profits			
Net income/loss attributable to shareholders of Aareal Bank AG		51	36
Silent participation by SoFFin		24	18
Consolidated profit/loss		**27**	**18**
Euro			
Earnings per share		**1.19**	**0.84**
Diluted earnings per share		**1.19**	**0.84**

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.

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

Statement of Comprehensive Income

Reconciliation from Net Income/Loss to Total Comprehensive Income

Euro mn	Note	1 Jan-30 Sep 2010	1 Jan-30 Sep 2009
Net income/loss		**65**	**49**
Changes in revaluation surplus	9	-6	69
Changes in hedging reserves	9	0	0
Changes in currency translation reserves	9	0	1
Changes in reserves from transactions under common control	9	0	10
Others	9	–	-4
Profit/loss directly recognised in equity (after taxes)		**-6**	**76**
Total comprehensive income		**59**	**125**
Allocation of total comprehensive income			
Total comprehensive income attributable to non-controlling interests		14	13
Total comprehensive income attributable to shareholders of Aareal Bank AG		45	112

Statement of Comprehensive Income

Income Statement (Quarterly Development)

Euro mn	Quarter 3 2010	Quarter 2 2010	Quarter 1 2010	Quarter 4 2009	Quarter 3 2009
Interest income	231	215	207	209	262
Interest expenses	100	93	90	94	150
Net interest income	**131**	**122**	**117**	**115**	**112**
Allowance for credit losses	32	33	32	35	36
Net interest income after allowance for credit losses	**99**	**89**	**85**	**80**	**76**
Commission income	42	44	45	55	42
Commission expenses	18	12	15	16	14
Net commission income	**24**	**32**	**30**	**39**	**28**
Net result on hedge accounting	-2	2	2	1	-4
Net trading income/expenses	2	-13	6	3	18
Results from non-trading assets	-3	14	0	-3	-3
Results from investments accounted for using the equity method	0	5	–	1	–
Results from investment properties	0	0	0	-1	1
Administrative expenses	88	92	91	83	92
Net other operating income/expenses	1	-6	-2	-12	-3
Impairment of goodwill	–	0	0	2	0
Operating profit	**33**	**31**	**30**	**23**	**21**
Income taxes	11	9	9	5	5
Net income/loss	**22**	**22**	**21**	**18**	**16**
Allocation of results					
Net income/loss attributable to non-controlling interests	5	4	5	5	4
Net income/loss attributable to shareholders of Aareal Bank AG	17	18	16	13	12

Statement of Comprehensive Income

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

Euro mn	Quarter 3 2010	Quarter 2 2010	Quarter 1 2010	Quarter 4 2009	Quarter 3 2009
Net income/loss	**22**	**22**	**21**	**18**	**16**
Changes in revaluation surplus	19	-43	18	6	52
Changes in hedging reserves	–	0	0	0	0
Changes in currency translation reserves	-2	2	0	-2	1
Changes in reserves from transactions under common control	0	0	–	-1	8
Others	–	–	–	–	–
Profit/loss directly recognised in equity (after taxes)	**17**	**-41**	**18**	**3**	**61**
Total comprehensive income	**39**	**-19**	**39**	**21**	**77**
Allocation of total comprehensive income					
Total comprehensive income attributable to non-controlling interests	5	4	5	5	4
Total comprehensive income attributable to shareholders of Aareal Bank AG	34	-23	34	16	73

Segment Reporting[1)]

Segment Results

	Structured Property Financing		Consulting/Services		Consolidation/Reconciliation		Aareal Bank Group	
	1 Jan-30 Sep 2010	1 Jan-30 Sep 2009	1 Jan-30 Sep 2010	1 Jan-30 Sep 2009	1 Jan-30 Sep 2010	1 Jan-30 Sep 2009	1 Jan-30 Sep 2010	1 Jan-30 Sep 2009
Euro mn								
Net interest income	338	307	0	0	32	38	370	345
Allowance for credit losses	97	115					97	115
Net interest income after allowance for credit losses	**241**	**192**	**0**	**0**	**32**	**38**	**273**	**230**
Net commission income	-8	-1	127	134	-33	-39	86	94
Net result on hedge accounting	2	-3					2	-3
Net trading income/expenses	-5	41					-5	41
Results from non-trading assets	10	-19	1	0			11	-19
Results from investments accounted for using the equity method	5						5	
Results from investment properties	0	1					0	1
Administrative expenses	161	159	112	121	-2	-2	271	278
Net other operating income/expenses	-7	-2	1	1	-1	-1	-7	-2
Impairment of goodwill	0			0			0	0
Operating profit	**77**	**50**	**17**	**14**	**0**	**0**	**94**	**64**
Income taxes	24	10	5	5			29	15
Net income/loss	**53**	**40**	**12**	**9**	**0**	**0**	**65**	**49**
Allocation of results								
Net income/loss attributable to non-controlling interests	12	12	2	1			14	13
Net income/loss attributable to shareholders of Aareal Bank AG	41	28	10	8	0	0	51	36
Allocated equity	1,399	1,251	75	63	409	354	1,883	1,668
Cost/income ratio (%)	47.9	49.0	86.8	89.4			58.6	60.7
RoE after taxes (%)	4.0	3.0	17.1	15.9			3.6	2.9
Employees (average)	**936**	**999**	**1,321**	**1,406**			**2,257**	**2,405**

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

Segment Reporting

Segment Results (Quarterly Development)

Euro mn	Structured Property Financing Q3 2010	Structured Property Financing Q3 2009	Consulting/Services Q3 2010	Consulting/Services Q3 2009	Consolidation/Reconciliation Q3 2010	Consolidation/Reconciliation Q3 2009	Aareal Bank Group Q3 2010	Aareal Bank Group Q3 2009
Net interest income	121	99	0	0	10	13	131	112
Allowance for credit losses	32	36					32	36
Net interest income after allowance for credit losses	**89**	**63**	**0**	**0**	**10**	**13**	**99**	**76**
Net commission income	-5	-3	39	44	-10	-13	24	28
Net result on hedge accounting	-2	-4					-2	-4
Net trading income/expenses	2	18					2	18
Results from non-trading assets	-4	-3	1	0			-3	-3
Results from investments accounted for using the equity method	0						0	
Results from investment properties	0	1					0	1
Administrative expenses	54	53	35	39	-1	0	88	92
Net other operating income/expenses	2	-4	0	1	-1	0	1	-3
Impairment of goodwill				0				0
Operating profit	**28**	**15**	**5**	**6**	**0**	**0**	**33**	**21**
Income taxes	10	3	1	2			11	5
Net income/loss	**18**	**12**	**4**	**4**	**0**	**0**	**22**	**16**
Allocation of results								
Net income/loss attributable to non-controlling interests	4	4	1	0			5	4
Net income/loss attributable to shareholders of Aareal Bank AG	14	8	3	4	0	0	17	12
Allocated equity	1,399	1,251	75	63	409	354	1,883	1,668
Cost/income ratio (%)	47.2	51.1	87.4	85.1			57.8	61.1
RoE after taxes (%)	4.1	2.7	16.3	22.6			3.7	3.0

Segment Reporting

Consulting / Services Segment – Reconciliation of Income Statement

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

Euro mn			Income statement classification – bank									
			Net interest income	Net commission income	Results from non-trading assets	Results from investments accounted for using the equity method	Administrative expenses	Net other operating income / expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	Q3 2010		0	39	1		35	0		**5**	1	**4**
	Q3 2009		0	44	0		39	1	**0**	**6**	2	**4**
Income statement classification – industrial enterprise												
Sales revenue	Q3 2010	45		45								
	Q3 2009	50		50								
Own work capitalised	Q3 2010	0					0					
	Q3 2009	0					0					
Changes in inventory	Q3 2010	0						0				
	Q3 2009	0						0				
Other operating income	Q3 2010	3			1			2				
	Q3 2009	3			0		0	3				
Cost of materials purchased	Q3 2010	6		6								
	Q3 2009	6		6								
Staff expenses	Q3 2010	22					22					
	Q3 2009	25					25					
Depreciation, amortisation and impairment losses	Q3 2010	3					3					
	Q3 2009	4					4		0			
Results from investments accounted for using the equity method	Q3 2010											
	Q3 2009											
Other operating expenses	Q3 2010	12			0		10	2				
	Q3 2009	12					10	2				
Interest and similar income / expenses	Q3 2010	0	0									
	Q3 2009	0	0									
Operating profit	**Q3 2010**	**5**	**0**	**39**	**1**		**35**	**0**				
	Q3 2009	**6**	**0**	**44**	**0**		**39**	**1**	**0**			
Income taxes	Q3 2010	1									1	
	Q3 2009	2									2	
Segment result	**Q3 2010**	**4**										
	Q3 2009	**4**										

Statement of Financial Position

Euro mn	Note	30 Sep 2010	31 Dec 2009
Assets			
Cash funds		576	990
Loans and advances to banks	10	2,664	801
Loans and advances to customers	11	23,933	23,459
Allowance for credit losses		-356	-283
Positive market value of derivative hedging instruments		1,919	1,244
Trading assets	12	614	689
Non-current assets held for sale and discontinued operations		–	8
Non-trading assets	13	12,548	11,929
Investments accounted for using the equity method		3	3
Investment properties		107	103
Intangible assets	14	71	78
Property and equipment	15	95	99
Income tax assets		28	47
Deferred tax assets		105	121
Other assets	16	224	281
Total		**42,531**	**39,569**
Equity and liabilities			
Liabilities to banks	17	6,015	5,083
Liabilities to customers	18	22,917	21,361
Certificated liabilities	19	7,587	7,862
Negative market value of derivative hedging instruments		1,673	940
Trading liabilities	20	623	490
Provisions	21	239	256
Income tax liabilities		10	10
Deferred tax liabilities		61	70
Other liabilities	22	168	151
Subordinated equity	23	1,290	1,269
Equity	24, 25		
Subscribed capital		128	128
Capital reserves		511	511
Retained earnings		807	780
Other reserves		-116	-110
Silent participation by SoFFin		375	525
Non-controlling interest		243	243
Total equity		1,948	2,077
Total		**42,531**	**39,569**

Statement of Changes in Equity[1)]

Euro mn	Subscribed capital	Capital reserves	Retained earnings	Other reserves: Reserves from transactions under common control	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Reserves from currency translation	Silent participation by SoFFin	Total	Non-controlling interest	Total equity
Equity as at 1 Jan 2010	**128**	**511**	**780**	**1**	**-112**	**0**	**1**	**525**	**1,834**	**243**	**2,077**
Total comprehensive income for the period			51	0	-6	0	0		45	14	59
Capital increase											
Capital reduction											
Payments to non-controlling interests										-14	-14
Dividends											
Silent participation by SoFFin								-150	-150		-150
Costs associated with silent participation by SoFFin			-24						-24		-24
Other changes											
Equity as at 30 Sep 2010	**128**	**511**	**807**	**1**	**-118**	**–**	**1**	**375**	**1,705**	**243**	**1,948**

Euro mn	Subscribed capital	Capital reserves	Retained earnings	Other reserves: Reserves from transactions under common control	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Reserves from currency translation	Silent participation by SoFFin	Total	Non-controlling interest	Total equity
Equity as at 1 Jan 2009	**128**	**511**	**738**	**-8**	**-184**	**-1**	**1**		**1,185**	**244**	**1,429**
Adjustments to comparative figures			24		-3	1	1		23		23
Equity as at 1 Jan 2009 (adjusted)	**128**	**511**	**762**	**-8**	**-187**	**0**	**2**		**1,208**	**244**	**1,452**
Total comprehensive income for the period			32	10	69	0	1		112	13	125
Capital increase											
Capital reduction											
Payments to non-controlling interests										-13	-13
Dividends											
Silent participation by SoFFin								525	525		525
Costs associated with silent participation by SoFFin			-18						-18		-18
Other changes			-10						-10		-10
Equity as at 30 Sep 2009 (adjusted)	**128**	**511**	**766**	**2**	**-118**	**0**	**3**	**525**	**1,817**	**244**	**2,061**

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

Statement of Cash Flows (condensed)

Euro mn	2010	2009
Cash and cash equivalents as at 1 January	**990**	**693**
Cash flow from operating activities	175	842
Cash flow from investing activities	-610	-859
Cash flow from financing activities	21	-1
Total cash flow	**-414**	**-18**
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 30 September	**576**	**675**

Notes to the Consolidated Financial Statements (condensed)

Basis of Accounting

Legal Framework

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

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

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

Scope of consolidation

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

On 29 April 2010, Aareal Bank France S.A. was merged into Aareal Bank AG, with retrospective effect from 1 January 2010. Until the date of the merger, Aareal Bank France S.A. had been a subsidiary of Aareal Bank AG.

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

Accounting policies

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

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

- IFRIC 12 Service Concession Arrangements
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- Amendments to IAS 27 Consolidated and Separate Financial Statements
- Revised IFRS 3 Business Combinations

- IFRIC 15 Agreements for the Construction of Real Estate
- Amendment to IAS 39 Reclassification of Financial Assets: Effective Date and Transition
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items
- Revised IFRS 1: First Time Adoption of IFRS
- IFRIC 17 Distribution of Non-Cash Assets to Owners
- Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions
- Improvements to IFRSs (issued by the IASB in April 2009)
- Amendments to IFRS 1 Additional Exemptions for First-time Adopters

Until 30 September 2010, the following financial reporting standards (IASs/IFRSs) and interpretations (SICs and IFRICs), as well as any amendments to existing financial reporting standards and interpretations, were published by the International Accounting Standards Board (IASB) and adopted by the EU Commission:

- Amendment to IAS 32 Financial Instruments: Presentation: Classification of Rights Issues
- Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time adopters IFRS 7
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement
- Revised IAS 24 Related Party Disclosures
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Aareal Bank Group has not exercised the option for early adoption of any new or amended financial reporting standards or interpretations. The new and revised standards and interpretations do not have any material consequences for the consolidated financial statements of Aareal Bank Group.

Notes to the Statement of Comprehensive Income[1)]

(1) Net interest income

Euro mn	1 Jan-30 Sep 2010	1 Jan-30 Sep 2009
Interest income from		
Property loans	415	537
Public-sector loans	18	41
Other lending and money market operations	80	158
Fixed-income securities and debt register claims	139	214
Current dividend income	1	1
Total interest income	**653**	**951**
Interest expenses for		
Bonds issued	65	127
Registered mortgage bonds	31	160
Borrowed funds	83	73
Subordinated equity	20	32
Term deposits	60	180
Payable on demand	17	27
Other banking transactions	7	7
Total interest expenses	**283**	**606**
Total	**370**	**345**

(2) Allowance for credit losses

The allowance for credit losses amounted to € 97 million during the first nine months of the financial year 2010 (previous year: € 115 million).

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

(3) Net commission income

Euro mn	1 Jan-30 Sep 2010	1 Jan-30 Sep 2009
Commission income from		
Consulting and other services	105	108
Trustee loans and administered loans	4	4
Securities transactions	1	2
Securitisation transactions	1	1
Other lending and money market operations	12	10
Other commission income	8	8
Total commission income	**131**	**133**
Commission expenses for		
Consulting and other services	16	20
Securities transactions	21	12
Securitisation transactions	2	3
Other lending and money market operations	1	1
Other commission expenses	5	3
Total commission expenses	**45**	**39**
Total	**86**	**94**

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

Commission expenses for securities transactions include expenses of € 20 million (previous year: € 11 million) for the guarantee facility extended by the German Financial Markets Stabilisation Fund (SoFFin) at the end of March 2009. These costs include additional expenses for the precautionary utilisation of the remaining € 2 billion tranche of the guarantee facility provided by SoFFin, as announced at the end of June, which were incurred during the third quarter for the first time.

(4) Net trading income/expenses

Euro mn	1 Jan-30 Sep 2010	1 Jan-30 Sep 2009
Results from derivative financial instruments	-2	43
Currency translation	-3	-4
Net income/expenses from other positions held for trading	0	2
Total	**-5**	**41**

Net trading income / expenses largely resulted from the valuation of trading derivatives used to hedge interest rate and currency risk, and from realised and unrealised changes in value from sold hedging instruments on selected EU sovereign countries.

(5) Results from non-trading assets

Euro mn	1 Jan-30 Sep 2010	1 Jan-30 Sep 2009
Result from debt securities and other fixed-income securities	14	-2
of which: Loans and receivables	6	1
Available for sale	8	-3
Result from equities and other non-fixed income securities	-2	-18
of which: Available for sale	-3	-18
Designated as at fair value through profit or loss	1	0
Results from equity investments (AfS)	-1	1
Total	**11**	**-19**

The positive results from non-trading assets are mainly attributable to sales of fixed-income securities made in the second quarter.

(6) Results from investments accounted for using the equity method

The results from investments accounted for using the equity method amounting to € 5 million (previous year: € 0 million) was almost exclusively attributable to a further distribution by Deutsche Interhotel Holding GmbH & Co. KG.

(7) Administrative expenses

Euro mn	1 Jan-30 Sep 2010	1 Jan-30 Sep 2009
Staff expenses	161	170
Other administrative expenses	94	89
Depreciation, amortisation and impairment of property and equipment and intangible assets	16	19
Total	**271**	**278**

(8) Net other operating income/expenses

Euro mn	1 Jan-30 Sep 2010	1 Jan-30 Sep 2009
Income from properties	6	1
Income from the reversal of provisions	7	3
Income from goods and services	3	0
Miscellaneous	11	11
Total other operating income	**27**	**15**
Expenses for property	10	1
Expenses for services used	0	0
Write-downs of trade receivables	0	0
Expenses for other taxes	1	1
Miscellaneous	23	15
Total other operating expenses	**34**	**17**
Total	**-7**	**-2**

Miscellaneous other operating expenses included, among other things, project-related costs and provisions for subsidiaries.

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

Euro mn	1 Jan-30 Sep 2010	1 Jan-30 Sep 2009
Net income/loss	**65**	**49**
Changes in revaluation surplus, after taxes	**-6**	**69**
Gains and losses on remeasuring available-for-sale financial instruments, before taxes	-14	83
Reclassifications to the income statement, before taxes	11	9
Taxes	-3	-23
Changes in hedging reserves, after taxes	**0**	**0**
Profit/loss from derivatives used to hedge future cash flows (before taxes)	0	0
Reclassifications to the income statement, before taxes	–	–
Taxes	0	0
Changes in currency translation reserves, after taxes	**0**	**1**
Profit/loss from translating foreign operations' financial statements (before taxes)	0	1
Reclassifications to the income statement, before taxes	0	–
Taxes	–	–
Changes in reserves from transactions under common control, after taxes	**0**	**10**
Gains and losses from transactions under common control, before taxes	0	10
Reclassifications to the income statement, before taxes	–	–
Taxes	–	–
Other changes (after taxes)	**–**	**-4**
Other changes (before taxes)	–	-6
Taxes	–	2
Profit/loss directly recognised in equity (after taxes)	**-6**	**76**
Total comprehensive income	**59**	**125**

Notes to the Statement of Financial Position

(10) Loans and advances to banks

Euro mn	30 Sep 2010	31 Dec 2009
Term deposits and current account balances	1,348	521
Public-sector loans	217	234
Receivables from securities repurchase transactions	1,032	–
Other loans and advances	67	46
Total	**2,664**	**801**

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

(11) Loans and advances to customers

Euro mn	30 Sep 2010	31 Dec 2009
Property loans	21,687	21,288
Public-sector loans	1,747	1,717
Other loans and advances	499	454
Total	**23,933**	**23,459**

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

(12) Trading assets

Euro mn	30 Sep 2010	31 Dec 2009
Debt and other fixed-income securities	2	1
Positive market value of trading derivatives	612	688
Other assets held for trading	–	–
Total	**614**	**689**

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

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

(13) Non-trading assets

Euro mn	30 Sep 2010	31 Dec 2009
Debt and other fixed-income securities	12,142	11,817
of which: Loans and receivables (LaR)	6,930	7,039
Held to maturity (HtM)	555	412
Available for sale (AfS)	4,657	4,366
Equities and other non-fixed-income securities	404	108
of which: Available for sale (AfS)	399	98
Designated as at fair value through profit or loss (dFVtPL)	5	10
Interests in affiliated companies (AfS)	0	–
Other investments (AfS)	2	4
Total	**12,548**	**11,929**

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

Reclassified financial assets

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

Euro mn	Carrying amount of reclassified financial asset 30 Sep 2010	Carrying amount of reclassified financial assets 31 Dec 2009	Fair value of reclassified financial assets 30 Sep 2010	Fair value of reclassified financial assets 31 Dec 2009
from AfS to LaR	**6,007**	**5,729**	**5,769**	**5,706**
Asset-backed securities	31	50	30	46
Bank bonds	1,260	1,234	1,276	1,260
Covered bonds	702	673	680	676
Government bonds	4,014	3,772	3,783	3,724
from HfT to LaR	**409**	**455**	**370**	**410**
Asset-backed securities	403	449	363	403
Government bonds	6	6	7	7
Total	**6,416**	**6,184**	**6,139**	**6,116**

If the bank had not opted for reclassification, this would have resulted in a € 6 million profit (before tax) for the first nine months of the current financial year (previous year: € -22 million), and € -113 million (after tax) (previous year: € 108 million) would have been recognised in the revaluation surplus.

(14) Intangible assets

Euro mn	30 Sep 2010	31 Dec 2009
Goodwill	37	37
Proprietary software	23	28
Other intangible assets	11	13
Total	**71**	**78**

(15) Property and equipment

Euro mn	30 Sep 2010	31 Dec 2009
Land and buildings and construction in progress	79	78
Office furniture and equipment	16	21
Total	**95**	**99**

(16) Other assets

Euro mn	30 Sep 2010	31 Dec 2009
Properties	121	160
Trade receivables (LaR)	23	26
Miscellaneous	80	95
Total	**224**	**281**

(17) Liabilities to banks

Euro mn	30 Sep 2010	31 Dec 2009
Payable on demand	750	509
Term deposits	261	247
Promissory note loans borrowed	679	595
Liabilities from securities repurchase transactions and open-market operations	4,036	3,236
Registered mortgage bonds	225	211
Miscellaneous	64	285
Total	**6,015**	**5,083**

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

(18) Liabilities to customers

Euro mn	30 Sep 2010	31 Dec 2009
Payable on demand	3,537	3,543
Term deposits	5,118	4,523
Promissory note loans borrowed	8,555	8,518
Registered mortgage bonds	5,706	4,776
Miscellaneous	1	1
Total	**22,917**	**21,361**

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

(19) Certificated liabilities

Euro mn	30 Sep 2010	31 Dec 2009
Medium-term notes	1,178	1,791
Bearer mortgage bonds	4,116	3,745
Other debt securities	2,293	2,326
Total	**7,587**	**7,862**

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

(20) Trading liabilities

Euro mn	30 Sep 2010	31 Dec 2009
Negative market value from trading derivatives	623	490
Other liabilities held for trading	–	–
Total	**623**	**490**

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

(21) Provisions

Euro mn	30 Sep 2010	31 Dec 2009
Provisions for pensions and similar obligations	120	117
Other provisions	119	139
Total	**239**	**256**

(22) Other liabilities

Euro mn	30 Sep 2010	31 Dec 2009
Liabilities from outstanding invoices	4	10
Deferred income	5	6
Liabilities from other taxes	13	15
Trade payables (LaC)	6	10
Other liabilities (LaC)	140	110
Total	**168**	**151**

(23) Subordinated equity

Euro mn	30 Sep 2010	31 Dec 2009
Subordinated liabilities	579	559
Profit-participation certificates	486	482
Contributions by silent partners [1)]	225	228
Total	**1,290**	**1,269**

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

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

(24) Equity

Euro mn	30 Sep 2010	31 Dec 2009
Subscribed capital	128	128
Capital reserves	511	511
Retained earnings	807	780
Other reserves		
Reserves from transactions under common control	1	1
Revaluation surplus	-118	-112
Hedging reserves	–	0
Currency translation reserves	1	1
Silent participation by SoFFin	375	525
Non-controlling interest	243	243
Total	**1,948**	**2,077**

On 31 March 2009, the German Financial Markets Stabilisation Fund (SoFFin) provided the € 525 million silent participation to Aareal Bank, agreed upon as part of the package of support measures on 15 February 2009. The perpetual silent participation bears interest at 9 % p.a.; in the statement of financial position, it is shown as a separate line item under equity. The costs associated with this silent participation are reduced by the related income tax benefits, and directly offset with equity.

On 16 July 2010, Aareal Bank AG made the first partial repayment in the amount of € 150 million related to the silent participation provided by SoFFin.

(25) Treasury shares

No treasury shares were held during the period under review.

(26) Dividends

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

Other notes

(27) Contingent liabilities and irrevocable loan commitments

Euro mn	30 Sep 2010	31 Dec 2009
Contingent liabilities on guarantees and indemnity agreements	327	323
Loan commitments	1,799	1,970
of which: irrevocable	1,311	1,486

(28) Employees

	1 Jan-30 Sep 2010	1 Jan-31 Dec 2009
Number of employees in the banking business	1,032	1,062
Number of employees in other businesses	1,225	1,321
Total	**2,257**	**2,383**
of which: Part-time employees	363	369

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

(29) Related party transactions

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

(30) Events after the interim reporting period

Aareon AG acquired 100 % of the capital of SG Automatisering B.V., effective 1 November 2010.

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 (until 19 May 2010)
Aareal Bank AG

Thomas Hawel [6)], Saulheim
Aareon Deutschland GmbH

Dieter Kirsch [3) 6)], Nackenheim (since 19 May 2010)
Aareal Bank AG

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

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

Prof Dr Stephan Schüller [1) 2)], Hamburg
Spokesman of the General Partners of
Bankhaus Lampe KG

Wolf R. Thiel [1)], Stutensee
President and Chairman of the
Management Board of Versorgungsanstalt
des Bundes und der Länder

Helmut Wagner [6)], Hahnheim
Aareon Deutschland GmbH

Management Board

Dr Wolf Schumacher
Chairman of the Management Board

Norbert Kickum (until 31 October 2010)
Member of the Management Board

Hermann Josef Merkens
Member of the Management Board

Thomas Ortmanns
Member of the Management Board

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

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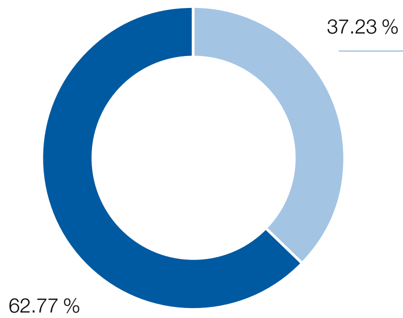
Shareholder Structure | Financial Calendar

Shareholder Structure

■ Free float ■ Aareal Holding Verwaltungsgesellschaft mbH [1]



8.94 %	Bayerische Beamten-Lebensversicherung a.G.
8.94 %	Swiss Life AG
6.68 %	Versorgungsanstalt des Bundes und der Länder
6.06 %	August Oetker KG
3.41 %	Deutscher Ring Lebensversicherungs-AG and Deutscher Ring Sachversicherungs-AG (Baloise Group) [2]
1.84 %	Deutscher Ring Krankenversicherungsverein a.G. (Signal Iduna Group) [2]
1.36 %	Condor-Lebensversicherungs Aktiengesellschaft (R+V Versicherungsgruppe)

[1] Aareal Holding Verwaltungsgesellschaft mbH continues to hold a share of 37.23 % in Aareal Bank AG.
[2] Information given on a separate basis due to de-merger of Deutsche Ring Group.

Financial Calendar

31 March 2011	Presentation of annual report as at 31 December 2010
18 May 2011	Annual General Meeting – Kurhaus, 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:** Berlin, Wiesbaden

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

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11/2010

Aareal Bank Group