LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

2011

360°

Aareal Bank Group – Annual Report 2011

Aareal Bank Group

KEY GROUP FIGURES

	01 Jan - 31 Dec 2011	01 Jan - 31 Dec 2010	Change	
	€ mn	€ mn	€ mn	
Income Statement				
Operating profit	185	134	51	
Net income/loss after non-controlling interests	114	76	38	
Indicators				
Cost/income ratio (%) [1]	43.9	50.4		
Earnings per share (€)	2.11	1.78		
RoE before taxes (%)	8.3	6.1		
RoE after taxes (%)	5.7	4.0		

	31 Dec 2011	31 Dec 2010	Change	Change
	€ mn	€ mn	€ mn	%
Portfolio Data				
Property financing	23,986	22,884	1,102	5
of which: international	20,425	19,195	1,230	6
Property financing under management [2]	24,239	23,251	988	4
of which: international	20,425	19,195	1,230	6
Equity	2,169	1,985	184	9
Total assets	41,814	41,217	597	1
	%	%		
Regulatory Indicators				
Tier 1 ratio pursuant to AIRBA [3]	16.3 [4]	12.9		
Total capital ratio pursuant to AIRBA [3]	19.5 [4]	16.5		

	31 Dec 2011	31 Dec 2010		
Ratings				
Fitch Ratings, London				
Long-term	A-	A-		
Short-term	F1	F1		

[1] Structured Property Financing segment only
[2] The figures for property financing under management include property loans managed on behalf of Deutsche Pfandbriefbank AG
[3] Advanced Internal Ratings-Based Approach
[4] After confirmation of Aareal Bank AG's financial statements 2011. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2011 is subject to approval by the Annual General Meeting.

OUR BUSINESS MODEL: TWO STRONG PILLARS

In the Structured Property Financing segment, we finance commercial property – particularly offices, shopping centres, logistics properties and hotels. We facilitate property projects for our domestic and international clients within the framework of a three-continent strategy covering Europe, North America and Asia. In this context, our particular strength lies in the success we have in combining local market expertise and sector-specific know-how.

In the Consulting/Services segment, Germany is our core market; we are also active in several European countries. The segment offers a wide range of services to the German institutional housing industry – specifically, IT systems and related consultancy services, combined with integrated payments systems, as well as a comprehensive range of services for managing property portfolios.

360° OVERVIEW

EXPERTISE TO MEET HIGH CLIENT REQUIREMENTS

Aareal Bank is one of Europe's leading hotel financing providers. In 2011, the bank once again affirmed its expertise and ability to perform in this sector.

TWO STRONG PILLARS

Our business model, founded on the two segments of Structured Property Financing and Consulting/Services, has not only proven itself to be resilient in the past. It is also well-equipped to deal with future challenges.

AN INDUSTRY IN TRANSITION

Why property banks continue to play a key role after the financial markets crisis.

SOLID INVESTMENT OPPORTUNITIES

Fixed-income investors respect Aareal Bank as a successful issuer with a high level of capital market expertise, a sound balance sheet structure and a forward-looking business strategy.

A SPECIALIST FOR PAYMENT TRANSACTIONS

As a specialist for the entire range of services associated with payments settlement and investment management, Aareal Bank has been the preferred partner of the German institutional housing industry and property sector for more than 50 years.

OFFICES FOR AN INCREASINGLY MOBILE WORK ENVIRONMENT

To keep their occupants satisfied for the long term, offices need to reflect future trends today.

PROFESSIONAL DEVELOPMENT – INVESTING IN THE FUTURE

Aareal Bank uses extensive training and continuing professional development measures to outfit its employees with the necessary skills to be able to continuously and competently confront the challenges posed by today's rapidly changing markets.

CLOUD COMPUTING

Hiring software, data storage, and processing power – referred to as "cloud computing" – will change the face of the IT landscape dramatically over the years to come.

CONTENTS 360°

360° CONTRIBUTION
ENABLING GROWTH

Why property banks continue to play a key role after the financial markets crisis. Professor Dr Nico Rottke, Director of Wiesbaden-based EBS Real Estate Management Institute and holder of the Urban Land Institute Germany 2011 Leadership Award for ”sustainable commitment and forward-looking thought and action in the property sector“ discusses the macro-economic importance of commercial property financing, and looks at a sector characterised by constant change.

Professor Rottke, in the opinion of the general public, banks are at least partially to blame for the financial markets crisis. This is taken as a basis for widespread demands for the financial industry to be regulated as strictly as possible. Are such demands justified?

Rottke: First of all, we need to define what kind of bank we are talking about. On the one hand, there are those banks providing a service to the economy – a ”macro-economic lubricant”, if you like. They finance businesses and transactions, adding direct value to the economy and to society, by enabling growth and by creating – or protecting – jobs. On the other hand, there are financial institutions making money, or part of it, from highly complex trades and derivative products. Often, these products only have a rather indirect connection to the real economy – hence, their value to the economy is questionable at best. The need for a stricter regulation of the activities of the second kind is beyond dispute. When looking at financial services that are beneficial to the economy, however, we need to ask just how strict regulation of such activities may be to avoid stifling them – which would be to the detriment of the economy as a whole.

Some observers argue that property banks which are reputedly stable – and which, according to your analysis, fall within the first category – also constitute a considerable threat to the financial system. If that was indeed the case, regulations for this segment would also need to be tightened…

Rottke: Property banks have indeed been under scrutiny since the outbreak of the financial markets crisis. Numerous market participants which used to be relevant have lost importance and clout, or have even seen their very existence threatened – particularly in Germany. Hence, rating agencies as well as investors have questioned the stability and viability of the commercial property finance business model. However, I have yet to hear a convincing argument to support the theory that property banks with a business model focused on lending and Pfandbrief funding are particularly responsible for causing the crisis.

But after all, the financial markets crisis clearly started in the property sector, back in 2007/2008…

Rottke: When analysing the causes of the crisis, one must consider the actions of financial markets participants, but also the regulations setting the framework (defined by legislators) for these actions. If the regulations are inefficient, individual players will exploit these weaknesses very efficiently, ultimately causing the market to fail – this is precisely what happened in the US housing market. Simply speaking, loans were extended to borrowers without income or assets. These loans were subsequently securitised, whereby all risks were transferred to the buyers of the securitised products – especially banks’ investment banking units. In the course of this process, leveraging often boosted the risks involved several times over. Investors ended up buying what they considered ”safe“ triple-A-rated tranches offering attractive returns but were unaware of their true riskiness.

So the crisis originated from the property sector, but the true cause was predominantly a questionable regulatory framework that invited reckless lending…

Rottke: In fact the core business of German property banks – providing debt finance for commercial property – has little in common with the systematic outsourcing and obscuring risks I just described, which was supported by lax regulations. German property banks extend loans in line with local, very conservative standards, keeping the exposures on their own books, in full or in part. They refinance a large part of this business by issuing Pfandbriefe: covered bonds issued according to the strictest standards worldwide. This system works as long as the collateral – the underlying properties – hold their value. But only solid properties in good locations maintain their value – a condition that was not met in the sub-prime segment of the

US housing market. In my view, taking the perverted manner in which the system was exploited there as a basis to conclude that property finance was the root cause of the financial markets crisis is neither logical nor justified.

As specialist lenders, property finance houses are often considered to be exposed to cluster risks. Does this not involve significant systemic risk?

Rottke: At first glance, property finance houses would appear to be exposed to inherent cluster risks, given their strict focus on a single line of business. But this is a misconception. What defines a property's value, besides its substance and location, is the rental contract and the business backing it. In this sense, the property merely provides an adequate framework for the value creation that takes place within its walls. In corporate finance, the outcome of an exposure depends directly upon the borrower's business model. In contrast, a property may be let to a new tenant (and thus used on the basis of a new underlying business model) should the existing tenant default. Therefore, the issue of cluster risks only has very limited relevance to the property financing business. Provided the property has the right substance and location, it will always be possible to find tenants at acceptable terms – unless a new tenant needs to be found right when the economy is at a cyclical low.

Professor Dr Nico Rottke
born on 4 November 1975,
in Warstein, Germany

Director, EBS Real Estate Management Institute, Wiesbaden.

Holder of the Aareal Foundation Chair for Property Investment and Financing

Adjunct Professor for Global Real Estate Capital Markets at University of Central Florida, Orlando.

As you already mentioned, given the changes to the regulatory framework currently taking place, investors increasingly ask whether commercial property financing still is a viable business. Do you consider the widespread scepticism property banks are facing in the market to be justified?

Rottke: The sector is in the middle of a transformation process, with a market consolidation that is being expedited by regulatory changes. Additional providers will withdraw from the market, loan-to-value ratios will fall, and the lending margins for specific risks will rise. This means that the market will become more attractive again, for those participants that will remain. Moreover, I would caution against writing off the sector too quickly. Thanks to its Pfandbrief-based funding, its inherent risk aversion and legal protection framework, German commercial property financing is an established, reliable and mature product providing a clear economic benefit. It is to be hoped that it will not be suffocated by an overly strict regulatory straitjacket.

Property finance does not merely contribute to the acquisition or construction of property, it also creates another form of investment: Mortgage Pfandbriefe. During the economic and financial markets crisis, Mortgage Pfandbriefe remained a sound investment that investors kept buying. A fundamental feature of Mortgage Pfandbriefe is that they are covered by loans – or portions of loans – that are collateralised by real property liens. A maximum of 60 % of the loan-to-value ratio of a collateralised property is eligible for inclusion in the cover assets pool.

The mortgage lending value represents the long-term sustainable value for the property. These core features of Mortgage Pfandbriefe, which are governed by law, attest to the quality and security of the instrument. In the third quarter of 2011, the Association of German Pfandbrief Banks calculated the nominal value of its member institutions' mortgage bonds in circulation at € 208.2 billion.

In their role as financial intermediaries, banks collect money from savers and investors and feed it back into the economy, in the form of loans. Properties are a prerequisite for doing business.

As users of a property, companies need space to work towards achieving financial success. Banks that finance commercial property are involved in laying this foundation and so play a fundamentally important role in today's modern economy.

Aareal Bank AG headquarters in Wiesbaden

360° FOUNDATION
TWO PILLARS OF STABILITY

Our business model, founded on the two segments of Structured Property Financing and Consulting/Services, has not only proved its ability to withstand crises in the past. It also equips us well for the future.

Thanks to our medium-sized business structure, we have the necessary flexibility to hold our own, time and again, in a rapidly-changing market environment. As a premium provider, our goal is to always offer our clients the best solutions in both our segments.

A specialist for specialists

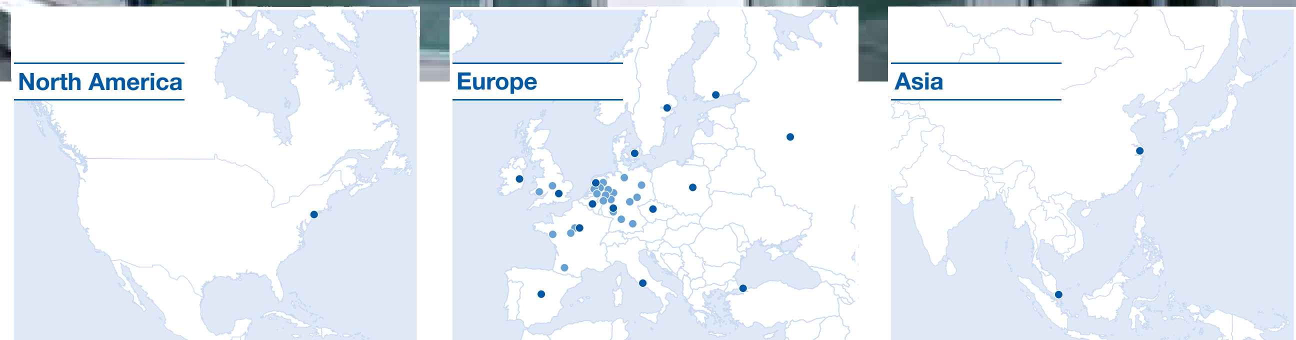
In the Structured Property Financing segment, we assist clients in Germany and abroad with customised financing and advisory services for commercial property. As part of our three-continent strategy in Structured Property Financing, we are active in Europe, North America and Asia.

In commercial property finance, Aareal Bank concentrates predominantly on financing investments, namely fully constructed properties. We focus on office buildings, shopping centres, logistics properties and hotels.

The properties we finance are generally secured by senior liens, eligible to serve as cover assets and have moderate loan-to-value ratios. We usually act as senior lender and hold the loans on our own books. Our broadly diversified international presence reduces our dependence on individual markets and regional economic fluctuations. And our property financing portfolio reflects this diversification, both in terms of regional diversity as well as property type.

We manage our business activities through regional sales hubs where we service clients in the world's major economic regions. What makes Aareal Bank special are its direct client relationships, which – in very many cases – it has maintained for many years. Equality is our guiding principle. We believe in equal partnership, based on understanding what our partners do, where they are and who they are.

Our particular strength lies in the success we have in combining local market expertise and sector-specific know-how. In addition to local experts, the bank also has industry specialists at its disposal, to create financing packages for logistics properties, shopping centres and hotels. This enables us to offer tailor-made financing concepts of the highest quality to meet our clients' individual needs.



Aareal Bank's offices on three continents

Strong second pillar

The Consulting/Services segment provides us with a strong second pillar that is largely independent from the property cycle. Germany is our core market in this segment; we are also active in several other European countries.

For more than 50 years, Aareal Bank has been the preferred banking partner for the German institutional housing industry. We offer specialised services for automated mass payments processing and optimised downstream processes. Modern account management tools and the exclusive integration of our processes in the leading software systems make it possible for our clients to largely automate manual processes associated with rental and maintenance costs billing or deposit management.

The deposits generated form a stable source of funding for Aareal Bank that is largely independent from capital market developments. We generate these deposits without having to operate an extensive branch network.

With our subsidiary Aareon AG, we provide IT systems and consultancy services to the institutional housing industry. In Germany and select European markets, Aareon offers products for residential property administration and controlling, including rental management. Its product portfolio comprises SAP-based solutions such as Blue Eagle; Wodis, which was developed in-house, and the next-generation Wodis Sigma; as well as the long-established GES and WohnData solutions. This product range is combined with extensive advisory services and integrated services that support networking between property companies and their business partners.

There is significant cross-selling potential between the bank's Institutional Housing Unit and Aareon: a significant part of our clients in this segment uses both the bank's payments products and Aareon's IT systems and services.

Paris

360° PERFORMANCE
PREMIUM HOTELS IN PRIME LOCATIONS

Aareal Bank is one of Europe's leading hotel financing providers. With a major loan for a portfolio of French luxury hotels, the bank once again affirmed its expertise and ability to perform in this sector.

In December 2011, Aareal Bank reported the closure of an extraordinary deal; it granted investment firm Starwood Capital a loan in the amount of € 367.5 million to refinance a portfolio comprising four luxury hotels. "The properties are situated in prime locations in Paris, Nice and Cannes," confirms Bettina Graef, Head of Aareal Bank's Hotel Team. "The project fits perfectly with our strategy, as the portfolio comprises first-class assets in markets with high barriers to entry – which also proved to be very robust during the global financial markets crisis." The four hotels are operated by Concorde Hotels and Resorts.

The crown jewel of the portfolio is the five-star Hôtel du Louvre, a grand hotel in the heart of Paris. Each of its four façades looks out on famous attractions: the Louvre museum, the Opéra Garnier, the Comédie Française and the Place du Palais Royal. One of the other hotels is located in the vicinity of the Triumphal Arch: the Hôtel Concorde Lafayette offers spectacular views of the Eiffel Tower and the rooftops of Paris from its 33 storeys. In the south of France, Concorde's five-star Hôtel Martinez in Cannes directly overlooks La Croisette, the renowned beach front promenade. Nice's Hôtel Palais de la Méditerranée also boasts a five-star rating. Its trademark is the building's immaculately preserved white art deco façade, dating back to the 1930s.

Discerning clientele

The four hotels belong to Groupe du Louvre, a subsidiary of the Starwood Capital Group. The portfolio is a major asset for the globally active US investment firm. "We were looking for a partner who could finance a project of this scope and contribute the necessary know-how to structure the financing," explains Steve Goldman, CEO of Groupe du Louvre. Ultimately the Group chose Aareal Bank, which confirmed for the bank that major market participants respect its expertise in hotel finance.

Bettina Graef's Hotel Team falls within the Special Property Finance (SPF) division, where the bank brings together its sector expertise. "Our experts contribute experience in the hospitality industry and speak the clients' language," affirms Christof Winkelmann, Managing Director at Aareal Bank and Head of SPF. "From a risk perspective, it is vitally important for the bank that team members understand the particular details of the opportunities and challenges specific to hotel finance."

Expert scrutiny in the Deal Team

For the Starwood deal, the bank's Paris branch, Credit Management and in-house Legal Services supported the Hotel Team. Members of the different units involved met in the Deal Team, which is something Aareal Bank creates for every deal. "The structure allows us to pool in-depth knowledge and local expertise. The Deal Team takes all the relevant legal and risk issues into account. It enables us to identify potential problems at an early stage and respond to them appropriately," Christof Winkelmann states with conviction. "To the benefit of our clients, we keep our reaction time short."

As people with extensive industry knowledge, Aareal Bank's professionals can assess factors critical to a hotel deal's success. That also includes the client's management competence. "Starwood Capital Group and Groupe du Louvre are highly professional investors, and rank amongst the most experienced players in the hotel industry worldwide," explains Bettina Graef.

Starwood Capital brings this long-standing expertise in the hospitality and leisure industry into managing its hotel property funds, which the company has been launching successfully for many years. This know-how is complemented by

Hôtel du Louvre, Paris

Hôtel Concorde Lafayette, Paris

Hôtel Martinez, Cannes

Hôtel Palais de la Méditerranée, Nice

its close ties with Starwood Hotels and Resorts; Starwood Capital was substantially involved in founding and expanding the company.

Starwood Hotels and Resorts is one of the world's largest hotel companies. The Group operates roughly 800 properties worldwide, including the well-known brand names Westin, Sheraton, Le Méridien and The Luxury Collection. The experience and expertise of both the client and the bank complemented each other ideally in negotiating the French deal. It quickly yielded the desired result: "This complex deal was approached very pragmatically and efficiently on both sides; we are extremely pleased with the result," states Christian Dalzell, Managing Director of Starwood Capital.

Duisburg, Schwanenbrücke

360° PERFORMANCE
DUISBURG – A BK 01-NETWORKED CITY

Many of our property sector clients, both municipal and private-sector companies, have valued the advantages offered by our payment software for years. In Duisburg, the BK 01 platform is now being used to create a cross-sector network that reduces costs and enhances efficiency.

BK 01 is among the bank's most successful products. It extensively automates mass payments processing in the German institutional housing industry and property sector, and is the market leader in this segment. Roughly 2,700 housing and property companies – managing some seven million tenants – use BK 01 to settle payments. The product is also used by a number of commercial property companies and, more recently, has been taken up by the energy and waste management sector.

Duisburg's housing enterprises – BK01 users for generations

The BK 01 success story dates back nearly to the mid-twentieth century and the early phase of computerisation. BK 01 has since firmly established itself as a successful and dynamic payment processing system. Its ability to be optimally integrated into property companies' IT systems and its high degree of automation afford clients enormous advantages in terms of efficiency. There are a multitude of companies that have been using BK 01 for years – sometimes decades – even when they have completely overhauled their software infrastructure over the years.

A prime example of a client relationship that has grown over the years is GEBAG Duisburger Gemeinnützige Baugesellschaft, which manages roughly 20,000 units as a municipal housing enterprise. This year marks the twentieth year of Aareal Bank's collaboration with GEBAG. Aareal Bank has been a partner to Bauverein Rheinhausen for even longer, since 1983. Other companies have followed suit, including Genossenschaften Duisburg Süd (1995), Rheinpreussensiedlung and Gemeinnützige Spar- und Bauverein Friemersheim (both in 1997), Duisburg Mitte (1999) and Duisburg Hamborn (2009). Between them, the Duisburg housing enterprises we service manage a total of roughly 40,000 units. They are complemented by companies specialising in managing third-party portfolios, including the GEBAG subsidiary Ruhrort Verwaltungs- u. Vermietungsgeschäft mbH & Co. KG, SBIB Sven Büteführ Immobilienservice & Beratung and the Conle Group.

"With BK01 we were able to create a solution that benefits everyone – it's a classic win-win situation."

Reinhard Bormeier, Key Account Manager, Institutional Housing Industry, Stadtwerke Duisburg AG

BK 01 bridges sectors

The Duisburg example is so remarkable because BK 01's user base extends far beyond the institutional housing industry, and the application has linked together companies from different sectors. This has to do in part with the fact that Aareal Bank began offering a solution for companies that manage commercial properties comparable to its solution for the institutional housing industry at an early stage. The municipally-operated enterprise Immobilien-Management Duisburg (IMD) has been using the system to manage its commercial properties since 2010.

At the beginning of the new millennium, BK 01 was adapted to permit energy and waste management companies to benefit from it as well. As a result we were able to acquire Wirtschaftsbetriebe Duisburg-AöR, which is responsible for waste removal, drainage water management and city cleaning, as a client in 2006. Duisburg public utilities have also been using the BK 01 system since 2011.

Speaking the same language, saving time and money

BK 01 is now "spoken" and "understood" almost everywhere in Duisburg. It makes it easier for companies to communicate with one another and it facilitates communication in the public sector in some areas as well, making it possible to process regular and recurring payment operations more quickly and easily. One example is using BK 01 to connect the institutional housing industry with energy and waste management companies, in one fluid, automatic process. Outgoing payments from housing enterprises – such as fee payments for waste disposal, road taxes, winter maintenance services and rainwater sewage – are completely automated using virtual accounts; they are entered in Wirtschaftsbetriebe Duisburg-AöR's appropriate cost centres using this procedure. Simplified payments processing is advantageous for both sides and lowers costs because the time spent addressing errors and resolving problems is reduced.

Wirtschaftsbetriebe Duisburg-AöR has now connected practically the entire local institutional housing industry to its system. Duisburg's public utilities are now aiming to achieve the same goal with the introduction of BK 01. Since 2011, they do not only apply BK 01 successfully in Duisburg, but have also been using it to cooperate with numerous housing companies at a national level. 2011, their work has transcended the city limits.

In summary, BK 01 provides the institutional housing industry and the property sector with "vocabulary" that makes it substantially easier for them to communicate not only with each other, but also with energy providers and waste management companies. The system is increasingly evolving into a payment services language within the German property sector that every partner can understand.

London

360° PERFORMANCE
A SUCCESSFUL CLIENT RELATIONSHIP

Another success story Aareal was able to utilise during the past year, was the relationship between Invesco Real Estate and the Bank.

Invesco Real Estate represents the real estate centre of competence for Invesco Ltd., one of the world's largest independent investment managers. Their services range from fund management and structuring to finance, acquisitions and asset management.

With their 16 international offices, Invesco Real Estate is ideally set up to provide their products and services to international institutional clients. Currently Invesco Real Estate manages about € 32.5 billion through several different funds. The funds cover investments in direct real estate and publicly-traded real estate securities worldwide.

Overall, Invesco Real Estate evolved to one of Aareal's most important clients with a total of € 315 million debt in the past 18 months with different Funds. The Invesco European Hotel Real Estate Fund received around € 109.3 million for a cross border portfolio of prime hotels in Germany, Italy and the Netherlands. An open pan-European fund, managed by Invesco Real Estate, received a total of € 167 million for office and retail properties in the UK, Poland and the Netherlands. And last but not least, the Invesco Real Estate UK-III Fund, which received a total of almost € 40 million in debt for office and retail properties in the UK.

Of the € 315 million, about half was realised during 2011. The loans were divided among prime properties in Poland and the UK – including the landmark office buildings "Crown Square" in Warsaw, and "1 Finsbury Circus" in London.

In early February, € 25.6 million was provided by Aareal for the purchase of the Crown Square office property for a pan-European fund which focuses on core assets in large European cities. Crown Square, one of the land-mark buildings in Warsaw, is located on the verge of the Warsaw CBD, and represents one of the latest office-developments in the city. The property offers approx. 16,120 m² office space on 12 floors, with 233 parking spaces and was completed early in 2010. For the high standard of fit-outs, development quality, used materials, and energy efficiency the property has received the "very good" BREEAM rating (Building Research Establishment Environmental Assessment Method – UK Green Building Council).

Shortly thereafter, in June 2011, Aareal provided a loan of GBP 70.75 million for the purchase of the office building 1 Finsbury Circus, in London, UK, formerly known as "Britannic House". With an area of 2.2 hectares, Finsbury Circus is the largest public open space within the City's boundaries. It is surrounded by several Victorian buildings, one of which is 1 Finsbury Circus. As Crown Square, the property is also held by a pan-European fund.

The property comprises 19,400 m² prime office space, located in the heart of the London City district. The property with a long history is the former Headquarters of BP, and has been fully refurbished in 2008. After completion of the refurbishments this asset was awarded with a "very good" BREEAM rating as well.

During 2011 a further GBP 35 million loan was provided for the purchase of three smaller assets, one of which, "the Paragon", located in the Bristol CBD, and the other two located in the larger London area. These assets were financed for the Invesco Real Estate UK-III Fund, a vehicle which focuses on core properties and secure cash flows in primary locations across the UK.

The main reason for this relationship to become a success story is the international network of Aareal Bank, the asset specific expertise, and efficient processing.

Through the headquarter-based specialist teams with international origination mandate, Aareal was able to provide tailor-made solutions for different jurisdictions, products, and financing structures.

1 Finsbury Circus, London

Entre Deux Shopping Centre, Maastricht

In the current volatile and unsecure market environment reliability, flexibility, and the country congruency are the key issues when talking about secured finance. This is the reason for the good relationship of Aareal Bank and Invesco, because as one of the global players in the market, we can offer tailor-made solutions in over 25 countries.

360° PERFORMANCE
CLOUD COMPUTING

Hiring software, data storage, and processing power – referred to as ”cloud computing“ – will change the face of the IT landscape dramatically over the years to come. As the leading consultancy and IT systems house for the property sector, Aareon AG recognised this trend at an early stage and developed a trail-blazing solution for property companies: the ERP system Wodis Sigma 3.0.

The internet is currently hosting the next revolution in the computer industry: cloud computing makes it possible to access services such as software, storage for databases and processing power as and when they are needed. The key benefit is that these IT services only need to be rented – companies are thus able to respond more flexibly to an environment shaped by an accelerating rate of change. Cloud computing represents an advancement in technology akin to the introduction of PCs in the workplace. Today, companies are no longer asking themselves whether to use cloud computing, but rather for which purposes and to what extent it makes sense for them to implement it.

Release 3.0 of the ERP system Wodis Sigma has marked the first time that IT support for residential and commercial property management can be managed through the exclusive Aareon Cloud. The latest generation of this software package was presented at the Wodis Sigma Forum on 24 November 2011 at the RuhrCongress centre in Bochum, and was officially introduced to the market on 1 December 2011 – to an overwhelmingly positive response. Shortly thereafter 43 property companies signed agreements to implement Wodis Sigma as an Aareon Cloud service. Data is held in the Aareon data centre located in Mainz, which guarantees the highest standards of data security and protection.

About SWW Oberallgäu Wohnungsbau GmbH

The origins of SWW Oberallgäu Wohnungsbau date back to 1949. In the mid-1950s, the company became involved in property management. Today the company employs roughly 40 people and manages approximately 5,000 flats with nearly 230,000 m^2 of floorspace. Sales revenues for 2010 totalled roughly € 21 million.

One of the first clients was SWW Oberallgäu Wohnungsbau GmbH, a forward-looking company with a sixty-year history in the Allgäu city of Sonthofen, in Southern Germany. ”One of the primary reasons behind our decision was that deployment of the Aareon Cloud-based Wodis Sigma would simplify IT use and management considerably,“ explains Martin Kaiser, Managing Director of SWW Oberallgäu Wohnungsbau. The company had previously been using an in-house ERP solution, in conjunction with other IT systems.

In-depth needs analysis

Extensive preparations were carried out prior to rollout. ”We made it our goal to enhance all of our company‘s processes by consistently using an ERP system,“ states Martin Kaiser. ”It was also important to us to reduce IT costs, avoid increasing IT staff, and to create planning security.“

Among the company’s roughly 40 employees [CHECK] – more than one third of which works on a part-time basis – there is not a single person who focuses on IT full time and has that sort of knowledge base. ”As a residential property company, we want to concentrate on our core areas of expertise. We need IT to effectively manage our business, but that doesn‘t mean we want to become IT specialists,“ Kaiser explains.

Aareon's IT Service Centre, Mainz

Aareon's IT Service Centre, Mainz

Cloud service: The logical conclusion

"The high costs associated with a release migration was another one of the reasons we decided it would make the most sense to hire an ERP system under our circumstances," he summarises. "That's why we chose Aareon's Wodis Sigma." Using the secure Aareon Cloud-based ERP system benefits SWW Oberallgäu Wohnungsbau in a number of ways:

- There is no need to invest extensively in hardware.
- The cost for auditors to assess operational security and data protection is saved, because Aareon has the necessary certification (PS 951 – compliance with the German Data Protection Act).
- The release migration and data back-up are carried out by experienced employees at Aareon's data centre.

Martin Kaiser can report positively: "It makes no difference to users whether they are using an in-house system or software as a service. The administration cost is, as we planned, minimal; we made the right decision."

The IT trend of cloud computing

Cloud computing makes it possible to flexibly access IT services tailored to users' needs independently of any platform, via a network such as the internet. Entire business processes can be operated using this method. Different levels of cloud computing can be implemented:

Public clouds, available to a large number of different users across companies and beyond.

Open clouds, which often make unsecured access available without any explicit contractual relationship.

Private clouds, that can only be accessed by private user groups, such as teams within a company.

Exclusive clouds, based on contractual agreements that offer the highest degree of security for customers.

Certified security at the Aareon data centre

Aareon guarantees the highest level of data security, availability and disruption-free service for its data centre. The stability of all the applied processes is certified in accordance with the standards of the Institute of Public Auditors in Germany (IDW) PS 951 and ISO 9001. TÜV Saarland gave the Aareon data centre a level 3 high availability rating. The entire infrastructure has a redundant set up.

Access control operates by using a combination of official employee ID authorisation and biometric identification. Aareon AG and its subsidiaries in Germany have also been awarded the DQS data protection seal, which is based on voluntary data protection auditing pursuant to section 9a of the German Data Protection Act ("BDSG") by CQS UL Group auditors. The certification confirms that Aareon's data protection procedures comply with the legal requirements of the BDSG.

"It makes no difference to users whether they are using an in-house system or software as a service. The administration cost is, as we planned, minimal; we made the right decision."

Martin Kaiser
Managing Director, SWW Oberallgäu Wohnungsbau GmbH

360° COMMITMENT
ATTRACTIVE OPPORTUNITIES FOR FIXED-INCOME INVESTORS

Fixed-income investors respect Aareal Bank as a successful issuer with a high level of capital market expertise, a sound balance sheet structure and a forward-looking business strategy. It enjoys close, long-term client relationships – not just in banking and services.

The Treasury division is also responsible for a wide client base of fixed-income investors in Funding, managing the bank's liabilities. This group of clients invests in capital market products such as promissory note loans, bearer bonds and Pfandbriefe, and thus enables us to refinance our property financing portfolio.

At the heart of our relationship with our clients is our conviction that a bank can only be successful when it not only knows its borrowers and lending risks well, but also maintains close ties to its depositors and investors – and not only in equity investor relations. Aareal Bank adheres to this principle both consistently and successfully. By Q3 2011, the bank already achieved its funding targets for the year as a whole.

Fixed-income investors' requirements for issues have been rising steadily over the past few years. This group of investors now increasingly focuses on individual issuers. Investors want to understand the funding mix and be informed regularly about the quality of the credit portfolio, the business model, senior management and on the company's strategies for the future. Accordingly many fixed-income investors greatly appreciate active and in-depth communication and regular contact with bank representatives. What sets Aareal Bank apart as a company with a medium-sized enterprise structure are the direct and personal client relationships it maintains on the liabilities side. It is this client proximity that creates understanding and security, facilitating accurate interpretation of facts. As an issuer, we receive questions directly, and the proper representative can quickly provide transparent answers.

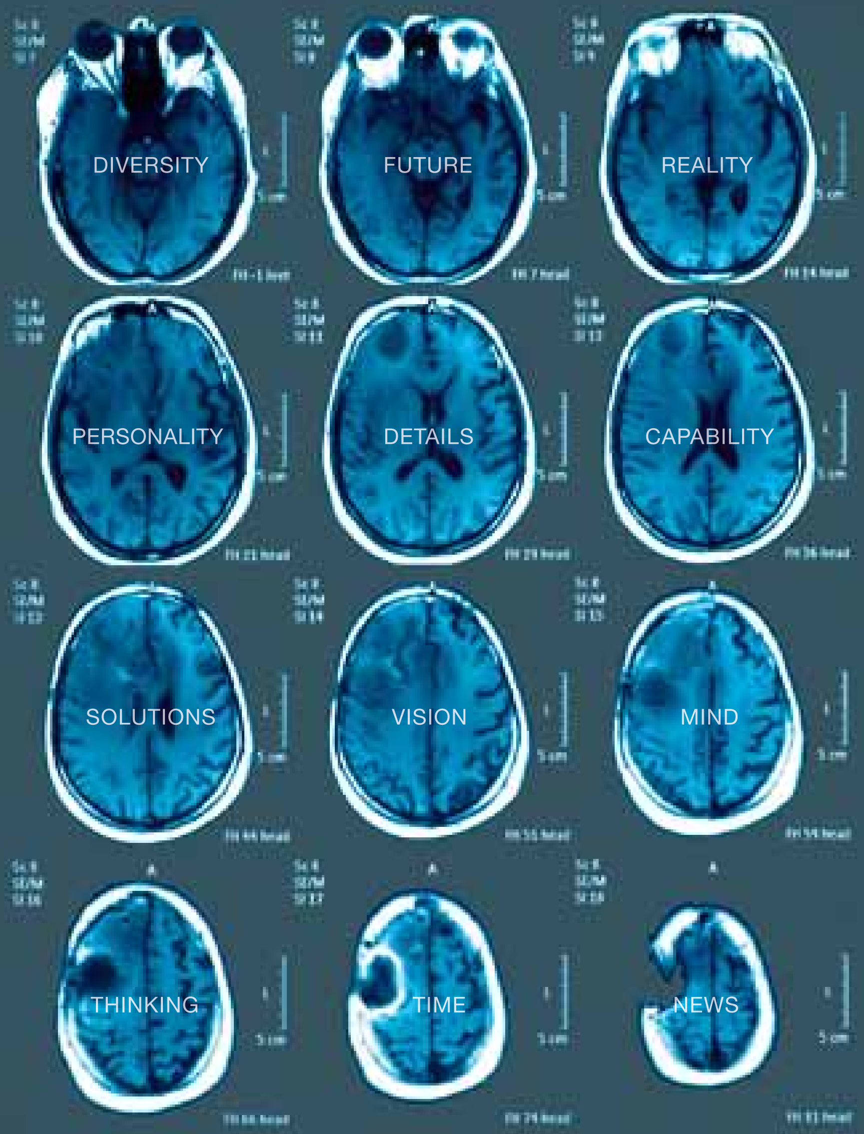
Our clients value the long-standing capital market expertise of our staff and the high degree of continuity amongst the bank's representatives. Many fixed-income investors have been covered by the same experts in our Treasury division for years. Aareal Bank also demonstrates its capital market experience by its presence as a regular issuer and its constant visibility on the market. In private placements, we orientate ourselves entirely on our clients' wishes and are able to offer a customised product with regard to volume, maturity and type of return. Consequently, our clients can fulfil their own specific investment needs. Specialised IT systems and a sophisticated risk management system enable us to reflect the particular requirements of our investors, especially as regards the type of return on structured products.

This client proximity and the close exchange of ideas and views with investors distinguish Aareal Bank from institutions whose fixed-income investors are predominantly made up of large funds and insurance companies, which makes these institutions dependant on the wholesale market. Aareal Bank only engages in wholesale funding to a very limited extent. Our funding mix is based primarily on private placements of registered Pfandbrief issues and promissory note loans. Our additional source of funding – provided by deposits from the institutional housing industry in our Consulting/Services segment – also separates us from most of our competitors. Deposits from our institutional housing industry clients currently amount to € 4.8 billion.

Yet – in contrast to what was common just a few years ago – capital market products are no longer the sole centre of focus for fixed-income investors. Many investors are questioning whether issuers possess a viable business model and a sound business strategy.

Important indicators for these qualities include a high level of credit quality, and with respect to Pfandbriefe, in-depth property expertise, strong and transparent risk systems, sound risk management and a healthy balance sheet structure. Aareal Bank lives up to these high standards. Its business model – resting on the two strong pillars of Structured Property Financing and Consulting/Services, proved its mettle through the crisis. The bank's strong results in a challenging environment over the last financial years attest to this fact. Aareal Bank has a healthy financial structure. Our property financing loans are refinanced by long-term funds and deposits. We enjoy a well-balanced funding mix comprising covered, uncovered and subordinated funds as well as deposits from the housing industry and institutional investors. Liquidity surpluses are invested in our securities portfolio, which we actively manage.

In 2012 a key question from the perspective of fixed-income investors will also be what securities segments can be considered as reliable and successful investments in the future. In this context, the impetus will not only come from markets and investors, but also from regulatory authorities and guarantee schemes. Accordingly the importance of an in-depth and open dialogue between issuers and investors will grow further, especially given the continued uncertainty of our capital markets environment. We grasped this trend some years ago, and made it a fixed feature of our business strategy on the liabilities side.



ALL-ROUND VISION

Essay by Wolf Lotter
Business journalist and book author

KEEPING THOUGHTS IN MOTION MEANS BEING ABLE TO GET MORE FROM THE WORLD. AND FINDING ANSWERS BEYOND THE BEATEN PATH.

Francis Picabia's life does not fit neatly into a box. He began his career at the dawn of the twentieth century as an impressionist painter, joining the cubist camp a few years later before ultimately becoming one of the most important painters of the Dada movement. At the same time, Picabia was a prolific writer and his works include texts for his friend Eric Satie's musical compositions. As one of the most famous "abstract" artists of his time, he could have hung up his hat early, but Picabia wanted to continue painting, and this time in breathtaking realism. His arguably best-known work is a short sentence that made the Frenchman immortal after his passing in 1953: "Our heads are round so that our thoughts can change direction."

What an observation! Our heads are round – not cubical skulls that can only house right angles and dead-straight thoughts that can be easily linked within the shortest distance, all in a line. Our heads are round so that we do not give up too soon and stop short. Our heads are round so that we think of more than we have already heard and seen. Because only when our thoughts change direction is something new born, can we find answers to problems that we would otherwise simply learn to live with. But in all seriousness, isn't there also something about Francis Picabia's sentence that is a bit unsettling?

Since Francis Picabia first uttered his formula on change, people have accused him of being arbitrary. "...so our thoughts can change direction..." – many people understood it as "changing opinions like changing a shirt." Sometimes this, other times that, moody, capricious, undependable and lacking direction. That has never been especially popular, and in our age when complexity and lack of perspective weigh on many people, it is practically hated. Isn't straight thinking exactly what we need right now? A taut string of ideas pointing the way out of the chaos of various crises, problems and confusions. Who is to say that the best way to pull the slack out of this red string is not with hard and fast rules and standards?

But it is not that simple. We can turn the clocks back, but we cannot expect them to still show the correct time. To be sure, clearly defined rules are good things, but only when they yield constructive solutions. Here I mean those that bring lots of possibilities to as many people as possible. Variety is the reason why our heads are round.

A rectangular container – one which we could fill up with all the things we are prohibited from doing – would also serve well for simplicity. It is not without advantages; it means no surprises will crop up. Nothing new. Pointless, but comfortable.

THOUGHTS IN A ROUND HEAD ALSO CHANGE DIRECTION

Unfortunately nothing – not even this state – lasts forever. Every successful model, every successful solution dwindles, becoming obsolete and useless. In nature and evolution, this process is constantly unfolding. It pervades everything, companies and societies alike, in technology and in our everyday lives. The Canadian media theorist Marshal McLuhan offered a short and pithy formulation of the course things take: "If it works, it's obsolete." That does not mean that we throw away everything that is good. But it does mean that we are always thinking about how we can improve. It is a human constant.

And it is another reason that thoughts change direction in our round heads – to make us see reality better. A dead-straight view, fixed in one direction, does not pay off when things spring into motion. Take a train, for instance, that is just pulling out of the station. Initially we can see the landscape well through the windows as it passes by and the details are sharp. But the faster the train goes, the more blurred our picture of the outside world becomes. The philosopher Paul Virilio called this the "rushing standstill," a common phenomenon in our day and age. It is always the same problems that demand a new way of thinking instead of "more of the same".

This sort of attitude does not solve any problems and obfuscates our view ahead into the future. It prevents perspective – the most important virtue needed in the twenty-first century. The quantity of information surrounding us is continuing to grow, and our habit of looking for a "permanent" and "always correct" solution in the midst of this diversity is cementing itself further. If we find ourselves heading in the wrong direction, putting your foot down is of no use. Our head is round so we can turn in another direction.

Some may lead right to ourselves. Decades ago, the American psychologist Abraham Maslow introduced his model of the hierarchy of human needs that, unlike any other approach, clarified the foundation of change, of transformation in our world. The first three levels of the hierarchy contain elementary needs, namely eating drinking, sleeping, followed by the need for security that all people have in common and that, in short, is rooted in not wanting to be eaten by anyone else while eating, sleeping or drinking. The next big step in humanity is fulfilling social needs, i.e. forming communities that can accomplish more than their individual members. We satisfy this need in groups and social associations.

In the history of humanity to date, we have had our hands full with the first three levels of the Maslovian hierarchy of needs. Eating, drinking and sleeping enough, feeling a sense of physical security and being able to move freely in social groups – which for many people in our world is not a fact of life – is still a relatively recent occurrence for us.

Yet the prosperous West has long since reached a level that enables these sets of needs to be satisfied for most people. Now it is about more. Level four of the Maslovian hierarchy of needs includes the needs for respect and recognition. For many of the young talented individuals in companies, that is

SO THAT WE CAN SEE REALITY BETTER.

more important today than salary and job title. And all over the world, people demand to be recognised as individuals with their own, distinguishable needs. They demand recognition and – as the fifth level – the right to develop. Maslow called this final level of need "self-actualisation," an often misunderstood term that actually denotes something quite simple and quotidian: people want to do what they think is right, and that is usually what they can do the best. They want solutions that suit them.

That changes the world. Diversity is the driving force behind development. It calls for thinking that is open to all directions out of principle. Only people who have taken that to heart – who champion diversity and personality instead of conveyor belts and 08/15 solutions – will have a role to play in the future.

This all goes hand in hand with a new sort of thinking aimed at a wider vision – a concept that is crucially important in the twenty-first century. Vision is more than maintaining perspective. Vision is the ability to look and listen to everything, to create a picture of it all and to identify the opportunities within a situation, a sort of panoramic understanding. Why? In order to make a clear decision where perspective yields personal stance. A vision that takes account of people and their needs, listening to them and respecting them instead of being restrictive and prescriptive thus becomes the epitome of what is binding. Vision takes people seriously. And it makes us smarter and advances us. The most direct way isn't a straight line. The best path always leads to people, to individuals. That is another reason our heads are round, so that our thoughts always strike this very target.

River Ouest, Bezons

360° VISION
THE OFFICES OF TODAY, TOMORROW AND BEYOND

To keep their occupants satisfied for the long term, offices need to reflect future trends today. That's something that Aareal Bank and professional property investors such as HRO agree on. Their shared conviction forms a sound foundation for a lasting partnership; HRO France and Aareal Bank have been working closely together for more than ten years.

"Demand for offices depends on three key factors," explains Christine Schulze Forsthövel, General Manager for Western Europe at Aareal Bank. "The factor with the greatest influence is the level of jobs growth in the service sector. Changes in space per person and technical requirements also play a central role." Right now, stricter environmental standards mean that the technology in many buildings needs to be brought up to date – which makes the properties less attractive.

Nomadic working

Property professionals are also taking business cues from the changes they are witnessing in the work environment and the legal framework. "In the service sector, the workforce of the twenty-first century is largely nomadic," Tom Stauber, Managing Director at HRO, believes. "Typically employees only spend 20 % to 60 % of their time in the office; work tends to be project and network-related." In just the past decade, office premises have changed dramatically; mobile phones, WLAN and laptops have made their users more mobile and granted them greater flexibility. "The development of mobile connectivity and specialised equipment shows no signs of slowing up," Tom Stauber continues. "The desk is becoming less important, and the laptop is increasingly displacing it as an anchor. And the smartphone could very well take the place of computers." Office buildings will not become obsolete, but rather change their function. It has to be possible to constantly and affordably adapt the space available to the way the company operates, fostering teamwork and enhancing productivity.

"In the future, office buildings will mainly serve as a meeting place for employees. Person-to-person communication will always be vital to ensuring people are on the same page," says Tom Stauber. Yet the proportion of traditional offices will decline, as shared spaces grow in importance. Experts assume that zones serving as formal and informal meeting spaces will account for 70 % of required space in future, yet they only represent one third of total floorspace today.

Users champion green buildings

Anyone looking to sell office premises today has to take into account not only the changes affecting the work environment, but also rising energy prices and a growing awareness of environmental and climate protection. "The next developmental phase will highlight buildings with a positive energy balance," Christine Schulze Forsthövel believes. "The technology is still in its infancy, but the trend needs to be incorporated into properties in planning right now, in the space reserved for energy production." Discerning tenants not only expect green buildings, they also insist on good bus and train connections. The reason is that employees' daily commute from home to work – which is often travelled by car – accounts for roughly 30 % of a service company's total CO_2 emissions. Being easily accessible by public transport offers employers the opportunity to shrink their ecological footprint.

Identifying global trends is essential, but that sort of knowledge is no replacement for local expertise. HRO is primarily active in the greater Paris region, and so needs to understand local developments. It is a privileged region; its economy is diverse, dynamic, competitive and innovative. Companies in Paris tap into an attractive local, national and international sales market. Many companies are headquartered in the area, which is why more than half of the country's senior managers live in or near the nation's capital.

View of the River Ouest inner courtyard

Conference floor

Conference room

Reception area

Bright prospects for the Paris metropolitan area

According to forecasts, the population of the Île-de-France region is set to grow. Roughly 50,000 jobs were created in the greater Paris area in 2011 alone. Growth may slow somewhat in 2012, but it is clear that the Paris metropolitan area will continue to enjoy its privileged position. The expanse of office premises reflects the significance of the greater urban region; Paris accounts for 18 million square metres of the region's total of 52 million. Market observers anticipate that 480,000 to 600,000 m² of new office space will be erected annually for the medium-term, some as new construction, some to replace existing offices.

"Beyond these figures, the challenge confronting us consists of anticipating how the companies requiring the office space will coordinate their activities in the future," says Tom Stauber. The company designs its properties to afford their users maximum flexibility, and to be fit for a variety of different purposes. "You could say our buildings are designed from the inside out. The floorplans are laid out to let in as much daylight as possible. Dividing the space into partially or completely separate zones is also effortless." HRO only uses noise-absorbing material for floors and ceilings. Doing so creates a pleasant acoustic ambience that can also be used completely as an open space if need be.

A long history of successful collaboration

For over 20 years, HRO has been developing projects in Europe, particularly in the greater Paris area. To date, 14 building complexes with a total floorspace of 492,700 m² have been completed. Aareal Bank provided the required capital nine times as their financing partner, including for the West Plaza project currently under construction comprising 31,000 m². "Like Aareal Bank, HRO is exacting about taking into account all the economic, demographic, financial and human aspects of a project. Time and again, HRO has followed this approach to realise architecturally outstanding properties that were well ahead of their time and met the needs of subsequent users," Christine Schulze Forsthövel says with approval. "All of the buildings were leased out no later than six months after completion. HRO was able to fully lease out eight of the buildings before construction had finished; in some cases multiple users were involved."

HRO also has seized upon the green building trend in its business. French lawmakers have cut the maximum energy consumption allowed for office premises by more than 50 % over the last ten years alone. Today the demand for energy-efficient property is immense: not even one fifth of available property complies with current standards. To put it another way, more than 80 % of the office space registered in the Paris metropolitan area is more or less out of date. HRO confronted this development at the right time and has already received HQE Exploitation certification (Haute Qualité Environnementale Exploitation) for five properties. Each new project benefits from the experience gained from prior works, and integrates the latest technology. The good work has been rewarded. River Ouest, which comprises 63,422 square metres of floorspace and was completed in 2009, is far and wide the only building to have received three environmental certifications: HQE Construction (Haute Qualité Environnementale Construction), TPHE (Très Haute Performance Energétique) and HQE Exploitation. The construction work – in Bezons to the west of Paris – exceeded many of the standards required by the certifications. For example, a 30 % reduction in energy costs was achieved in the office wing, although 20 % would have been sufficient for an environmental seal of approval.

State-of-the-art technology and rail access

The West Plaza, slated for completion in 2013, will raise the bar in energy conservation. The building is being outfitted with an intelligent "all-air" air conditioning system that occupants can regulate over the intranet. Electricity is saved by automatically regulating lighting according to the amount of natural daylight. And if offices, walkways, lifts or restrooms are not being used, motion sensors automatically switch the lights off. West Plaza and River Ouest are both only about a couple hundred metres away from a tram stop, which means HRO also scores extra points from its connection to the public transit system.

Local expertise makes it easier for HRO to work closely with local city planners to integrate what they are doing into urban planning projects. In Saint Ouen, a city north of Paris, the projects Euroatrium (32,800 m², completed in 2001) and Eurosquare 2 (17,556 m², completed in 2003) have become part of an area comprising flats, offices and shops as well as a park spanning nearly two hectares, a school and a crèche. The River Ouest project was possible because it fitted seamlessly into the ambitious policy to redevelop the neighbourhood along the banks of the Seine.

HRO relies on the spirit of partnership it has developed working with cities and municipalities over the years. With Colombes, a city to the west of Paris near the business district of La Défense, the company continues to develop what is now long-standing partnership. For ten years, property projects financed by Aareal Bank have been emerging – from Portes de La Défense (43,000 m², completed in 2001) and Défense Ouest (58,000 m², completed in 2007) to the current West Plaza project.

360° PARTNER
PREFERRED PARTNER OF THE HOUSING SECTOR

As a specialist for the entire range of services associated with payments settlement and investment management, Aareal Bank has been the preferred partner of the German institutional housing industry and property sector for more than 50 years.

We set the bar high for ourselves, just as our clients demand high standards from us. They demand specialised innovative solutions for the residential and commercial properties they own or manage. We have made it our objective to continuously improve our procedures and products, while taking into account legal requirements, technical possibilities and our banking expertise.

With the help of our most important product, BK 01, our clients map their entire cash flow to the business structure of their company. By extensively automating mass payments processing, day-to-day business becomes significantly easier and more efficient. The results mean more than merely lining up accounting entries; our solutions also encompass the appropriate next processing steps.

We also offer our clients investment consulting services that are closely tailored to their individual requirements. In addition to the benefits already outlined, BK 01 also makes transparent and effective cash management reporting possible in day-to-day operations. By networking their business units, clients optimise their business processes, free up committed resources and reduce costs. Its extensively networked service capability means that the BK 01 system can offer clients a unique competitive advantage.

The features of Aareal Bank's service portfolio in this area can be summarised with the following values and objectives:

Stability
Our solutions were developed over a period of decades, in close collaboration with the institutional housing industry. Today they are the state of the art, and set the bar in functionality. Leveraging this expertise, we are now also able to develop solutions of the same quality for related industries, such as the energy and waste management sector, which affords the institutional housing and property management industry greater benefits.

Market position
More than 2,700 business partners entrusted € 4.7 billion in deposits on average to Aareal Bank during 2011.

Seven branches located throughout Germany ensure a close relationship, both on a geographic and personal level. Our advisors – bankers, property management specialists and business administrators – are part of an interdisciplinary team with unparalleled expertise in their different fields. Close ties to the most important associations, major media and ERP partners foster an extensive network in the market.

Performance
A total of 150 employees in Aareal Bank Group are dedicated exclusively to enhancing and developing process-optimising solutions and advising clients. More than 100 million entries a year make Aareal Bank's account management system the financial wheel of the German institutional housing industry and property sector; roughly 5.5 million lease agreements are continuously settled using our procedures.

Exclusivity
BK 01, Aareal Bank's market-leading payments solution, is exclusively integrated into the most important and widely used industry systems. Long-term cooperation agreements ensure that integration will continue through future advancements (such as SEPA).

Growth
By continuously expanding our product portfolio, we drive a long-term and steady increase in transactions that paves the way for significant growth potential.

Aareon Group Locations in Europe

360° SUCCESS
SHARING KNOWLEDGE ON THE WINGS OF GLOBAL EXPANSION

Aareon Group is making broad strides on the path of global expansion. Systematically sharing experience and expertise across borders plays a crucially important role in this process.

For more than ten years, Aareon Group has been active in international markets. Today the company is represented by subsidiaries in the strategically important markets for the institutional housing industry: France, the United Kingdom and the Netherlands. Roughly one third of Aareon Group's staff are now employed outside Germany, and more than a quarter of all sales revenues are generated though international business. Our subsidiaries Aareon France SAS, Aareon UK Ltd and SG|automatisering bv (in the Netherlands) have acquired numerous important new clients from the institutional housing industry during 2011. The integration of SG|automatisering, acquired in 2010, has been proceeding according to plan and has met with a positive response from clients in the Netherlands.

Expanding international knowledge management

As a leading consultancy and IT systems house in the European property sector, Aareon AG offers its clients solutions tailored to individual market conditions. The product range is complemented by integrated services and sector-specific extended solutions that facilitate process-efficient collaboration between property companies and their business partners. Regularly exchanging experiences around the world is of vital importance to defining and developing growth areas.

The knowledge available globally is pooled and developed in bodies such as the International Operations Board and international working groups. The process makes it possible to consistently identify and take advantage of synergy areas, such as business models, technologies and partners. When national solutions or services are revealed that might also be of interest internationally, they are discussed with Aareon's customer advisory councils prior to being brought to market.

Partnership with SAP expanded to France in 2011

In Germany, Aareon has been collaborating with SAP and offering SAP® solutions in the SAP® solutions product line and Blue Eagle for many years. In June 2011, Aareon France also signed a partnership agreement with SAP. The market introduction of SAP Real Estate Management was accompanied by an event series co-initiated by Aareon France and SAP. The series commenced with an event in Paris in December that met with an overwhelmingly positive response. Representatives from different sectors – including banking, wholesale, the luxury goods and automotive industry – attended the trade presentations with interest. As one of the first clients, French supermarket chain Monoprix S.A., Clichy, chose Aareon France's SAP Real Estate Management ERP solution in September.

The first SG|automatisering systems at the Aareon data centre

As part of the international collaboration in the field of IT infrastructure, the first SG|automatisering systems were installed at the Aareon data centre in Mainz in November. Aareon is providing SG|automatisering with a solution to ensure disruption-free service, with data mirroring between Mainz and the Dutch subsidiary's headquarters in Emmen. Sharing experiences and investigating potential for synergy within Aareon Group's IT strategies at an international level are also being pursued in this context.

Mobile solutions with potential

In the light of steadily increasing mobility, both in society and the IT world, internet-based systems and portals are becoming of greater importance. Part of sharing experiences across borders includes investigating which services in this area could be of international interest. One example is Mareon, the web-based service portal in Germany, that saw the introduction of its first iPhone "app" in 2011. Another example is Aareon France's Flexiciel system. Flexiciel is a modular system for creating web-based and client-specific solutions using state-of-the-art development technology. All of Aareon's clients reap the rewards of sharing knowledge.

from left to right: Helmut Rolletter, Credit Management; Alice Haupt, Corporate Development; Christoph Hoffmann, Institutional Housing Unit; Patricia Dill, Human Resources; Norbert Hofmann, Risk Controlling; Aminata Omog, Credit Management; Marc Münster, Finance

360° EXPERTISE
SYSTEMATIC PROFESSIONAL DEVELOPMENT – INVESTING IN THE FUTURE

Aareal Bank uses extensive training and continuing professional development measures to outfit its employees with the necessary skills to be able to continuously and competently confront the challenges posed by today's rapidly changing markets.

A company's success hinges largely on its employees. Qualified and motivated employees make a decisive contribution to a company's economic performance and are thus a key success factor, as well as a competitive advantage. This conviction drives Aareal Bank's targeted Human Resources development measures to promote the professional and personal development of its employees. Executive staff and experts in particular bear a special responsibility within the company, and need to continuously expand their knowledge base.

Lasting, forward-looking and systematic: Aareal Academy

To ensure that employees are exceptionally knowledgeable, all professional development and training activities are combined under the umbrella of the Aareal Academy. The diverse range of offerings that employees can access any time they choose through the bank's intranet spans seminars, workshops, training courses and lesson modules as well as a broad internship and trainee programme.

At the start, an individual meeting takes place to devise a personalised training and development plan for each employee that serves as the foundation for the business direction of the employee's continuing development. The career opportunities that these activities hold for employees also enhance the attractiveness of Aareal Bank Group as an employer.

With the range offered by the Aareal Academy, we not only promote the professional expertise of our employees, we also take steps to deliberately foster important personal skills like self-initiative, creativity, flexibility and responsibility. Aareal Bank supports every employee willing to develop themselves throughout the different phases of their professional paths. In doing so, Aareal Bank promotes a culture of life-long learning and the very best foundation for our company's future success.

In addition to individual Human Resources development measures, the bank has been increasingly cooperating with external providers to constantly keep up with the latest developments and findings from different fields. A selected circle of specialist providers supports the work of the Human Resources division, including management training, continuing education in banking, and training courses on subjects such as communication, rhetoric or presentations, as well as language courses.

The Real Estate Management Institute (EBS-REMI) in Wiesbaden is crucially important to Human Resources development. In 2006 Aareal Bank funded a Chair for the EBS-REMI, and has since been the primary sponsor of the Aareal Foundation Chair for Property Investment and Financing. Our employees have the opportunity to obtain a degree from EBS-REMI while working. Partnering with the EBS-REMI affords Aareal Bank a valuable means to access the very latest academic findings in property economics.

Executive staff and experts

An important cornerstone of Human Resources development is systematically growing executive staff and expert excellence. Regular performance review meetings, concrete targets, and a special potential assessment process that provides systematic support before staff assume management duties or specialised expert roles, have all shown their mettle as effective tools.

Sharing knowledge and creating an information network are every bit as important as building expertise. With this spirit at heart, the "Experts for Experts" event series – launched in 2010 – was expanded and continued in 2011. Roughly 100 experts from different areas of the company with very different roles took part and used the opportunity to engage in an interdisciplinary exchange with their colleagues.

An intensive executive development programme started in the 2010 financial year that was oriented on the results of employee reviews, and the programme was continued in 2011.

The parallel nature of the paths for both experts and executive staff can also be seen in the content of systematic executive development measures. The curriculum includes issues such as overseeing experts, change management and continuing professional development in traditional management disciplines such as holding meetings, delegation, motivation or leading teams through transitional phases.

International networking

Exchanging information

Intercultural competence

A high degree of professionalism, cross-cultural abilities and language skills is required due to the variety of our international offices, and the cooperation with clients from different countries – in fact, these skills are supported during day-to-day work. The Wiesbaden office – where employees hailing from more than 30 different countries work together – is a prime example of this. As such, a central element of our Human Resources strategy is international networking. The chance to engage in an international exchange with colleagues offers employees a multitude of opportunities to think outside the box and confront international challenges.

A proper work-life balance

Achieving a balance between work and life is vital to successful professional performance. With this in mind, Aareal Bank provides its employees and their families with a wide array of options such as flextime, a time credit system, mobility tickets and support for additional retirement planning. To assist employees with children, a partnership was forged with a Wiesbaden crèche and a "parent-child room" set up at the bank's head office. Aareal Bank also works together with different institutions in the city of Wiesbaden to make it easier for employees with families to access child care during the summer holidays.

Our guiding principles in Human Resources development

- We continuously make strategic investments in our employees.
- In doing so, we cultivate our technical, business and communications expertise for the long term.
- We foster international collaboration and strengthen teamwork.
- We rely upon our employees' self-initiative. They are responsible for growing their own professional and social skills.

"The Aareal Academy has firmly established itself as a platform for Human Resources development. The number of participants attests to this fact. On average, each employee took part in about one working week of training and continuing professional development during 2011. Aareal Academy puts a tool at our disposal that is as economically efficient as it is excellent in enabling us to attract and keep qualified staff."

Birgid Schlasius
Head of Human Resources Development, Aareal Bank AG

AAREAL BANK GROUP

Aareal Bank Group
Group Management Report
Consolidated Financial Statements
Transparency

from left to right: The Management Board: Thomas Ortmanns, Hermann J. Merkens, Dr Wolf Schumacher, Dirk Große Wördemann

Dear Shareholders,
business associates and Aareal Bank staff,

The year 2011 was another very challenging year, for Aareal Bank Group as well as for the global banking sector, with an environment marked by great uncertainty and high volatility on the financial and capital markets. This was exacerbated by concerns of a slowing world economy, particularly during the second half of the year. One of the causes was the European sovereign debt crisis which has escalated on a massive scale since the summer of 2011; furthermore, the still unresolved US sovereign debt problem also burdened markets during the course of the year.

Uncertainty on the capital markets – and increasingly in the real economy, as the year progressed – also reflected the recognition that politicians have so far failed to fulfil their duty of establishing a sustainably stable legislative and regulatory framework, to the extent that would be desirable. This was due in particular to the process of achieving democratic legitimacy for the necessary changes – by its very nature, such a process cannot proceed fast enough to satisfy the needs of nervous markets.

Despite an unprecedented level of summit diplomacy throughout 2011, political players in Europe failed to soothe market fears through swift and coordinated action. One must recognise that the resolutions adopted at the Brussels summit in January 2012 point in the right direction, taking an important step towards a binding framework of fiscal policy rules. Yet it remains to be seen to what extent these resolutions will contribute to the goal of achieving a truly stable union, as quickly as possible.

One of the consequences of the European sovereign debt crisis was that many market participants lost confidence in government bonds – an asset class that had previously been considered as safe. Not least, this loss of confidence was due to sovereign ratings being downgraded by rating agencies. This process hit a peak at the beginning of this year, when numerous countries (including France) saw their credit ratings lowered.

Global economic growth also lost momentum, on account of the uncertain environment during the second half of 2011. Many companies deferred investments. Economic performance diverged strongly across the European economies: whilst Germany, Finland, Poland and Sweden showed strong growth, France, the Netherlands and the United Kingdom were somewhat weaker, with growth rates in Italy and Spain at the lower end of the range. Portugal, and especially Greece, had to face economic downturns.

These two trends – the sovereign debt crisis on the one hand, leading to a high degree of uncertainty on financial markets, as well as to write-downs which are significant in some cases, and the growing risks threatening the real economy on the other hand – present a major challenge to the financial sector. And there are indications that this difficult environment will prevail for the time being.

Regulators have failed to consider these strains on the financial services industry – instead, they are imposing additional burdens. There is a danger that the cumulative effects of the various regulatory measures will exert banks to an unsustainable degree: banks might ultimately fail to live up to their macro-economic role of financing growth and innovation, to the extent desired by politicians as well – in a situation where, as pointed out, economic momentum has already slowed down noticeably.

All these issues characterised developments during the year under review, constituting a strong burden at times. I am therefore all the more pleased to present this Annual Report, in which we account for another successful financial year for Aareal Bank Group. We fulfilled our key objectives, despite all the difficulties. We achieved very good results, considering the challenging environment, and further strengthened our capital base.

Consolidated operating profit of € 185 million for the financial year 2011 exceeded the previous year's figure by € 51 million or 38 per cent, and the bottom line shows that consolidated net income doubled year-on-year. We consider these results as a resounding confirmation for the viability of our business model, which is built on two strong pillars: Structured Property Financing and Consulting / Services. Moreover, we see our good performance as clear evidence that adhering to our prudent and sustainable business policy, as we have done over recent years, was the right direction to take.

In commercial property financing, the most important markets we cover were largely unaffected by prevailing uncertainty and volatility during the year under review. This presented us with opportunities for attractive new business, which we exploited consistently – as can be seen in the gratifying increase in net interest income as well as in the significant increase in new business.

All this was only possible because we have fully retained our flexibility to act, not least thanks to our solid capitalisation and funding situation. Against this background, the overall competitive environment developed favourably for us.

Allowance for credit losses has remained moderate, at the lower end of our projected range for the full year. This is a strong confirmation of our specific expertise combining sector-specific know-how with local market expertise. Thanks to our conservative business policy, the quality of our credit portfolio is high, and the careful monitoring of our exposures has helped to avoid an increase in risk costs.

In the Consulting / Services segment, our subsidiary Aareon AG continued to perform well during 2011, further expanding its leading market position with high-performance, innovative products for managing and controlling rental portfolios, including rental management. However, the prevailing low interest rate environment continues to burden the segment's banking business. Nonetheless, we considerably increased the volume of deposits from the institutional housing industry during the year under review, thus once again noticeably strengthening this material component of our funding mix – besides Pfandbrief issues and senior unsecured bonds. We consider the higher deposit volumes as a sign of the trust placed in us by the institutional housing industry – a trust we have built as the lead bank to this industry for decades.

Overall, we enjoyed a positive response from the capital markets during 2011. We can say that Aareal Bank's reputation as an issuer remains fully intact – which is quite an achievement, given the general sentiment of mistrust vis-à-vis the sector as a whole.

We were thus able to implement our funding activities as planned, also as far as unsecured issuance was concerned. Just how solidly refinanced Aareal Bank is was exemplified in the redemption of a majority of issuance guarantees extended by the German Financial Markets Stabilisation Fund (SoFFin), which we carried out during the year under review. Specifically, the € 2 billion SoFFin-guaranteed bond, which we held on our own books, was redeemed early in April 2011. In early July we also invited investors holding the remaining € 2 billion in SoFFin-guaranteed notes (maturing on 26 March 2012) to redeem their notes early. Investors took up our offer in an amount of € 0.8 billion.

After 27 March 2012, the only remaining tranche of the support measures will be the SoFFin silent participation, with a residual amount of € 300 million (reduced from its original volume of € 525 million), which we continue to service. As we have pointed out before, we are under no pressure to repay this remaining tranche, and will decide upon the next step in due course, taking market developments into account.

As seen in the context of SoFFin support, the Management Board always endeavours to actively deal with potential change. The capital increase, which we successfully placed in the spring of 2011, should be interpreted in this spirit as well. We not only used the gross issue proceeds of approximately € 270 million to generate new business, but also for further repayment of the SoFFin silent participation, and to strengthen our regulatory capital base at an early stage. At the end of 2011, our Core Tier 1 ratio was 11.3 per cent, which is also very comfortable by industry standards. In contrast to other banks, from today's perspective, Aareal Bank will not need to carry out any additional capital measures to comply with the demanding requirements under the Basel III framework.

We would like to take this opportunity to express our sincere thanks for the trust you have shown in Aareal Bank through this capital increase. Our structural organisation built on two strong pillars is adequate, as is our strategic position as an international property specialist. But we must not let up in our constant efforts to continuously improve, and to anticipate changes in the environment we operate in. For this purpose, we have initiated an extensive set of measures designed to optimise our structures and processes, from Sales units to Credit Management and staff and corporate services. Some of these measures have already been implemented. The objective of this programme is to safeguard our sustainable continued existence and future competitiveness.

Within the scope of the still-unresolved sovereign debt crisis, we believe financial markets will remain volatile during the current year and therefore expect the risks in the financial system to persist. The risks in relation to economic development have also increased in recent months. This is reflected in – amongst other things – a downgrading across the board of growth forecasts for the important economies, and the global economy overall. The uncertain political framework and cumulative effects of the forthcoming changes to the regulatory environment (which have not yet been clarified) present further challenges.

Commercial prudence requires that we account for existing uncertainty in a comprehensive manner. Firstly, in order to safeguard the Company's resilience, we want to strengthen our capital base as a precautionary measure, from our own resources. We will therefore propose to the Annual General Meeting to transfer Aareal Bank AG's net retained profit to retained earnings, not distributing any dividends. Secondly, we will adopt a conservative liquidity and investment policy in the wake of uncertainty, and expect to take a more cautious stance in originating new business, compared to the previous year.

Having said that, we see no reason for exaggerated pessimism. The markets we cover will continue to present attractive opportunities which we will be able to exploit. All in all, we see good potential for achieving consolidated operating profit that is only slightly below last year's very good result, despite the considerable challenges.

Taking a long-term view, we anticipate continued high demand for commercial property financings. We also see potential for sustainable returns in our business with the institutional housing industry. We will be able to benefit from these opportunities particularly by further raising our ambition of reliably delivering tailor-made solutions fulfilling the highest quality standards, with an outstanding team. This is what we are working on.

For the Management Board

Yours Sincerely, Wolf Schumacher

Dr Wolf Schumacher
Chairman

THE AAREAL BANK SHARE

Aareal Bank's well-balanced business model, incorporating the two pillars of Structured Property Financing and Consulting/Services, once again proved to be particularly viable, especially in the difficult times experienced during the challenging European sovereign debt crisis. Thanks to its consistently good results, Aareal Bank not only fulfilled market expectations during the year under review – it also convinced investors with a successful capital increase. Moreover, the bank successfully placed several benchmark issues and repaid a further tranche of SoFFin's silent participation.

Our share has been trading on the Frankfurt Stock Exchange since 17 June 2002. Since 1 January 2003, it has also been included in the Prime Standard segment of the German Stock Exchange, and therefore meets the high international standards for transparency. Aareal Bank AG's major shareholder is Aareal Holding Verwaltungsgesellschaft mbH, which holds a 28.9 % stake in the bank following the capital increase carried out during the period under review.

Equity markets worldwide

2011 was another very inconsistent year on international equity markets. DAX® and MDAX® constituents started the year on a subdued note: during the first weeks of the year, there was too much uncertainty regarding the impact of the "Arab Spring" and the resulting oil price increase on the European economies. Accordingly, both indices remained within a cautious yet stable sideways trading range. The performance of the Prime Banks Index (CXPB®), which tracks the German bank shares, was markedly more positive: as the situation on the financial and capital markets appeared to normalise, the CXPB® rose by as much as 20 % during the course of the first weeks of 2011.

The earthquake in Japan in March 2011 triggered steep short-term price losses on international exchanges, further exacerbated by fears about the situation in the stricken Fukushima nuclear power station. DAX® and MDAX® lost more than 7 % and thus fell below their respective year-end levels 2010. The CXPB® also gave up the gains posted since the start of the year.

The sovereign debt crisis escalated once again from the summer of 2011 onwards: whilst Greece and Ireland were already receiving support from the European Financial Stability Facility (EFSF) and the International Monetary Fund (IMF), Portugal joined their ranks in the summer, also requesting financial aid. In parallel, doubts regarding Greece's debt-servicing ability and the country's consolidation process deteriorated significantly. These doubts were accompanied by concerns regarding a spreading of the crisis into other euro zone countries, notably Italy and Spain. The situation was made even more difficult by discussions regarding a lifting of the US debt ceiling. US politicians had been struggling about a solution almost right up to the point in time when US government spending would no longer have been fully covered.

This renewed escalation on sovereign bond markets, combined with recurring fears of a recession, turned August 2011 into one of the worst months for German equities during the last decade. DAX® nosedived, posting several negative records in a row: the highest weekly loss since 2008 (-12 %) as well as one of the biggest daily losses in the index history on the 2nd of August, when the index dropped by as much as 7.1 % during the day. Never before had the DAX® been losing value for ten trading days in a row, racking up losses of some € 160 billion.

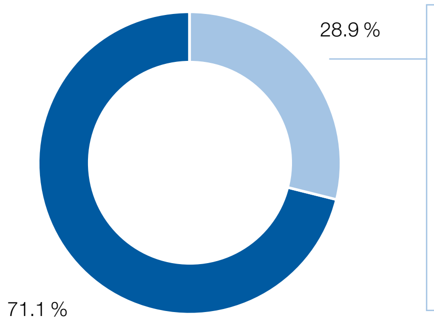
After DAX® and MDAX® had lost approximately 25 % or just under 20 %, respectively, from their year-end levels 2010, the first signs of some stabilisation became visible in September, mainly thanks to the resilience of the German economy in the face of recessionary fears. The CXPB® kept slipping, losing as much as 45 % compared to the 2010 year-end. This negative trend was significantly reinforced by ongoing rating downgrades of European countries and their banks by the three major rating agencies – Standard & Poor's, Moody's, and Fitch Ratings.

At the end of the year, Portugal joined Greece in being downgraded to "speculative" level. Italy suffered massive rating downgrades and pressure on France kept rising: ultimately, Standard & Poor's threatened 14 European countries (including Germany) with further downgrades or the loss of their "AAA" rating. EU special summit meetings held during the last weeks of the year adopted various action plans: besides support options for various European countries, the measures resolved included strengthening the European Stability and Growth Pact as well as new rules governing the financial resources of the EFSF rescue "umbrella", including an increase or leverage of the EFSF and its eventual transformation into the permanent stabilisation mechanism, the ESM.

Even though equity prices recovered somewhat in the wake of the events surrounding the EU summits toward the end of the year, the DAX® lost 14.7 % over the course of the year 2011; the MDAX® lost 12.7 %, and the CXPB® even 34.3 %.

Shareholder structure

■ Free float ■ Aareal Holding Verwaltungsgesellschaft mbH



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

Development of the Aareal Bank AG share

Having closed 2010 at a high of € 20.52, the Aareal Bank share continued this positive trend into the new year. Following the adoption of the Advanced IRB Approach (AIRBA) at the beginning of February, which met with a positive market response, the share price rose until the middle of the month, by more than 10 % to € 22.64. This reflected – amongst other factors – good expected results, and a rise by 2 euros on the day of publication highlighted just how favourable the market reaction was. This positive trend continued until 8 March, when the share price reached the high point of this movement at € 23.63, before the markets turned negative on the news of the natural disaster in Japan.

Aareal Bank's share price remained "locked" in a stable sideways trend around the year-end levels of 2010 before resuming its upwards trend, on the back of the positive outlook for 2011 expressed during the press conference to present the financial statements, together with an announcement that the bank would carry out an early redemption of the € 2 billion SoFFin-guaranteed bond maturing in June 2013, which was held on the bank's own books, in agreement with SoFFin. These good news pushed the share price back up, close to the interim high for the year.

Aareal Bank AG exploited this positive sentiment and the favourable price level to announce a capital increase against cash contributions on 14 April. New shares were offered with a subscription ratio of 5 to 2 (where shareholders were entitled to subscribe for two new shares for five old shares) and an issuing price of € 15.75. The capital increase was successfully concluded on 2 May 2011, with gross proceeds of € 270 million. Holders entitled to subscribe exercised 99.73 % of subscription rights during the subscription period, thus subscribing to 17,055,237 new common bearer shares. The remaining 46,825 new shares, which were not subscribed under the subscription offer, were sold promptly by the syndicate banks via the stock exchange. The Company's anchor shareholder, Aareal Holding Verwaltungsgesellschaft mbH ("Aareal Holding"), took part in the rights issue within the scope of a so-called "opération blanche". New shares worth some € 100 million – or 78.4 % of the new shares Aareal Holding was entitled to subscribe to – were successfully placed with institutional investors, in a pre-placement. Following the completion of the capital increase, Aareal Holding has held a 28.9 % stake in the issued share capital of Aareal Bank AG; once again, Aareal Holding proved to be a reliable partner.

The decline in the Aareal Bank share price during the third week of April was due to the announcement of the capital increase: the share price was adjusted by the market by the theoretical value of the subscription right. The share recouped this price loss within two weeks after the successful conclusion of the capital increase – notably due to the announcements made in the context of the capital increase, whereby the bank stated its intention to raise its target for new business origination by € 2 billion, and to reduce the SoFFin silent participation by another € 75 million tranche. The good first-quarter results published on 10 May 2011 also contributed significantly to the positive share price performance.

At the beginning of July, Aareal Bank offered holders of its remaining € 2 billion SoFFin-guaranteed bond to repurchase the outstanding notes maturing in March 2012 early. Notes in the volume of approx. € 800 million were tendered during the offer period and Aareal Bank accepted all notes tendered for repurchase.

The escalating debt crisis burdened the sentiment on equity markets worldwide during the third quarter. Financial sector issues were especially affected, and Aareal Bank was unable to escape this negative trend. In spite of the various positive news published during 2011, the share price hit an annual low of € 9.48 on 22 September. As seen frequently during previous crises, market participants sold shares in large quantities, without any distinction as to whether the resulting price developments were justified in any way by the respective institution's business performance. Publication of Aareal Bank's half-year results on 9 August could only provide a temporary reprieve from this slide which, from Aareal Bank's perspective, was unpleasant yet beyond the bank's control and solely due to external factors. Even the fact that Aareal Bank was one of the few banks whose results did not disappoint and maintained its forecasts could not change the situation.

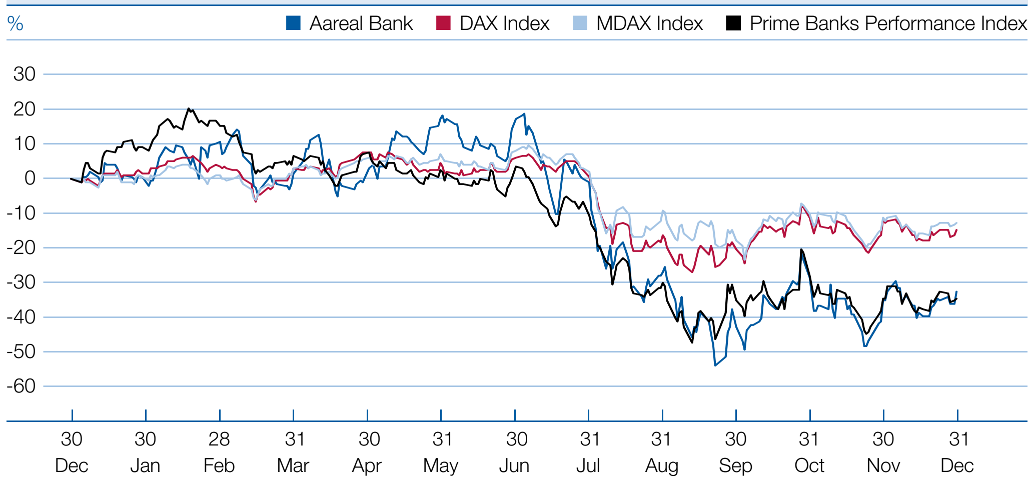
This negative underlying sentiment continued to dominate the fourth quarter of 2011, whilst politicians gathered at EU special summits, trying to find ways and means to resolve the crisis. In this scenario Aareal Bank attracted positive attention with the publication of its nine-month results in November. The quarterly figures exceeded market expectations, affirming the view that the share price development of recent weeks had not been attributable to causes specific to Aareal Bank. Aareal Bank maintained its outlook, and confirmed this with the corresponding results – in an environment where banks generally published disappointing quarterly results and / or adjusted their forecasts downwards.

At the end of November, EU heads of state and government (except the United Kingdom) agreed on amendments to European Treaties; the measures resolved included the introduction of national debt ceilings. This provided relief to the markets, and the Aareal Bank share gained some 20 %.

Yet prices collapsed once again in December, as results of the second stress test for banks conducted by the European Banking Authority (EBA) were leaked, indicating aggregate capital requirements for European banks of € 115 billion. The banks concerned now have until mid-2012 to comply with the mandatory Core Tier 1 ratio of 9 %; the original plan was to introduce this requirement by 2018. This decision might lead to a "forced recapitalisation" of various European banks: the market's perception is that the affected institutions will hardly be able to raise the capital they need on the market, within such a short period of time and with such negative market sentiment.

The Aareal Bank share closed the year 2011 at € 13.99, 32.5 % below the year-end price 2010.

Relative performance of the Aareal Bank share price 2011



	2011	2010	2009
Key data and indicators of the Aareal Bank share			
Share price (€) 1)			
Year-end price	13.99	(20.52) 22.80	(11.94) 13.26
High	24.47	(20.52) 22.80	(16.22) 18.02
Low	9.48	(10.44) 11.60	(2.93) 3.25
Book value per share (€)	27.18	31.97	30.62
Dividend per share in (€) 3)	–	–	–
Earnings per share (€)	2.11	1.78	1.14
Price/earnings ratio 2)	6.63	11.75	11.43
Dividend yield (%) 2)	–	–	–
Market capitalisation (€ mn) 2)	837	975	567

ISIN	DE 000 540 811 6
German Securities ID (WKN)	540 811
ID codes	
Deutsche Börse	ARL
Bloomberg (Xetra)	ARL GY
Reuters (Xetra)	ARL.DE
Issued share capital (number of bearer unit shares)	59,857,221

1) XETRA® closing prices; 2) based on the year-end price on XETRA®; 3) Proposal to be submitted to the Annual General Meeting; ( ) adjusted for the capital increase

Investor Relations activities

As a listed public limited company included in the MDAX® index, Aareal Bank is subject to numerous disclosure obligations. Rather than a duty, the bank considers this as an opportunity to engage in an open dialogue with analysts, investors, clients, and the media.

Aareal Bank attaches great importance to maintaining this dialogue, which it intensifies further during times of crisis – this is a prerequisite for a listed public company to be successful over the long term. Providing timely and transparent information on current corporate developments is the only way to enable market participants to assess potential risks arising from the difficult market environment that prevailed during the second half of 2011, and from impending changes to the regulatory framework (such as the bank levy or Basel III), and to discuss such risks in a dialogue with Aareal Bank.

One element of this dialogue is the annual press and analysts' conference where the Management Board presented the results of the 2011 financial year to media representatives and analysts in detail, giving a strategic outlook for the years ahead. Aareal Bank also uses the quarterly conference calls to discuss the quarterly interim reports as an opportunity to keep analysts and the media informed about current Group developments.

Overall, market communications thus remained at a high level throughout 2011. During the financial year under review, the Investor Relations team took part in eleven international capital markets conferences. On 23 road shows around the globe, the team conducted more than 300 one-on-one meetings with investors and analysts. Investors were highly appreciative of the fact that Management Board members regularly attended conferences and road shows, and were available for personal meetings.

Given the difficult economic environment burdened by uncertainty, intensive communications with private shareholders are a key element of Aareal Bank's Investor Relations efforts. Those private shareholders who contacted the bank – by telephone, for example – were given detailed answers to their questions.

To ascertain the timely, open and transparent provision of information to the capital markets, Aareal Bank provided information concerning its two segments Structured Property Financing and Consulting / Services on its homepage www.aareal-bank.com – as usual, in great detail. The published ad-hoc disclosures and press releases, financial reports, as well as current investor relations presentations are available for download from our investor relations portal. The financial calendar offers an overview of the most important dates in the company calendar.

We will continue to adopt a proactive approach to capital market communications in the 2012 financial year, with a view to substantiating the sustained success of the business model and the confidence placed in the bank by its shareholders.

Analysts' opinions

Of the 14 specialist brokers and analysts covering Aareal Bank at the beginning of the financial year under review, two institutions suspended their coverage for staffing reasons. One institution started to cover Aareal Bank; at the end of the financial year, 13 brokers and analysts published independent research reports and commentary on the performance of Aareal Bank Group.

Having finished the 2010 financial year on a positive note, the challenge was to meet the expectations by market participants and analysts. Aareal Bank matched these expectations, and at the end of the year, the market's very positive assessment of the bank's share was underlined by eleven "buy" and two "neutral" recommendations.

Despite a highly volatile market environment, the escalation of the debt crisis and the manifold (yet unresolved) regulatory requirements banks will have to face, these very positive assessments by analysts reflect the bank's potential, and the trust placed in its senior management. Unfortunately this trust is not reflected in the current share price. All analysts covering the bank agree, however, that this is not due to reasons within Aareal Bank's sphere of influence.

We regularly update and publish the analysts' recommendations on our website www.aareal-bank.com on the investor relations page.

GROUP MANAGEMENT REPORT

Group Management Report

Aareal Bank Group is a leading international property specialist. With a staff comprising employees from 28 different nations, it is active in more than 20 countries across three continents: in Europe, North America and Asia.

Business and Operating Environment

Group structure and business activities

Aareal Bank AG, headquartered in Wiesbaden, Germany, is the parent company of the Group. Its shares are admitted to listing and trading on the regulated market (Geregelter Markt) of the Frankfurt Stock Exchange, and are included in the mid-cap MDAX® index. Aareal Bank Group provides financing as well as advisory and other services to the commercial property sector and the institutional housing industry. It supports German and international clients, as a financing partner and service provider.

Aareal Bank is a member of the Association of German Banks (BdB) and the Association of German Pfandbrief Banks (vdp).

Aareal Bank Group's business model is made up of two segments:

Structured Property Financing

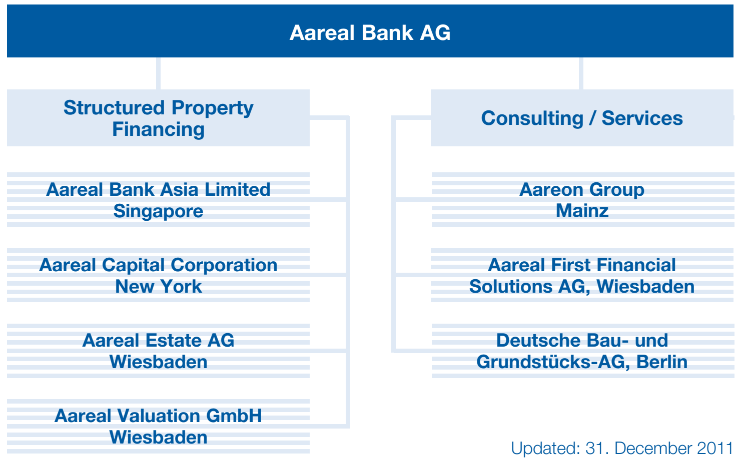
The Structured Property Financing segment comprises all of the property financing and refinancing activities.

In this segment, Aareal Bank facilitates property projects for its domestic and international clients, and is active in this respect in Europe, North America and Asia. Its particular strength lies in its success in combining local market expertise and sector-specific know-how. In addition to local experts, the bank also has industry specialists at its disposal, to create financing packages for logistics properties, shopping centres and hotels. This enables us to offer tailor-made financing concepts that meet the special requirements of our national and international clients. What makes Aareal Bank special are its direct client relationships, which – in very many cases – it has maintained for many years.

Aareal Bank has a broad and solid refinancing base. It has established itself as an active issuer of Pfandbriefe (German covered bonds), which account for a major share of the bank's long-term funding. The quality of the cover assets pool is also confirmed by the "AAA" rating of Aareal Bank's Pfandbrief issues. To cater to a broad investor base, Aareal Bank covers a wide range of other refinancing tools, including promissory notes and debt securities. As in the previous year, our capital market activities focus on private placements. These are complemented by larger, public placements that are issued depending on market conditions. The Bank also generates deposits from its long-term business relationships with companies from the institutional housing industry, and with institutional money market investors.

The success of our capital and money market activities, and the business with institutional housing industry clients, results from the combination of a sustainable business model with a sound understanding of the capital markets, and the quality of our property financing portfolio.

Group Structure of Aareal Bank



Updated: 31. December 2011

Consulting / Services

The Consulting / Services segment offers the institutional housing industry services and products for managing residential property portfolios and processing payment flows. Within this segment, our subsidiary Aareon AG and the Institutional Housing Unit work together closely.

We operate our IT systems consultancy and related advisory services for the institutional housing industry through our Group subsidiary Aareon AG, which looks back at more than 50 years experience. Aareon pursues a multi-product strategy that covers the requirements of all client groups. It is active in several European countries, with Germany being the core market. The ERP product portfolio for efficient process planning comprises SAP®-based solutions such as Blue Eagle, and Wodis, an in-house development with a newer product generation ("Wodis Sigma"), as well as the GES and WohnData solutions that have long been established on the market. This product range is combined with extensive advisory services and integrated services, both of which support networking between property companies and their business partners.

With its Institutional Housing Unit, Aareal Bank operates mass payment systems that are automated for the property management sector and integrated into clients' processes. The settlement of payment transactions via Aareal Bank generates client deposits that contribute to the refinancing base of the entire Group.

Group Management

Sustainable company development is at the core of Aareal Bank Group's management concept; the standard is to create added value for our shareholders, our clients and our employees. Particularly against the background of the financial markets and economic crisis, as well as the European sovereign debt crisis, the balanced approach which we pursue in our Group management has proved its mettle.

Aareal Bank Group is managed with the aid of indicator-based management tools that are designed and differentiated specifically by segment.

In addition to return and productivity management tools and the risk management system described in the risk report, we use the equity base and profitability – in particular at Group level – as central performance parameters to manage and monitor our business. Our extensive risk management system is of great importance to us.

Aareal Bank Group manages its Group entities and their individual risk positions centrally. All management-relevant information is systematically collected and analysed to develop suitable strategies for risk management and monitoring. We also employ forecasting models for balance sheet structure, liquidity and portfolio development for strategic business and revenue planning.

In addition to business-related management tools, we also use other instruments to optimise our organisation and workflows. These include comprehensive cost management, centralised management of project activities and Human Resources controlling, for example.

Structured Property Financing also deploys supplementary management tools and indicators. For example, we manage our new lending business in this segment using lending policies, which are specific to property type and country. Compliance with these policies during the lending process is monitored.

The property financing portfolio as a whole is actively managed throughout Aareal Bank Group, with the aim of optimising its risk diversification and profitability. To develop risk and return-oriented strategies for our portfolio, we evaluate market and business data, using this as a basis to simulate potential lending strategies, and to identify a target portfolio, which is part of Group planning. This helps us to identify – and to respond to – market changes at an early stage. Active portfolio management makes it possible for us to optimally allocate equity to the most attractive products and regions from a risk/return perspective, within the scope of our three-continent strategy. By taking into consideration maximum allocations to individual countries, products and property types, we ensure a high level of diversification and avoid risk concentrations.

In the Consulting / Services segment, management of the Group entities allocated to the segment is oriented on specific indicators, primarily EBIT (earnings before interest and taxes) and the EBIT margin, depending on each entity's business focus. We also use specific performance indicators that are typical for consulting and services in the IT business, the focus of this segment. These include indicators relating to regular client satisfaction surveys as well as capacity utilisation indicators in the consultancy business. For the banking business with the institutional housing industry assigned to this segment, the primary performance indicators are deposit volumes and margins.

Macro-economic environment

Following the strong rebound in 2010, global economic growth lost momentum in 2011, the financial year under review. The economic environment was defined especially by the serious escalation of the European sovereign debt crisis, which resulted in immense uncertainty on the financial and capital markets, depressed sentiment in the real economy, and burdened economic development.

Economy

Although global economic output in 2011 continued to rise over the previous year, the growth rate of 2.8 % was significantly lower than the 3.9 % achieved in 2010.

Uncertainty amongst economic actors, who scaled back their activities in the course of the worsening European sovereign debt crisis and also in view of the issue of US debt, was one of the key reasons for the slowdown in economic momentum in 2011. This not only affected financial and capital markets. Uncertainty also impacted on corporate investment and private consumption in many countries. Consumer spending in many countries was also burdened by high unemployment and decreases in asset values, for example through falling share prices. Macro-economic demand was also burdened by the fact that many state economic stimulus programmes were discontinued, and by spending cuts and tax increases within the scope of budgetary consolidation in many countries. The sharp rise in crude oil prices also weighed heavily on economic development in the first half of the year. The earthquake in Japan, which caused disruptions in global supply chains, also had a temporary negative effect on global production. On the other hand, support was forthcoming from the still-expansive monetary policy pursued by many central banks.

Growth in economic output in Europe was only moderate last year, albeit with considerable regional differences. Real gross domestic product in the euro zone rose by 1.6 %. The German economy, whose real gross domestic product climbed by 3.0 %, contributed significantly. Growth in Germany was supported by private consumption, corporate investment and exports. Real gross domestic product growth in Austria (3.3 %), Finland (2.8 %) and Belgium (2.0 %) was also above the euro zone average. Growth rates in France (1.6 %) and the Netherlands (1.5 %) were average. The euro zone periphery states in particular reported weak growth. Real gross domestic product in Ireland grew by 0.7 %; the growth rates in Italy and Spain were only 0.4 % and 0.7 %, respectively. Portugal (-1.6 %) and Greece (-6.6 %) on the other hand, saw a contraction in real GDP. The extensive measures taken to consolidate these countries public' budgets contributed to falling macro-economic demand, both directly and indirectly.

The growth rates of the different European economies differed widely outside of the euro zone, too. In Northern Europe, the Swedish economy was dynamic, with real gross domestic product growth of 4.1 %, whilst Denmark's economic growth was 0.9 %. The economy in the United Kingdom also grew by 0.9 %, supported by exports, while domestic demand was in fact slightly negative. Poland's economy grew by a remarkable 4.3 %, in line with the country's performance in previous years. Real gross domestic product in the Czech Republic grew by 1.6 %, whilst economic growth in Switzerland was 1.8 %. In the emerging market economies, Turkey's economic development was dynamic, with a growth rate of 8.3 %, whilst the real gross domestic product in Russia grew by 4.1 %.

Economic growth in the US was only moderate. At 1.7 %, real GDP growth was more or less in line with the euro zone. The discontinuation of economic stimulus programmes impacted here just as much as the burden placed on purchasing power through the rise in the cost of living. This was compounded by high unemployment, which also dampened consumer demand. Growth in real gross domestic product was somewhat stronger in Canada and Mexico, at 2.3 % and 3.9 % respectively.

As in previous years, economic development was led by the Asian growth economies, especially China. However, some factors had the effect of slightly slowing down economic momentum in China. These were a tighter economic and monetary policy, designed to prevent the threat of the economy overheating, and weaker momentum in foreign trade. At 9.2 %, the real growth rate of what is meanwhile the world's second-largest economy remained strong. Singapore's real gross domestic product also grew by a robust 5.0 %, whilst economic output in Japan fell by 1.0 % as a consequence of the earthquake catastrophe.

Unemployment remained high in many countries during the period under review. The average rate of unemployment within the euro zone climbed slightly from 10.0 % at the end of 2010 to 10.4 % at the end of 2011. Unemployment fell in only a few European countries, such as Belgium, Finland, Germany, the Czech Republic and Sweden. In Spain on the other hand, the unemployment rate soared to almost 23 %. Unemployment remained largely stable in the US during the year and only improved slightly to 8.5 % at year-end.

Sovereign debt crisis

The escalating European sovereign debt crisis impacted significantly on the economic framework from roughly the middle of the year under review. It not only shaped developments on the financial and capital markets, but also impacted on political and public debate.

With Greece and Ireland having received support measures in the previous year, Portugal was granted loans in the amount of € 78 billion from the European Financial Stability Facility (EFSF) and the International Monetary Fund (IMF) in May 2011. Doubts increased for the remainder of the year about Greece's ability to sustain its debt and the country's consolidation process. These doubts were accompanied by concerns about contagion in other countries, especially concerning Italy and Spain. This significantly heightened the sovereign debt and confidence crisis from about mid-year onwards. The global loss of confidence was exacerbated by the political struggle at the same time to extend the federal debt ceiling in the US. An agreement was only achieved just before the deadline after which government spending would have no longer been fully guaranteed.

In order to limit the sovereign debt crisis, several action plans were agreed on a political level in 2011. These comprised additional support measures for Greece and a strengthening of the Stability and Growth Pact. In addition, new regulations were introduced governing the financial resources of the EFSF and the transfer to the permanent stability mechanism (ESM). As the Greek debt crisis came to a head, measures were put in place for an extensive haircut on Greek sovereign debt, at the expense of private bond holders. The extent and implementation of the haircut was still undecided at the end of the year under review. Since Aareal Bank has no exposure to Greek government bonds, it is not affected by Greece's haircut. Government representatives from almost all EU states convening at the European Council meeting in December 2011 agreed to sign an agreement planning to strengthen budgetary discipline – for example, in the form of a debt ceiling for all participating EU states.

As the sovereign debt crisis intensified, concerns grew that the crisis would extend to the banking sector, since many banks are exposed to debt issued by the countries affected by the crisis. For this reason, resolutions were adopted regarding the capitalisation – and recapitalisation – of banks. In Germany, a law to reactivate a stability fund for banks was put in place at the end of the year.

The downgrading of numerous bank and country ratings during the course of the year – including the US, which was downgraded by one rating agency – raised additional concerns about and tensions on the financial and capital markets.

The countries' debt levels climbed further in the year under review. Budget deficits on the other hand fell significantly owing to economic growth in conjunction with consolidation measures in most states. In Germany, the budget deficit fell to 1.0 % of gross domestic product. Average budget deficits in the euro zone fell to 4.2 % of gross domestic product. In the US and the UK, budgets deficits also fell to 9.4 % and 8.3 % respectively of gross domestic product, though they were nonetheless high by international standards. The budget deficit in Japan rose to 9.8 % as a consequence of the earthquake catastrophe.

Financial and capital markets, monetary policy and inflation

Some easing was evident on the financial and capital markets at the start of 2011. Many governments, companies and banks availed of this scenario to issue securities. Aareal Bank also benefited from this slightly improved market environment and successfully carried out a capital increase, generating gross issuing proceeds of € 270 million in the first half of 2011. We also successfully placed a benchmark bearer bond and two Mortgage Pfandbriefe, each with a volume of € 500 million, during the first six months of the period under review.

Even so, the general situation on the financial and capital markets had not entirely normalised at the start of the year, as was evident by the continued expansive monetary policy designed to supply liquidity to the financial system.

The deterioration of the sovereign debt crisis generated considerable tension and uncertainty on financial and capital markets in the middle of the year, so that equity markets collapsed, with banking issues hit particularly hard. Volatility was extraordinarily high and securities issuance was reduced significantly. The already high risk premiums and bond yields of the euro zone's southern periphery states continued to rise relative to bonds considered as low-risk, such as German government bonds. The impact of the support measures adopted to contain the sovereign debt crisis on the financial and capital markets was only short-lived, and there was no sustained calming of the markets during 2011.

There was friction in the interbank markets, as was suggested by banks' increased use of the deposit facility with the European Central Bank (ECB). The ECB conducted refinancing operations with longer maturities of between six and 36 months in order to diffuse the tension on the financial and capital markets, and to provide the banks with liquidity. The ECB continued to allocate these tenders in full. In agreement with other central banks, liquidity in US dollars was also offered. Defined by the deterioration of the sovereign debt crisis, the ECB relaunched the securities markets programme from the previous year, where it bought Italian and Spanish government bonds in particular. In December, the ECB expanded its measures for supporting lending and liquidity, and agreed to lower the minimum reserve rate and reduce the standards for specific collateral the banks may pledge for refinancing purposes, amongst other things.

Mortgage Pfandbriefe are an important refinancing vehicle for German providers of property financing. The high quality of Pfandbriefe was demonstrated, especially during the financial markets and economic crisis, whereby Pfandbrief issuance was possible at all times despite the great market turbulence. However, the Pfandbrief market was unable to disengage completely from the deteriorating market environment in the course of the European sovereign debt crisis. Pfandbrief spreads thus widened during the second half of the year, although to a much lesser extent than covered bonds from other jurisdictions. Aareal Bank was unable to escape this trend entirely unscathed. While we continued to successfully pursue our refinancing activities – through public and private placements – during the first half of the year and had reached our targets already in the third quarter thanks to good investor demand, we focused solely on private placements in the second half-year due to declining demand.

In autumn, the ECB announced a new covered bond purchase programme, in response to the deteriorating sovereign debt crisis. At € 40 billion, the volume of the second covered bond purchase programme was € 20 billion less than in 2009. This new support programme aims to increase the sale of Pfandbriefe and other European covered bonds, as well as guaranteeing the stability of the financial system in general.

Unlike other European covered bonds, German Pfandbriefe performed well in 2011, despite the slight decline in total sales. Investors used the Pfandbrief as a solid investment, even in the difficult market environment. The attraction of Pfandbrief issues is based on their solidity and high-quality cover assets pool serving as collateral; this has been frequently demonstrated. The strict legal and regulatory guidelines of the German Pfandbrief Act (Pfandbriefgesetz) protect Pfandbrief holders, regardless of the issuer's credit quality.

Besides the legal and regulatory guidelines, the issuer's business model is decisive for the Pfandbrief's long-term success. Investors are now increasingly analysing the different business models of the Pfandbrief issuers. Only the combination of credit quality and professional capital market presence will permanently protect the market position of Pfandbriefe as a secure investment as well as a funding tool. Factors such as good risk management, meaningful risk systems and specialist expertise in property financing are decisive for the issuer. These are factors that are at the core of Aareal Bank's capital market presence, and its communications with investors.

Exchange rate developments were defined by high volatility during the year under review. Initially, the euro appreciated significantly against the US dollar, pound sterling and Japanese yen in early 2011. However, it weakened again as the European sovereign debt crisis deteriorated, and at the year-end 2011, it was weaker vis-à-vis all three currencies than at the beginning of the year. The euro weakened slightly against the Canadian dollar. At year end, the value of the euro vis-à-vis the Swedish krona and the Danish krone was virtually unchanged from the start of the year. After the Swiss franc appreciated strongly against the euro, the Swiss National Bank decided in August to tighten the already very low target range for three-month Libor, and to no longer tolerate any €/CHF exchange rate below a minimum of 1.20. As a consequence, the exchange rate climbed above this target level, where it remained roughly until year-end. The value of the euro against the Swiss franc was weaker at year-end 2011 than at the start of the year.

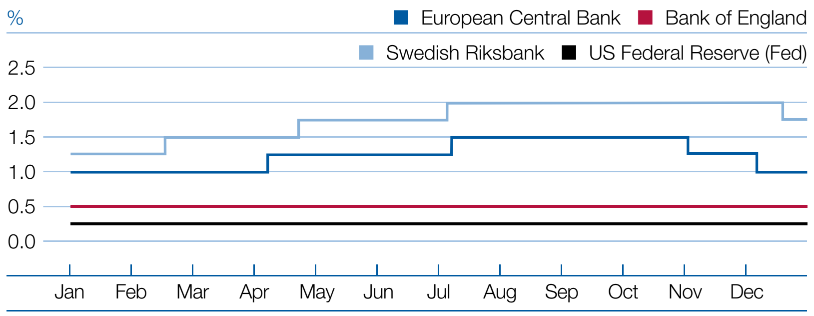
The long-term interest rates of the most important currencies in which we are active fell significantly in the course of the year, to reach very low levels. On the other hand, short-term interest rates for the euro, US dollar, pound sterling and the Swedish krona rose during the period under review. Coming from a very low level, short-term Swiss franc interest rates fell further and almost reached zero at the end of the year. Short-term Danish krone interest rates also fell slightly, whilst for the Japanese yen they remained largely unchanged at a low level around zero. However, interest rate development shows widening risk premiums (and therefore interest rates), especially in the euro zone's southern periphery states.

Inflation accelerated slightly compared to the previous year, with higher commodity prices – especially for crude oil – being a major influencing factor. Average annual inflation in the euro zone was 2.7 %. The VAT increase in the United Kingdom drove up the annual rate of inflation to a significantly higher level of 4.5 %. Inflation in the US was 3.0 %, whereas price levels even declined marginally in Japan. Many of the emerging economies experienced higher inflation rates than the developed economies. Russia and China's inflation rates were above 8 % and 5 % respectively. China's central bank took measures to counteract any overheating of the economy and inflation, by tightening monetary policy and raising key interest rates and minimum reserve requirements for banks up to the middle of the year. Minimum reserve rates were lowered for the first time after a lengthy period at the end of the year. Russia's central bank also raised key interest rates several times at the start of 2011, followed by some rate cutting shortly before year-end.

In view of inflation risks, a number of other central banks also hiked their key rates initially; this included the ECB, which raised its key rate by 0.25 percentage points each in both April and July. It offset the key rate hikes again in November and December 2011, so that the key rate interest reached 1.0 % again at the end of the year. Denmark and Sweden's central banks also raised key rates initially. While the National Bank of Denmark lowered key rates again at year-end to a level lower than at the beginning of the year, the Swedish Riksbank only partially offset the key rate hikes.

The central banks of the UK, Japan, Canada and the US on the other hand, kept their key rates unchanged at a low level. The US Federal Reserve (Fed) continued to pursue an expansive monetary policy; this included the launch of a USD 400 billion programme to purchase long-term US Treasury bonds against selling short-term Treasury notes in the same amount.

Key rate development in 2011



Note that the Fed Funds rate has been shown using the upper value of the target range (0.00 %-0.25 %).

Regulatory and competition environment

The environment in which the banks were operating was defined in recent years by a rapid rise in regulatory requirements. Examples of these are the

comprehensive Basel II framework and its implementation in national law, as well as the introduction of (and multiple amendments to) the Minimum Requirements for Risk Management (MaRisk).

Significant changes were also evident in the competitive environment for banks providing finance for commercial property. Many of the European banks operating in this area concentrated on their respective domestic markets and just a few core markets. This heightened competition amongst domestic banks in 2011, particularly in Germany. However, competition eased significantly on the international market, with international banks withdrawing from commercial property financing in recent years. Hence, only a few banks are still active in the market, which finance a broad range of international commercial property across the different property types to a considerable extent – along the lines of Aareal Bank. Aareal Bank's competitive environment has therefore generally improved.

A growing number of insurance companies and pension funds have recently emerged as competitors, albeit with low volumes to date. This applies to Germany and the UK, among others.

In the US, life insurance companies have provided commercial property financings for many years and thus played a significant role in this context during the year under review. Looking at the market as a whole, they filled a gap that international – mainly European – banks had left when they withdrew from the market or reduced their market activities in recent years. The market for securitisations, so-called CMBS (Commercial Mortgage Backed Securities) in the US showed the first pronounced signs of a recovery in the first half of the year. However, the number of new securitisations in the US dropped again significantly on the back of renewed tension on financial and capital markets.

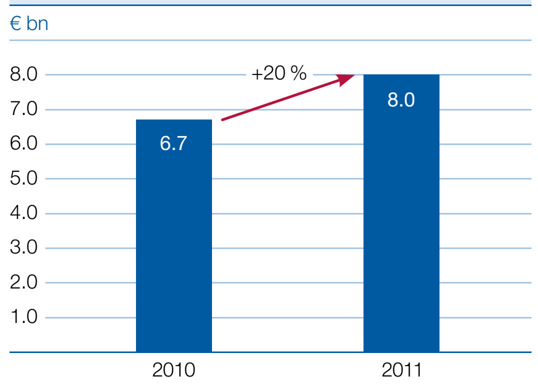
In Asia, competition in commercial property finance is determined by a small number of large international banks and in particular, the regional banks. As a result, the market environment in Asia was competitive for Aareal Bank.

Segments and business development

Structured Property Financing segment

Aareal Bank successfully carried out a capital increase in the second quarter of 2011, generating gross issuing proceeds of € 270 million. The resulting strengthening of our capital base provided greater scope for generating new business. We exploited this for attractive new business opportunities and increased our new business volume significantly, from € 6.7 billion in 2010 to € 8.0 billion in 2011. The volume of new business originated was therefore at the upper end of the target corridor that was raised to between € 7 and € 8 billion as a result of the capital increase. The share of new loans in total new business exceeded 60 %. We continued to pursue our risk-sensitive lending policy as well as consistently managing our loan portfolio.

Development of new business

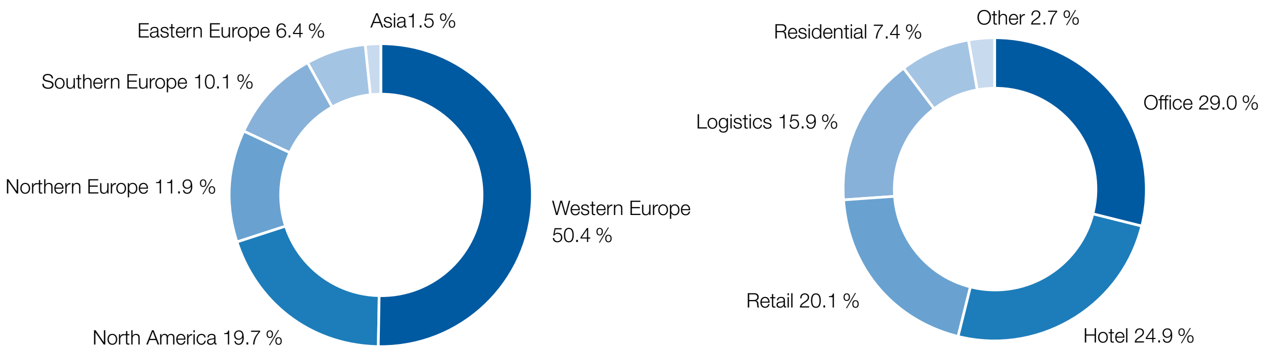


As in previous years, Aareal Bank was also active in Europe and North America, as well as in Asia during the year under review. At 78.8 %, Europe accounted for the highest share of new business, followed by North America with 19.7 % and Asia with 1.5 %.[1] We generate our new business through

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

New business 2011

by region | by type of property



our local branches as well as through our teams of sector specialists covering financing solutions for retail, logistics and hotel properties.

Developments on the market for commercial property financing are very important for the Structured Property Financing segment, which is why they will be explained in more detail here.

Rents and commercial property values depend on many factors, both macro-economic and property-specific. The former include, in particular, economic developments, the trend on the labour market and long-term interest rates. Economic output in the markets in which we are active rose in 2011, even though growth was more subdued than in 2010. Unemployment remained high in many countries. Long-term interest rates declined, thus slightly improving the environment for many markets. Uncertainty and concerns about further economic development were also evident on property markets at the end of the year, as a consequence of the European sovereign debt crisis.

Key property-specific factors that render a property more attractive for users include location, modernity, floor space and energy efficiency, flexibility and property management. From an investor's perspective, the tenant mix, the terms and conditions of rental contracts, and tenant quality also play a role. Property markets are not homogeneous in view of the large number of influencing parameters and differentiation of the properties.

Developments in the individual regions

Europe

Rents for first-class commercial property rose or remained stable during 2011 in the vast majority of European economic centres.

On average, high-quality retail properties registered the most marked increases in rents in Europe's economic centres. These were particularly high in Hamburg, Helsinki, Lyon and Warsaw. Rents in the segment rose in most other European economic centres, too, whilst remaining constant on only a few markets such as Copenhagen, the City of London, Paris, Prague and Rome. Falling rents in the first-class segment were only sporadic in the European economic centres, such as in Edinburgh.

Rents for first-class office premises remained stable or rose during the period under review in almost all European centres, whereby the increases were lower on average compared with retail properties. Rising rents for high-class office properties were seen in Berlin, London's West End, Moscow, Paris and Warsaw, among others. These rents were stable, on the other hand, in cities such as Frankfurt, Milan, Prague, Rome and Zurich. Rents fell only sporadically for first-class office properties too. This affected Barcelona, Edinburgh, The Hague and Madrid.

On average, rents on the markets for high-quality logistics properties in the European economic centres remained almost constant in 2011. London, Madrid, Paris and Warsaw were examples of stable logistics property rents. Rising rents were also registered in various markets such as Brussels, Frankfurt, Moscow and Rotterdam, while rents for first-class logistics properties fell in Berlin, The Hague, Copenhagen, Milan and Munich.

In general, the rental trend for properties assigned to the second-class segment lagged behind the first-class segment for all types of commercial property. This development reflects the high quality requirements of the tenants, especially of large companies.

The hotel sector improved in 2011 compared with the previous year, in terms of the important indicator of average revenues per available hotel room. This was driven largely by increases in the occupancy ratio and in average room rates. Deviating from the trend, average revenues per available hotel room fell, albeit only slightly, in only a few economic centres. This affected Berlin, Birmingham, Geneva and Zurich, whereby the hotel sector in Switzerland was burdened by the strong Swiss franc. Barcelona, London, Paris, Prague and Warsaw on the other hand, posted noticeably high growth in average revenues in 2011.

Investor interest focused predominantly on buying first-class properties. Demand was also stronger than in the previous year – albeit selective – for other properties promising investors development potential.

Overall, transaction volumes were up over the previous year. Investors' yield requirements from newly-acquired first-class properties declined slightly in many European economic centres. Examples of these were the office markets in the City of London, Moscow and Paris, the retail property markets also in the City of London, Stockholm and Warsaw, as well as the logistics property markets in Amsterdam, Hamburg and Moscow. Stagnating yield requirements were often reported too. Falling yield requirements (in otherwise identical circumstances) lead to higher prices, whereas higher yields lead to a price decline. However, higher yields were evident only sporadically for high-quality properties, such as in the office markets in Amsterdam and Brussels, and the logistics markets in Madrid, Milan and Rome.

Properties that are not included in the premium segment with regard to factors determining value lagged behind the high-quality properties, or those with stable cash flows, in terms of price performance.

Aareal Bank manages its market activities in the individual regions via sales centres (hubs). We have six regional hubs in Europe. The national sales unit in our Wiesbaden head office manages our market activities in Germany. Our London branch is responsible for managing market activities in the United Kingdom and in the Netherlands. Market activities in Belgium, Luxembourg, France, Switzerland and Spain are managed by our Paris branch. This function is managed by the Stockholm branch for Northern Europe. The branch in Rome is responsible for market activities in Italy, while our Warsaw branch manages market activities in Eastern Europe. Business in Turkey on the other hand, is managed by the sales unit of the sector specialists in Wiesbaden, since the specialist hotel and retail centre properties in Turkey require more international coverage.

We achieved new business of € 6.3 billion in Europe in the 2011 financial year. At € 4.0 billion, Western Europe[1)] accounted for the highest share thereof and also dominated transaction volumes on the European markets. We concluded new

[1)] The breakdown of the regions in the new business reporting deviates from the distribution structure described above. The volume of new business reported also includes new business initiated by our sector specialists.

business of € 1.0 billion in Northern Europe, followed by Southern Europe with € 0.8 billion and Eastern Europe with € 0.5 billion. We are not active in property financing in Greece, Ireland or Portugal.

North America (NAFTA states)

Rental interest for office, retail and logistics properties in the US in 2011 rose compared with the previous year, leading to a slight decline in the national average for vacancy ratios. Although the national average for rents on the markets for office properties rose, there were marked differences between the different regional markets. Office rents in New York and San Francisco, for example, climbed substantially compared with slight increases only in Boston and Los Angeles. They remained almost constant in Dallas whilst falling slightly on average in Chicago and Washington D.C. Overall, the office market in the US city centres outperformed the suburbs; the national average for vacancy ratios fell to a greater extent in the city centres and the increase in rents was more pronounced.

Rents on the logistics market in the US increased only marginally on national average, accompanied by a lower vacancy ratio. The market for retail property in the US improved slightly in terms of the vacancy ratio. However, rents fell slightly on national average. Regional differences were evident here too, with for example, a significant drop in rent in New York and constant rents in Boston.

The American hotel market enjoyed a marked recovery in the year under review. Average revenues per available hotel room rose considerably on national average in the USA. This was attributable to improved occupancy ratios as well as higher average room rates. San Francisco posted the highest increase in average revenues.

Investors in North America also focused on first-class properties, despite evidence of growing interest on properties not included in the top segment. The volume of commercial property transactions was up considerably on the previous year. Higher demand lowered investors' yield requirements for newly-acquired properties, which impacted on all types of commercial property.

We have an active presence in North America through our subsidiary Aareal Capital Corporation, which has an office in New York and also manages our new business activities there. New business amounted to € 1.6 billion and was accounted for almost exclusively by the US.

Asia

In China, the recovery on the rental markets in the metropolitan areas of Beijing and Shanghai continued, with the rents for first-class office, retail and logistics properties rising sharply. The office and logistics markets in Singapore also posted marked rent increases in the high-class segment, compared with a fall in rents for first-class retail properties. Rental levels for office and logistics properties were down in Tokyo, influenced by the earthquake catastrophe. Rents for retail properties also fell in some parts of Tokyo, while remaining stable in others. New efficient buildings that are able to withstand the effects of an earthquake were in demand in response to the earthquake catastrophe. None of the properties we financed in Japan suffered any material damages as a result of the earthquake.

The earthquake impacted significantly on the Japanese hotel market. Occupancy ratios and room rates, and therefore average revenues per available hotel room, fell sharply in Tokyo. Hotel revenues in Singapore and Beijing, on the other hand, posted strong growth rates. Revenues generated in Shanghai fell significantly compared with the previous year, when they benefited from the World Expo. On average, revenues per available hotel room increased in the Asian economic centres, which was largely due to higher room rates.

Transaction volumes for commercial property rose in Asia over the previous year – despite the earthquake catastrophe in Japan – albeit with noticeably lower growth rates than in North America and Europe. Yield requirements fell slightly on average in Asia but tended to stabilise in the course of the year.

Our Singapore subsidiary Aareal Bank Asia Limited is responsible for managing our market activities in Asia. We have a presence in China with our representative office in Shanghai. Our new business in Asia amounted to € 120 million in the year under review.

Pooling the resources of industry specialists across borders

The Wiesbaden-based team of sector specialists covering financial solutions for hotel, logistics and retail properties complete our distribution network. Assuming the role of competent key personnel, they are available to international investors as central points of contact. They also serve as internal consultants for specific issues related to the sectors they cover.[1]

Hotels

New business generated in hotel financing amounted to € 2.0 billion in 2011. The regional focus was on Western Europe (€ 0.9 billion), followed by North America (€ 0.8 billion).

Logistics properties

The regional focus was also on Western Europe (€ 1.0 billion) with regard to logistics properties, followed by Northern and Eastern Europe with almost the same volume of new business of over € 0.1 billion each. Total new business generated in financing logistics properties amounted to € 1.3 billion.

Retail properties

New business generated in financing retail properties amounted to € 1.6 billion, whereby Western Europe also accounted for the largest share thereof (€ 0.7 billion), followed by Northern Europe (€ 0.3 billion), Southern Europe and North America (more than € 0.2 billion each).

Consulting / Services segment

Institutional Housing Unit

The institutional housing industry in Germany proved stable also in 2011. This was supported mainly by largely constant rental income and long-term financing structures.

Investors in the institutional housing industry continued to focus on the renovation of their properties. These measures served to achieve higher housing standards on the one hand. Renovations were carried out on the other hand within the scope of energy-efficiency improvements, and due to necessary refurbishments to buildings required to make them suitable for the elderly.

The housing market benefited from the continued economic development in Germany during the year, although it was more moderate during the second half. Throughout Germany, rents offered were higher year-on-year. The rise in advertised rents was considerably higher in the major cities than in rural areas. This development was mainly a result of the gradual increase in the demand for apartments, coupled with only a slight increase in supply. This trend is evident above all in prospering economic centres and in university cities.

Rental development in the different regions remained heterogeneous. Demand for apartments was high in economically strong locations, especially driven by job creation. Weak economic locations and, above all, rural areas with high unemployment recorded rising vacancies. The vacancy ratio in the former West German Federal states was around 3 %, while around 8 % of apartments in East Germany are not rented.

Backed by the positive performance of the housing market, and due to the fact that capital markets were hardly predictable, demand for German residential property portfolios remained intact in 2011. All in all, apartments valued at just under € 6 billion were traded, a 57 % year-on-year increase (2010: € 3.8 billion). Investor interest focused mainly on smaller and medium-sized portfolios. Demand was particularly strong for apart-

[1] The new business figures for specific types of property, as stipulated in the sections below, are included in the regional new business data already shown above. They not only include new business initiated by the sector specialists for the respective types of property.

ments in Berlin, since the capital city benefited from low rents and a positive valuation as an economic location.

Both domestic and international institutional investors showed an interest in the German residential property market. The share of international investors was around 29 % in 2011 and was therefore down on the previous year (around 38 %), although the investment amount increased in absolute terms. Buyers for existing portfolios were mainly listed property companies, equity / property funds, property companies and private investors. Project developments in major cities were predominantly in demand by institutional investment funds, insurance companies and pension funds.

The bank's Institutional Housing Unit further strengthened its market position in 2011 through acquiring new clients as well as intensifying the business relationships with existing clients, acquiring more than 80 new clients for payments and deposit-taking from the institutional housing industry, managing between them more than 230,000 residential units. Existing business partners in commercial property management connected more managed units to our processes. Eight companies from the utilities and waste disposal industry opted for our payment systems and / or investment products. This brings the number of business partners currently using our process-optimising products and banking services to more than 2,700.

Despite continued intense competition, the volume of deposits from the institutional housing industry remained unchanged at € 4.7 billion in the 2011 financial year (2010: € 4.1 billion). Deposits averaged € 4.9 billion in the fourth quarter of 2011. This reflects the strong trust placed in Aareal Bank by our clients. With a 12 % increase in 2011, we once again succeeded in significantly growing the volume of deposits over the previous year, especially in rent deposits. The Aareal Account rent deposit product, which was introduced in 2011 in addition to our classic BK 01 deposits management, met with good market response, as did BK 01 immoconnect for energy and waste disposal companies.

Aareon AG

Sustainable property management and development continues to be one of the important topics for the property sector, as well as the optimisation of business processes and the acquisition and retention of tenants. The application of user-friendly software – tailored to meet the needs of the property sector – is fundamentally important here. This does not necessarily require a great range of in-house hardware: using cloud computing – one of the key current trends in the IT sector – companies can retrieve IT solutions from services providers through a network. This allows for an efficient deployment of IT investments, keeping administrative expenditure low.

Aareon AG consistently integrates these requirements and trends in its broad range of products. Country-specific ERP products are at the core of Aareon Group's product portfolio. The ERP systems facilitate efficient process design in property management as well as a wide range of analytic options to support management decisions. With its ERP multi-product strategy in Germany, Aareon meets the various requirements across the board on the property market. It offers the ERP products Wodis Sigma and SAP®-based solutions such as Blue Eagle, and the GES system. The international subsidiaries offer ERP systems that are tailored to meet the needs of the respective market. These are Prem'Habitat and PortalImmo Habitat in France, QL in the UK, as well as SG|tobias and the new product generation SG|tobias^{AX} in the Netherlands. In conjunction with sector-specific advisory services (ERP, SAP®, process and IT advisory services), all of these systems offer great benefit to their users. Integrated services and sector-specific supplementary solutions complement the product portfolio. Their functions include the collaboration between property companies and their business partners, to improve process efficiency. These include web-based solutions, service portals and document management systems. In Germany, Aareon also offers IT processing services that are provided by the certified data-processing centre in Mainz, including Software as a Service (SaaS) from the exclusive Aareon Cloud.

The positive development of the Wodis Sigma product generation that Aareon launched in 2009 continued in 2011 too. Wodis Sigma is based on one of the leading international development platforms, Microsoft®.NET™. More than 377 clients have already opted for Wodis Sigma, 56 alone in 2011 – such as Freiburger Stadtbau GmbH, the largest housing enterprise in southern Baden. Wodis Sigma is being developed on a permanent basis, and is adjusted to satisfy the clients' requirements. Aareon presented the new Wodis Sigma Release 3.0 at the annual Wodis Sigma Forum congress held in Bochum in November. Alongside to the licence model, Aareon offers its clients more opportunities to subscribe to Software as a Service (SaaS) from the Aareon Cloud, and to benefit from the advantages of cloud computing tailored to the needs of the institutional housing industry. Aareon Cloud is an "exclusive cloud" that is available only to the Aareon client base. Data is held in Aareon's data-processing centre located in Mainz, which guarantees data security and protection at the highest level. Parallel to the Wodis Sigma Release 3.0, clients can also acquire additional applications from the Aareon Cloud. Aareon Cloud clients pay long-term charges for SaaS usage, but do not need to buy a licence.

In the SAP® solutions and Blue Eagle product lines, Aareon offers the Blue Eagle solution that combines SAP® functionality with property management expertise, as well as a care and advisory service related to the ERP system SAP® Real Estate Management. Alternatively, clients may choose to have their own SAP® system customised by Aareon and expanded in line with their specifications. The market for SAP®-related projects remained subdued in 2011, as expected. Demand was concentrated on Aareon's SAP® consultancy services. Furthermore, Blue Eagle Individual was rolled out on schedule in 2011 for STADT UND LAND Wohnbautengesellschaft mbH, Berlin. The preparations for the production rollout at the start of 2012 at LEG Landesentwicklungsgesellschaft NRW GmbH, Dusseldorf, which manages more than 90,000 residential properties, were also on schedule.

The volume of business with the established GES system remains stable. The two GES versions rolled out during 2011 included some key functional enhancements, such as GES client contact management, GES contract management and the optimisation of the invoicing process through the Aareon invoicing service.

Aareon offers its integrated payments service in cooperation with Aareal Bank; this is integrated with Aareon's ERP systems. The BK 01® payments system can be used for the Wodis Sigma, GES and WohnData systems, and the BK XL® system (which includes integrated digital signature functionality) for SAP®-based Blue Eagle.

The Integrated Services product line continued to develop favourably. Demand was particularly strong for the Mareon service portal, which networks housing enterprises, calorimetric systems providers, and tradesmen. The portal celebrated the tenth anniversary of its launch in 2011. Some 250 property companies and 8,500 craftsmen use Mareon to simplify their processes. Aareon also introduced the first iPhone app for Mareon. Demand in the product line was also concentrated on the document management system Aareon DMS, the insurance management solution BauSecura and Aareon's invoicing service to automate the invoicing process.

The international business – where Aareon focuses on key strategic markets – remained positive during the period under review, accounting for more than a quarter of Aareon Group's sales revenues. Within the scope of its product and business development, Aareon Group benefits from the constant exchange of information and experience on an international level. Areas of synergy (business models, technologies, cooperation partners) are systematically identified and exploited. Aareon France for example, has also cooperated with SAP since 2011, and the first systems of the Dutch subsidiary SG|automatisering were installed in Aareon's data-processing centre in Mainz.

Aareal France SAS's business development remained satisfactory in 2011, as expected. The market response to the new ERP product generations

Prem'Habitat 2.0 and PortalImmo Habitat 2.0 was positive. The important French property management company, Le Foyer Remois, Reims, which manages 17,000 rental units, was acquired as a client for PortalImmo Habitat 2.0. In addition, two major projects to establish internet portal sites were concluded with Batigère, Metz, and Groupe Valophis, Saint-Maur-des-Fossés. Aareon France signed a partnership agreement with SAP in June and has been authorised to sell SAP® licences in the contractually-agreed market segment since the third quarter 2011. Aareon France can also draw on the experience and know-how of Aareon Deutschland. The first sales success was recorded already in September, when the major French supermarket chain Monoprix S.A., Clichy, decided in favour of Aareon's SAP® REM (Real Estate Management) solution.

Aareon UK offers the QL ERP solution, for which another eight clients were acquired in 2011. These include UK Peabody, London – one of London's oldest and largest housing enterprises with 19,000 rental units, and NPT Homes Ltd., Neath Port Talbot, with 9,000 rental units. Somer Housing Group, Bath, in the southwest of England, was also acquired as a new client for QL Housing. Business development developed favourably, in line with planning. In the 2011 financial year, Aareon UK entered into a partnership with Documotive, Sutton Coldfield, to offer document management solutions for the institutional social housing industry.

Business developed favourably for SG|automatisering bv. The leading housing enterprises Stadlander (managing more than 14,000 rental units), Bergen op Zoom and Groenwest (more than 13,000 rental units), Woerden, opted for the ERP system SG|tobias[AX]. The new product generation introduced in 2010 is already well established. The large client De Alliantie, Hilversum, with around 65,000 rental units, extended its contract for SG|tobias for another five years. The Noord Brabant province decided in favour of the Facilitor 5i facility management system, preceded by a public tender on European level. Aareon had acquired SG|automatisering bv in the 2010 financial year. The market responded very favourably to the takeover.

Financial Position and Performance

Financial performance

Consolidated net income

Consolidated operating profit increased significantly year-on-year, by € 51 million to € 185 million. The rise was largely due to the operating earnings items of net interest income and net commission income.

Consolidated net interest income for the financial year under review amounted to € 547 million (2010: € 509 million). The increase was largely due to higher average margins achieved in the lending business. Margins from the deposit-taking business with the institutional housing industry declined, due to lower interest rate levels – which persisted for longer than anticipated.

At € 112 million, allowance for credit losses in the 2011 financial year was roughly in line with the previous year.

The marked improvement in net commission income of € 144 million reflected – amongst other things – lower running costs of € 21 million for the guarantee facility extended by SoFFin, compared with € 30 million in 2010. The item also included, for the first time, full net commission income of € 17 million (2010: € 4 million) from SG|automatisering bv, which was acquired in the fourth quarter of 2010.

Net trading income / expenses, results from non-trading assets and the net result on hedge accounting totalled € -9 million after € -6 million the year before. Net trading income / expenses was primarily attributable to the measurement of derivatives used to hedge interest rate and currency risks, as well as to unrealised changes in value from the sale of hedges for selected EU sovereign countries. Results from non-trading assets were defined largely by the sale of fixed-income securities within the scope of active portfolio management.

Consolidated Income Statement of Aareal Bank Group

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Net interest income	547	509
Allowance for credit losses	112	105
Net interest income after allowance for credit losses	**435**	**404**
Net commission income	144	123
Net result on hedge accounting	6	-2
Net trading income/expenses	14	8
Results from non-trading assets	-29	-12
Results from investments accounted for using the equity method	1	5
Net income from investment properties	10	-17
Administrative expenses	382	366
Net other operating income/expenses	-14	-9
Impairment of goodwill	0	0
Operating profit	**185**	**134**
Income taxes	52	40
Net income/loss	**133**	**94**
Allocation of results		
Net income/loss attributable to non-controlling interests	19	18
Net income/loss attributable to shareholders of Aareal Bank AG	114	76
Appropriation of profits		
Net income/loss attributable to shareholders of Aareal Bank AG	114	76
Silent participation by SoFFin	21	30
Consolidated net income/loss	**93**	**46**

The result from investment properties of € 10 million was mainly attributable to rental income. Last year's result of € -17 million was burdened by a non-recurring charge recognised for the repositioning of a property.

Administrative expenses of € 382 million increased over the previous year (€ 366 million). The increase was largely attributable to the bank levy (€ 5 million) that was imposed for the first time in 2011, and full-year administrative expenses of € 14 million (2010: € 3 million) incurred for the first time for SG|automatisering bv that was acquired in the fourth quarter of 2010.

Taking into account net other operating income and expenses of € -14 million (2010: € -9 million), consolidated operating profit for the 2011 financial year amounted to € 185 million (2010: € 134 million). After deduction of taxes of € 52 million and € 19 million in income attributable to non-controlling interests, net income attributable to shareholders of Aareal Bank AG amounted to € 114 million (2010: € 76 million). After deduction of the € 21 million net interest payable on the SoFFin silent participation, consolidated net income stood at € 93 million (2010: € 46 million).

Structured Property Financing segment result

At € 165 million, the operating profit achieved in the Structured Property Financing segment was significantly higher than the figure for the previous year (€ 108 million).

Structured Property Financing segment

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Net interest income	508	467
Allowance for credit losses	112	105
Net interest income after allowance for credit losses	**396**	**362**
Net commission income	2	-9
Net result on hedge accounting	6	-2
Net trading income/expenses	14	8
Results from non-trading assets	-29	-13
Results from investments accounted for using the equity method	0	5
Net income from investment properties	10	-17
Administrative expenses	217	217
Net other operating income/expenses	-17	-9
Impairment of goodwill	0	0
Operating profit	**165**	**108**
Income taxes	46	32
Segment result	**119**	**76**
Allocation of results		
Segment result attributable to non-controlling interests	17	16
Segment result attributable to shareholders of Aareal Bank AG	102	60

Net interest income posted by the segment for the financial year under review amounted to € 508 million after € 467 million the previous year. The increase in net interest income was largely based on the higher average margins achieved in the lending business.

At € 112 million, the allowance for credit losses in the 2011 financial year was roughly in line with the previous year.

Net commission income of close to zero (2010: € -9 million) reflected – amongst other things – € 21 million in running costs for the guarantees extended by SoFFin, which amounted to € 30 million the year before.

Net trading income/expenses, results from non-trading assets and the net result on hedge accounting totalled € -9 million after € -6 million the year before. Net trading income/expenses was primarily attributable to the measurement of derivatives used to hedge interest rate and currency risks, as well as from unrealised changes in value from the sale of hedges for selected EU sovereign countries. Results from non-trading assets were defined largely by the sale of fixed-income securities within the scope of active portfolio management.

Net income from investment properties amounted to € 10 million and was attributable mainly to rental income. Last year's result of € -17 million was burdened by a non-recurring charge recognised for the repositioning of a property.

At € 217 million, administrative expenses in the Structured Property Financing segment were unchanged from last year (€ 217 million), despite the bank levy of € 5 million that was imposed for the first time.

Net other operating income/expenses of € -17 million (2010: € -9 million) included other expenses incurred in conjunction with own property holdings.

Overall, consolidated operating profit in the Structured Property Financing segment amounted to € 165 million, after € 108 million the year before. After deduction of tax expenses of € 46 million and € 17 million in non-controlling interest income, the segment result was € 102 million (2010: € 60 million).

Consulting / Services segment result

Operating profit in the Consulting/Services segment amounted to € 20 million (2010: € 26 million). While Aareon AG's business continued to develop on schedule, the prevailing low interest rate environment – which persisted for longer than anticipated – burdened profitability in the deposit-taking business.

Sales revenues amounted to € 203 million in the 2011 financial year (2010: € 199 million). The increase was accounted for by, amongst other things, the sales revenue recognised for the first time over the entire period under review from SG|automatisering bv, which was acquired by Aareon in the fourth quarter of 2010 (2011: € 20 million, 2010: € 5 million). On the other hand, the low interest rate environment burdened the margins from the deposit-taking business that are reported in revenues. The volume of deposits placed in this segment increased significantly, despite still intense competition; it averaged € 4.7 billion in the 2011 financial year (2010: € 4.1 billion).

Staff expenses of € 112 million were up on the previous year (2010: € 100 million). Expenses for the financial year under review include personnel costs of € 10 million (2010: € 2 million) incurred over the entire period under review for the first time for the Dutch subsidiary SG|automatisering bv, acquired by Aareon in the fourth quarter 2010.

On the whole, other income items were roughly unchanged from the previous year.

On balance, the Consulting/Services segment generated operating profit of € 20 million (2010: € 26 million). After deduction of € 6 million in

Consulting / Services segment

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Sales revenue	203	199
Own work capitalised	2	2
Changes in inventory	0	0
Other operating income	8	8
Cost of materials purchased	20	23
Staff expenses	112	100
Depreciation and amortisation	13	13
Results from investments accounted for using the equity method	1	–
Other operating expenses	49	47
Interest and similar income/expenses	0	0
Operating profit	**20**	**26**
Income taxes	6	8
Segment result	**14**	**18**
Allocation of results		
Segment result attributable to non-controlling interests	2	2
Segment result attributable to shareholders of Aareal Bank AG	12	16

taxes and € 2 million in non-controlling interest income, the segment result stood at € 12 million (2010: € 16 million).

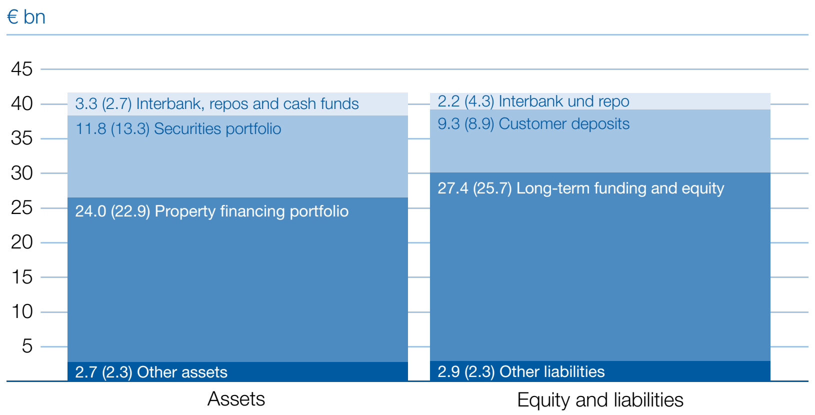
Net assets

Consolidated total assets of Aareal Bank Group as at 31 December 2011 amounted to € 41.8 billion, after € 41.2 billion as at 31 December 2010.

Interbank deposits, repos, and cash funds

Interbank deposits, repos, and cash funds comprise short-term investments of surplus liquidity. As at 31 December 2011, this comprised predominantly cash funds and deposits with central banks, term deposits and current account balances with other banks.

Statement of financial position – structure as at 31 Dec 2011 (31 Dec 2010)



Property financing portfolio

Portfolio structure

The volume of Aareal Bank Group's property financings[1] expanded from € 22.9 billion to € 24.0 billion in 2011. This equates to an increase of approx. 5 %.

[1] As at 31 December 2011, the portfolio of property financings under management totalled € 24.3 billion (2010: € 23.3 billion). Property financings under management include the property financing portfolio managed for Deutsche Pfandbriefbank AG.

At the 2011 reporting date, Aareal Bank Group's property financing portfolio was composed as follows, compared with year-end 2010:

The bank achieved its target of maintaining a high level of diversification within the portfolio. The allocation of the portfolio by region and continent changed only marginally in 2011, compared with the end of the previous year. The proportion of portfolio exposures to Germany, Asia, Southern, Eastern and Northern Europe was down slightly, compared with an increase in the share accounted for by Western Europe and North America.

The allocation of the portfolio by property type remained more or less unchanged during the year under review, whereby the share of hotel property financings was increased. This development reflects the attractive hotel financing opportunities the bank was able to exploit during the period under review. By contrast, the share of office and residential property financings of the overall portfolio fell slightly.

All in all, the high degree of diversification by region and property type within the property financing portfolio was maintained in 2011, too.

Portfolio development

New business (including renewals) amounted to € 8.0 billion in the 2011 financial year. We consider this volume to be a very good result, in light of the market conditions.

Repayments on the property financing portfolio include all types of scheduled and unscheduled principal payments by clients. Repayments of € 3.2 billion (2010: € 2.0 billion) in 2011 rose especially due to some large-volume individual transactions. Based on the portfolio at year-end 2010, this represents a repayment ratio of 14.1 % (2010: 9.3 %).

This development is attributable to the higher volume of investments in the property markets compared with previous years. The share of new loans extended in new business rose considerably over 2010. Aareal Bank also utilised the opportunities the repayments presented to optimise the portfolio through attractive new business.

A portion of the property financing portfolio has been committed in foreign currencies. Exchange rate fluctuations impacted on the performance of the euro equivalent of the portfolio volume. Some currencies fluctuated considerably against the euro in 2011, in particular, the US dollars, the pound sterling and the Swiss franc, thus influencing the portfolio volume in the course of the year. At year-end, the euro exchange rate had predominantly eased – slightly in some cases – relative to the foreign currencies compared with the start of the year. This development raised the portfolio volume.

We reached the target set for 2011 of significantly raising the share of loans included in the cover assets pool. The volume of loans included in cover for Mortgage Pfandbriefe increased further during the year under review: as at 31 December 2010, it reached € 8.5 billion and climbed some € 1.7 billion as at 31 December 2011, to reach € 10.2 billion. This equates to an increase of approx. 20 %.

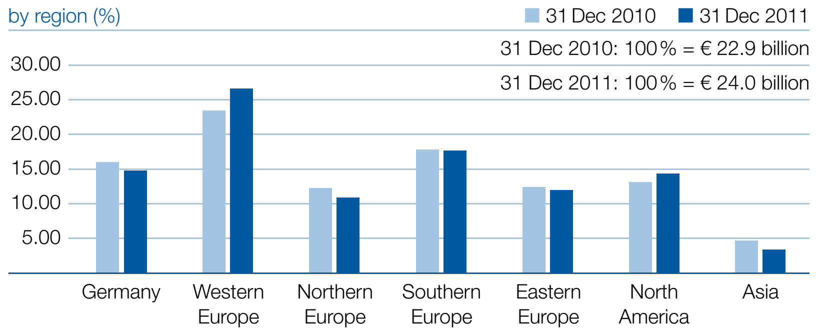
The market for syndicating commercial property loans developed somewhat more positively than in the previous year, so that we could conduct more syndications with our international network of partner banks, achieving a higher volume of syndicated loans during the 2011 period under review. The bank raised the total volume of syndications further compared with 2010, to € 404 million. However, the focus remained on renewals and on maintaining existing syndications.

No securitisations were carried out during the reporting period.

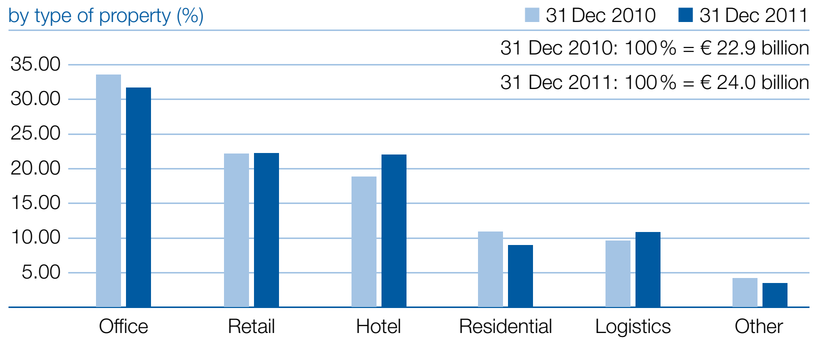
Securities portfolio

Commensurate with the still volatile market environment, the liquidity reserves maintained are invested in a high-quality securities portfolio. Aareal Bank can quickly deploy the portion of the securities portfolio serving as a liquidity reserve, for example, through repo transactions on the money market.

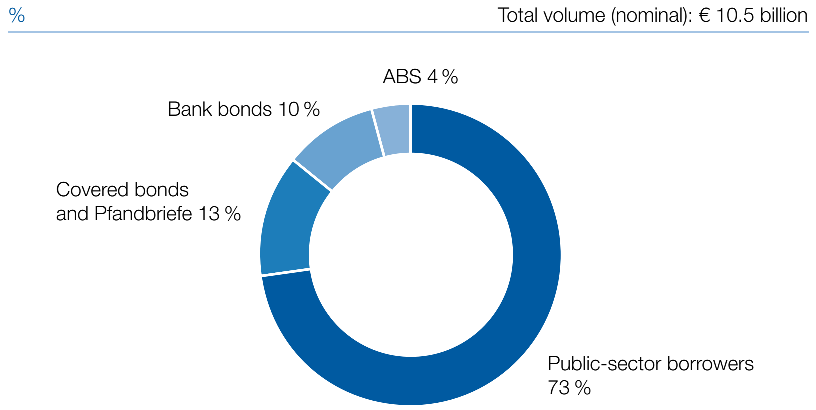
Property financing volumes (amounts drawn)



Property financing volumes (amounts drawn)



Securities portfolio as at 31 December 2011



As at 31 December 2011, the securities portfolio[1] with a nominal value of € 10.5 billion (2010: € 12.3 billion) comprised the four assets classes of public-sector borrowers, covered bonds and Pfandbriefe, bank bonds and asset-backed securities (ABS). 96 % of the overall portfolio is denominated in euros. 98.3 %[2] of the portfolio has an investment grade rating.

Public-sector borrowers are the largest asset class held, accounting for a share of approx. 73 %. These include securities and promissory note loans[3] that qualify as ordinary cover for Public-Sector Pfandbriefe; these comprise predominately notes from or guaranteed by public-sector issuers. 97 % of the public-sector borrower asset class are issuers domiciled within the EU. Some 75 % are rated "AAA" or "AA", and a further 22 % are rated "A". Overall, 98 % have an investment grade rating.

The share of Pfandbriefe and covered bonds at year-end was approx. 13 %. 95 % consists of European covered bonds, with the remainder invested in Canadian covered bonds. Overall, 93 % were rated "AAA" or "AA".

The bank bond asset class is made up mainly of European issuers with high credit quality. The share of this asset class was approx. 10 % at year-end. All securities were rated at least "A".

Additionally, around 4 % of the securities portfolio is invested in ABS securities, of which some 82 % are European mortgage-backed securities. The asset class comprises 64 % RMBS, 25 % CMBS, and 11 % asset-based securities on car and student loans.

[1] As at 31 December 2011, the securities portfolio was carried at € 11.8 billion (2010: € 13.3 billion).
[2] All rating details are based on composite ratings.
[3] Promissory note loans carried as assets are reported in the IFRS statement of financial position under "Loans and advances to banks" and "Loans and advances to customers".

Financial position

Interbank and repo business

In addition to client deposits, Aareal Bank Group uses interbank and repo transactions for short-term refinancing, the latter being used primarily to manage liquidity and cash positions.

The funding portfolio as at 31 December 2011 included € 1.3 billion in funds raised via repo transactions as well as € 0.9 billion from other interbank transactions.

No open-market transactions were concluded with the ECB during 2011. No fixed-rate repurchase transactions were outstanding as at 31 December 2011.

Customer deposits

As part of our activities on the money market, we generate deposits from institutional housing clients, and from institutional investors. The volume of deposits from the institutional housing industry increased during the reporting period, reaching € 4.8 billion (2010: € 4.5 billion) as at 31 December 2011. Deposits from institutional investors also increased slightly in 2011, amounting to € 4.5 billion (2010: € 4.4 billion) as at 31 December 2011.

Long-term funding and equity

Equity

On 14 April, the Management Board of Aareal Bank AG resolved, with the approval of the Supervisory Board, to increase the Company's share capital in a rights issue against cash contributions. 17,102,062 new ordinary bearer shares with a proportionate share in the nominal share capital of € 3.00 per share were issued. As a result, the Company's share capital increased from € 128 million to € 180 million. Gross issue proceeds amounted to € 270 million.

As at 31 December 2011, Aareal Bank Group's consolidated equity amounted to € 1.6 billion, excluding the SoFFin silent participation contribution of € 300 million and trust preferred securities of € 243 million.

Funding structure

Aareal Bank Group's funding is solid, as evidenced by the high proportion of long-term refinancing. This encompasses registered and bearer Pfandbriefe, promissory note loans, medium-term notes, other bonds and subordinate issues, including subordinated liabilities, profit-participation certificates, silent participations and trust preferred securities. As at 31 December 2011, the long-term refinancing portfolio amounted to € 25.8 billion. Mortgage Pfandbriefe accounted for € 8.1 billion and Public Sector Pfandbriefe for € 3.5 billion, whilst € 14.2 billion was made up of long-term unsecured and subordinated bonds and registered securities.

Overall, the share of Pfandbriefe as a proportion of total refinancing in 2011 once again increased over the previous year.

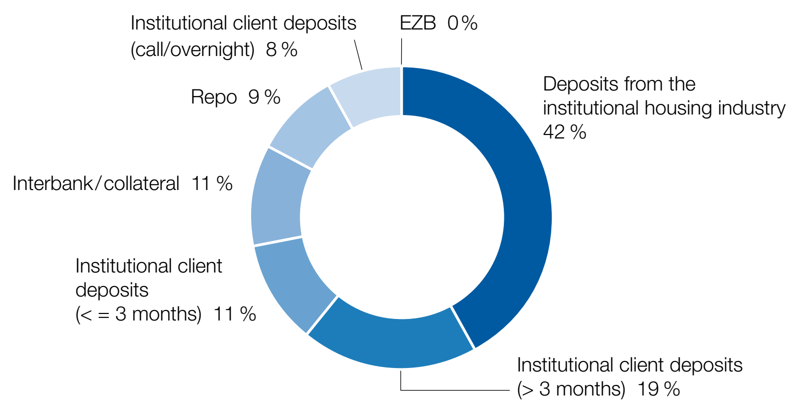
Refinancing activities

During the period under review, Aareal Bank succeeded in raising a total of € 4.3 billion of medium- and long-term funds on the capital market. The issue volume of long-term unsecured funds amounted to € 1.6 billion. Mortgage Pfandbriefe accounted for € 2.5 billion of the total volume and Public Sector Pfandbriefe for € 0.2 billion. This highlights how very important the Pfandbrief remains to Aareal Bank's refinancing mix. Of the various privately- and publicly-placed issues, particular mention should be made of the two benchmark Mortgage Pfandbriefe placed in January and June 2011, with terms of three and five years respectively, and an issue volume of € 500 million each. We also successfully placed a three-year € 500 million bearer bond on the capital market in May 2011.

Despite the still challenging situation on the financial markets, we successfully executed all of our funding activities as scheduled and had already reached our funding targets for the year as a whole in the third quarter.

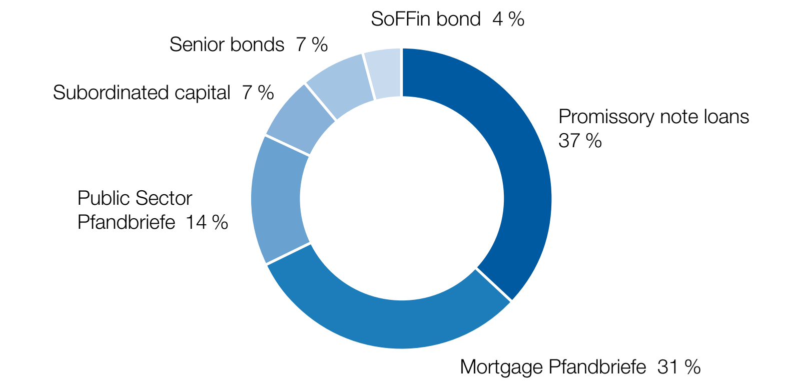
Money market funding mix as at 31 December 2011

% Total volume: € 11.5 billion



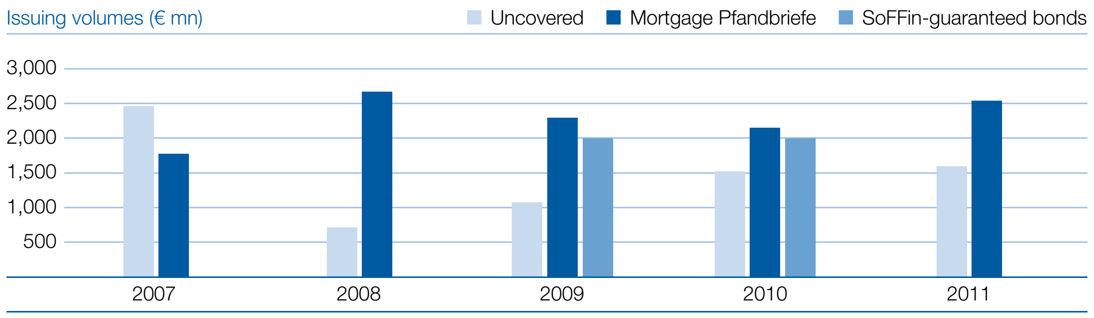
Capital market funding mix as at 31 December 2011

% Total volume: € 25.8 billion



In April 2011, we already carried out an early redemption of the SoFFin-guaranteed € 2 billion bond maturing in June 2013, which the bank had held on its own books, in agreement with SoFFin. This step was another indication of Aareal Bank's good funding situation, which was also highlighted by the early partial redemption of the remaining SoFFin-guaranteed notes maturing in March 2012. At the beginning of July, we invited our investors holding these debt securities to redeem their notes early. Investors took up our offer in an amount of just under € 0.8 billion. When this bond matures

Issuing activities – 2007 to 2011



in March 2012, the guarantee facility extended by SoFFin will be repaid in full.

Regulatory indicators

Aareal Bank AG has opted to determine regulatory indicators at Group level only since 2007, applying the regulation of section 2a (6) of the German Banking Act (KWG). In this respect, the following disclosures relate to Aareal Bank Group.

Regulatory indicators pursuant to AIRBA

	31 Dec 2011[1)]	31 Dec 2010
€ mn		
Tier 1 capital	2,501	2,284
Total own funds	2,988	2,910
Risk-weighted assets (incl. market risk)	15,313	17,663
%		
Tier 1 ratio	16.3	12.9
Total capital ratio	19.5	16.5

[1)] After confirmation of Aareal Bank AG's financial statements for 2011. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2011 is subject to approval by the Annual General Meeting.

Our Employees

Age structure and fluctuation

The fluctuation ratio for 2011 was 2.8 %. The average number of years in service for the company is 13. These two figures are a reflection of the strong relationship of the employees with the company. On average, our employees are 43.9 years of age.

Remuneration system

The remuneration systems are based on remuneration principles that apply throughout Aareal Bank Group. When the German Ordinance on Remuneration in Financial Institutions (Institutsvergütungsverordnung) incorporating external advisors and the employee representative bodies came into force, the remuneration structures at Aareal Bank AG and bank-related subsidiaries were adjusted in line with the regulatory requirements on the basis of these principles. The modified systems came into effect as at 1 January 2011.

In addition to the fixed remuneration that is paid in twelve monthly instalments, all employees receive a variable remuneration. These variable remuneration components are performance-related and are generally paid directly with the salary for the month of April. The variable remuneration of a limited number of employees (senior executives and so-called risk takers) comprises a short-term and a long-term component. The limitation of variable remuneration components is designed to avoid negative incentives for taking disproportionately high risks.

Salaries are reviewed annually, to ensure that individual remuneration packages are appropriate. The objective is to offer a remuneration level that

Personnel data as at 31 December 2011

	31 Dec 2011	31 Dec 2010	Change
Number of employees of Aareal Bank Group	2,353	2,407	-2.2 %
Number of employees of Aareal Bank AG	942	999	-5.7 %
of which: outside Germany	111	121	-8.3 %
of which: women	45.0 %	46.0%	
Share of women in executive positions	23.2 %	23.2 %	
Years of service	13.0 years	12.0 years	1.0 years
Average age	43.9 years	43.0 years	0.9 years
Fluctuation rate	2.8 %	2.0 %	
Share of part-time employees	18.5 %	17.4 %	
Pensioners and their surviving dependants	553	573	-3.5 %

is both appropriate and attractive to all Group employees.

Qualification and training programmes

Aareal Bank invests in its employees on an ongoing basis, and in a targeted manner. The emphasis is on supporting specialist, entrepreneurial and communicative skills over the long term. The international orientation is particularly important to the bank in relation to continuing professional development (CPD). Specifically, this involves training to achieve and expand linguistic and cultural competencies.

Aareal Bank believes that promoting qualification and continued professional development (CPD) is one of the fundamental principles of professional development. This is underlined by a broad range of management, qualification and training programmes offered by our internal corporate university "Aareal Academy".

Aareal Academy's specialist seminars were established in a cooperation between Human Resources and the bank's specialist divisions. Within the scope of the strategic personnel development programme, Human Resources thus developed tailor-made training programmes that were adjusted to meet the bank's various functions and requirements.

One key focal point in the 2011 financial year was on managing projects, conflicts, and change. The bank's managers were also supported through coaching measures.

The outcome of this systematic Human Resources development approach is that Aareal Bank employees invested almost one working week a year on average in professional development seminars and workshops in 2011.

Aareal Bank views its training and CPD activities as an investment in its own employees, and therefore in the future of the entire Group. The "Structured Appraisal and Target Setting Dialogue", Aareal Bank's employee review, is the starting point for the individual development plans. Once again, more than 1,000 development measures were agreed between management and employees at the start of 2011. As a result of these plans, 3,217 employees participated in Aareal Bank's training measures during the year under review. This represents an increase of 5 % over 2010.

The procedure for assessing potential, which was introduced already in the 2010 financial year, was cemented further in 2011 as a standard tool prior to the transfer of a management duty or specialist expert position. This tool systematically selects employees and guides them to new areas of responsibility.

The long-standing cooperation with the European Business School (EBS) and its Real Estate Management Institute (REMI) remained a fixed component of the training and professional development concept during the year under review. Within the scope of the cooperation, the bank's employees are offered the chance to participate in the executive courses of study that are specific to the property sector, or in events arranged by this partner institute of higher education.

With the Aareal Foundation Chair for Property Investment and Financing at the EBS Real Estate Management Institute (EBS-REM), Aareal Bank is one of the most important supporters of the college.

Group subsidiary Aareon AG implemented the training measures that were determined by the development centre for executives in the 2011 financial year. New executives also participated in a development centre in 2011. The training also focused on enhancing the qualifications of facilitators, training offers for the Wodis Sigma product line plus the revival of the training programme to become a certified Property Manager at the HfWU Hochschule für Wirtschaft und Umwelt Nürtingen-Geislingen.

Promoting the next generation

Promoting the next generation through training is a central element of our HR work. To this end, Aareal Bank has been offering a tailored trainee programme for university graduates since 2000. The programme was extended during the period under review, to include an additional component, namely the "Generation Workshop". This workshop aimed at promoting communication between the different generations and initiating mutual learning processes. The two-day workshop was organised by six Aareal Bank trainees and was a great success.

Besides the trainee programme, new entrants starting out in Aareal Bank Group also have a choice of a range of training programmes. Our subsidiary Aareon AG offers vocational training in various careers: office administrator, IT applications developer, IT system integrator. It also offers the dual course of study "business administration – property manager" in cooperation with the University of Cooperative Education in Leipzig and the Baden-Wuerttemberg Cooperative State University (DHBW) in Mannheim. Within the scope of promoting the next generation, Aareal Bank Group also offers pupils and students the opportunity to gain their first impressions of the professional world and Group divisions by actively participating in internships. The work placement programme was continued successfully during the year under review.

Aareal Bank also supports the Chamber of Commerce (IHK) in Wiesbaden by providing guest speakers at workshops and events held for pupils.

Work/life balance

Aareal Bank supports the compatibility of career and family amongst its staff. The bank has supported "Fit For Family Care", a non-profit organisation which operates two crèches in Wiesbaden, since 2008.

The company also cooperated with the City of Wiesbaden to offer childcare facility to its employees during the school holidays.

Another step taken during the year under review was to improve the work/life balance at Aareal Bank by setting up a parent-child room at the Wiesbaden office. This allows employees to bring their children to the office on a spontaneous basis, to cover any short-term lapses in childcare.

We also offer our employees – provided the position allows it – the opportunity to incorporate home working into their working hours, as well as offering flexible part-time working arrangements.

In 2011, the Aareon AG subsidiary was once again certified as a family-friendly company by berufundfamilie gGmbH, a non-profit organisation Aareon first obtained this certification back in 2008.

Report on Material Events after the Reporting Date

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

Risk Report

Aareal Bank Group Risk Management

The ability to manage risks in a responsible and targeted manner is an elementary prerequisite for a bank's stability and commercial success. Accordingly, professional risk management is at the core of any business decision we take. Against this background, we have developed a comprehensive system for the identification, measurement, limitation and control of risk, which we continuously update and expand.

Risk management – scope of application and areas of responsibility

Aareal Bank Group's business activities comprise the Structured Property Financing and Consulting/Services segments. Aareal Bank AG, as the parent entity of the Group, has implemented extensive systems and procedures to monitor and manage the Group's risk exposure.

Uniform methods and procedures are deployed to monitor the risks generally associated with banking business across all entities of Aareal Bank Group. Since the risks the Consulting/Services segment is exposed to differ profoundly from those of the banking business, specific risk monitoring methods have been developed and deployed to suit the relevant risk exposure at the respective subsidiary. In addition, risk monitoring for these subsidiaries

Overall responsibility:
Management Board and Supervisory Board of Aareal Bank AG

Type of risk		Risk management	Risk monitoring
Market price risks		Treasury, Dispo Committee	Risk Controlling
Liquidity risks		Treasury	Risk Controlling
Credit risks	Property Finance Single exposures	Credit Business Market, Credit Management	Risk Contolling, Credit Management
Credit risks	Property Finance Portfolio risks	Credit Management, Credit Portfolio Management	Risk Controlling
Credit risks	Treasury business	Treasury, Counterparty and Country Limit Committee	Risk Controlling
Credit risks	Country risks	Treasury, Credit Management, Counterparty and Country Limit Committee	Risk Controlling
Operational risks		Process owners	Risk Controlling
Investment risks		Corporate Development	Risk Controlling, Corporate Developement, Controlling bodies

Process-independent monitoring: Audit

at Group level is carried out via the relevant control bodies of the respective entity, and equity investment controlling.

Overall responsibility for risk management and risk monitoring remains with the Management Board and the Supervisory Board of Aareal Bank. The adjacent diagram provides an overview of the responsibilities assigned to the respective organisational units.

Strategies

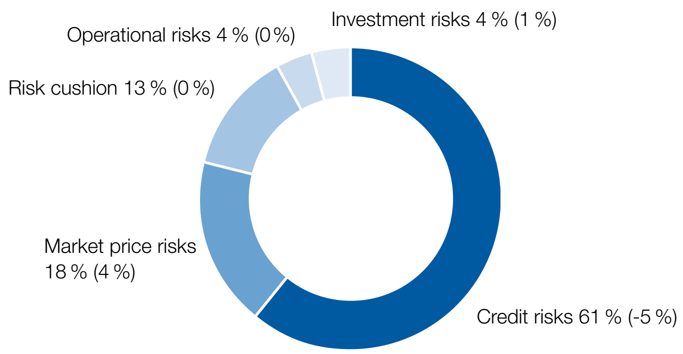
The business policy set by the Management Board, and approved by the Supervisory Board, provides the conceptual framework for Aareal Bank Group's risk management. Taking this as a basis, and strictly considering the bank's risk-bearing capacity, we have formulated detailed strategies for managing the various types of risk. These strategies are designed to ensure a professional and conscious management of risks. Accordingly, these strategies include general policies, to ensure a uniform understanding of risks across all parts of the bank, and providing a cross-sectional, binding framework applicable to all divisions. The bank has implemented adequate risk management and risk control processes to implement these strategies, and to safeguard the bank's risk-bearing capacity. During the financial year under review, risk strategies as well as the bank's business strategy were adapted to the changed environment, and the new strategies adopted by the Management Board and the Supervisory Board.

Risk-bearing capacity and risk limits

The bank's ability to carry and sustain risk – which is defined by the amount of aggregate risk cover – is a core determining factor governing the structure of its risk management system. This comprises the core capital minus any negative book/market value differences in the securities portfolio, plus the budgeted net income before taxes. The calculation does not include additional funds such as supplementary and subordinated capital. The aggregate risk cover is updated at least once a year, and additionally in the event of significant changes occurring (such as a capital increase, or a change in earnings projections). We have thus implemented a system based upon limits defined in a conservative manner, and differentiated according to the type of risk. The aggregation of individual limits is based on the assumption that no risk-mitigating correlation effects exist amongst different types of risk. A monthly report submitted to the Management Board provides information regarding the utilisation of individual limits for the material types of risk, as well as on the overall limit utilisation.

Allocation of aggregate risk cover

% (Change from 31 Dec 2010 (% points)) Updated: 31 Dec 2011



At 61 %, credit risks account for the largest part of the bank's aggregate risk cover; 18 % is retained to cover market price risks, 4 % for operational risks and 4 % 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 31 December 2011.

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

Stress testing

Stress testing, and the analysis of stress test results, form an additional focal aspect of our risk management system. This involves conducting stress tests for all material risks, using both plausible historical parameters as well as hypothetical stress testing scenarios. To also be able to assess cross-relationships between the various types of risk, we have defined multi-factor stress scenarios, so-called "global" stress tests. For instance, the impact of a crisis affecting financial markets and the economy on individual types of risk and aggregate risk is analysed within the scope of a historical scenario. An escalation of the financial markets and economic crisis is modelled as a hypothetical scenario. The bank analysed an inverted stress scenario for the first time during the financial year under review. The stress testing methodology implemented also takes into account the impact of any risk concentrations. We compare the aggregate risk cover available in a stress situation with the result of stress tests, thus assessing Aareal Bank's ability to bear risk in a stressed environment. Regular quarterly reports on the results of such stress analyses are submitted to the Management Board.

Organisational structure and workflows

Lending business

Division of functions and voting

Aareal Bank Group's structural organisation and business processes are consistently geared towards Group-wide effective and professional risk management. This includes the extensive implementation of regulatory requirements regarding the structural organisation and workflows in the credit business.

Processes in the credit business are designed to consistently respect the clear functional division of Sales units ("Markt") and Credit Management ("Marktfolge"), up to and including senior management level. In addition, the Risk Controlling division, which is not involved in making lending decisions, is responsible for monitoring all material risks whilst ensuring an adequate and targeted risk reporting system at a portfolio level.

Lending decisions regarding credit business classified as relevant for the bank's risk exposure require two approving votes submitted by a Sales unit and a Credit Management unit. The bank's Assignment of Approval Powers defines the relevant lending authorities within Sales units and Credit Management. Where authorised persons are unable to come to a unanimous lending decision, the loan involved cannot be approved, or must be presented to the next-highest decision-making level for a decision.

The Counterparty and Country Limit Committee (CCC), which consists of executives from non-Sales units is responsible for the Credit Management vote regarding the approval of counterparty, issuer, or country limits.

We have implemented and documented the clear separation of Sales and Credit Management processes across all relevant divisions.

Process requirements

The credit process comprises several phases: specifically, these include credit approval, further processing, and monitoring of loan processing. Credit exposures subject to increased risks involve supplementary processes for intensified handling, the handling of problem loans, and – if necessary – for provisioning/impairment. The corresponding processing principles are laid down in the bank's standardised rules and regulations, which are applicable throughout the Group.

Important factors determining the counterparty risk of a credit exposure are identified and assessed on a regular basis, adequately taking into account sector and (where appropriate) country risks. Critical issues regarding an exposure are highlighted, and analysed assuming different scenarios where appropriate.

Suitable risk classification procedures are applied to evaluate risks for lending decisions, as well as for regular or event-driven monitoring of exposures. This classification scheme is reviewed at least once a year; depending on the risk situations, the review cycle may be significantly shortened. Furthermore, the risk assessment results are taken into account for pricing purposes.

The organisational guidelines contain provisions governing escalation procedures and further handling in the event of limit breaches, or of a deterioration in individual risk parameters. Measures involved may include the provision of extra collateral, or an impairment test.

Early risk detection procedures

The early identification of credit risk exposure, using individual or combined (early warning) criteria is a core element of our risk management approach.

In particular, the procedures applied for the early detection of risks serve the purpose of identifying borrowers or exposures where higher risks start emerging, at an early stage. For this purpose, we generally monitor individual exposures and the parties involved (such as borrowers or guarantors) throughout the credit term, assessing quantitative and qualitative factors, using instruments such as periodic monitoring and internal ratings. The intensity of the ongoing assessments is based on the risk level and size of the exposure. The Group's risk management processes ensure that counterparty risk is assessed at least once a year.

An "On-watch Committee" has been established in order to enhance the bank's procedures for the early detection of risks. This Committee has global authority – regardless of exposure size – to classify exposures as "normal" or "subject to intensified handling", and to decide on the measures to be taken as well as the composition of the Deal Team handling the exposure. The transfer of know-how between various markets is enhanced through the cross-divisional representation on the Committee.

Extensive IT resources are deployed to identify risk positions, and to monitor and measure risks.

Overall, the existing set of tools and methods enable the bank to adopt suitable risk management measures, where required, at an early stage.

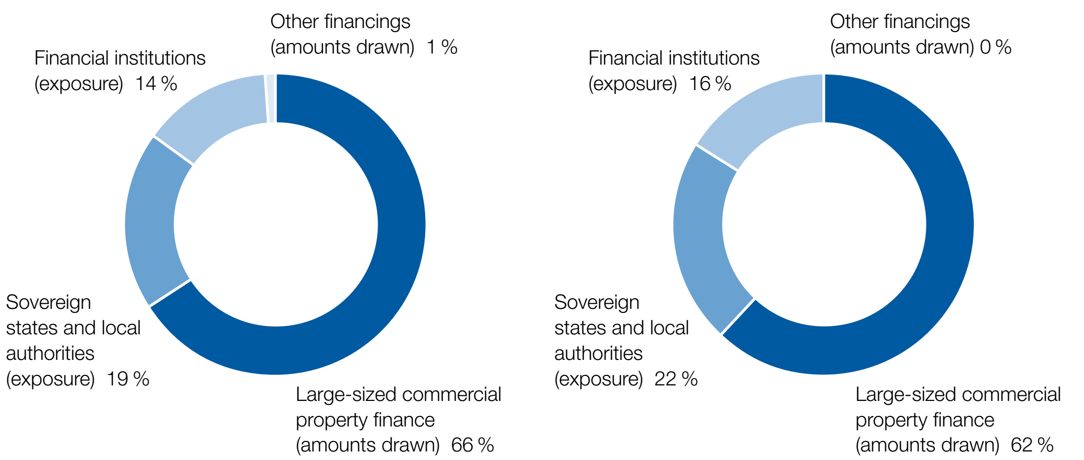
Actively managing client relationships is crucially important in this context: approaching clients in time to jointly develop a solution to any problems which may arise. Where necessary, we muster the support of experts from the independent risk prevention, restructuring, and recovery units.

Risk classification procedures

Aareal Bank employs various risk classification procedures for the initial, regular, or event-driven assessment of counterparty risk. The rating scales and exposure definitions have been customised to match the respective methods. Responsibility for development, quality assurance, and monitoring the implementation of risk classification procedures, as well as the annual validation of such procedures, is outside the Sales units. These divisions are also responsible for the annual validation of the risk classification procedure.

Breakdown of exposure/amounts drawn by rating method

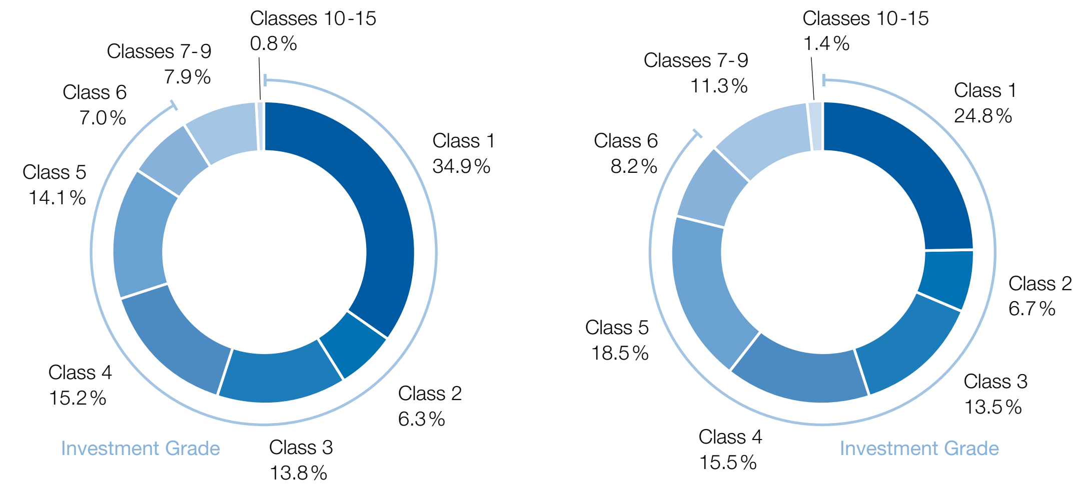
31 Dec 2011 | 31 Dec 2010 — 100 % = € 35.8 billion | 100 % = € 37.1 billion



Note: The rating procedures for financial institutions also apply to institutions with a zero weighting under the SolvV. This includes, for example, public-sector development banks backed by a state guarantee. Such institutions accounted for 24 % of all rated financial institutions as at 31 December 2011.

Large-sized commercial property finance

by internal Expected Loss classification — as at 31 Dec 2011 | as at 31 Dec 2010



The ratings determined using internal risk classification procedures are an integral element of the bank's approval, monitoring, and management processes, and on its pricing.

Property financing business

The bank employs a two-level risk classification procedure for large-sized commercial property finance exposures, specifically designed to match the requirements of this type of business.

In a first step, the client's probability of default (PD) is determined using a rating procedure. The method used in this context comprises two main components, a property rating and a corporate rating.

The relative impact of the two components on the rating result is determined by the structure of the exposure concerned. The client's current and future default probability is determined based on specific financial indicators, together with qualitative aspects and expert knowledge.

The second step involves calculating the loss given default (LGD). The LGD estimates the extent of the economic loss in the event of a borrower defaulting. In simple terms, this is the amount of the claim not covered by the proceeds from the realisation of collateral.

When evaluating collateral, haircuts are applied or recovery rates used, depending on the type of collateral involved and specific realisation factors. For financings of domestic properties, recovery rates are taken from a pool of data used across the bank, whilst recovery rates for international properties are derived using statistical methods, given the low number of realisations.

The expected loss (EL) in the event of default of an exposure is determined as the product of PD and LGD. As a risk parameter related to the financing, EL is used as an input factor for the tools used to manage the property financing business.

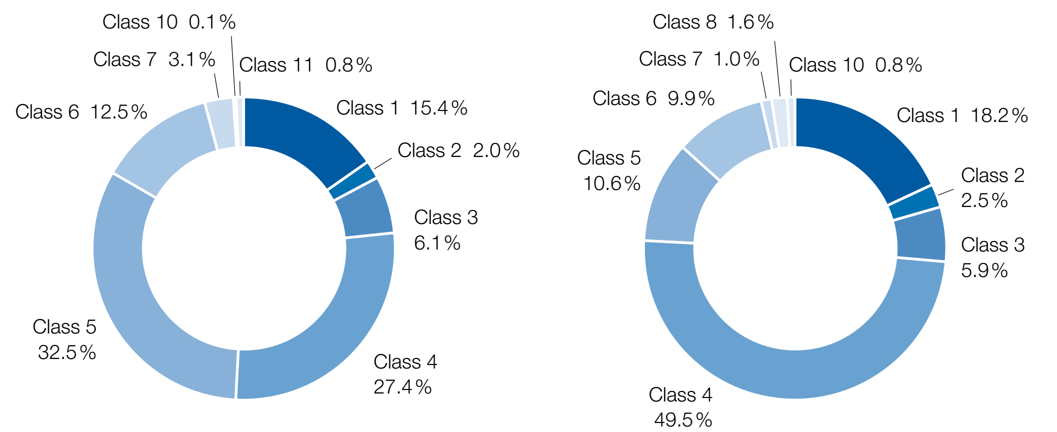
The diagrams shown above depict the distribution of lending volume by EL classes as at 31 December 2011 and 31 December 2010, based on the maximum current or future drawdown. The distribution excludes exposures for which no rating has been concluded, or which are in default (as defined under Basel II).

Financial institutions
Aareal Bank employs an internal rating procedure for financial institutions, which incorporates qualitative and quantitative factors as well as our client's group affiliation, to classify the risk exposure to banks, financial services providers, securities firms, public-sector development banks, and insurance companies. Financial institutions are assigned to a specific rating grade by way of assessing relevant financial indicators and taking into account expert knowledge.

As part of the validation of the financial institutions rating procedures during the financial year under review, the rating scale was extended from 10 to 18 grades. This allows for a more precise differentiation of financial institutions based on the rating procedures. To facilitate comparisons of the changed risk classification with data as at 31 December 2010, the rating distribution of financial institutions as at that record date was mapped to the new 18-grade rating scale, using each institution's individual score. The meaningfulness of any year-on-year comparison is nevertheless limited, given the different rating functions which prevailed on the respective record dates.

Financial institutions

by rating class — as at 31 Dec 2011 | as at 31 Dec 2010

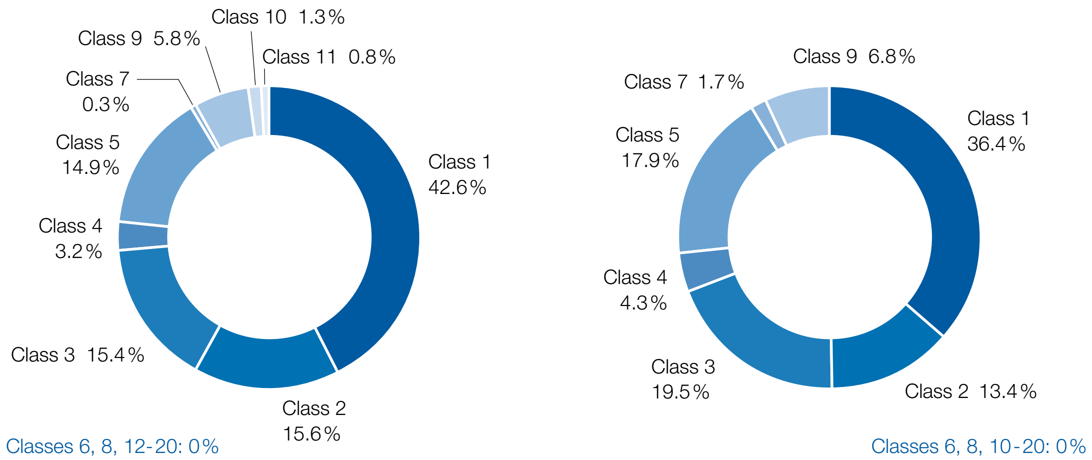


Sovereign states and local authorities
In addition, Aareal Bank Group employs internal rating methods for sovereign borrowers and regional governments, local and other public-sector entities. In this context, rating grades are assigned using clearly-defined risk factors, such as fiscal flexibility or the level of debt. The expert knowledge of our rating analysts is also taken into account for the rating.

In general, the risk classification procedures employed by the bank are dynamic methods which are permanently adapted to changing risk structures and market conditions.

Sovereign states and local authorities

by rating class — as at 31 Dec 2011 | as at 31 Dec 2010



Trading activities

Functional separation
We have implemented a consistent functional separation between Sales units and Credit Management for the conclusion, settlement and monitoring of trading transactions, covering the entire processing chain.

On the Sales side, the processing chain comprises the Treasury division, whilst Credit Management tasks are carried out by the independent Operations and Risk Controlling divisions. Beyond this, Finance and Audit are responsible for tasks not directly related to processes.

We have laid down organisational guidelines providing for binding definitions of responsibilities along the processing chain; with clearly defined change processes.

The detailed assignment of responsibilities is outlined below.

Treasury is responsible for risk management and trading activities as defined by the Minimum Requirements for Risk Management ("MaRisk") set out by BaFin. Treasury is also responsible for asset/liability management, and for managing the bank's market and liquidity risk exposures. In addition, we have established a Transaction Committee, to develop strategies for the bank's asset/liability management and proposals for their implementation. The Committee, which comprises the Management Board member responsible for Treasury, the Head of Treasury, and other members appointed by the Management Board, meets on a weekly basis.

Operations is responsible for controlling trading activities, confirming trades to counterparties, and for trade settlement. The division is also responsible for verifying that trades entered into are in line with prevailing market conditions, as well as for the legal assessment of non-standard agreements, and of new standard documentation/master agreements.

To assess counterparty risk in the trading business, Operations prepares a rating for all counterparties and issuers on a regular or event-driven basis. The rating is a key indicator used to determine the limit for the relevant counterparty or issuer.

The bank has also established a Counterparty and Country Limit Committee that votes on all limit applications, and is responsible for conducting the annual review of limits. Where required by current developments, the Committee may reduce or revoke counterparty or issuer limits.

The tasks of the Risk Controlling division comprise identifying, quantifying and monitoring market price, liquidity and counterparty risk exposure from trading activities, and the timely and independent risk reporting to senior management.

Process requirements

Processes are geared towards ensuring end-to-end risk management, from conclusion of the trade right through to monitoring portfolio risk. The monitoring and reporting function comprises deploying adequate risk measurement systems, deriving limit systems, and ensuring the transparency of Aareal Bank Group's overall risk exposure from trading activities, in terms of scope and structure.

Moreover, processes and systems are designed in a way that allows to incorporate new products into the risk monitoring system swiftly and adequately, in order to ensure the flexibility of the Sales units in their business activities.

A standardised process exists for the intensified handling of counterparties and issuers, and for dealing with problems. This process comprises identifying early warning indicators, applying them for the purposes of risk analysis, and determining further action to be taken. In the event of counterparty or issuer default, the Counterparty and Country Limit Committee will coordinate an action plan in cooperation with the bank's divisions involved.

Clearly-defined escalation and decision-making processes have been set out to deal with limit breaches.

Risk exposure by type of risk

Credit risks

Definition

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

Credit risk strategy

Based on the bank's overall business strategy, Aareal Bank's credit risk strategy sets out all material aspects of the Group's credit risk management and policies. Proposals for the credit risk strategy are prepared jointly by Sales units and Credit Management, and adopted by the entire Management Board and the Supervisory Board. The credit risk strategy will be reviewed, at least once a year, as to its suitability regarding the bank's risk-bearing capacity and its business environment; amendments will be made as necessary. This process is instigated by management, and implemented by the Sales units and Credit Management, who submit a proposal (on which they are both agreed) to management. Designed in principle for a medium-term horizon, the credit risk strategy is adapted when necessary to reflect material changes in the Group's credit risk and business policies, or in the Group's business environment (as in the case of the financial markets crisis).

Aareal Bank's credit risk strategy comprises the Group Credit Risk Strategy, containing general guidelines, plus individual sub-strategies (lending policies) defining the type of new business the bank wishes to generate, with respect to various markets and types of business. Given the hierarchical structure of the credit risk strategy, the Group Credit Risk Strategy overrides individual sub-strategies.

Risk measurement and monitoring

The credit business is subject to a variety of risk measurement and monitoring processes. This includes the application of two different credit risk models incorporating concentration and diversification effects at a portfolio level, from which both the expected and unexpected loss (credit-value-at-risk) are derived. Credit value-at-risk corresponds to the maximum amount by which the actual loss can exceed the anticipated loss, at portfolio level, for a given confidence interval.

Based on the results of these models, the bank's decision-makers are regularly informed of the performance and risk content of property financing exposures, and of business with financial institutions. The models permit to identify, measure, monitor and manage risks at a portfolio level.

The bank focuses in particular on the identification, monitoring and management of risk concentrations, where both quantitative and qualitative methods are being used. With regard to counterparty risk, these include for example, the regular analysis of our largest borrower units and the analysis of the portfolios by countries (covering risk classes and categories of collateral). Thresholds are set within this system for individual sub-markets and product groups. Risk Controlling uses "red-amber-green" indicator system to assess the utilisation of the limits on a monthly basis, which it submits to the Management Board. The thresholds are reviewed annually within the scope of the target portfolio and Group planning.

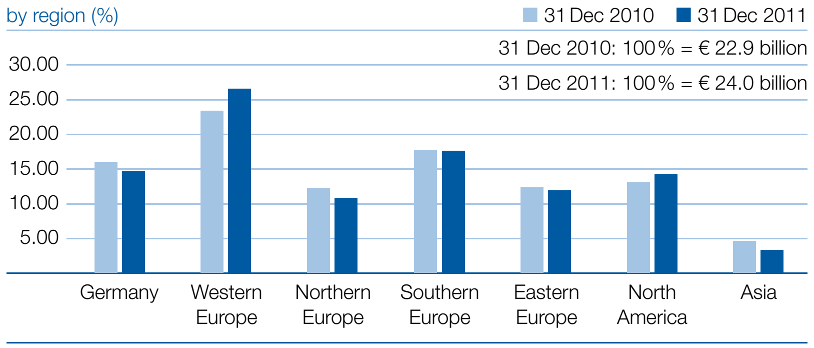
The model-based review and monitoring of risk concentrations is carried out on the basis of the credit risk models used in the bank. The models in question allow the bank to include in particular, rating changes and diversification effects in the model-based assessment of the risk concentrations.

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

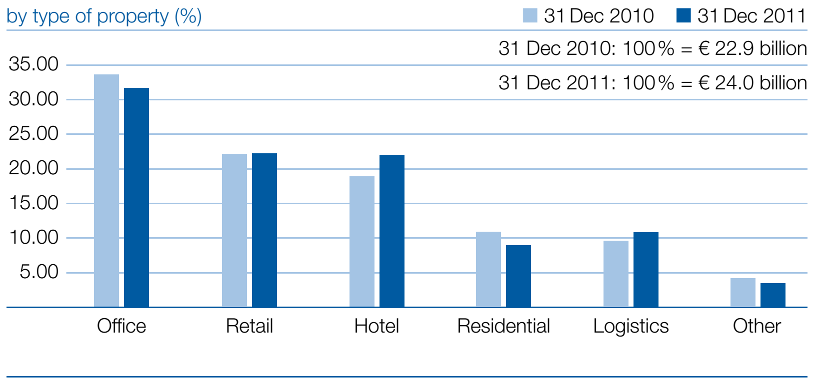
A risk report that complies with the Minimum Requirements for Risk Management (MaRisk) is prepared and submitted to the bank's senior management and Supervisory Board on a regular basis, at least quarterly. This report contains extensive information on the development of the credit portfolio (covering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

Trading activities are generally restricted to counterparties for whom the requisite limits are in place. Replacement and settlement risks are taken into account when determining counterparty limit usage. Persons holding position responsibility are informed about relevant limits and their current

Property financing volumes (amounts drawn)



Property financing volumes (amounts drawn)



usage without delay. Trading activities also require the establishment of issuer limits.

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. Any limit breaches are documented, together with action taken in response. Where limit transgressions exceed an amount defined in line with risk considerations, these are escalated to the responsible members of senior management, using a standardised escalation process.

Credit risk mitigation

The bank accepts various types of collateral to reduce default risk exposure. This includes impersonal collateral, such as liens on immobile (property) and mobile assets; liens on receivables, such as rents; and third-party undertakings, such as guarantees.

As an international property financing house, Aareal Bank focuses on property when collateralising loans and advances. Loans are granted and the security interest perfected in accordance with the jurisdiction in which the respective property is located.

Market values and mortgage lending values are set in accordance with the responsibilities for decision-making on lending, and form an integral part of the lending decision. The values to be determined by the bank are generally pegged on the valuation prepared by an independent appraiser; any discrepancies must be substantiated in writing. In any case, the market and mortgage lending values determined by the bank must not exceed the values assessed by independent internal or external appraisers.

To mitigate credit risk, the bank also accepts collateralisation through a pledge of shareholdings in property companies or special-purpose entities not listed on a stock exchange. The bank has set out detailed provisions governing the valuation of such collateral.

The bank also accepts guarantees or indemnities as well as financial collateral (such as securities or payment claims) as standard forms of collateral. The collateral value of the indemnity or guarantee is determined by the guarantor's credit quality. For this purpose, the bank differentiates between banks, public-sector banks, and other guarantors. The value of financial collateral is determined according to the type of collateral. Haircuts are generally applied when determining the value of guarantees / indemnities and financial collateral.

The credit processes provide for the regular review of collateral value. The risk classification is adjusted in the event of material changes in collateral value, and other measures taken as deemed appropriate. An extraordinary review of collateral is carried out where the bank becomes aware of information indicating a negative change in collateral value. Moreover, the bank ensures that disbursement is only made after the agreed conditions for payment have been met.

Collateral is recorded in the bank's central credit system, including all material details.

To reduce counterparty risk in Aareal Bank's trading business, the master agreements for derivatives and securities repurchase transactions (repos) used by the bank provide for various credit risk mitigation techniques, via mutual netting agreements.

The derivatives master agreements used by the bank contain netting agreements to reduce prepayment risk at a single transaction level (payment netting), and arrangements for the termination of individual or all transactions under a master agreement (close-out netting). For repo transactions, depending on the counterparty, payment or delivery netting is agreed upon; contract documentation also generally provides for close-out netting.

To further reduce default risks, the provision of collateral is agreed upon.

Derivatives entered into with financial institutions provide equity relief in accordance with the Solvability Ordinance ("SolvV"); repo transactions are generally not eligible.

Prior to entering into agreements, the responsible legal services unit within the Operations division assesses the legal risks, and the legal effectiveness and enforceability. The bank uses an internal rating system to assess the credit quality of counterparties. For derivatives transactions entered into with financial institutions, where the bank is looking for capital adequacy relief in accordance with the SolvV, a clause providing for a review of eligibility is added to the netting agreements. This review is carried out in accordance with sections 206 et seq. of the SolvV, particularly through obtaining regular legal opinions, using a database developed for this purpose.

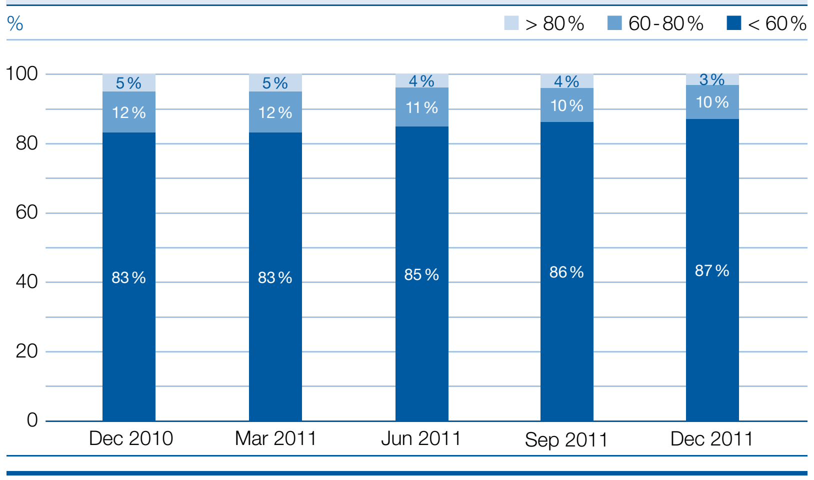
Operations is responsible for the daily valuation of the bank's trades, including collateral accepted or pledged, and using validated valuation procedures. Collateral for derivatives transactions is transferred on a regular basis, as provided for in the respective agreements. Margin calls for repo transactions are determined on a daily basis. Haircuts are applied to account for potential fluctuations in collateral value.

Only cash collateral is accepted for derivatives, whereas collateral for repos can be provided in cash or in securities. Some of the collateral agreements the bank has entered into provide for a reduction in the allowance and the minimum transfer amount under the collateral agreement in the event of a downgrade of the bank's external rating; as a result, the bank might have to provide additional collateral.

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.

Any assets acquired upon the realisation of collateral are predominantly properties. The consideration received upon disposal is applied to repay the underlying financing. An immediate sale is generally sought for such properties.

Property financing portfolio by LtV range (quarterly comparison)



Note that the loan-to-value ratios are calculated on the basis of the market values, taking into account valuable supplementary collateral.

Country risk

Definition

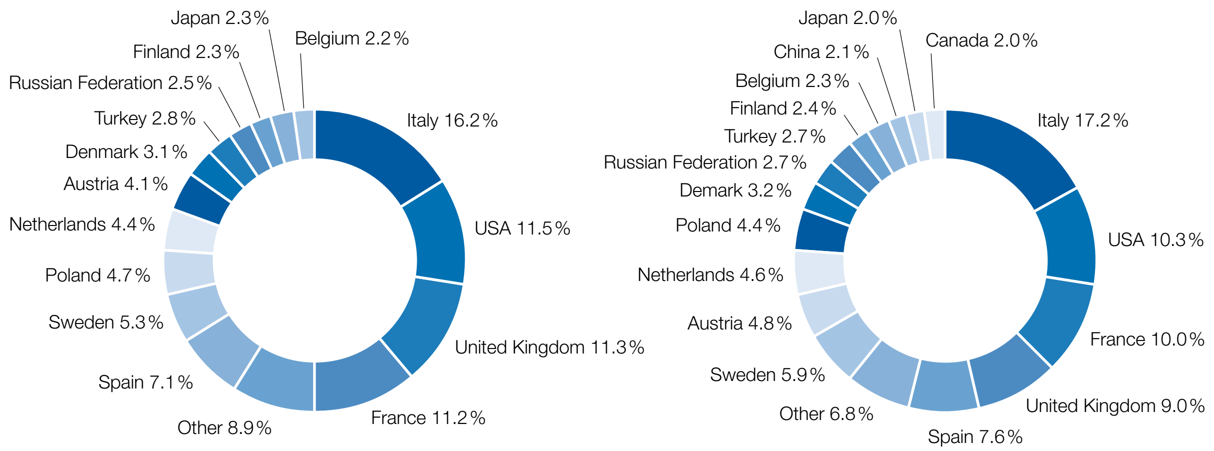
When defining country risk, in addition to the risk of sovereign default or default of state entities, Aareal Bank also considers the risk that a counterparty could become unable to meet its payment obligations as a result of government action, despite being willing and able to pay, due to restrictions being imposed on making payments to creditors (transfer risk). These types of risks arise only if the borrower is located in a different country from the lender, or if the financed property is located in another country. The bank always complied with the country limits defined in accordance with its ability to carry and sustain risk throughout the financial year under review.

Country risk measurement and monitoring

Geographical diversification and the avoidance of concentration risks are of greater importance, from the bank's overall perspective, than the observation of transfer risks. The system for managing country risk, utilised within the overall management of the bank, was designed in such a way that it takes both criteria into consideration.

Breakdown of country exposures in the international business

% 2011 | 2010



Country risk exposure is managed using a cross-divisional process. The Counterparty and Country Limit Committee carries out a risk assessment of the relevant countries, grades them in country risk groups, and conducts an annual review in terms of country rating. The limits are set by the Management Board. The Risk Controlling division is responsible for the continuous monitoring of country limits and for monthly reporting on limit utilisation. Country limits defined for the purposes of risk management were always observed during the financial year under review.

In addition to monitoring the bank's international exposure, internal limit monitoring reports utilisations for the bank's domestic business, broken down by Federal states (Länder).

The diagram above illustrates the risk exposure by country in the bank's international business, at year-end. In the property financing business, country exposures are allocated by location of the property used as collateral. For exposures not collateralised by property, the allocation is based on the borrower's country of domicile. This reflects the exposure of the property financing business, as well as the activities of Treasury.

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

Risk measurement and monitoring

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

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

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

By their 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 IFRSs). Hence, the analysis provided represents a very extensive disclosure of market price risks by industry standards.

€ mn	MAX	MIN	Mean	Limit
2011 (2010 values); 99 %, 10-day holding period				
Aareal Bank Group – general market price risk	66.5 (71.5)	34.5 (36.5)	49.2 (46.2)	– (–)
Group VaR (interest rates)	61.4 (67.5)	32.5 (30.6)	46.6 (40.9)	– (–)
Group VaR (FX)	19.1 (17.9)	12.5 (13.4)	14.8 (15.6)	– (–)
VaR (funds)	8.6 (11.9)	2.9 (6.0)	5.6 (7.7)	60.0 (60.0)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	20.0 (20.0)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	194.5 (112.4)	85.3 (71.4)	134.8 (96.2)	– (–)
Aggregate VaR – Aareal Bank Group	201.4 (122.2)	97.7 (85.4)	145.1 (108.0)	241.0 (181.0)

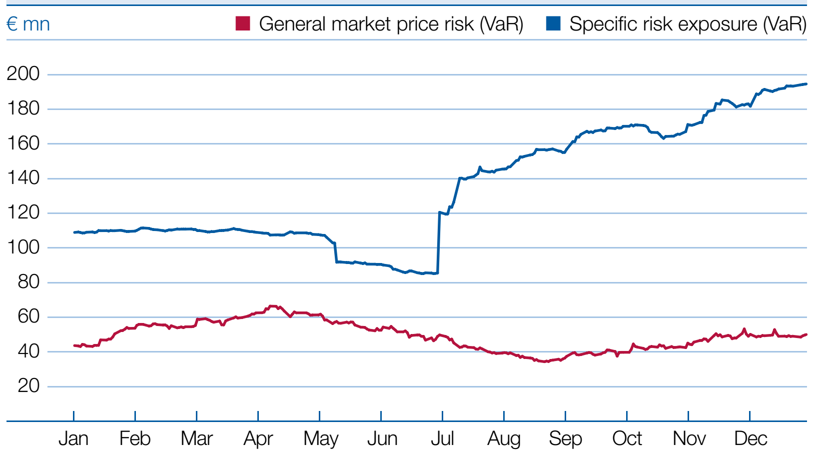
To ensure that Aareal Bank's figures are comparable to those published by other institutions, the risk parameters shown below were determined for a one-day holding period:

€ mn	MAX	MIN	Mean	Limit
2011 (2010 values); 99 %, 1-day holding period				
Aareal Bank Group – general market price risk	21.0 (22.6)	10.9 (11.5)	15.6 (14.6)	– (–)
Group VaR (interest rates)	19.4 (21.3)	10.3 (9.7)	14.7 (12.9)	– (–)
Group VaR (FX)	6.0 (5.7)	4.0 (4.2)	4.7 (4.9)	– (–)
VaR (funds)	2.7 (3.8)	0.9 (1.9)	1.8 (2.4)	19.0 (19.0)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	6.3 (6.3)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	61.5 (35.5)	27.0 (22.6)	42.6 (30.4)	– (–)
Aggregate VaR – Aareal Bank Group	63.7 (38.7)	30.9 (27.0)	45.9 (34.2)	76.2 (57.2)

Aggregate VaR – Aareal Bank Group

Group-wide limits are being continuously monitored as part of the analysis of the bank's risk-bearing capacity. In the course of this regular review, we adjusted both limits and risk calculation parameters against the background of higher volatility, which increased especially on the bond markets during the course of the year. Following this re-calibration, no limit transgressions were detected.

General market price risk and specific risk during 2011



The increase in specific risk from July 2011 onwards reflected a general widening of credit spreads, as well as higher volatility, in the wake of the escalating solvency crisis affecting certain European countries.

Backtesting

The quality of forecasts made using the 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). In the course of this regular review, we adjusted the calculation parameters for specific risk, with effect from 1 July 2011, against the background of higher volatility, which increased especially on the bond markets during the course of the year. The VaR change resulting from this recalibration is illustrated in the adjacent chart. The number of negative outliers at Group level did not exceed three during 2011, affirming the high forecasting quality of the VaR model we use.

Stress testing

Although VaR has become a standard tool, the concept may fail to adequately project the actual risk in extreme situations – for example, the end-2008 phase of the financial markets crisis. For this reason, the VaR projection is supplemented by simulating stress scenarios on a monthly basis.

Aareal Bank calculates present value fluctuations both on the basis of real extreme market movements over recent years, and also using simulated market movements (parallel shifts, structural changes, steepening of the yield curve). This analysis requires that all positions are revalued fully on the basis of these market scenarios. The resulting impact on present value is compared against a special stress limit within the scope of weekly and monthly stress test reporting.

The worst-case scenario used in the financial year under review was a hypothetical scenario, where a deteriorating financial markets crisis caused bond and CDS spreads to widen due to rating downgrades, combined with an appreciation of the euro and unchanged interest rate markets. This scenario implied a present value loss of 26 % of the stressed aggregate risk cover limit as at 30 December 2011. No breach of set limits occurred during the year under review.

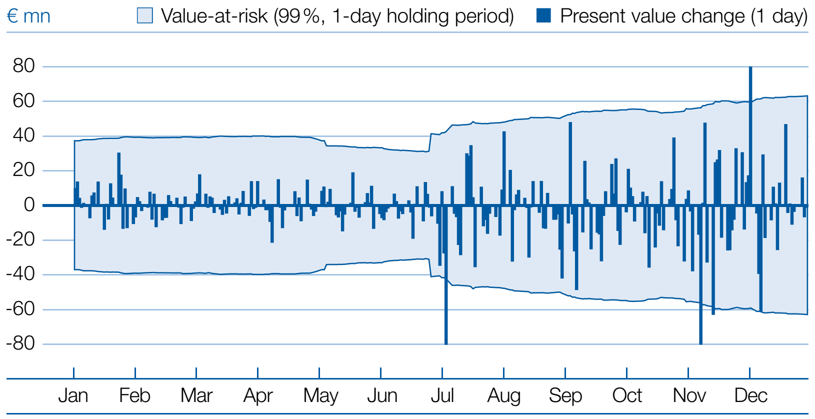
Interest rate sensitivity

An additional instrument used to quantify interest rate risk exposure is the calculation of interest rate sensitivity, expressed by the "delta" parameter. The first step to determine this parameter requires calculating the present values of all asset and equity / liability items on the statement of financial position. In a second step, the interest rates of yield curves used for this calculation are subjected to a one basis point parallel shift up (a method known as the "key rate method"). Delta is the present value of the profit or loss resulting from this yield curve change.

Interest rate gap analysis

Further, the gap analysis per currency provides information on all of the bank's positions in respect of which the interest rate has been fixed. In addition to disclosing the net gap positions in the respective maturity bucket, this data allows for specific analyses concerning the risks and returns from the current portfolio.

Present values and 1-day VaR during the course of 2011



Trading book

Being authorised to maintain a trading book, Aareal Bank AG is the Group entity that is in a position to assign transactions to the trading portfolio as defined by the German Banking Act. Given that no such trades were concluded during 2011, trading book risks played a negligible role in the overall risk scenario.

Liquidity risks

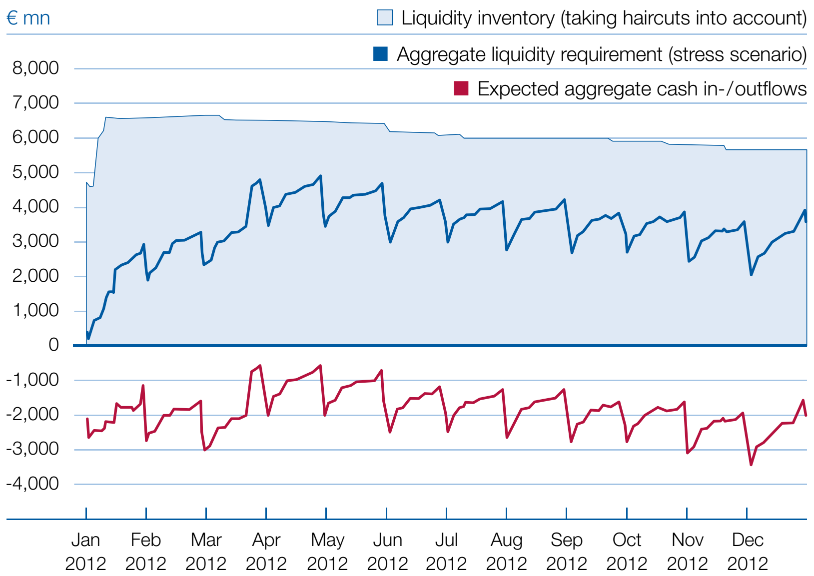
Definition

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.

Risk measurement and monitoring

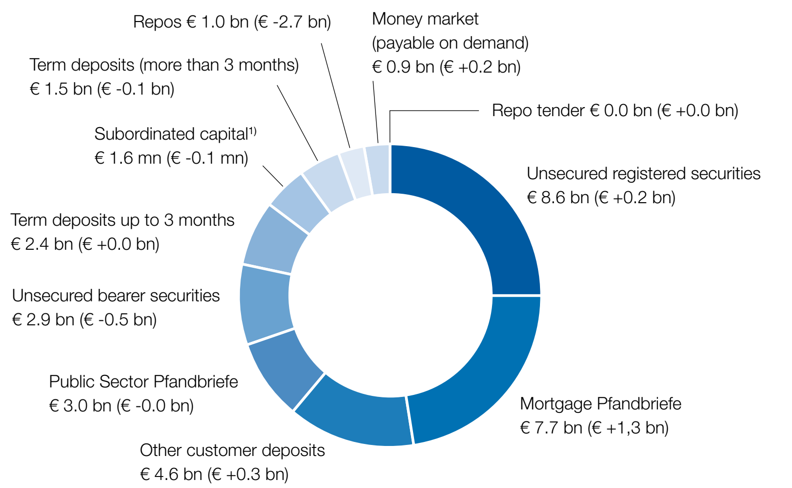
Treasury is responsible for managing liquidity risks, whilst Risk Controlling ensures the continuous monitoring, including a daily liquidity report submitted to Treasury, and a contribution to the monthly risk report to the entire Management Board. The following tools are used for this purpose:

Liquidity



Refinancing portfolio diversification by product

as at 30 Dec 2011 (compared to 31 Dec 2010) Total: € 34.1 billion



[1] In the previous year, subordinated capital was reported under uncovered bearer/registered securities.

a) Cash flow forecast

We have developed a cash flow forecast, tracking cash flows from all balance sheet items and derivatives, on a daily basis, over a ten-year period. This liquidity risk information helps to assess the bank's short-term liquidity position, broken down by currency or product. Strategic liquidity is taken into account using this ten-year cash flow profile. We use statistical modelling to incorporate the cash flow profile of products without a fixed contractual lifetime.

b) Liquidity run-off profile

The appropriateness of the bank's liquidity is assessed using a liquidity run-off profile: the aggregate of all potential cash inflows and outflows over a three-month period is compared to the liquidity stock. This liquidity stock comprises all assets that can be liquidated at very short notice. The difference of both figures (in absolute terms) indicates excess liquidity, once all claims assumed in the run-off profile have been fulfilled through the liquidity stock. There were no liquidity shortages throughout the period under review.

The chart beside shows the planned development of the liquidity stock, expected aggregate cash inflows and outflows, and the total liquidity requirements (based on stressed assumptions) until the end of 2012. This presentation demonstrates that the liquidity stock will always exceed liquidity requirements, even under unfavourable conditions.

Further details are provided in the comments on the bank's liquidity in the section on "Refinancing and Equity".

c) Funding profile

Diversifying the bank's refinancing profile by type of investor, and by product, represents a further key aspect of our approach to liquidity risk management. Core sources of funding such as customer deposits and funds invested by institutional clients – alongside covered and uncovered bond issues – constitute the foundation of our liability profile.

Stress testing

Moreover, we employ stress tests and scenario analyses to assess the impact of sudden stress events onto the bank's liquidity situation. The various standardised scenarios used are evaluated on the basis of the liquidity run-off profile.

We generally consider the withdrawal of customers' current account balances as the most significant scenario. Even in this stress scenario, liquidity is sufficient to cover the expected liquidity needs under stress conditions.

Liquidity Ordinance

The requirements of the liquidity ratio in accordance with the Liquidity Ordinance, which is relevant to liquidity management, were always complied with throughout the year 2011, as were the limits set by reference to the liquidity run-off profile.

Operational risks

Definition

The 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 definition also includes legal risks. In contrast, strategic, reputational and systematic risks are not included.

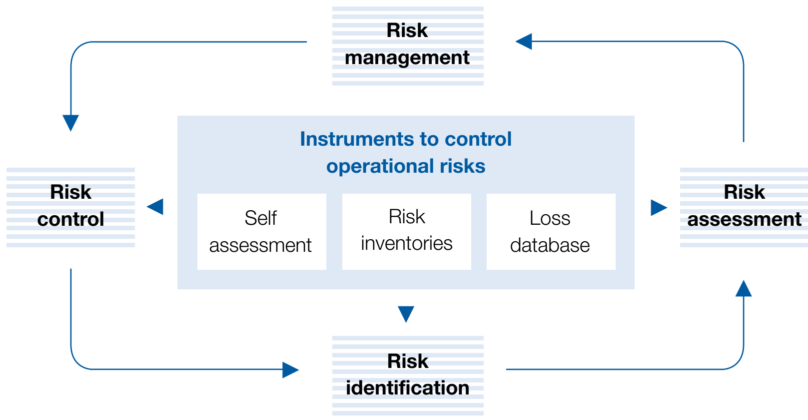
Risk measurement and monitoring

It is the objective of the policy pursued by Aareal Bank to achieve a risk-minimising or loss-limiting effect at an early stage by employing a pro-active approach.

The bank currently uses the following tools to manage operational risks:

- Self assessments: analysis thereof can provide management with indicators of any potential risks within the organisational structure.
- Risk inventories that include a periodic systematic identification and compilation of all relevant risks.
- A loss database, in which relevant damages incurred are reported, and in which they can be monitored until they are officially closed.

Management of operational risks



By means of this control toolkit, decentralised data capture as well as centralised and timely compilation of all material operational risks across the Group are ensured.

The three tools described above are used to prepare the regular risk reporting to the bank's senior management. The responsibility for implementing operative risk-reducing measures rests with those responsible for the bank's risk management.

In addition to the reports prepared from the tools stated above, suitable and plausible stress tests are conducted every quarter. These are hypothetical scenarios and sensitivity analyses on the risk inventories. The results of the stress tests are reported regularly to the Management Board and serve as an indicator for potential developments within the operational risks that could jeopardise the continued existence of the Group.

Analyses conducted using the instruments employed have shown that the bank is not exposed to disproportionate operational risks; nor did they indicate any material risk concentration. There were cases reported in the loss database during the financial year under review, but there were no losses involving significant monetary damages. Further to these tools, the bank reviews relevant individual scenarios, and implements any measures required, on the basis of external data. Taken together, these tools for managing operational risks result in an integrated control circuit which leads to risk identification, evaluation, and management – through to risk control.

Tools to control operational risk are supplemented by a system to manage and monitor outsourced activities and processes (outsourcing), whereby the relevant organisational units regularly assess the performance of outsourcing providers, using defined criteria. The results of this process, and actions taken, are communicated to the bank's senior management within the scope of operational risk reporting, thus allowing for risk-mitigating steps to be taken where needed.

Investment risks

Aareal Bank Group's risk exposure is largely concentrated on risks generally associated with banking, such as credit risk, market price risk, liquidity risk, and operational risk. Some Group subsidiaries, however, are exposed to a variety of other types of risk outside typical banking risk, which we include in our centralised risk management system through an Investment Risk Control concept.

Aareal Bank Group acquires equity investments strictly for the purpose of positioning the Group as a leading international property financing specialist and provider of property-related services.

Definition

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

Risk measurement and monitoring

All relevant Group entities are subject to regular audits, including a review and assessment of their risk situation within the framework of risk measurement and monitoring. Due to the special character of some exposures (e.g. marketing risks), special methods and procedures are employed to deal with investment risk. The bank uses an internal valuation method to quantify investment risk, and to include it in the calculations of the bank's ability to carry and sustain risk, and for the purpose of limitation. The limit defined for investment risk was always complied with during the financial year under review.

The existing procedures used to measure and monitor risk exposure are supplemented by subjecting the equity portfolio to regular stress testing.

The Corporate Development and Risk Controlling divisions are jointly responsible for measuring and monitoring investment risk exposure.

Corporate Development holds the functional and organisational authority regarding investment controlling.

Risk Controlling is responsible for submitting a quarterly equity investment risk report to the bank's Management Board.

Risk exposure specific to the Structured Property Financing segment

Deutsche Structured Finance GmbH

Amongst the equity risks in the Structured Property Financing segment, the activities of subsidiary Deutsche Structured Finance GmbH (DSF) are particularly relevant. This entity's business is focused on structuring, launching and placing, as well as subsequently managing closed-end funds, particularly involving property investments.

In addition to risks related to income from management fees for the management of the respective funds, in the past, the entity was exposed in particular to risks arising from commitments or guarantees extended for funds launched in earlier periods. In this context, the risk strategy adopted by DSF is geared towards the early identification of the relevant risks - which are predominately linked to asset valuations - with the intention of minimising the risk exposure in cooperation with investors, lenders and guarantors, and to ensure an adequate sharing of the related burdens. As a result of the problems regarding property valuations that were observable in some cases, risk exposure exceeded the opportunities available. For this reason, DSF regularly absorbs any risk exposures arising on existing funds when they arise. Future risk exposure is therefore determined only on the basis of future financial years.

The future risk exposure of DSF is determined by the risk / reward structure of funds yet to be launched. No new investments were realised during the year under review, not least against the background of the financial markets crisis and the demand for closed-end funds. Investors clearly generally prefer risk-averse investments, while the Company refrained from investments offering higher rates of return, given their higher implied risk premium. The Company believes it has therefore taken sufficient measures to limit future risks.

While the initiators of closed-end fund products are facing increasing demands, they continue to find it difficult to find opportunities for generating return. Additionally, the scope for raising external finance without counter-guarantees has meanwhile become largely impossible. DSF has therefore taken the strategic decision to focus in future on the management of existing funds and assets. It also intends to take a selective approach in relation to new business, especially in the form of buying the relevant assets. Against this background, emphasis continues to be placed on the ratio of management fees relative to the Company's operating costs. DSF reacted to this trend in 2010 by applying various change measures, allowing it to manage existing risks comprehensively as well as being able to adjust the Company's future costs in an appropriate manner. Within the scope of assessing how to scale back existing funds and assets, the Company still intends to review the necessity for future adjustments.

Risk exposure specific to the Consulting / Services segment

The Consulting / Services segment comprises IT Services and Consulting, plus the payments and deposit-taking businesses with the institutional housing industry. The segment also accounts for the results from commercial and technical administration services, and from the disposal of residential and commercial property.

The business focus of IT Services and Consulting is on developing and operating software solutions for the commercial housing industry. Advisory services offered in conjunction with this are designed to fulfil specific customer requirements, where products need to be tailored to customers' needs. Key entities within this segment are the subsidiaries Aareon AG and Aareal First Financial Solutions AG. Aareal Bank AG's Institutional Housing Unit is responsible for the distribution of banking products.

The focus in the property management and marketing business is on the overall management of properties, where the main residential and commercial segments are enhanced by the management of residential property. This includes asset and property management, as well as consultancy and the marketing of relevant properties. These services are provided by the Group company Deutsche Bau- und Grundstücks-Aktiengesellschaft and its subsidiaries.

Aareon AG

Aareon has introduced a Group risk management system (which includes early-warning features) in order to monitor and control company risk. This risk management system requires the regular recording and assessment of risks by those individuals holding responsibility for product lines, shareholdings and projects, and provides for the conception of active risk management measures. In this context, risks are assessed separately in terms of their impact and their probability. The risk reports prepared in this manner are consolidated by the Risk Management division; they form the basis for quarterly risk reporting which is regularly discussed during Management Board meetings. The reports are also incorporated into the quarterly reporting package submitted to Aareon AG's Supervisory Board. Aareon's risk reporting system creates transparency regarding the company's risk situation, providing a basis for decisions regarding any measures to be taken by senior management to deal with any risks the company is exposed to. The Legal & Risk Management division documents the measures, proposed by those individuals responsible for risk, regarding the top ten risks perceived. In addition, the Management Board of Aareon AG resolves on measures to deal with any risks exceeding a defined threshold (calculated as a function of impact and probability of occurrence).

As part of its audit scope, Aareon's Group Audit examines the Company's risk management, verifying compliance with legal requirements and Group-wide guidelines, as set out in the Risk Management Manual.

Aareon AG's risk categories include financial and market risks, management and organisational risks, environmental/business risks, and production risks. The financial risk category includes liquidity, cost and revenue risks. Market risks comprise client risks, competition risks, as well as the risks emanating from the views of opinion leaders in industry associations and advisory boards. Management and organisational risks include risks related to human resources, communications, corporate culture and company planning, as well as risks from internal processes. The environmental/business risk category covers legal risks as well as political and regulatory risks. Production risks comprise product-specific risks, project risks, and IT security risks. Cross-relationships exist between individual risks.

Overall, there were no risks which would have jeopardised the continued existence, or which would have had a material impact on the financial position and performance of Aareon AG.

Financial risks

Appropriate measures are taken (if required) to monitor and manage the liquidity of all Aareon Group entities. To counter existing earnings risk, the Company has launched the strategy projects growIT, brandIT and moveIT. Measures are developed and subsequently implemented within the framework of these projects, employing an internal project risk management approach. The work in the strategy projects may give rise to additional topics which will then be implemented within the scope of follow-up projects.

Aareon addresses the risk of lower earnings by monitoring costs, deadlines and project quality within the scope of its project management. Aareon cooperates with the consulting unit of the product line concerned on individual critical projects whose contractual agreements are not yet fulfilled on the agreed milestone dates, taking additional measures designed to safeguard the project targets. The Aareon Wodis GmbH subsidiary benefits from a strong increase in its consultancy business. A specific task force has been established to deal with the resulting personnel needs and the corresponding requirements for resource management.

Aareon AG continues to counter risk exposure arising from its costs by means of cost-sensitive action that is realised through the corresponding budgeting.

Market risks

Aareon AG has responded to the increasingly heterogeneous demands that are being placed on the property management sector by implementing our multi-product strategy, which also incorporates integrated services.

To match market demands, issues that are relevant to the future are discussed, evaluated and prioritised according to their strategic importance. Aareon counters the risk of not being able to implement list prices on the market by analysing competitors' prices. Regular competition analyses, supported by measures taken by regional distribution units, ensure that Aareon is familiar with the strengths of its competitors' products, using such knowledge in its own distribution efforts.

Aareon AG also deals with general market risks, including the possible migration of clients, increasing demands placed on software systems and the emergence of new competitors on the market. Aareon AG counters these risks by means of a monthly report submitted for review to the Management Board; in addition to its client base, the report also contains a detailed description of the sales pipeline (list of potential clients including an analysis of the probability). Intelligence gathered from the active engagement in property management associations at a federal and state level, as well as from competition analyses, is used to assess client requirements.

A standardised, anonymous customer survey which is conducted on an annual basis is the key indicator of customer acceptance of the company's products and the Aareon brand. This allows Aareon to recognise the market requirements, and to take them into consideration at an early stage in product development.

Management and organisational risks

Aareon is using integration projects to implement material organisational changes, such as for example, the integration of its Dutch subsidiary, SG|automatisering bv, Emmen. The focus is on involving and informing everyone concerned, assuring professional and transparent project planning, as well as on actively identifying and dealing with the risks involved.

All those involved in a project are connected under the motto of "One Company": this is realised, for example, by establishing cross-entity meetings, jointly working on jobs, and through the extensive exchange of information. The targeted project management approach is completed by various measures, such as integrating staff across different Group divisions as well as German and international subsidiaries, supporting integration projects by staff with change management skills, and by systematically leveraging experience gained and procedures developed with past organisational projects. The Management Committee for international business conducts regular reviews of Aareon's international subsidiaries.

Following the launch of a project to build up resources in the Wodis Sigma Consulting business, the necessary employees were hired to implement future client projects.

The grow IT strategy project incorporates the strategic focusing of Aareon's business (both in Germany and abroad) on potentially relevant markets, and to growing the business. This includes identifying growth areas outside the ERP business, improving market launch processes (from development to market roll-out), optimising the consultancy business, enhancing the organisational structure, and enhancing cost-efficiency.

The purpose of the brandIT strategy project is to sharpen Aareon Group's brand profile. By continuously developing and consistently managing the Aareon brand, the Company envisages a competitive edge, in order to achieve profitability at an earlier stage with future market launches of new products and services. The project also focuses on the following goals: boosting client and staff satisfaction, delivering products and services that meet market needs, building brand commitment, ensuring brand-compliant staff behaviour, and increasing the perceived attractiveness of the employer.

The objective of Aareon's moveIT project is to optimise internal processes and support systems. The project's key elements are reducing complexity for users, removing redundancies across systems, and making processes simpler and more transparent.

Environmental/business issues

For Aareon AG, the environmental/business risk category covers legal risks as well as political and regulatory risks. Any product adjustments which may have an impact on contractual agreements hold the challenge of implementing such adjustments in existing agreements. The same applies in the event of amendments to legislation and case law. Aareon uses standardised agreement templates, which are continuously refined and adjusted in line with any changes or amendments to products, legislation, or case law. Amendments to existing contractual relationships are carried out in agreement with the counterparties involved.

A complaints management system is in place to mitigate any potential claims for damages from software implementation projects. The purpose of this system is to restore the satisfaction of clients having submitted a complaint in a swift swift and qualified manner. Dealing with customer complaints at an early stage can help to rectify erroneous developments, preventing associated damages.

Production risks

Aareon AG's ERP solutions and integrated services are being developed further, with a focus on creating added value for customers. The risk arising from developing software is in the potential inability to complete such developments within budgeted costs, with the required quality, and within the timeframe anticipated by the market. Development work is therefore generally executed within the scope of project management methods that meet internationally recognised standards, with a focus on a uniform and professional approach to the project process. This process model reduces software development risks. Where customised software is developed for a specific client, functional specifications are prepared – jointly with the client – prior to commencing development. Developments of standard software modules on the basis of client requests are initially tested with pilot client installations. The Management Board regularly examines the list of all software development projects (which includes a risk assessment).

Aareon's IT centre operations' internal control system was audited and certified in accordance with Audit Standard PS 951 Type B, and the suitability and effectiveness of the service-based internal control system was certified for the period from 1 January - 31 December 2010. Essentially, this involves auditing IT processes and controls, such as physical safety, network-, database and system security, data security and job processing.

Risk exposure from potential major disasters affecting the operation of clients' software are minimised, through well-documented and regularly-tested practical counter-measures, to the extent that downtimes are kept at tolerable levels – thus avoiding material damages to the customer's or service provider's business. To date, no faults have occurred which would have interrupted service performance for a longer period of time. However, there is no way to generally exclude emergencies or disasters, which involve the risk of breaching standards agreed upon in service level agreements (SLAs). Backup locations have been retained for this type of disruption; these temporary sites allow to resume the performance of services, in line with contractual agreements, after a defined transfer period.

Furthermore, the company has implemented extensive data backup processes, allowing to restore the data, in full or in part, for a selected timeframe. Aareon has addressed the issue of liability risk by taking out property damage / liability insurance with limited scope and cover provided. This policy provides cover in the event of Aareon AG being judged liable to a third party for damage incurred in its capacity as a provider of IT services.

Aareal First Financial Solutions AG

Aareal First Financial Solutions AG develops innovative products and services for account maintenance and payments for the housing sector and operates the respective systems. The material risks resulting from this business consist of operational risks regarding the further development and the operation of systems, as well as an indirect market risk, which is due in particular to the close relationship with Aareal Bank AG, which is responsible for the distribution of banking products.

The risk arising from developing software with respect to the initial and continued development of BK01 software solutions largely relates to the potential inability to complete such developments with the required quality, within the planned timeframe, or within budgeted costs. Internally, Aareal First Financial Solutions AG counters such risks by deploying a uniform development process and regular management reporting. This is complemented by a uniform, high-quality licensing process established vis-à-vis development cooperation partners; this is designed to satisfy our quality requirements on a sustained basis, and to ensure a high degree of transparency.

Further development of the BK@1 accounting system is based on the current production release 11.01. Risk exposure resulting from the operation of the the BK@1 software solution is sufficiently covered through the regular operational processes.

A standardised project risk management methodology is applied, whereby risks are assessed monthly on a qualitative level, in order to identify any risks at an early stage and take appropriate counter-measures. Monthly project status reports are assessed by the management bodies identified within the framework of Aareal First Financial Solutions AG's project management system. This allows for continuous monitoring, facilitating swift counteraction if necessary.

Company management receives comprehensive monthly reports covering the level of production achieved, which includes the provision and maintenance of applications and products, the hotline, and the provision of support services for the operation of the BK@1 system.

A standardised procedure for the management of operational risks is being consistently applied. The results of regular risk inventory surveys and self-assessments regarding operational risks yielded no indication of risks or threats which are material or would jeopardise the continued existence of the business.

Regular discussions covering issues of active outsourcing control take place between the bank's outsourcing divisions and Aareon AG, in its role as insourcer for the print server and archive system, as well as for the operation of the host and server platforms.

Aareal First Financial Solutions AG regularly reviews the emergency scenarios it considers relevant; contingency plans are verified using BCP testing.

The market risk regarding utilisation of BK01® solutions was mitigated by developing interfaces to third-party systems, such as SAP or platforms developed by other software providers to the commercial housing sector, alongside connectivity to Aareon's systems. These interfaces are refined on an ongoing basis.

Deutsche Bau- und Grundstücks-Aktiengesellschaft

Deutsche Bau- und Grundstücks Aktiengesellschaft ("BauGrund") looks back on a track record – either directly or through its subsidiaries – covering about eight decades in the property management sector. The business focus is on commercial services, but also on technical and infrastructure services in property management and real estate asset management; predominantly for residential property, but also for commercial and special property. BauGrund manages properties on behalf of the German federal government, local authorities, institutional investors and companies, and for private investors including home owners' associations.

The company's key risk factors are developments in the German property market, particularly regarding residential property investments, which in turn influence the behaviour of BauGrund's private, institutional and public-sector clients. Against the background of the gradual easing in the economic environment, the German housing and commercial property market is expected to be stable for institutional investors and wealthy private clients investing in property. Accordingly, the demand for property management and property asset management services is likely to be stable or to slightly rise. Given the increasingly systematic workflows employed by the majority of market participants and the ongoing efficiency enhancements of all process steps (in an industrial business environment), service quality demands are set to rise further. However, clients are not expected to accept corresponding price increases.

Going forward however, there is a distinct expectation that property managers who fail to deliver the service standards demanded by clients – despite being given the opportunity to improve – stand to be replaced in the near future. For BauGrund, this may lead to large potential changes in its business volume, possibly for individual business areas only. The Company was able to secure the majority of most existing contracts during 2011. However, the level of fees was once again lower, due to scheduled sales of portfolio properties. While client loyalty in real estate asset management and property management can be seen as confirmation of BauGrund's performance, the sub-optimum quality of the service offered to the residential property management sector in recent years was reflected by the expiration of some contracts.

Furthermore, BauGrund must come up with an appropriate response to the risk inherent in managed portfolios (some of which are being reduced in line with planning) containing a high degree of properties for sale. To counter this risk, the Company focused its activities on stabilising and securing these managed portfolios. In addition, the targeted acquisition of attractive follow-up orders from existing clients is being expedited. What makes such orders attractive is their respective profitability, the mix of services to be rendered, or their particular regional fit with the Company's existing organisational structure. Conversely, the Company may continue to terminate less attractive contracts; this may eventually lead to a loss of client relationships, where such agreements were based on 'cross-subsidies' from other businesses in the past. BauGrund is able to counter this trend by further diversifying its order portfolio by counterparty and term.

Taking the target development as a basis, BauGrund will need to ascertain the required standards in terms of quality and reliability, to gain acceptance as one of a limited number of quality providers with nationwide coverage. Further expenditure and investment are planned in this context, especially to ensure fault-free process flows and IT operations. Accordingly, the measures taken define the requirements to achieving the required return on capital over the medium term.

Other risks

Definition

Aareal Bank uses the category of "other risks" to aggregate those types of risk that cannot be quantified exactly: primarily, this includes reputational and strategic risks.

Reputational risk is defined as the risk of events that negatively affect the bank's reputation with investors, analysts, or clients.

Strategic risk is typically associated with the threat of incorrect assumptions regarding market developments, burdening a bank's performance as a result.

Risk measurement and monitoring

The bank has defined a suitable early-warning system – focusing on media observation / social media, client/staff and investors / analysts – that is designed to assess reputational risks. By analysing the early-warning indicators and deploying experience already gained by the bank, the Management Board can take a proactive stance in relation to potential reputational risks.

Other risks are predominantly managed and monitored through qualitative measures. A Group-wide Code of Conduct sets the framework regarding integrity and professional conduct for all activities. The Code provides a standard that is binding for all employees of Aareal Bank Group – regardless of position, and hence, including members of the Management Board or supervisory bodies. Accordingly, the Code defines the fundamental standards for the conduct of each individual employee. Each employee or member of an executive body is personally responsible for complying with this Code of Conduct. Aareal Bank Group ensures compliance with these standards, employing its internal facilities and organisational units (including, in particular, Internal Audit and Compliance / Anti-Money Laundering / Data Protection). Managers are responsible for raising staff awareness within their area of responsibility.

Aareal Bank's Management Board is responsible for managing strategic risk; it coordinates its actions with the Supervisory Board. The Management Board is supported in this task by Corporate Development, for instance, via the continuous monitoring of trends which may be relevant to business policy.

Accounting-related Internal Control and Risk Management System

Tasks of the accounting-related internal control system (ICS) and the risk management system (RMS)

The accounting-related internal control and risk management system includes principles, procedures and measures to ensure the effectiveness and the efficiency of internal and external accounting, in accordance with applicable legal provisions. Pursuant to section 315 (2) no. 5 of the German Commercial Code (HGB), the tasks of the accounting-related internal control system mainly include ensuring proper conduct of business activities, guaranteeing proper internal and external accounting, as well as ensuring compliance with relevant statutory and legal requirements applicable to the company.

The objective of the accounting-related risk management system is to identify, assess and limit risks which may impede the compliance of the financial statements with applicable rules and regulations, and to ensure that such risks are properly reflected in the financial statements. As with any other internal control system, the accounting-related ICS and RMS may only provide reasonable – but not absolute – assurance with regard to achieving this objective, regardless of how much care is used to design this system.

Organisation of the accounting-related ICS and RMS

The internal control system of Aareal Bank takes into account the principles established by the Minimum Requirements for Risk Management (MaRisk) related to company-specific design of the ICS. The design of this internal control system comprises organisational and technical measures to control and monitor the company's activities, covering all entities of Aareal Bank Group. The Management Board of Aareal Bank AG is responsible for designing, implementing, applying and developing / reviewing an appropriate accounting-related internal control system. The Management Board makes decisions as regards the scope and the design of specific requirements; it has defined the responsibilities for the individual process steps in connection with accounting by means of organisational guidelines, and has delegated these responsibilities to individual organisational units.

The processes for (Group) accounting at Aareal Bank are managed by Finance – Group Accounting. All of Aareal Bank's subsidiaries are included in the consolidated financial statements of Aareal Bank Group. Group Accounting is responsible for preparing the Group's reporting in accordance with laws and regulations and with both internal and external guidelines. The Finance division defines technical requirements in accordance with the IFRS Group accounting manual, answers essential accounting-related questions in accordance with IFRSs, and partially assumes responsibility for the subsidiaries' financial accounting processes. The data of each company included is recorded at Group level using a consolidation software. The results prepared in that way are aggregated and consolidated such that finalised figures are available for the single-entity and the consolidated financial statements of Aareal Bank. Aareal Bank Group entities prepare their financial statements pursuant to the relevant local legal requirements, or are managed by the Finance division based on service level agreements. Centrally established accounting guidelines govern the reconciliation to local financial statements, and ensure that accounting standards are complied with in accordance with IFRSs – consistently and on a Group-wide basis. The number of employees within Aareal Bank's Finance division – as well as their qualifications – is adequate. Furthermore, they possess the necessary knowledge and experience relevant for their functions.

The Supervisory Board is responsible for monitoring the Management Board. It approves both the single-entity financial statements of Aareal Bank AG and the consolidated financial statements. Measures taken by the Supervisory Board to ensure an efficient performance of its control functions include the establishment of an Accounts and Audit Committee, which is primarily responsible for financial reporting issues and monitors the effectiveness of Aareal Bank's internal control system pursuant to the requirements of the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – "BilMoG"), which came into force in 2009. The committee analyses and assesses the financial statements submitted to it, the internal risk reports, and the annual Internal Audit report. In addition, the Accounts and Audit Committee is responsible for determining the focal points of the audit, as well as for evaluating the auditors' findings. The Accounts and Audit Committee includes an independent finance expert, pursuant to section 100 (5) of the AktG.

Internal Audit also has a process-independent monitoring function. It reports directly to the Management Board, and provides auditing and consulting services which are designed to optimise Aareal Bank's business processes with regard to accuracy, safety and efficiency. The Internal Audit division supports the Management Board by evaluating the effectiveness and appropriateness of the process-dependent internal control system and of the risk management system in general. Any detected weaknesses regarding the identification, evaluation and reduction of risks are reported and addressed within the context of specific action plans.

Internal Audit also performs Group audit functions for Aareal Bank's subsidiaries, within the context of the Group's risk management. The audit activities of Internal Audit comprise all of the Group's operational and business processes, and are carried out using a risk-based approach. The review of the risk management's effectiveness and appropriateness covers the risk management and risk control systems, reporting, information systems, and the accounting process. To perform its tasks, Internal Audit has full and unrestricted information rights with respect to activities, processes and IT systems of Aareal Bank AG and its subsidiaries. Internal Audit is informed on a regular basis about material changes related to the internal control and risk management system.

The review of process-integrated controls conducted by Internal Audit is based on a set of internal regulations, procedural instructions and guidelines of Aareal Bank Group. The audit activities of Internal Audit comprise all of the Group's operational and business processes, and are carried out using a risk-based approach.

Components of the accounting-related ICS and RMS

Within Aareal Bank, various measures related to the bank's organisational structures and workflows help to fulfil the monitoring duties within the framework of its internal control system.

A prerequisite for the monitoring system to work efficiently is written set of procedural rules governing the distribution of tasks between the individual divisions and the scope of the respective activities. The organisational structure of the Finance division is set out in the bank's organisational guidelines. Aareal Bank's accounting system is structured observing the principle of separation of functions. The functional separation makes for a split between operative and administrative roles, and is designed to ensure a sufficient level of control. In addition, the preparation of the consolidated and the single-entity financial statements is carried out in distinct units.

Various guidelines exist for activities and processes. These guidelines are set out in the Written Set of Procedural Rules of Aareal Bank and available for inspection for all employees. There are requirements as regards data entry and control – as well as data storage – which have to be observed in general by all of the bank's posting units. If necessary, results are reconciled across divisions or companies. Uniform accounting policies are guaranteed through guidelines applicable throughout the Group. The requirements of these Group-wide guidelines substantiate legal provisions, and are adjusted on an ongoing basis to take current standards into account. Measurement within the Group is based on amortised cost or fair value, using current market prices and generally accepted valuation techniques. The valuation techniques used, as well as the underlying parameters, are controlled regularly, and adjusted if necessary. For further information on measurement, please refer to the relevant notes to the consolidated financial statements.

Moreover, the bank's Risk Manual summarises the main elements of Aareal Bank Group's risk management system. Specifically, the Manual describes the organisational workflows as well as methods and instruments used in the context of risk management. In this context, reference is made to our explanations in the Risk Report.

Clearly-defined rules as regards delegation of authorities facilitating the allocation of professional responsibilities also contribute to reliable financial reporting. Any decisions taken are always based on relevant authorities. Internal controls defined on the basis of risk considerations are embedded in the accounting process. Compliance with the principle of dual control in all material processes is one of the principles for ensuring accurate accounting. Where no integrated approval system/dual control feature has been implemented in the Group accounting IT systems for material transactions, this has been integrated and documented in the manual process workflows.

Adherence of Group accounting to generally accepted accounting principles is ensured by both preventive and detective controls within the accounting process itself, as well as through a comprehensive review of processed data. The preparation of the consolidated financial statements is characterised by multiple analyses and plausibility checks. Besides the evaluation of individual accounting issues, these include comparisons of periods, and between plan and actual data. Adequate control processes have been implemented for both manual and automated accounting transactions.

Various divisions are involved in certain processes to increase the level of quality of control, and are also required to carry out reconciliation work. An example of cross-divisional reconciliation is the process for the preparation of annual and interim reports. All divisions involved must ensure and (prior to preparation by the Management Board) confirm the quality of the sections of the reports they are responsible for. This represents an additional control level for the data to be disclosed.

In terms of organisational workflows, the accounting-related internal control and risk management system is based on a comprehensive standardisation of processes and software. Aareal Bank Group uses both standard and customised software. The consolidation software provides technical support to the reconciliation of Group-internal relationships, in a clearly-defined process, in order to guarantee full and proper elimination of intra-group transactions. The data of the units included is reported using a uniform standardised chart of accounts. The Group's accounting-related IT systems were designed in such a way that both manual controls and automatic plausibility checks are performed for material technical and procedural system steps of the applications used. The controls in relation to processing within the IT systems are also integrated in the processes, as well as being independently performed. Process-integrated controls comprise, for example, the review of error and exception reports or the regular analysis of internal service quality. In contrast, IT reviews are conducted independently from processes, by Internal Audit.

Data and IT systems must be protected from unauthorised access. A differentiated access authorisation concept is in place for the systems used for finance and accounting, preventing manipulation of data by unauthorised parties. Authorisations are allocated to responsible employees, reviewed regularly, and adjusted if necessary in accordance with internal criteria.

Aareal Bank reviews its accounting-related internal control and risk management system on an ongoing basis. Necessary adjustments are made with respect to the accounting process based on the bank's reviews. Adjustments may have to be made, for example, in connection with changes in the

Group structure, to the business model, or new legal requirements.

Aareal Bank has to comply with legal requirements. If these requirements change, for example in the form of new laws or changes in accounting standards, the processes or IT systems will be adjusted as required in separate projects across divisions – based on a clearly-defined allocation of functions, and the accounting-related risk management system will be adjusted to take the amended rules into account. Current developments of statutory and legal provisions applicable for Aareal Bank AG are constantly monitored and reported, not only by the responsible division, but also by a steering committee established by the bank. This committee also initiates any required adjustments to be made to systems and processes, and reports the results to the Management Board.

Report on Expected Developments

Macro-economic environment

The outlook for the global economy has worsened perceptibly, whilst risks have grown. This is reflected in – amongst other things – a downgrading across the board of growth forecasts published by numerous economic research institutes for the important economies and the global economy overall.

We anticipate the performance of the global economy to be subdued during the current year, with economic output only expected to grow slightly. For the year 2013 we envisage global economic growth to increase somewhat more strongly. However, there are noticeable differences regarding economic developments in different regions. Recessionary trends are evident in Europe – economic output is expected to decline in several countries this year. At present, economic developments are subject to significant risks and uncertainty, and the threat of a global recession has clearly increased.

Economy

Going forward, the performance of the real economy will be materially burdened by existing uncertainty – not only affecting financial and capital markets but also businesses and private households, as a consequence of the European sovereign debt crisis and the fact that there is still no sustainable solution to the US debt issue. Given this uncertainty and concerns about the economy, investors and private households will defer expenditure. This has given rise to the threat that concerns about a weak economy will in fact contribute to such weakness. Moreover, private consumption demand is being curbed by high unemployment, weak asset performance, and the deleveraging of the private sector in numerous countries.

Uncertainty and tensions on the financial and capital markets might cause banks to be more reluctant in their lending decisions, which might in turn burden corporate investments. In addition, there is a risk that such reticence in lending will be exacerbated by stricter regulatory requirements (concerning capitalisation and liquidity, for example), and by levies imposed. At the same time, banks are likely to face lower demand for loans. What is relevant from Aareal Bank's perspective is that the anticipated weak economic performance is also expected to burden the development of rents and asset values on the commercial property markets this year, as outlined in more detail below.

The sovereign debt crisis has severely restricted the scope of governments to stimulating their economy in order to counter the weakness. Measures to reduce public-sector budget deficits, which have already been resolved or implemented by many countries, are expected to slow demand even further. However, the prevailing expansive monetary policy should be positive for economic developments.

Against this background, we expect global economic performance to be subdued in 2012, with a slight improvement in 2013. However, the performance of various economic regions will diverge considerably.

Below, we present our forecast in detail. The sovereign debt crisis will be a significant burden to economic developments – particularly in the euro zone, where real economic output is expected to slightly decrease this year. We envisage material declines in real gross domestic product in Greece and Portugal. However, economic output in Italy and Spain is also likely to show a marked decline this year, since both countries are likely to lag most other euro zone countries in terms of economic development, due to the burdens from budget consolidation and high government bond yields. In Belgium, France and the Netherlands, we project real gross domestic product to be roughly in line with the levels seen in 2011, or slightly lower. For the other euro zone countries such as Germany, Finland or Austria, we expect only slight increases in economic output – but even these countries might face declines in individual quarters. In other European countries such as Denmark, Sweden, the UK and Switzerland, real economic output is likely to increase only slightly. Our growth outlook is slightly higher for Poland, whereas output in the Czech Republic is expected to be around the previous year's levels. Whilst the European growth economies should continue to see improvement in their economic output, the growth rates are set to be lower than in the previous year.

In the US, given the poor unemployment picture and the high level of private household debt, private consumption demand will only provide a minor contribution to economic performance. Investment activities might increase, thanks to productivity-driven increases in corporate earnings. For this reason, we expect moderate economic growth in the United States in 2012 – hence, a more positive economic development than in Europe. Growth rates in Canada and Mexico are only expected to decrease slightly year-on-year: these economies will thus remain on a positive trend.

The Japanese economy is likely to benefit from catch-up effects leading to moderate real GDP growth. We anticipate growth in Singapore to remain intact, even though it is likely to lose some steam compared with the previous year. The strongest economic development is still expected to materialise in the Asian growth economies, particularly in China. But even Chinese growth is likely to slow down during 2012, as a result of declining demand for its exports from developed economies.

Given the anticipated weakness in the European economies, we envisage rising unemployment in most European countries this year. Only a few countries such as Germany, Finland, Poland and Sweden are expected to see virtually constant average unemployment levels for the full year. Expectations for the US and Japan are somewhat more favourable, with a slight fall in unemployment.

At present, economic developments are subject to significant risks and uncertainty; the key risk is in the development of the sovereign debt crisis going forward. Should the crisis escalate materially – for example, through contagion effects spreading to other countries – the transmission mechanisms of disrupted financial and capital markets, combined with a more pronounced reluctance to lend, might lead to a recurrence of global recession. This recession threat, and economic vulnerability to shocks, have both risen noticeably, even though we do not consider a protracted global recession to be the most likely scenario.

The forecast for 2013 provides for a slight economic improvement across all regions, even though the outlook for the euro zone indicates little momentum on average. Some countries on the euro zone's southern perimeter might however still experience a slight decline in real gross domestic product.

Such an improvement in the general economic environment is conditional upon an easing of the sovereign debt crisis, to the extent that governments, businesses and private households find a mutually acceptable way of reducing public-sector debt, thus restoring safe framework conditions. Given the above, the labour markets will not see any fundamental improvement in 2013: instead, unemployment will persist at a high, virtually unchanged level in most European economies. We continue to anticipate a slightly falling unemployment rate in North America.

Financial and capital markets, monetary policy and inflation

The European sovereign debt crisis and the US debt issue (for which no sustainable solution has yet been found) are likely to attract the attention of the financial and capital markets for quite some time. At present, there are no signs of any quick, sustainable solution. Against this background, it is fair to assume that serious tensions and uncertainty on these markets will continue, leading to high volatility. The risks in the financial system are set to prevail, as a consequence of the sovereign debt crisis.

We assume that both long-term and short-term interest rates of the most important currencies in which we are active will remain at a low level for 2012 on average. The risk premiums for bonds seen as unsafe by investors – which are high for some issues – are likely to prevail as well. Assuming that financial and capital markets are going to calm down to some extent, we expect interest rates to rise in 2013.

Although inflation rates remained high recently, inflation risks have declined given the anticipated subdued economic development. Hence, we assume average inflation rates to be lower than in 2011 in the developed economies, both in the current year and the next. Inflation rates in emerging market economies are also expected to decline, even though these will remain on a slightly higher level compared to other regions. Inflationary risks can be attributed to developments in commodity prices, and especially crude oil prices. Since the latter depend not only upon commercial factors, but are also driven by speculation and political factors, developments are virtually impossible to forecast.

Given the expectations for moderate inflation, and in view of the tension on the financial and capital markets, we assume that the central banks in developed economies will continue to pursue an expansive monetary policy during 2012, keeping key interest rates low. A slight tightening of monetary policy by various central banks is possible in the event of an economic recovery next year. In contrast, the US Federal Reserve (Fed) has indicated that it will maintain its key interest rates within the present range between 0 % and 0.25 % until the end of 2014, citing the economic environment. One needs to take into account that the Fed is not only obliged to maintain price stability, but also needs to support employment. Moreover, central banks adopted policy measures to provide liquidity already in the previous year, which remain in place during the current year. In contrast, whilst monetary policy in the emerging market economies is likely to be somewhat more restrictive, there is a possibility for some loosening this year – to be followed by tightening of monetary policy in 2013, should the economies accelerate.

Regulatory and competition environment

The trend of tighter regulation in the banking business is set to persist during the coming years. Accordingly, Aareal Bank will continue to focus on related implementation measures.

The core elements of the Basel III regime include enhancing the quality and quantity of regulatory capital as well as the introduction of international liquidity standards and a leverage ratio; based on current knowledge, these are expected to be finalised in EU and national legislation by mid-2012, by way of an EU Directive and Regulation. In addition to Basel III, further new regulatory requirements will need to be implemented in parallel, including the financial reporting system (FINREP) and the harmonised reporting of solvency data (COREP) as part of the modernisation of regulatory reporting, which also incorporates the accelerated conversion of this reporting regime to international accounting standards. Moreover, the requirements upon banks' internal risk management methods and processes are set to continuously increase.

Regulators have yet to come up with final details for a large portion of these additional requirements, and the key aspects of related technical standards will only be determined and adopted in the coming years. To nevertheless facilitate the timely implementation, we have already started to deal with the various issues in numerous projects – devoting considerable resources to this work.

Competition in the commercial property financing business will be characterised by two trends already evident in 2011: firstly, banks that are active in financing property investments concentrate on their respective home markets (as well as some core markets) and engage in international business to a limited extent only. Secondly, insurance companies, pension funds and other non-banks are expected to increasingly compete for this business. This is attributable, in particular, to new regulatory rules providing stronger incentives for insurance companies to directly extend property loans. The competitive landscape is additionally influenced by the effects of tensions on the financial and capital markets, and by concerns regarding the economic development going forward. These factors may prompt banks to adopt a more reluctant stance in their lending activities. At the same time, prevailing uncertainty burdens the sentiment on property markets. We therefore expect commercial property transaction volumes – and hence, demand for loans to finance newly-purchased properties – to be lower than in 2011. Increased demand for loans is expected to emanate from the high refinancing requirements for maturing loans, which points towards a market entry of third parties. We consider the developments outlined above to be relevant for the current year as well as for 2013. However, competition might increase somewhat as the forecasted slight economic recovery materialises next year.

Segments and business development

Structured Property Financing segment

The development of rents and property values on the commercial property markets will be extensively influenced by future economic trends, such as economic performance and labour market developments.[1] Considering the clearly more pessimistic economic outlook and the prevailing high tensions on the financial and capital markets, we expect lower to almost stable property values on average in the majority of countries during 2012. A slightly positive trend in values is expected in very few countries only. Likewise, we expect rent levels for new agreements and renewals to be lower on average. High unemployment in many countries also burdens rents and property values, whereas the forecast low interest rate environment is expected to support market values during 2012.

In the event of a more profound global recession that goes beyond a short-term reduction in economic output, more extensive declines in rents as well as property values are probable; these would occur with a certain time lag. The same scenario would apply in the case of a further noticeable deterioration of the sovereign debt crisis. This means that the future performance of property markets is also subject to significant uncertainty. Increases in values and rents are also possible, should economic developments outperform current expectations.

Another factor creating uncertainty on commercial property markets is the high volume of financings which mature during the current year and the years ahead. Any failure to refinance maturing loans might trigger an increased level of sales to redeem residual debt – which would burden prices.

The burdens to commercial property markets described above might be mitigated to some extent by investors increasingly favouring commercial property as an investment alternative, against the background of discussions concerning the safety of government bonds of some countries and the low yields available on other government bond markets. Whilst this shift might support valuation levels, the extent to which this effect would actually materialise is difficult to assess. Given the weak economic outlook and the deteriorating sentiment,

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

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we expect property values to come under pressure on average during 2012, as well as lower transaction volumes being seen on the commercial property markets. Investors will focus on first-class properties in good locations, offering a solid rental situation. Rents and values for these properties will tend to suffer from less pressure compared to lower-quality properties or those in second-tier locations.

Assuming that the economy will recover slightly during 2013, we envisage rents and values to stabilise on average, whereby the expected interest rate increases will be a burden. Rents and values are expected to be virtually stable on average during 2013, for the vast majority of countries.

The trends described for property values and rents in 2012 and 2013 are expected to affect office, retail and logistics properties to a largely identical extent.

Especially in Europe, against the background of an economic outlook that has clearly deteriorated, average market values and rents are expected to be at best stable to lower during 2012, with developments in individual countries expected to diverge. For example, the relatively robust economic development and the favourable labour market situation in Germany (compared to other European countries) would indicate a virtually stable – or possibly slightly lower – trend on the German property markets. In contrast, we anticipate marked reductions in average property values and rents in Italy and Spain, on account of the expected decline in economic output and the difficult labour market situation there. Property values in these two countries are expected to remain under noticeable pressure during 2013, whilst rents and market values are set to largely stabilise in the other European countries, as the economy recovers.

Given the somewhat more favourable economic environment in North America, we envisage commercial property markets there to be stable to slightly positive. This also applies to 2013. The expansive monetary policy in the US is likely to provide support in this context. The maturing of numerous property loans over the next years – including those which were securitised – remains a factor for uncertainty.

Whilst the growing Asian economies, and especially China, are expected to continue posting relatively high economic growth rates in the future, their momentum is slowing. Recognising this slowdown, our assessment of rents and values in China is cautious: we believe a virtually stable development to be probable this year, and also anticipate a stable development for the next year. We also expect developments in Singapore to be stable during both years of the forecast. The Japanese property market is in a special position due to the earthquake catastrophe last year, and its consequences. Anticipated economic catch-up processes might have a positive effect on the property markets this year, whilst almost unchanged values and rents are expected in the next year.

Earnings in the hotel sector are likely to stagnate, or increase slightly during 2012, given the forecast subdued economic performance in many markets. Thanks to the somewhat more favourable economic outlook for North America and Asia, the hotel sector in these regions might perform slightly better than in Europe. As the economy is expected to recover in 2013, we envisage a slight recovery in the hotel sector.

Aareal Bank takes property market developments into account for its risk assessment. The bank considers diverging developments in different countries within the framework of its lending policies – and hence, in the context of lending decisions. In this context, we also distinguish between individual regions or areas within a specific country. We will continue to focus on the consistent management of our credit portfolio as well as on active portfolio management.

We will continue to consistently pursue our lending policy that is oriented on risk and return in relation to new business, and will exploit our strong competitive position. We have adapted our target for new business to an environment characterised by a high degree of uncertainty and volatility, serious tensions on the financial and capital markets, a deteriorating economic outlook and stricter regulatory requirements. Accordingly, we envisage the volume of new business during 2012 to range between € 4.5 billion and € 5.5 billion. The higher volume of new business originated during the year under review also reflected the investment of a portion of the funds raised through the successful capital increase to generate new exposures. Depending upon market developments, we expect new business volumes in 2013 to outperform 2012. Compared to 2011, when the share of renewals in the total new business volume was clearly lower, this share will increase during the two years covered by our forecast.

The syndications market was more positive during 2011 than the year before, albeit modestly so. Aareal Bank also used syndication in order to facilitate participation by several banks in large-sized financings, and to enhance the diversification of individual credit risks. This instrument will remain an important one, and we are determined to exploit any options available to us. However, given the tensions on the financial and capital markets, the syndications environment is set to remain challenging during 2012 and 2013.

Subject to the performance of the relevant foreign currencies vis-à-vis the euro, we expect a slightly lower portfolio volume for both years covered by our forecast. The regional distribution will continue to be driven by our three-continent strategy, whereby the regional focus will be on Western Europe and North America.

These forecasts are based on the assumption that there will be no protracted global recession, but at the most a short-term regional one. Failing this, a more extensive reduction in new business, a more pronounced increase in the share of renewals, and a lower scope for syndications would all be likely.

Consulting/Services segment

Institutional Housing Unit

A solid development is expected for the institutional housing industry in Germany during the current year and the next, thanks to stable rental payments and a high degree of stability in property values.

Expectations for residential space have become more differentiated, as a consequence of demographic change and reflecting the increasing trends towards a more individual and differing lifestyle. This means that institutional housing industry enterprises will need to increase their investments during 2012 and beyond. The future development of the industry will be shaped by issues such as energy-efficient renovation, capping operating costs, and appropriate living for the elderly. Investments will also focus on these issues.

Businesses in the institutional housing industry will continue to pursue a sustainable development of their portfolios; in addition, they will expedite new housing construction projects in order to modernise their holdings.

The German government will provide € 1.5 billion in subsidies during 2012 for the energetic renovation of buildings, through its Energy and Climate Fund. Given plans to cut federal funds for urban development funding from € 455 million to € 410 million in 2012, and that KfW's € 100 million subsidy programme for property conversions to suit older people will no longer be available in 2012, there is a risk that institutional housing enterprises might cancel or postpone some investment projects in the affected areas.

Despite a slight slowdown in the German economy, the housing market is expected to be stable during 2012 and 2013. Specifically, the positive trend in rents and prices in economic growth regions is expected to continue over the next two years, on account of rising demand for housing. We anticipate slightly rising rents for new properties, which will be beneficial to property investors and potential sellers within the institutional housing industry.

Recognising the solidity of residential property as an asset class, combined with the difficulty in forecasting the development of capital markets, institutional investors will continue to engage in the residential property sector throughout 2012 and 2013. We expect demand for residential property, as an investment that offers stable values and returns, to prevail, particularly in metropolitan areas. Trading activity in small to medium-sized portfolios is expected to dominate.

Assuming that the economic environment in Germany remains robust, the transaction market may pick up momentum. Against this background, we envisage transaction volumes during 2012 to be in line with the previous year's level.

Given the prevailing low interest rate environment, we expect that margins in the payments and deposit-taking business will continue to remain under pressure during the year ahead. For 2013 we expect slightly higher interest rates, and hence an increase in margins, which should have a positive effect on the contribution of the bank's Institutional Housing Unit to segment results.

Looking at the development of deposits taken, we expect the positive trend to continue, particularly in relation to rent deposits.

Overall, we see good opportunities during the course of 2012 and 2013 – not only to acquire new clients, but also to intensify the business relationships with our existing client base. This also applies to our payments services for utilities and the waste disposal industry.

Aareon AG

The key trend of cloud computing will also gain importance in the market for property management software. In this context, attention will focus even more on the issues of data protection and data security. Cloud computing provides even more effective support to housing enterprises in mastering their IT-related challenges: the constantly increasing system complexity, permanent innovation, and ever-growing amounts of data. Against this background, the provision of software as a service – through a cloud – is growing in importance. The procurement of IT solutions from a service provider, through a network, allows for an efficient deployment of IT investments, keeping administrative expenditure low.

A significant increase in sales revenues is expected for the Wodis Sigma product line over the next years. Since the market launch of Wodis Sigma Release 3.0 in December 2011, this ERP solution has also been available with a SaaS (software as a service) option, through the Aareon Cloud. Accordingly, Aareon anticipates a marked increase in the share of SaaS revenue for Wodis Sigma over the years to come. Responding to strong demand for Wodis Sigma, Aareon already invested in advisory and support resources during the financial year under review. A high number of new clients, and those migrating from other Aareon solutions, is expected during the following years. For this reason, the Company plans to further increase its resources for advice and support – which will in turn increase consultancy revenues further.

Given the very low number of tender processes for the SAP® solutions / Blue Eagle product line, Aareon expects demand for these products to remain subdued for the time being. Hence, the related consultancy revenues are expected to be low, yet stable.

Despite the high degree of client satisfaction with the GES product line, we anticipate a continued migration to newer Aareon ERP solutions. Consequently, GES-related revenues are expected to decline over the next years.

Sales revenues in the Integrated Services segment are expected to slightly increase during the next years, attributable in particular to the Mareon service portal and the Aareon invoicing service. We expect sales revenues from the Aareon DMS document management system to rise moderately during the years ahead. It is fair to assume that Aareon will be able to acquire new outsourcing clients, and to increase business with its existing client base.

Aareon anticipates a slight increase in sales revenues in its international business segment. Following the conclusion of an SAP cooperation agreement by Aareon France, the business with SAP®-based solutions will grow further. The planned successful production roll-out of pilot projects for the Flexiciel product will achieve another milestone in France, with additional client projects to follow suit. The introduction of Release 3.0 for the PortalImmo Habitat ERP solution is scheduled for 2013.

In the Netherlands, market penetration of the new SG|tobias^AX product generation will continue. Further developments are planned for the SG|Vastgoed, SG|Treasury and StraVis solutions. The Facility Management Informations System (FMIS) offered by the SG|Facilitor subsidiary has become increasingly established on the market. Sales revenues are expected to grow slightly.

Despite the ongoing price competition on the UK market, the Aareon UK subsidiary is expected to generate additional sales revenues with new clients.

Considering the expected development of the various business segments, Aareon Group expects sales revenues to increase slightly but steadily over the years ahead. Aareon Group's costs are forecast to remain stable during that period. Whilst personnel expenses will increase slightly, largely due to the hiring of new advisors for the Wodis Sigma product line and of staff for Integrated Services, positive effects will be possible through cost optimisation. Overall, Aareon Group believes itself to be well-positioned for the future.

Group targets

Within the scope of the sovereign debt crisis that is still unresolved, the Management Board believes financial markets will remain volatile during the current year and therefore expects the risks in the financial system to persist. The risks in relation to economic development have also increased in recent months. This is reflected in – amongst other things – a downgrading across the board of growth forecasts for the important economies, and the global economy overall. The uncertain political framework and cumulative effects of the forthcoming changes to the regulatory environment (which have not yet been clarified) present further challenges.

Aareal Bank will counter these uncertainties by pursuing a very cautious liquidity and investment strategy, amongst other things. The resulting burden on net interest income will more than offset the positive effect of higher margins from business originated in the previous year. We therefore expect a considerable decline in net interest income in 2012. This situation is not expected to materially change in 2013. Accordingly, net interest income is likely to stabilise at the levels achieved in 2012.

Given the deterioration in economic projections, we forecast allowance for credit losses in a range of € 110 million to € 140 million, which is unchanged from last year. Even though we envisage a slight recovery in 2013, allowance for credit losses is likely to remain on these levels during that year, reflecting the late-cycle nature of our business. As in previous years, additional allowances for unexpected credit losses cannot be ruled out during 2012 and 2013, particularly in an environment that is subject to negative change.

We expect a significant increase in net commission income in 2012, particularly since the charges on the SoFFin-guaranteed notes will no longer apply. Net commission income for the next year is anticipated to be roughly in line with 2012 levels.

Net trading income / expenses essentially comprises the results of hedge transactions related to refinancing our property financing portfolio, predominantly currency and interest rate hedges. We only engage in traditional own-account trading to a very limited extent. The item also includes changes in value from the sale of hedges for selected EU sovereign countries. Especially in the current uncertain market environment, we expect the measurement of these hedges to remain as highly volatile as it was in the previous year. As a result, it is impossible to forecast net trading income / expenses.

Thanks to our consistent conservative risk policy pursued during recent years, we currently do not anticipate any write-downs on non-trading assets during the years 2012 and 2013. Against the background of current market developments for

European government bonds, shifts in our securities portfolio are possible, within the scope of active portfolio management. Moderate burdens to net income from non-trading assets from the sale of securities cannot be ruled out.

Due to measures designed to optimise our structures and processes implemented in 2011, administrative expenses are expected to notably decline in the current year. Further relief on administrative expenses is anticipated from these measures in 2013.

All in all, despite the significant challenges we face, we see good potential for achieving consolidated operating profit slightly below last year's very good result. In the next year, consolidated operating profit is likely to improve, driven especially by enhanced efficiency in the bank's structures and processes.

In the uncertain environment, new business in the Structured Property Financing segment is projected in a range between € 4.5 billion to € 5.5 billion. We envisage new business to grow again during 2013.

Looking at the Consulting / Services segment, we continue to expect a challenging interest rate environment for segment results. We therefore expect operating profit in line with the previous year's levels, adjusted for non-recurring effects. Assuming an improved interest rate environment, we anticipate another increase in operating profit next year.

Principles of Remuneration of Members of the Management Board and the Supervisory Board

The Supervisory Board determines the structure and amount of remuneration for members of the Management Board.

Aareal Bank AG has entered into fixed-term service contracts with the members of its Management Board.

The remuneration of the Management Board members consists of a fixed and a variable remuneration. In the context of the bank's agreement entered into with the German Financial Markets Stabilisation Fund (SoFFin), the members of the Management Board had waived their claims on any remuneration components over and above € 500,000 for the years 2009 and 2010. This limitation ended at the end of 2010; the remuneration as stipulated in the respective service agreements returned to force with effect from 1 January 2011.

Variable remuneration for those Management Board members who joined the bank prior to 1 November 2010 – Dr Wolf Schumacher, Hermann J. Merkens and Thomas Ortmanns – comprises a cash component as well as a long-term, share-based remuneration component with cash settlement ('Phantom' shares).

The variable remuneration for Management Board member Dirk Große Wördemann, who joined with effect from 1 November 2010, is made up of cash and Phantom shares, in equal proportions. 40 % of these remuneration components is granted immediately, and 60% after a deferral period. To ensure that variable remuneration complies with the requirements pursuant to the German Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions (Instituts-Vergütungsverordnung, InstitutsVergV), the exact details of variable remuneration for Dirk Große Wördemann will be governed by a supplementary agreement to be entered into by the Company and Mr Große Wördemann. Specifically, this agreement will provide for the following: Mr Große Wördemann will receive 20 % of variable remuneration immediately, in the form of a cash bonus. An additional 20 % will be granted immediately, in the form of Phantom shares subject to a three-year holding period. 30 % each will be credited as a deferred cash bonus and deferred Phantom shares, respectively, to a virtual account maintained on behalf of Mr Große Wördemann, whereby such credit does not constitute a vesting or claim regarding the corresponding amounts. During the three years following each credit (the retention period), the Supervisory Board will decide, in its reasonable discretion, on the disbursement of one-third each of the deferred cash bonus and deferred Phantom shares. Based on a "malus" provision, the relevant one-third deferred bonus may also be disbursed in part, or not at all. In this case, any portion not disbursed will lapse. The Phantom shares granted under the deferred Phantom shares bonus are subject to a two-year holding period.

The variable remuneration for the Management Board members is based on a targets system derived from the bank's medium-term planning; the relevant targets include consolidated net income in accordance with International Financial Reporting Standards (IFRSs) for the first year of the plan, as well as quantitative and qualitative targets to be determined annually.

Remuneration for the services of the Supervisory Board members is specified in Article 9 of the Memorandum and Articles of Association of Aareal Bank AG. The Annual General Meeting on 18 May 2011 passed a resolution to adjust the remuneration structure for the Supervisory Board. Pursuant to this resolution, the Members of the Supervisory Board receive a fixed remuneration only, as well as a compensation for attending meetings. Whilst Aareal Bank has thus followed current trends for good corporate governance, it diverges from the stipulations of the German Corporate Governance Code. The remuneration system for the Management Board, comprising a fixed and a variable remuneration component, remains in place.

Please refer to the Notes to the Consolidated Financial Statements (Remuneration Report) for further details about the remuneration system for members of the Management Board and the Supervisory Board of Aareal Bank AG as well as on the existing change of control regulations.

Disclosure pursuant to section 315 (4) of the German Commercial Code (HGB)

Composition of subscribed capital, and rights and obligations attached to shares

The composition of Aareal Bank AG's subscribed capital is shown in Note 64 to the consolidated financial statements. Each share casts one vote at a General Meeting. There are no shares with special rights granting supervisory powers to any shareholder or shareholder group. The company currently does not hold any treasury shares, which would not be entitled to vote.

Restrictions affecting voting rights or the transfer of shares

The German Financial Markets Stabilisation Fund (SoFFin) agreed to provide a stabilisation measure to the bank in March 2009, in the form of a silent participation. In the context of this stabilisation measure, SoFFin and the bank's main shareholder, Aareal Holding Verwaltungsgesellschaft mbH ("Aareal Holding") entered into an agreement under which Aareal Holding has undertaken to maintain its stake in the bank's capital (currently 15,916,881 shares) throughout the term of the recapitalisation, and to act in SoFFin's interest when casting certain votes during the General Meeting (or to seek SoFFin's opinion prior to such a poll). Furthermore, Aareal Holding has undertaken to exercise its voting rights for resolutions to be adopted by a General Meeting in such a way that Aareal Holding will retain its blocking minority.

In all other respects, the transfer and exercise of voting rights is governed exclusively by legal restrictions. Voting rights are not limited to a certain number of shares, or of votes. All shareholders who have registered to attend a General Meeting in good time, and who have provided the Company with evidence of their shareholding and their right to vote, are entitled to attend the General Meeting, and to exercise their voting rights from all shares held and so registered. The exercise of voting rights from the shares concerned is precluded by law in the cases where section 136 of the AktG applies. Where the company holds treasury shares, section 71b of the AktG prohibits the exercise of rights vested in such shares. We are not aware of any other restrictions affecting voting rights or the transfer of shares.

Shareholdings exceeding 10 % of voting rights

Details regarding any shareholdings exceeding 10 % of voting rights are provided in Note 96 to the consolidated financial statements.

Shares with special rights granting the holder supervisory powers

Aareal Bank AG's Memorandum and Articles of Association do not grant any shareholder the right to nominate members to the Supervisory Board, nor are there any other shares with special rights granting the holder supervisory powers.

Type of control of voting rights regarding shares held by employees with their rights of control not being directly exercised

There are no Aareal Bank AG shares held by employees where the rights of control cannot be directly exercised.

Statutory provisions, and provisions in the Memorandum and Articles of Association regarding the appointment and removal of members of the Management Board, and regarding amendments to the Memorandum and Articles of Association

The appointment and removal of members of the Management Board of Aareal Bank AG is carried out in accordance with sections 84 and 85 of the AktG and Article 7 of the Memorandum and Articles of Association, according to which the Management Board must have a minimum of two members. The Supervisory Board shall appoint the Members of the Management Board and determine their number. The Supervisory Board may appoint deputy members, and may appoint one member of the Management Board to be the Chairman of the Management Board. The members of the Management Board are appointed for a maximum term of five years. This term of office may be renewed or extended for a maximum of five years in each case.

Pursuant to section 179 of the AktG, the Memorandum and Articles of Association may be amended by way of resolution passed by the General Meeting. Resolutions of the General Meeting regarding amendments to the Memorandum and Articles of Association are passed by a simple majority of the votes cast, or – to the extent permitted by law – by the majority of the issued share capital present at the Meeting. In accordance with section 181 (3) of the AktG, such amendments become effective upon their entry in the company's Commercial Register. In the event of a capital change, the Supervisory Board is authorised to modify the wording of the Articles of Association in line with the amount of the capital change (Article 5 (7) of the Memorandum and Articles of Association).

Authorisation of the Management Board to issue or repurchase shares

Authorised capital

The Annual General Meeting held on 19 May 2010 resolved to authorise the Management Board to increase, on one or more occasions, the Company's share capital by up to a maximum total amount of € 64,132,500 (Authorised Capital) by issuance of new shares for contribution in cash or in kind. This authorisation will expire on 18 May 2015. The shareholders must be granted subscription rights in the event of a capital increase against cash contributions. The Management Board is authorised to exclude shareholders' pre-emptive subscription rights in the event of a capital increase not exceeding 10 % of the issued share capital at the time of the authorisation becoming effective or being exercised, subject to approval by the Supervisory Board and provided that the issue price is not significantly lower than the prevailing market price of shares already listed, at the time of final determination of the issue price. Article 5 (4) lit. b) to d) of the Memorandum and Articles of Association sets out further conditions for excluding shareholders' pre-emptive subscription rights. The Management Board may exclude shareholders' pre-emptive subscription rights in the event of a capital increase against contributions in kind. When exercising this authorisation, the Management Board will restrict the exclusion of shareholders' pre-emptive rights to a total of 20 % of the Company's registered share capital. Accordingly, the aggregate exclusion of shareholders' subscription rights upon exercise of this authorisation must not exceed 20 % of the registered share capital at the time said authorisation comes into effect or is exercised. This limitation also includes shares issued by the Company on the basis of the authorisation by the General Meeting on 19 May 2010, under convertible bonds and/or bonds with warrants issued excluding the pre-emptive rights of shareholders.

On 14 April 2011, the Management Board resolved to exercise this authorisation to increase the Company's issued share capital of € 128,265,477, by € 51,306,186 to € 179,571,663 against cash contributions, by issuing 17,102,062 new notional no-par value bearer shares equivalent to a share in the share capital of € 3.00 each; this resolution was approved by the Supervisory Board on the same day. The Company's existing shareholders entitled to subscribe were granted an indirect subscription right. Following this exercise, the residual amount of Authorised Capital amounts to € 12,826,314.

Conditional capital

Pursuant to Article 5 (5) of the Memorandum and Articles of Association, the share capital is subject to a conditional capital increase of up to € 30 million by means of issuing up to 10 million new notional no-par value bearer shares. The purpose of the conditional capital increase is the granting of shares to holders or creditors of convertible bonds and/or bonds cum warrants issued in accordance with the authorisation by the General Meeting held on 19 May 2010. Under this authorisation, bonds cum warrants or convertible bonds with an aggregate nominal amount of up to € 600 million may be issued until 18 May 2015. Under the authorisation, subsidiaries of Aareal Bank AG may also issue convertible bonds and/or bonds cum warrants, and subject to approval by the Supervisory Board allows the company to guarantee such issues as well as to issue shares to fulfil the resulting conversion or option rights. Subject to the approval of the Supervisory Board, the Management Board may exclude shareholders' pre-emptive rights in the certain cases. Notwithstanding the provisions of section 9 (1) of the AktG, in certain circumstances holders of conversion or option rights are entitled to be protected against dilution. The new shares will be issued at the conversion or option price to be set as defined in the resolution passed by the General Meeting on 19 May 2010. The conditional capital increase will be executed only to the extent that holders of conversion or option rights exercise such rights or any conversion obligation from such convertible bonds and/or bonds with warrants is performed, and to the extent that treasury shares are not utilised to service such convertible bonds and/or bonds cum warrants. The new shares will be entitled to a share in the profits from the beginning of the financial year in which they come into existence, by way of exercise or conversion. The Management Board is authorised to determine any further details of the conditional capital increase, subject to approval by the Supervisory Board. The purpose of this authorisation to issue convertible bonds and/or bonds cum warrants (where the issue of shares to honour the obligations under such convertible bonds and/or bonds cum warrants is covered by the conditional capital) is to provide the Management Board with the flexibility to act swiftly when raising finance, in the interests of the company. The Management Board has not yet exercised this authorisation.

Authorisation to purchase treasury shares

The General Meeting held on 19 May 2010 authorised the Management Board, pursuant to section 71 (1) No. 7 of the AktG, to purchase and sell treasury shares for the purposes of securities trading, at a price not falling below or exceeding the average closing price of the Company's share in Xetra trading (or a comparable successor system) during the three trading days on the Frankfurt Stock Exchange prior to the relevant transaction by more than 10 % . This authorisation expires on 18 May 2015. The volume of shares acquired for this purpose must not exceed 5 % of the issued share capital of Aareal Bank AG at the end of any given day.

The General Meeting held on 19 May 2010 authorised the Management Board, pursuant to Section 71 (1) No. 8 of the AktG, up to 18 May 2015, to acquire and sell treasury shares for purposes other than securities trading, up to a maximum volume of 10 % of the issued share capital at the time of passing the resolution or – if this value is lower – of the share capital existing at the time of exercising this authorisation for purposes other than securities trading. Shares may be acquired via the stock exchange or by means of a public offer to buy, directed at all shareholders. Where acquisition is effected via the use of derivatives in the form of put or call options, or a combination of both, the option terms must ensure that said options are only serviced with shares that were purchased, in accordance with the principle of equal treatment, at the stock exchange at the prevailing share price of the Company's share in Xetra trading (or a comparable successor system) at the time of the purchase on the stock exchange.

The Management Board is authorised to effect the sale of any treasury shares acquired in accordance with this authorisation, subject to approval by the Supervisory Board, via channels other than the stock exchange or an offer to all shareholders, provided that the sale is carried out at a price that is not significantly lower than the stock exchange price of the company's shares at the time of sale. This authorisation is subject to the proviso that the aggregate value of shares sold under this authorisation and of shares issued to the exclusion of shareholders' subscription rights, in accordance with section 186 (3) sentence 4 of the AktG, shall not exceed 10 % of the issued share capital at the time of said authorisation becoming effective or being exercised. Subject to approval by the Supervisory Board, pre-emptive subscription rights on the sold shares may also be excluded in the event of a sale against contributions in kind, or if the sold shares are given to the holders of conversion or option rights in lieu of new shares from a contingent capital increase. The Management Board is also authorised to exclude the pre-emptive subscription rights to the extent required to grant subscription rights to new shares to owners of convertible bonds or bonds cum warrants which were issued in the meantime in such an amount as would be due to them once they exercised their option rights. The Management Board is authorised to call in any of the shares acquired under this authorisation, without any further resolutions by the General Meeting being necessary. The company did not exercise this authorisation to purchase or dispose of treasury shares during the year under review.

The authorisation to purchase treasury shares is granted for a five-year period; it is in line with widely accepted practice of German listed companies. In line with authorised capital and conditional capital, this serves the company's interest of having access to flexible financing options.

Material agreements which are subject to change of control clauses triggered in the event of a takeover offer

There are no material agreements which are subject to change of control clauses triggered in the event of a takeover offer. Any public offers to acquire the company's shares are governed exclusively by the law (including the provisions of the German Securities Acquisition and Takeover Act), and the Memorandum and Articles of Association.

Compensation agreements entered into with members of the Management Board or employees in the event of a takeover offer

For details regarding compensation agreements entered into with members of the Management Board or employees in the event of a takeover bid, please refer to the Remuneration Report, which forms part of the Notes to the consolidated financial statements.

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CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS II

Consolidated Financial Statements
Statement of Comprehensive Income

Income statement

€ mn	Note	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Interest income		1,121	903
Interest expenses		574	394
Net interest income	25	**547**	**509**
Allowance for credit losses	26	112	105
Net interest income after allowance for credit losses		**435**	**404**
Commission income		196	187
Commission expenses		52	64
Net commission income	27	**144**	**123**
Net result on hedge accounting	28	6	-2
Net trading income/expenses	29	14	8
Results from non-trading assets	30	-29	-12
Result from investments accounted for using the equity method	31	1	5
Results from investment properties	32	10	-17
Administrative expenses	33	382	366
Net other operating income/expenses	34	-14	-9
Impairment of goodwill	35	0	0
Operating profit		**185**	**134**
Income taxes	36	52	40
Net income/loss		**133**	**94**
Allocation of results			
Net income/loss attributable to non-controlling interests		19	18
Net income/loss attributable to shareholders of Aareal Bank AG		114	76
Appropriation of profits			
Net income/loss attributable to shareholders of Aareal Bank AG		114	76
Silent participation by SoFFin		21	30
Consolidated profit/loss		**93**	**46**
€			
Earnings per share	37	2.11	1.78
Diluted earnings per share	37	2.11	1.78

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

Statement of Comprehensive Income

Reconciliation from Net Income/Loss to Total Comprehensive Income

€ mn	Note	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Net income/loss		**133**	**94**
Changes in revaluation surplus	38	-111	2
Changes in hedging reserves	38	14	0
Changes in currency translation reserves	38	1	1
Changes in reserves from transactions under common control	38	–	-1
Gains and losses directly recognised in equity (after taxes)		**-96**	**2**
Total comprehensive income		**37**	**96**
Allocation of total comprehensive income			
Total comprehensive income attributable to non-controlling interests		19	18
Total comprehensive income attributable to shareholders of Aareal Bank AG		18	78

Statement of Financial Position

€ mn	Note	31 Dec 2011	31 Dec 2010
Assets			
Cash funds	39	588	922
Loans and advances to banks	40	2,912	2,034
Loans and advances to customers	41	25,422	24,661
Allowance for credit losses	42	-318	-332
Positive market value of derivative hedging instruments	43	1,801	1,321
Trading assets	44	421	428
Non-current assets held for sale and discontinued operations	45	172	–
Non-trading assets	46	10,010	11,428
Investments accounted for using the equity method	47	2	3
Investment properties	48	88	220
Intangible assets	49	85	91
Property and equipment	50	104	95
Income tax assets	51	20	31
Deferred tax assets	52	89	69
Other assets	53	418	246
Total		**41,814**	**41,217**
Equity and liabilities			
Liabilities to banks	54	3,073	5,168
Liabilities to customers	55	24,929	22,846
Certificated liabilities	56	7,540	7,619
Negative market value of derivative hedging instruments	57	1,769	1,181
Trading liabilities	58	723	675
Provisions	59	251	237
Income tax liabilities	60	29	30
Deferred tax liabilities	61	6	27
Other liabilities	62	127	181
Subordinated capital	63	1,198	1,268
Equity	64		
Subscribed capital		180	128
Capital reserves		721	511
Retained earnings		929	836
Other reserves		-204	-108
Silent participation by SoFFin		300	375
Non-controlling interest		243	243
Total equity		2,169	1,985
Total		**41,814**	**41,217**

Statement of Changes in Equity

€ mn	Subscribed capital	Capital reserves	Retained earnings	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Reserves for currency translation	Silent participation by SoFFin	Total	Non-controlling interest	Equity
Equity as at 1 Jan 2011	**128**	**511**	**836**	**-110**	**–**	**2**	**375**	**1,742**	**243**	**1,985**
Total comprehensive income for the period			114	-111	14	1		**18**	19	**37**
Capital increase	52	218						**270**		**270**
Costs of capital increase		-8						**-8**		**-8**
Payments to non-controlling interests									-19	**-19**
Dividends										
Silent participation by SoFFin							-75	**-75**		**-75**
Costs associated with the silent participation by SoFFin			-21					**-21**		**-21**
Other changes										
Equity as at 31 Dec 2011	**180**	**721**	**929**	**-221**	**14**	**3**	**300**	**1,926**	**243**	**2,169**

€ 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	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			76	-1	2	0	1		**78**	18	**96**
Capital increase											
Capital reduction											
Payments to non-controlling interests										-18	**-18**
Dividends											
Silent participation by SoFFin								-150	**-150**		**-150**
Costs associated with the silent participation by SoFFin			-30						**-30**		**-30**
Other changes			10						**10**		**10**
Equity as at 31 Dec 2010	**128**	**511**	**836**	**–**	**-110**	**–**	**2**	**375**	**1,742**	**243**	**1,985**

Statement of Cash Flows

€ mn	Cash flow 1 Jan-31 Dec 2011	Cash flow 1 Jan-31 Dec 2010
Net income/loss for the year	**133**	**94**
Write-downs, valuation allowances and write-ups on loans and advances	132	105
Additions to and reversals of loan loss provisions, net	-2	7
Amortisation, depreciation, impairment and write-ups on non-current assets	31	58
Other non-cash changes	114	538
Gains/losses on the disposal of non-current assets	3	-11
Other adjustments	-249	-650
Subtotal	**162**	**141**
Changes in loans and advances to banks	-868	-1,221
Changes in loans and advances to customers	-715	-1,059
Changes in trading assets	19	13
Changes in other assets from operating activities	-120	116
Changes in liabilities to banks	-2,158	-172
Changes in liabilities to customers	1,487	1,395
Changes in certificated liabilities	-121	-193
Changes in trading liabilities	-18	-12
Changes in provisions	-70	-84
Changes in other liabilities from operating activities	-181	-157
Income taxes paid/income tax refunds	-45	-5
Interest received	1,206	1,164
Interest paid	-679	-237
Dividends received	–	–
Cash flow from operating activities	**-2,101**	**-311**
Proceeds from the disposal of non-trading assets and investments accounted for using the equity method	2,136	2,003
Payments for the acquisition of non-trading assets and investments accounted for using the equity method	-415	-1,553
Proceeds from the disposal of property and equipment, intangible assets and investment properties	7	8
Payments for the acquisition of property and equipment, intangible assets and investment properties	-44	-46
Effect of changes in reporting entity structure	–	–
Changes due to other investing activities	–	–
Cash flow from investing activities	**1,684**	**412**
Proceeds from capital increases	262	–
Changes in subordinated capital	-44	-1
Changes due to other financing activities	-135	-168
Cash flow from financing activities	**83**	**-169**
Cash and cash equivalents as at 1 January	**922**	**990**
Cash flow from operating activities	-2,101	-311
Cash flow from investing activities	1,684	412
Cash flow from financing activities	83	-169
Cash and cash equivalents as at 31 December	**588**	**922**

Notes
(A) Basis of Accounting

Legal framework and reporting entity structure

Aareal Bank AG is a 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.

As a listed public limited company, Aareal Bank AG has prepared its consolidated financial statements for the financial year ended on 31 December 2011 in accordance with International Financial Reporting Standards (IFRSs) applicable within the European Union (EU) as of the reporting date, in connection with the provisions pursuant to section 315a (1) of the German Commercial Code (Handelsgesetzbuch – "HGB"). The reporting currency is the euro (€).

The Management Board approved the consolidated financial statements for publication on 5 March 2012. The consolidated financial statements are expected to be published on 29 March 2012.

Subsidiaries of Aareal Bank AG are included in the consolidated financial statements by way of full consolidation. Special funds and special purpose entities are also included by way of full consolidation in accordance with IAS 27 and SIC 12. Joint ventures and companies over which Aareal Bank AG may exercise a significant influence ("associates") are included in the consolidated financial statements using the equity method.

As at 31 December 2011, the reporting entity structure included Aareal Bank AG as well as 74 (2010: 81) subsidiaries, two special funds (2010: two), one special purpose entity (2010: –), seven joint ventures (2010: seven) as well as ten (2010: 12) associates.

The Aareal Bank Group company ZMP Zentralmessepalast Entwicklungsgesellschaft mbH, Wiesbaden acquired 100 % of the shares in Jomo S.p.r.l., Brussels at a price of € 1 as at 31 December 2011. Jomo S.p.r.l. is a holding company. As a result of control now exercised, the company was initially consolidated as of 31 December 2011 pursuant to IFRS 3 in conjunction with IAS 27. The pro-rata fair value of the assets acquired and liabilities assumed is allocated as follows: one property (€ 20 million) and liabilities (€ 20 million). No goodwill was identified during initial consolidation.

In the past financial year, 10 companies were de-consolidated. This de-consolidation did not have any significant effects on profit or loss.

There were no further material changes to the reporting entity structure during the period under review. Section "(H) List of Shareholdings" includes an overview of the group companies.

General accounting policies

(1) Accounting standards

Recognition and measurement within Aareal Bank Group are based on accounting policies applied consistently throughout the Group. The consolidated financial statements are prepared on a going concern basis.

We generally apply accounting policies – and the presentation of financial statements – consistently, in order to ensure the comparability of financial statements over time.

Information is presented in accordance with the principle of materiality. Minor differences may occur regarding the figures stated due to rounding.

The bank observes the general prohibition of setting off assets against liabilities. To the extent that the criteria of IAS 12.74 are met, deferred tax assets and deferred tax liabilities are offset. If the requirements set out in IAS 32.42 are met, financial assets and liabilities are reported on a net basis.

Income and expenses are recognised on an accrual basis and recorded in the income statement in the period to which they relate.

In the preparation of the financial statements, assets and liabilities were primarily measured using amortised cost or fair value. Which measurement method will actually be used for a particular item is defined by the applicable standard (see section "Specific accounting policies"). Financial instruments are accounted for in accordance with the classification and measurement principles as defined in IAS 39. Derivative hedging instruments are accounted for on the basis of the provisions for hedge accounting. The presentation of the financial position and the financial performance in the consolidated financial statements depends on the recognition and measurement methods underlying the preparation of the financial statements as well as on estimates and assumptions as a result of the uncertainty associated with future events. Any assumptions and estimates required for recognition and measurement are in line with the relevant accounting standards. Estimates and assumptions are based on historical experience and other factors such as planning and current expectations and forecasts with respect to the occurrence of future events.

The most significant forward-looking assumptions and key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year primarily refer to the calculation of pension obligations, allowances for credit losses and loan loss provisions, the measurement of goodwill, property and deferred tax assets as well as the determination of fair values of certain financial instruments.

An asset is recognised in the statement of financial position when it is probable that an associated future economic benefit will flow to the company and the asset can be measured reliably.

A liability is recognised if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when the settlement amount of the liability can be measured with sufficient reliability.

(2) Currency translation

The line items in the financial statements of each Group entity are measured on the basis of the currency of the primary economic environment the respective entity operates in ("functional currency").

The consolidated financial statements are prepared in euro, being both the functional and the Group's reporting currency.

Monetary assets and liabilities denominated in a foreign currency, unsettled cash market/spot transactions and non-monetary items measured at fair value are translated to the functional currency on the basis of the ECB reference rate prevailing on the balance sheet date. Non-monetary items measured at amortised cost are translated using historical rates. Foreign exchange forward transactions are measured at the forward exchange rate prevailing on the balance sheet date.

Currency translation adjustments on monetary assets and liabilities must be recognised in income. Depending on the relevant measurement category, currency translation adjustments on non-monetary items are either recognised directly in equity (in the currency translation reserves), or recognised in the income statement (in net trading income).

Financial statements of consolidated subsidiaries, which are presented in a currency other than the euro, are translated at the ECB reference rate prevailing at the reporting date. Translation differences are recognised in equity, in the currency translation reserves.

(3) Consolidation

Subsidiaries are defined as all entities where the parent company of a group has the power to govern the financial and operating policies so as to obtain benefits from it. Subsidiaries are consolidated from the point in time when the parent assumes control (full consolidation); consolidation ends when control is no longer exercised.

Any non-controlling interests resulting from full consolidation are shown in the statement of financial position, as a separate item of equity.

Initial consolidation of entities is based on the purchase method, in accordance with IFRS 3, whereby remeasured amounts must be used when recognising assets and liabilities (including any hidden reserves and hidden encumbrances) of an entity to be consolidated. This may lead to the recognition of new assets and liabilities that were previously not reported in the statement of financial position of the company to be consolidated. Any excess of acquisition cost over the Group's interest in the fair value of net assets is recognised as (positive) goodwill. Any negative goodwill determined during this comparison is charged against income.

Intragroup transactions, balances, and profits on transactions between Group entities are eliminated. Accounting policies applied by subsidiaries were amended to the extent required to ensure consistent accounting throughout the Group.

Interests in jointly controlled entities are measured using the equity method.

Associates are companies in which the Group has an equity interest and may exercise significant influence, without exercising control. Associates are measured using the equity method. The Group's share in the profit or loss of associates is recognised in the consolidated income statement from the date of acquisition and is included in the carrying amount of the equity investment.

(4) Changes in accounting policies

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

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

The new and revised standards and interpretations do not have material consequences for the consolidated financial statements of Aareal Bank Group.

Until 31 December 2011, the following financial reporting standards (IASs / IFRSs) and interpretations (SICs and IFRICs) had been published by the International Accounting Standards Board (IASB) and adopted by the EU Commission:

New International Financial Reporting Standards		Issued	Endorsed	Effective date
IFRS 9	Financial Instruments	November 2009 October 2010 December 2011		Financial years beginning on or after 1 January 2015
IFRS 10	Consolidated Financial Statements	May 2011		Financial years beginning on or after 1 January 2013
IFRS 11	Joint Arrangements	May 2011		Financial years beginning on or after 1 January 2013
IFRS 12	Disclosures of Interests in Other Entities	May 2011		Financial years beginning on or after 1 January 2013
IFRS 13	Fair Value Measurement	May 2011		Financial years beginning on or after 1 January 2013
IAS 27	Separate Financial Statements (2011)	May 2011		Financial years beginning on or after 1 January 2013
IAS 28	Investments in Associates and Joint Ventures (2011)	May 2011		Financial years beginning on or after 1 January 2013

Revised International Financial Reporting Standards		Issued	Endorsed	Effective date
IAS 1	Presentation of Items of Other Comprehensive Income	June 2011		Financial years beginning on or after 1 July 2012
IAS 12	Defered Tax: Recovery of Underlying Assets	December 2010		Financial years beginning on or after 1 January 2012
IAS 19	Employee Benefits	June 2011		Financial years beginning on or after 1 January 2013
IAS 32	Offsetting Financial Assets and Financial Liabilities	December 2011		Financial years beginning on or after 1 January 2014
IFRS 7	Disclosures – Transfers of Financial Assets	October 2010	November 2011	Financial years beginning on or after 1 July 2011
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities	December 2011		Financial years beginning on or after 1 January 2013
IFRS 7	Transition Disclosures	December 2011		Financial years beginning on or after 1 January 2015

- **Amendment to IAS 1 Presentation of Financial Statements**
  The amendment to IAS 1 changes the presentation of the items reported in other comprehensive income (Reconciliation from net income / loss to total comprehensive income) in the statement of comprehensive income.

- **IAS 12 Deferred Tax: Recovery of Underlying Assets**
  In accordance with IAS 12 Income Taxes, the measurement of deferred taxes depends on whether the carrying amount of an asset is recovered through use or sale. The amendment introduced the refutable presumption that the carrying amount is normally recovered through sale. As a consequence of this amendment, SIC 21 Income Taxes is no longer applicable for investment properties measured at fair value.

- **Amendment to IAS 19 Employee Benefits**
  In accordance with the amended IAS 19, future unexpected fluctuations of pension obligations as well as any existing plan assets, so-called actuarial gains and losses, are recognised directly in other comprehensive income (Reconciliation from net income / loss to total comprehensive income). The previous election of recognising these gains and losses directly in profit or loss, in other comprehensive income (OCI) or the deferred recognition under the so-called corridor method is eliminated. Another change refers to the return on plan assets, which is no longer estimated based on return expectations based on asset allocation. Instead, any income from the expected return on plan assets may be recognised only in the amount of the discount rate. In addition, the new rules introduce changed and more extensive disclosure requirements, and it is expected that other comprehensive income will become more volatile.

  Furthermore, the definition of termination benefits and the related accounting method were modified. Termination benefits are only granted in exchange for the termination of employment relationships. If benefits depend upon services to be provided in future, this indicates that these benefits are not termination benefits. A liability for termination benefits is recognised at the earlier of the following dates: when the entity can no longer withdraw the offer of those benefits or when the entity recognises restructuring costs.

- **IAS 27 (2011) Separate Financial Statements**
  IAS 27 is renamed in IAS 27 Separate Financial Statements and will only contain rules relevant for separate financial statements.

- **IAS 28 (2011) Investments in Associates and Joint Ventures**
  IAS 28 is renamed in IAS 28 Investments in Associates and Joint Ventures and is adjusted to account for the newly introduced standards IFRS 10, 11 and 12.

- **IAS 32 Financial Instruments: Presentation / IFRS 7 Financial Instruments: Disclosures – Offsetting financial assets and financial liabilities**
  The amendments provide clarification of some details concerning the offsetting of financial assets and financial liabilities, and require disclosure of certain supplementary details. Such mandatory supplementary disclosures required in the future are (i) gross and net amounts of netted financial assets and financial liabilities; and (ii) amounts concerning existing rights of set-off which do not meet the offsetting criteria.

- **Amendment to IFRS 7 Financial Instruments: Disclosures**
  The amendments to IFRS 7 introduce extended disclosure requirements with regard to the transfer of financial assets and are intended to enable users of financial statements to better understand the effects arising from risks retained by the company.

- **IFRS 9 Financial Instruments**
  The part of IFRS 9 Financial Instruments issued so far represents the first step to replace IAS 39 Financial Instruments: Recognition and Measurement. The first phase of IFRS 9 (Classification and Measurement) fundamentally changes the previous rules for classification and measurement of financial assets. In future, there will be only two measurement categories for financial assets: financial assets measured at amortised cost and financial assets measured at fair value through profit or loss. The classification is based on the criteria of business model and cash flow characteristics of the financial assets. There are special rules for equity instruments because there is an option for these instruments to recognise measurement gains or losses in other comprehensive income. The accounting rules for financial liabilities do not have any consequences for Aareal Bank Group as the Group currently is not applying the fair value option for financial liabilities. Aareal Bank Group is currently reviewing the effects of the application of IFRS 9 on the consolidated financial statements.

- **IFRS 10 Consolidated Financial Statements**
  IFRS 10 replaces the guidance on control and consolidation included in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. The existing guidance for separate financial statements remains unchanged. IFRS 10 changes the definition of ”control“. According to the new definition, the same criteria are applied to all companies to determine whether a company controls an investee.

- **IFRS 11 Joint Arrangements**
  IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers that previously was applicable to the accounting for joint ventures. IFRS 11 governs the accounting for situations in which a company has joint control over a joint venture or a joint operation. The new standard eliminates the proportionate consolidation of joint ventures. In future, joint ventures have to be accounted for using the equity method. In case of a joint operation, assets, liabilities, income and expenses directly attributable to the joint operator have to be recorded in the consolidated financial statements of that joint operator.

- **IFRS 12 Disclosures of Interests in Other Entities**
  IFRS 12 clarifies the disclosures required to be made by companies that apply the new standards IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements. IFRS 12 replaces the disclosure requirements currently included in IAS 27, IAS 28 and IAS 31. Disclosures have to be made that enable users of financial statements to assess the nature, risks and the financial effects of a company’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities (special purpose entities).

- **IFRS 13 Fair Value Measurement**
  IFRS 13 sets out uniform measures and disclosure requirements for fair value measurement which was previously defined in individual standards. The standard increases the extent of disclosures in connection with non-financial assets that are recognised at fair value within the context of business combinations or investment property. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Aareal Bank Group did not opt for early application of these standards in 2011, which are required to be applied in future financial years. The standards have yet to be endorsed by the EU.

Specific accounting policies

(5) Definition and classification of financial instruments

Pursuant to IAS 32, a financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Within Aareal Bank Group, the following line items on the statement of financial position contain financial instruments that fall within the scope of IAS 39:

- Cash funds
- Loans and advances to banks
- Loans and advances to customers
- Positive market value of derivative hedging instruments
- Trading assets
- Non-trading assets
- Other assets
- Liabilities to banks
- Liabilities to customers
- Certificated liabilities
- Negative market value of derivative hedging instruments
- Trading liabilities

- Other liabilities
- Subordinated capital

Financial instruments (including derivative financial instruments) must be recognised if the reporting entity has become a contracting party to the contractual provisions of such financial instruments. Trade date and settlement date are not the same for regular way purchases and sales of financial assets. Such regular way purchases and sales may be accounted for either at trade date or at settlement date. At Aareal Bank Group, financial instruments classified as held for trading are recognised at the trade date, while all other financial instruments are recognised at the settlement date. Financial assets are derecognised upon final maturity or where material risks or opportunities under such assets have lapsed, or control over the contractual rights from such assets has expired. Financial liabilities are derecognised upon repayment.

IAS 39 requires all financial assets to be classified under one of the (measurement) categories shown below, upon recognition:

- Financial assets at fair value through profit or loss
- Held to maturity (HtM)
- Loans and receivables (LaR)
- Available for sale (AfS)

The "Financial assets at fair value through profit or loss" category comprises the following sub-categories:

- Held for trading (HfT) and
- Designated as at fair value through profit or loss (dFVtPL)

Financial instruments are classified as „Held for trading" if they are acquired or incurred principally for the purpose of selling or repurchasing them in the near term, or if they are derivatives not designated within the scope of a recognised hedging relationship.

Entities have the option, subject to certain conditions, to irrevocably designate financial instruments as at fair value, irrespective of any intention to trade (fair value option).

Aareal Bank Group uses the fair value option for certain structured financial instruments that comprise one or more embedded derivatives. This avoids separation of these products in a separate derivative and a host contract. Such designation is not permitted when the embedded derivative only insignificantly modifies the cash flows generated otherwise from the contract or when it becomes obvious with little or no analysis that the separation of the derivative from the host contract is not permitted.

The fair value option has only been exercised with respect to the measurement of financial assets, but not to the measurement of financial liabilities.

Upon first-time recognition, financial instruments allocated to the subcategory "Financial assets at fair value through profit and loss" are recognised at fair value (excluding transaction costs), and subsequently measured at fair value through profit or loss.

"Held to maturity" financial instruments are non-derivative financial assets with fixed or determinable payments and fixed maturity. To classify financial instruments under this category, the entity must have the positive intention and ability to hold these financial instruments to maturity. Upon first-time recognition, financial instruments classified as "Held to maturity" are recognised at fair value (plus transaction costs which can be directly attributed), and subsequently measured at amortised cost.

The "Loans and receivables" category comprises non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market. Upon first-time recognition, financial instruments classified as "Loans and receivables" are recognised at cost (including transaction costs which can be directly attributed), and subsequently measured at amortised cost.

The "Available for sale" category comprises all financial assets which cannot be classified under any of the preceding categories or that are held for an unspecified period of time and may be sold if there is a need of liquidity, or if market conditions have changed. Upon first-time recognition, financial instruments classified as "Available for sale" are also recognised at fair value (including transaction costs which can be directly attributed); they are subsequently measured at fair value, with any gains or losses recognised in equity.

Aareal Bank Group reviews at any balance sheet date whether there is objective evidence of impairment for financial assets of the "LaR", "HtM" and "AfS" categories. Criteria were defined for this purpose which – if such criteria are met – trigger a review to determine whether there is objective evidence of impairment. If there is objective evidence and a negative impact on the future cash flows generated from the financial asset can be expected as a result of the loss event, impairment losses are recognised.

For debt securities held, such a criterion is, for example, a downgrade of an external credit rating to "BB+ or worse", arrears with respect to interest and principal payments, the discontinuance of an active market for bonds of a particular issuer due to significant financial difficulties of such issuer or an increased likelihood of the issuer's insolvency. The relevant criteria for equity instruments are either a price decrease by more than 20 % below the average acquisition costs or when the price of the equity instrument concerned at the valuation date has been below the average acquisition costs for more than one year. The criteria for reviewing property loans for impairment are strong indications for a decline of the borrower's credit quality, arrears with respect to the loan receivable as well as further indications that not all interest and principal payments can be made as contractually agreed. In this context, meeting one of the criteria is sufficient for a review of objective evidence for impairment.

In the event of impairment, the amount of the impairment loss incurred for a financial asset of the categories "Loans and receivables" or "Held to maturity" is determined as the difference between the carrying amount of the asset and the present value of the expected future cash flows, discounted using the original effective interest rate applicable upon first-time recognition. If the asset is subject to variable interest, the current contractually agreed reference interest rate has to be used as the discount rate. The impairment is recognised in the income statement. Where reasons for impairment lapse subsequently, the necessary reversals of impairments (write-backs) are generally recognised in income. The carrying amount after the reversal of an impairment loss may not exceed the asset's (amortised) cost. If an impairment of a financial asset of the "Available for sale" category has been identified, the amount of the impairment is calculated as the difference between the asset's (amortised) cost and its current fair value. In the event of such impairment, the accumulated losses previously recognised directly in equity in the revaluation surplus are reclassified to the income statement. If the reasons for impairment cease to exist, a write-back (up to amortised cost) to be recognised in income is permitted only for debt securities. Amounts exceeding amortised cost as well as reversals of impairment losses of equity instruments are always recognised directly in equity in the revaluation surplus.

IAS 39 requires all financial liabilities to be classified under one of the (measurement) categories shown below, upon recognition:

- Financial liabilities at fair value through profit or loss
- Financial liabilities measured at amortised cost (LaC)

The ”Financial liabilities at fair value through profit or loss” category corresponds to the same category for financial assets. Upon first-time recognition, financial liabilities allocated to the category ”Financial liabilities at fair value through profit and loss” are recognised at fair value (excluding transaction costs), and subsequently measured at fair value.

All financial liabilities not designated as at fair value through profit or loss are allocated to the category ”Financial liabilities measured at amortised cost”. Financial liabilities of that category are initially recognised at fair value (less transaction costs), and subsequently measured at amortised cost.

If, in accordance with IAS 39.11, embedded derivatives are required to be separated, the host contract is accounted for pursuant to the standards applicable for the financial instrument concerned, while the separated derivative is accounted for separately, or the entire contract is accounted for using the fair value option.

(6) Loans and advances

Loans and advances are disclosed under the line items ”Loans and advances to customers”, ”Loans and advances to banks” or ”Other assets”; they are classified as ”Loans and receivables“.

Interest income on lending is amortised over the term of the loan, with accrued interest disclosed with the corresponding receivable.

Interest income is no longer recorded, if – irrespective of the legal position – the inflow of interest is no longer deemed likely.

(7) Allowance for credit losses

The allowance for credit losses comprises specific valuation allowances as well as portfolio-based valuation allowances.

Specific allowances for credit losses are recognised where expected future cash flows fall below the carrying amount of a loan receivable. This is reviewed if there is objective evidence that not all interest and principal payments will be made as contractually agreed. The estimated recoverable amount is determined on the basis of the present values of expected future cash flows from the asset (taking into account the marketability of collateral provided). Cash flows determined in this way are discounted over the estimated marketing period, using the effective interest rate. Loans and advances subject to variable interest rates are discounted using the currently agreed interest rate. Collateral is largely provided in the form of land charges or mortgages; these are measured in line with the measurement methods used for investment properties as described in Note (13).

Portfolio-based valuation allowances are recognised for risks which have already materialised, but which cannot be allocated to individual loans and advances due to lack of knowledge. For this purpose, groups of financial assets with comparable default risk profiles are combined in portfolios and reviewed for impairment. The valuation allowances are calculated using a formula-based procedure based on the following Basel II parameters used in the advanced IRB Approach: expected loss given default (LGD) and probability of default (PD). The transition of the one-year probability of default, which represents the basis for the concept of expected loss pursuant to the German Solvency Regulation (Solvabilitätsverordnung), to the concept of incurred loss pursuant to IFRS is made using the LIP (Loss Identification Period) factor. The LIP factor is a correction factor to adjust the one-year probability of default to the estimated time period, from the date the loss is incurred up to the identification of the actual loss.

Recognition and reversal of allowances for credit losses are directly reflected in income. The balance of allowances for credit losses is shown in a separate allowance account. The increase of the present value over time of an impaired loan or advance (so-called unwinding) leads to a corresponding change of the allowance account, which change is recognised as interest income. Interest income is calculated using the original effective interest rate of the loan / advance concerned.

Uncollectable loans and advances are derecognised against specific valuation allowances previously recognised, or written off directly. Payments on loans and advances previously written off are recognised in income.

(8) Trading assets and trading liabilities

Trading assets and liabilities of Aareal Bank Group comprise positive and negative market values of derivative financial instruments which are not part of designated hedging relationships. The derivatives are classified under the measurement category ”At fair value through profit or loss”. Results from measurement and on the sale of derivatives are reported in net trading income. Interest received or paid in connection with these derivatives is also recorded generally in net trading income. Interest received or paid for derivatives entered into for hedging purposes which, however, do not meet the formal criteria of hedge accounting, are reported in net interest income, together with interest from the hedged items. Effects from the measurement of these derivatives are reported in net trading income, together with the effects from the measurement of the hedged risk.

(9) Non-current assets held for sale and discontinued operations

An asset is classified as ”Held for sale” when it is available for immediate sale in its present condition and sale is highly probable. Sale is deemed to be highly probable, amongst other things, when the sale is expected to occur within one year.

Non-current assets and disposal groups including discontinued operations that are classified as held for sale in accordance with IFRS 5 are generally measured at the lower of carrying amount or fair value less costs to sell and have to be reported in a separate item in the statement of financial position. Gains or losses from discontinued operations have to be shown separately in the income statement as well.

(10) Hedging relationships

The bulk of Aareal Bank Group's portfolio of derivative financial instruments (derivatives) have been entered into in order to hedge interest rate and currency risk exposures.

The use of derivatives as hedging instruments (and corresponding hedge accounting) involves extensive documentation requirements, and the hedging relationship has to be tested for effectiveness on a quarterly basis at least.

Hedge accounting is based on clean fair values.

A distinction is made for derivatives used as hedging instruments whether these are part of a fair value hedge or a cash flow hedge.

The purpose of a fair value hedge is the protection of the market value of an underlying transaction. Measurement gains or losses on the underlying transaction of the hedged exposure are recorded together with the corresponding fair value changes of the hedging instrument, and recognised in income (in net result on hedge accounting). A fully effective hedging relationship results in offsetting measurement gains or losses. Interest on the underlying transaction and the hedge is recognised in net interest income.

The hedging relationship may result in adjustments to be made to the carrying amount of the underlying transaction. Such adjustments will only be recognised in income at the end of the transaction term.

Derivatives used as hedging instruments for the purposes of a cash flow hedge serve to hedge future cash flows against changes in interest payments and exchange rate fluctuations. The effective portion of measurement gains or losses from the derivative is recorded in equity, in the revaluation surplus. The ineffective portion is recorded directly in income (in net result on hedge accounting). When the hedging relationship ceases to exist, the amounts recorded in the revaluation surplus are transferred to the income statement at the same time as profits or losses on the former underlying transaction are recognised in income. The underlying transaction is recognised in line with the rules for the measurement category to which the underlying transaction has been allocated.

(11) Non-trading assets

Non-trading assets of Aareal Bank Group include securities in the form of bonds or other debt securities, equities, and fund units. In addition, this item includes investments in companies over which Aareal Bank AG neither has economic control nor may exercise any significant influence.

All assets included in other financial assets are recognised at cost, plus attributable transaction costs. Premiums and discounts are amortised over their term.

Bonds and debt securities reported in non-trading assets are allocated to the measurement categories "Available for sale", "Loans and receivables" and "Held to maturity". The remaining securities and equity investments are classified as "Available for sale" or "At fair value through profit or loss".

As regards the presentation in the statement of comprehensive income, interest and dividends from these assets are allocated to net interest income. Gains and losses from the fair value measurement of assets classified as "Available for Sale" are reported in the revaluation surplus.

(12) Investments accounted for using the equity method

Investments in associates included in this item are recognised at cost when the significant influence arises, and subsequently carried at amortised cost whereby, in particular, the share of results of operations of any financial year is recognised in income.

(13) Investment properties

Investment properties include land and buildings held for rental purposes or on grounds of an expected increase in value.

Investment properties are measured annually, at fair value based on rents agreed, or on prevailing market rents and management costs specific to the property. Methods used for determining the fair value are the income capitalisation approach or the discounted cash flow method. The interest rates used can be derived from the type and location of the property as well as from the current market situation. Reductions in vacancies, or structural vacancies, are taken into account accordingly.

Valuation is normally carried out by in-house experts. Changes to fair value are recognised in income (in results from investment properties).

Investment properties held as of the reporting date are classified as operating leases.

(14) Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment of series of payments the right to use an asset for an agreed period of time. In accordance with IAS 17, leases where a material part of risks and rewards incidental to ownership of the leased assets remains with the lessor are classified as operating leases. Where substantially all risks and rewards are transferred to the lessee, the lease is classified as a finance lease. The provisions of IFRIC 4 were complied with as regards the application of IAS 17. Aareal Bank Group acts both as lessor and lessee. All rental contracts are classified as operating leases.

Properties leased by the Group are reported under investment property and other assets.

Payments received or made under operating leases are recognised in income, on a straight-line basis over the term of the lease.

(15) Intangible assets

Intangible assets (except goodwill) are carried at cost, less accumulated amortisation and any impairment losses.

All research costs for proprietary software are directly recognised as expenses. Borrowing costs directly attributable to software development are also part of the cost. Development costs are capitalised from the time when the software development can be regarded as completed from a technical perspective, and several other conditions are fulfilled. They are amortised on a straight-line basis, using an estimated economic life of between five and ten years. Purchased software is also deemed to have a limited useful life. The procedure followed for the determination of amortisation of purchased software is the same as the procedure used for proprietary software. Amortisation is recognised in administrative expenses.

Goodwill is defined as the excess of the cost of acquiring an entity over the fair value of the Group's interest in the net assets of the acquired entity, at the time of acquisition (positive difference). An impairment test is performed at least once a year. Goodwill is carried at original cost (fair value) less accumulated impairments. Any negative goodwill arising upon acquisition is immediately charged against income.

Where there are indications of impairment of intangible assets (as set out in IAS 36) at the reporting date, and the recoverable amount is lower than the carrying amount of the asset concerned, the asset is written down against income, to the estimated recoverable amount.

If it is impossible to estimate the recoverable amount for a specific asset, the recoverable amount of the cash-generating unit that the asset belongs to must be determined. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Aareal Bank Group defines cash-generating units either on the basis of a single subsidiary or on product level. The recoverable amount of an asset or a cash-generating unit is the higher of fair value less costs to sell and value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset or cash-generating unit. Future cash flows are determined based on medium-term projections. The present value of the future cash flows is determined using discount factors which are in line with the risks involved.

(16) Property and equipment

Property and equipment is measured at cost, less accumulated depreciation and impairment losses.

(Owner-occupied) buildings reported under property and equipment are depreciated on a straight-line basis, over a period of 50 years. (Owner-occupied) land is not depreciated. Please refer to the explanations in the notes on other assets and investment properties for the accounting method to be applied for land and buildings which are not owner-occupied. Other property and equipment items are initially depreciated using the declining-balance method, subsequently reverting to straight-line depreciation, applying the following periods:

	Depreciation period
Other property and equipment	
Tenant's improvements	10 years
IT equipment	3-7 years
Other office furniture and equipment	5-13 years

For details on recognising impairments as defined in IAS 36, please refer to the explanations in Note (15) "Intangible assets" in this section.

Gains and losses upon disposal of property and equipment are recognised in income (in net other operating income / expenses).

The costs to purchase low-value assets in the amount of up to € 150.00 are expensed as incurred.

Any assets with a cost of more than € 150.00, but not exceeding € 1,000.00, are combined in a collective account for the year, which is then depreciated on a straight-line basis over a period of five years.

(17) Deferred taxes

In accordance with IFRS, deferred taxes are recognised for all temporary measurement and recognition differences between the carrying amount of an asset or liability and its tax base. Under this approach, all differences are recognised (irrespective of their origin) if they result in future tax credits or tax charges. Deferred tax liabilities are recorded for differences which, when reversed at a later date, will result in a higher tax charge; deferred tax assets are recorded for those differences which, when reversed, will result in a tax credit.

Existing deferred tax assets are reviewed for impairment on a regular basis. They are created on losses carried forward for tax purposes, provided that the use of such existing tax loss carryforwards is sufficiently probable.

Deferred taxes are calculated at local tax rates, which are in force or announced as at the balance sheet date. Deferred tax assets or liabilities are adjusted to the tax rates in force or announced at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset in accordance with IAS 12.74 when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or tax group.

(18) Other assets

Properties reported under other assets are intended for short-term disposal, though the IFRS 5 criteria are not met. They are measured at the lower of cost or net realisable value, in accordance with IAS 2.

(19) Financial liabilities

(Non-derivative) financial liabilities are carried at amortised cost, unless they are hedged transactions within the specifications of hedge accounting. Accrued interest is also recorded, together with the respective liability.

Financial liabilities originated at a discount are initially recognised using the amount of consideration received; the carrying amount is subsequently increased using the original effective interest rate.

(20) Provisions

Apart from provisions for pensions, the provisions recognised within Aareal Bank Group include, among other things, provisions for staff expenses, loan loss provisions as well as restructuring provisions. Provisions are set aside for commitments to third parties if utilisation is probable and the amount of the commitment can be reasonably estimated. Provisions are measured on the basis of the best estimate of the expenditure required to settle the obligation, in accordance with IAS 37.36. If utilisation in the short term, i.e. within twelve months, from the obligation is not expected, the provision will be recognised at present value.

(21) Pension liabilities

Aareal Bank Group maintains various pension plans as defined in IAS 19. For the purpose of reporting pension obligations, IAS 19 makes a distinction between defined contribution plans and defined benefit plans.

Under defined contribution plans, an enterprise pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions paid to the statutory pension insurance scheme are also classified as defined contribution plans. The contributions paid to a defined contribution plan are recorded as staff expenses.

All pension obligations which do not fulfil the criteria of defined contribution plans are classified as defined benefit plans. The amount of obligations usually depends on one or several factors, including age, length of service, and salary.

The Group's obligations under defined benefit plans are recognised as a provision in the statement of financial position.

Provisions for pensions and similar obligations under defined benefit plans are determined in accordance with IAS 19 on the basis of the projected unit credit method. Projected economic and demographic developments, as well as salary and career trends, must be applied to the calculations of the provisions. The discount factor used to determine the present value of the obligation is based on the capital market rate of corporate bonds with impeccable credit ratings at the reporting date. Calculating the amount of provisions in the Group is based on actuarial opinions which are prepared by external actuaries on the basis of specific and Group-wide standardised parameters.

Provisions for pensions and similar obligations, as recognised in the statement of financial position, are based on company agreements on an employee pension scheme, individual agreements with executive staff as well as individual agreements with the members of the company's senior management.

Accumulated actuarial gains or losses are not recognised, to the extent that they do not exceed 10 % of the present value of the defined benefit plan and the fair value of plan assets (corridor approach). Any amounts in excess of this 10 % threshold are recognised in the financial year following occurrence of the excess, and amortised in income over the average remaining working lives of the employees covered by the defined benefit plans.

(22) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when due.
A guarantor recognises a financial guarantee contract as a liability at the date of addition at its fair value. The obligation is subsequently measured at the greater of a provision recorded in accordance with IAS 37 and the original amount, less any accumulated amortisation. Within Aareal Bank Group, financial guarantee contracts are presented based on the present value of the claim resulting from the future premium payments of the holder and offset with the obligation for the guarantee (net basis).

(23) Share-based payment

Aareal Bank Group maintains share-based payment plans subject to cash settlement in accordance with IFRS 2. We refer to the remuneration report as part of the management report, which includes a detailed description of the plans and their scope as well as information on the valuation model applied and the effects of share-based payments on the Group's financial position and performance.

A provision for obligations under the remuneration programmes has been recognised against administrative expenses, in the amount of the fair value of the relevant obligation at the reporting date.

(24) Equity and non-controlling interest

Pursuant to IFRSs, equity instruments are such instruments which constitute a residual interest in the assets of a company after deduction of all its liabilities.

Non-controlling interests as well as the silent participation from SoFFin are recorded as a separate item within equity.

(B) Notes to the Statement of Comprehensive Income

(25) Net interest income

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Interest income from		
Property loans	722	570
Public-sector loans	35	27
Other lending and money market operations	172	121
Debt and other fixed-income securities	191	184
Current dividend income	1	1
Other interest income	–	–
Total interest income	**1,121**	**903**
Interest expenses for		
Bonds issued	145	92
Registered mortgage Pfandbriefe	77	49
Promissory note loans	170	116
Subordinated equity	34	28
Term deposits	112	83
Payable on demand	34	24
Other banking transactions	2	2
Total interest expenses	**574**	**394**
Total	**547**	**509**

Interest income from property loans includes income from impaired loans (so-called unwinding) in the amount of € 16 million (2010: € 12 million).

The increase of net interest income is mainly attributable to higher average margins achieved in the lending business. Margins from the deposit-taking business with the institutional housing industry declined, due to lower interest rate levels.

(26) Allowance for credit losses

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Additions	147	142
Reversals	88	54
Direct write-offs	71	25
Recoveries on loans and advances previously written off	18	8
Total	**112**	**105**

(27) Net commission income

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Commission income from		
Consulting and other services	155	148
Trustee loans and administered loans	6	5
Securities transactions	–	2
Securitisation transactions	–	1
Other lending and money market operations	25	18
Other commission income	10	13
Total commission income	**196**	**187**
Commission expenses for		
Consulting and other services	20	22
Securities transactions	22	31
Securitisation transactions	0	3
Other lending and money market operations	5	3
Other commission expenses	5	5
Total commission expenses	**52**	**64**
Total	**144**	**123**

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

The net amount of commission income and commission expenses from financial assets and financial liabilities not measured at fair value amounts to € -2 million (2010: € -16 million).

Commission income from consulting and other services for the first time includes full-year sales revenue from SG|automatisering bv, which was acquired in the fourth quarter of 2010, in the amount of € 17 million (2010: € 4 million).

Commission expenses from securities transactions include guarantee fees of € 21 million (2010: € 30 million) in connection with the SoFFin-guaranteed bonds. In April 2011, the SoFFin-guaranteed € 2 billion bond maturing in June 2013 that the bank has held on its own books was redeemed early, in agreement with SoFFin. In early July, the second bond issued and guaranteed by SoFFin in the amount of € 2 billion (maturing in March 2012) was redeemed in an amount of € 0.8 billion.

(28) Net result on hedge accounting

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Ineffective portion of fair value hedges	5	-2
Ineffective portion of cash flow hedges	1	–
Total	**6**	**-2**

This item contains the measurement gains or losses from hedging instruments and the associated hedged items in the context of hedging relationships. The total amount of risk-induced changes to fair value was determined using recognised measurement methods, based on current market parameters.

(29) Net trading income / expenses

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Results from derivative financial instruments	18	5
Currency translation	-4	2
Net income / expenses from other positions held for trading	–	1
Total	**14**	**8**

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

(30) Results from non-trading assets

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Result from debt securities and other fixed-income securities	-22	-25
of which: Loans and receivables	-3	-14
Available for sale	-19	-11
Result from equities and other non-fixed income securities	-7	13
of which: Available for sale	-8	12
Designated as at fair value through profit or loss	1	1
Results from equity investments (AfS)	0	0
Total	**-29**	**-12**

The result from debt securities and other fixed-income securities is attributable to the sale of European government bonds.

(31) Result from investments accounted for using the equity method

The results from investments accounted for using the equity method amounting to € 1 million (2010: € 5 million) was mainly the result of the disposal of the investment in Innovative Banking Solutions AG, Wiesbaden (IBS). Until the date of disposal, Aareal Bank AG had held 49 % of the shares in IBS.

(32) Results from investment properties

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Rental income	12	4
Expenses for the operation of properties rented out	2	0
Results from the measurement of properties	0	-21
Results from the sale of properties	0	0
Total	**10**	**-17**

(33) Administrative expenses

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Staff expenses	244	226
Other administrative expenses	117	119
Depreciation, amortisation and impairment of property and equipment and intangible assets	21	21
Total	**382**	**366**

The increase of administrative expenses compared to the previous year results, among others, from the bank levy (€ 5 million), which was charged for the first time in 2011, as well as from the full-year expense from SG|automatisering bv (€ 14 million; 2010: € 3 million), which was acquired in the fourth quarter of 2010 by Aareon AG.

Staff expenses include contributions to defined contribution plans in the amount of € 11 million (2009: € 10 million).

Other administrative expenses include administrative costs for research and development not eligible for capitalisation in the amount of € 2 million (2009: € 3 million).

This item also includes the total fees charged by the auditor of the consolidated financial statements in the financial year 2011, which consists of the following sub-items:

€ 000's	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Auditing fees	3,107	3,390
Other assurance services	139	141
Tax advisory services	145	172
Other services	1,118	2,275
Total	**4,509**	**5,978**

(34) Net other operating income/expenses

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Income from properties	6	9
Income from the reversal of provisions	1	6
Income from goods and services	4	5
Miscellaneous	18	18
Total other operating income	**29**	**38**
Expenses for properties	13	14
Expenses for services used	0	0
Write-downs of trade receivables	0	0
Expenses for other taxes	2	2
Miscellaneous	28	31
Total other operating expenses	**43**	**47**
Total	**-14**	**-9**

Miscellaneous other operating expenses include expenses for the recognition of provisions for subsidiaries, as well as research and development costs of € 2 million which could not be capitalised.

(35) Impairment of goodwill

In the financial year 2011, there was no significant impairment of goodwill (2010: € 0 million).

(36) Income taxes

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Current income taxes	62	40
Deferred taxes	-10	0
Total	**52**	**40**

The differences between calculated and actual tax expense is presented in the following reconciliation:

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Operating profit (before income taxes)	185	134
Expected tax rate	31.2 %	31.2 %
Calculated income taxes	**58**	**42**
Reconciliation to reported income taxes		
Different foreign tax burden	5	3
Tax attributable to tax-exempt income	-7	-11
Tax attributable to non-deductible expenses	1	7
Remeasurement of deferred taxes	0	8
Taxes for previous years	3	-1
Effect of changes in tax rates	0	-1
Non-controlling interests	-6	-6
Other tax effects	-2	-1
Reported income taxes	**52**	**40**
Effective tax rate	28 %	30 %

The expected tax rate of 31.2 % (2010: 31.2 %), including a trade tax rate of assessment of 440 %, comprises trade taxes (15.4 %), corporation taxes (15 %) and the solidarity surcharge (0.825 %; 5.5 % of corporation tax).

(37) Earnings per share

	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Net income/loss attributable to shareholders of Aareal Bank AG (€ mn)	114	76
Average number of shares outstanding	54,156,534	42,755,159
Earnings per share (€)	**2.11**	**1.78**

Earnings per share are determined by dividing the earnings attributable to ordinary shareholders by the weighted average of ordinary shares outstanding in the financial year.

On 14 April 2011, the Management Board of Aareal Bank AG resolved, with the approval of the Supervisory Board, to increase the Company's share capital via a rights issue against cash contributions.

17,102,062 new ordinary bearer shares with a proportionate share in the nominal share capital of € 3.00 per share were issued.

For Aareal Bank Group, diluted earnings per share correspond to basic earnings per share, as no convertible instruments were issued.

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

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Net income/loss	**133**	**94**
Changes in revaluation surplus (after tax)	**-111**	**2**
Gains and losses on remeasuring available-for-sale financial instruments (before tax)	-166	-7
Reclassifications to the income statement (before tax)	19	12
Taxes	36	-3
Changes in hedging reserves (after tax)	**14**	**0**
Profit/loss from derivatives used to hedge future cash flows (before tax)	21	0
Reclassifications to the income statement (before tax)	0	–
Taxes	-7	0
Changes in currency translation reserves (after tax)	**1**	**1**
Profit/loss from translating foreign operations' financial statements (before tax)	1	1
Reclassifications to the income statement (before tax)	0	0
Taxes	–	–
Changes in reserves from transactions under common control (after tax)	**–**	**-1**
Gains and losses from transactions under common control (before tax)	–	-1
Reclassifications to the income statement (before tax)	–	–
Taxes	–	–
Gains and losses directly recognised in equity (after tax)	**-96**	**2**
Total comprehensive income	**37**	**96**

As at 31 December 2011, total gains and losses recognised directly in equity are as follows:

€ mn	31 Dec 2011	31 Dec 2010
Revaluation surplus	-221	-110
Hedging reserves	14	–
Currency translation reserves	3	2
Total	**-204**	**-108**

(C) Notes to the Statement of Financial Position

(39) Cash funds

€ mn	31 Dec 2011	31 Dec 2010
Cash on hand	0	0
Balances with central banks	588	922
Total	**588**	**922**

(40) Loans and advances to banks

€ mn	31 Dec 2011	31 Dec 2010
Term deposits and current account balances	2,698	958
Public-sector loans	159	213
Receivables from securities repurchase transactions	–	811
Other loans and advances	55	52
Total	**2,912**	**2,034**

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

(41) Loans and advances to customers

€ mn	31 Dec 2011	31 Dec 2010
Property loans	23,365	22,392
Public-sector loans	1,618	1,641
Other loans and advances	439	628
Total	**25,422**	**24,661**

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

(42) Allowance for credit losses

31 December 2011

€ mn	Specific valuation allowances	Portfolio impairment allowance	Total allowance for credit losses for items recorded in the statement of financial position	Provisions in the lending business for items not recorded in the statement of financial position	Total allowance for credit losses and provisions in the lending business
Allowance for credit losses as at 1 January	**244**	**88**	**332**	**29**	**361**
Additions	143	–	143	4	147
Write-downs	62	–	62	5	67
Reversals	69	13	82	6	88
Unwinding	16	–	16	–	16
Currency adjustments	3	0	3	0	3
Balance as at 31 December	**243**	**75**	**318**	**22**	**340**

31 December 2010

€ mn	Specific valuation allowances	Portfolio impairment allowance	Total allowance for credit losses for items recorded in the statement of financial position	Provisions in the lending business for items not recorded in the statement of financial position	Total allowance for credit losses and provisions in the lending business
Allowance for credit losses as at 1 January	**183**	**100**	**283**	**28**	**311**
Additions	130	–	130	12	142
Write-downs	26	–	26	6	32
Reversals	37	12	49	5	54
Unwinding	12	–	12	–	12
Currency adjustments	6	0	6	0	6
Balance as at 31 December	**244**	**88**	**332**	**29**	**361**

The allowance for risks associated with items recorded in the statement of financial position relates to loans and advances to customers classified as "Loans and receivables" (LaR). These allowances are reported under allowance for credit losses on the asset side of the statement of financial position. The provisions recognised for risks associated with items not recorded on the statement of financial position relate to contingent liabilities. These provisions are reported under provisions on the liability side of the statement of financial position.

(43) Positive market value of derivative hedging instruments

€ mn	31 Dec 2011	31 Dec 2010
Positive market value of fair value hedges	1,429	947
Positive market value of cash flow hedges	22	–
Pro rata interest receivable	350	374
Total	**1,801**	**1,321**

(44) Trading assets

€ mn	31 Dec 2011	31 Dec 2010
Positive market value of trading derivatives	421	428
Total	**421**	**428**

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

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

(45) Non-current assets held for sale and discontinued operations

€ mn	31 Dec 2011	31 Dec 2010
Property, real estate	172	–
Total	**172**	**–**

(46) Non-trading assets

€ mn	31 Dec 2011	31 Dec 2010
Debt and other fixed-income securities	9,985	11,393
of which: Loans and receivables (LaR)	6,044	6,463
Held to maturity (HtM)	168	557
Available for sale (AfS)	3,773	4,373
Equities and other non-fixed-income securities	22	34
of which: Available for sale (AfS)	18	29
Designated as at fair value through profit or loss (dFVtPL)	4	5
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	3	1
Total	**10,010**	**11,428**

The item "Debt and other fixed-income securities" mainly consists of securities issued by public-sector entities as well as asset-covered bonds (Pfandbriefanleihen) and bank bonds. In addition, the item includes asset-backed securities in a nominal amount of € 361 million (2010: € 452 million).

Carrying amounts of negotiable non-trading assets:

	Listed		Unlisted	
€ mn	2011	2010	2011	2010
Debt and other fixed-income securities	9,918	11,304	68	59
Equities and other non-fixed-income securities	–	–	–	–
Total	**9,918**	**11,304**	**68**	**59**

(47) Investments accounted for using the equity method

As in the previous year, there were no unrecognised pro-rata losses incurred from associates accounted for using the equity method during the financial year. There were no accumulated, unrecognised losses at the 2011 and 2010 reporting dates. The share of Aareal Bank Group in gains and losses of associates taken into account in 2011 totalled € 0 million (2010: € 1 million).

The material associates accounted for using the equity method as at 31 December 2011 had assets of € 7 million (2010: € 7 million) and liabilities of € 0 million (2010: € 1 million) in aggregate.

The equity method applied to the major associates was based on the most recent available financial statements prepared under local GAAP. The relevant reporting date was 30 September 2011.

(48) Investment properties

Investment properties, as shown in the statement of financial position, developed as follows:

€ mn	2011	2010
Carrying amount as at 1 January	**220**	**103**
Additions		
from the purchase of properties	–	–
from subsequent expenditure	13	7
from business combinations	–	131
Currency translation differences, net	4	–
Reclassification in accordance with IFRS 5	-148	–
Disposals	–	–
Net results from fair value measurement	-1	-21
Carrying amount as at 31 December	**88**	**220**

(49) Intangible assets

€ mn	31 Dec 2011	31 Dec 2010
Goodwill	50	50
Proprietary software	21	26
Other intangible assets	14	15
Total	**85**	**91**

Reported goodwill mainly refers to the Aareon sub-group. The goodwill can be allocated to the individual product groups as follows: ERP Products in the amount of € 21 million (2010: € 21 million), Integrated Services in the amount of € 4 million (2010: € 4 million), International Business in the amount of € 24 million (2010: € 23 million) and Other Products the amount € 0 million (2010: € 0 million).

The amount shown for software developed in-house includes € 6 million (2010: € 8 million) for the electronic payments system BK@1; the software is amortised over a remaining term of three years.

The same item also includes € 5 million (2010: € 6 million) for the property management software Blue Eagle; the software is amortised over an average remaining term of four years.

Intangible assets developed as follows:

€ mn	2011 Proprietary software	2011 Goodwill	2011 Other intangible assets	2011 Total	2010 Proprietary software	2010 Goodwill	2010 Other intangible assets	2010 Total
Cost								
Balance at 1 January	**67**	**107**	**55**	**229**	**64**	**94**	**50**	**208**
Additions	3	0	3	6	3	–	3	6
Transfers	1	–	-2	-1	0	–	1	1
Disposals	1	0	7	8	0	0	5	5
Changes in basis of consolidation	–	–	–	–	–	13	6	19
Currency translation differences	–	0	0	0	–	–	0	0
Balance as at 31 December	**70**	**107**	**49**	**226**	**67**	**107**	**55**	**229**
Amortisation and impairment losses								
Balance at 1 January	**41**	**57**	**40**	**138**	**36**	**57**	**37**	**130**
Amortisation and impairment losses	8	0	4	12	5	0	7	12
of which: impairment losses	–	–	–	–	–	0	–	0
Write-ups	–	–	–	–	–	–	–	–
Transfers	1	–	-2	-1	–	0	0	0
Disposals	1	0	7	8	0	–	4	4
Changes in basis of consolidation	–	–	–	–	0	0	0	0
Currency translation differences	–	–	0	0	–	0	0	0
Balance as at 31 December	**49**	**57**	**35**	**141**	**41**	**57**	**40**	**138**
Carrying amount as at 1 January	**26**	**50**	**15**	**91**	**28**	**37**	**13**	**78**
Carrying amount as at 31 December	**21**	**50**	**14**	**85**	**26**	**50**	**15**	**91**

(50) Property and equipment

€ mn	31 Dec 2011	31 Dec 2010
Land and buildings and construction in progress	83	79
Office furniture and equipment	21	16
Total	**104**	**95**

Property and equipment changed as follows:

€ mn	2011 Land and buildings	2011 Office furniture and equipment	2011 Construction in progress	2011 Total	2010 Land and buildings	2010 Office furniture and equipment	2010 Construction in progress	2010 Total
Cost								
Balance at 1 January	**96**	**66**	**1**	**163**	**87**	**74**	**1**	**162**
Additions	7	11	7	25	2	4	4	10
Transfers	–	2	–	2	6	–	0	6
Disposals	2	14	6	22	2	10	4	16
Changes in basis of consolidation	–	–	–	–	3	-2	–	1
Currency translation differences	–	0	–	0	–	0	–	0
Balance as at 31 December	**101**	**65**	**2**	**168**	**96**	**66**	**1**	**163**
Depreciation and impairment losses								
Balance at 1 January	**18**	**50**	**0**	**68**	**10**	**53**	**0**	**63**
Depreciation and impairment losses	3	6	–	9	3	7	–	10
of which: impairment losses	–	–	–	–	–	–	–	–
Write-ups	–	–	–	–	–	–	–	–
Transfers	–	2	–	2	6	–	–	6
Disposals	1	13	–	14	1	9	–	10
Changes in basis of consolidation	–	–	–	–	–	-1	–	-1
Currency translation differences	–	0	–	0	–	0	–	0
Balance as at 31 December	**20**	**45**	**0**	**65**	**18**	**50**	**0**	**68**
Carrying amount as at 1 January	**78**	**16**	**1**	**95**	**77**	**21**	**1**	**99**
Carrying amount as at 31 December	**81**	**20**	**2**	**103**	**78**	**16**	**1**	**95**

(51) Income tax assets

Income tax assets in a total amount of € 20 million as at 31 December 2011 (2010: € 31 million) include € 10 million (2010: € 11 million) expected to be realised after a period of more than twelve months.

(52) Deferred tax assets

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 568 million (2010: € 410 million).

Deferred tax assets were recognised in relation to the following items of the statement of financial position:

€ mn	31 Dec 2011	31 Dec 2010
Loans and advances to banks/to customers	0	11
Positive and negative market value of derivative hedging instruments	28	16
Trading assets and trading liabilities	85	60
Non-current assets held for sale and discontinued operations	–	–
Non-trading assets	6	14
Investment properties	8	1
Intangible assets	1	-
Property and equipment	1	1
Other assets/liabilities	5	0
Liabilities to banks/to customers, and certificated liabilities	447	246
Provisions	31	37
Subordinated equity	14	16
Tax loss carryforwards	31	77
Deferred tax assets	**657**	**479**

Of the deferred taxes on loss carryforwards, an amount of € 25 million (2010: € 56 million) is attributable to foreign subsidiaries and permanent establishments. As a result of the type of the business, we expect that taxable profit will be generated in the next five years to offset these losses.

Deferred tax assets not recognised totalled € 29 million (2010: € 19 million). They entirely relate to tax loss carryforwards that are neither recognised nor subjected to valuation adjustments. These loss carryforwards may generally be carried forward for an unlimited period, however, they were neither recognised nor subjected to valuation adjustments since we currently do not expect that these loss carryforwards will be realised.

Deferred tax assets in the amount of € 65 million (2010: € 29 million) were reported under other reserves (revaluation surplus).

(53) Other assets

€ mn	31 Dec 2011	31 Dec 2010
Properties	323	125
Trade receivables (LaR)	30	27
Miscellaneous	65	94
Total	**418**	**246**

(54) Liabilities to banks

€ mn	31 Dec 2011	31 Dec 2010
Payable on demand	727	583
Term deposits	283	290
Promissory note loans borrowed	564	634
Liabilities from securities repurchase transactions and open-market operations	967	3,336
Registered mortgage Pfandbriefe	135	94
Registered public-sector Pfandbriefe	130	147
Miscellaneous	267	84
Total	**3,073**	**5,168**

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

(55) Liabilities to customers

€ mn	31 Dec 2011	31 Dec 2010
Payable on demand	3,943	3,813
Term deposits	5,308	5,093
Promissory note loans borrowed	8,855	8,370
Registered mortgage Pfandbriefe	3,507	2,448
Registered public-sector Pfandbriefe	3,316	3,122
Total	**24,929**	**22,846**

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

(56) Certificated liabilities

€ mn	31 Dec 2011	31 Dec 2010
Medium-term notes	1,558	1,197
Bearer mortgage Pfandbriefe	4,476	4,058
Bearer public-sector Pfandbriefe	97	99
Other debt securities	1,409	2,265
Total	**7,540**	**7,619**

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

(57) Negative market value of derivative hedging instruments

	31 Dec 2011	31 Dec 2010
€ mn		
Negative market value of fair value hedges	1,610	992
Pro rata interest payable	159	189
Total	**1,769**	**1,181**

(58) Trading liabilities

	31 Dec 2011	31 Dec 2010
€ mn		
Negative market value from trading derivatives	723	675
Total	**723**	**675**

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

(59) Provisions

	31 Dec 2011	31 Dec 2010
€ mn		
Provisions for pensions and similar obligations	91	92
Other provisions	160	145
Total	**251**	**237**

Provisions for pensions and similar obligations

The pension obligations result mainly from retirement benefit plans maintained at Aareal Bank AG and Aareon AG, which are classified as defined benefit plans in accordance with IAS 19.

There are currently five different retirement benefit plans within Aareal Bank AG, of which four plans have been closed (and no longer admit employees). The various types of benefits are backed by insurance cover and securities. Depending on the type of retirement plan, the amount of benefits depends on various factors, including eligible salary, period of employment, benefits from the statutory pension insurance fund as well as on returns generated where external funding is involved.

In 2010, Aareal Bank contributed parts of the assets held to cover existing pension obligations into a Contractual Trust Arrangement (CTA). This is to ensure an improved insolvency protection of the pension claims as a result of the limited protection provided by the German Pension Guarantee Association (Pensionssicherungsverein; PSVaG).

There are currently six different retirement benefit plans within Aareon AG. All plans have been closed, and no longer admit employees. Depending on the type of retirement plan, the amount of benefits also depends on various factors, including eligible salary, period of employment, benefits from the statutory pension insurance fund as well as on benefits from direct insurance plans.

Baugrund AG is a member of the Federal and Länder Government-Service Supplementary Pension Agency (Versorgungsanstalt des Bundes und der Länder, VBL) and has indirectly granted pensions to active and former employees within the framework of a multi-employer plan in the form of an insurance policy. VBL charges annual contributions as well as a recapitalisation contribution (Sanierungsbeitrag) within the context of a partial reserve pay-as-you-go system (Deckungsabschnittsverfahren). Since VBL is not able to provide reliable information to the assets, obligations or costs attributable to Baugrund AG, the defined benefit plan is accounted for as a defined contribution plan in accordance with IAS 19.32.

The determination of the amount of provisions for pensions is based on the following actuarial assumptions:

	31 Dec 2011	31 Dec 2010
Calculation method	Projected Unit Credit	Projected Unit Credit
Calculation basis	Actuarial tables issued by K. Heubeck in 2005	Actuarial tables issued by K. Heubeck in 2005
Actuarial assumptions (%)		
Interest rate used for valuation	5.40	5.00
Development of salaries	2.25	2.25
Career trends	1.00	1.00
Pension increase	2.00	2.00
Rate of inflation	2.00	2.00
Staff turnover rate	3.00	3.00
Expected return on plan assets	4.00	–

Development of pension liabilities:

	2011	2010
€ mn		
Present value of pension liabilities as at 1 January	**144**	**131**
Service cost	4	5
Interest cost	7	7
Actuarial gains (-) / losses	-2	7
Pension benefits paid	6	6
Present value of pension liabilities as at 31 December	**147**	**144**
of which funded entirely or in part by plan assets	39	33
of which not funded by plan assets	108	111

Reconciliation of pension liabilities to provisions for pensions:

€ mn	2011	2010
Present value of pension liabilities as at 31 December	**147**	**144**
Fair value of plan assets as at 31 December	37	31
Unrealised actuarial gains/losses (-)	-19	-21
Provisions for pensions as at 31 December	**91**	**92**

Provisions for pensions carried at 31 December 2011 include € 85 million (2010: € 86 million) expected to be realised after a period of more than twelve months.

Pension expense:

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Service cost	4	5
Interest cost	7	7
Expected return on plan assets	-1	–
Actuarial gains (-)/losses	1	0
Other	–	0
Pension expense	**11**	**12**

Development of plan assets:

€ mn	2011	2010
Fair value of plan assets as at 1 January	**31**	**–**
Employer's contributions	6	31
Expected return on plan assets	1	0
Actuarial gains/losses (-)	-1	0
Pension benefits paid	0	–
Fair value of plan assets as at 31 December	**37**	**31**

In the case of securities, the expected return on plan assets is based on the actual nominal interest rate of the underlying securities or on the capital market developments observed in the past, as appropriate. In the case of insurance policies, the calculation of expected return is based on the consensus expectations with regard to participation features. There were no material returns on plan assets during the year under review.

Plan assets can be broken down as follows:

€ mn	31 Dec 2011	31 Dec 2010
Securities	19	17
Insurance policies	18	14
Total	**37**	**31**

Changes in accordance with IAS 19.120A(p):

€ mn	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007
Present value of pension obligations	**147**	**144**	**131**	**123**	**117**
Fair value of plan assets	37	31	–	–	–
Funded status	**110**	**113**	**131**	**123**	**117**
Experience adjustments of pension obligations	-4	1	-4	-1	0
Experience adjustments of plan assets	-1	0	–	–	–

Contributions in the amount of € 8 million (2010: € 6 million) are expected to be paid in the financial year 2012.

Expenses incurred under pension obligations during the financial year are shown in administrative expenses, taking into account the return on plan assets.

Other provisions

Other provisions developed as follows:

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions in the lending business for items not recorded in the statement of financial position	Miscellaneous other provisions	Total
Carrying amount as at 1 Jan 2011	**67**	**29**	**49**	**145**
Additions	52	4	34	92
Utilisation	37	5	14	56
Reversals	6	6	7	19
Reclassifications	0	–	0	0
Carrying amount as at 31 Dec 2011	**76**	**22**	**62**	**160**

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions in the lending business for items not recorded in the statement of financial position	Miscellaneous other provisions	Total
Carrying amount as at 1 Jan 2010	**60**	**28**	**51**	**139**
Additions	43	12	23	78
Utilisation	27	6	12	45
Reversals	9	5	13	27
Reclassifications	0	–	0	0
Carrying amount as at 31 Dec 2010	**67**	**29**	**49**	**145**

Provisions for staff expenses and non-staff operating costs include provisions set aside for bonuses and for anniversary bonuses. We expect that a large portion of these provisions will be realised in the financial year 2012.

An amount of € 12 million (2010: € 16 million) in provisions relating to the capital guarantees provided for Deutsche Pfandbriefbank AG (formerly DEPFA Deutsche Pfandbriefbank AG) within the context of the separation in 2002 was recognised as at the balance sheet date. We expect that a large portion of the total provisions for the lending business will be realised within two years.

Other provisions include provisions in the amount of € 8 million (2010: € 17 million) for interest rate guarantees provided in the context of the separation in 2002 relating to the property loan portfolio held by Deutsche Pfandbriefbank AG. We expect that a large portion of these provisions will be realised within two years.

The interest cost on provisions recognised at present values due to an estimated minimum remaining term of one year resulted in expenses in the financial year 2011 in the amount of € 1 million (2010: € 2 million).

(60) Income tax liabilities

Income tax liabilities in a total amount of € 29 million as at 31 December 2011 (2010: € 30 million) include € 14 million (2010: € 4 million) expected to be realised after a period of more than twelve months.

(61) Deferred tax liabilities

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 568 million (2010: € 410 million).

Deferred tax liabilities were recognised in relation to the following items of the statement of financial position:

€ mn	31 Dec 2011	31 Dec 2010
Loans and advances to banks/to customers	107	105
Positive and negative market value of derivative hedging instruments	87	42
Trading assets and trading liabilities	103	70
Non-trading assets	237	170
Investment properties	–	5
Intangible assets	5	7
Property and equipment	8	8
Other assets/liabilities	6	0
Liabilities to banks/to customers, and certificated liabilities	–	1
Provisions	19	27
Subordinated equity	2	2
Deferred tax liabilities	**574**	**437**

(62) Other liabilities

€ mn	31 Dec 2011	31 Dec 2010
Liabilities from outstanding invoices	10	8
Deferred income	4	4
Liabilities from other taxes	16	29
Trade payables (LaC)	10	10
Other liabilities (LaC)	87	130
Total	**127**	**181**

Other liabilities include proportionate interest in connection with the silent participation from SoFFin in the amount of € 29 million (2010: € 41 million).

(63) Subordinated capital

€ mn	31 Dec 2011	31 Dec 2010
Subordinated liabilities	497	560
Profit-participation certificates	472	480
Contributions by silent partners [1]	229	228
Total	**1,198**	**1,268**

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

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

Subordinated liabilities

Subordinated funds raised in accordance with section 10 (5a) of the KWG do not provide for any early repayment obligation. In the event of liquidation or insolvency, claims on interest and principal from these liabilities are subordinated to the claims of all other creditors, which are not themselves subordinated. This also applies to those subordinated funds raised that are not specified in detail.

As at the balance sheet date, the bank had no knowledge of any individual items exceeding 10 % of total subordinated liabilities.

Interest expenses for all subordinated liabilities during 2011 totalled € 23 million (2010: € 27 million). Interest was paid on subordinated liabilities at an average rate of 4.66 % (2009: 4.78 %).

Profit-participation certificates

Profit-participation certificates issued comply with the provisions of section 10 (5) of the KWG and include the following profit-participation certificates issued by Aareal Bank AG:

	Nominal amount € million	Issue currency	Interest rate (% p.a.)	Maturity
Bearer profit-participation certificates				
	125.0	EUR	6.750	2002 - 2011
	100.0	EUR	6.375	2002 - 2011
	60.0	EUR	6.125	2003 - 2013
	285.0			
Registered profit participation certificates				
	5.0	EUR	7.010	2002 - 2012
	10.0	EUR	7.010	2002 - 2012
	5.0	EUR	7.010	2002 - 2012
	10.0	EUR	7.010	2002 - 2012
	5.0	EUR	7.100	2002 - 2012
	10.0	EUR	7.150	2002 - 2012
	5.0	EUR	7.030	2002 - 2012
	5.0	EUR	7.220	2002 - 2016
	5.0	EUR	7.220	2002 - 2016
	5.0	EUR	6.080	2003 - 2013
	20.0	EUR	6.120	2003 - 2013
	5.0	EUR	6.310	2003 - 2017
	10.0	EUR	5.750	2004 - 2014
	2.0	EUR	5.470	2004 - 2014
	5.0	EUR	5.480	2004 - 2014
	5.0	EUR	5.380	2004 - 2016
	20.0	EUR	5.950	2004 - 2016
	6.0	EUR	5.830	2005 - 2017
	138.0			

Pursuant to the terms and conditions of issue, holders of profit-participation certificates have a claim on interest payments which takes precedence over the profit entitlements of shareholders. To the extent that a distribution would cause a net loss, said interest claim would be reduced, possibly down to zero, creating a claim for backpayment during the term of the certificates at the same time.

Repayment takes place at the nominal amount (subject to any loss sharing), on the day after the Annual General Meeting passing resolutions regarding the relevant financial year. The profit-participation certificates evidence creditors' rights; they do not grant any share in the liquidation proceeds.

An amount of € 25 million (2010: € 27 million) in interest expenses was incurred with respect to profit-participation certificates issued.

Contributions by silent partners

Contributions by silent partners to Aareal Bank Group totalled € 220 million (2009: € 220 million). These contributions comply with the requirements for liable capital pursuant to section 10 (4) of the KWG. The contributions by silent partners are used as core capital for regulatory purposes (2010: € 220 million) in their full amount.

Total expenditure for silent participations amounted to € 11 million (2010: € 10 million) in the financial year 2011.

(64) Equity

€ mn	31 Dec 2011	31 Dec 2010
Subscribed capital	180	128
Capital reserves	721	511
Retained earnings	929	836
Other reserves		
Revaluation surplus	-221	-110
Hedging reserves	14	–
Currency translation reserves	3	2
Silent participation by SoFFin	300	375
Non-controlling interest	243	243
Total	**2,169**	**1,985**

On 14 April 2011, the Management Board of Aareal Bank AG resolved, with the approval of the Supervisory Board, to increase the Company's share capital via a rights issue against cash contributions. 17,102,062 new ordinary bearer shares with a proportionate share in the nominal share capital of € 3.00 per share were issued. As a result, the Company's share capital increased from € 128 million to € 180 million. Gross issue proceeds amounted to € 270 million.

Subscribed capital

Aareal Bank AG's subscribed capital amounted to € 180 million as at the reporting date (2010: € 128 million). It is divided into 59,857,221 (2010: 42,755,159) notional no-par value shares with a notional value of € 3 per share. The shares are bearer shares. Each share carries one vote. There are no pre-emptive rights or constraints with respect to dividend payouts.

Treasury shares

The Management Board was authorised by the Annual General Meeting held on 19 May 2010 pursuant to section 71 (1) no. 7 of the German Stock Corporation Act (AktG) to purchase and sell treasury shares until 18 May 2015 for the purposes of securities trading at prices that may not be higher or lower than 10 % than the average closing price of the shares in Xetra (or a comparable successor system) of the Frankfurt Stock Exchange during the three trading days prior to purchase. The volume of shares acquired for this purpose must not exceed 5 % of the share capital of Aareal Bank AG at the end of any day.

The General Meeting held on 19 May 2010 authorised the Management Board, pursuant to Section 71 (1) No. 8 of the AktG, up to 18 May 2015, to acquire and sell treasury shares for purposes other than securities trading, up to a maximum volume of 10 % of the issued share capital at the time of passing the resolution or – if this value is lower – of the share capital existing at the time of exercising this authorisation for purposes other than securities trading. Shares may be acquired via the stock exchange or by means of a public offer to buy, directed at all shareholders. Where acquisition is effected via the use of derivatives in the form of put or call options, or a combination of both, the option terms must ensure that said options are only serviced with shares that were purchased, in accordance with the principle of equal treatment, at the stock exchange at the prevailing share price of the Company's share in Xetra trading (or a comparable successor system) at the time of the purchase on the stock exchange.

The Management is authorised to effect the sale of any treasury shares acquired in accordance with this authorisation, subject to approval by the Supervisory Board, via channels other than the stock exchange or an offer to all shareholders, provided that the sale is carried out at a price that is not significantly lower than the stock exchange price of the company's shares at the time of sale. This authorisation is subject to the proviso that the aggregate value of shares sold under this authorisation and of shares issued to the exclusion of shareholders' subscription rights, in accordance with section 186 (3) sentence 4 of the AktG, shall not exceed 10 % of the issued share capital at the time of said authorisation becoming effective or being exercised. Subject to approval by the Supervisory Board, pre-emptive subscription rights on the sold shares may also be excluded in the event of a sale against contributions in kind, or if the sold shares are given to the holders of conversion or option rights in lieu of new shares from a contingent capital increase. The Management Board is also authorised to exclude the pre-emptive subscription rights to the extent required to grant subscription rights to new shares to owners of convertible bonds or bonds cum warrants which were issued in the meantime in such an amount as would be due to them once they exercised their option rights. The Management Board is authorised to call in any of the shares acquired under this authorisation, without any further resolutions by the General Meeting being necessary.

The authorisation to acquire treasury shares was granted for a period of five years.

Said authorities were not utilised. No treasury shares were held at the end of the year under review.

Authorised capital

Aareal Bank has authorised capital pursuant to the resolution by the Annual General Meeting held on 19 May 2010. The Management Board was authorised by the Annual General Meeting to increase, on one or more occasions, the Company's share capital by up to a maximum total amount of € 64,132,500 (Authorised Capital) by issuance of new bearer shares for contribution in cash or in kind (where such contribution may represent the full contribution, or part thereof), subject to the approval of the Supervisory Board; this authority will expire on 18 May 2015. In the event of a capital increase against cash contributions, the shareholders shall be granted a subscription right, unless the Management Board exercises its authority to exclude shareholder's pre-emptive subscription rights. The Management Board may exclude shareholders' subscription rights, subject to approval by the Supervisory Board and the conditions set out below:

a) In the event of a capital increase against cash contributions, provided that the issue price of the new shares is not significantly below the prevailing stock exchange price of the Company's listed shares at the time of the final determination of the issue price. However, this authorisation shall be subject to the proviso that the aggregate value of shares sold to the exclusion of shareholders' subscription rights, in accordance with section 186 (3) sentence 4 of the AktG, shall not exceed ten per cent (10 %) of the registered share capital at the time said authorisation comes into effect or is exercised. Any shares that were issued or sold during the term and prior to the exercising of said authorisation, in direct or analogous application of section 186 (3) sentence 4 of the AktG, shall count towards the above threshold of ten per cent (10 %) of the registered share capital. Said ten-per-cent threshold shall also include shares the issuance of which is required under the terms of debt securities with embedded conversion or option rights on shares issued pursuant to section 186 (3) sentence 4 of the AktG (excluding shareholders' subscription rights), which were (or may be) issued during the validity of this authorisation;

b) for fractional amounts arising from the determination of the applicable subscription ratio;

c) where this is necessary to grant subscription rights to the holders of bonds with warrants or convertible bonds issued (or to be issued) by the Company or its affiliated companies, which subscription rights are required to entitle these holders to the same extent as they would have been entitled to upon exercising their conversion or option rights or upon performance of a conversion obligation, if any, thus protecting such holders against dilution;

d) for an amount of up to € 4,000,000, to offer employees (of the company or its affiliated companies) shares for subscription;

In the event of a capital increase against contributions in kind, the Management Board is authorised to exclude shareholders' subscription rights, subject to the approval by the Supervisory Board. When exercising this authorisation, the Management Board will restrict the exclusion of shareholders' pre-emptive rights to a total of 20 % of the Company's registered share capital. Accordingly, the aggregate exclusion of shareholders' subscription rights upon exercise of this authorisation must not exceed 20 % of the registered share capital at the time said authorisation comes into effect or is exercised. This limitation also includes shares issued by the Company on the basis of the authorisation by the General Meeting on 19 May 2010, under convertible bonds and/or bonds with warrants issued excluding the pre-emptive rights of shareholders.

On 14 April 2011, the Management Board resolved, with the approval of the Supervisory Board granted on the same date, to exercise this authorisation and to increase the Company's share capital from € 128,265,477 by € 51,306,186 to € 179,571,663 against cash contributions through the issuance of 17,102,062 new ordinary bearer shares with a proportionate share in the nominal share capital of € 3.00 per share at an issue price of € 3.00 per share. The Company's shareholders entitled were granted indirect subscription rights. After this increase, the remaining authorised capital amounts to € 12,826,314.

Conditional capital

The share capital is subject to a conditional capital increase of up to € 30 million by means of issuing up to 10 million new no-par value bearer shares, with a share in the Company's share capital of € 3.00 each. Such conditional capital increase serves to enable the company to service convertible bonds and/or bonds with warrants on the basis of the authorisation resolution of the Annual General Meeting held on 19 May 2010. Said resolution authorised the Management Board, subject to the consent of the Supervisory Board, to issue, on one or more occasions until 18 May 2015, convertible bonds and/or bonds cum warrants with a limited or an unlimited term in an aggregate nominal amount of € 600 million and to grant option and/or conversion rights to bearers or holders of bonds with regard to no-par value bearer shares of the Company, equivalent to a share in the share capital of up to € 30 million.

The bonds may be issued in euro as well as in any other currency – with the corresponding equivalent value – which is the legal tender of, for example, an OECD member state. They may also be issued via an indirect or a direct subsidiary of the Company. In this case, the Management Board is authorised, subject to the consent of the Supervisory Board, to issue a guarantee with regard to the bonds on behalf of the Company and to grant to the bondholders conversion or option rights to new no-par value bearer shares of the Company.

The conditional capital increase will be executed only to the extent that holders of conversion or option rights exercise such rights or any conversion obligation from such convertible bonds and/or bonds with warrants are performed, and to the extent that treasury shares are not utilised to service such convertible bonds and/or bonds with warrants. The new shares will be entitled to a share in the profits from the beginning of the financial year in which they come into existence through the exercise of conversion or option rights or the performance of conversion obligations.

No convertible bonds or warrants were in issue as at the balance sheet date.

Capital reserves

The capital reserves contain premiums received upon the issuance of shares.

Retained earnings

Retained earnings are comprised of legal reserves (pursuant to section 150 of the AktG) of € 5 million (2010: € 5 million) and of other retained earnings of € 924 million (2010: € 831 million).

Changes in retained earnings have been reflected in the statement of changes in equity.

Revaluation surplus

The revaluation surplus comprises effects from fair value measurement of financial instruments of the measurement category "Available for sale (AfS)".

Silent participation by SoFFin

On 31 March 2009, the German Financial Markets Stabilisation Fund (SoFFin) provided the € 525 million silent participation to Aareal Bank, as 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 repaid a first tranche of € 150 million of the € 525 million silent participation provided by the German Financial Markets Stabilisation Fund (SoFFin).

On 28 April 2011, Aareal Bank AG made the second partial repayment – in an amount of € 75 million – related to the silent participation provided by SoFFin. The amount of the silent participation was reduced to € 300 million.

Non-controlling interest

€ 250 million (2010: € 250 million) in preference shares issued by a subsidiary were outstanding at the end of the 2011 financial year. These shares are repaid at their nominal value and carry an exclusive right to termination for the issuer.

Interest expenses on these preference shares amounted to € 18 million (2010: € 18 million). The tax relief resulting from distributions leads to a reduction of income taxes as reported in the statement of comprehensive income.

Dividends

The Management Board proposes to the Annual General Meeting that the net retained profit of Aareal Bank AG in the amount of € 10 million for the financial year 2011, as reported under the German Commercial Code (HGB), be transferred to other retained earnings. For reasons of commercial prudence, we believe that this is necessary, above all against the backdrop of securing the positioning of Aareal Bank relative to other companies for the near future in the light of increasing risks on a macroeconomic level, weak growth impetus and the risk of further disruptions to the market.

(D) Reporting on Financial Instruments

A detailed description of the system in place at Aareal Bank AG to measure, limit, and manage risks throughout Aareal Bank Group is presented in the risk report as part of the management report. The disclosures on the description and the extent of the risks arising from financial instruments in accordance with IFRS 7 are included in part in the risk report.

(65) Fair value of financial instruments

Definition

The fair value of financial instruments within the meaning of IFRS is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. To that extent, it is equivalent to the amount that will be paid for an asset in a "regular way" transaction between two parties that are independent from one another.

Fair value hierarchy

Aareal Bank Group determines the fair value of financial instruments in accordance with the hierarchy specified in IAS 39.48 et seq.

The existence of observable quoted prices in an active market is the best evidence of fair value, and when they exist they are used to measure the financial asset or financial liability involved. In order to determine the quoted market price of a financial instrument in an active market, a transaction involving the financial instrument concerned on the reporting date or the last trade date must be used as the basis. If no transaction has occurred in the financial instrument on the reporting date, the reporting entity shall rely on transaction prices applicable shortly before the reporting date.

Exchange-traded financial instruments (such as equities, bonds, or other debt securities) as well as exchange-traded derivatives are generally measured on the basis of applicable market prices if there is an active market.

If the market for a financial instrument is not (or no longer) active, the fair values of these products are established by using valuation techniques. In this context, the fair values are derived from market prices of recent transactions in the corresponding financial instrument or currently observable market prices of comparable financial instruments using a particular valuation technique.

If past or comparable market prices are not available for certain products, we use proven valuation models or indicative pricing information for pricing financial instruments. The pricing using proven valuation models is based on parameters observable in the market (such as interest rates, volatilities, credit spreads). Cash flows are determined on the basis of the contractual arrangements until the expected end of the term and discounted using the interest rate curve of the relevant market, taking into account mark-ups based on credit quality and liquidity, if applicable.

Financial instruments belonging to Treasury activities are measured within Aareal Bank Group by a unit which is independent from Trading. This unit is responsible for controlling and monitoring the relevant valuation processes on a centralised basis. Measurement procedures are reviewed on a regular basis as to their applicability on the various different financial instruments. The pricing data and parameters used in the valuation models are critically reviewed and developed on an ongoing basis. Current market developments are continuously monitored; if necessary valuation adjustments are made.

Determination of the fair value of financial instruments

Financial instruments carried at fair value in the statement of financial position

Non-trading assets available for sale: Fixed-income securities and equity instruments for which stock exchange turnover in a meaningful volume can be observed on or shortly before the reporting date are measured at their quoted market prices. The fair value of securities where no transactions have been carried out recently is determined on the basis of the latest available market prices or on the basis of a comparison with the current fair value of another largely identical instrument. For this purpose, the available market prices are adjusted to take account of all risk-related changes and of new information that has become available in the meantime.

If no similar market prices for securities or equity instruments are available, such securities or equity instruments will be measured using valuation models whose inputs are based on observable market data. These models include the discounted cash flow (DCF) method which is used to determine the present value of contractual cash flows until the expected end of the term and adjusted using the benchmark curve of the relevant market, taking into account mark-ups based on credit quality and liquidity. The valuation model used for options included in the transaction is the commonly used Black-Scholes model or appropriate numerical procedures.

In case the fair value of unlisted equity instruments cannot be determined reliably, the instruments are accounted for using cost.

Non-trading assets designated as at fair value through profit or loss: Indicative prices provided by pricing services are available for the index certificates included in this category.

Positive and negative market value of derivative hedging instruments as well as from derivatives held for trading: Exchange-traded derivatives are measured at their quoted market price. The fair value of over-the-counter (OTC) derivatives is determined using standard valuation models commonly accepted in the financial industry, such as the present value technique and option pricing models. These techniques or models use inputs quoted on active markets. The fair value of foreign exchange forwards is generally based on current forward exchange rates.

Financial instruments not carried at fair value in the statement of financial position

Cash on hand and balances with central banks: Cash funds are recognised at the IFRS carrying amount, which is considered an appropriate fair value.

Loans and advances as well as liabilities to customers and banks: The property finance portfolio included in loans and advances to customers of the "Loans and receivables" category is measured using the discounted cash flow method. Discounting of future cash flows of a transaction is based on transaction-specific risk-adjusted interest rates. These are derived on the basis of a virtually risk-free market interest rate for each currency depending on the relevant term, taking into account add-ons for risks specific to the counterparty as well as credit costs. In the case of loans subject to fixed interest rates, the contractually agreed payments are used as future cash flows. The future cash flows for floating-rate loans are derived using the future forward interest rates, taking into account the relevant spread for customer-specific terms and conditions.

Amortised cost is an adequate estimate of fair value for short-term money market transactions, current account balances and other short-term receivables and liabilities included in these classes. Quoted market prices are normally not available for promissory note loans of the "Loans and receivables" category. Therefore, they are measured through discounting the future cash flows using the currency-specific benchmark curve. The liquidity and creditworthiness components are taken into account using issuer-specific spreads.

Registered profit participation certificates of the "Liabilities measured at amortised cost" category which are backed through assets (covered issues) are also measured using the discounted cash flow method on the basis of the benchmark curve. In addition, we take into account covered bond spreads as determined by the Association of German Pfandbrief Banks. Future contractual cash flows of uncovered issues are discounted using an interest rate adequate for Aareal Bank.

Non-trading assets of the "Loans and receivables" and "Held to maturity" categories: These classes include fixed-income bonds and debt securities whose fair value is determined following the same procedure for available-for-sale non-trading assets, based on prices on active markets or valuation methods such as the discounted cash flow method. The asset-backed securities (mainly CMBS and RMBS) which are also included in these classes are measured using indicative prices, if quoted market prices are not available, as there is no generally accepted valuation model for these securitisation instruments. These indicative prices are initially reviewed and assessed by means of a comparison with other price sources. In addition, Aareal Bank takes into account in its analysis the collateralisation status of the tranches and the collateral structures, analyses of the receivables included in the ABS (look-through principle), in particular with respect to repayment schedules as well as payment arrears and defaults of the receivables securitised with the ABS, trigger events and rating changes.

Certificated liabilities measured at amortised cost: Unless prices on active markets are available, the fair value for bearer securities is determined in accordance with the procedure used for registered securities, with a distinction being made between covered and uncovered issues.

Subordinated capital: Subordinated promissory note loans, subordinated bearer debt securities as well as other hybrid instruments of the "Liabilities measured at amortised cost" category are also measured on the basis of the present value method using an interest rate for subordinated issues adequate for Aareal Bank. If quoted prices on active markets are available, such prices are used as the fair value.

Loan commitments and contingent liabilities: The fair values of loan commitments and contingent liabilities correspond to their carrying amounts.

Disclosures relating to the fair value hierarchy

With the introduction of IFRS 7.27A in 2009, a three-tier fair value measurement hierarchy was established in IFRSs to disclose measurement information for financial instruments recognised at fair value in the statement of financial position:

Level 1 – Quoted price in active markets:
Level 1 of the fair value measurement hierarchy includes the fair values of financial instruments determined on the basis of quoted prices (unadjusted) in active markets for identical financial instruments. This level includes bonds and debt securities traded at important exchanges as well as equity instruments and exchange-traded derivatives.

Level 2 – Valuation technique using inputs observable on the market:
Fair values determined using inputs other than quoted prices included within Level 1 that are observable for the financial instrument, either directly or indirectly, are included in Level 2 of this hierarchy. This level includes bonds and debt securities for which no current market price is available as well as OTC derivatives and certain structured products.

Level 3 – Valuation technique using material inputs not observable on the market:
Fair values determined using valuation techniques where one or more material inputs are not based on observable market data are assigned to Level 3 of the fair value hierarchy. At Aareal Bank Group, this measurement level includes individual structured products.

In accordance with this fair value hierarchy, the following table shows the carrying amounts of the financial instruments recognised by Aareal Bank Group and carried in the statement of financial position at fair value, separately per each class of financial assets and financial liabilities:

31 December 2011

€ mn	Total Fair value 31 Dec 2011	Fair value level 1 31 Dec 2011	Fair value level 2 31 Dec 2011	Fair value level 3 31 Dec 2011
Positive market value of derivative hedging instruments	**1,801**	**–**	**1,801**	**–**
Assets Held for trading	**421**	**–**	**421**	**–**
Trading derivatives	421	–	421	–
Non-trading assets Available for sale	**3,791**	**314**	**3,477**	**0**
Fixed-income securities	3,773	312	3,461	–
Equities/funds	18	2	16	0
Non-trading assets Designated as at fair value through profit or loss	**4**	**–**	**4**	**0**
Negative market value of derivative hedging instruments	**1,769**	**–**	**1,769**	**–**
Liabilities Held for trading	**723**	**–**	**723**	**–**
Trading derivatives	723	–	723	–

31 December 2010

€ mn	Total Fair value 31 Dec 2010	Fair value level 1 31 Dec 2010	Fair value level 2 31 Dec 2010	Fair value level 3 31 Dec 2010
Positive market value of derivative hedging instruments	**1,321**	**–**	**1,321**	**–**
Assets Held for trading	**428**	**–**	**428**	**–**
Trading derivatives	428	–	428	–
Non-trading assets Available for sale	**4,402**	**695**	**3,707**	**0**
Fixed-income securities	4,373	682	3,691	–
Equities/funds	29	13	16	0
Non-trading assets Designated as at fair value through profit or loss	**5**	**–**	**5**	**0**
Negative market value of derivative hedging instruments	**1,181**	**–**	**1,181**	**–**
Liabilities Held for trading	**675**	**–**	**675**	**–**
Trading derivatives	675	–	675	–

In the financial year 2011, fixed-income securities of the "Available for sale" category at a fair value of € 172 million (2010: € 628 million) were transferred from Level 1 to Level 2. In the previous year, fixed-income securities of the same category at a fair value of € 65 million were transferred from Level 2 to Level 1.

The transfers from Level 1 to Level 2 were necessary as regular price quotations for the securities concerned were no longer available in the required extent, and the securities, therefore, were measured using generally accepted valuation methods. Certain securities could be transferred from Level 2 to Level 1 of the fair value hierarchy since prices on active markets were available.

As in the previous year, the fair value of financial instruments of Level 3 of the fair value hierarchy did not change in the year under review. The fair value of non-trading assets of the dFVtPL category included in hierarchy level 3 is € 0 million, and the fair value of non-trading assets of the AfS category assigned to hierarchy level 3 also amounts to € 0 million.

The following measurement gains and losses were recognised in the profit or loss for the year for Level 3 financial instruments carried at fair value and still included in the statement of financial position as at the reporting date:

€ mn	Non-trading assets (dFVtPL) 31 Dec 2011	Non-trading assets (AfS) 31 Dec 2011	Non-trading assets (dFVtPL) 31 Dec 2010	Non-trading assets (AfS) 31 Dec 2010
Net income from financial Investments	0	0	1	0
Total	**0**	**0**	**1**	**0**

The following table is a comparison of the carrying amounts and the fair values of the financial instruments by measurement categories in accordance with IAS 39:

€ bn	31 Dec 2011 Carrying amount	31 Dec 2011 Fair value	31 Dec 2010 Carrying amount	31 Dec 2010 Fair value
Cash on hand and balances with central banks	**0.6**	**0.6**	**0.9**	**0.9**
Loans and advances to banks (LaR)	2.9	2.9	2.0	2.0
Loans and advances to customers (LaR)	25.1	26.4	24.3	25.3
Non-trading assets (LaR)	6.0	5.4	6.5	6.3
Other assets (LaR)	0.1	0.1	0.1	0.1
Total Loans and receivables	**34.1**	**34.8**	**32.9**	**33.7**
Non-trading assets Held to maturity	**0.2**	**0.2**	**0.6**	**0.6**
Non-trading assets Available for sale	**3.8**	**3.8**	**4.4**	**4.4**
Non-trading assets Designated as at fair value through profit or loss	**0.0**	**0.0**	**0.0**	**0.0**
Positive market value of derivative hedging instruments	**1.8**	**1.8**	**1.3**	**1.3**
Assets Held for trading	**0.4**	**0.4**	**0.4**	**0.4**
Liabilities to banks (LaC)	3.1	3.1	5.2	5.2
Liabilities to customers (LaC)	24.9	23.9	22.8	22.2
Certificated liabilities (LaC)	7.5	7.5	7.6	7.6
Other liabilities (LaC)	0.1	0.1	0.1	0.1
Subordinated capital (LaC)	1.2	0.9	1.3	1.1
Total liabilities Measured at amortised cost	**36.8**	**35.5**	**37.0**	**36.2**
Negative market value of derivative hedging instruments	**1.8**	**1.8**	**1.2**	**1.2**
Liabilities Held for trading	**0.7**	**0.7**	**0.7**	**0.7**
Financial guarantee contracts	**0.3**	**0.3**	**0.3**	**0.3**
Loan commitments	**1.5**	**1.5**	**1.7**	**1.7**

(66) Net results of financial instruments by category

The following overview shows the net gains or net losses from financial instruments in accordance with the classification of financial assets and financial liabilities (from which the results are generated) in the measurement categories in accordance with IAS 39:

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Result from Loans and receivables	561	698
Result from financial instruments Held for trading	-5	-20
Result from assets Designated as at fair value through profit or loss	1	1
Result from assets Available for sale	12	17
of which: directly recognised in equity	-193	-40
Result from derivative hedging instruments	-185	-714
Result from Liabilities measured at amortised cost	-680	-143

The amount reclassified from equity into the income statement for "Available for sale" assets in the year under review is € -19 million (2010: € -25 million).

The result from financial guarantee contracts amounted to € 2 million (2010: € -7 million).

The net results include measurement gains and losses, realised gains / losses on disposal, subsequent recoveries on loans and advances previously written off as well as results from currency translation of all financial instruments of the individual category. The result from financial instruments "Held for trading" also includes interest and dividends as well as commissions from "Held for trading" financial instruments. The net result from derivatives that are part of hedging relationships is included in the result from derivative hedging instruments, while the result from hedged items is reported under the result from the relevant measurement category.

(67) Impairment losses

The following overview shows the impairment losses recognised for financial instruments by measurement category during the year under review:

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Loans and advances to customers (LaR)	214	151
Non-trading assets (LaR)	–	15
Non-trading assets (AfS)	8	3
Other assets (LaR)	1	5
Financial guarantee contracts	4	12
Total	**227**	**186**

(68) Reclassification of financial assets

In 2008 and 2009, Aareal Bank Group made use of the possibility to reclassify financial assets into another measurement category, in accordance with IAS 39.50A et seq.

The following table is a comparison of the carrying amounts and the fair values of the reclassified securities and also shows the measurement effects which would have arisen without reclassification in the current financial year and in the previous year:

	Reclassified assets, total				Results from fair value measurement without reclassification			
€ mn	Carrying amount at reporting date 31 Dec 2011	Fair value at reporting date 31 Dec 2011	Carrying amount previous year 31 Dec 2010	Fair value previous year 31 Dec 2010	Effect on the income statement 1 Jan-31 Dec 2011	Effect on the revaluation surplus 1 Jan-31 Dec 2011	Effect on the income statement 1 Jan-31 Dec 2010	Effect on the revaluation surplus 1 Jan-31 Dec 2010
from AfS to LaR	**5,395**	**4,773**	**5,537**	**5,357**	**–**	**-315**	**–**	**-71**
Asset-backed securities	30	27	31	30	–	-1	–	2
Bank bonds	790	784	984	1,004	–	-17	–	16
Covered bonds	640	600	683	652	–	-7	–	-19
Public-sector issuer	3,935	3,362	3,839	3,671	–	-290	–	-70
from HfT to LaR	**304**	**251**	**388**	**347**	**-12**	**–**	**4**	**–**
Asset-backed securities	304	251	382	341	-12	–	5	–
Public-sector issuer	–	–	6	6	0	–	-1	–
Total	**5,699**	**5,024**	**5,925**	**5,704**	**-12**	**-315**	**4**	**-71**

No impairment losses had to be recognised for the reclassified financial assets in 2011 (2010: € -15 million). The disposal of reclassified securities resulted in the realisation of capital losses of € -3 million (2010: capital losses of € -7 million). Interest income from reclassified assets amounted to € 190 million (2009: € 207 million) in the year under review. Interest income, including current interest from derivatives used to hedge economic market price risks, amounted to € 81 million.

(69) Bonds of selected European countries

The following table is a breakdown of the bonds issued by public-sector entities and bank bonds of selected European countries, included in non-trading assets:

Bond values as at 31 December 2011:

€ mn		Greece	Italy	Ireland	Portugal	Spain	Hungary	Total
Bonds issued by public-sector entities (LaR)	Nominal amount	–	839	–	55	312	–	**1,206**
	Carrying amount	–	1,058	–	61	344	–	**1,463**
	Fair value	–	687	–	36	268	–	**991**
Bonds issued by public-sector entities (AfS)	Nominal amount	–	360	–	100	25	–	**485**
	Carrying amount	–	312	–	57	27	–	**396**
	Fair value	–	312	–	57	27	–	**396**
Covered bank bonds (LaR)	Nominal amount	–	–	–	–	353	–	**353**
	Carrying amount	–	–	–	–	384	–	**384**
	Fair value	–	–	–	–	341	–	**341**
Covered bank bonds (HtM)	Nominal amount	–	–	–	–	163	–	**163**
	Carrying amount	–	–	–	–	168	–	**168**
	Fair value	–	–	–	–	165	–	**165**
Covered bank bonds (AfS)	Nominal amount	–	70	–	60	100	–	**230**
	Carrying amount	–	63	–	42	100	–	**205**
	Fair value	–	63	–	42	100	–	**205**
Senior unsecured bank bonds (LaR)	Nominal amount	–	23	–	–	–	–	**23**
	Carrying amount	–	23	–	–	–	–	**23**
	Fair value	–	23	–	–	–	–	**23**
Senior unsecured bank bonds (AfS)	Nominal amount	–	13	–	–	–	–	**13**
	Carrying amount	–	13	–	–	–	–	**13**
	Fair value	–	13	–	–	–	–	**13**
Total	**Nominal amount**	**–**	**1,305**	**–**	**215**	**953**	**–**	**2,473**

Bond values as at 31 December 2010:

€ mn		Greece	Italy	Ireland	Portugal	Spain	Hungary	Total
Bonds issued by public-sector entities (LaR)	Nominal amount	–	914	–	55	312	99	**1,380**
	Carrying amount	–	995	–	57	331	93	**1,476**
	Fair value	–	913	–	46	272	93	**1,324**
Bonds issued by public-sector entities (AfS)	Nominal amount	–	410	–	100	225	–	**735**
	Carrying amount	–	407	–	90	215	–	**712**
	Fair value	–	407	–	90	215	–	**712**
Covered bank bonds (LaR)	Nominal amount	–	–	–	–	403	–	**403**
	Carrying amount	–	–	–	–	425	–	**425**
	Fair value	–	–	–	–	390	–	**390**
Covered bank bonds (HtM)	Nominal amount	–	–	–	–	163	–	**163**
	Carrying amount	–	–	–	–	170	–	**170**
	Fair value	–	–	–	–	166	–	**166**
Covered bank bonds (AfS)	Nominal amount	–	70	–	60	70	–	**200**
	Carrying amount	–	67	–	47	68	–	**182**
	Fair value	–	67	–	47	68	–	**182**
Senior unsecured bank bonds (LaR)	Nominal amount	–	23	–	–	–	–	**23**
	Carrying amount	–	24	–	–	–	–	**24**
	Fair value	–	24	–	–	–	–	**24**
Senior unsecured bank bonds (AfS)	Nominal amount	–	13	12	–	–	–	**25**
	Carrying amount	–	12	10	–	–	–	**22**
	Fair value	–	12	10	–	–	–	**22**
Total	**Nominal amount**	**–**	**1,430**	**12**	**215**	**1,173**	**99**	**2,929**

The revaluation surplus related to the above-mentioned bonds of the LaR category amounted to € -80 million (before taxes) as at 31 December 2011 (31 December 2010: € -87 million). The revaluation surplus is attributable to securities which were reclassified in the years 2008 and 2009 from the measurement category "Available for sale" (AfS) to the measurement category "Loans and receivables" (LaR). The revaluation surplus related to the above-mentioned bonds of the AfS category amounted to € -184 million (before taxes) as at 31 December 2011 (31 December 2010: € -64 million).

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

The presented AfS securities with a carrying amount of € 312 million (2010: € 407 million) were allocated to Level 1 of the fair value hierarchy pursuant to IFRS 7 and measured based on quoted prices on active markets. Securities with a carrying amount of € 301 million (2010: € 510 million) were allocated to Level 2 of the fair value hierarchy. No quoted market prices of hierarchy level 1 were available for these securities as at the balance sheet date, however, measurement is also directly or indirectly based on observable market prices. Aareal Bank Group does not hold securities measured according to Level 3 of the fair value hierarchy.

(70) Transfer of financial assets without derecognition

Aareal Bank Group has entered into securities repurchase agreements as borrower. Within the scope of such agreements, securities were transferred to lenders without resulting in the securities being derecognised since Aareal Bank Group retains the substantial risks and rewards from the securities. The risks to which Aareal Bank Group is still exposed comprise the default risk, the interest rate risk and other price risks.

The following table shows the carrying amounts, as at the balance sheet date, of the securities that are part of repurchase agreements:

€ mn	31 Dec 2011	31 Dec 2010
Bonds and debt securities (LaR)	477	435
Bonds and debt securities (AfS)	592	677
Total	**1,069**	**1,112**

In connection with these securities, Aareal Bank recognised obligations resulting from genuine repurchase agreements in an amount of € 956 million (2010: € 1,736 million). In the previous year, loans and advances to banks also included receivables from repurchase transactions in the amount of € 811 million. Within the scope of providing collateral through GC pooling, the net position from receivables and obligations from repurchase agreements is collateralised.

(71) Assets provided or accepted as collateral

Assets provided as collateral

Aareal Bank Group has provided financial assets as collateral for its liabilities or contingent liabilities. The following overview shows the carrying amount of the collateral provided and the items of the statement of financial position in which they are reported.

€ mn	31 Dec 2011	31 Dec 2010
Loans and advances to banks	1,110	774
Non-trading assets	1,350	1,677
Total	**2,460**	**2,451**

The carrying amount of financial assets pledged as collateral where the protection buyer has the right to sell or re-pledge the assets is € 1,069 million (2010: € 1,112 million). They are recognised in the item "Non-trading assets" in the statement of financial position.

Assets accepted as collateral

Aareal Bank Group accepts financial assets as collateral. These assets may be sold or pledged without the collateral owner being in default. As in the previous year, no such collateral had been accepted as at the balance sheet date.

Collateral is provided and accepted predominantly on the basis of standardised agreements on securities repurchase transactions and on the collateralisation of forward transactions.

(72) Credit quality of financial assets

The following overview shows the credit quality of Aareal Bank Group's financial assets by separately disclosing assets neither past due nor impaired, past due assets and impaired assets. The presentation is based on carrying amounts:

Information about the recoverability of financial assets neither past due nor impaired are provided in the Risk Report in the section on credit risks. An analysis of the financial assets that are past due and impaired is included in the other disclosures in the Notes.

Please refer to the presentation of the items of the statement of financial position in the section "Notes to the statement of financial position" for information on maximum credit risk exposure since the carrying amount corresponds to the maximum credit risk exposure of Aareal Bank as at the balance sheet date. The collateral received is described in the Risk Report.

€ mn	31 Dec 2011	31 Dec 2010
Financial assets neither past due nor impaired		
Loans and advances to banks	2,912	2,034
Loans and advances to customers	24,409	23,714
Positive market value of derivative hedging instruments	1,801	1,321
Trading assets	421	428
Non-trading assets (LaR)	6,044	6,366
Non-trading assets (AfS)	3,783	4,389
Non-trading assets (HtM)	168	557
Non-trading assets (dfvtpl)	4	5
Other assets	58	64
Total	**39,600**	**38,878**

€ mn	31 Dec 2011	31 Dec 2010
Financial assets that are past due but not impaired		
Loans and advances to customers	115	156
Other assets	2	1
Total	**117**	**157**

€ mn	31 Dec 2011	31 Dec 2010
Financial assets subject to specific valuation allowances		
Loans and advances to customers	898	791
Non-trading assets (LaR)	–	97
Non-trading assets (AfS)	8	14
Other assets	5	9
Total	**911**	**911**

(73) Financial assets that are past due but not impaired

The following overviews show the amount of property loans past due but not impaired within the category "Loans and advances to customers (LaR)".[1]

Breakdown by region:

31 December 2011

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total 31 Dec 2011
Regions						
Germany	1	2	2	1	19	25
Western Europe	0	–	–	9	–	9
Northern Europe	4	–	–	11	–	15
Southern Europe	0	0	17	1	48	66
North America	–	–	–	–	–	–
Total	5	2	19	22	67	115

31 December 2010

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total 31 Dec 2010
Regions						
Germany	1	9	12	4	19	45
Western Europe	–	2	1	–	–	3
Northern Europe	3	2	–	–	–	5
Southern Europe	4	32	13	0	19	68
North America	–	–	–	35	–	35
Total	8	45	26	39	38	156

[1] The overview shows assets that are past due for a period of at least ten days, but not impaired, with an amount past due of at least € 100 or 2.5 % of the commitment.

Breakdown by borrower group

31 December 2011

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total 31 Dec 2011
Borrower groups						
Companies	5	1	18	21	54	99
Private individuals	0	1	1	1	13	16
Other	–	0	–	0	0	0
Total	5	2	19	22	67	115

31 December 2010

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total 31 Dec 2010
Borrower groups						
Companies	8	42	25	35	23	133
Private individuals	0	1	1	4	15	21
Other	–	2	0	–	0	2
Total	8	45	26	39	38	156

The past due financial assets were not impaired due to collateral provided.

On the reporting date, the amount of loans and advances of the "Other assets" category that were past due but not impaired was € 2 million (2010: € 1 million). There were no other financial assets past due but not impaired on the reporting date.

(74) Impaired financial assets

The following overviews indicate the amount of impaired property loans under management[1], together with the related allowance for credit losses:

Breakdown by region:

31 December 2011

€ mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business
Regions			
Germany	125	24	9
Western Europe	293	49	–
Northern Europe	96	38	0
Southern Europe	249	79	–
Eastern Europe	89	42	–
North America	46	11	–
Total	**898**	**243**	**9**

31 December 2010

€ mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business
Regions			
Germany	214	60	16
Western Europe	151	14	–
Northern Europe	72	31	–
Southern Europe	174	66	–
Eastern Europe	105	49	–
North America	75	25	–
Total	**791**	**245**	**16**

[1] The figure for property financing under management includes property loans managed on behalf of DEPFA Deutsche Pfandbriefbank AG. A reconciliation of property financings from the category „Loans and advances to customers" to the "Property financing under management" category can be found in the section "Key Group Figures" at the beginning of this Annual Report.

Breakdown by borrower group

31 December 2011

€ mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business	Changes of specific valuation allowances and specific provisions for the lending business	Direct write-downs
Borrower groups					
Companies	869	231	4	60	68
Private individuals	27	11	5	0	2
Other	2	1	–	1	1
Total	**898**	**243**	**9**	**61**	**71**

31 December 2010

	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business	Changes of specific valuation allowances and specific provisions for the lending business	Direct write-downs
Borrower groups					
Companies	737	222	10	92	17
Private individuals	50	21	5	-2	4
Other	4	2	1	1	–
Total	**791**	**245**	**16**	**91**	**21**

As at the reporting date, the amount of portfolio-based valuation allowances for loans and advances to customers was € 75 million (2010: € 88 million) and for financial guarantees € 13 million (2010: € 13 million). Net reversal amounted to € 13 million (2010: € -2 million) in the year under review. Payments on loans and advances previously written off amounted to € 18 million in the year under review (2010: € 8 million).

No valuation allowances were recognised as at the balance sheet date for non-trading assets (LaR) (2010: € 11 million in relation to a volume of € 97 million). In 2011, impairment allowances for non-trading assets (AfS) in a volume of € 8 million amounted to € 8 million (2010: volume of impaired assets as at 31 December 2010 € 14 million, amount of the impairment: € 3 million). The impairment recognised for non-trading assets (AfS) was in connection with a company in Northern Europe. The amount of impaired receivables of the "Other assets" category as at the reporting date was € 5 million (2010: € 9 million). The related impairment allowance amounts to € 3 million (2010: € 7 million). These receivables mainly referred to companies in Germany.

The carrying amount of assets acquired upon realisation of collateral during the 2011 financial year and recognised in the financial statements as at 31 December 2011 was € 8 million (2010: € 3 million). These assets are residential properties which are subject to restructuring within the framework of the general realisation strategy of Aareal Bank AG and intended for disposal in the near term.

(75) Maturities of financial liabilities

The following two overviews show the future undiscounted cash flows of non-derivative financial liabilities and of loan commitments.

Maturities as at 31 December 2011

€ mn	payable on demand	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Liabilities to banks	958	1,105	375	450	275	**3,163**
Liabilities to customers	3,932	3,932	2,648	6,107	14,955	**31,574**
Certificated liabilities	–	1,421	1,233	4,646	627	**7,927**
Subordinated capital	–	15	314	417	584	**1,330**
Financial guarantee contracts	343	–	–	–	–	**343**
Loan commitments	1,521	–	–	–	–	**1,521**

Maturities as at 31 December 2010

€ mn	payable on demand	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Liabilities to banks	583	1,312	2,464	600	272	**5,231**
Liabilities to customers	3,813	3,561	2,465	5,809	14,328	**29,976**
Certificated liabilities	–	1,350	344	5,724	653	**8,071**
Subordinated capital	–	16	91	692	694	**1,493**
Financial guarantee contracts	310	–	–	–	–	**310**
Loan commitments	1,697	–	–	–	–	**1,697**

The Risk Report includes a detailed description of the liquidity risk associated with financial liabilities.

(76) Derivative financial instruments

Aareal Bank Group enters into derivative financial instruments primarily in order to hedge market risks as well as for refinancing purposes. Derivatives which are designated for hedging purposes and meet the hedge accounting criteria are reported in the statement of financial position as derivative hedging instruments.

Derivatives classified as "Held for trading" are reported as "Assets or liabilities held for trading". They are also mainly used to hedge the economic market risk exposure. Spot and forward foreign exchange transactions are almost exclusively used within the context of refinancing. Credit derivatives are used to assume credit risks for the purpose of portfolio diversification.

Counterparty risks in derivative transactions are monitored by means of counterparty limits, provision of collateral and a uniform lending policy. Limits are set in accordance with the counterparty classification in internally-defined credit classes as well as ratings of Fitch IBCA, Moody's and Standard & Poor's. Collateral is generally provided in the form of cash collateral, which is released to the pledger as soon as the purpose of collateralisation ceases to exist.

Derivative transactions are generally entered into on the basis of the German Master Agreement for Financial Derivatives, or the ISDA Master Agreements only. Such master agreements provide for the netting of claims and liabilities in the event of insolvency or counterparty default, and thus further reduce counterparty risk.

Fair value hedges

Fair value hedges are entered into by Aareal Bank Group in order to hedge interest rate and currency risks inherent in securities, mortgage loans, promissory note loans, money market instruments, registered covered bonds (Namenspfandbriefe), certificated liabilities, and subordinated capital. Instruments used for fair value hedges comprise interest rate swaps as well as cross-currency swaps.

The following gains and losses result from fair value hedges in the year under review:

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Result from hedging instruments	34	-162
Result from hedged items	-29	160
Total	**5**	**-2**

Cash flow Hedges

Cash flow hedges are used within Aareal Bank Group exclusively to hedge future cash flows from variable-rate financial assets and liabilities.

The cash flows of hedged items subject to cash flow hedges will impact earnings of Aareal Bank Group in future as follows:

Cash flows from hedged items – Cash flow hedges as at 31 December 2011

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Cash flows from hedged assets	7	26	59	8	**100**
Cash flows from hedged liabilities	–	–	–	–	**–**

In the prior year, Aareal Bank Group did not hold any cash flow hedges in its portfolio.

In 2011, gains and losses determined as the effective portion of the hedge from derivatives included in cash flow hedges were recognised directly in equity at an amount of € 21 million (2010: € – million).

The amount from cash flow hedges transferred from hedging reserves to the income statement in the year under review can be allocated to the following income statement items:

€ mn	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Net interest income	0	-1
Total	**0**	**-1**

In the year under review, € 1 million (2010: € – million) was recognised directly in the income statement due to inefficiencies of cash flow hedges.

Overview of market values of derivatives

The following table shows positive and negative market values (including pro-rata interest) of derivative financial instruments:

€ mn	Fair value as at 31 Dec 2011		Fair value as at 31 Dec 2010	
	positive	negative	positive	negative
Trading derivatives				
Interest rate instruments				
OTC products				
Interest rate swaps	365	346	276	257
Swaptions	0	0	–	–
Caps, floors	17	17	19	19
Total interest rate instruments	**382**	**363**	**295**	**276**
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	2	81	16	33
Cross-currency swaps	37	236	116	340
Total currency-related instruments	**39**	**317**	**132**	**373**
Other transactions				
OTC products				
Credit default swaps[1]	–	43	–	25
Other derivative transactions	–	–	1	1
Total other transactions	**–**	**43**	**1**	**26**
Total trading derivatives	**421**	**723**	**428**	**675**

[1] This includes a derivative subject to the country risk of Hungary and embedded in an Austrian bank bond.

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€ mn	Fair value as at 31 Dec 2011		Fair value as at 31 Dec 2010	
	positive	negative	positive	negative
Derivatives from fair value hedges				
Interest rate instruments				
OTC products				
Interest rate swaps	1,772	1,502	1,296	1,094
Swaptions	–	0	–	0
Total interest rate instruments	**1,772**	**1,502**	**1,296**	**1,094**
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	–	8	4	–
Cross-currency swaps	7	259	21	87
Total currency-related instruments	**7**	**267**	**25**	**87**
Total derivatives from fair value hedges	**1,779**	**1,769**	**1,321**	**1,181**
Derivatives from cash flow hedges				
Currency-related instruments				
OTC products				
Cross-currency swaps	22	–	–	–
Total interest rate instruments	**22**	**–**	**–**	**–**
Total derivatives from cash flow hedges	**22**	**–**	**–**	**–**
Total	**2,222**	**2,492**	**1,749**	**1,856**

Derivatives have been entered into with the following counterparties:

€ mn	Fair value as at 31 Dec 2011		Fair value as at 31 Dec 2010	
	positive	negative	positive	negative
OECD banks	1,964	2,485	1,524	1,842
Companies and private individuals	258	7	225	14
Total	**2,222**	**2,492**	**1,749**	**1,856**

The following overview shows the cash flows of derivative financial instruments where the contractual maturity dates are crucial for understanding the timing of future payments. This applies to all derivatives within Aareal Bank Group. The amounts shown in the table represent the contractually agreed future undiscounted cash flows. The procedure for measuring and monitoring liquidity risk is described in the Risk Report.

31 December 2011

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total 31 Dec 2011
Interest rate instruments					
Interest rate swaps					
Cash inflows	335	951	2,827	943	5,056
Cash outflows	339	748	2,415	968	4,470
Forward rate agreements					
Swaptions					
Cash inflows	–	0	–	–	0
Cash outflows	–	0	0	–	0
Caps, floors					
Cash inflows	1	4	13	1	19
Cash outflows	1	4	13	1	19
Currency-related instruments					
Spot and forward foreign exchange contracts					
Cash inflows	2,318	163	–	–	2,481
Cash outflows	2,402	166	–	–	2,568
Cross-currency swaps					
Cash inflows	785	1,887	5,304	313	8,289
Cash outflows	809	1,956	5,663	305	8,733
Other transactions					
Credit default swaps					
Cash inflows	0	1	3	0	4
Cash outflows	–	–	–	–	–
Options, futures					
Cash inflows	–	–	–	–	–
Cash outflows	–	–	–	–	–
Other derivative transactions					
Cash inflows	–	–	–	–	–
Cash outflows	–	–	–	–	–
Total cash inflows	**3,439**	**3,006**	**8,147**	**1,257**	**15,849**
Total cash outflows	**3,551**	**2,874**	**8,091**	**1,274**	**15,790**

31 December 2010

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total 31 Dec 2011
Interest rate instruments					
Interest rate swaps					
Cash inflows	356	869	3,415	1,290	5,930
Cash outflows	319	720	3,086	1,313	5,438
Forward rate agreements					
Swaptions					
Cash inflows	–	–	–	–	–
Cash outflows	–	–	0	–	0
Caps, floors					
Cash inflows	1	5	15	1	22
Cash outflows	2	5	15	1	23
Currency-related instruments					
Spot and forward foreign exchange contracts					
Cash inflows	2,479	11	–	–	2,490
Cash outflows	2,492	11	–	–	2,503
Cross-currency swaps					
Cash inflows	531	2,904	4,567	280	8,282
Cash outflows	572	3,000	4,714	271	8,557
Other transactions					
Credit default swaps					
Cash inflows	0	1	3	1	5
Cash outflows	–	3	5	–	8
Options, futures					
Cash inflows	–	–	–	–	–
Cash outflows	–	–	–	–	–
Other derivative transactions					
Cash inflows	–	–	–	–	–
Cash outflows	2	–	1	–	3
Total cash inflows	**3,367**	**3,790**	**8,000**	**1,572**	**16,729**
Total cash outflows	**3,387**	**3,739**	**7,821**	**1,585**	**16,532**

(E) Segment Reporting

(77) Operating segments of Aareal Bank

In the financial year 2011, segment reporting by Aareal Bank was prepared in accordance with IFRS 8 Operating Segments.

In accordance with the "management approach" set out in IFRS 8, the segment report discloses, on a segment-specific basis, financial information which is relevant for internal control of an entity and which is also used by such entity's management to make decisions on the allocation of resources as well as to measure the financial performance of segments.

Two operating segments are defined within Aareal Bank in line with internal management reporting, based on the organisational structure established according to the various products and services offered.

The **Structured Property Financing** segment comprises all property financing and refinancing activities. In this segment, we facilitate property projects for our domestic and international clients. Aareal Bank is active in more than 20 countries across Europe, North America and Asia within the scope of its three-continent strategy. Its particular strength lies in its success in combining local market expertise and sector-specific know-how. In addition to local experts, the bank also has industry specialists at its disposal, to create financing packages for logistics properties, shopping centres and hotels. This enables us to structure tailor-made financing concepts to meet the special requirements of our domestic and international clients. What makes Aareal Bank special are its direct client relationships, which – in very many cases – it has maintained for many years.

Aareal Bank has a broad refinancing base. It has established itself as an active issuer of Pfandbriefe (German covered bonds), which account for a major share of the bank's long-term funding. The "AAA" rating of the covered bonds confirm the quality of the cover assets pool. To cater for a broad investor base, Aareal Bank also covers a wide range of other refinancing tools, such as promissory notes and debt securities. Capital market activities are focused on private placements. Larger public transactions with volumes of € 500 million and higher are entered into selectively. In addition, the bank generated deposits from long-term business relationships with companies of the institutional housing industry and with money market clients.

The successful activities on the capital and monetary markets as well as the business with the institutional housing industry are based on the combination of the bank's sustainable business model, its deep understanding of the capital markets, and the quality of its cover assets pool.

The **Consulting/Services** segment offers the institutional housing industry services and products for managing residential property portfolios and processing payment flows. Within this segment, the subsidiary Aareon AG cooperates closely with the Institutional Housing Unit of the bank.

We operate our IT system consultancy and related advisory services for the institutional housing sector through Aareon AG, which can boast more than 50 years experience. Aareon pursues a multi-product strategy that covers the requirements of every client group. The ERP product portfolio for efficient process structure comprises SAP-based solutions such as Blue Eagle and the proprietary software Wodis with the new Wodis Sigma product generation, as well as the established GES and WohnData solutions. This product range is combined with extensive advisory and integrated services, which support the networking of property companies and their business partners.

With its Institutional Housing Unit, Aareal Bank markets mass payment systems that are automated for the property management sector and integrated into clients' processes. The settlement of payment transactions via Aareal Bank generates client deposits that contribute to the refinancing base of the entire Group.

Management reporting of Aareal Bank is based on IFRS accounting policies. These reports are used to define the segment information to be disclosed in the segment report.

Income and expenses within Aareal Bank Group are predominantly attributable to transactions with third parties, and are directly allocated to the responsible operating segment. The transactions between operating segments are always executed in line with prevailing market conditions, allocated to the relevant segment and consolidated. Significant sales revenue generated from transactions between Aareal Bank's segments did not occur. Therefore, we elected not to distinguish between internal and external sales revenue in the following disclosures. Administrative expenses not directly attributable to any of the operating segments are segmented in line with the internal cost allocation, based on the principle of causation.

The segment information disclosed is fully reconciled with the figures in the consolidated financial statements. Apart from the reclassification of income from deposits taken in connection with institutional housing, the column "Consolidation/Reconciliation" only includes consolidation items.

The results of the operating segments are determined by the operating profit as well as by the return on equity (RoE) and the cost/income ratio (CIR). RoE, which indicates a segment's profitability, is calculated as the ratio of segment operating profit (after non-controlling interests) and the portion of shareholders' equity allocated to that segment on average. The cost/income ratio – determined as the ratio of input to output of resources – is used as an indicator for the cost efficiency of operating segments.

Allocated equity was calculated in segment reporting on the basis of the advanced IRB Approach (AIRBA).

Aareal Bank generates its sales revenue mainly through interest income. As management reporting is based on the measure "net interest income", interest income and interest expenses are not reported separately in the segment report.

In addition to the disclosure requirements set out in IFRS 8, Aareal Bank discloses a full income statement by geographical areas. The segmentation uses a regional breakdown into "Germany" and "International", based on the registered office of the respective Group company or branch office. Organisational units centralised at the head office are classified according to their regional responsibility.

(78) Segment results

	Structured Property Financing		Consulting/Services		Consolidation/Reconciliation		Aareal Bank Group	
	2011	2010	2011	2010	2011	2010	2011	2010
€ mn								
Net interest income	508	467	0	0	39	42	547	509
Allowance for credit losses	112	105					112	105
Net interest income after allowance for credit losses	**396**	**362**	**0**	**0**	**39**	**42**	**435**	**404**
Net commission income	2	-9	183	176	-41	-44	144	123
Net result on hedge accounting	6	-2					6	-2
Net trading income/expenses	14	8					14	8
Results from non-trading assets	-29	-13		1			-29	-12
Result from investments accounted for using the equity method	0	5	1				1	5
Results from investment properties	10	-17					10	-17
Administrative expenses	217	217	167	152	-2	-3	382	366
Net other operating income/expenses	-17	-9	3	1	0	-1	-14	-9
Impairment of goodwill	0	0					0	0
Operating profit	**165**	**108**	**20**	**26**	**0**	**0**	**185**	**134**
Income taxes	46	32	6	8			52	40
Net income/loss	**119**	**76**	**14**	**18**	**0**	**0**	**133**	**94**
Allocation of results								
Net income/loss attributable to non-controlling interests	17	16	2	2			19	18
Net income/loss attributable to shareholders of Aareal Bank AG	102	60	12	16	0	0	114	76
Allocated equity	1,358	1,502	88	83	544	312	1,990	1,897
Cost/income ratio (%)	43.9	50.4	89.4	85.6			56.3	60.6
RoE before taxes (%)	10.9	6.2	19.7	28.2			8.3	6.1
Employees (average)	**876**	**934**	**1,510**	**1,360**			**2,386**	**2,294**
Investments accounted for using the equity method	2	2		1			2	3
Segment investments	19	8	12	30			31	38
Segment depreciation/amortisation	8	9	13	12			21	21

(79) Results by geographical region

	Germany		International		Consolidation/Reconciliation		Aareal Bank Group	
	2011	2010	2011	2010	2011	2010	2011	2010
€ mn								
Net interest income	166	146	381	363			547	509
Allowance for credit losses	1	4	111	101			112	105
Net interest income after allowance for credit losses	**165**	**142**	**270**	**262**			**435**	**404**
Net commission income	106	105	38	18			144	123
Net result on hedge accounting	4	-2	2	0			6	-2
Net trading income/expenses	18	13	-4	-5			14	8
Results from non-trading assets	1	0	-30	-12			-29	-12
Result from investments accounted for using the equity method	1	5					1	5
Results from investment properties		0	10	-17			10	-17
Administrative expenses	229	230	153	136			382	366
Net other operating income/expenses	-7	-4	-7	-5			-14	-9
Impairment of goodwill	0	0					0	0
Operating profit	**59**	**29**	**126**	**105**			**185**	**134**
Allocated equity	350	441	1,096	1,144	544	312	1,990	1,897
Cost/income ratio (%)	79.2	87.4	39.3	39.9			56.3	60.6
RoE before taxes (%)	15.2	5.5	10.2	8.0			8.3	6.1
Employees (average)	**1,524**	**1,554**	**862**	**740**			**2,386**	**2,294**

(80) Consulting/Services Segment – Reconciliation of the 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 the basis for segment reporting)

€ mn			Income statement classification – bank									
			Net interest income	Net commission income	Results from non-trading assets	Results from investments accounted for using the equity method	Administrative expenses	Net other operating income/expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	2011		0	183		1	167	3		**20**	6	**14**
	2010		0	176	1		152	1		**26**	8	**18**
Income statement classification – industrial enterprise												
Sales revenue	2011	203		203								
	2010	199		199								
Own work capitalised	2011	2					2					
	2010	2					2					
Changes in inventory	2011	0						0				
	2010	0						0				
Other operating income	2011	8					1	7				
	2010	8			1			7				
Cost of materials purchased	2011	20		20								
	2010	23		23								
Staff expenses	2011	112					112					
	2010	100					100					
Depreciation, amortisation and impairment losses	2011	13					13					
	2010	13					13					
Result from investments accounted for using the equity method	2011	1				1						
	2010											
Other operating expenses	2011	49					45	4				
	2010	47					41	6				
Interest and similar income/expenses	2011	0										
	2010	0	0									
Operating profit	**2011**	**20**	**0**	**183**		**1**	**167**	**3**				
	2010	**26**	**0**	**176**	**1**		**152**	**1**				
Income taxes	2011	6									6	
	2010	8									8	
Segment result	**2011**	**14**										
	2010	**18**										

(F) Remuneration Report

(81) Remuneration for members of the Management Board

Principles of remuneration

The Supervisory Board determines the structure and amount of remuneration for members of the Management Board. Aareal Bank AG has entered into fixed-term service contracts with the members of its Management Board.

The remuneration of the Management Board members consists of a fixed and a variable remuneration. The limitation of the remuneration of the members of the Management Board for the financial years 2009 and 2010 to an amount of € 500.000 as a result of the members of the Management Board waiving any remuneration exceeding this amount in the context of the bank's agreement entered into with German Financial Markets Stabilisation Fund (SoFFin) has expired at the end of 2010. Since 1 January 2011, the remuneration rules set out in the employment contracts apply.

Management Board members Dr Wolf Schumacher, Hermann J. Merkens and Thomas Ortmanns, who joined the bank prior to 1 November 2010, receive a variable remuneration in the form of a cash component and a long-term component in the form of a cash-settled share-based payment (phantom share plan).[1]

Dirk Große Wördemann, who joined the Management Board with effect from 1 November 2010, receives a variable remuneration in the form of a cash component and phantom shares, each at a weight of 50 %. 40 % of these components are paid out immediately, and the remaining 60 % after a retention period. In order to ensure that the variable remuneration complies with the requirements of the German Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions (Instituts-Vergütungsverordnung, InstitutsVergV), the precise details of the variable remuneration will be subject to a supplementary agreement between the Company and Dirk Große Wördemann, which has yet to be concluded. According to this agreement, 20 % of the variable remuneration are paid out to Dirk Große Wördemann immediately as a cash bonus. A further 20 % are granted immediately in form of a phantom share bonus subject to a holding period of three years. 30 % as a cash deferral and another 30 % as a phantom share deferral are credited to a virtual account maintained for Dirk Große Wördemann. This credit, however, does not convey an entitlement or claim with respect to the corresponding amount. In the three years following the respective credit (retention period), the Supervisory Board decides in its reasonable discretion whether each a third of the cash deferral and of the phantom share deferral should be paid out. Due to a penalty rule, the respective third may only be paid out partially or not at all. The portion not paid out is forfeit. The phantom shares granted under the phantom deferral are subject to a two-year holding period.

The basis for the variable remuneration component for Management Board members is a target system, based on the bank's medium-term planning. The targets are, amongst others, net income (of the Group) for the first plan year as reported under International Financial Reporting Standards (IFRSs), as well as qualitative and quantitative targets, which are re-defined annually.

[1] For further details related to the phantom share plan, please see subsection "Cash-settled share-based payment" in this remuneration report.

Remuneration

Remuneration of the members of the Management Board can be broken down as follows:

€	Year	Fixed remuneration	Variable remuneration: Cash-component[1]	Variable remuneration: Share based component	Other[2]	Total remuneration
Dr Wolf Schumacher	2011	800,000.00	2,012,500.00	562,500.00	26,632.46	3,401,632.46
	2010	500,000.00	–	–	25,260.61	525,260.61
Dirk Große Wördemann	2011	650,000.00	446,625.00	446,625.00	27,060.92	1,570,310.92
	2010	83,333.30	–	–	3,063.62	86,396.92
Hermann J. Merkens	2011	650,000.00	1,137,500.00	562,500.00	55,309.91	2,405,309.91
	2010	500,000.00	–	–	48,965.16	548,965.16
Thomas Ortmanns	2011	650,000.00	937,500.00	562,500.00	38,042.53	2,188,042.53
	2010	500,000.00	–	–	27,187.71	527,187.71
Total	**2011**	2,750,000.00	4,534,125.00	2,134,125.00	147,045.82	**9,565,295.82**
	2010	1,583,333.30	–	–	104,477.10	**1,687,810.40**

[1] Upon payment of the cash component, phantom shares which were granted to Messrs Dr Schumacher, Merkens and Ortmanns in previous years and which were freely available to them, are subjected again to a two-year holding period. These phantom shares have the following notional amounts: Dr Schumacher € 300,000; Mr Merkens € 240,000; and Mr Ortmanns € 180,000. The cash component includes both the cash bonus and the RCA.
[2] Other remuneration includes payments (in particular for company cars) in the amount of € 78,817.13 in 2011 (2010: € 61,229.76) as well as benefits related to social security contributions totalling € 44,974.08 (2010: € 33,239.16).

The employment contracts of the members of the Management Board define the following reference values for variable remuneration in case of a full achievement of the targets agreed upon with the Supervisory Board:

€	Reference values for variable remuneration 2011	Reference values for variable remuneration 2010
Dr Wolf Schumacher	1,400,000.00	1,400,000.00
Dirk Große Wördemann	794,000.00	794,000.00
Hermann J. Merkens	800,000.00	800,000.00
Thomas Ortmanns	800,000.00	800,000.00
Total	**3,794,000.00**	**3,794,000.00**

No benefits were granted to any member of the Management Board by third parties with respect to his Management Board activities during the year under review.

The following table shows the portion of the long-term component attributable to share-based payment arrangements as well as the corresponding number of virtual shares granted:

	Year	Share-based remuneration: Value (€)	Share-based remuneration: Quantity (number)[1]
Dr Wolf Schumacher	2011	562,500.00	40,221.67
	2010	–	–
Dirk Große Wördemann	2011	446,625.00	31,936.00
	2010	–	–
Hermann J. Merkens	2011	562,500.00	40,221.67
	2010	–	–
Thomas Ortmanns	2011	562,500.00	40,221.67
	2010	–	–

[1] The stated number of virtual shares granted is a preliminary figure, based on the price of Aareal Bank AG's share on 31 December 2011 (€ 13.985). The final conversion rate may only be determined after publication of the 2011 annual report.

Pensions, retirement benefits and severance pay

The benefit regulations as agreed in the employment contract apply to the members of the Management Board of Aareal Bank. Accordingly, they are entitled to receive pension payments after completing their 60th year of age, or earlier in case of a permanent disability of service.

Pension claims of the Management Board members who joined before 1 November 2011, are vested. Members of the Management Board who joined the Company before 1 January 2005 are entitled to receive contractual pension payments in the amount of € 72,000, based on contractual stipulations, before they reach the age of 60 when they have served for a period of five years, in case the bank rejects to extend their service contracts.

The following overview shows the pension claims of the members of the Management Board and the changes of the corresponding pension obligations (DBO) during the period under review:

€ 000's	2011: Pension claims p.a.	2011: Balance of pension obligations (DBO) as at 31 Dec 2011	2011: Increase of pension obligations (DBO) in 2011	2010: Pension claims p.a.	2010: Balance of pension obligations (DBO) as at 31 Dec 2011	2010: Increase of pension obligations (DBO) in 2011
Dr Wolf Schumacher	350	2,280	254	350	2,026	711
Dirk Große Wördemann	200	212	182	200	30	30
Hermann J. Merkens	200	1,046	3	200	1,043	188
Thomas Ortmanns	200	1,019	116	200	903	326
Total	**950**	**4,557**	**555**	**950**	**4,002**	**1,255**

The pension claims are adjusted to take account of the development of standard wages within the private banking sector as from the beginning of actual payments of pensions. The pension paid to widows amounts to 60 % of the pension of the member of the Management Board, while pensions to orphans and half-orphans amount to 20 % and 10 %, respectively. Service cost incurred in financial year 2011 in connection with the pension claims of members of the Management Board totalled € 0.8 million (2010: € 2.5 million). The pension obligations for current members of the Management Board as well as for former members of the Management Board and their surviving dependants increased by € 0.3 million in the year under review (2010: € 4.1 million). The total amount of pension obligations was € 18.7 million (2010: € 18.4 million). Of that amount, € 14.1 million related to former members of the Management Board and their surviving dependants (2010: € 14.4 million). Payments to former Management Board members of Aareal Bank AG and their surviving dependants totalled € 0.6 million (2010: € 0.6 million).

In addition to the existing employment contracts, additional pension benefits and benefits for surviving dependants as well as benefits in case of permanent disability were agreed upon with the Management Board members Messrs. Dr Schumacher, Merkens and Ortmanns with effect from 1 January 2012. In this context, the bank provides, on an annual basis, contributions for post-employment benefits for the period of service, however, not longer than until completing the 60th year of age for Dr Schumacher and Mr Ortmanns and not longer than until July 2020 (inclusive) for Mr Merkens. The sum of the contributions and any deferred compensation components (Entgeltumwandlung) represent the plan assets for the additional pension benefits and benefits for surviving dependants as well as benefits in case of permanent disability in the form of a monthly annuity or a one-off payment. The entitlement to receive pension payments becomes effective at the age of 60; in case of a permanent disability, the entitlement may arise even before reaching the age of 60. Annuitisation is based on biometric calculation bases and an interest of 4 % p.a. The amount of the actual benefit payment depends on the length of service at the bank as well as the actual date on which the insured event occurs. The current benefit payments are adjusted as at 1 January each year by 1.0 %. The pension paid to widows amounts to 60 % of the pension of the member of the Management Board, while pensions to orphans and half-orphans amount to 25 % and 10 %, respectively. The entitlements earned immediately vest.

The agreements concluded with members of the Management Board do not include any obligation to make severance payments in case of an early termination of employment relationships. However, severance payments may be included in individual termination agreements.

In the case of a retirement due to a change of control, the members affected receive, in settlement of their total remuneration, a monthly payment, as agreed in their employment contracts, as well as a contractually agreed fixed one-off payment. Depending on the type of the change of control – termination by the company or termination by the respective Board member –, the agreed benefits are as follows:

€		Terminated by the company	Terminated by the Board member
Dr Wolf Schumacher	per month of remaining contract term [1]	141,667.00	70,833.00
	One-off payment	350,000.00	225,000.00
Dirk Große Wördemann [2]	per month of remaining contract term [1]	0.00	0.00
	One-off payment	0.00	0.00
Hermann J. Merkens	per month of remaining contract term [1]	120,833.00	54,167.00
	One-off payment	225,000.00	162,500.00
Thomas Ortmanns	per month of remaining contract term [1]	120,833.00	54,167.00
	One-off payment	225,000.00	162,500.00

[1] Upon request of the Board member, the benefits may be paid in form of a one-off payment. In this case, the amount is discounted using the interest rate of the ECB for one-year deposits of private households in the month of payment.

[2] The regulations for the change of control applicable to Mr Große Wördemann are suspended for the term of the silent participation by SoFFin, pursuant to the employment contract.

(82) Remuneration of the Supervisory Board

Remuneration for the services of the Supervisory Board members is specified in Article 9 of the Memorandum and Articles of Association of Aareal Bank AG. The Annual General Meeting held on 18 May 2011 resolved to adjust the system for Supervisory Board's remuneration in order to reflect the ongoing discussions related to a remuneration system that is appropriate in view of corporate governance aspects. Although Aareal Bank AG deviates from the recommendations of the German Corporate Governance Code, it follows the current status of the discussions related to the proper structure for remuneration systems for Supervisory Boards. In these discussions, it is currently preferred to grant only fixed remuneration for the members of the Supervisory Board.

The change in the remuneration system for its Supervisory Board went into force upon the passing of the resolution by the Annual General Meeting. Therefore, the remuneration of the Supervisory Board until the date of the Annual General Meeting was granted based on the old methodology.

The remuneration system applicable until 18 May 2011 provided for the following components:

The total remuneration of the Supervisory Board comprises a fixed and a variable remuneration component. The variable remuneration is performance-related and comprises a short-term and a long-term component.

The fixed remuneration is € 20,000 p.a. for each Supervisory Board member. The Chairman of the Supervisory Board shall receive twice the amount, while the deputy shall receive one and a half times as much as a normal member. The fixed remuneration shall be increased by € 10,000 p.a. for each membership in a Supervisory Board committee (with the exception of the Committee for Urgent Decisions, which is a part of the Risk Committee, as well as the Nomination Committee, which exclusively acts as an advisory committee). The fixed remuneration shall be increased instead by € 20,000 p.a. for Chairmanship of a Supervisory Board committee (also with the exception of the Emergency Committee, which is a part of the Risk Committee, as well as the Nomination Committee, which exclusively acts as an advisory committee). The fixed remuneration component of a Supervisory Board member, including the remuneration for the Chairmanship of a Supervisory Board committee, forms the basis for assessing the performance-related remuneration.

The performance-related remuneration only comes into effect if a dividend of not less than € 0.20 per share is paid for the financial year in question.

The short-term performance-related remuneration amounts to 12.5 % of the individual assessment basis for each full € 50 million of the consolidated net income attributable to shareholders of Aareal Bank AG as reported in the consolidated income statement. However, it may not exceed 50 % of the individual assessment basis.

The long-term performance-related remuneration of a Supervisory Board member amounts to 12.5 % of the individual assessment basis for each 10 % increase in the consolidated net income attributable to shareholders of Aareal Bank AG (as reported in the consolidated income statement) over the unweighted average of the consolidated net income attributable to shareholders of Aareal Bank AG for the three previous full financial years. The long-term profit-oriented remuneration is not paid if the average value is negative.

The maximum long-term performance-related remuneration is capped at 50 % of the individual assessment basis, so that the aggregate variable remuneration may amount to a maximum of 100 % of the fixed remuneration component.

The fixed remuneration is due at the end of each financial year. The variable remuneration component is due after the Annual General Meeting in which a resolution is passed on the appropriation of net income for the relevant financial year. The bank reimburses the VAT amounts to be paid on the remuneration.

The new remuneration system for the Supervisory Board only comprises a fixed remuneration system as well as a compensation for attending meetings. In addition, the Supervisory Board members will be reimbursed for their expenses. Where membership in the Supervisory Board falls short of an entire financial year, said remuneration shall be paid on a pro rata temporis basis. Any value-added tax invoiced will also be deemed to be a refundable expense.

The fixed remuneration is € 30,000 p.a. for each Supervisory Board member. The Chairman of the Supervisory Board shall receive two and a half times this amount, while the deputy shall receive one and a half times as much as a normal member. The fixed remuneration shall be increased by € 15,000 p.a. for each membership in a committee (with the exception of the Nomination Committee, which exclusively acts as an advisory committee, and the Committee for Urgent Decisions, which is part of the Risk Committee). The fixed remuneration shall be increased by € 30,000 p.a. for the chairmanship of a committee (with the exception of the Nomination Committee and the Committee for Urgent Decisions).

The meeting attendance compensation amounts to € 1,000.00 for each meeting attended (except for meetings of the Nomination Committee and the Committee for Urgent Decisions).

The remuneration for any financial year shall be due and payable one month after the end of the respective financial year.

The individual amount of the remuneration for the Supervisory Board is shown in the following table. The figures in the table include the reimbursement for VAT (19 %).

€	Year	Fixed remuneration	Attendance fees	Total remuneration
Hans W. Reich,	2011	151,130.00	14,280.00	165,410.00
Chairman	2010	107,100.00	–	107,100.00
Erwin Flieger,	2011	77,845.84	10,710.00	88,555.84
Deputy Chairman	2010	59,500.00	–	59,500.00
York-Detlef Bülow,	2011	77,845.84	10,710.00	88,555.84
Deputy Chairman	2010	59,500.00	–	59,500.00
Dieter Kirsch	2011	46,707.50	5,950.00	52,657.50
	2010	21,915.83	–	21,915.83
Thomas Hawel	2011	31,138.34	3,570.00	34,708.34
	2010	23,800.00	–	23,800.00
Helmut Wagner	2011	31,138.34	3,570.00	34,708.34
	2010	23,800.00	–	23,800.00
Christian Graf von Bassewitz	2011	62,276.66	9,520.00	71,796.66
	2010	47,600.00	–	47,600.00
Manfred Behrens	2011	31,138.34	2,380.00	33,518.34
	2010	23,800.00	–	23,800.00
Joachim Neupel	2011	77,845.84	10,710.00	88,555.84
	2010	59,500.00	–	59,500.00
Dr Herbert Lohneiß	2011	46,707.50	7,140.00	53,847.50
	2010	35,700.00	–	35,700.00
Prof Dr Stephan Schüller	2011	62,276.66	9,520.00	71,796.66
	2010	47,600.00	–	47,600.00
Wolf R. Thiel	2011	46,707.50	7,140.00	53,847.50
	2010	35,700.00	–	35,700.00
Total	**2011**	**742,758.36**	**95,200.00**	**837,958.36**
	2010	**545,515.83**	**0.00**	**545,515.83**

The members of the Supervisory Board did not provide any consulting or agency services, or other personal services in 2011. Therefore, no additional remuneration was paid.

(83) Cash-settled share-based payment

a) Description of cash-settled share-based payment

Within Aareal Bank Group, there are various forms of share-based payment arrangements. Among other things, differences can be found as regards their term and the vesting conditions as well as regarding the group of beneficiaries.

Phantom share plan[1)]

According to the rules for the phantom share plan, a portion of the variable remuneration will be converted into an equivalent number of virtual shares. The conversion is based on the weighted average price (XETRA) of Aareal Bank AG's share, on the five trading days following the publication (ad-hoc release) of the financial statements as approved by the Supervisory Board. The entitlement to the remuneration, i. e. the award, arises after the Supervisory Board has used its discretion with regard to the amount of variable remuneration within the applicable range. One fourth of the awarded virtual shares become exercisable each year. This also applies for the year in which they are awarded. Virtual shares not exercised in a particular year are accumulated. The phantom shares may be exercised either in whole or in part within five business days after the publication of a quarterly report. The relevant price for exercising these phantom shares is the weighted average price according to Bloomberg on the exercise date.

There are no exercise hurdles in form of a minimum stock price appreciation target or other market or performance-related criteria. Virtual shares that have not been exercised carry full dividend rights, i.e. the beneficiaries receive for each virtual share not yet exercised a cash payment equivalent to the amount of the approved dividend. The term of the plan is not limited.

Share bonus plan

According to the rules for the share bonus plan, a portion of the variable remuneration will be converted into an equivalent number of virtual shares. The conversion is based on the weighted average price (XETRA) of Aareal Bank AG's share according to Bloomberg, on the five trading days following the publication of the annual report for the reference period. The entitlement to the remuneration occurs at the end of the reference period. The share bonus is paid out after a minimum holding period of two years, beginning on the date on which entitlement arose. The payout amount is calculated by multiplying the number of virtual shares allocated with the share price upon payout. The share price upon payout corresponds to the weighted average price on XETRA of Aareal Bank AG's share according to Bloomberg, on the five trading days following the publication of the annual report for the financial year preceding the payout date. The actual payout date for the share bonus may be determined individually, based on an option right. For this purpose, the beneficiary must inform the bank whether he will use the option right by notifying the bank accordingly not later than until the tenth day after the publication of the annual report for the financial year preceding the planned payout date. The option right expires after a maximum of three years, from the end of the calendar quarter of the earliest payout date. The option right may only be exercised as at 31 March, 30 June or 30 September of a calendar year; exercise of the option has to be notified to the bank not later than at the tenth day after publication of the quarterly financial results. The conversion of the virtual shares for the purpose of determining the payout amount is made at the weighted average price on XETRA according to Bloomberg, for the five trading days following the publication of the latest quarterly financial results for the selected option date.

There are no exercise hurdles in form of a minimum stock price appreciation target or other market or performance-related criteria. Virtual shares carry full dividend rights, i.e. the beneficiaries receive for each virtual share not yet exercised a cash payment equivalent to the amount of the approved dividend. The maximum term of the plan – in relation to the grant date – is three years (six years in case of an option for late payout).

Restricted Virtual Share Award

According to the rules for the Restricted Virtual Share Award (RVSA), a portion of the variable remuneration will be converted into an equivalent number of virtual shares. The conversion is based on the weighted average price (XETRA) of Aareal Bank AG's share according to Bloomberg, on the five trading days following the publication of the annual report for the reference period. The amount granted within the scope of the RVSA is only awarded on a provisional basis. The entitlement to the RVSA vests over a period of three years at one third of the original award each year, starting one year after the end of the reference period, provided that certain conditions (penalty rules) are met. The RVSA is paid out after a holding period of one year starting on the date on which entitlement arose. When the holding period has expired, the beneficiary has an option right to postpone the RVSA payout by not more than three years. The payout may only be made as at 31 March, 30 June or 30 September of a calendar year; exercise of the option has to be notified to the bank not later than at the tenth day after publication of the quarterly financial results.

The payout amount is calculated by multiplying the number of the exercised virtual shares with the weighted average price on XETRA of Aareal Bank AG's share according to Bloomberg, on the five trading days following the publication of the quarterly financial results.

According to the penalty rules, the bank is entitled to reduce the amount of the portion of the RVSA for which no entitlement has been earned in an appropriate manner, possibly down to zero. The reasons for a reduction of the RVSA are described in section 45 of the German Banking Act (Kreditwesengesetz, KWG): when, until the relevant payout date, Aareal Bank's regulatory capital does not meet the requirements of section 10 (1) and (1b) or of section 45b (1) of the KWG or the investment of its funds does not comply with the requirements of section 11 (1) of the KWG or the development of Aareal Bank AG's financial position and financial performance justifies the assumption that it will not be able to meet these requirements permanently. The reasons for a reduction of the RVSA also exist when cases of serious individual misconduct prior to the entitlement of the RVSA, or parts of it, are identified afterwards. Examples are cases of misconduct which give rise to extraordinary termination of employment relationships, a breach of the prohibition of hedge transactions, even after the termination of the employment relationships, as well as a material breach of internal guidelines (e.g. Code of Conduct or compliance rules).

In addition, the amount of the RVSA for which no entitlement has arisen may be reduced when the so-called success factor for determining the bonus pool for variable remuneration for the employees of Aareal Bank AG is below zero. The success factor is determined based on the target planned and agreed by the Management Board and the Supervisory Board of Aareal Bank AG for the (consolidated) net income/loss attributable to shareholders of Aareal Bank AG, net of non-recurring effects. The basis for the determination of the target is the bank's medium-term planning, taking into account capital employed. The success factor may range from -0.7 and +2.0.

[1)] The title of the plan was changed (formerly: "Phantom share plan for members of the Management Board of Aareal Bank AG/Long-term Component"). Moreover, the term "phantom shares" was replaced by the term "virtual shares" in the description of the plan, compared to the previous year. These changes were only of an editorial nature. There were no content-related changes in connection with the plan's structure.

There are no further exercise hurdles, other than the penalty rules, in form of a minimum stock price appreciation target or other market or performance-related criteria. Virtual shares carry full dividend rights, i.e. the beneficiaries receive for each virtual share not yet exercised a cash payment equivalent to the amount of the approved dividend. The maximum term of the plan – in relation to the grant date – is five years (eight years in case of an option for late payout).

Virtual share plan[1)]

According to the rules for the virtual share plan, a portion of the variable remuneration will be converted into an equivalent number of virtual shares. The conversion rate corresponds to the weighted average price (XETRA) of Aareal Bank AG's share according to Bloomberg, on the five trading days following the publication of the annual report for the reference period.

The virtual shares are automatically exercised in the three years following the reference year, with one third being exercised in each year. The exercise is based on the weighted average price on XETRA of Aareal Bank AG's share according to Bloomberg, on the publication date of the annual report for the financial year preceding the exercise and the four following trading days. For virtual shares granted from 1 January 2011, the beneficiary has an option right to postpone the payout of the virtual shares by not more than three years. The payout may only be made as at 31 March, 30 June or 30 September of a calendar year; exercise of the option has to be notified to the bank not later than at the tenth day after publication of the quarterly financial results.

There are no exercise hurdles in form of a minimum stock price appreciation target or other market or performance-related criteria. With respect to virtual shares that have not been exercised, the beneficiaries receive for each virtual share a cash payment equivalent to the amount of the approved dividend. The maximum term of the plan – in relation to the grant date – is four years (seven years in case of an option for late payout).

b) Valuation model and valuation assumptions

The entitlements from the virtual share plan had been earned almost entirely as at the end of the reporting period. Therefore, the plans were adjusted so that the existing entitlements as well as any entitlements resulting from the plan in future are earned entirely in the period in which they are granted.

The obligations resulting from all of the described share-based payment arrangements as of the balance sheet date correspond to the remuneration granted, discounted to the balance sheet date. The discount period corresponds to the period from the balance sheet date to the earliest exercise or payout date per plan and per tranche. The discount is based on the Euribor swap rate applicable as at the relevant balance sheet date, depending on the term.

1) The title of the plan was changed (formerly: "Virtual share plan for key executive staff"). These changes were only of an editorial nature. For information on content-related changes in relation to the structure of the plan, please refer to the comments in subsection "Valuation model and valuation assumptions" in this remuneration report.

c) Amount of cash-settled share-based payment transactions

The total amount of outstanding virtual shares in relation to the above mentioned share-based payment arrangements changed as follows:

Quantity (number)	2011	2010
Balance at 1 January	**621,852**	**880,832**
Granted	78,768	52,356
of which: vested	78,768	52,356
of which: awarded on a provisional basis	–	–
Expired	–	–
Exercised	241,655	311,336
Balance at 31 December	**458,965**	**621,852**
of which: exercisable	208,978	265,404

The fair value of the virtual shares granted during the reporting period amounts to € 1,271,472 (2010: € 1,727,174) as at the balance sheet date.

The virtual shares exercised in the reporting period were converted at a weighted average price of the Aareal Bank AG share in the amount of € 23.15 (2010: € 17.38).

The virtual shares outstanding at 31 December 2011 have a limited contract term. The weighted average remaining contract term of these virtual shares amounts to 695.81 days (2010: 907.88 days).

d) Effects on financial position and performance

The total amount expensed for share-based payment transactions was € 6.3 million during the financial year 2011 (2010: € 11.6 million). The portion of the total amount expensed attributable to members of the Management Board amounts to € 2.0 million (2010: € 7.2 million) and can be broken down to the individual members of the Management Board as follows.

€	2011	2010
Dr Wolf Schumacher	443,525	1,786,199
Dirk Große Wördemann	446,625	–
Hermann J. Merkens	484,831	1,854,944
Thomas Ortmanns	665,188	1,495,867

The intrinsic value of the virtual shares exercisable at the reporting date amounted to € 7.4 million (2010: € 14.2 million). The obligation from share-based payment transactions as at 31 December 2011 amounts to € 5.8 million (2010: € 13.8 million). It is reported in the statement of financial position in the line item "Provisions".

(84) Share-based remuneration for key executives

The definition of executives in key positions within Aareal Bank Group includes members of management or supervisory bodies of Aareal Bank AG and its subsidiaries, plus first-level managers and experts of Aareal Bank AG (Other related parties).

Total remuneration of executives in key positions is analysed below:

€ 000's	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Short-term employee benefits	23,270	17,848
Post-employment benefits	2,145	3,775
Other long-term benefits	–	–
Termination benefits	1,742	2,546
Share-based remuneration	1,528	1,084
Total	**28,685**	**25,253**

(G) Other Notes

(85) Assets and liabilities in foreign currency

Foreign currency assets

€ mn	31 Dec 2011	31 Dec 2010
USD	4,908	4,594
GBP	2,600	2,056
SEK	1,487	1,552
CHF	471	566
DKK	480	564
JPY	553	536
Other	732	889
Total	**11,231**	**10,757**

Foreign currency liabilities

€ mn	31 Dec 2011	31 Dec 2010
USD	5,030	4,583
GBP	2,563	2,046
SEK	1,456	1,551
CHF	468	554
DKK	478	560
JPY	553	536
Other	725	865
Total	**11,273**	**10,695**

The basis for presenting assets and liabilities denominated in foreign currency is the regulatory overall currency position pursuant to section 294 of the German Solvency Regulation (Solvabilitätsverordnung, SolvV).

(86) Subordinated assets

In the event of insolvency or liquidation of the issuer, subordinated assets are those subordinate to the claims of all other creditors.

The following table gives an overview of subordinated assets of Aareal Bank Group:

€ mn	31 Dec 2011	31 Dec 2010
Loans and advances to customers	1	1
Total	**1**	**1**

(87) Leases

Aareal Bank Group acts both as lessor and lessee. The rental contracts are primarily classified as operating leases.

Maturity of minimum lease payments under operating leases

€ mn	31 Dec 2011	31 Dec 2010
Aareal Bank Group as lessee		
up to 1 year	15	17
longer than 1 year, and up to 5 years	45	46
longer than 5 years	78	83
Total minimum lease payments	**138**	**146**
Aareal Bank Group as lessor		
up to 1 year	29	24
longer than 1 year, and up to 5 years	104	83
longer than 5 years	24	37
Total minimum lease payments	**157**	**144**

In the financial year, lease payments of € 17 million (2010: € 15 million) were recognised as expenses in the financial year.

(88) Trust business

Aareal Bank Group's trust business at the balance sheet date is analysed below:

€ mn	31 Dec 2011	31 Dec 2010
Trust assets		
Loans and advances to customers	412	831
Non-trading assets	2	2
Total trust assets	**414**	**833**
Trust liabilities		
Liabilities to banks	55	441
Liabilities to customers	359	392
Total trust liabilities	**414**	**833**

(89) Contingent liabilities and loan commitments

€ mn	31 Dec 2011	31 Dec 2010
Contingent liabilities on guarantees and indemnity agreements	343	310
Loan commitments	1,521	1,697
of which: irrevocable	1,025	1,191

The values given represent the maximum default risk resulting from contingent liabilities and irrevocable loan commitments to which Aareal Bank Group is exposed at the end of the reporting period.

Contingent liabilities on guarantees include € 54 million (2010: € 63 million) in capital guarantees extended by Aareal Bank to DEPFA Deutsche Pfandbriefbank AG (within the scope of splitting the former DEPFA Group), for the purpose of providing cover against risks of default with respect to the property loan portfolio held by DEPFA Deutsche Pfandbriefbank AG. € 12 million (2010: € 16 million) in provisions related to these capital guarantees was recognised as at 31 December 2011.

Disclosures in accordance with IAS 37.86 and IAS 37.89 are waived for reasons of practicability in accordance with IAS 37.91.

(90) Statement of cash flows

Aareal Bank Group's statement of cash flows records cash flows pertaining to the areas of operating activities, investing activities and financing activities for the period under review. The starting point of the consolidated statement of cash flows is the amount of cash and cash equivalents, consisting of cash on hand, balances with central banks as well as public-sector debt instruments and bills of exchange eligible for refinancing at central banks.

The definition of the term "operating activities" is consistent with the composition of the operating profit in the statement of comprehensive income. Cash flows from investing activities include proceeds from and payments in relation to property and equipment, non-trading assets and investment properties. Cash flows from financing activities include cash flows from transactions with providers of equity capital, as well as from borrowings raised or repaid.

(91) Capital disclosures in accordance with IAS 1.134

Qualitative disclosures

The consolidated equity capital in accordance with the German Banking Act (KWG) represents the basis of capital management. This calculation basis is used to prepare a monthly projection including the changes of equity components and the risk-weighted assets as well as the resulting equity ratios which are subject to monthly reporting within the framework of management reporting.

Equity capital consists of liable capital (core (tier I) capital and supplementary (tier II) capital) as well as tier III capital. At Aareal Bank Group equity capital is identical with liable capital. The main managed component of the core capital is the retained earnings component. The amounts planned to be transferred to reserves are determined within the scope of new business and earnings projections. Significant components of supplementary capital that are also part of capital management are liabilities from profit participation certificates as well as subordinated liabilities.

Aareal Bank Group is subject to the capital adequacy requirements of the KWG. Accordingly, the Group has to have capital in an adequate volume, and risk-weighted assets must be backed in an amount of at least 8 % by liable capital. The compliance with the capital requirements has to be reported to the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Financial Supervisory Authority) and to Deutsche Bundesbank on a quarterly basis. Capital requirements were complied with at any time during the reporting period.

Aareal Bank Group applied the Advanced IRB approach (AIRBA) for the first time as at 31 December 2010, replacing the previous Credit Risk Standard Approach (CRSA). In contrast to the CRSA, the Advanced IRB Approach is based on internal models: it allows for a more accurate measurement of credit risks, and hence, for a more precise and risk-adequate allocation of capital.

The objective of capital management is to meet the targeted equity ratios, which are significantly above the regulatory minimum requirements. Capital management is an integral part of overall Group planning.

Quantitative disclosures

€ mn	31 Dec 2011 [1]	31 Dec 2010
Core capital (Tier 1)	**2,501**	**2,284**
Paid-in capital	1,643	1,430
Other eligible reserves	676	669
Special item for general banking risks	168	168
Other components of Tier 1 capital	33	39
Amounts to be deducted from Tier 1 capital	-19	-22
Supplementary capital (Tier 2)	**487**	**626**
Class 1 Tier 2 capital (profit-participation certificates)	146	196
Class 2 Tier 2 capital (subordinated capital)	355	443
Amounts to be deducted from Tier 2 capital	-14	-13
Liable equity capital pursuant to section 10a of the KWG	**2,988**	**2,910**
Tier 3 capital	–	–
Regulatory capital	**2,988**	**2,910**
Risk-weighted assets pursuant to AIRBA	**15,313**	**17,663**
of which: assets exposed to market risks	88	75
%		
Regulatory indicators pursuant to KWG		
Core capital ratio pursuant to AIRBA	16.3	12.9
Total capital ratio pursuant to AIRBA	19.5	16.5

[1] After confirmation of the financial statements 2011 of Aareal Bank AG. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2011 is subject to approval by the Annual General Meeting.

(92) Related party disclosures in accordance with IAS 24

Throughout the financial year 2011, the bank has reported purchases and sales subject to reporting requirements under No. 6.6 of the German Corporate Governance Code, as well as under section 15a of the German Securities Trading Act (WpHG) to BaFin, the German financial services regulatory agency, without delay, and also published such details on its website. Furthermore, Aareal Bank AG has undertaken in its Code to disclose on its website, without delay, each reported purchase or sale by members of the Management Board or the Supervisory Board.

Related parties of Aareal Bank Group include (i) the persons specified in Note (84) and their close relatives; and (ii) the companies shown in section "(H) List of Shareholdings" as well as companies associated with related parties as defined in IAS 24.9 (b)(vi).

The following list provides an overview of existing loans to related parties:

€ mn	31 Dec 2011	31 Dec 2010
Management Board	–	–
Supervisory Board	0.9	1.2
Other related parties	1.7	1.7
Total	**2.6**	**2.9**

Loans extended to members of the Supervisory Board generally have a term between ten and 18 years, and bear interest at (nominal) rates between 5.12 % and 5.66 %. Collateral was provided in line with usual market practice. In the year under review, repayments amounted to € 0.3 million.

Loans extended to other related parties generally have a term between 14 and 16 years, and bear interest at (nominal) rates between 2.65 % and 3.65 %. Collateral was also provided in line with usual market practice. In the year under review, repayments amounted to € 0.1 million.

In addition, there were no further significant transactions within the meaning of IAS 24.

(93) Events after the reporting date

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

(94) List of offices held – corporate governance report

The List of Offices Held, which has been deposited with the Commercial Register at the Wiesbaden District Court, includes all offices held in German and foreign companies. Like the Corporate Governance Report, the list is available, free of charge, from Aareal Bank AG in Wiesbaden, or in the internet on http://www.aareal-bank.com.

(95) Contingencies

By means of letters of comfort, Aareal Bank AG ensures that Deutsche Structured Finance GmbH, Frankfurt, DSF Beteiligungsgesellschaft mbH, Frankfurt, DSF Zwölfte Verwaltungsgesellschaft mbH, Frankfurt, and Aareal Bank Capital Funding LLC, Wilmington, are able to fulfil their contractual obligations.

By means of a letter of comfort in favour of the Monetary Authority of Singapore, Aareal Bank AG has undertaken to ensure that Aareal Bank Asia Ltd. is able to fulfil its obligations at any time.

Due to its participating interest in Liquiditäts-Konsortialbank GmbH, Frankfurt / Main, in the nominal amount of € 1 million, Aareal Bank AG has call commitments of up to € 6 million. In addition, Aareal Bank AG has a pro-rata principal liability in the event of non-fulfilment of call commitments by other co-shareholders, who hold aggregate interests of € 63 million.

(96) Notice pursuant to section 21 (1) of the WpHG

Pursuant to the German Securities Trading Act (WpHG), any investor whose shareholding in a listed company reaches, exceeds or falls short of certain threshold values in terms of voting rights (whether by purchase, sale or by any other means) must notify the company and the German Federal Financial Supervisory Authority. The lowest threshold for this notification requirement is 3 %. 71.1 % of Aareal Bank AG shares are held in free float. The largest shareholder of the Company is Aareal Holding Verwaltungsgesellschaft mbH, Düsseldorf with an interest of 28.9 %.

In connection with the capital increase in April, Aareal Bank received various notifications on voting rights. Accordingly, Aareal Holding Verwaltungsgesellschaft mbH, Düsseldorf and its parent company, DePfa Holding Verwaltungsgesellschaft mbH, Düsseldorf notified Aareal Bank that its share of voting rights in Aareal Bank AG had declined to 26.59 %. Due to the agreement concluded between Aareal Holding Verwaltungsgesellschaft mbH, Düsseldorf and SoFFin, the latter also notified Aareal Bank in the same context about the decline of the share of voting rights to 26.59 %.

The total number of the voting shares and thus the voting rights rose to 59,857,221 from 42,755,159, as a result of the capital increase.

In addition, Deutsche Bank AG, Frankfurt notified Aareal Bank that its share of voting rights in Aareal Bank AG had increased to 15.24 % in April and subsequently had been reduced to 0.00 % in May 2011. HSBC Holdings plc., London, United Kingdom notified Aareal Bank in the same context that the share of voting rights had risen to 14.33 % in April and had fallen to 0.00 % in May.

Moreover, FIL Limited, Hamilton HMCX, Bermuda notified us about several changes in its share of voting rights. The last notification was made on 16 November 2011, stating a share of voting rights of 2.91 % in Aareal Bank AG.

Deutsche Bank AG, London, United Kingdom also sent us several notifications in the name of the Deutsche Bank subsidiary DWS Investment GmbH, Frankfurt, Germany. The last notification dated 29 August 2011 stated a share of voting rights of 3.44 %.

Universal Investment Kapitalanlagegesellschaft mbH, Frankfurt notified us on 3 November 2011 that its share of voting rights (amounting to 4.12 %) on 2 November 2011 exceeded the threshold of 3 %.

Allianz Global Investors Kapitalanlagegesellschaft, Frankfurt sent us several notifications, the last of which stated a share of voting rights of 3.01 % on 29 September 2011.

We are not aware of any direct or indirect shareholdings of 10 % or more of the voting rights.

(97) Declaration of compliance in accordance with Section 161 of the AktG

The Management Board and the Supervisory Board issued the Declaration of Compliance as stipulated in section 161 of the AktG, and made this Declaration available to shareholders. It is available to the public on the Company's website on http://www.aareal-bank.com/investor-relations/corporate-governance/.

(98) Employees

The number of Aareal Bank Group employees at 31 December 2011 is shown below:

	31 Dec 2011	31 Dec 2010
End-of-year numbers		
Salaried employees	2,229	2,331
Executives	124	76
Total[1]	**2,353**	**2,407**
of which: part-time employees	425	415

[1] In the financial year 2011, the number of employees for the first time includes managing directors of the subsidiaries of Aareal Bank AG.

The average number of Aareal Bank Group employees in 2011 is shown below:

	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Yearly average		
Salaried employees	2,264	2,217
Executives	122	77
Total[1]	**2,386**	**2,294**
of which: part-time employees	432	376

[1] In the financial year 2011, the number of employees for the first time includes managing directors of the subsidiaries of Aareal Bank AG.

(H) List of Shareholdings

pursuant to section 313 (2) of the HGB as at 31 December 2011

No.	Company name	Registered office	Share in capital %	Equity € mn	Results € mn
1	Aareal Bank AG	Wiesbaden			
	I. Fully-consolidated subsidiaries				
2	Aareal Bank Asia Limited	Singapore	100.0	4.0 mn S $	0.0 mn S $ [1]
3	Aareal Bank Capital Funding LLC	Wilmington	100.0	250.0	0.0
4	Aareal Bank Capital Funding Trust	Wilmington	100.0	0.0	0.0
5	Aareal Capital Corporation	Wilmington	100.0	181.1 mn USD	7.0 mn USD
6	Aareal Estate AG	Wiesbaden	100.0	2.8	0.0 [3]
7	Aareal First Financial Solutions AG	Wiesbaden	100.0	3.2	0.0 [3]
8	Aareal Gesellschaft für Beteiligungen und Grundbesitz Dritte mbH & Co. KG	Wiesbaden	100.0	1.0	0.4 [1]
9	Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG	Wiesbaden	94.9	0.1	0.0 [1]
10	Aareal IT Beteiligungen GmbH	Wiesbaden	100.0	145.0	0.0 [3]
11	Aareal Partecipazioni S.p.A.	Rome	100.0	6.9	0.0 [2]
12	Aareal Property Services B.V.	Amsterdam	100.0	30.2	0.4 [1]
13	Aareal Valuation GmbH	Wiesbaden	100.0	0.5	0.0 [3]
14	Aareal Financial Service, spol. s r.o.	Prague	100.0	27.5 mn CZK	-4.0 mn CZK [2]
15	Aareon AG	Mainz	100.0	73.3	9.8
16	Aareon Deutschland GmbH	Mainz	100.0	32.2	0.0 [3]
17	Aareon France S.A.S.	Meudon-la Forêt	100.0	4.2	1.2
18	Aareon Immobilien Projekt GmbH	Oberhausen	51.0	-0.3	-1.1
19	Aareon Software Handelsgesellschaft mbH	Mainz	100.0	-0.3	0.2
20	Aareon UK Ltd.	Coventry	100.0	2.9	0.7
21	Aareon Wodis GmbH	Dortmund	100.0	2.0	0.0 [3]
22	arsago Alternative Investments SPC	Grand Cayman	67.0	n/a	n/a
23	Aufbaugesellschaft Prager Straße mbH	Dresden	100.0	0.1	0.0
24	BauBo Bau- und Bodenverwertungs- und -verwaltungsgesellschaft mbH	Wiesbaden	100.0	10.4	0.0 [3]
25	BauContact Immobilien GmbH	Wiesbaden	100.0	28.7	1.0
26	BauGrund Immobilien-Management GmbH	Bonn	100.0	0.5	0.0 [3]
27	BauGrund TVG GmbH	Munich	100.0	0.2	0.0
28	BauSecura Versicherungsmakler GmbH	Hamburg	51.0	2.5	2.4
29	Deutsche Bau- und Grundstücks-Aktiengesellschaft	Berlin	100.0	1.5	-0.2
30	Deutsche Structured Finance GmbH	Frankfurt	100.0	0.8	0.8
31	Deutsche Structured Finance GmbH & Co. Alphard KG	Frankfurt	100.0	1.2	0.2
32	Deutsche Structured Finance GmbH & Co. Deneb KG	Frankfurt	100.0	3.0	0.4
33	Deutsche Structured Finance GmbH & Co. Titan KG	Frankfurt	100.0	0.0	0.2 [2]
34	DSF Aircraft Leasing (Ireland) Limited i.L.	Dublin	100.0	0.0	0.0 [1]
35	DSF Anteils GmbH	Frankfurt	100.0	0.1	-0.5 [2]
36	DSF Beteiligungsgesellschaft mbH	Frankfurt	100.0	0.1	0.1
37	DSF Dritte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [2]
38	DSF Elfte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [2]
39	DSF Energia Naturale S.r.l.	Rome	100.0	0.0	0.0 [1]
40	DSF Flugzeugportfolio GmbH	Frankfurt	100.0	-0.6	-0.2
41	DSF Fünfzehnte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [2]
42	DSF German Office Fund GmbH & Co. KG	Frankfurt	94.0	4.2	0.5
43	DSF Immobilienverwaltung GmbH	Frankfurt	100.0	0.0	0.0 [2]
44	DSF LUX INTERNATIONAL S.à.r.l	Luxembourg	100.0	0.2	0.4 [2]
45	DSF Neunte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [2]
46	DSF Sechzehnte Verwaltungsgesellschaft mbH i.L.	Frankfurt	100.0	0.0	0.0 [2]
47	DSF Solar Italien GmbH & Co. KG	Frankfurt	100.0	0.0	0.0 [4]
48	DSF Treuhand GmbH	Frankfurt	100.0	0.0	0.0
49	DSF Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [2]
50	DSF Vierte Verwaltungsgesellschaft mbH	Frankfurt	100.0	5.2	0.3
51	DSF Zwölfte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.3	0.0 [2]
52	GEV GmbH	Wiesbaden	100.0	52.9	0.0 [3]
53	IMMO Consulting S.p.A.	Rome	95.0	0.6	-0.1 [2]
54	IV Beteiligungsgesellschaft für Immobilieninvestitionen mbH	Wiesbaden	100.0	0.2	0.1
55	Jomo S.p.r.l.	Brussels	100.0	-4.4	-2.8 [4]
56	La Sessola S.r.l.	Rome	100.0	52.7	-2.3 [2]
57	Main Triangel GmbH	Frankfurt	75.0	72.8	-5.9 [1]
58	Main Triangel Gastronomie GmbH	Wiesbaden	100.0	0.6	0.0 [1]
59	Mercadea S.r.l.	Rome	100.0	4.1	0.1 [2]
60	PLP Holding GmbH	Wiesbaden	100.0	4.3	0.0
61	Real Verwaltungsgesellschaft mbH	Idstein	100.0	28.1	1.0 [1]
62	Rehabilitationsklinik Barby Besitzgesellschaft mbH	Wiesbaden	100.0	-6.5	1.0 [1]
63	Rehabilitationsklinik Templin Besitzgesellschaft mbH	Wiesbaden	100.0	-3.7	0.0
64	SG Automatisering B.V.	Emmen	100.0	9.6	2.6
65	SG|Facilitor B.V.	Enschede	51.0	0.6	0.3
66	SG|Professional Services B.V.	Emmen	100.0	0.1	0.0
67	SG|stravis B.V.	Emmen	70.0	0.0	0.0
68	Sole Giano S.r.l. & Co. S.a.s.	Rome	100.0	0.0	-0.1 [1]
69	Sustainable Solar Future – Hellas Limited Liability Company	Athen	99.0	0.0	0.0 [2]
70	Sustainable Solar Future Northern – Hellas Limited Liability Company	Athen	99.0	0.0	0.0 [2]
71	Sustainable Solar Thermal Future East – Crete Limited Liability Company	Heraklion	99.0	0.5	0.0 [1]
72	Teramo Alta S.r.l.	Rome	100.0	3.9	-0.1 [1]
73	Terrain-Aktiengesellschaft Herzogpark	Wiesbaden	99.9	4.7	0.0 [3]
74	ZAO Toros	Moscow	100.0	17.4 mn RUR	18.4 mn RUR [2]
75	ZMP Zentral Messepalast Entwicklungsgesellschaft mbH	Wiesbaden	100.0	82.4	0.0 [3]
	II. Fully-consolidated special purpose entities (inclusion in accordance with IAS 27/SIC 12)				
76	Myrtleville AB	Stockholm	0.0	n/a	n/a

[1] Preliminary figures as at 31 December 2011; [2] Equity and results as at 31 December 2010; [3] Profit transfer agreement/control and profit transfer agreement
[4] Different financial year; n/a no data

[1] Preliminary figures as at 31 December 2011; [2] Equity and results as at 31 December 2010; [3] Profit transfer agreement/control and profit transfer agreement
[4] Different financial year; n/a no data

No.	Company name	Registered office	Share in capital %	Equity € mn	Results € mn
	III. Fully-consolidated special funds (inclusion in accordance with IAS 27/SIC 12)				
77	DBB Inka	Dusseldorf	100.0	92.9	n/a
78	MMS-I-Globalfonds	Frankfurt	100.0	327.3	n/a
	IV. Joint ventures accounted for using the equity method				
79	B & P/DSF Windpark GbR	Frankfurt	50.0	0.6	0.5
80	berlinbiotechpark Management GmbH	Berlin	50.0	0.1	0.0 [2]
81	berlinbiotechpark Verwaltung GmbH	Berlin	50.0	0.1	0.0 [2]
82	DSF berlinbiotechpark Verwaltungsgesellschaft mbH	Frankfurt	50.0	0.0	-0.1 [2]
83	DSF Vierzehnte Verwaltungsgesellschaft mbH	Frankfurt	50.0	0.1	0.0
84	DSF Zehnte Verwaltungsgesellschaft mbH	Frankfurt	50.0	0.0	0.0 [2]
85	SG2ALL B.V.	Huizen	50.0	0.4	0.2
	V. Associated companies accounted for using the equity method				
86	Bavaria Solar I Verwaltungsgesellschaft mbH	Frankfurt	24.0	0.0	0.0 [2]
87	Deutsche Operating Leasing AG	Frankfurt	19.2	6.6	1.5 [4]
88	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Frankfurt	48.4	0.5	0.0 [2]
89	Fachklinik Lenggries GmbH	Lenggries	49.0	0.0	0.0 [2]
90	Rehabilitationsklinik Uckermark GmbH i.L.	Templin	49.0	n/a	n/a
91	Westhafen Haus GmbH & Co. Projektentwicklungs KG	Frankfurt	25.0	-0.3	0.0 [2]
92	Westhafen-Gelände Frankfurt am Main GbR	Frankfurt	33.3	0.1	1.2 [2]
93	Windpark Ahlerstedt Verwaltungsgesellschaft mbH	Frankfurt	20.0	0.0	0.0 [2]
94	Windpark Borsum Verwaltungsgesellschaft mbH	Frankfurt	20.0	0.0	0.0 [2]
95	Windpark Portfolio Verwaltungs GmbH	Freiburg	20.0	0.1	0.0 [2]

[1] Preliminary figures as at 31 December 2011; [2] Equity and results as at 31 December 2010; [3] Profit transfer agreement/control and profit transfer agreement
[4] Different financial year; n/a no data

(J) Executive bodies of Aareal Bank AG

Offices held in accordance with section 285 no. 10 of the German Commercial Code (HGB) in conjunction with section 125 (1) sentence 3 of the German Public Limited Companies Act (AktG)

Supervisory Board

Hans W. Reich, Chairman of the Supervisory Board		
Chairman Public Sector Group, Citigroup Inc.		
Aareal Bank AG	Chairman of the Supervisory Board	
Citigroup Global Markets Deutschland AG	Chairman of the Supervisory Board	
HUK-COBURG Haftpflicht Unterstützungskasse kraftfahrender Beamter Deutschlands a. G. in Coburg	Member of the Supervisory Board	until 2 July 2011
HUK-COBURG-Holding AG	Member of the Supervisory Board	until 2 July 2011
Erwin Flieger, Deputy Chairman of the Supervisory Board		
Chairman of the Supervisory Boards of Bayerische Beamten Versicherungsgruppe		
Aareal Bank AG	Deputy Chairman of the Supervisory Board	
Bayerische Beamten Lebensversicherung a.G.	Chairman of the Supervisory Board	
Bayerische Beamten Versicherung AG	Chairman of the Supervisory Board	
BBV Holding AG	Chairman of the Supervisory Board	
DePfa Holding Verwaltungsgesellschaft mbH	Chairman of the Supervisory Board	
MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH	Member of the Supervisory Board	
Neue Bayerische Beamten Lebensversicherung AG	Chairman of the Supervisory Board	
York-Detlef Bülow*, Deputy Chairman of the Supervisory Board		
Aareal Bank AG		
Aareal Bank AG	Deputy Chairman of the Supervisory Board	
Christian Graf von Bassewitz		
Banker (ret'd.); former Spokesman of the General Partners of Bankhaus Lampe KG		
Aareal Bank AG	Member of the Supervisory Board	
Bank für Sozialwirtschaft Aktiengesellschaft	Member of the Supervisory Board	
Deutscher Ring Krankenversicherungsverein a.G.	Deputy Chairman of the Supervisory Board	
OVB Holding AG	Member of the Supervisory Board	
OVB Vermögensberatung AG	Member of the Supervisory Board	
SIGNAL IDUNA Allgemeine Versicherung AG	Member of the Supervisory Board	
SIGNAL IDUNA Holding AG	Member of the Supervisory Board	
Societaet CHORVS AG	Member of the Supervisory Board	
Manfred Behrens		
Chairman of the Management Board of AWD Holding AG		
Aareal Bank AG	Member of the Supervisory Board	
AWD Allgemeiner Wirtschaftsdienst AG	President of the Board of Directors	
tecis Finanzdienstleistungen AG	Chairman of the Supervisory Board	
Thomas Hawel*		
Aareon Deutschland GmbH		
Aareal Bank AG	Member of the Supervisory Board	
Aareon Deutschland GmbH	Deputy Chairman of the Supervisory Board	

* Employee representative member of the Supervisory Board of Aareal Bank AG

Consolidated Financial Staements

Transparency

Dieter Kirsch*		
Aareal Bank AG		
Aareal Bank AG	Member of the Supervisory Board	
Dr Herbert Lohneiß		
Former Chief Executive Officer of Siemens Financial Services GmbH (ret'd)		
Aareal Bank AG	Member of the Supervisory Board	
UBS Global Asset Management (Deutschland) GmbH	Member of the Supervisory Board	
Joachim Neupel, Chairman of the Accounts and Audit Committee		
German Chartered Accountant, tax consultant		
Aareal Bank AG	Member of the Supervisory Board	
Prof Dr Stephan Schüller		
Spokesman of the General Partners of Bankhaus Lampe KG		
Aareal Bank AG	Member of the Supervisory Board	
DePfa Holding Verwaltungsgesellschaft mbH	Member of the Supervisory Board	until 15 September 2011
DePfa Holding Verwaltungsgesellschaft mbH	Deputy Chairman of the Supervisory Board	since 15 September 2011
hanse chemie AG	Chairman of the Supervisory Board	until 30 March 2011
NANORESINS AG	Chairman of the Supervisory Board	until 30 March 2011
Universal-Investment-Gesellschaft mbH	Member of the Supervisory Board	
Wolf R. Thiel		
President and Chairman of the Management Board of Versorgungsanstalt des Bundes und der Länder		
Aareal Bank AG	Member of the Supervisory Board	
DePfa Holding Verwaltungsgesellschaft mbH	Member of the Supervisory Board	
Helmut Wagner*		
Aareon Deutschland GmbH		
Aareal Bank AG	Member of the Supervisory Board	
Aareon Deutschland GmbH	Member of the Supervisory Board	

* Employee representative member of the Supervisory Board of Aareal Bank AG

Management Board

Dr Wolf Schumacher, Chairman of the Management Board		
Aareon AG	Member of the Supervisory Board	
Dirk Große Wördemann, Member of the Management Board		
Aareal Bank Asia Limited	Member of the Board of Directors	since 11 February 2011
Aareal Bank Asia Limited	CEO (Chairman)	since 11 February 2011
Aareal Capital Corporation	Chairman of the Board of Directors	
Aareal Financial Service spol. s r.o.	Member of the Supervisory Board	
Aareon AG	Member of the Supervisory Board	since 3 February 2011
Pacific Star Europe GmbH	Managing Director	until 28 February 2011
Deutsche Structured Finance GmbH	Member of the Advisory Board	since 7 March 2011
Deutsche Structured Finance GmbH	Member of the Advisory Board	until 1 December 2011
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Member of the Supervisory Board	since 11 November 2011
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Deputy Chairman of the Supervisory Board	since 7 December 2011
Hermann Josef Merkens, Member of the Management Board		
Aareal Estate AG	Chairman of the Supervisory Board	
Aareal Bank Asia Limited	Member of the Board of Directors	
Aareal Capital Corporation	Member of the Board of Directors	
Aareal First Financial Solutions AG	Member of the Supervisory Board	
Aareon AG	Member of the Supervisory Board	
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Chairman of the Supervisory Board	until 11 November 2011
Deutsche Structured Finance GmbH	Member of the Advisory Board	until 1 December 2011
RMS Risk Management Solutions GmbH	Member of the Supervisory Board	
Thomas Ortmanns, Member of the Management Board		
Aareal First Financial Solutions AG	Chairman of the Supervisory Board	
Aareon AG	Chairman of the Supervisory Board	
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Member of the Supervisory Board	since 11 November 2011
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Chairman of the Supervisory Board	since 7 December 2011
HypZert GmbH	Member of the Supervisory Board	
Innovative Banking Solutions AG	Member of the Supervisory Board	until 18 July 2011

(K) Offices held by employees of Aareal Bank AG

pursuant to section 340a (4) no. 1 of the HGB

Dr Michael Beckers, Bank Director		
Aareal Financial Service Polska Sp.z o.o.	Member of the Supervisory Board	until 22 November 2011
Ulf Ekelius, Bank Director		
Aareal Financial Service spol. s r.o.	Member of the Supervisory Board	
Dr Christian Fahrner, Bank Director		
Innovative Banking Solutions AG	Deputy Chairman of the Supervisory Board	until 18 July 2011
Ralf Gandenberger, Bank Director		
Terrain-Aktiengesellschaft Herzogpark	Deputy Chairman of the Supervisory Board	until 22 September 2011
Uli Gilbert		
Terrain-Aktiengesellschaft Herzogpark	Member of the Supervisory Board	
Hans-Ulrich Kron, Bank Director		
Aareal Estate AG	Deputy Chairman of the Supervisory Board	
Terrain-Aktiengesellschaft Herzogpark	Member of the Supervisory Board	since 27 September 2011
Terrain-Aktiengesellschaft Herzogpark	Deputy Chairman of the Supervisory Board	since 12 December 2011
Dr Stefan Lange, Bank Director		
Aareal Estate AG	Member of the Supervisory Board	
Aareal First Financial Solutions AG	Member of the Supervisory Board	
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Deputy Chairman of the Supervisory Board	until 11 November 2011
Terrain-Aktiengesellschaft Herzogpark	Chairman of the Supervisory Board	
Peter Mehta, Bank Director		
Innovative Banking Solutions AG	Member of the Supervisory Board	until 18 July 2011
Dirk Pasewald		
Aareal Property Services B.V.	Member of the Supervisory Board	
Markus Schmidt		
Aareal Property Services B.V.	Member of the Supervisory Board	
Christine Schulze Forsthövel, Bank Director		
Aareal Financial Service Polska Sp.z o.o.	Member of the Supervisory Board	until 22 November 2011
Aareal-Financial Service spol. s r.o.	Member of the Supervisory Board	

Composition of the Supervisory Board's committees

Executive Committee	
Hans W. Reich	Chairman
Erwin Flieger	Deputy Chairman
York-Detlef Bülow	Deputy Chairman
Prof Dr Stephan Schüller	
Wolf R. Thiel	

Committee for Urgent Decisions	
Hans W. Reich	Chairman
Dr Herbert Lohneiß	
Christian Graf von Bassewitz	
Erwin Flieger	
Joachim Neupel	

Accounts and Audit Committee	
Joachim Neupel	Chairman
Prof Dr Stephan Schüller	Deputy Chairman
Christian Graf von Bassewitz	
York-Detlef Bülow	
Hans W. Reich	

Nomination Committee
Hans W. Reich
Erwin Flieger

Risk Committee	
Hans W. Reich	Chairman
Dr Herbert Lohneiß	Deputy Chairman
Christian Graf von Bassewitz	
Erwin Flieger	
Dieter Kirsch	
Joachim Neupel	

(L) Responsibility Statement

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

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

Wiesbaden, 28 February 2012

The Management Board

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

Auditors' Report

Independent Auditors' Report

To Aareal Bank AG, Wiesbaden

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Aareal Bank AG, Wiesbaden and its subsidiaries, which comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements for the business year from 1 January to 31 December, 2011.

Board of Managing Directors' responsibility for the Consolidated Financial Statements

The Board of Managing Directors of Aareal Bank AG, Wiesbaden is responsible for the preparation of these consolidated financial statements. This responsibility includes that these consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) and that these consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The Board of Managing Directors is also responsible for the internal controls as the Board of Managing Directors determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Managing Directors as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

According to § 322 Abs. 3 Satz (sentence) 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply, in all material respects, with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at 31 December 2011 as well as the results of operations for the business year then ended, in accordance with these requirements.

Report on the Group Management Report

We have audited the accompanying group management report of Aareal Bank AG, Wiesbaden for the business year from 1 January to 31 December, 2011. The Board of Managing Director is responsible for the preparation of the group management report in accordance with the requirements of German commercial law applicable pursuant to § 315a Abs. 1 HGB. We conducted our audit in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of the group management report promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Accordingly, we are required to plan and perform the audit of the group management report to obtain reasonable assurance about whether the group management report is consistent with the consolidated financial statements and the audit findings, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

According to § 322 Abs. 3 Satz 1 HGB we state, that our audit of the group management report has not led to any reservations.

In our opinion based on the findings of our audit of the consolidated financial statements and group management report, the group management report is consistent with the consolidated financial statements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, 5 March 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

TRANSPARENCY

Corporate Governance Statement pursuant to Section 289a of the HGB

Declaration of compliance in accordance with Section 161 of the AktG

Aareal Bank AG has complied with the recommendations of the Government Commission "German Corporate Governance Code" (as amended on 26 May 2010 – the "Code") since the last Declaration of Compliance was issued in May 2011 – in each case, except for the recommendations stated below.

Section 4.2.3 (4) and (5) of the Code recommends the imposition of a cap on severance payments within the scope of the remuneration of members of the Management Board. The contracts entered into with members of the Management Board do not contain any provisions regarding severance payments. Where a contract with a member of the Management Board needs to be terminated without good cause, there is no cap on the fulfilment of contractual claims. The Supervisory Board believes that it is preferable to deal with each individual case on its own merits, and to retain flexibility for negotiations on a cancellation agreement. However, any agreement regarding severance payments should take the cap into account, as recommended by the Code.

The contracts entered into with members of the Management Board contain change-of-control clauses providing for severance payments not exceeding the levels recommended by the Code.

Section 5.4.6 (2) of the Code provides for performance-related compensation of Supervisory Board members. Considering the potential conflicts of interest which are inherent in this recommendation, the Management Board and Supervisory Board do not believe such a regulation to be desirable; for this reason, they have submitted a proposal for amending the Memorandum and Articles of Association to the Annual General Meeting. As a consequence of this General Meeting resolution, and the conversion of Supervisory Board compensation to exclusively comprise fixed remuneration components, Aareal Bank no longer complied with the recommendation of section 5.4.6 (2) of the Code.

Aareal Bank will continue to comply with the recommendations of the German Corporate Governance Code as amended on 26 May 2010, with the above exceptions regarding the recommendations in sections 4.2.3 (4) and (5), and section 5.4.6 (2).

For further details on the Corporate Governance Principles of Aareal Bank AG, please refer to our website: http://www.aareal-bank.com/investor-relations/corporate-governance/

Wiesbaden, December 2011

The Management Board

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

For the Supervisory Board

Hans W. Reich (Chairman)

Corporate Governance Report

Responsible and transparent corporate governance is of great importance to Aareal Bank AG, and considered the essence of prudent commercial conduct by both the Management Board and the Supervisory Board. Accordingly, Aareal Bank welcomes and supports the objectives and purposes of the German Corporate Governance Code, and regularly observes the amendments and extensions of the guidelines adopted by the German Government Commission on Corporate Governance.

The Supervisory Board discusses these amendments; together with the Management Board, the Supervisory Board determines to what extent Aareal Bank AG complies with – or diverges from – the recommendations of the German Corporate Governance Code. Accordingly, the bank's Memorandum and Articles of Association, as well as the internal rules of procedure for the Management Board and the Supervisory Board, are reviewed regarding compliance, and are amended as necessary. Our annual Declaration of Compliance gives information on the extent to which the bank complies with recommendations. The Declaration of Compliance is adopted by the Management Board and the Supervisory Board, and then published on the bank's website, where Declarations issued in past years are also archived.

Code of Conduct

We believe that the principles of integrity and responsible conduct must be observed by all our employees across the enterprise, regardless of their functions and duties. Our internal Code of Conduct is an integral part of responsible corporate governance. The Code of Conduct contains binding rules governing the legal and ethical conduct of employees vis-à-vis clients, business partners, and colleagues. Aareal Bank's efforts in this context are also motivated by the desire to affirm and further strengthen the confidence placed by stakeholders – our clients, investors, and staff.

Recommendations of the German Corporate Governance Code

In 2011, the German Corporate Governance Code applied in the version of 26 May 2010. Aareal Bank's Management Board and Supervisory Board issued and signed their most recent Declaration of Compliance pursuant to section 161 of the German Public Limited Companies Act (AktG) on 15 December 2011. The Declaration was published on the bank's website, and is included in this annual report as part of the Corporate Governance Statement.

Aareal Bank AG complies with the German Corporate Governance Code, as last amended, to a large extent, and only diverges from the recommendations in a few aspects, as outlined below. Section 5.4.6 (2) of the Code provides for performance-related compensation of Supervisory Board members. Considering the potential conflicts of interest which are inherent in this recommendation, the Management Board and Supervisory Board do not believe such a regulation to be desirable; for this reason, they submitted a proposal for amending the Memorandum and Articles of Association to the Annual General Meeting held on 18 May 2011. As a consequence of this General Meeting resolution, and the conversion of Supervisory Board compensation to exclusively comprise fixed remuneration components, Aareal Bank no longer complied with the recommendation of section 5.4.6 (2) of the Code.

Section 4.2.3 (4) and (5) of the Code recommends the imposition of a cap on severance payments within the scope of the remuneration of members of the Management Board. The contracts entered into with members of the Management Board do not contain any provisions regarding severance payments. Where a contract with a member of the Management Board needs to be terminated without good cause, there is no cap on the fulfilment of contractual claims. The Supervisory Board believes that it is preferable to deal with each individual case on its own merits, and to retain flexibility for negotiations on a cancellation agreement. The recommended cap should, however, be considered in any agreement on severance pay.

The contracts entered into with members of the Management Board contain change-of-control clauses providing for severance payments not exceeding the levels recommended by the Code.

Please refer to the Remuneration Report for details regarding incentives, as recommended by section 7.1.3 of the Code.

Management Board

The Management Board is responsible for managing the company. In doing so, it is obliged to act in the best interest of the company and undertakes to increase its sustainable enterprise value. The Management Board ensures that all provisions of law are complied with, and endeavours to achieve their compliance throughout Group companies. The Management Board develops company strategy, coordinates it with the Supervisory Board, and ensures its implementation. The Management Board ensures appropriate and sustainable risk management and risk control throughout the company. The Management Board cooperates on the basis of trust with Aareal Bank AG's other executive bodies, and with employee representatives.

There were no conflicts of interest affecting members of the Management Board within the meaning of the Corporate Governance Code in the 2011 financial year.

Main components of the compensation system for members of the Management Board

The Supervisory Board determines the structure and amount of remuneration for members of the Management Board. Please refer to the Remuneration Report for details regarding the remuneration of members of the Management Board. The level of the remuneration in the financial year 2011 is appropriate and in line with usual market practice.

Diversity

Aareal Bank AG promotes an appropriate level of diversity in the company, as recommended in section 4.1.5 of the Code.

For Aareal Bank, diversity means appreciating each individual and respecting his or her distinctiveness, equal opportunities on all levels as well as avoiding any form of discrimination. We believe that diversity adds to our corporate culture and that it is also a success factor for achieving the strategic objectives of Aareal Bank Group.

International profile

Thanks to its active business presence across three continents, the bank is dedicated to its motto "Local Expertise meets Global Excellence". Against this background, taking the various nationalities of its staff into consideration when planning for executive positions comes naturally, particularly with respect to the bank's international entities.

Career and family

To ensure that Aareal Bank's employees can strike an appropriate balance between work and family life, the bank has taken various measures designed to permit employees to successfully perform their professional duties and develop on their career path – as regards both expert knowledge and leadership qualities – without sacrificing responsibility for their families. Measures taken include:

- supporting a third-party provider, to improve the availability of crèches;
- cooperation with the city of Wiesbaden and other third-party providers regarding childcare facilities during school holidays;
- establishing parent-child office rooms at Aareal Bank AG and Aareon AG to bridge short-term and temporary bottlenecks regarding childcare facilities;
- offering part-time positions, flexible working hours, and long-term working time accounts, to permit flexible working schedules; and
- establishing home workplaces.

One of the objectives of the measures taken is to increase the share of women in executive positions.

Supervisory Board

The task of the Supervisory Board is to regularly advise and supervise the Management Board in the management of the company. It is involved in decision-making that is of fundamental importance to the company, and cooperates closely and on the basis of trust with the Management Board.

The Supervisory Board has created committees for its work. Responsibility for individual duties has been delegated to these committees. The members of the Supervisory Board and their functions in the Supervisory Board's committees are outlined in the "Description of Management Board and Supervisory Board work processes", and in the List of Offices Held, both of which form part of this annual report. The Supervisory Board reports on its duties and the events of the 2011 financial year in its report.

The option of preparing meetings separately with shareholder representatives and employee representatives is used by the Supervisory Board in exceptional cases only. No such separate preparations took place during 2011, nor were there any Supervisory Board meetings without the members of the Management Board in attendance, except for one instance. At the meeting of the Executive Committee on 25 October 2011, the agenda focused on the adjustment of the contracts entered into with members of the Management Board according to the German Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions (Instituts-Vergütungsverordnung, InstitutsVergV).

In line with the recommendation of section 5.2 of the Code, the Chairman of the Supervisory Board does not chair the Accounts and Audit Committee: this position is held by Joachim Neupel, an experienced public auditor and tax advisor.

The members of the Supervisory Board have declared in writing that no conflicts of interest pursuant to section 5.5.2 of the Corporate Governance Code arose during the financial year under review.

The Supervisory Board regularly reviews the efficiency of its own activities, using a proprietary questionnaire. The results of this review serve to further improve the work carried out by the Supervisory Board as well as enhancing the cooperation between the Supervisory Board and Management Board. The Chairman of the Supervisory Board presented the results of the examination of efficiency for the year 2011 in the meeting on 15 December 2011, and discussed these with the members in detail. No measures to enhance efficiency were required.

The Supervisory Board has the required knowledge, skills, and professional expertise to properly perform its duties. In accordance with section 5.4.1 of the Corporate Governance Code, the Supervisory Board members regularly attend professional development measures, and are supported to this effect by the Company.

The Report of the Supervisory Board provides a detailed review of the activities of the Supervisory Board and its Committees.

Remuneration system for the Supervisory Board

The most recent adjustment of the remuneration system of the Supervisory Board was resolved by the Annual General Meeting held on 18 May 2011. This resolution replaced the remuneration system established by a resolution adopted by the Annual General Meeting on 23 May 2006, which included a variable remuneration component. The new system provides for, in particular, an appropriate fixed remuneration in line with market practice as well as attendance fees. The transition of the remuneration for the year 2011 is made pro rata temporis according to the old remuneration system until 18 May 2011 and according to the new system thereafter. Details regarding the remuneration structure and amounts paid in 2011 are provided in the Remuneration Report.

Guidelines regarding the composition of the Supervisory Board (shareholder representatives)

Key factors taken into account for nomination to the Supervisory Board are the professional aptitude and the experience of candidates – also in relation to the Group's international activities.

Any individual whose circumstances may give rise to conflicts of interest cannot be considered as candidates. At the time of election to the Supervisory Board, candidates should generally be less than 70 years old.

The Supervisory Board endeavours to increase the share of women amongst its members to at least 30 %. Given that the last regular Supervisory Board elections took place in 2010, the earliest time that this objective may be taken into account, in principle, will be the next regular Supervisory Board elections, to be held in the year 2015.

Purchase or sale of the company's shares

In 2011, transactions involving the company's shares were carried out by members of the company's executive bodies. These were published in accordance with legal requirements. At the end of the financial year, aggregate shareholdings of members of executive bodies in the company's shares were less than 1 % of the issued share capital of Aareal Bank AG.

Transactions with related parties

Related party transactions are detailed in the notes to the financial statements.

Accounting policies

Aareal Bank AG prepares the Group's accounts in accordance with International Financial Reporting Standards (IFRSs). The single-entity financial statements of Aareal Bank AG are prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB). The Management Board prepares the financial statements of Aareal Bank AG and the consolidated financial statements. The external auditors submit their report on the audit of the financial statements and consolidated financial statements to the Supervisory Board. The Annual General Meeting on 18 May 2011 appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt / Main, as the auditors for the 2011 financial year. Having ascertained the independence of the external auditors, the Supervisory Board appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft in this capacity, and defined the focal points of the Supervisory Board of the audit. The external auditors conducted the audit in line with instructions given. The fees paid to the external auditors are shown in the notes to the financial statements.

The Supervisory Board approves the single-entity financial statements and the consolidated financial statements, and thus confirms the single-entity financial statements. Details regarding the examinations carried out by the Supervisory Board, and the results of such examinations, are provided in the Supervisory Board Report.

Relationship to shareholders

Aareal Bank holds a General Meeting of shareholders once a year. Shareholders are thus given the opportunity to actively participate in the development of the company.

At the Annual General Meeting, the shareholders decide, in particular, on the formal approval for the members of the Supervisory Board and Management Board for the financial year under review, on the appropriation of any net retained profit, amendments to the Memorandum and Articles of Association, and authorisations on capital adjustments. The Annual General Meeting also elects the auditor for the company.

The company's shareholders may submit statements or proposals in writing, by fax or e-mail, to the company or may request to speak at the Annual General Meeting. The shareholders may also submit counter or supplemental motions to the agenda items at the Annual General Meeting so that they participate in structuring and influencing the meeting. The Management Board and the Supervisory Board refer to shareholders' comments made during the general debate, or to motions submitted by shareholders in advance, to respond to questions, or to comment on other contributions.

Communications

Aareal Bank assigns great importance to extensive communications with all of the bank's stakeholders. We have set ourselves the targets of actively and openly communicating with all stakeholders, taking into account the interests of all stakeholders. In this context, we make extensive use of our website to inform about current developments affecting the Group, and to provide information to all target groups at the same time. All press releases, ad-hoc disclosures, corporate presentations, as well as annual and quarterly reports published by Aareal Bank are available on the bank's website to any interested person, and may be downloaded from there. In addition, the financial calendar is regularly updated, providing information about relevant corporate events.

Aareal Bank publishes details on the financial position and performance five times annually. On these occasions, the Management Board gives a personal account of results, within the scope of press conferences and analysts' events.

We are not currently broadcasting parts of the Annual General Meeting on the internet, nor is it currently possible to give instructions or cast votes online. This is because the low level of acceptance of such a service amongst our shareholders would render the related efforts and costs excessive. Aareal Bank will continue to review demand for such a service on a regular basis.

Disclosures regarding Corporate Governance standards

Aareal Bank AG is a public limited company under German law (Aktiengesellschaft – "AG") whose shares are included in the mid-cap MDAX index. Aareal Bank AG's corporate governance practices are governed, inter alia, by legal rules applicable to public limited companies and credit institutions, and by the Company's Memorandum and Articles of Association, which are published on its website and in its Commercial Register entry (under company number HRB 13184). Based on the Memorandum and Articles of Association, the Supervisory Board has adopted internal rules of procedure for itself, and for the Management Board. Aareal Bank AG has also adopted an internal Code of Conduct, providing guidelines for correct, ethical and responsible conduct of employees and executive bodies. Moreover, Aareal Bank's corporate governance is guided by a comprehensive set of internal rules and regulations, which provide concrete guidance on the conduct and processing of the bank's business, in line with legal and regulatory rules. All members of staff have access to these documents, via common internal communications channels such as the bank's intranet.

Description of Management Board and Supervisory Board work processes

The Supervisory Board

In accordance with Aareal Bank AG's Memorandum and Articles of Association, the Supervisory Board consists of twelve members. Once elected by the Annual General Meeting, the members of the Supervisory Board elect a Chairman and two Deputy Chairmen from amongst them, for the duration of their term of office. At present, Hans W. Reich serves as Chairman of the Supervisory Board. His deputies are Erwin Flieger (as shareholder representative) and York-Detlef Bülow (as employee representative). The members of the Supervisory Board were re-elected for a further term of office by the Annual General Meeting held on 19 May 2010. In the financial year 2010, employee representatives were elected by the special negotiating body, a body representing employees following the merger of Aareal Bank France S.A. into its parent company Aareal Bank AG. There have been no changes in the composition of the Supervisory Board since then.

During the financial year under review, the company's Supervisory Board comprised:

Hans W. Reich, Chairman of the Supervisory Board of Aareal Bank AG
Chairman Public Sector Group, Citigroup Inc.
Supervisory Board offices held:
Citigroup Global Markets Deutschland AG

Erwin Flieger, Deputy Chairman of the Supervisory Board of Aareal Bank AG
Chairman of the Supervisory Boards of Bayerische Beamten Versicherungsgruppe
Supervisory Board offices held:
Bayerische Beamten Lebensversicherung a.G., Bayerische Beamten Versicherung AG, BBV Holding AG, DePfa Holding Verwaltungsgesellschaft mbH, MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH, Neue Bayerische Beamten Lebensversicherung AG

York-Detlef Bülow*, Deputy Chairman of the Supervisory Board of Aareal Bank AG
Employee of Aareal Bank AG

Christian Graf von Bassewitz
Banker (ret'd.); former Spokesman of the General Partners of Bankhaus Lampe KG
Supervisory Board offices held:
Bank für Sozialwirtschaft Aktiengesellschaft, Deutscher Ring Krankenversicherungsverein a.G., OVB Holding AG, OVB Vermögensberatung AG, SIGNAL IDUNA Holding AG, SIGNAL IDUNA Allgemeine Versicherung AG, Societaet CHORVS AG

Manfred Behrens
Chairman of the Management Board of AWD Holding AG
Supervisory Board offices held:
AWD Allgemeiner Wirtschaftsdienst AG, tecis Finanzdienstleistungen AG

Thomas Hawel*
Employee of Aareon Deutschland GmbH
Supervisory Board offices held:
Aareon Deutschland GmbH

Dieter Kirsch*
Employee of Aareal Bank AG

Dr Herbert Lohneiß
Former Chief Executive Officer of Siemens Financial Services GmbH (ret'd.)
Supervisory Board offices held:
UBS Global Asset Management (Deutschland) GmbH

Joachim Neupel, Chairman of the Accounts and Audit Committee of the Supervisory Board
German Public Auditor and tax advisor

Prof Dr Stephan Schüller
Spokesman of the General Partners of Bankhaus Lampe KG
Supervisory Board offices held:
DePfa Holding Verwaltungsgesellschaft mbH, Universal-Investment-Gesellschaft mbH

Wolf R. Thiel
President and Chairman of the Management Board of Versorgungsanstalt des Bundes und der Länder
Supervisory Board offices held:
DePfa Holding Verwaltungsgesellschaft mbH

Helmut Wagner*
Employee of Aareon Deutschland GmbH
Supervisory Board offices held:
Aareon Deutschland GmbH

* Employee representative to the Supervisory Board of Aareal Bank AG

The members of the Supervisory Board are independent as defined by the Corporate Governance Code. The shareholder representatives have sufficient professional knowledge to competently perform their duties. They have held – or still hold – executive positions in banks or insurance companies. As a German Public Auditor and tax advisor – and hence, an independent financial expert – Joachim Neupel chairs the Accounts and Audit Committee of Aareal Bank AG's Supervisory Board.

The Supervisory Board conducts its business in the best interests of the Company and its Group entities, in accordance with the law, the Memorandum and Articles of Association, the internal rules of procedure, the German Corporate Governance Code (as amended from time to time), and Aareal Bank AG's Code of Conduct. The Supervisory Board determines which transactions have fundamental importance, and hence require the approval of the Supervisory Board.

The Supervisory Board has established five committees in order to perform its supervisory duties in an efficient manner: the Executive Committee, the Risk Committee, the Committee for Urgent Decisions, the Accounts and Audit Committee, and the Nomination Committee.

Executive Committee

The Executive Committee advises the Management Board and prepares the resolutions of the Supervisory Board. The Executive Committee consists of the Chairman of the Supervisory Board, and up to four additional Supervisory Board members.

The committee has the following members:

Hans W. Reich	Chairman
York-Detlef Bülow	Deputy Chairman
Erwin Flieger	Deputy Chairman
Prof Dr Stephan Schüller	
Wolf R. Thiel	

The Executive Committee prepares the plenary meetings of the Supervisory Board, together with proposed resolutions. The committee's area of responsibility also includes assessing the internal condition of the Group, and issues concerning personnel planning for the Management Board also regarding the contracts with individual Management Board members, based on the remuneration system adopted by the plenary meeting of the Supervisory Board. Where required, the Executive Committee prepares proposals for possible or necessary adjustments to the remuneration system for the Management Board. Furthermore, the Executive Committee discusses decision proposals regarding connected-party loans as well as other transactions between members of administrative, management and supervisory bodies and the Company or its subsidiaries.

Risk Committee

The Risk Committee consists of the Chairman of the Supervisory Board and up to five additional members. The committee has the following members:

Hans W. Reich	Chairman
Dr Herbert Lohneiß	Deputy Chairman
Christian Graf von Bassewitz	
Erwin Flieger	
Diete Kirsch	
Joachim Neupel	

The Risk Committee deals with all types of risk Aareal Bank is exposed to in its business activities. Besides credit risks, this also encompasses market risks, liquidity risks, and operational risks, taking into account the bank's risk-bearing capacity as defined in the Minimum Requirements for Risk Management in Banks (MaRisk). The monitoring of credit risks also includes approving loans which, pursuant to the internal rules of procedure for the Management Board, require the approval of the Supervisory Board. This also includes decisions on connected-party loans pursuant to section 15 (1) nos. 6-12 of the German Banking Act (KWG), unless such loans are dealt with by the Executive Committee.

The committee is also responsible for reviewing the contents of the risk strategies, in accordance with the MaRisk. The submission of the risk strategies to the plenary meeting of the Supervisory Board remains unaffected by this function, as is intended by the MaRisk.

Committee for Urgent Decisions

The Committee for Urgent Decisions is a sub-committee of the Risk Committee. Its members are elected from amongst the members of the parent committee. The committee members are:

Hans W. Reich	Chairman
Christian Graf von Bassewitz	
Erwin Flieger	
Dr Herbert Lohneiß	
Joachim Neupel	

The Committee for Urgent Decisions takes lending decisions which, pursuant to the internal rules of procedure for the Management Board, require Supervisory Board approval, and which are particularly urgent. Since the committee passes its resolutions by way of circulation, it does not hold any meetings. Any decisions which were taken between meetings of the Risk Committee were discussed at the subsequent meeting.

Accounts and Audit Committee

The Accounts and Audit Committee is concerned with all accounting issues, as well as regarding the audit of Aareal Bank AG and Aareal Bank Group. The committee is chaired by an independent financial expert as defined in section 100 (5) of the German Public Limited Companies Act (Aktiengesetz – "AktG").

During the financial year under review, the Accounts and Audit Committee had the following members:

Joachim Neupel	Chairman
Prof Dr Stephan Schüller	Deputy Chairman
Christian Graf von Bassewitz	
York-Delef Bülow	
Hans W. Reich	

The committee is responsible for the preparation and conduct of the audit of the financial statements and the consolidated financial statements; it prepares the decisions to be taken by the Supervisory Board on the basis of the committee's analysis of the external auditors' reports. For this purpose, the committee reports to the plenary meeting of the Supervisory Board on the results of its analysis and the assessments derived. Preparing the audit of the financial statements also comprises the preparations for instructing the external auditors (by virtue of the corresponding resolution passed by the Annual General Meeting), verifying the independence of the external auditors, negotiating the auditors' fees, and determining focal points of the audit. The Accounts and Audit Committee also discusses quarterly and half-yearly financial reports with the Management Board, and obtains the external auditors' report on their review of the half-yearly report. Furthermore, the Accounts and Audit Committee is responsible for examining the projections submitted by the Management Board; the reports by the Group Compliance Officer and Internal Audit are addressed to the committee. The Accounts and Audit Committee is also responsible for monitoring the effectiveness of the internal control system.

Nomination Committee

The members of the Nomination Committee are the Chairman of the Supervisory Board and Mr Erwin Flieger, Deputy Chairman; in accordance with the German Corporate Governance Code, the committee only comprises shareholder representatives. The committee is responsible for coordinating and carrying out the search for new shareholder representatives on the Supervisory Board, if a member representing shareholders retires from the Supervisory Board. When preparing the nomination of candidates for Supervisory Board membership, the Nomination Committee takes into account the prerequisites set out in the Code.

The Management Board

The Management Board manages Aareal Bank AG's business in accordance with the law, the German Corporate Governance Code, the internal rules of procedure for the Management Board adopted by the Supervisory Board, and the Code of Conduct of Aareal Bank AG. The Management Board develops the overall company strategy, discusses it with the Supervisory Board, and ensures its implementation. The Management Board distributes responsibilities amongst its members.

The members of the Management Board are:

Dr Wolf Schumacher, Chairman of the Management Board
Corporate Communications, Investor Relations, Corporate Development, Human Resources, Legal, Tax, Compliance, Audit and Operations
Dirk Große Wördemann, Member of the Management Board
Structured Property Financing, International Sales Units
Hermann Josef Merkens, Member of the Management Board
Finance, Risk Controlling, Credit Management and Workout
Thomas Ortmanns, Member of the Management Board
Institutional Housing Unit, Structured Property Financing Germany, Treasury, Organisation, Information Technology

The Management Board informs the Supervisory Board regularly, without delay and comprehensively, orally and in writing, on all issues in respect of which the Supervisory Board requires information to fully perform its duties and obligations.

Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Dear shareholders,

Aareal Bank AG once again achieved very good results, considering the challenging environment, during the financial year 2011 under review. The bank continued its successful business development, already exceeding the previous year's consolidated operating profit by the end of 2011's third quarter.

This means that Aareal Bank AG has generated positive quarterly results on each occasion since the outbreak of the international crisis affecting financial markets and the economy back in 2008. The Supervisory Board considers these results generated by Aareal Bank AG as evidence for the viability and operative strength of the Group's business model.

Developments on the financial and capital markets during 2011 were characterised by the European debt crisis in particular. Discussions focused on a permanent and viable solution for the debt problems of the affected countries, and the resulting consequences this would have for the European currency as well as for the European banking system.

Global economic growth lost momentum, particularly during the second half of 2011. Growth forecasts for important regions in the world and for the global economy as a whole have been downgraded frequently. The environment in the property sector was stable to slightly better than in the previous year. The capital increase which Aareal Bank AG executed successfully in April 2011 was a highlight for the bank during the financial year under review. Gross issuing proceeds were used to generate new business in the Structured Property Financing segment, as well as to strengthen the bank's capitalisation; a portion of the proceeds was applied to a further repayment of the SoFFin silent participation. Moreover, in April 2011 Aareal Bank AG carried out an early redemption of the SoFFin-guaranteed € 2 billion bond maturing in June 2013, which the bank held on its own books. With the partial repurchase of the remaining SoFFin-guaranteed notes maturing in March 2012, Aareal Bank further reduced its obligations to SoFFin.

Thanks to careful and forward-looking management, Aareal Bank AG continued to have sufficient liquidity at all times during the 2011 financial year, together with a sound funding base.

During the financial year under review, the Supervisory Board continually advised, monitored, and supervised the management of Aareal Bank AG. The Management Board informed the Supervisory Board regularly, without delay and comprehensively, both orally and in writing, of all issues important to the Group with regard to its situation, business development, key financial indicators, and market developments. In addition, detailed reports and explanations were given to the Supervisory Board regarding the current liquidity status and liquidity management measures taken, the prevailing risk situation, and the risk control and risk management measures taken within the Group. The Supervisory Board also received comprehensive reports on the development of business segments, and on operative and strategic planning. The Supervisory Board was informed about, and involved in all important decisions. All material events were discussed and examined in detail; where a Supervisory Board resolution was required, the decision proposals were submitted to the Supervisory Board and a decision taken. In cases where resolutions needed to be passed in between scheduled Supervisory Board meetings, such resolutions were passed by way of circulation or via conference calls.

Furthermore, between the meetings of the Supervisory Board, the Chairman of the Management Board kept the Chairman of the Supervisory Board informed, on a continuous and regular basis, both orally and in writing, on all material developments of the Company. The Chairman of the Management Board maintained close contact with the Chairman of the Supervisory Board, in order to discuss key issues and important decisions personally.

Activities of the plenary meeting of the Supervisory Board

Six plenary meetings of the Supervisory Board were held during the financial year under review, of which five were scheduled meetings; the extraordinary meeting was held in the form of a conference call. During the meetings, the members of the Supervisory Board received reports and explanations by the members of the Management Board, and discussed these in detail. Proceedings and reports during all scheduled meetings focused on the way the bank dealt with the challenges posed by the European sovereign debt crisis, and with the impact of continued high levels of financial market uncertainty and volatility.

The plenary meetings of the Supervisory Board also discussed the execution of Aareal Bank AG's capital increase, the further partial repayment of SoFFin's silent participation, and the redemption of the guarantee facility drawn upon. The Supervisory Board was involved in the related processes and discussions, and approved the measures taken.

In its discussions, the Supervisory Board also concerned itself with changes to the regulatory framework, in great detail. During the year under review, these included the newly-established European Banking Authority (EBA), and the implementation of amended Minimum Requirements for Risk Management (MaRisk).

Throughout the financial year, in the course of all meetings as well as during the periods between meetings, the Management Board informed the Supervisory Board about economic and market developments and their potential impact on Aareal Bank Group, in a timely, complete and comprehensible manner. This included detailed explanations of the appropriate measures taken in response to the challenges arising from the European sovereign debt crisis, and from other market developments.

During the scheduled plenary meetings of the Supervisory Board, the Management Board reported to the Supervisory Board regularly and comprehensively; these reports also covered the development of the Structured Property Financing and Consulting / Services segments, focusing on current economic developments. Within regular intervals, the Supervisory Board was informed of the bank's liquidity status and the related steps taken by the bank's Treasury. In addition, the Supervisory Board was informed about the business development of the entire Aareal Bank Group, on the basis of actual figures and projections. The Management Board also reported regularly on the quality of the property financing portfolio, against the background of general market trends and expected changes on the various property markets.

The focal points of the various Supervisory Board meetings are presented below:

One of the March meetings focused exclusively on Aareal Bank's strategic options, and on the challenges presented in the prevailing market environment. This also included considerations regarding the capital increase executed in April. During a further meeting in March, the Supervisory Board discussed various issues related to the implementation of the German Ordinance governing supervisory requirements for remuneration systems of financial institutions (Institutsvergütungsverordnung – "InstVergV") and other regulatory issues. During this meeting, the Supervisory Board also concerned itself in detail with the financial statements and consolidated financial statements presented for the 2010 financial year, and with the auditors' report. The relevant facts were presented in the Supervisory Board report for the previous year. The meeting also discussed the proposal for the appointment of external auditors to be submitted to the Annual General Meeting, as well as the details of the subsequent instructions to be given to them, including the contents and focal points for the audit during the 2011 financial year, as specified by the Supervisory Board.

Further topics discussed during the March meeting included preparing the Annual General Meeting held in May 2011 (in the context of which the realignment of Supervisory Board remuneration was discussed and adopted), as well as the annual reports submitted by Internal Audit and the Compliance Officer.

An extraordinary Supervisory Board meeting was held in April, in the form of a conference call, to discuss the execution of the capital increase previously resolved.

The purpose of the May meeting of the Supervisory Board was to follow up on the Annual General Meeting of Aareal Bank AG, which preceded the meeting. The realignment of the remuneration system for the Supervisory Board, as resolved by the General Meeting, necessitated adjustments of the Declaration of Compliance to be published in accordance with the German Corporate Governance Code; these adjustments were discussed and adopted. Additional topics included a further discussion concerning the focal points of the audit, as specified by the Supervisory Board, and a final report submitted by the Management Board on the capital increase carried out.

During the September meeting, topics related to the German Corporate Governance Code were presented and discussed, alongside other regulatory issues. The Supervisory Board also concerned itself with the audit of the financial statements, and with the stress test imposed by the EU for banks, together with its results.

During the December meeting, the Management Board reported on the Group's business plan, which it submitted to the Supervisory Board and gave detailed explanations. Corporate governance issues were discussed as well: in this context, the Supervisory Board adopted the regular Declaration of Compliance, pursuant to section 161 of the AktG, for the year 2010, which was subsequently published on the bank's website.

In accordance with good corporate governance practice, the Supervisory Board also regularly examines the efficiency of its activities in order to identify any areas requiring improvement. The results of the efficiency examination conducted during the 2011 financial year were acknowledged by the members of the Supervisory Board, and were discussed in detail. No concrete need for action was identified.

Strategy documents were submitted to, and discussed by the Supervisory Board according to schedule, in accordance with the Minimum Requirements for Risk Management (MaRisk). The Supervisory Board received a report on the implementation of the latest amendments to the MaRisk. The results of the regular review of the Company's remuneration system were reported to the Supervisory Board. The Supervisory Board determined that the Company's remuneration system is appropriate.

The Chairmen of Supervisory Board committees regularly gave account of the work in the committees to the plenary meeting, answering all related questions submitted by the plenary meeting in detail.

Any Supervisory Board decisions which were taken by way of circulation were discussed at the subsequent meeting, to ensure that the members were able to reconcile the implementation of such decisions.

As part of preparing Supervisory Board decisions, a routine examination is carried out as to whether there are any conflicts of interest. No potential conflicts of interest that would need to be considered in the context of decision-making processes were identified during the financial year under review. Beyond this, the members of the Supervisory Board did not give notice of any conflicts of interest (pursuant to section 5.5.3 of the German Corporate Governance Code) during 2011.

In addition to its regular meetings, the Supervisory Board convened for a separate meeting during which the auditors of PricewaterhouseCoopers provided information on current changes and deliberations in the regulatory and legal framework. This meeting provided the opportunity for a more detailed analysis and discussion of key topics, outside the regular work of the Supervisory Board.

Activities of Supervisory Board committees

The Supervisory Board has established five committees in order to perform its supervisory duties in an efficient manner: the Executive Committee, the Risk Committee, the Committee for Urgent Decisions, the Accounts and Audit Committee, and the Nomination Committee.

The Executive Committee held six meetings, including three extraordinary meetings, two of which were convened as a conference call. The Executive Committee has prepared the plenary meetings of the Supervisory Board, together with proposed resolutions.

During its two meetings in April, the committee discussed Aareal Bank AG's capital increase, adopted corresponding resolutions and / or prepared proposals for resolutions to be passed by the plenary meeting. The members of the Management Board did not take part in the October meeting, since discussions during that meeting concerned the implementation of the InstVergV in the contracts of Management Board members; proposals for resolutions to be passed by the plenary meeting were drawn up. Concerning the implementation of the InstVergV, the Chairman of the Supervisory Board and the Chairman of the Management Board maintained close contact throughout the financial year, in order to coordinate and execute the implementation. Given a lack of precedents for the implementation of this regulation and the necessity to review whether remuneration is in line with prevailing market terms, the Supervisory Board used the option of retaining external advisors for this purpose.

In its October and December meetings, the Executive Committee concerned itself in detail with the variable remuneration of Management Board members for the year 2011; it also resorted to external advice for this purpose. Specifically, the related discussions focused on the degree to which the Management Board reached its targets, also considering the very successful execution of Aareal Bank AG's capital increase in 2011. In its December meeting, the Executive Committee then submitted a proposal to the plenary meeting regarding 2011's variable remuneration for Management Board members, which the plenary meeting approved unanimously. Please refer to the 2011 Remuneration Report regarding details in this context, and for more detailed information concerning the remuneration of the Management Board.

The Risk Committee held four meetings during the year under review. The Management Board submitted detailed reports to the committee, covering all markets in which the bank is active in the property financing business, as well as supplementary reports regarding the bank's investments in securities portfolios. The committee members discussed these reports and market views in detail.

The committee discussed the banking environment and the situation of the bank's competitors. The committee also regularly dealt with loans requiring approval and transactions subject to reporting requirements. The committee discussed individual exposures of material importance to the bank, which were presented and explained by the Management Board. Also, detailed reports were given regarding the bank's liquidity status and funding.

The committee regularly discussed reports on the bank's risk situation, which were submitted and explained by the Management Board. Having discussed the contents with the Management Board, these were duly noted and approved by the members of the committee. Besides credit and country risks, the committee concerned itself with market risks, liquidity risks, and operational risks. The committee discussed developments in the wake of the debt crisis affecting individual European countries in great detail, together with the implications of these developments for Aareal Bank's business environment. In this context, the committee was also informed about the stress tests for banks conducted by the European Banking Authority (EBA), together with an assessment of Aareal Bank's risk-bearing capacity, as well as a detailed presentation of Aareal Bank's capital ratios and the implementation of Basel III requirements. A report was also given regarding the implementation of MaRisk amendments, which were adopted in December 2010. The committee also decided on any other transactions requiring the Supervisory Board's approval pursuant to the Company's Memorandum and Articles of Association, or the Management Board's internal rules of procedure.

The Committee for Urgent Decisions is a subcommittee of the Risk Committee. It approves loans subject to approval requirements by way of circulation; for this reason, it did not hold any meetings. Any decisions which were taken between meetings of the Risk Committee were discussed at the subsequent meeting.

The Accounts and Audit Committee held six meetings during the year under review. During its meeting in March 2011, the Accounts and Audit Committee received the external auditors' report on the 2010 financial year and discussed the results with the auditors in detail. The committee members read the audit reports provided; they formed their own judgement of the audit results on the basis of these reports, and by way of extensive discussions with the external auditors. In accordance with its duties under the Memorandum and Articles of Association, the Accounts and Audit Committee also discussed the selection of external auditors and the focal aspects of the audit for 2011 during the same meeting.

Proceedings at the meetings in August and November included information given to the committee regarding the progress of audit activities for the 2011 financial year. In addition to a further report on the audit progress, the Management Board presented and explained the updated Group planning to the committee during its December meeting. The committee also received reports submitted by Internal Audit and by the Compliance Officer, requesting and receiving detailed explanations. It discussed and duly noted the review of the internal control system, which was carried out in accordance with applicable law.

Furthermore, during the committee meetings in February, May, August and November 2011, the Management Board presented the quarterly results for the financial year, as well as the preliminary full-year results for 2010 prior to publication, in accordance with the German Corporate Governance Code; the committee members discussed the reports with the Management Board. As in the financial year under review, the preliminary results for 2011 were discussed at a meeting in February 2012.

In its meeting on 21 March 2012, the Accounts and Audit Committee received the external auditors' detailed report on the audit and audit results for the 2011 financial year, and discussed these results extensively with the auditors and the Management Board.

The Nomination Committee did not convene any meetings in 2011. The task of the committee is to coordinate and carry out the search for new shareholder representatives on the Supervisory Board, if a member representing shareholders retires from the Supervisory Board. All members of the Supervisory Board were still within their regular terms of office during the financial year under review.

Where members of the Supervisory Board were unable to attend a meeting, they had announced their absence in advance, giving reasons. If material decisions were on the agenda, these Supervisory Board members submitted written instructions for the casting of their votes, or cast their votes afterwards, in writing. Attendance of Supervisory Board members at meetings is shown in the table below:

Member of the Supervisory Board	Number of meetings attended / number of meetings (plenary and committee meetings)
Hans W. Reich	22 of 22
Erwin Flieger	16 of 16
York-Detlef Bülow*	18 of 18
Christian Graf von Bassewitz	14 of 16
Manfred Behrens	4 of 6
Thomas Havel*	6 of 6
Dieter Kirsch*	9 of 10
Dr Herbert Lohneiß	10 of 10
Joachim Neupel	16 of 16
Prof Dr Stephan Schüller	16 of 16
Wolf R. Thiel	12 of 12
Helmut Wagner*	6 of 6

* Employee representative

Transactions of particular importance during 2011

During its meeting on 13 April 2011, the Supervisory Board approved the proposal submitted by the Management Board to carry out a capital increase against cash contributions in the form of a rights issue, and also approved the key parameters defined. With the placement, Aareal Bank raised gross issuing proceeds of approximately € 270 million. In this context, the Supervisory Board also approved the Management Board's proposal for the appropriation of these proceeds.

Besides strengthening new business in the Structured Property Financing segment, that proposal provided for € 75 million of the issue proceeds to be applied for a further repayment of the SoFFin silent participation. The first partial repayment of € 150 million was made on 16 July 2010.

In parallel with the capital increase, on 19 April 2011 the bank carried out the early redemption of the SoFFin-guaranteed € 2 billion bond maturing on 5 June 2013, which the bank held on its own books, and returned the related guarantee to SoFFin. Aareal Bank had issued this three-year bond in June 2010 as a precautionary measure to enhance the flexibility in the refinancing business; however, due to the gradual stabilisation of the market environment, the issue was not placed on the market.

In July 2011, Aareal Bank offered holders of its remaining SoFFin-guaranteed bond the early repurchase of the outstanding notes maturing on 26 March 2012. By the end of the repurchase period, Aareal Bank had been offered notes in the volume of just under € 0.8 billion; the bank called in notes and returned the related SoFFin guarantee to this extent. The notes were redeemed in full at their final maturity, at which point the remaining SoFFin guarantee lapsed.

Through these measures, Aareal Bank was able to achieve a key step in redeeming SoFFin support.

Financial statements and consolidated financial statements

The Supervisory Board instructed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, who were elected as auditors by the Annual General Meeting 2011, with the audit of the financial statements. The external auditors appointed submitted a statement regarding their independence to the Supervisory Board, who duly noted it. The Supervisory Board has no reason to doubt the accuracy of this statement of independence. Fulfilling their duties as commissioned by the Supervisory Board, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code (HGB) and the consolidated financial statements prepared in accordance with IFRS, as well as the Management Report and the Group Management Report. Based on the results of their audit, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft issued an unqualified audit opinion for the financial statements and consolidated financial statements.

All members of the Supervisory Board received the audit reports regarding the financial statements and the consolidated financial statements, including all annexes thereto, in good time before the meeting during which the audit results were discussed. Having examined the documents provided, the Supervisory Board members formed their own judgement of audit results. The representatives of the external auditors, PricewaterhouseCoopers AktiengesellschaftWirtschaftsprüfungsgesellschaft, attended the Supervisory Board meeting during which the financial statements were discussed, giving a detailed account of the results of their audit and were available to answer further questions, and to provide additional information. All questions were answered to the full satisfaction of the Supervisory Board.

No objections were raised following the detailed examination of the financial statements and Management Report of Aareal Bank AG, prepared in accordance with the HGB; the consolidated financial statements and the Group Management Report prepared in accordance with IFRS; the proposal of the Management Board regarding the appropriation of profit; and the audit report. In its meeting on 28 March 2012, the Supervisory Board approved the results of the audit. The Supervisory Board approved the financial statements and Management Report of Aareal Bank AG, prepared in accordance with the HGB, together with the consolidated financial statements and the Group Management Report prepared in accordance with IFRS. The financial statements and Management Report of Aareal Bank AG are thus confirmed. Having examined and discussed it with the Management Board, the Supervisory Board has endorsed the proposal for the appropriation of profit submitted by the Management Board.

In conclusion, the Supervisory Board would like to thank the Management Board and all of the Company's employees for their strong commitment and successful work during the 2011 financial year, which was once again eventful. Throughout the year, it was thanks to the motivation and contribution of Aareal Bank Group staff that enabled the Company to successfully master the challenges of recent months.

Kronberg, March 2012

For the Supervisory Board

Hans W. Reich (Chairman)

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Glossar

Accrued interest
Interest which has accrued on debt securities (such as bonds, covered bonds or other fixed-income securities) since last coupon payment. When buying such a security, the buyer must pay accrued interest to the seller.

Actual rate of interest
The yield of an investment, measured in terms of the actual rate of interest generated on the capital invested.

Ad-hoc disclosure
Pursuant to section 15 of the German Securities Trading Act (WpHG), issuers of securities are obliged to publish information that may influence the prices of their securities without delay. This is carried out using "ad-hoc disclosures", which may refer to the issuer's financial position and performance or to its general business development. Designed to prevent insider trading, there is a statutory ad-hoc disclosure obligation in Germany, as well as in all other major financial centres.

Advanced Approach
Under the Advanced Approach, banks having sufficiently sophisticated methods for their internal capital allocation (subject to strict requirements regarding methodology and disclosure) are permitted to use their internal assessment of a borrower's credit quality for gauging the credit risk exposure of their portfolio.

AfS (available for sale)
Financial assets may be classified as "available for sale", in contrast to loans and advances, financial instruments held for trading (HfT) or held to maturity (HtM). AfS financial instruments include, in particular, fixed-income securities which cannot be held to final maturity (or where the holding entity does not intend to hold them to maturity), as well as equity instruments which do not have a defined maturity.

Amortised cost
The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

Asset-backed securities
A special form of securitising payment claims in tradable securities that are structured by aggregating certain financial assets.

Associate
An entity that is not fully consolidated or included via proportionate consolidation, but accounted for in the consolidated financial statements using the equity method, over whose business or financial policies a consolidated entity exercises significant influence.

Basel II
The concept of 'Basel II' refers to the framework agreement on capital measurement and capital standards, as adopted by the Basel Committee on Banking Supervision in mid-2004. The Committee, which regularly convenes at the Bank for International Settlements (BIS) in Basle and comprises representatives of central banks and banking supervisory authorities of the major industrial nations, issues general strategic recommendations for the regulatory framework and standards applicable to banks. Basel II provides a framework for measuring risk-weighted assets and minimum capital requirements for banks.

Bonds
Market term for fixed-income securities, also referred to as debt securities.

Capital market
Generic term referring to the markets for any type of medium to long-term funds; more specifically, the marketplace where securities supply and demand are matched.

Cash flow hedge
A swap used to hedge the risk of future interest payments under a floating-rate balance sheet asset or liability.

Collateral
Security rights granted to the bank by the borrower, allowing the bank to recover its receivables in the event of any borrower default. Credit collateral may be provided in the form of personal collateral (e.g. a guarantee) or impersonal collateral (such as a land charge). As a rule, collateral reduces the risk to which a bank is exposed if a borrower is no longer able to meet its financial obligations.

Consolidated statement of cash flows
The cash flow statement (statement of consolidated cash flows) provides an overview of cash and cash equivalents generated or used by an enterprise during a financial year, from operating, investment, and financing activities, plus the amount of cash and cash equivalents at the beginning and end of the financial year.

Corporate Governance
The concept of "corporate governance" refers to the legal and factual framework for managing and supervising enterprises. The recommendations of the Corporate Governance Code are designed to create transparency, and predominantly to protect shareholders; the Code's objective is to strengthen the trust in good and responsible company management.

Cost/income ratio
Financial indicator expressing the ratio of expenses to income during a reporting period.

Covered bonds
Covered bonds is a generic term for debt securities whose principal and interest payments are collateralised by assets. In Germany, covered bonds are mainly issued in the form of "Pfandbriefe": the German Pfandbrief Act (Pfandbriefgesetz) sets the legal framework for collateralisation (by mortgages of public-sector loans).

Credit default swap (CDS)
A financial contract where the risk of a predefined credit event (such as insolvency or deterioration of credit quality) is transferred from a protection buyer to a protection seller. Regardless of whether the credit event actually occurs, the protection buyer pays a regular premium to the protection seller, as compensation for assuming the credit risk.

DAX®
The DAX reflects the performance of the 30 largest (by market capitalisation) and most-actively traded (by exchange order book turnover) German companies listed in the Prime Standard segment of the Frankfurt Stock Exchange. Calculation of the index is based on price data from the electronic trading system Xetra; it starts at 09:00 CET and ends with the prices from the Xetra closing auction, which starts at 17:30 CET.

Debt security
Certificate in which the issuer undertakes vis-à-vis the holder to repay the borrowed sum, and – depending on the specifications – to make current interest or other payments.

Default risks
Default risks may occur in the form of (counterparty) credit, issuer or country risks. They refer to the potential loss occurred as a result of the default (or a deterioration of credit quality) of the bank's borrowers, of issuers of promissory note loans or securities, or of counterparties to transactions in the money market, securities or derivatives markets.

Deferred taxes
Income taxes payable or receivable in the future, reflecting differences between the carrying amount of an asset or liability in the statement of financial position in accordance with IFRSs and its tax base. At the time of recognition, deferred taxes do not yet represent an actual receivable from, or liability to the tax authorities.

Derivatives
Derivatives are non-autonomous investment instruments whose price is derived mainly from the price of an underlying instrument (as well as from the price fluctuations and/or price expectations), such as equities, bonds, or foreign exchange. Derivatives include a variety of swaps, options, futures or forwards.

Discount
The discount below par of a security or loan, defined as the difference between the cost of purchase and the nominal value.

Earnings per share
Financial indicator expressing net income (for the year) after non-controlling interest income per share, based on the average number of ordinary shares outstanding.

Effective interest method
Calculation method where the difference between the cost of purchase and the nominal value of a financial instrument (the premium or discount) is amortised using the effective interest rate of a financial asset or liability.

Equity method
The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.

Euribor
European Interbank Offered Rate The rate at which euro interbank term deposits are offered by one prime bank to another prime bank in Europe, for fixed terms of one week, or between one and twelve months.

Fair value
The fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing and independent parties in an arm's length transaction; fair value is often identical to the market price.

Fair value hedge
A swap (or other hedging instrument) used to hedge a fixed-rate balance sheet asset or liability (such as a receivable or security) against market risk; fair value hedges are measured at fair or market value.

Financial instruments
Generic term for instruments such as loans and advances granted and other receivables, fixed-income securities, equities, investments, liabilities or derivatives.

German Accounting Standards
A set of recommendations for German accounting standards, published by the German Accounting Standards Board (GASB), a committee organised by the Accounting Standards Committee of Germany (ASCG).

Goodwill
The amount that the buyer of an enterprise is prepared to pay, over and above the fair value of net assets less debt (net asset value), taking into account expected future returns.

Hedge accounting
The concept of "hedge accounting" refers to the recognition or financial reporting of two or more contracts (including financial instruments) which form a hedging relationship. Specifically, this relationship between or amongst the contracts refers to opposing contractual features related to certain risks, mostly financial risks. As a result, these contracts offset their respective risk exposure, in full or in part. The most common hedge relationship involves an underlying transaction (the contract which gives rise to the risk(s) being hedged) and a hedge (the contract entered into to hedge the risk exposure of the underlying transaction).

Hedging
A strategy where hedge transactions are entered into for the purpose of protecting items against the risk of unfavourable price or rate developments (e.g. interest rates or foreign exchange rates).

HtM (held to maturity)
The held-to-maturity category includes financial assets (acquired from a third party) with a fixed maturity as well as cash flows with fixed or determinable payments, which an enterprise has the intention and the ability to hold to final maturity.

International Accounting Standards (IASs)
Accounting standards adopted and published by the International Accounting Standards Committee (IASC), an international organisation of professional accounting associations. The objective of IASs is to establish transparent and comparable accounting standards on an international level.

International Financial Reporting Standards (IFRSs)
IFRSs comprise International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), and interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

Investment property
Property held to earn rental income or for capital appreciation or both, rather than for use in the Company's operation.

LIBOR
London Interbank Offered Rate – reference rate determined amongst banks in London.

MDAX®
The MDAX comprises the shares of 50 Prime Standard companies – known as mid-caps – from traditional sectors that, in terms of exchange turnover and market capitalisation, rank immediately below the companies included in the DAX. Calculation of the index is based on price data from the electronic trading system Xetra; it starts at 09:00 CET and ends with the prices from the Xetra closing auction, which starts at 17:30 CET.

Medium-Term Notes (MTNs)
Debt issuance programme for the placement of unsecured debt securities at different points in time, whereby the volume, currency and maturity (1 to 10 years) may be adjusted according to the financing requirements.

Minimum Requirements for Risk Management in Banks (MaRisk – BA)
The Minimum Requirements for Risk Management in Banks ("MaRisk") are binding rules stipulated by the German Federal Financial Supervisory Authority (BaFin) for the organisation of risk management in German banks. With the MaRisk, BaFin has provided specific rules pursuant to section 25a of the German Banking Act: BaFin brought together, updated and supplemented the legacy regulations in force at the time (the Minimum Requirements for the Trading Activities of Credit Institutions – "MaH", Minimum Requirements for the Internal Audit Function of Credit Institutions – "MaIR", and the Minimum Requirements for the Credit Business of Credit Institutions – "MaK").

Nominal interest rate
Return on a security defined by reference to its nominal value.

Premium
The premium over par of a security or loan, defined as the difference between the cost of purchase and the nominal value.

Present value
The present value of a future cash flow, determined by discounting all future cash inflows and outflows to the present date.

Profit-participation certificate
Securities evidencing profit-participation rights, which may be issued by companies of any legal form, and which are listed in official exchange trading. Depending upon their terms and conditions, profit-participation certificates may be eligible for inclusion in a bank's liable capital.

Public Sector Pfandbriefe
Debt securities issued by Pfandbrief issuers, which are collateralised by claims against the public sector.

Rating
Risk assessment regarding a borrower (internal rating), or credit quality rating of an issuer and its securities determined by specialised agencies (external rating).

Real property lien
Lien on real property; the creation and realisation of real property liens is governed by comprehensive legal regulations. In practice, German banks use land charges (Sicherungsgrundschulden), which collateralise the land charge creditors (the banks) claim against the owner of a plot of land, as stipulated in a collateral agreement.

Repo transaction
A securities repurchase ("repo") transaction is a short-term money-market transaction collateralised by securities.

Return on equity
Financial indicator expressing the ratio of net income (for the year) excluding non-controlling interest income to average equity invested for the year.

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Financial indicator expressing the ratio of net income (for the year) excluding non-controlling interest income to average equity invested for the year.

Revaluation surplus
The revaluation surplus includes changes in the market value of available-for-sale securities and investments (as defined in IAS 39), which are recognised directly in equity (taking into account deferred taxes).

Segment Reporting
Breakdown of aggregate consolidated figures by individual segments – for example, by operating segments (business segments) or geographical segments (regions); this provides insights regarding the development of individual segments, and their contribution to consolidated net income.

Swap
Fundamentally, an exchange of cash flows, for example, an exchange of fixed and floating interest cash flows in the same currency (an interest rate swap), or the exchange of cash flows in different currencies (cross-currency swap).

Unwinding
The concept of "unwinding" refers to the changes in present value which occurs in respect of allowance for credit losses determined on a present-value basis; unwinding simply reflects the different time values of cash flows (recoverable amounts) as at the reporting date.

Value at risk
The value-at-risk method quantifies the maximum potential loss, given a certain probability and a set holding period.

Financial Calendar

10 May 2012	Presentation of interim report as at 31 March 2012
23 May 2012	Annual General Meeting – Kurhaus, Wiesbaden
August 2012	Presentation of interim report as at 30 June 2012
November 2012	Presentation of interim report as at 30 September 2012

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