LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

2009

Close-up

Aareal Bank Group – Annual Report 2009

Aareal Bank
Group

Key Group Figures

	01 Jan - 31 Dec 2009	01 Jan - 31 Dec 2008	Change	
	Euro mn	Euro mn	Euro mn	
Income Statement				
Operating profit	87	110	-23	
Net income/loss after non-controlling interests	49	47	2	
Indicators				
Cost/income ratio (%) [1]	47.9	59.8		
Earnings per share (Euro)	1.14	1.10		
RoE after taxes (%)	2.9	3.4		

	31 Dec 2009	31 Dec 2008	Change	Change
	Euro mn	Euro mn	Euro mn	%
Portfolio Data				
Property finance	21,838	22,813	-975	-4
of which: international	18,164	18,655	-491	-3
Property finance under management [2]	22,348	23,462	-1,114	-5
of which: international	18,164	18,655	-491	-3
Equity	2,077	1,452	625	43
Total assets	39,569	41,023	-1,454	-4
	%	%		
Regulatory Indicators (German Banking Act/CRSA[3])				
Tier 1 ratio	11.0[4]	8.0		
Total capital ratio	15.0[4]	12.0		

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

[1] Structured Property Financing segment only
[2] The figure for property finance under management includes property loans managed on behalf of Deutsche Pfandbriefbank AG
[3] Credit Risk Standardised Approach
[4] after confirmation of Aareal Bank AG's financial statements 2009; the inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2009 is subject to approval by the Annual General Meeting.

Group Structure

Group Structure of Aareal Bank

Aareal Bank AG

- **Structured Property Financing**
  - Aareal Bank Asia Limited, Singapore
  - Aareal Bank France S.A., Paris
  - Aareal Capital Corporation, New York
  - Aareal Estate AG, Wiesbaden
  - Aareal Financial Service spol. s r.o., Prague
  - Aareal Valuation GmbH, Wiesbaden
- **Consulting / Services**
  - Aareon AG, Mainz
  - Aareal First Financial Solutions AG, Wiesbaden
  - Deutsche Bau- und Grundstücks-AG, Berlin
  - Innovative Banking Solutions AG, Wiesbaden

as at 31 December 2009

Overview of Aareal Bank Group

Aareal Bank Group's business model is built on two pillars:

With 23 offices in 19 countries across three continents, our Structured Property Financing segment facilitates property projects for our domestic and international clients in more than 25 countries. Our particular strength lies in combining local market expertise and sector-specific know-how, for financing logistics properties, shopping centres and hotels.

Our Consulting/Services segment offers a wide range of services to the German institutional housing industry, comprising IT systems plus related consultancy services, integrated payments systems and a comprehensive range of services for managing property portfolios. In both segments we are market leaders in Germany.

Key Group Figures/Group Structure

Contents

Letter to Shareholders

Thomas Ortmanns
Member of the
Management Board

Hermann J. Merkens
Member of the
Management Board

Dr Wolf Schumacher
Chairman of the
Management Board

Norbert Kickum
Member of the
Management Board

Dear shareholders, business associates and Aareal Bank staff,

as in 2008, the year 2009 was defined by the effects of the global financial markets and economic crisis. Banks around the globe were faced with enormous challenges: some institutions were forced to adapt their structure and business model – in some cases, fundamental changes were necessary. Aareal Bank Group once again performed well in this challenging market environment: given the difficult circumstances, the Group posted sound results for the year under review.

Aareal Bank Group remained on course in a challenging market environment

In the wake of the collapse of Lehman Brothers, the financial markets crisis took hold of the global economy and capital markets, especially at the start of the year. Banks were faced with a severe and sustained confidence crisis, both in relation to the sector as a whole as well as amongst individual institutions. This severely restricted the viability of the interbank markets at times and the risk premiums for bank debt instruments persisted at a high level. The securitisation markets for commercial property loans, that had virtually come to a standstill during the course of crisis, only started showing very hesitant signs of recovery towards the end of the year.

The situation on the financial markets eased noticeably in the course of the year – not least because of government support measures for the economy in general, and the banking sector in particular, and the concerted expansive policy adopted by the central banks. This had the effect of improving the banks' refinancing terms. German covered bonds (Pfandbriefe) proved to be particularly resilient, with issues being placed throughout the financial markets crisis. In addition, issuance of unsecured bank bonds also resumed during the course of the year. Equity markets recovered too, driven by banks that previously had been hit particularly hard. However, it is too early to talk about a thorough normalisation on financial markets, as uncertainty remains high, and setbacks are still a distinct possibility.

This also applies to the real economy: the economic slump was followed in the second half of the year by signs of a moderate recovery. The global downturn, however, impacted on the commercial property markets with the usual time-lag, reflected in falling property prices across many markets, as well as in a significant reduction in commercial property finance transaction volumes in all of the important regions. During the financial year under review, banks were thus faced with increased risk costs in their lending business, on account of the economic crisis.

Against the background of this challenging market environment, Aareal Bank Group once again held its own: we achieved our forecast targets, posting a pre-tax consolidated result of € 87 million. Aareal Bank will service all of its subordinated refinancing vehicles for the 2009 financial year. This includes the silent participation by SoFFin. Our business model once again proved to be consistent and viable during the financial year under review.

We regard this respectable result – achieved in turbulent times – as a success, and as evidence of our sound and conservative business policy. This success is based for one on the continued confidence placed by clients, shareholders and investors in Aareal Bank Group, as their reliable partner. Just as importantly, this good result was achieved thanks to the extraordinary commitment of our employees. For this, we would like to extend our heartfelt thanks!

As we saw last year, Group profitability is high enough to absorb the burdens arising from the utilisation of the German government programme for the stabilisation of the banking sector. We entered into an agreement with the German Financial Markets Stabilisation Fund (SoFFin) in February 2009, under which we were granted a silent participation of € 525 million and a guarantee facility of up to € 4 billion for unsecured issues. With these support measures, we prepared the bank for the prevailing uncertainty presented by the market environment. At the same time, we ensured Aareal Bank is in an optimal start-up position for the post-crisis period.

Against the background of a sound performance to date throughout the crisis affecting financial markets and the economy, and the bank's solid capitalisation, we plan to start repayment of the silent participation provided by SoFFin, until the beginning of 2011. The volume of the first redemption tranche will be agreed in due course. Aareal Bank has various options for funding the repayment; the specifics have yet to be decided upon. In any case, the high Tier 1 ratio of 11,0% (in accordance with the CRSA) offers some room for manoeuvre, when compared to the medium-term target of 10,0%.

We will retain the unused portion of the SoFFin guarantee facility for unsecured issues, amounting to € 2 billion, for the time being. Considering our sound funding situation, from today's perspective we do not anticipate drawing on this facility during the current year.

Structured Property Financing: allowance for credit losses remains manageable

In the Structured Property Financing segment, our approach of pursuing a sustainable business policy proved itself again in the course of the 2009 financial year, even during the crisis. In this context, Aareal Bank benefits from its long-standing, direct client relationships. Whilst some of our competitors withdrew from commercial property financing altogether, we continue to adhere to our tried and tested three-continent strategy. We are convinced of the sustained profitability of our commercial property financing business – provided that it it is operated in a conservative, strictly quality-oriented and visionary manner.

Within the scope of new business, we continued to focus above all on our existing client base and on loan extensions for existing financing projects. At € 3.8 billion, the volume of new business including loan renewals exceeded our original target range of € 2 to 3 billion. We consider the level achieved to be adequate, against the background of market conditions.

Net interest income posted by the segment for the financial year under review amounted to € 410 million (2008: € 431 million). Higher margins achieved in the lending business had a positive effect. Aareal Bank has built up a liquidity cushion, within the framework of its conservative liquidity management policy in a market environment defined by uncertainty. Low short-term interest rates meant that this liquidity cushion could only be invested at low yields, which had a negative effect on net interest income.

Allowance for credit losses was recognised in an amount of € 150 million (2008: € 80 million), in line with projections – a level that is clearly manageable, as it has been throughout the crisis. Additional allowance for credit losses in an amount of € 34 million recognised in 2008, on account of the difficult market environment, was not utilised in the financial year under review; in fact, it was increased by an additional € 14 million, bringing the total additional allowance to € 48 million.

At € 67 million, the segment result was unchanged year-on-year. In view of the sharp economic downturn and higher allowance for credit losses relative to the previous year, we consider this to be a solid result.

Consulting / Services: segment result burdened by interest rate environment – Aareon performing well

The Consulting / Services segment also highlighted its importance as Aareal Bank Group's second pillar in the difficult environment during 2009. The volume of deposits from the institutional housing industry remained stable and averaged at around € 4.0 billion in the 2009 financial year. This reflects the high level of confidence that institutional housing industry clients in Germany place in Aareal Bank as their reliable banking partner. This relationship of trust built up over many decades is bearing fruit, especially in an uncertain market environment.

Our subsidiary Aareon AG successfully launched its new Wodis Sigma product generation in 2009, as part of its portfolio development programme. After its launch in the second quarter, the software already met with market great interest. Sales revenue of the Aareon sub-group remained unchanged year-on-year, despite the general economic weakness, which led to a lower volume of project tenders in the market – especially in the first half of the year, with operating results improved over the financial year 2008.

Operating profit in the Consulting / Services segment fell to € 20 million (2008: € 44 million). Taking non-recurring effects into account, the figure was within the communicated range. The decline was due for one, to the effects of the historically low interest rate environment, which impacted significantly on the result in the deposit-taking business. On the other hand, non-recurring expenses for capacity adjustments at Aareon, as well as expenditure for the suspension of non-core activities, had an effect on results too.

Refinancing: successful issues

Aareal Bank continued to pursue its visionary and conservative refinancing policy during the year under review. Several private placements as well as public issues were successfully distributed to a broad investor base over the course of the year. We issued Pfandbriefe totalling € 2.3 billion during the 2009 financial year. We capitalised on improved market sentiment as of mid-year to step up the placement of unsecured debt securities and promissory note loans again. The issuing volume for the year as a whole amounted to € 1.1 billion, plus a € 2 billion bond guaranteed by SoFFin.

Besides the placements on the capital markets, Aareal Bank can also avail of the substantial deposits of the institutional housing industry as an additional refinancing source, without having to operate an extensive and cost-intensive branch network for its deposit-taking business. Maintaining this competitive advantage vis-à-vis banks that are dependent on the capital market only is and remains a key strategic objective for us. Unlike many other banks, Aareal Bank's strategy is also not based solely on wholesale funding via major investors, even in the capital market-oriented, long-term refinancing business. Aareal Bank knows a majority of its end investors: we maintain regular contacts with more than 600 clients in this area.

As at 31 December 2009, Aareal Bank's Tier 1 ratio – measured in accordance with the credit risk standardised approach (CRSA) – was 11.0 %, which is high by international standards.

Aareal Bank share: return to the MDAX

The Aareal Bank share price performance was very favourable in the financial year under review. The share price climbed more than five-fold from the low in January up to the third quarter, before easing again somewhat. Compared with the year-end prices, at € 13.26, the share price more than doubled compared with the end of 2008, so that the Aareal Bank share clearly outperformed the performance of the relevant benchmark indices.

The positive share price development was attributable on the one hand to the general rehabilitation of banking stock on the stock exchanges. On the other hand, the price increase is a vote of confidence in Aareal Bank Group, in its business model that is unique in the sector, and in its management. We also believe that the quick ascent of the share from the SDAX back into the MDAX as at 21 September 2009 is a measure of the market's reward for our solid performance by industry standards.

Outlook: environment remains challenging

Great uncertainty will continue to define the capital and property markets, the real economy as well as the regulatory environment going forward. Setbacks for 2010 cannot be ruled out either, if the governments' economic recovery programmes come to an end or if the central bank no longer follow an expansive policy. The massive increase in government borrowing in many countries is also a cause for concern.

Against the background of a slight to moderate increase in interest rates, we expect net interest income for the current financial year to grow to a range of € 460-480 million. This projection is based on higher lending margins, together with a lower burden from liquidity reserves. We expect net interest income to increase in 2011, compared to 2010. Burdens could arise especially from a change to the underlying interest rate environment on which the planning is based.

In our view, the business environment in commercial property finance will remain just as challenging this year as in 2009. Accordingly, we expect allowance for credit losses to remain at clearly manageable levels during the 2010 financial year. Allowance for credit losses recognised in income is expected to range between € 117 million and € 165 million: the actual level will depend in particular on the extent to which the additional allowance for credit losses (which was increased from € 34 million to € 48 million in the 2009 financial year) will, in fact, be utilised. As in the previous year, the bank cannot rule out additional allowances for credit losses that may be incurred during 2010. With an environment that is set to remain challenging, we expect risk costs to remain stable in 2011.

We expect a moderate year-on-year rise in net commission income in 2010. An improvement in the environment is not expected to impact on this item before 2011.

Net trading income/expenses include mainly results from hedging transactions concluded in conjunction with the refinancing of our core business. 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 governments, so-called credit default swaps (CDS).

Furthermore, only the costs for our securitisation transactions that are still outstanding, are included in net trading income/expenses. In our opinion, the valuation of the hedging transactions remains subject to the same high volatility as in the last two years, especially in the current environment. This means that net trading income/expenses cannot be forecasted for 2010 and 2011.

Because of the consistent conservative risk policy we have pursued in recent years, we anticipate no material burden on the results from non-trading assets in 2010 and 2011.

Administrative expenses continue to be defined by the unchanged cost discipline, and are thus expected to remain unchanged from 2009 levels in 2010 and 2011.

From today's perspective, Aareal Bank sees good potential for increasing operating profit for the 2010 financial year, even though the market environment continues to be fraught with uncertainty.

Assuming that the conditions described will materialise, we expect operating profit for the 2011 financial year to be higher than for the 2010 financial year.

Based on current planning, new business generated in the Structured Property Financing segment is expected to grow to a range between € 4 billion and € 5 billion for 2010 as a whole. We will continue to concentrate on the funding requirements of our existing client base. The expected increase in the volume of new business will reduce the share of loan term extensions relative to new business. We expect this development to continue during the following year.

In the Consulting/Services segment, we anticipate the interest rate environment to remain difficult for segment results in 2010. We expect profit before taxes to be slightly higher than adjusted operating profit for the financial year under review. Based on the expectation of slightly higher interest rates during 2011, we envisage higher interest margins in this segment. Together with the expected increase in Aareon's sales revenues, the effect on segment results will continue to be positive.

On the whole, we are convinced that Aareal Bank Group is well positioned to successfully meet the challenges presented by the market. Our competitive position has improved substantially during the course of the crisis. Unlike many other banks, Aareal Bank did not have to change its business model. Aareal Bank Group is extremely well placed to remain on track in 2010 too – for its clients, staff and shareholders. We will be in a position to exploit the opportunities presented by the market after the crisis ends, to generate profitable growth.

Yours sincerely

The Management Board

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

Close-up

Close-up

Structured Property Financing: London
Paul Stone cherishes the proximity to investors, leading lawyers and property advisors, which is typical for the UK financial centre. It is easy to keep your finger on the market’s pulse – the expert you need is never more than 20 minutes away.

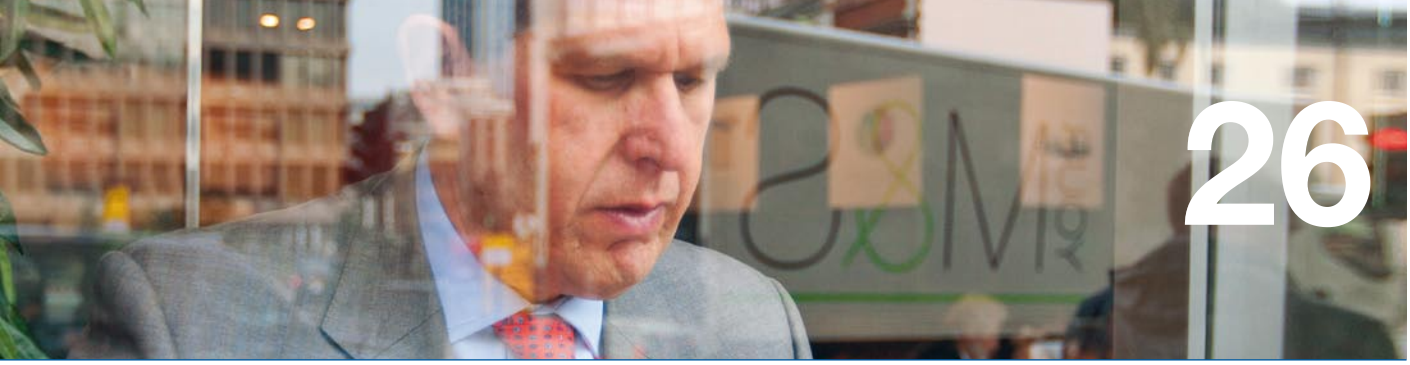
Structured Property Financing: New York
Jim Henry prefers open discussions. And he asks difficult questions, such as: Where are the real opportunities? Where are the specific risks? For Jim Henry and his team, this is the recipe for success.

Structured Property Financing: Rome
For Edovige Catitti, close and personal relationships are the fundamental basis for successful business. He defines client proximity as being involved in every phase of a client’s project – from the very beginning.

Consulting/Services: At the beating heart of the institutional housing industry
As a partner of the institutional housing industry, Aareal Bank Group is active on numerous levels. Its cooperation with GdW and the regional housing associations is particularly important in this context.

Consulting/Services: Joining forces for success
Wohnungsgenossenschaft Fortuna eG, a Berlin-based housing cooperative, has been working with Aareal Bank Group since 1996. Over the years, the business relationship has evolved into a close partnership defined by a high level of mutual trust and respect.

Consulting/Services: Aareon Congress – Pioneer for innovations
In their interview, Lutz Freitag and Professor Hansjörg Bach describe the role of the Aareon Congress as a key source of inspiration. Discussions at the event are not limited to a purely technical or factual level: in fact, participants enjoy proximity and open communication.


26

28


30


34

36


40

Business Model

Extensive know-how, tailor-made services and financial soundness – this is what makes Aareal Bank Group a high-performance partner to the commercial property sector and the institutional housing industry.

Close to our clients – in both our business segments
The two segments of Structured Property Financing and Consulting / Services are the pillars of a business model, which has proven itself through a high level of stability, even in turbulent times. Being close to our clients is a key success factor: thanks to our local presence in 19 countries, we are at home in the major business centres on three continents. Moreover, due to our daily business as service providers and consultants to the institutional housing industry, we know the industry's needs and its importance for the German property management sector in detail.

Structured Property Financing: active on three continents
Traditionally, the Structured Property Financing segment has been a focal area of Aareal Bank Group's business activities. In this segment, we facilitate property projects for our domestic and international clients in more than 25 countries, offering a wide range of tailor-made financial and advisory services. The financing solutions we provide precisely match our clients' needs.

Our broad international market presence is a key ingredient for success. Within the scope of its three-continent strategy, Aareal Bank Group maintains an active presence at 23 locations on three continents: in Europe, North America, and in the Asia / Pacific region. This cushions the bank against the effects of regional economic fluctuation, reducing dependency on individual markets. This broad diversification is reflected in the bank's property financing portfolio, both in terms of regional diversification and with respect to a variety of property types financed.

Our international network of office locations ensures market proximity, flexibility, and a high quality of the financing portfolio. The approach focuses on the insight that property business requires local expertise. After all, our assessment of a particular location – depending on criteria like building structure, property use, rental term, tenant structure or neighbourhood – can vary substantially, even from one side of the street to the other. Aareal Bank combines local expertise with extensive sector knowledge. Our local teams are supported by sector specialists for shopping centres, hotels and logistics properties. This combination of sector expertise and regional know-how enables us to offer tailor-made financing solutions. What's more, it also helps us to more accurately assess risks – also to the benefit of our clients.

Aareal Bank has access to a defined client base comprising national and international businesses – all of them are specialists in their own right, and greatly value working with a highly-specialised provider. Our clients access our unique expertise for customised financing solutions, benefiting from the combination of regional expertise, sector-specific know-how, and flexible and efficient service.

Consulting / Services: proven partner and lead bank for the German institutional housing industry
The Consulting / Services segment is Aareal Bank's strong second pillar that is largely independent from the property cycle. It combines technical property management know-how with a range of services including integrated payments and specialist offers for managing residential property portfolios. Our clients are predominantly from the German institutional housing industry – which forms a major part of the property management sector, one of the largest business sectors in the German economy. We maintain long-term client relationships in this sector that are backed by long-term contracts; Aareal Bank has been the lead bank for the German institutional housing industry for more than five decades.

Aareal Bank Group offers specialised services to optimise mass payment processes, alongside a comprehensive service offer for managing rental income and operating costs. Our clients can use a special IT platform to collect payments such as rent, ancillary costs or deposits, reconcile these payments against their internal accounts, and post them. Complex process flows can thus be largely automated, giving our clients more planning flexibility whilst generating significant savings in terms of both time and costs. Our services go beyond payments processing: clients can invest their repair and maintenance reserves with us, as well as tenants' deposits. For us, this generates a stable level of deposits, which is a key component of our funding mix. After all, deposits generated from the institutional housing industry provide a source of refinancing that is largely independent from the capital markets.

Our range of products and services is complemented by advisory services to the institutional housing industry. The Group's expertise in consultancy and other services are concentrated in the bank's Institutional Housing Unit and in the Aareon AG subsidiary.

Aareon AG offers IT products and services for managing and controlling residential property portfolios, including the related rental income. The diverse range of software applications is tailored to match the diversity of our clients' needs: the various products meet the requirements of both small to medium-sized businesses as well as large corporations. Hence, the product lines are specifically designed around each client group's specific needs. At the same time, all software solutions comply with the increasingly complex legal framework, for example, for the delivery of ancillary cost accounting to tenants.

Together, the various business lines offer significant cross-selling potential for the Group: for instance, 80% of Aareon's clients already use Aareal Bank's payments services.

The German Pfandbrief: a forward-looking refinancing tool

Aareal Bank has established itself as an active and reliable issuer of German covered bonds, known as "Pfandbriefe". We combine a sound business model with in-depth knowledge of the capital markets and a high-quality cover assets pool. As a member of the Association of German Pfandbrief Banks (vdp), we actively contribute to further strengthening the position of Pfandbriefe as a value-preserving and secure financial instrument.

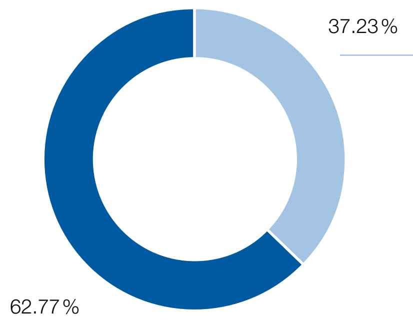
Pfandbrief issues play a major role in the bank's long-term funding mix: even during the turbulence on the financial markets, covered bond issues continued to be a secure and high-quality refinancing vehicle. Pfandbrief issuance remained intact even during the first half of the 2009 financial year, with several issues places whilst markets were otherwise virtually inactive. In fact, the financial markets crisis even strengthened the role of Pfandbriefe, emphasising their benefits.

Aareal Bank pursues a forward-looking funding strategy overall, employing various instruments for raising the debt capital required for refinancing its lending business on the money and capital markets. The bank uses three main sources of funding: the German Pfandbrief as well as unsecured refinancing (in the form of bearer and registered debt issues and promissory note loans) and customer deposits. The latter comprises deposits placed by institutional investors and our institutional housing industry clients – who provide us with a significant source of refinancing for our lending business – independently of capital markets turbulence, and without the need to maintain a costly branch network. Moreover, Aareal Bank issues hybrid equity instruments.

Aareal Bank Share

Aareal Bank's well-balanced business model that comprises the two pillars of Structured Property Financing and Consulting/Services proved to be viable, especially during the difficult times of the financial markets and economic crisis worldwide. The bank's sound financial position and solid result overall in the 2009 financial year were however, not always adequately reflected in the performance of the Aareal Bank share.

Shareholder structure



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

As investors no longer distinguished between different banks, the Aareal Bank share price became entangled in the web of negative sector developments and was moved from the mid-cap MDAX to the small-cap SDAX index in March. International stock exchanges recovered significantly over the summer months, benefiting financials in general. The Aareal Bank share, which gained in particular, succeeded in returning to the MDAX again in September.

Our share has traded on the Frankfurt Stock Exchange since 17 June 2002. It has also been included in the German Stock Exchange's Prime Standard segment since 1 January 2003, thus meeting high international transparency standards. Aareal Bank's major shareholder is Aareal Holding Verwaltungsgesellschaft mbH. Its 37.23 % stake in Aareal Bank is unchanged.

Equity markets worldwide

2009 was one of the most volatile years for international stock exchanges. The distortions on the international financial markets that were triggered by the collapse of the US investment bank Lehman Brothers in autumn 2008 peaked in early 2009, with lows recorded by the international indices. On average, the major indices lost another quarter of their value compared with the prices at year-end 2008. The Dow Jones Industrial Average fell to 6,440 points, the Nikkei 225 to 7,055, and the DAX had to endure a decline to the 3,692 mark. The MDAX fell to 4,166 points.

The first signs of stability in the real economy were evident in spring and the effects of the interventions by governments worldwide by means of economic stimulus packages were seen. This was sufficient to give equity markets a new boost. The first investors viewed the almost historically low prices as a buying opportunity and invested again in equities. Their actions were also driven by the supply of liquidity. As a consequence, prices recovered worldwide and a growing number of investors mustered the courage to invest.

The small "bear rally" that originated in March developed over the summer months into a proper bull market. All of the indices were up by 50 % to 60 % over the lows at the start of the year, before consolidating in the fourth quarter, as expected by many. Banks in particular, which had performed particularly well over the summer, suffered disproportionally, burdened additionally by negative economic headlines. The trend was exacerbated by uncertainty generated in the wake of discussions regarding banks' future capital adequacy rules at year-end, and the negative headlines in relation to Dubai and Greece.

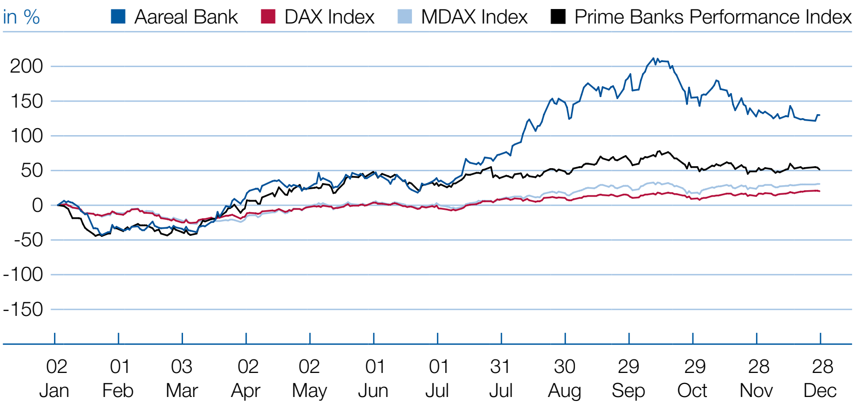
Share development

The Aareal Bank share price kept declining from its year-end 2008 level of € 5.75, losing more than 40 %, to hit a low of € 3.25 in the spring of 2009. Deutsche Börse regularly reviews the composition of its key equity indices in March and September. The exchange decided that the Aareal Bank share was to be moved from the mid-cap MDAX to the small-cap SDAX index with effect from 23 March 2009. This change was attributable to our market capitalisation in March, which was at a very low level that we considered to be fundamentally unjustified. The Aareal Bank share was unable to escape the general market trend – investors had lost their confidence in bank shares. Market players no longer differentiated between the banks that were really experiencing financial difficulties and those houses – such as Aareal Bank – that were sound. Furthermore, the Aareal Bank share was burdened by the fact that it operates in the property sector, which was seen to have triggered the financial crisis.

This was not changed by the fact that Aareal Bank entered into an agreement on 15 February with the German Financial Markets Stabilisation Fund (SoFFin), in order to permanently secure its profitable business. Under this agreement, SoFFin extended a perpetual silent participation in the amount of € 525 million to Aareal Bank, plus a guarantee facility of up to € 4 billion for new unsecured issues.

The Aareal Bank share subsequently performed remarkably within the scope of the recovery on the stock exchanges in the second and third quarters. The share increased by more than 450 % over the lowest closing price of € 3.25, climbing to an interim high of € 18.02 on 12 October 2009. As a result of this development, Deutsche Börse rewarded the bank by restoring the share to the MDAX as at 21 September 2009.

Relative performance 2009 of the Aareal Bank share price



The fourth quarter consolidation on equity markets that was already referred to above impacted on the financials in particular. Profit-taking in this segment was also reflected in our share price.

Despite the consolidation, the share price closed in 2009 with a plus of almost 130 % over the end of 2008 – and almost 300% over the annual low. This means that the Aareal Bank share not only clearly outperformed all financial shares in the Prime Banks Performance Index (CXPB), but also the DAX and MDAX.

Dividends

In line with the agreement reached with SoFFin on a quick repayment of the silent participation, Aareal Bank will not pay any dividend for the 2009 financial year. Any subsequent dividend distribution during the term of the silent participation would increase the interest payable on the silent participation by 0.5 per cent for each € 0.25 in dividends paid per share.

Analysts' opinions

18 bank equity analysts regularly publish independent studies and comments on the current development of Aareal Bank Group. We got the impression again this year that the analysts believe there is no company-specific reason behind the decline in our share price, which was extreme at times. They attributed the negative performance primarily to the generally difficult economic environment. Although the analysts adjusted their price targets downwards at the start of 2009 in line with market conditions, we believe they have confidence in the bank's management team and in the sustainability of Aareal Bank Group's business model.

Almost all of the analysts adjusted the price target upwards gradually over the summer, in line with the market trend. While only one analyst communicated a price target of € 20 when the interim figures were published, seven recommended a price target of € 20 and above at the end of the year. At year-end, half of the current analysts' recommendations were positive: nine research houses recommended the share as a buy, four were neutral and five negative. The research houses that classified the bank as negative continued to refer to the negative outlook for property markets worldwide, as did the analysts with a neutral stance.

We regularly update the analysts' recommendations and publish them on our website www.aareal-bank.com in the Investor Relations portal.

Investor Relations activities

The dialogue with investors and analysts is of considerable importance to Aareal Bank. It is particularly the challenging market environment that has strengthened our ambition to keep capital markets participants informed about current company developments, in a transparent and timely manner. Capital market communication was therefore intensified even further in 2009 as well. During the period under review, the Investor Relations team, together with members of the Management Board, participated in a total of six international capital market conferences, held 24 road shows all over the world, and conducted more than 300 individual discussions with investors and analysts. The fact that top management members were regularly available for personal discussions, despite these turbulent times, was highly appreciated by investors. The annual press conference as well as the analysts' meeting, with an international conference call, were held on 27 March 2009 in Frankfurt am Main, where the Management Board presented the previous year's results as well as the strategic goals for 2009. We also held regular conference calls to comment on our quarterly reports.

Intensive communication with private shareholders once again played an important role in our investor relations work in the financial year under review. Private investors who telephoned the bank were given detailed answers to their questions.

The internet has become an increasingly important tool to guarantee that capital markets are kept up to date with the latest information. On our homepage www.aareal-bank.com, we provide our shareholders and analysts with comprehensive information on the two business segments – Structured Property Financing and Consulting / Services. 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 provides an overview of the most important dates that are relevant to the company.

We will continue to take a proactive stance with regard to capital market communication in the financial year 2010, with a view to substantiating the sustainable success of Aareal Bank's business model and strengthening our shareholders' trust.

	2009	2008	2007
Key data and indicators of the Aareal Bank share			
Share price (Euro) [1]			
Year-end price	13.26	5.75	31.30
High	18.02	30.46	39.90
Low	3.25	5.06	24.93
Back value per share (Euro)	30.62	28.23	33.40
Dividend per share (Euro) [3]	–	–	0.50
Earnings per share (Euro)	1.14	1.10	6.77
Price / earnings [2]	11.43	5.23	4.62
Dividend yield (%) [2]	–	–	1.6
Market capitalisation (Euro mn) [2]	567	246	1,338

ISIN	DE 000 540 811 6
WKN (German Securities ID)	540 811
Quote symbols	
Deutsche Börse	ARL
Bloomberg (Xetra)	ARL GY
Reuters (Xetra)	ARL.DE
Issued share capital (number of notional no-par value bearer shares)	42,755,159

[1] XETRA® closing prices; [2] Based on XETRA® year-end closing prices; [3] Proposal to be submitted to the Annual General Meeting

”A positive investment“

Contributed by Manfred Piontke

From an investor's perspective, the year 2010 ranged from being eventful to nerve-wrecking on the stock exchange. The financial crisis unsettled investors to an extraordinary extent. Traditional valuation standards and rules and regulations appeared to carry no weight. Even the collapse of the entire financial system could not be ruled out. Equity investments were considered extremely risky, which is why equities under-went an almost ruthless selling frenzy in the first quarter of last year. This applied in particular to financial issues, where valuations clearly highlighted concerns about numerous potential insolvencies. Share prices collapsed dramatically.

Manfred Piontke,
Frankfurt Performance Management AG

The crisis affecting financial markets also represented a challenge for FPM AG as a manager of German equity funds. From our perspectives as ”stock-pickers“, however, such an environment of uncertainty, across-the-board price declines and the associated valuation shifts also represents an opportunity that we try to exploit on the basis of our in-house analyses.

As we see it, the collapse of the Aareal Bank share in 2008/2009 triggered a valuation low of only 10 % of equity – in other words, an ideal investment. We had stepped up our analytical work since the end of 2008. Our objective was to be in the position to assess Aareal Bank's special situation in a crisis environment as well as the threat of insolvency implied by the share price, or the threat of nationalisation. We also wanted to appraise the effects of the receipt of SoFFin funds. This required various meetings with the Management Board, Investor Relations representatives, and the Head of Treasury who discussed the bank's liquidity planning with us. On this basis, we were able to form an in-depth view of Aareal Bank's current situation and its strategy in the present environment, whereby it became quite obvious to us that the share was undervalued. We were optimistic about the defensive stance pursued by the bank before the outbreak of the crisis, and gained the impression that Aareal Bank could react rather than be driven (as is the case with other institutions).

Having started buying Aareal Bank shares back in 2008, we used the subsequent dips in the share price to increase our position. Eventually, Aareal Bank turned into the largest single holding in our portfolio – providing a very valuable contribution to performance in 2009.

Manfred Piontke – A brief profile

Age	48 years
Place of birth	Eppstein
Marital status	Married
Qualification	Vocational training as a bank officer, followed by Business Administration Studies at the Johann Wolfgang Goethe University in Frankfurt/Main.
Most important positions held	Before establishing FPM AG in 2000, he gained twelve years of experience as an equity analyst with first-class institutions such as Credit Suisse First Boston, Bankhaus Julius Baer and Deutsche Bank AG.
Brief overview of FPM	Frankfurt Performance Management AG was established by Manfred Piontke and Martin Wirth in the year 2000. The company has posted continuous and profitable growth since then. It currently manages various German equity funds with € 160 million in assets under management. FPM AG focuses on German exchange-listed companies. By means of a strict, fundamental investment process based on its own primary analysis, FPM AG offers its investors return-oriented German equity funds.
Personal values/ personal guiding principles	One should have the courage to make mistakes, to learn from them, and to avoid repeating them.
Investment strategy	Convinced stock-picker, who invests in companies with high-potential business and favourable valuation.


Human Resources – Creating Identity

Aareal Bank's corporate culture is defined by strong links, team work, a sense of responsibility, and colleagues who work together openly and fairly. All of this lends the bank a competitive advantage, since people who identify with their company make for more motivated employees. This is why the ongoing development of its corporate culture is one of the bank's key tasks, deserving the same level of attention as operational business. At Aareal Bank, everyone – from the Management Board, to managers at each level, to every single employee – is responsible for nurturing and developing this culture.

And it is the first-level management who set an example in promoting this culture: "New members of staff are always surprised at just how consistently our Management Board members keep in touch with the staff here and at the open approach of our managers, who keep us up to date on business developments," explains Joachim Deppe, Managing Director Human Resources. It goes without saying that the bank's medium-sized character helps to promote exchange across all hierarchical levels and across all departments. The employees know each other and value each other's expertise. If they need to know something, they can simply ring a colleague and get the information they need. It's as simple as that. And this approach works: "As far as we are concerned, our ability to network employees with one another is a key competitive factor. It means we can make quick decisions and it helps us to help our customers."

1 Joachim Deppe,
Managing Director Human Resources
in conversation with a staff member

2 Katrin Schäufele, Chenhui Xia,
Christine Vukovic (f. l.) –
Trainees at Aareal Bank

Team players are key

Aareal Bank needs experts who can think ahead and assume responsibility. However, it takes an entire team to handle complex tasks, bringing together experts from different disciplines and even different nationalities. The bank's head office in Wiesbaden alone employs people from more than thirty different countries. Being able to work in different groupings on constantly changing tasks requires a high level of intellectual dexterity from every single employee. This is an area in which HR Development provides assistance, creating specially tailored seminars and HR development programmes.

"Open and frank feedback is important to us," explains Deppe. "To get this feedback, we use our employee appraisal system, which we further improved in 2009." These talks with employees help to determine how their career progresses and create the framework within which each individual can contribute to the company's overall aims. Additionally, the opportunity for regular meetings with managerial staff promotes close links between employees and their superiors, as the appraisals are never solely devoted to commercial objectives. They also offer an opportunity to show employees how much they are valued and to fine-tune the plans in place for their personal development and career progression.

From office desk to auditorium

Aareal Bank sets great store by investment in personnel development. Employees who wish to build up their skills by pursuing a further course of study alongside their job can generally rely on the bank supporting them. Even at the stage of selecting a course and institution, the bank can provide assistance and advice, cooperating as it does with various different institutions of higher education and therefore being familiar with the individual strengths of each. To take an example, as the main sponsor of the Chair in Real Estate Investment and Finance at the European Business School in Oestrich-Winkel, Aareal Bank has access to the state of the art in this highly specialist area. This type of tie-up between the bank and education provides employees with the opportunity to engage in continuous learning through research and study.

Career routes for experts

If employees wish to specialise in a particular area, Aareal Bank offers an expert career path comprising four career grades, running in parallel to the management career path. Employees may switch between the two paths if desired. "The equal value attached to these two types of career is also reflected, for example, in the salary bands associated with the respective functional levels. Moreover, both managers and experts take part in the annual Management Meeting", Deppe emphasises.

Aareal Bank has developed specialist training schemes for its experts. Whilst it is the job of managers to issue instructions, experts need to be well trained in how to argue their case. They must also be able to present a convincing argument to audiences outside the bank. "Our experts represent the company at events like analyst conferences and also have to negotiate with our customers' management teams," explains Deppe. Many also enjoy having the chance to share their knowledge. "Some of our experts hold lectures at universities and conferences. They get the chance to do that comparatively quickly at Aareal Bank."

As a medium-sized company, Aareal Bank is able to focus on individuals to a large extent. This is an opportunity that the company consistently exploits. Deppe knows only too well that "once an employee sees that his manager has time for him and is committed to ensuring his further development, he identifies with the company to a greater extent. This means that our staff are exceptionally highly motivated and, ultimately, means that we can provide our customers with an even better service."

Bonuses based on far-sightedness

Aareal Bank's remuneration system, which was introduced some years ago – well before the financial crisis, is sustainable and geared around long-term prospects and goals. A clear plan is drawn up for each employee, differentiating between expert and management career paths, and between tariff employees and those who are outside the official pay scale. The rules of variable remuneration elements are designed in such a way that anyone who contributes to the company's long-term success will benefit. In other words, employees, whose terms and conditions are outside the official pay scale, are set targets derived from the long-term corporate strategy, as determined by the Management Board. Tariff employees, meanwhile, receive a variable payment based on the outcome of their annual appraisal.

The targets agreed with non-tariff employees always also include non-monetary targets, thereby avoiding a situation where staff could be encouraged to work towards maximising financial key figures in the short term.

With regard to the bank's managerial staff and the managing directors and board members of the subsidiary companies, the long-term aspect of the company's success is reinforced by delaying payment of the variable remuneration element over three years based on how the Aareal Bank share performs during that time.

Moving in for the CLOSE-UP

Getting involved with people sharpens the eye for the profile of one's business. In short: get closer and you will see more.

Essay by Wolf Lotter

For some companies it's all about the method. "Everything can be organised," they might say, "there's a method for everything." Clients and business partners? Somehow they're all the same. Certainly, such an approach has its advantages. Everything appears simple. Yes, you might get your customers mixed up with each other. But they're at a safe distance: nothing more than a dot on the horizon, and too far away to be any bother.

So how does this kind of company deal with the notion of proximity to the customer? "It's all just a question of perspective," they might say. "We need to get closer to people." Before adding in a whisper: "Nip out and get us a zoom lens!"

A zoom lens is what you use when you want to give the impression that something far away is actually close at hand.

Wolf Lotter
Business journalist, author and co-founder of the business journal "brand eins"

It comes in quite handy if you want to photograph wild animals or anything that's not so easy o get at – like the moon, for example. But are clients and business partners really so wild, dangerous and inaccessible that you need to pretend you're getting up close and personal – especially as you can see from the pictures that all is not what it seems? If you look carefully at the pictures, you can see that the background is fuzzy. The proportions aren't quite right either. In business terms, this can mean losing focus and a grip on reality.

Every photographer knows that to get a proper shot of something really close you also need to move in that little bit closer. The close-up needs something else, a wide angle lens. The perfect solution. If you move in for a close-up, you not only get better detail but you can also look beyond your own little world and broaden your horizons with new discoveries. This approach is the right one. The message has still to get round many companies that the question of relationships between people who do business with one another is not a soft, emotional issue but something fundamental on which the success of the entire undertaking can depend. Methods, routines and consistent rules are not what are needed. You must get up close to the people that you are doing business with. Otherwise, you would be better advised to keep your distance altogether.

Anyone who thinks that a few of the right words, programmes and a bit of marketing technique are all that it takes has failed to recognise the difference between a zoom lens approach and a wide angle lens approach. They are not in touch with reality.

Anyone who persists in viewing their customers and partners through a zoom lens is in for an unpleasant surprise or two. The well-known German poet Wilhelm Busch was already making a similar point back in 1882, in his "Plish and Plum" picture story:

"One day travelling through the land, With a field-glass in his hand, A well-dressed man of fortune came; Mister Peep, they called his name. 'Can't I, as I pass,' said he, 'View the distant scenery? Beauty reigns elsewhere, I know, Whereas here 'tis but so-so.' Here he pitched into the pond, Viewed the mud and naught beyond."

And Mister Peep's fate is one still commonly being suffered today. Busch's warning about straying from reality is a valuable and indeed timeless lesson. Anyone who doesn't take the lesson seriously risks a nasty surprise.

Some would call it a crisis.

Anyone who wants proximity, and clear detail, must be able to decide.

Proximity in business, in other words a good relationship, means having a long-term approach and an interest in the people with whom and for whom you are working. Sometimes, this is a far more difficult task than carrying out business down a long-distance lens based on theory alone. Up close, no two clients are the same. Each one is different, all have their own needs and wishes. And it is only from these differences that we can learn to solve problems not by proposing general standards, but by using specially tailored, precise approaches that are far superior. After many long years of mass production, putting distance between business partners, the time has come for an individual economy in which those who are successful are those who dare to move in that bit closer.

Proximity creates trust.

Trust produces the ultimate in efficiency. After all, nobody finds it easy to keep control over complex systems of the type emerging in our current world. Trust is a hard value, generated from proximity, and from the responsibility that this proximity brings, as well as from the extra knowledge that is created as a result. We are talking about an approach that is long term, solid and reliable. Those who stay close to their clients and generate trust can see a way forward. And that is good for business.

The economic zoom lens – business without a relationship – has had its day. Proximity is not some buzzword, but a prerequisite for sustained success. Honest relationships provide a better, clearer view, and also let you see further. They let you see beyond the end of your nose and into the 21st century.

Structured Property Financing

All business is local. That is why we only offer property financing on markets we are familiar with – in more than 25 countries across three continents. We take a very close look at each property: after all, the valuation can vary substantially, even from one side of the street to the other. Combining local expertise with in-depth sector knowledge, we have built a first-class financing portfolio.

As our performance in 2009 has shown, Structured Property Financing is a sustainably profitable business, even in difficult circumstances – provided that it is conducted with the right vision and in a prudent manner. In this way, we can support our clients as a reliable partner, even in times of turbulence.

1 to 2 Impressions of London

3 to 4 Impressions of New York

5 to 7 Impressions of Rome

Location, location, location

Or, to put it more precisely, it's about being present in the right location. And that is exactly where the staff in our Structured Property Financing segment are, with a worldwide presence in 19 countries spanning three continents. Be it London, New York or Rome, this proximity enables them to foster personal relationships with clients, creating long-term value added for them in the process.

1

1 3 Paul Stone
General Manager
Aareal Bank, London Branch
Age: 50
Nationality: English
Professional experience: 30 years

2 Aareal Bank London Branch is located at Lombard Street

”As in all markets we cover, Aareal Bank in London is synonymous with continuity. We are strongly embedded in the cities in which we operate. Our clients know us, we know them, and we understand what they are looking to achieve with their property portfolio. For their part, they know that they can come to us, sit down with us, and talk openly. And they know that we are true to our word.“

Paul Stone

Paul Stone’s eight-strong team at 38 Lombard Street is more than familiar with every aspect of the local property markets. In their capacity as experienced bankers, whose in-depth knowledge is founded on many years’ experience, they provide their customers with help and advice, even in the most challenging of times. The loan portfolio managed by the team is worth GBP 1 billion.

Maximise opportunities

Its London office provides Aareal Bank with optimum access to the UK, which, with its dynamic property market and a global financial centre, is an important asset for the Structured Property Financing segment. Investors hold the UK market in high esteem thanks to its transparency, innovative financial products and marked level of legal security. Further positives include the flexibility and diversity of business models based around property portfolios.

”One of the key advantages of having a presence in London is our proximity to investors, leading lawyers and property advisors,“ explains Paul Stone. ”London is home to intensive exchanges on specific issues affecting the property sector. Located in the heart of the City, it is easy to keep our finger on the market‘s pulse – the expert you need is never more than 20 minutes away.“

Keeping his feet firmly on the ground

His philosophy is proving just as relevant today as it did back on his very first day working at Aareal Bank ten years ago. Paul Stone knows how important it is to keep his feet firmly on the ground. And what he also knows is that every property and every business model is unique. This is why it is so important to him and his team that they work together with their customers, jointly planning how to implement their strategies and developing customer-specific financial plans that will secure long-term success.

”You need to work closely with clients and understand their investment strategies. A sound knowledge of the local market is absolutely essential,“ confirms Paul Stone. ”Property markets can be very volatile – to avoid any resulting threats you need to have an efficient risk management system in place. This means knowing your clients, but also being very familiar with the current situation on the ground – which is exactly what our clients expect from us.“

1 3 Jim Henry
President und Chief Executive Officer
Aareal Capital Corporation, New York
Age: 53
Nationality: American
Professional experience: 29 years

2 Aareal Capital Corporation's offices at 250 Park Avenue, New York

The most powerful and most liquid capital market of the world is inextricably linked with the name of one city – New York. Its proximity to the property markets of the USA, Canada and Mexico help make New York one of the world's major financial centres for property investments. Meanwhile, the concentration of talent, markets, organisation and institutions means that New York is a valuable source of market intelligence.

Sustainable prospects

Every day Jim Henry taps into the wide-ranging opportunities available in New York to manage a diversified finance portfolio backed by office, retail, hotel and residential property worth USD 4 billion. Aareal Capital Corporation, a wholly-owned subsidiary of Aareal Bank AG, has a highly specialist 27-strong team that deploys a multidisciplinary and multi-dimensional approach to Structured Property Financing, creating value added with long-term prospects for the future.

"Helping the client to succeed requires discipline and creativity," explains Jim Henry. "We support our clients as they work to ensure that a unique structure can function harmoniously. Entrepreneurial initiative alongside legal, balance sheet and market-specific aspects on one side are combined with physical and spatial considerations, buildings and architecture on the other to find the best possible finance solution. It can be tricky to find a balance. It is a challenge both personally and intellectually."

Creating transparency

One of the ways of attaining this balance is through a flat, transparent organisational hierarchy. The resulting synergies across the company enable Aareal Capital Corporation to apply the excellent knowledge and available resources to clients' individual projects at short notice. At the same time, the principle of transparency leads to open and direct contacts between clients and employees.

"Aareal Bank has always shown an active and intensive interest in its clients' success," says Jim Henry. "We engage in open dialogue. It is important to understand what our customers want to achieve. We ask the difficult questions – such as: Where are the real opportunities? Where are the specific risks? We flag up alternatives, calculate cash flow and look for ways of optimising the structure. This requires close and direct relations with our clients. It is this type of personal communication, taking place at a much more fundamental level, that we could not engage in – were we not present on the ground."

"Capital, innovation, talent – all of this is to be found in New York. New York City is the beating heart, and we are here. This is where huge amounts of the world's capital change hands, a city that is home to permanent change. The speed and precision with which we can convey all of this to our clients represent the difference between success and failure." Jim Henry


UFC
L4D.COM
LIVE YOUR LIFE
GET YOUR 15 SECONDS OF FAME.
CîROC
AMERICAN EAGLE OUTFITTERS
Marriott
HSBC PREMIER
Open to possibilities
HSBC
SAMSUNG
Haiti Needs Your Help.
redcross.org
1-800-RED CROSS
Donate Now.

1


1

1 2 Edovige Catitti
General Manager
Aareal Bank, Rome Branch
Age: 62
Nationality: Italian
Professional experience: 30 years

3 Aareal Bank Rome Branch
is located at Via Mercadante, 12/14

2

3

"I have known this business well for more than 30 years. Everyone knows me and everyone knows the bank. People trust in our judgement. We have taken care to consolidate our reputation, skills and reliability. People trust Aareal Bank because they feel that we look after them well. That makes us successful. It's as simple as that."

Edovige Catitti

Rome and Milan are Italy's most important economic centres. Whilst Rome, Italy's capital city, is dominated by services, the high-tech sector, research and the construction industry, Milan – one of Europe's major commercial centres – is home to the textile and automotive industries, chemicals and tool manufacture. As home to the Italian stock market, Milan ranks among Europe's most important financial centres.

Sharing insight

As far as the Italian property sector is concerned, Aareal Bank under the management of Edovige Catitti is a highly sought-after partner, combining knowledge of the regional and local circumstances with a profound knowledge of the Italian property market. And that is exactly what Edovige Catitti has been doing for some 30 years now.

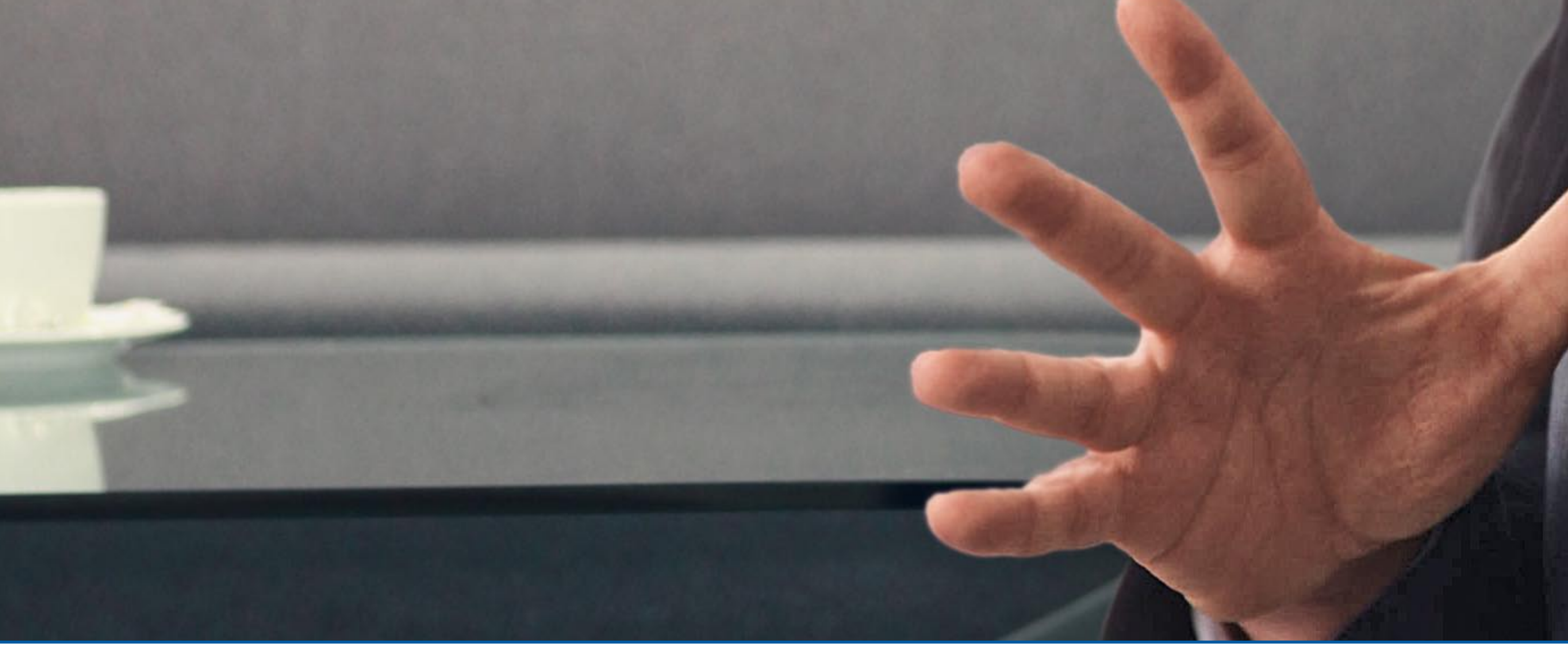
This combination of comprehensive local knowledge and access to the capital market enables Aareal Bank to achieve its objectives. All of the 20 employees in Catitti's hand-picked team are specialists in their area. Edovige Catitti: "You could say that we live and breathe bricks and mortar."

Fostering relationships

Close and personal relationships are the key to success in this multifaceted environment. Edovige Catitti's experiences are based on many years in the business. Clients typically seek out his advice across all stages of their projects.

"In Italy we like to get involved in a project from a very early stage. For me, it's essential. If we are involved from the outset, we understand each investment measure much better. It means that we can anticipate solutions. And then we can progress step by step. For a bank it is exceptionally important to be close to our clients in this way," explains Edovige Catitti.

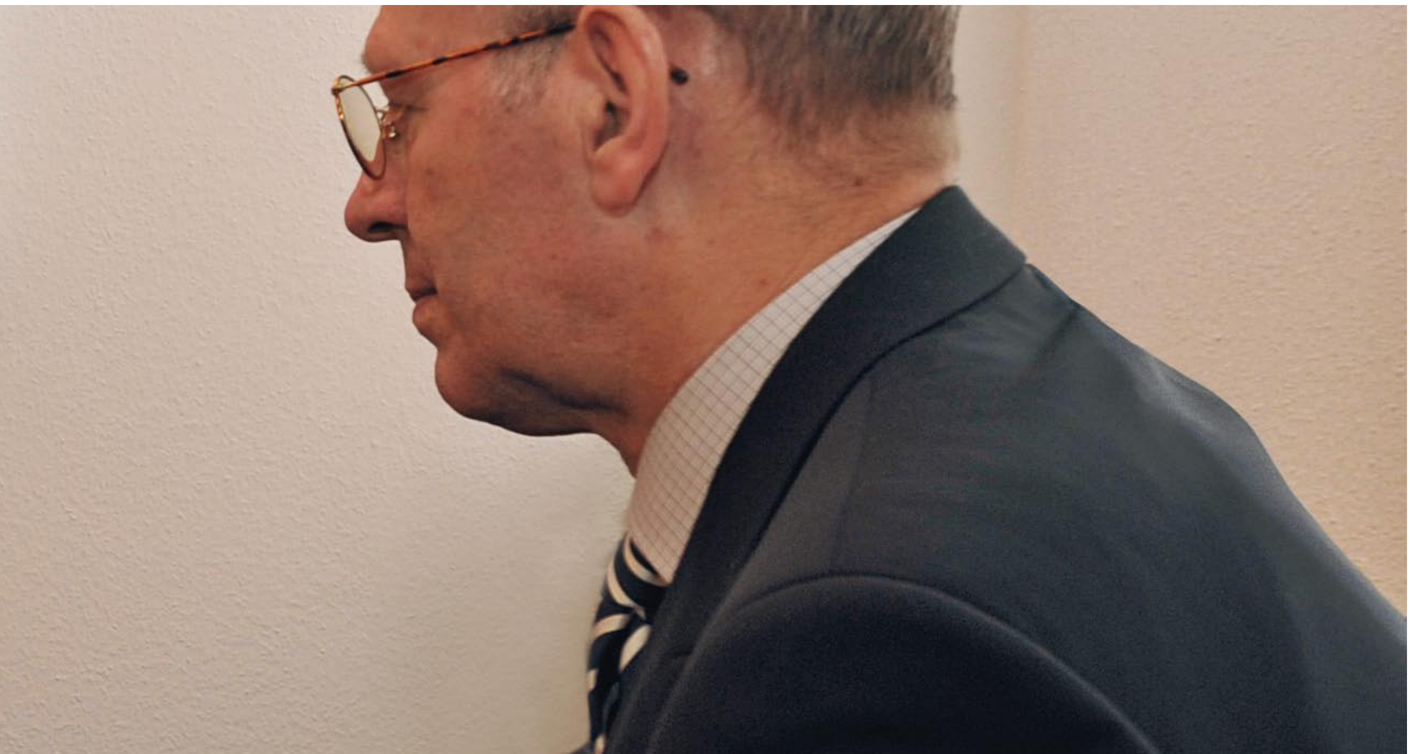
With a loan portfolio in the region of EUR 3.1 billion, Aareal Bank is involved in a significant lending volume in Italy. However, alongside investment in the loan book, Edovige Catitti also values the human aspect, without which it would not be possible to build up long-term personal relationships based on mutual trust. And it is this proximity to clients that ultimately brings its own rewards – for both the clients and Aareal Bank.



Consulting / Services

A service offer that is truly unique for a bank: our Consulting / Services offers property businesses an efficient solution for virtually any of their tasks – encompassing payments and IT services as well as property marketing. To work with us is an obvious choice: with several office locations in Germany, we are always close to our clients. Hence, it comes as no surprise that we are the leading partner of the German institutional housing industry. For Aareal Bank Group, the segment is a reliable source of income and funding: thanks to long-term services agreements, Consulting / Services generates a steady stream of client deposits, reducing the Group's dependence on the cyclical international property markets.


Sicher wohnen



At the beating heart of the institutional housing industry

What matters to German residential property companies? What are the challenges commercial landlords are facing? These are key questions for Aareal Bank, which is recognised as a partner to the institutional housing industry but also considers itself as a source of impetus.

1

2

Through its involvement in GdW, the Federation of German Housing Enterprises, and its regional associations, the bank fosters intensive dialogue. Across the board, in fact: we are in manifold contact with the largest regional associations such as vdw Rhineland-Westphalia on numerous current topics, yet the insights offered by smaller regional groups such as vdw Saxony-Anhalt in East Germany are just as valuable.

"The fact that we call ourselves a partner to the housing industry is more than just an advertising slogan," stresses Thomas Ortmanns, member of the Management Board of Aareal Bank. "Simply viewing the industry as a sales market and ourselves as a supplier with no emotional ties would not do justice to our commitment." Rather, the bank's role as a partner to the housing industry means, according to Ortmanns, being actively involved in the shaping of this key commercial sector. Aareal Bank considers itself to be an „integral, organically linked part of a community". "And so its question isn't 'what are your problems?', but 'what are our challenges?'", explains Ortmanns.

This reflects Aareal Bank's long-standing involvement as a premium associated member of GdW. The GdW represents some 3,000 cooperatives, church and private housing enterprises, as well as local authority, Land-level and federal large-scale landlords in its capacity as an umbrella organisation. The member companies of the GdW account for almost every third rented flat in Germany, equating to around six million residential units.

In addition to Thomas Ortmanns, Dr Peter Schaffner, Managing Director of the bank's Institutional Housing Unit, is also active at the level of the federal association. He sees the close cooperation – in terms of subjects covered and at a personal level – with GdW and the fifteen regional associations as a natural part of Aareal Bank's role. "We consider ourselves as the housing industry's lead bank. And we have a presence in the regions. Proximity is important to us," explains Schaffner, adding that he and his staff in the regional branch offices view their personal involvement in the various regional associations as an expression of their appreciation of GdW.

Subject-based and personal exchange

Its cooperation with the GdW enables Aareal Bank to recognise social developments at an early stage, to analyse opportunities and potential threats, and to develop solutions. In the federal working groups, the bank's employees not only express a position on banking-related issues but also pick up suggestions for their own business. This process is beneficial to both sides across a diverse range of areas of expertise. „To take an example, the creation of the Single Euro Payments Area, SEPA, is changing the basic parameters," reports Schaffner. "This is affecting major housing enterprises with their huge movements of funds just as it is affecting Aareal Bank as a payment transaction service-provider."

A further expression of this intensive cooperation is the bank's collaboration with the journal "Die Wohnungswirtschaft", published by Hammonia-Verlag, which has close links to the association. Together with this specialist journal, Aareal Bank launched the "Brandenburger Hofgespräch" discussion series, and has been sponsoring this event since its launch. Experts in the sector have a chance to meet up twice a year to discuss current issues. "This discussion series shows that we are taking our responsibility to our sector seriously, over and above simply taking care of our client base," explains Schaffner.

Through its membership of the regional associations, Aareal Bank also gains an in-depth insight into day-to-day operations and fundamental tasks facing the companies. Representatives of the branches involve themselves at local and regional level, and seek out dialogue, not just with their existing customers. "We work on the ground, close to day-to-day operations and with people that we really know," adds Schaffner. "Basically, we are a partner to the institutional housing industry." Accordingly, Aareal Bank has already initiated four new memberships and marketing cooperations for 2010, including with DDIV, the umbrella organisation of German property managers. The goal is to establish yet another network, for the mutual benefit of the parties involved.

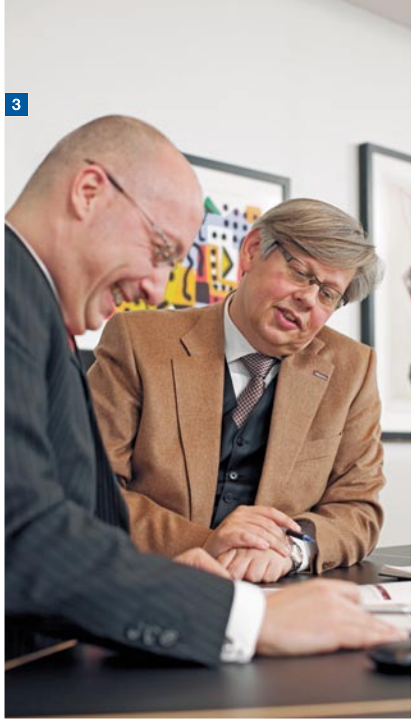
1 Thomas Ortmanns, Member of the Management Board of Aareal Bank (left) and Lutz Freitag, President of Bundesverband deutscher Wohnungs- und Immobilienunternehmen e.V. (GdW)

2 Dr Peter Schaffner, Managing Director Institutional Housing Unit Aareal Bank

1

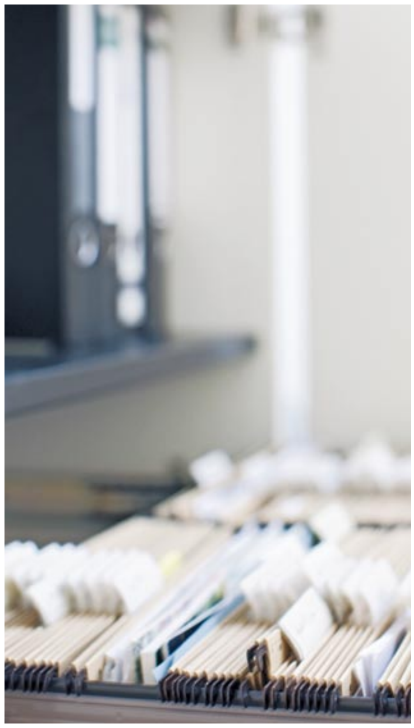
2

3

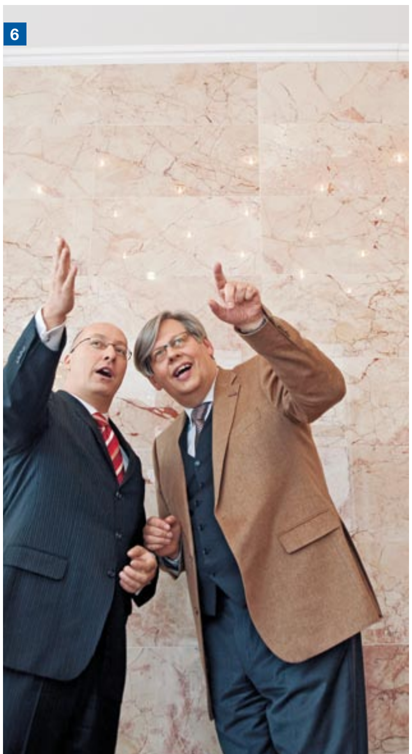


4

5



6



7

1 Frank Miller (left) and Peter Schümann, Management Board of FORTUNA Wohnungsunternehmen eG

2 Offices of FORTUNA Wohnungsunternehmen eG in Berlin-Friedrichsfelde Ost

3 5 6 Veit Stollberg, Sales Manager Aareal Bank (left) and Frank Miller during conversation

4 Hans-Jürgen Thiel, Authorised Officer – IT Administrator FORTUNA Wohnungsunternehmen eG (left), and Veit Stollberg during a meeting

7 Offices of Aareal Bank Group in Berlin

Joining forces for success

Local presence and close proximity to its clients are amongst Aareal Bank's strengths. One example of the particular level of respect and strength of the business relationship arising from this is the cooperation between Veit Stollberg, Sales manager of Aareal Bank, Berlin and Frank Miller, Chairman of the Berlin-based FORTUNA Wohnungsunternehmen eG.

They have even met up at the Saturday market. Veit Stollberg and Frank Miller live in the same neighbourhood, only about one kilometre apart. You do not need to be quasi-neighbours to achieve this level of cooperation. However, quick accessibility is a necessity. "I want to have a contact that knows what's going on locally", says Miller. "It makes everything easier.", he adds, providing a concrete example: "FORTUNA experienced problems with its internet service provider (ISP) when moving office within Berlin in September 2007. Its staff were unable to use the internet or exchange data with business partner for several days. "One phone call to Veit Stollberg, and we could process our transfers again via data carriers", Miller explains.

FORTUNA has collaborated with Aareal Bank since 1996, when it implemented the BK 01 payments system. The objective was to automate the processing of the numerous monthly payments from the tenants of the roughly 4,200 cooperative apartments. The cooperation has intensified since, and confidence has grown. Based on the good experience enjoyed with Aareal Bank and its subsidiary Aareon, the consultancy and IT systems house, FORTUNA was ultimately one of the first pilot clients to implement the Blue Eagle software – Aareon's SAP®-based ERP system – in October 2005.

"Our old system was about to become obsolete", Miller explains. "We finally opted for Blue Eagle because of our excellent cooperation with Aareal Bank and Aareon over many years. The SAP-specific and property management experience of Aareon's advisers and the project management ensured easy implementation and production roll-out." The system was implemented without incurring any problems only a few months after the decision was made – without the interim settlement of accounts that is usual for such conversions: accounts and entries were transferred and business operations continued as normal.

Aareal Bank's Veit Stollberg holds Frank Miller's innovative intentions in high esteem. "He has taken a proactive stance in upgrading FORTUNA, works with modern management methods such as the balanced scorecard. Furthermore, despite its relatively small size, FORTUNA has switched its financial statements to International Financial Reporting Standards (IFRS)." "We always have great discussions about the latest housing policy problems and on the institutional housing industry in Berlin", he told us.

A real partnership has developed over the years – with great mutual respect. This respect is also shared by other parties in the housing cooperative: the members' meeting elected Stollberg to the Supervisory Board last year. "After the vote, the person sitting next to me turned around and said: 'This is just great!'", Stollberg recalls. The appointment of course means an extra workload and more effort in relation to the banking business with FORTUNA – for example, loans must be subject to more intensive reviewing to rule out any conflicts of interest. However, Stollberg believes the advantages outweigh the disadvantages: "I have already determined that property management staff open up more quickly if they realise that I am also familiar with a residential cooperative from the inside.

FORTUNA's boss also passes on his professional expertise to Aareal Bank Group: Miller is a member of Aareon's Advisory Council. "Experienced people convene here for open discussions. Critical issues can be clearly outlined." Miller and Stollberg are highly appreciative of the intensive cooperation between their companies. It is defined by transparency and fairness. Mutual respect is upheld within their close personal relationship. It is thus not surprising to hear Frank Miller characterising FORTUNA's relationship with Aareal Bank with the words: "We have successfully worked out every situation to date".

A ”must-attend“ industry event

The Aareon Congress attracts over 1,000 decision-makers

Since 1991, the key decision-makers of the institutional housing industry have been meeting once a year, to exchange experiences, foster contacts and hold discussions about the performance of the industry worldwide. The series of events is celebrating a special anniversary in 2010: the 20th Aareon Congress will start on 19 May in Garmisch-Partenkirchen.

Every year, the three-day meeting highlights how deeply rooted Aareon AG, Aareal Bank AG's wholly-owned subsidiary, is in the industry. Guests and speakers from all parts of the sector include key decision-makers, commercial housing companies, association representatives, economists, politicians and journalists. Some 1,000 participants attend regularly; numbers have more than doubled since the first congress was held in the early nineties.

New momentum

This trade meeting positions Aareon as an important source of momentum for the institutional housing industry. In recent years, participants took valuable proposals with them on topics such as process optimisation, marketing, client acquisition and meaningful energetic measures. Since 2004, we have also awarded the DW Innovation Award for the Property Sector at the congress – the jury rewards exemplary responses to the challenges faced in the property business. The governing principle behind this year's contest is ”Sustainability: more than a fashion term and saving energy“.

The broad spectrum of topics covered represents one of the attractions of the annual event. The programme includes panel discussions on overriding economic and management issues with high-calibre participants, as well as presentations on individual products, services and problem-solving. The trade fair that is held in parallel and the attractive social programme provides participants with an opportunity to meet up with the other visitors. This is why the participants view the Aareon Congress as a source of information and a network platform in equal measures.

Having established close relationships with customers, associations and partners, over decades in some instances, Aareon is aware of the issues that move the industry. Thus, the company continuously tailors its congress programme in line with the industry's current interests. Aareon wants to set the benchmark today and in the future for the management of complex business processes in the property sector – an ambition that is documented by the Congress year after year.

1 Management Board of Aareon AG (from left): Eberhard Villmow, Dr Manfred Alflen (Chairman of the Management Board), Jürgen Pfeiffer, Dr André Rasquin

2 The winners of the DW prize 2009 (from left): Heinz-Peter Richrath, commerical CEO of the THS Wohnen; Stefan Lerch, Member of the Management Board at the DKB Immobilien AG; Norbert Reinelt, Management Board at GeWoSüd; Thomas Rücker, General Manager of the GSW Immobilien GmbH

3 Discussion round (from left): Michael Pfalzgraf, CEO of Aareon Wodis GmbH; Lutz Basse, Chairman of the EDP Customer Advisory Board for GES and Blue Eagle; Peter H. Richter, Chairman of the WohnData Customer Advisory Board (at the point of the congress, now retired); Dr Wolfgang Pfeuffer, Chairman of the Wodis Customer Advisory Board; Jürgen Pfeiffer, member of the Management Board at Aareon AG

Aareon Congress – Pioneer for innovations

These two gentlemen regularly attend the Aareon Congress – especially on account of the DW Innovation Award for the Property Sector ("DW Zukunftspreis der Immobilienwirtschaft") that is awarded every year within the scope of the convention: Lutz Freitag, President of the Federation of German Housing Enterprises (Bundesverband deutscher Wohnungs- und Immobilienunternehmen e.V. – "GdW") and Professor Dr Hansjörg Bach, Prorector of the German Nürtingen-Geislingen University (Hochschule für Wirtschaft und Umwelt Nürtingen-Geislingen – "HfWU"). They are both highly appreciative of the congress, as it brings together the professionals from the institutional housing industry and provides impetus for the development of corporate practice, as well as scientific research and training.

1 Lutz Freitag (left) and Professor Dr Hansjörg Bach (right) during conversation

2 Dr Manfred Alflen welcomes the conference participants

3 Professor Dr Hansjörg Bach at the Aareon Congress

What defines the Aareon Congress for you?

Bach: I see the event as being crucially important, as it brings together the experts from all areas of the institutional housing industry, across all levels of expertise and from all associations. The Congress works like a seismograph, highlighting the areas concerning the industry and what issues are currently in focus. I always return with plenty of ideas that I then tackle in the months ahead. These often generate topics for the theses for the some 100 degrees that are awarded every year within the scope of our course of studies at the HfWU.

„I always return with plenty of ideas."

Professor Dr Hansjörg Bach

Freitag: The Aareon Congress has a strategic function. As a gathering of the various professions, bringing together a diverse range of approaches to thinking and acting, it concentrates on information technology and the institutional housing environment. It provides me with an overview of the latest IT developments, from which I can derive potential solutions that we use in our work as an association, offering them to our members' benefit.

Is such a large attended event still appropriate in our digital world, where contacts can be fostered involving little effort via the internet?

Bach: Even though I really like modern communication applications such as Skype and web-based conferences, such a congress makes a big difference. People meet face-to-face, foster their contacts, some of which are also at a personal level. The atmosphere is open and intimate. The closing event can be said to resemble a family gathering.

Freitag: Yes, Garmisch-Partenkirchen promotes proximity. The Bavarian ambience ensures spirited participation and creates the emotional foundation for open communication. This is very important for the professional exchange that is developed on a personal level, too.

What is the significance of the Aareon Congress?

Bach: The institutional housing industry is strongly influenced by regulations resulting from the earlier mutuality of many companies. However, competition has intensified increasingly. We are currently experiencing a period of change. Innovations, especially in relation to information technology, play a key role. The Congress successfully enhances IT and applications, from institutional housing practice and corporate innovation. IT is not seen here merely as a service provider, but rather as a pioneer for innovation.

It often takes quite some time before innovations are incorporated into corporate practice. What are your thoughts about the topics covered at the Aareon Congress?

Freitag: The Congress is extremely relevant in practice. Our discussions cover the very latest topics and issues. The event combines daily practice with innovation, gets close to the issues in the institutional housing industry and, at the same time, provides a forward-looking approach for the medium term.

What role does the DW Innovation Award for the Property Sector have that is bestowed at the Aareon Congress?

Bach: Exemplary industry innovations are distinguished. The Innovation Award attracts particular attention: the congress hall is full when the winner is announced. Everybody wants to know who has the edge with what project – and what one can glean from it for one's own business. I thoroughly enjoy moderating the Innovation Award in the capacity of chairman of the jury.

Freitag: As President of the GdW, I would not have chaired the Innovation Award if it were not so important. No such award existed until it was bestowed by the "Die Wohnungswirtschaft" trade journal and Aareon. It highlights the flexibility of our industry – even though immobility might be suggested by the German translation of property – "Immobilien" – and shows that our companies are staffed by committed, creative people that work closely with our business, our customers and our tenants.

"It highlights the flexibility of our industry – even though immobility might be suggested by the German translation of property – 'Immobilien'."

Lutz Freitag

1 Lutz Freitag (left) and Professor Dr Hansjörg Bach (right) discussing the Aareon Congress

Group Management Report

Group Management Report

Aareal Bank Group, headquartered in Wiesbaden, Germany, is a leading international property specialist. With a staff base comprising employees from more than 30 different nations, it is represented in 19 countries across three continents: in Europe, North America and in the Asia-Pacific region.

Business and environment

Group structure and business activities

Aareal Bank AG, whose shares are admitted to trading in the Regulated Market segment of the Frankfurt Stock Exchange and included in Deutsche Börse's mid-cap MDAX index, is the parent company of the Group. Aareal Bank Group offers financing, advisory and other services to the commercial property and institutional housing industries, and supports German and international clients as a financing partner and related service provider.

Aareal Bank is a member of the Association of German Banks (Bundesverband deutscher Banken – BdB) and Association of German Pfandbrief Banks (Verband deutscher Pfandbriefbanken – vdp).

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

Structured Property Financing

The Structured Property Financing segment brings together all the property finance and refinancing activities.

In this segment, we are servicing domestic and international clients on their property projects in more than 25 countries. Aareal Bank is active in 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 offer tailor-made financing concepts that meet the special requirements of our international clients. Aareal Bank is characterised especially by its direct and long-standing relations with its clients.

Aareal Bank has established itself as an active issuer of Pfandbriefe, which account for a major share of it's long-term funding. Its track record as a Pfandbrief issuer is based on the combination of its sustainable business model, its deep understanding of the capital markets, and a top-quality cover assets pool. Aareal Bank also covers a wide range of refinancing tools, including promissory notes and debt securities, in order to cater for a broad investor base.

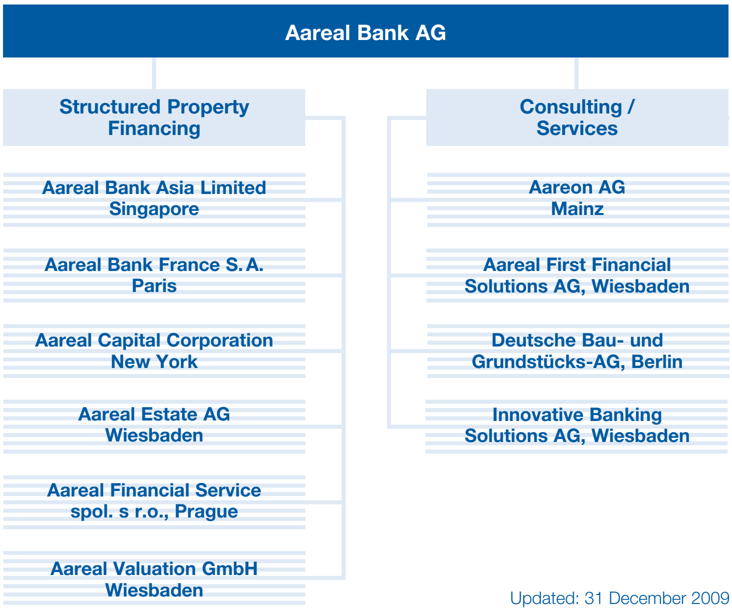
Consulting / Services

The Consulting / Services segment offers products and services for managing residential property portfolios and processing payment flows to the institutional housing industry. Within this segment, the subsidiary Aareon AG cooperates closely with the bank's Institutional Housing Unit.

We operate the IT systems consultancy and related advisory services for the institutional housing industry through Aareon AG, which can boast more than 50 years experience. Aareon pursues a multi-product strategy that covers the requirements of all client groups. The ERP product portfolio for efficient process structure comprises SAP-based solutions such as Blue Eagle, 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.

Through its Institutional Housing Unit, Aareal Bank operates automated mass payments systems for its institutional housing clients, which are integrated in their administrative processes. The settlement of payment transactions via Aareal Bank generates client deposits that contribute to the refinancing mix of the entire Group.

Group structure of Aareal Bank



Updated: 31 December 2009

Corporate management

Aareal Bank Group's management concept is focused on sustained company development. The standard is to create added value for our shareholders, clients and staff. The balanced orientation of our company management has paid off, especially against the background of the crisis affecting financial markets.

Aareal Bank Group is managed using indicator-based management tools that we have differentiated and structured specifically by segment. In addition to the earnings and productivity management tools, and the risk management system described in the risk report, we also use capitalisation and profitability in particular as key indicators across the Group.

Our comprehensive risk management system is particularly important to company management. The specific tools used for this purpose are described in the Risk Report.

Aareal Bank Group manages all Group entities (and their individual market price risk exposures) centrally. State-of-the-art methods are deployed to collate all information that is relevant for managing the Group, and to analyse such information in order to develop appropriate risk mitigation strategies. We also employ preview models for the structure of statements of financial position, liquidity and portfolio developments for strategic business and profit planning.

In addition to the business-related management tools, we also use additional instruments to optimise our organisation and processes. These include for example, a comprehensive cost management system, central management of project activities as well as personnel controlling.

Additional management tools and indicators are also used in the Structured Property Financing segment. Amongst other things, we use lending policies to manage the new lending business in this segment. These are lending standards applicable to specific property types and countries, whose compliance is monitored consistently within the scope of the lending process.

The property financing portfolio in its entirety is actively managed within Aareal Bank Group with the objective of optimising risk diversifications and profitability. In order to develop risk and return-oriented strategies for our portfolio, we evaluate market and business data, simulating appropriate strategies for our lending business and identifying a target on-balance sheet portfolio that is the object of Group planning. This facilitates early identification of market changes and allows us to react by taking adequate measures. Active portfolio management also ensures that we allocate our equity optimally to what are the most attractive products and regions from a risk / return perspective within the scope of our three-continent strategy. We observe maximum portfolio shares for individual countries, products and property types, thus guaranteeing a high degree of diversity within the portfolio and avoiding risk concentrations.

The management of the Consulting / Services segment is oriented on specific indicators of the individual subsidiaries in conjunction with the respective company focus; these comprise mainly EBIT (earnings before interest and taxes) and the EBIT margin. We also use specific management indicators that are typical for the advisory and other IT services that are the focal point of the segment. These include indicators that are based on regular client satisfaction surveys in relation to project process, as well as indicators for the degree of utilisation in Consulting. The key management indicators for the segment‘s banking business are the volume of deposits plus the margins on deposits. Deposit volumes represent a core element of the bank’s liquidity as a whole and profitability is decisive to the margin. These objectives sometimes vie with each other and are weighted to take the environment into account.

Macroeconomic and industry-specific environment

Global business environment

At the beginning of the year, the global economic environment was defined by the relentless financial markets crisis and a sharp economic downturn. Although the financial markets stabilised significantly during the course of the year, the situation did not fully return to normal. The real economy also stabilised, showing initial signs of a recovery – albeit from very low levels indeed. Economic performance was clearly down year-on-year.

Financial markets crisis

The severe turmoil on financial markets, which were exacerbated again in September 2008 by the insolvency of the US investment bank Lehman Brothers, continued into 2009. Activities on the interbank markets came to a standstill due to the massive loss of confidence amongst banks, and risk premiums remained very high. Securitisation markets, which represented an important refinancing source for the banks before the financial markets crisis, remained virtually illiquid. The central banks reacted to the liquidity squeeze on the refinancing markets back in 2008, by providing the commercial banks with considerable amounts of liquidity. The central banks continued to provide the commercial banks with expansive liquidity in 2009 as well. Likewise, government support for the financial markets – and, by implication, for the economy at large – continued in many countries. At the start of the year in particular, many banks in the various countries utilised state support (in the form of recapitalisation or government guarantees) for new issues, or further increased the support measures.

So-called "bad bank" schemes were created as another tool to combat the crisis affecting financial markets. In Germany, the legislator created the opportunity for banks to place non-performing assets with special purpose vehicles, the so-called "bad banks", at a haircut on the carrying amount. In return, the banks in question receive bonds from the SPV that are guaranteed by the German Financial Markets Stabilisation Fund (Sonderfonds Finanzmarktstabilisierung – SoFFin). The transferring banks must remain liable for losses incurred on the transferred securities until maturity. Another bad bank scheme launched by the German legislator – the so-called "consolidation model" – allows the banks to spin off additional risk positions, as well as business segments that no longer fit the strategy. Very few banks have actually taken up the option to create a bad bank in Germany to date. The US treasury launched its version of the bad bank model – the Public Private Investment Program (PPIP). In the course of the crisis affecting the economy and financial markets, the US launched a variety of programmes to support financial markets.

The bad bank models aim to spread the losses arising from the banks' impaired assets over several years, thus providing the banks with initial relief and an opportunity for comprehensive adjustment and restructuring of statements of financial position.

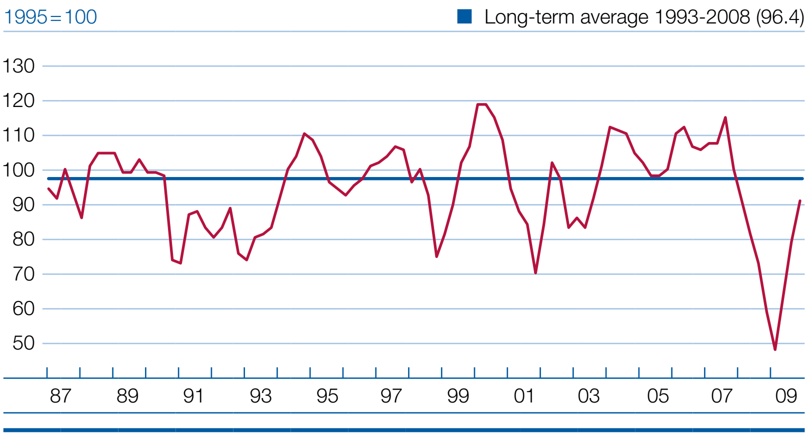
Tensions on the financial markets eased in the course of the year and the situation stabilised. Banks were able to successfully place government guaranteed securities in particular. As the year progressed, it was also possible for the banks to issue non-government-guaranteed securities through to equities. Investors' tendency to assume risk picked up and the risk premiums on securities declined in line with the successful placement of issues on the primary market. Only a few state support measures for banks were launched or increased in the second half of the year. Following the success enjoyed by some banks – investment banks in particular – to raise capital on the capital market through equity issues, various banks – in the US initially, followed by Europe at a later stage – repaid the capital injections received from the governments as well as state guarantee commitments.

Although financial markets eased substantially after the extreme turbulence seen at the start of the year, the situation had not yet returned to normal. Securitisation markets for example, remained virtually unreceptive towards year-end, even though first signs of easing were also emerging here. It must also be taken into consideration that the financial markets that were furnished with liquidity through central bank measures throughout the year, continued to receive support even at year-end.

The economy

Following the sharp downturn of the global economy in the course of 2008, economic activity continued to contract massively at the start of 2009. The global economy experienced the most severe global recession since the end of the second world war, which was defined by a considerable and abrupt collapse in production and global trade, plus rising unemployment. Many governments reacted to the recession in the last quarter of 2008 already, by implementing or announcing economic recovery programmes. Further high-volume economic recovery programmes were launched or stepped up in many countries in 2009.

ifo Global Economic Climate*



Source: ifo World Economic Survey (WES) IV/2009

* Arithmetic mean of the assessment of the current situation and expected developments

Following the massive collapse of the global economy in the first quarter of 2009, the downside trend showed signs of abating in the latter part of the year. This translated into moderate economic recovery in many countries in the second half of the year. Trend barometers such as the ifo business climate index improved. Industrial orders received and production rose again, and the slump in global trading experienced a revival. However, the upside trend started from a very low level so that economic activity remained well below pre-crisis levels.

Relief on the financial markets – supported by the significant supply of liquidity provided by central banks, and their expansive monetary policy – was a key factor driving the emerging recovery. Economic stimulus programmes implemented by many countries also had a significant effect. The end of the previous dramatic stock reduction in the industry, which led to a contraction in production activity, was also of great importance.

Unemployment climbed over the year as a whole in the course of the economic crisis, albeit with major regional differences. Particularly high increases were seen in the Baltic region, Spain and the US, while unemployment rates in the Netherlands remained very low. The increases were comparatively moderate in Germany and Norway.

Inflation, monetary policy, interest rates and exchange rates

Inflation remained very low worldwide throughout the year and was even negative at times in many countries. Inflation was high in a few Eastern European countries only, such as Turkey or Romania. Low or negative inflation in part was brought about by the sharp drop in raw material prices since mid-2008, and reticent consumer demand. Inflation climbed slightly towards year-end, but remained very moderate all the same. This is primarily attributable to the rise again in crude oil prices.

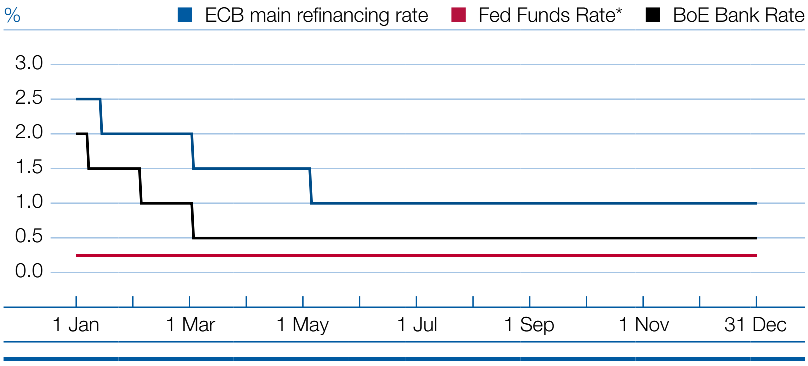
Monetary policy was focused primarily on securing the commercial banks‘ refinancing capability and therefore stabilising the economic and financial system. The European Central Bank (ECB) adhered to its policy – adopted in the autumn of 2008 – of satisfying bank's liquidity requirements in full within the scope of fixed-rate repurchase transactions. At the end of June 2009, it extended the term for these refinancing operations from six to twelve months. The ECB also provided liquidity denominated in foreign currencies. Other central banks also increased the provision of liquidity to the commercial banks in the year under review. In order to expand the provision of liquidity further, the US Federal Reserve (Fed) and the Bank of England (BoE) also employed the expansive open market policy tool. Programmes to purchase securities from the commercial banks were set up within the scope of this tool. From July 2009 onwards, the ECB also began buying covered securities, albeit to a comparatively limited extent.

Given the low or even negative inflation in part, the central banks cut benchmark rates in order to stimulate the economy. The ECB cut its benchmark rate in several steps, from 2.5 % at the start of the year to 1.0 % in May, while the BoE cut its key rate from 2.0 % at the start of the year to 0.5 % in March. Thereafter, ECB and BoE benchmark rates remained unchanged during the remainder of 2009. The US Fed had already cut its key rate in December 2008 to a corridor of 0.0 % to 0.25 %, which remained unchanged last year. Other central banks around the world also cut their key rates. Very few central banks, such as in Australia and Norway, hiked their key rates again in the second half of the year, having cut them previously. As a consequence of the policy of low headline rates, short-term euro, pound sterling and US dollar interest rates fell significantly during the course of the year. Developments at the long end were less uniform. Long-term pound sterling and US dollar yields rose, while euro yields at year-end were almost unchanged compared with the start of the year.

The annual growth rates of the M2 and M3 money supply aggregates in euro fell continuously during 2009. This is probably attributable, on the one hand, to statistical basis effects in conjunction with the heightened financial markets crisis in autumn 2008. On the other hand, the steep yield curve represented an incentive to transfer funds into longer-term investments and securities. As the crisis affecting financial markets intensified in autumn 2008, central bank statements of financial position expanded sharply, reflecting their efforts to furnish the markets with liquidity. This trend did not persist further in 2009. Total assets in the Eurosystem (which comprises the ECB and all national central banks participating in the euro) fell, while remaining virtually constant in the Federal Reserve System in the USA.

The euro depreciated sharply against the US dollar from the start of the year into March. This was followed by a long period of euro appreciation, until the euro depreciated again until the beginning of December. At year-end, the US dollar / euro exchange rate was slightly higher than at the start of the year. The performance of the euro relative to pound sterling was more volatile. Following strong volatility at the beginning of the year, the euro weakened against sterling. Having reached its low in early summer, the exchange rate rose again before falling again somewhat as of mid-October. At year-end, the pound sterling / euro exchange rate was lower than at the start of the year.

Key interest rates 2009



*The upper level of the corridor for the Fed Funds rate was set at 0.0 to 0.25 %.
Sources: ECB, Fed, BoE

Exchange rate development 2009

Source: Bloomberg

Exchange rate development 2009

Source: Bloomberg

Global commercial property markets

The global crisis affecting financial markets and the economy also had an impact on the performance of commercial property markets.

As a consequence of the recession, rents worldwide were under pressure across all types of commercial property. At the same time, greater incentives for tenants for example, in the form of rent-free periods or tenants' improvements at the landlords' expense resulted in lower returns on the properties. In the course of the economic downturn, which led to a reluctant stance with regard to travel as well as cost savings on business travel, earnings from hotels also fell. Variable rents that are dependant on sales revenue or rental shares of retail properties were also affected by hesitant consumption.

The yield requirements of commercial property investors continued to rise in early 2009, following on from the trend seen in the previous year. However, this trend came to an end in many places as of the middle of the year and yields stabilised. In fact, yields on prime properties fell in some markets, such as the commercial property markets in economic centres in the UK, although they remained higher than before the outbreak of the crisis. The rise in investors' yield requirements at the start of the year as well as falling rents in many markets drove down commercial property prices.

2009 transaction volumes on the commercial property markets fell again substantially over the previous year in all regions. Transaction volumes in 2008 were already considerably lower than in the record years of 2006 and 2007. The virtual collapse in investment activity was due to the depressed sentiment, the general economic downturn in conjunction with the uncertainty surrounding future rental income plus the gap between the buyers' and sellers' price perceptions. While buyers waited for favourable opportunities to enter the market, many potential sellers – especially of well-rented properties – were not prepared to accept a price mark-down. This also led to a lack of adequate properties on offer. The property investment climate also improved in line with the stabilisation and cautious recovery of the global economy. This combined with the high yields should have increased the transaction volumes somewhat in the second half of the year. Nonetheless, they remained at a low level compared with the previous year and were roughly at 2003 levels. The share of investment activities in Asia and Europe increased at the expense of North America.

Economic and commercial property market development in the individual regions

Western Europe

Due to its high export share, the German economy was hit particularly hard by the severe slump in global trade. Economic output in Germany for the year as a whole fell by around 5.0 %. The sharp decline occurred especially in the first quarter, while the economy stabilised as of the second quarter and picked up from a low level. The rise in unemployment in Germany was moderate compared with other European countries. Regulations governing the short-term allowance, which were utilised heavily as well as various forms of reducing working hours played a significant role here.

Economic output in France fell by around 2.3 % in the year 2009 as a whole, but revived again as of the second quarter. Economic output in Switzerland fell by around 1.7 %.

The Benelux states also had to endure considerably lower economic output, which was down roughly 3.1 % in Belgium, 4.0 % in the Netherlands and 4.1 % in Luxembourg. Unemployment in the Netherlands remained low with a comparatively moderate increase. Inflation in Europe was low. The annual rate of inflation in the eurozone was 0.9 % at year-end.

The British economy was burdened by the traditionally high significance of the financial services industry to the creation of value in the UK. Gross domestic product fell by around 4.7 % for the full-year 2009. Unlike most of the other Western European countries, the revival here was minimal in the second half of the year.

Developments on the markets for office property in Western Europe were defined by rising vacancy ratios and significant pressure on rents with remarkable regional differences. There was a profound drop in prime rents in London, which were adversely affected by the significance of the financial services. Other British locations were also affected by pressure on rents, albeit to a lesser extent. Prime office rents also fell in Brussels, Lyon and Paris. Prime office rents in Luxembourg and the economic centres of the Netherlands were down slightly to stable in relative terms. Prime office rents also fell in Germany in Düsseldorf, Hamburg and Munich. The fall was particularly pronounced in Berlin, while prime office rents remained stable in Frankfurt. Developments in Switzerland were inconsistent. While prime office rents in Geneva rose slightly, they fell in Zurich. The vacancy ratios rose across the board in the big Western European cities. They were particularly high at year-end in Great Britain's secondary districts such as Manchester and Birmingham, and particularly low on the other hand in Luxembourg or Lyon.

Prime retail property rents were more stable than for office property. Once again, British locations such as the City of London or Manchester, were hit hardest by the fall in rents. By contrast, prime rents in the first-class locations in Belgium, Germany, the Netherlands and Switzerland remained almost stable. The situation in France was somewhat more differentiated. Prime rents for retail properties in Paris were stable, compared with a decline in Lille and Lyon. On the other hand, retail property rents in less favourable locations or of only average quality came under greater pressure. This trend also applied to logistics properties. The prime rents for logistics properties remained stable in the main locations in France, Germany, Switzerland and the Netherlands – expect for Amsterdam, where prime rents fell – or rose slightly in Berlin or Rotterdam. However, prime rents fell in Brussels and in British locations such as Birmingham, Edinburgh and Manchester.

The volume of new rental agreements was very low across all three property types. The determination of prime rents therefore depends more on new individual rental agreements compared with times when a large number of new agreements would have been concluded, and are therefore subject to major inaccuracies.

In Western Europe, returns on hotel properties came under significant pressure owing to lower room prices and often as a result of lower occupancy ratios. The London hotel market was one of the few markets to feature a slight rise in occupancy ratios to over 80%; occupancy levels were thus high compared with the other European capitals. The British hotel market benefited from the pound sterling, which was weaker compared with previous years. However, falling room prices also impacted on the London hotel market, with lower average returns per room. Falling occupancy ratios – together with lower room prices – led to a fall in the average return per room in Berlin and Munich. The average return per room in the Paris and Amsterdam hotel markets were also down as a result of falling occupancy ratios and lower room prices.

The previous year's trend of rising investment yields for the different types of commercial property remained intact at the start of the year, therefore exercising pressure on the selling prices. Yields for prime commercial property stabilised or even fell somewhat in the latter half of the year in Western European countries. The decline in yields for prime properties was particularly pronounced on most markets in the British economic centres. Prime yields for office properties in the most important locations of France and Germany were down slightly to stable. From a full-year perspective, they were unchanged in Switzerland and Belgium, while they increased slightly in the Netherlands. Yields on prime rents for retail properties were down slightly on the previous year for Western European locations, such as Lyon, or rose moderately for example, in Amsterdam. On the other hand, yields on logistics properties increased almost across the board. The British locations were an exception, with falling yields.

It must be noted that these trends apply to first-rate properties. Yields on properties in peripheral locations or of weaker quality were higher and the difference between them and first-rate properties has widened.

Southern Europe

As a consequence of the slump in the previously buoyant construction activity and the drop in residential property prices, Spain experienced a sharp drop in domestic investment and consumer demand. Gross domestic product declined by approx. 3.6 %, and unemployment soared to almost 20 %. In Italy, where economic growth rates were already negative the year before, gross domestic product even contracted by around 4.8 %.

Prime rents on the market for office property in Madrid and Barcelona fell sharply. Prime rents in the Italian office property locations of Rome and Milan fell too, albeit to a lesser extent. Vacancy ratios rose in both countries. Prime retail rents also fell sharply in Madrid and Barcelona, while remaining constant in Milan and Rome. Prime rents for logistics properties fell in both countries. The Italian locations were also more robust here than in Spain. Lower occupancy ratios and lower room prices resulted in significant declines in the average returns per room on the hotel market in Barcelona.

The investment yields rose in both countries, leading to price declines. However, yields increased moderately in Italy. The rise in yields was more pronounced in Spain.

Northern Europe

The decline in economic output varied greatly in Northern Europe. Norway featured the lowest decline with around 1.1 %. Gross domestic product in Denmark, whose economy was already burdened by the fall in residential property prices last year, fell by around 4.8 %. The decline in Sweden was around 4.3 % and roughly 7.6 % in Finland. Similar to Germany, Finland was also burdened by the sharp collapse in global trading, which led to a significant decline in Finish exports.

Following a considerable increase in prime rents for office property in Oslo in recent years, these fell substantially in 2009. Prime office rents in Copenhagen, Helsinki, Stockholm and Gothenburg were also down, albeit to a lesser extent. Prime rents for retail property in Oslo posted the greatest decline. Prime rents in the retail segment were also down in Copenhagen, compared with Stockholm and Helsinki, where they remained almost constant. Prime rents for logistics properties also posted a decline. This was particularly relevant to Helsinki and Oslo, followed by Copenhagen, while prime rents in Stockholm were virtually unchanged.

The investment yields on Northern European commercial property markets rose initially. They stabilised in the course of the year, as in other countries. Falling yields were reported for prime-quality properties on the retail market in Oslo, while they remained virtually unchanged or rose on the other important Northern European commercial property markets.

Eastern Europe

Economic development varied greatly across Eastern Europe. Poland was the only European country to have recorded positive economic growth (around 1.5 %) last year. Economic output in the Czech Republic and Slovakia contracted by around 4.0 % and 5.1 % respectively, and by more than 7 % in Romania. After the high growth rates of previous years, domestic investment and consumer demand in Russia fell significantly and economic output shrank by around 8.8 %. The Russian economy stabilised as of the second half of the year, though at a low level. The economy slumped quite severely in the Baltic region, with falling gross domestic products of around 14.5 % in Estonia, 17.7 % in Latvia and 15.2 % in Lithuania. Turkey had negative economic growth of around 5.9 %.

Having risen sharply in recent years, prime office rents in Moscow collapsed during 2009. Top office rents also fell quite considerably in Warsaw. Even though the fall in rents was less pronounced in Bucharest, Prague and Istanbul, it was still considerable. The vacancy ratios increased in all locations. The highest vacancy ratio was recorded in Moscow at around 20 %, and the lowest in Warsaw at just over 7 %.

A very significant drop in prime rents for retail property was recorded in Bucharest, Warsaw and Moscow. The decline in prime rents for retail properties was comparatively moderate in Prague. Numerous landlords and tenants of shopping centres in Turkey agreed to set binding currency translation prices for rents, owing to the temporary depreciation of the Turkish lira. Although the rents are payable in the local currency, they are often oriented on a euro- or US dollar-denominated value. This had resulted in a significant haircut on rental income denominated in euro or US dollar, even though the actual rental contracts were not reduced in the local currency.

Prime rents for logistics properties in the various East European locations fell, too. Moscow recorded the greatest decline. The logistics market is not yet as well-developed in Turkey. Declines in prime rents were also reported here for 2009. In the hotel sector, the average return per room contracted significantly in Moscow and Prague. The decline was not as great in Warsaw.

Investment yields rose in East European locations, as the situation stabilised in the second half of the year. The most significant increases were in Moscow and Bucharest, which also recorded the highest yields, followed by Istanbul. The rise in yields as well as their level was less marked in Prague and Warsaw. The rise in yields at the start of the year in conjunction with the falling rents led to significant downside pressure on the prices.

North America (NAFTA states)

The sharp downtrend in the US economy from the end of the previous year persisted into the start of 2009. Even though there was a revival in the course of the year, it started from a low level. Economic output fell by around 2.5 % for the year as a whole. The massive economic recovery programme of some US$ 787 billion that was passed in February 2009 contributed to the revival. This together with tax shortfalls as a consequence of the economic crisis drove up the budget deficit. Unemployment continued to rise from last year and at around 10 %, reached the highest level of the last 25 years. Consumer prices in the USA fell at times during the year under review, but rose year-on-year in the last two months.

The Canadian and Mexican economies are closely linked to that of the USA. Economic output in Canada contracted by around 2.5 %, while Mexico, where the economy was also adversely affected by the spread of the new flu, suffered a decline of around 6.8 %.

The economic crisis impacted on North America's market for office property. The number of new rentals fell as well as rents themselves, while the vacancy ratios rose. It is striking that the national average for vacancy ratios in the US were considerably higher than in Canada. Office vacancy ratios in the USA were particularly high in Detroit, New Jersey and Dallas. They were comparatively low in New York, even though they had risen quite substantially there too. Office rents fell in almost all leading locations of the USA and Canada. Besides the decline in contract rents, tenant incentives, for example in the form of rent free periods, played an ever-growing role. This resulted in the additional effect of falling real rents. Retail property rents in the USA also fell, while the average vacancy ratio increased. Falling rental income and rising vacancy ratios were also evident in logistics properties in the USA.

On a nationwide average, occupancy ratios increased and room prices in the American and Canadian hotel markets decreased, leading to considerable discounts on the return per room. Concerns about the new flu in Mexico drove down the average return per room significantly.

The volume of commercial property transactions collapsed in North America. The price perceptions of potential buyers and sellers were poles apart here, too. As investors' yield expectations went up, rental income dropped – combined with a lack of transaction activity, this led to a marked decline in prices.

Asia / Pacific

The Asian economic area was sucked into the global recession in the second half of 2008 and the start of 2009, especially as a result of the collapse in global trade. The East Asian economies recovered earlier and to a greater extent than other regions. The development was driven by China, with economic growth on around 8.7 % that almost reached the previous year's level. The driving forces were China's expansive fiscal and monetary policy, together with the increasingly important domestic demand. Another factor that had a positive impact on the entire region is that the banks in East Asia were affected by the financial markets crisis to a much lesser extent than their North American and European peers. Singapore's economy benefited from the momentum generated by the Chinese economy. A strong recovery followed the sharp downturn at the start of the year, so that economic output fell by around 2.1 % for the year as a whole. Although gross domestic product in Japan shrank by around 5.3 %, a revival was evident here, too, in the course of the year. China and Japan's annual average inflation rate was negative, while average annual inflation in Singapore remained almost constant.

Rents for prime class offices in China's most important and heavily populated cities – Shanghai and Beijing – fell in the course of the year. Prime rents for offices slumped in Singapore. However, the first signs of stability were evident in individual first-rate locations towards the end of the year. Prime rents also fell significantly on the Tokyo office property market. The fall in rents was accompanied by rising vacancies. The highest vacancy ratios were in China, with values of more than 20 % in Beijing and around 15 % in Shanghai. The office property markets in Singapore and Tokyo featured considerably lower vacancy ratios of over 4 % and 5 % respectively – albeit rising, too. Rents for retail properties fell in Tokyo, Singapore, Beijing and Shanghai, whereby an upward trend in prime rents was evident again in Shanghai in the second half of the year and in Singapore in the last quarter. The logistics market in East Asia was unable to escape the general trend of falling rents. Rents fell in all of the four observed locations of Tokyo, Singapore, Shanghai and Beijing in the course of the year.

As a consequence of the economic crisis, booking ratios and the average return per room were down in the East Asian hotel markets as well. Tokyo were the only significant East Asian hotel market to buck the general trend and show a positive performance and a rise in the average return per room. By contrast, the decline in the average return per room in Beijing was very substantial. However, it must be taken into account that the Beijing hotel market benefited from the Olympic Games the year before.

In Asia, transaction volumes for commercial property was relatively high compared with other regions and a clear uptrend was evident early on. The marked price decline at the start of the year as a consequence of falling rents and higher yield requirements was followed by improved prices and lower yield requirements in the latter part of the year. The opportunities created for Chinese insurers to invest in commercial property as of October 2009 is interesting in relation to future investment demand. This was not permissible to date.

Summary

Aareal Bank AG integrated its property financing and refinancing activities in the Structured Property Financing segment. As in previous years, we have reacted to the developments outlined in the previous section with early, intensive monitoring, close client and property management, as well as implementing measures for minimising any losses. The success of these measures in the financial year under review as well as in previous years is reflected in our appropriate allowance for credit losses, which was within our target corridor forecasted for 2009.

The German Institutional Housing Industry

In the midst of the crisis, the German institutional housing industry proved to be quite resilient. This is reflected in stable cash flows and the solid performance of the residential property portfolio. Secure, diversified rental income together with a long-term financing structure were representative of a sustained robust business trend in the industry in 2009.

Even in the difficult financial environment, the Institutional Housing Industry's investment activity did not fall significantly in the financial year under review. As was the case in the past, investments were concentrated on energetic restructuring measures and modernisation, to create sustained quality of living. The amended 2009 Energy Savings Ordinance (Energieeinsparverordnung – "EnEV 2009"), which came into force in autumn 2009, has set higher standards for structural and technical adaptation of buildings.

Transaction volumes remained low again in 2009, due to the strong reticence of market participants, and exacerbated by uncertainty regarding future rental income and diverging price perceptions of buyers and sellers. Overall, only 56,000 residential units changed hands, with an aggregate transaction volume of approx. € 3.2 billion. The size of individual transactions also declined from the previous year: three quarters of all sales involved less than 500 residential units. The largest transaction of 2009 was the sale of some 6,000 properties of the DAWAG, a subsidiary of ver.di, the German trade union.

During the course of the year, however, residential property regained investor attraction as an investment offering long-term value. Financial investors that had withdrawn from the residential property market were replaced by predominately financially-sound domestic buyer groups with a longer-term investment horizon. Investments by newly-launched residential property funds (whether in the form of mutual funds or special institutional funds) shaped the market in particular, boosting demand for residential property. Investment was focused on housing stock in economically strong conurbations.

The property market was hardly affected to date by the general downturn of the German economy. Rents rose again slightly in Germany. However, the rise was more moderate compared with the previous year. According to the F+B rental table index for 2009 – an evaluation of all official rental overviews in Germany – the average rent increase is currently 0.6 %. Last year's increase was 0.8 %.

However, there were significant regional differences owing to the different developments in relation to population. Rent increases in North Rhine-Westphalia and in East Germany were slightly below average at 0.4 %. Rents increased in Southern Germany, especially in Bavaria and Baden-Württemberg, by 1.5 %, which was twice as high as the national average. All in all, a comparison between rental levels highlights the prevailing gap between West and East Germany, and the special situation in the greater Munich area with its above-average rents.

On the market for property management software, slightly cautious investment behaviour, due to economic factors, was reflected in lower tender volume. This was the case in the first half of the year in particular. In relation to ERP solutions, the market is split increasingly into SAP-based and non-SAP based solutions. Demand for individual solutions increased in the segment for ERP systems operating on the basis of SAP. The modern development platform Microsoft®.NET™ gained increasingly in importance in the market segment for non-SAP based solutions.

The issue of IT compliance – monitoring the compliance of trading with the legal requirements – is becoming increasingly important in property management. The focus is on implementing highly efficient IT-supported processes to verify and review data.

Group Profitability[1)]

Income Statement

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Net interest income	460	500
Allowance for credit losses	150	80
Net interest income after allowance for credit losses	**310**	**420**
Net commission income	133	149
Net result on hedge accounting	-2	2
Net trading income/expenses	44	-31
Results from non-trading assets	-22	-102
Results from investments accounted for using the equity method	1	7
Results from investment properties	0	-1
Administrative expenses	361	364
Net other operating income/expenses	-14	30
Impairment of goodwill	2	0
Operating profit	**87**	**110**
Income taxes	20	45
Net income/loss	**67**	**65**
Allocation of results		
Net income/loss attributable to non-controlling interests	18	18
Net income/loss attributable to shareholders of Aareal Bank AG	49	47
Appropriation of profits		
Net income/loss attributable to shareholders of Aareal Bank AG	49	47
Silent participation by SoFFin	26	–
Consolidated profit/loss	**23**	**47**

Aareal Bank Group concluded the financial year 2009 with a solid result, in a challenging market environment. Consolidated operating profit amounted to € 87 million, after € 110 million the year before.

Net interest income for the financial year under review was € 460 million (2008: € 500 million). Higher margins in the lending business were offset by the impact of the low-interest rate environment on the very comfortable liquidity reserve. Moreover, the unfavourable interest rate environment burdened results in the deposit-taking business with the institutional housing industry.

Allowance for credit losses was recognised in an amount of € 150 million (2008: € 80 million), in line with projections.

Net commission income of € 133 million (2008: € 149 million) reflected – amongst other things – € 17 million in running costs for the guarantee facility extended by SoFFin; adjusted for these costs, the net figure was thus slightly higher year-on-year.

1) Comparative figures for the previous year were partiallly adjusted. Further information is included in Note 5 to the consolidated financial statements.

Net trading income / expenses of € 44 million (2008: -€ 31 million) was attributable mainly to the measurement of financial instruments held in the trading portfolio; specifically, this related to recoveries in the market value of credit derivatives (€ 34 million).

Restructuring the securities portfolio – conducted at the beginning of 2009 within the scope of the conservative risk policy adopted – was a main influencing factor upon the result from non-trading assets of -€ 22 million (2008: -€ 102 million). No further material burdens to the result from non-trading assets were recognised during the remainder of 2009.

Administrative expenses of € 361 million were virtually unchanged year-on-year (2008: € 364 million). This reflects the strict cost discipline pursued within the Group.

Consolidated operating profit for the 2009 financial year totalled € 87 million (2008: € 110 million). Taking into consideration taxes of € 20 million and non-controlling interest income of € 18 million, net income attributable to shareholders of Aareal Bank AG amounted to € 49 million (2008: € 47 million). After deduction of the net € 26 million cost of the SoFFin silent participation (taking into account the related tax effects), consolidated net income stood at € 23 million.

Segment Reporting

Structured Property Financing

Business development

Our focus during the 2009 financial year was on maintaining a risk-sensitive lending policy, and on consistently managing our credit portfolio. Within the scope of new business, we continued to focus on our existing client base and on renewals of existing financing projects.

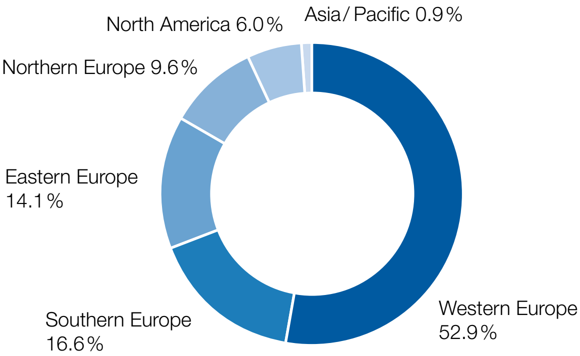
New business in 2009 totalled € 3.8 billion compared with € 5.5 billion during the previous year. This meant that we exceeded the target range of between € 2 and 3 billion forecast at the beginning of the year. The reason behind this improvement was the high level of loan renewals. Additionally, we have also been able of late to work together with our clients to take advantage of opportunities as they have arisen. Looking at the difficult market situation, we consider the year-on-year decrease in new business volumes to be appropriate. The lower volume of new business reflects the tense business environment as well as the overall decline in transaction volumes in the commercial property markets. At the same time, the development of new business reflects our sustained readiness to support our existing client base.

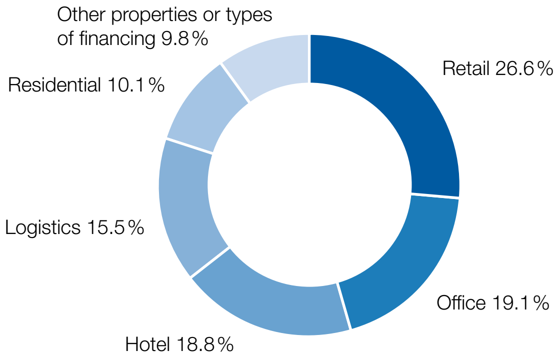
Three-continent strategy

Aareal Bank is active in Europe, North America and Asia within the scope of its three-continent strategy. We leverage our local presence to develop business through direct client relationships. Europe accounted for 93.2 % of new business, followed by North America with 6.0 % and Asia with 0.9 %. The lower relative share of new business conducted in North America and Asia – compared with the previous year – reflects our focus on existing exposures and renewals: compared to Europe, only few lending exposures in North America and Asia were up for renewal during the 2009 financial year.

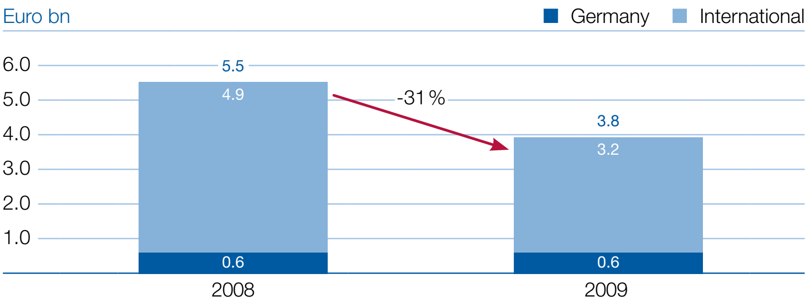
New business 2009

by region | by type of property





Development of new business



Key regional markets

Europe

Western Europe

New business in Western Europe totalled € 2.0 billion during the financial year under review.

In addition to our Wiesbaden head office, our clients in Germany are serviced by our branch offices in Berlin, Hamburg and Munich. New business in Germany amounted to € 0.6 billion.

Our London branch is responsible for managing market activities in the United Kingdom and the Netherlands. In addition, our Amsterdam branch office has the local relationship management responsibility for our Dutch clients, and is responsible for managing sales activities in the Netherlands. New business in the UK and the Netherlands amounted in aggregate to € 0.9 billion.

We maintain a local presence in France through our Paris-based subsidiary, Aareal Bank France S.A. To enhance our efficiency in the French market, we intend to merge Aareal Bank France S.A. into Aareal Bank AG, Wiesbaden, during the first half of 2010, and to subsequently convert our Paris office into a branch. In addition to sales for the French market, the Paris office is also responsible for managing sales activities in Belgium, Luxembourg, Spain and Switzerland. Clients in Belgium and Switzerland are serviced locally through Aareal Bank AG's branches in Brussels and Zurich, respectively. New business originated in France, Switzerland, Belgium and Luxembourg totalled € 0.6 billion during 2009, with France and Belgium accounting for the largest share.

Southern Europe

We service our clients in Italy through our branch offices in Rome and Milan. In addition, we have a local presence in Southern Europe with our Madrid representative office.

We originated new business in Southern Europe in an aggregate volume of € 0.6 billion, of which € 0.5 billion was in Italy and € 0.1 billion in Spain.

Northern Europe
Sales in Northern Europe are managed by our Stockholm branch. Our representative offices in Helsinki and Copenhagen give us an additional presence in the Nordic countries.

New business in Northern Europe totalled € 0.4 billion during the financial year under review. Sweden accounted for the highest share, followed by Denmark and Finland.

Eastern Europe
Sales activities in Eastern European countries (excluding Turkey) are managed by our branch office in Warsaw, which also has operating responsibility for our subsidiary Aareal Financial Service spol s.r.o in Prague and our Moscow representative office.

New business originated in Eastern European countries amounted to the equivalent of € 0.5 billion. Poland accounted for the largest share, followed by the Czech Republic. New business in Russia and Turkey only involved minor volumes. We did not originate any new business in the other Eastern European countries, including the Baltic states.

We maintain a local presence in Turkey through our Istanbul representative office, which reports directly to the Wiesbaden head office (as opposed to the regional sales hub in Warsaw).

North America (NAFTA states)
Based in New York City, our subsidiary Aareal Capital Corporation is active in the North American market. It also holds major parts of Aareal Bank Group's US portfolio.

New business in North America totalled € 0.2 billion, with the clear majority originated in the USA. Canada only accounted for a minor portion of new exposures.

Asia / Pacific
Our Singapore subsidiary, Aareal Bank Asia Limited is responsible for managing the Group's sales activities in the Asia / Pacific region, with our Shanghai representative office maintaining an additional local presence.

Our new business of less than € 0.1 billion was largely attributable to China, with minor additional exposures related to selected hotel locations throughout the region.

Pooling and deploying the resources of industry specialists internationally

In addition to the regional expertise of our local teams, we have teams of sector specialists covering hotels, logistics properties and shopping centres at our Wiesbaden head office. Assuming the role of centres of competence, these teams 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: hotels, logistics and retail.

The new business figures for specific types of property, as stipulated in the sections below, are included in the regional new business data shown above.

Hotels
New business of € 0.7 billion was generated in hotel financings during 2009, with exposures in Western Europe accounting for more than half of this figure.

Logistics properties
New business for financing logistics properties amounted to € 0.6 billion: again, the major part (88 %) was attributable to Western Europe.

Shopping centres
New business for financing retail properties totalled € 1.0 billion, whereby the three regions accounting for the highest shares showed a roughly equal weighting: Eastern European countries accounted for a share of 27 %, followed by Western Europe (26 %) and Southern Europe (24 %). The remaining new business in this sector was originated in North America and Northern Europe.

In addition to financings for the three types of property set out above, we originated new business related to office properties, in an amount of € 0.7 billion, residential properties (€ 0.4 billion) and other types of property / other loans (€ 0.4 billion). Geographically, the focus for financing office properties was on projects in Western Europe (71 %). Similarly, at 44 %, Western Europe accounted for the largest share of new business involving residential properties, followed by Northern and Southern Europe with 24 % each.

Segment result[1)]

Aareal Bank's Structured Property Financing segment posted a positive result, in spite of the crisis affecting financial markets and the economy.

Net interest income posted by the segment for the financial year under review amounted to € 410 million (2008: € 431 million). Higher margins in the lending business were offset by the impact of the low-interest rate environment on the very comfortable liquidity reserve.

Allowance for credit losses was recognised in an amount of € 150 million (2008: € 80 million), in line with projections.

Net commission income of € 1 million (2008: € 28 million) reflected – amongst other things – € 17 million in running costs for the guarantee facility extended by SoFFin. Net commission income for 2009 was also burdened by the low level of new business and of unscheduled repayments.

Structured Property Financing segment

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Net interest income	410	431
Allowance for credit losses	150	80
Net interest income after allowance for credit losses	**260**	**351**
Net commission income	1	28
Net result on hedge accounting	-2	2
Net trading income/expenses	44	-31
Results from non-trading assets	-22	-102
Results from investments accounted for using the equity method	1	7
Results from investment properties	0	-1
Administrative expenses	201	217
Net other operating income/expenses	-12	29
Impairment of goodwill	2	–
Operating profit	**67**	**66**
Income taxes	13	31
Segment result	**54**	**35**
Allocation of results		
Segment result attributable to non-controlling interests	16	16
Segment result attributable to shareholders of Aareal Bank AG	38	19

[1)] Comparative figures for the previous year were partially adjusted. Further information is included in Note 5 to the consolidated financial statements.

Net trading income / expenses of € 44 million (2008: -€ 31 million) was attributable mainly to the measurement of financial instruments held in the trading portfolio, specifically, this related to recoveries in the market value of credit derivatives (€ 34 million).

Restructuring the securities portfolio – conducted at the beginning of 2009 within the scope of the conservative risk policy adopted – was a material influencing factor upon the result from non-trading assets of -€ 22 million (2008: -€ 102 million). No further material burdens to the result from non-trading assets were recognised during the remainder of 2009.

At € 201 million, administrative expenses were lower than the corresponding figure for the previous year (€ 217 million) – evidence of the Group's strict cost discipline.

Taking into account net operating income / expenses of -€ 12 million (2008: € 29 million), the operating profit for the Structured Property Financing segment amounted to € 67 million, unchanged year-on-year (2008: € 66 million). Taking into consideration tax expenses of € 13 million and € 16 million in non-controlling interest income, the segment result was € 38 million (2008: € 19 million).

Consulting / Services

Business development – institutional housing industry

Aareon AG

Aareon AG is a leading consultancy and IT systems house serving the property management sector. Sales revenue remained stable, despite the general economic weakness, which led to a lower volume of project tenders in the market – especially in the first half of the year, with operating profit improved over the financial year 2008.

Aareon continued to optimise its product portfolio during the first quarter of 2009, concluding the ongoing development of its SAP-based "Blue Eagle" property management software during the first quarter. The related measures to adjust staffing levels in some areas led to a non-recurring charge on first-quarter results. Aareon also posted expenses in relation to its spinning-off of non-core activities. The total costs were € 6 million.

During the 2009 business year, Aareon concentrated on optimising and refining its multi-product strategy. In this context, Aareon's ERP (enterprise resource planning) products for the property management sector continued to be successful in the market. The product range comprises the ERP application Wodis (including Wodis Sigma, the latest product generation), as well as SAP-based software solutions such as Blue Eagle, GES and WohnData. The systems offer solutions for property management and efficient data management that can be customised to meet individual requirements. Current trends, as well as industry-specific and client requirements, such as SCHUFA services and energy reporting, are all incorporated into the ongoing development of the ERP products.

As part of the further development of its product portfolio, Aareon successfully launched the new Wodis Sigma product generation onto the market in 2009. Wodis Sigma is based on the Microsoft®.NET™ software development platform. The user interface of the Wodis Sigma application is closely based on the latest version of the Microsoft Office suite. A deliberate focus was placed during the development stage on making the product user-friendly and secure. The development of Wodis Sigma Release 1.0 has been concluded, with tests with pilot clients being launched in October 2009. Some 206 clients with 677,000 units have already signed contracts for the new product generation, with initial production roll-outs having taken place in January 2010.

Aareon offers individually tailored implementation projects in a SAP environment. Demand for individual products has increased in the institutional housing market as a whole. This is an area in which Aareon was able to acquire some major clients during 2009. GWH Gemeinnützige Wohnungsgesellschaft Hessen mbH signed a contract for the introduction of a SAP® customised solution, whilst STADT UND LAND Wohnbauten-Gesellschaft mbH opted to introduce Blue Eagle Individual. A hosting agreement for Blue Eagle Individual was also entered into with GEWOBA Aktiengesellschaft Wohnung und Bauen, based in Bremen. Meanwhile, the business relationships with ABG Frankfurt Holding GmbH and GAG Immobilien AG, Cologne, were further expanded. Aareon also succeeded in acquiring consultancy contracts outside the housing sector, gaining new business with utility and water companies.

The two property systems GES (ASP solution) and WohnData (Inhouse solution) are permanently being further developed in line with major market requirements, and statutory regulations in particular. The two GES releases were delivered on time in 2009, and WohnData Release 9.5 was launched on schedule in September.

For the purposes of integrating and optimising payment transaction processes, Aareon, together with the Institutional Housing Unit of Aareal Bank, offers the payment system BK 01 for GES, Wodis and WohnData, whilst the BK XL system including digital signature is exclusively available with Blue Eagle. Property management companies can rely on these systems for highly efficient postings, payments and accounting.

All other Aareon ERP systems can also be networked with integrated services and add-on products to simplify IT processes even further. These include the Mareon service portal with modules to connect tradesmen and for inventory data management, as well as the Aareon DMS document management system. These services are growing increasingly important, particularly as the requirements in terms of IT compliance become ever stricter. The Mareon service portal, which contributes to higher tenant satisfaction thanks to its faster handling of claims, is used by 160 property management companies and some 6,500 tradesmen. The total volume of orders placed in 2009 amounted to € 472 million.

Following the takeover of the French software specialist Sylogis.com in 2008, Aareon merged the company with Aareon France in June 2009. The ”new“ Aareon France is the market leader in the French commercial housing sector. Synergies have been realised in the development of the new product generations of the ERP software PortalImmo 2.0 and Prem'Habitat 2.0. These were greeted with strong approval amongst clients and interested parties. Meanwhile, Aareon UK was the successful bidder in a number of calls for tenders despite facing aggressive competition on the British market. The difficult situation in Italy meant that restructuring measures were needed at Aareon Italia S.r.l. in order to improve productivity levels.

Payments and deposit-taking

We also further strengthened our market position in the bank's Institutional Housing Unit. The business is underpinned by the market-leading payments system ”BK 01“ for the institutional housing industry. Developed by our subsidiary Aareal First Financial Solutions AG together with the bank, this is a payments system with a high integration capability and facilitates a significant degree of process automation in the client's systems.

During the 2009 financial year, we acquired 64 housing enterprises managing more than 178,000 residential units for payments and deposit-taking. Despite the intense competition to offer the best terms and conditions, we were able to maintain the high volume of deposits taken, at € 4.0 billion, underscoring the trust our clients place in the bank.

There is clear cross-selling potential for Aareal Bank Group between the Institutional Housing Unit and Aareon. Approximately 80 % of clients have a business relationship with Aareal Bank and with Aareon.

Building on existing client relationships and acquiring new clients remained the main focuses of our sales activities. The area of commercial property management also offered good prospects. Structural changes in the sector sparked by the economic crisis meant that there was greater demand for cost-saving services and processes.

We also found further potential in the area of products and services for energy companies, above all through the BK 01 immoconnect product designed to generate synergies. This product gives companies in both of the target sectors – institutional housing and utilities / disposal companies – a means of improving efficiency.

We also expanded our product range for property management companies in 2009 as a means of tapping into new client potential.

Segment result

Operating profit in the Consulting / Services segment amounted to € 20 million. Taking a non-recurring charge of € 6 million into account, the figure was within the projected range. Given the generally difficult market situation and the unfavourable interest rate environment, particularly for deposit-taking business in the Institutional Housing sector, the result achieved can be viewed as satisfactory overall.

Sales revenues of € 209 million in 2009 were lower than in the previous year (2008: € 229 million), largely due to the low interest rate environment, which impacted unfavourably on profitability of the deposit-taking business with the institutional housing industry. However, the volume of deposits placed by this client group remains stable. Sales revenue recorded by the Aareon sub-group were on a par with the previous year.

Net other operating income / expenses totalled € 7 million (2008: € 12 million).

Taking into account non-recurring effects of € 6 million, staff expenses of € 109 million were only slightly higher than in the previous year (2008: € 99 million). Aareon already recognised these one-off charges related to capacity adjustments and the suspension of non-core activities during the first quarter of 2009.

Write-downs in the amount of € 14 million (2008: € 14 million) and other operating expenses in

Consulting / Services segment

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Sales revenue	209	229
Own work capitalised	2	1
Changes in inventory	0	0
Other operating income	7	12
Cost of materials purchased	25	36
Staff expenses	109	99
Depreciation, amortisation and impairment losses	14	14
Results from investments accounted for using the equity method	0	–
Other operating expenses	50	49
Interest and similar income/expenses	0	0
Operating profit	**20**	**44**
Income taxes	7	14
Segment result	**13**	**30**
Allocation of results		
Segment result attributable to non-controlling interests	2	2
Segment result attributable to shareholders of Aareal Bank AG	11	28

the amount of € 50 million (2008: € 49 million) were both more or less unchanged on the previous year.

On balance, the total operating profit posted by the Consulting / Services segment was € 20 million (2008: € 44 million).

Adjusted to take account of € 7 million in taxes and minority interest income of € 2 million, the segment result was € 11 million (2008: € 28 million).

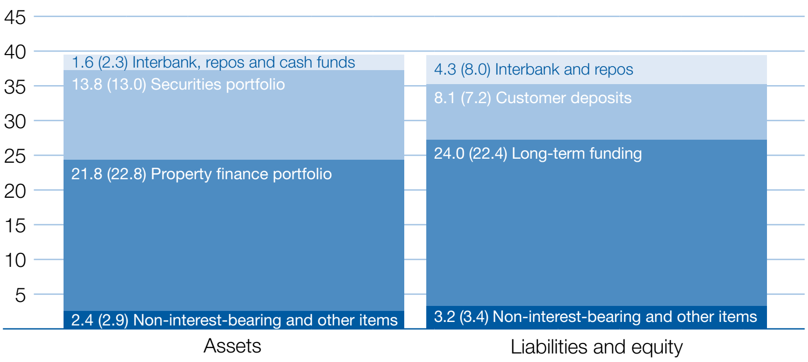
Net Assets and Financial Position

Assets

The consolidated total assets of Aareal Bank Group as at 31 December 2009 amounted to € 39.6 billion, compared with € 41.0 billion as at 31 December 2008.

Statement of financial position – structure as at 31 Dec 2009 (31 Dec 2008)

Euro bn



Interbank, repos, and cash funds

The item interbank, repos, and cash funds comprises short-time investments made with surplus liquidity. At the reporting date of 31 December 2009, it comprised predominantly cash funds and deposits with central banks (€ 1.0 billion) as well as deposits and current account balances with other banks (€ 0.5 billion).

Securities portfolio[1]

The liquidity reserve, which was kept at a comfortable level due to the difficult market situation during the reporting period, is invested in a high-quality securities portfolio. Aareal Bank's sound liquidity situation means that the bank is a reliable partner to its clients with regard to the granting of finance. It also means that it is suitably prepared for any renewed worsening of the situation on the financial markets. Aareal Bank can quickly monetise the portion of the securities portfolio serving as a liquidity reserve, for example through repurchase transactions on the money market.

As at 31 December 2009 the securities portfolio worth € 13.8 billion included issues from four segments: public-sector borrowers, covered bonds and Pfandbriefe, bank bonds and asset-backed securities. In terms of currency, 96 % of the total portfolio is denominated in euros. Overall, 99.75 % of the portfolio has an investment grade rating.

Public-sector issuers account for the largest portfolio segment, with a volume of around € 9.9 billion. Specifically, this comprises securities and promissory note loans[2], which are eligible as ordinary cover for public-sector covered bonds (Öffentliche Pfandbriefe), in other words major issues from public-sector issuers or guaranteed by public-sector entities. Of these issuers, more than 96 % are based in the European Union. Approximately 33 % of this portfolio segment is rated AAA, with 58 % having an AA rating and 6 % an A rating. The remaining 3 % of the portfolio has an investment grade rating.

The volume of Pfandbriefe and covered bonds as at the year-end was approximately € 1.2 billion. The focus was on Europe, accounting for 93 %, with 7 % invested in Canadian covered bonds.

[1] All percentages are based on nominal amounts
[2] 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".

All of the securities in this sub-portfolio are at least rated AA+, with two thirds having an AAA-rating.

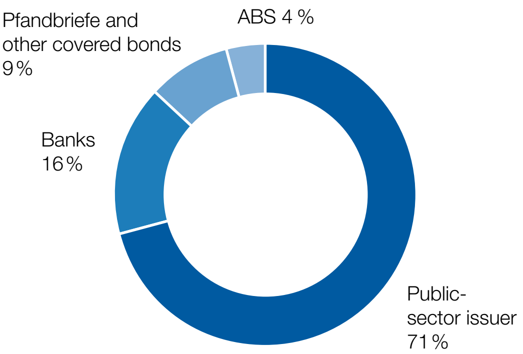
A further investment focus lies in bank bonds, predominantly issued by European issuers with first-rate credit quality. The volume of this portfolio segment as at the year-end was approximately € 2.1 billion. All of the individual borrowers are rated A or better.

In addition, the portfolio includes asset-backed securities in a nominal amount of approx. € 537 million (2008: € 590 million). The focus is on European mortgage-backed securities, with 61 % RMBS and 24 % CMBS. The remaining 15 % is invested in asset-backed securities based on car and student loans. All interest and redemption payments have been made on schedule and in the full amount for all ABS issues to date.

Aareal Bank invested approximately € 2.4 billion in securities over the course of 2009. Public-sector issuers accounted for the largest investment share, at 86 %, followed by covered bonds (9 %), with the remaining 5 % being invested in bonds issued by European banks. Around € 0.4 billion was sold off from the existing portfolio. Our positions were reduced in cases where our medium-term assessment of the market had changed. The reduction in the ABS portfolio segment resulted solely from scheduled redemption payments.

Securities portfolio as at 31 December 2009

% Total volume: Euro 13.5 billion



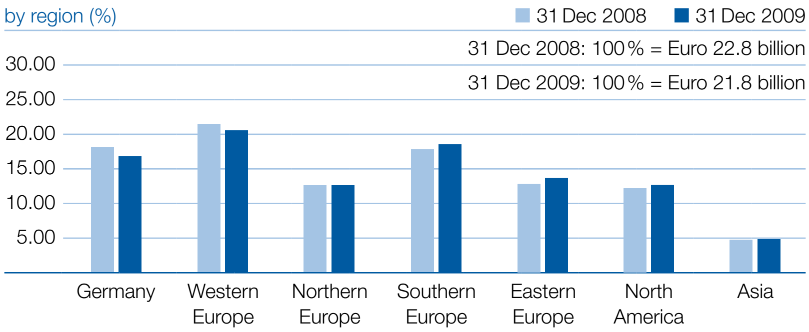
Property financing portfolio

Portfolio structure

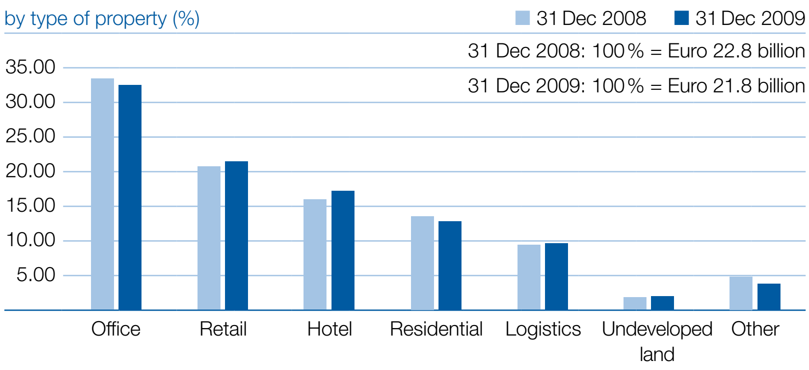
Aareal Bank Group's property finance portfolio [3] has remained more or less at the level of the 2008 year-end, with a stable volume of € 21.8 billion in 2009.

As at the 2009 reporting date, Aareal Bank Group's property portfolio was composed as follows compared with the 2008 year-end:

Property financing volumes (amounts drawn)



Property financing volumes (amounts drawn)



[3] As at 31 December 2009, the portfolio of property finance under management totalled € 22.3 billion (previous year-end: € 23.5 billion). Property financings under management include the property finance portfolio managed for Deutsche Pfandbriefbank AG.

The allocation of the portfolio by region and continent only changed slightly in 2009 compared with the previous year-end. There was a small drop in the proportion of the portfolio held in Germany.

The allocation of the portfolio by property type remained more or less unchanged during the year under review.

Portfolio development

New business originated during the 2009 financial year amounted to € 3.8 billion (including loan renewals), which we believe to be a reasonable performance in light of the market conditions.

Repayments include all types of scheduled and unscheduled principal payments by clients. There was a significant fall in repayments to the property finance portfolio in 2009 compared with the previous year. These were around the € 2 billion mark, compared with € 3.1 billion in 2008, which equates to a drop of around 35 %. Based on the portfolio at the 2008 year-end, this represents a repayment rate of 8.7 %.

This development can be attributed to the sharp fall in investment activity on the property markets. Moreover, Aareal Bank AG also adopted a selective approach to new business in 2009, continuing to focus on existing clients. As a result, there was a considerable increase in the loan extension rate among existing clients, as well as a clear fall in unscheduled repayments over the course of 2009.

A portion of the property finance portfolio is denominated in foreign currencies. Consequently, fluctuating exchange rates impact on the value of the portfolio in euros. The portfolio volume was affected by significant fluctuations in some exchange rates against the euro during 2009, in particular the US dollar, the Canadian dollar and pound sterling. The year-end euro exchange rate against the US dollar was slightly higher than at the beginning of the year, which had a slightly negative impact on the portfolio volume.

The portfolio of loans included in mortgage cover continued to rise during the year under review. As at 31 December 2008 it totalled € 7.5 billion. By 31 December 2009, this figure had risen by around € 700 million to € 8.2 billion, which is a rise of roughly 9 %. On this basis Aareal Bank can further consolidate its position as a major Pfandbrief issuer and is increasing Pfandbrief refinancing as a proportion of total long-term funding.

The secondary market – the market for the syndication and securitisation of commercial property finance – remained difficult during the past financial year due to the ongoing financial crisis and resulting reticence on the part of market participants. As a result, only a limited amount of new syndications was implemented through our international network of partner banks in the 2009 reporting period (2008: € 0.5 billion). As was also the case with regard to lending business, secondary market activities were focused on extending loan arrangements and looking after existing syndication transactions.

No securitisations were carried out during the reporting period.

Financial position

Interbank and repo

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

The funding portfolio as at 31 December 2009 included € 3.2 billion in funds raised via repo transactions, and € 1.1 billion from other interbank transactions.

No open-market transactions with the ECB have been entered into since the second quarter of 2009. No fixed-rate repurchase transactions were outstanding as at 31 December 2009.

Client deposits

As part of our activities on the money market, we generate deposits from institutional housing industry clients, and from institutional investors. Deposits from the institutional housing industry were largely stable during the reporting period, amounting to € 3.8 billion as at 31 December 2009. Deposits from institutional investors increased over the same period, totalling € 4.3 billion as at 31 December 2009.

Long-term funding

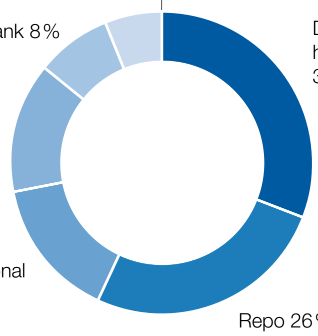
Funding structure

Aareal Bank Group's funding is solid, as proven by the high proportion of long-term refinancing. This encompasses registered and bearer Pfandbriefe, promissory note loans, medium-term notes, other bonds and subordinated issues, including subordinated liabilities, profit-participation certificates, silent participations and trust preferred securities[1]. As at 31 December 2009, the long-term refinancing portfolio accounted for € 24.0 billion. Mortgage Pfandbriefe accounted for € 5.9 billion and Public-sector Pfandbriefe for € 2.8 billion, whilst € 15.3 billion was made up of long-term unsecured and subordinated bonds and registered papers.

Overall, there was a renewed increase in Pfandbriefe as a proportion of total refinancing in 2009 compared with the previous year.

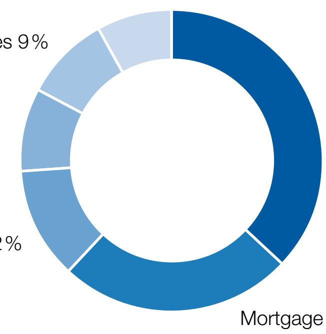
Money market refinancing mix as at 31 December 2009

% Total volume: Euro 12.4 billion



Capital market refinancing mix as at 31 December 2009

% Total volume: Euro 24.0 billion



Refinancing activities

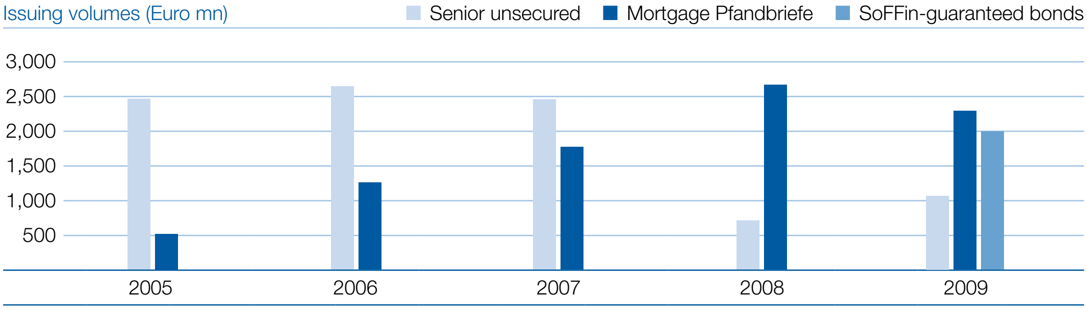
The capital market was dominated at the beginning of 2009 by the emergence of state-guaranteed bonds, with which issuers were able to respond to investors' heightened demands for security. Aareal Bank also made use of this new product, thereby extending its refinancing options.

In February 2009, Aareal Bank availed itself of the German government's programme to strengthen the banking sector as a means of securing the long-term future of its sustainable business model. This package of measures included a guarantee facility from SoFFin with a total volume of up to € 4 billion for new, unsecured issues. In March 2009 Aareal Bank made use of half of this guarantee facility, successfully placing a state-backed 3-year benchmark bond with a volume of € 2 billion among German and international investors.

During the reporting period a comparatively high volume of long-term refinancing was taking up on the capital market, at around € 5.4 billion in total. The issue volume of long-term unsecured funding,

[1] Under IFRS, subordinated issues are subdivided into subordinated capital, the SoFFin's silent participation and non-controlling interests.

Issuance – 2005 to 2009



including the state-backed bond, was € 3.1 billion. The remaining € 2.3 billion related to Pfandbriefe, which represented around 43 % of the new issues. This highlights the growing importance of the Pfandbrief as an integral part of Aareal Bank's refinancing mix.

Of the many both publicly and privately placed issues, the two € 500 million benchmark mortgage Pfandbriefe with terms of three and five years respectively merit particular mention. Once again, in a year dominated by turbulence on the financial markets, the Pfandbrief proved its worth as a guarantor of security. Given their quality, the strict statutory rules that govern them, and their successful history on the capital market, Pfandbriefe represent a reliable source of funding and enable the banks issuing them to acquire long-term refinancing, even during periods when investors are clamouring for security. This gives Aareal Bank a clear advantage in terms of our refinancing. Pfandbriefe will continue to play a central role in Aareal Bank's funding mix. Alongside Pfandbriefe, the bank was also able to issue unsecured loans to a greater extent during the final quarter of the year, reflecting investors' growing confidence in Aareal Bank.

Impact of the financial markets and economic crisis

The real economy was hit by a severe economic downturn and clear fall in global activity in early 2009. Whilst there were signs of a recovery later in the year, this was from a very low starting position. These trends were of varying intensity in the different regions of the world. The economy clearly picked up speed in East Asia – with the exception of Japan – and most particularly in China and Singapore. Meanwhile, the recovery progressed at a more gentle pace in Europe and North America, although again there were regional differences. Germany, for example, experienced signs of a slight recovery somewhat earlier, whilst Spain and the Baltic states were left waiting.

During the first half of the year the financial markets were entirely dominated by the crisis. Subsequently, however, there was a tangible improvement. On the property markets, in contrast, the situation remained tense throughout the entire year. It became very obvious that developments in the economy can take some time to filter through onto the property markets. Rents and prices came under pressure in 2009, despite the fact that the yields being sought by investors stabilised on many markets over the course of the year. On some markets they actually fell again during the second six months. These included the markets for prime commercial properties in the UK, which had previously featured a clear rise in yields, and the markets for prime office and retail space in Paris. Movements in rent levels also differed by region. Moscow rents, for example, fell strongly, whilst levels proved more stable in German and Dutch economic centres.

The financial and economic crisis had a major impact on our business activities over the past year.

We duly continued to adhere to our risk-aware approach to lending, whilst also continuing to intensively monitor and actively manage our credit risks. In terms of new business, we focused on our existing clients and on loan renewals. Latterly, we have also been able to work together with our clients to take advantage of opportunities as they have arisen. The fact that new business has fallen from € 5.5 billion in 2008 to € 3.8 billion in 2009 is a reflection of Aareal Bank's willingness to support its existing clients and, at the same time, of the major collapse in transaction volumes on the commercial property markets. We regard our new business figures as a reasonable performance in the face of difficult overall conditions.

Developments on the capital markets, particularly at the beginning of the first half of the year, led to price falls in our securities portfolio despite the issuers' high credit ratings, though most of these falls had been made up again by the end of the year.

Our strategy of reducing risk in relation to the investment of equity, a strategy which we introduced in 2008, was consistently maintained in 2009. Equity investments held through consolidated funds have now been completely eliminated, and investments in fund units have also been further reduced.

With effect from 2 January 2009 we made use of the option of reclassifying financial assets. Specifically, securities with a nominal volume of approximately € 3 billion were reclassified from the IFRS measurement categories "available for sale" (AfS) and "held for trading" (HfT) to "loans and receivables" (LaR). In all cases we opted for reclassification since there no longer was an active market for the securities concerned, despite the good quality of the assets, and due to our intention to hold these issues for a longer term. We continuously review market conditions, in order to verify the existence of active markets.

Looking at the money market, Aareal Bank's deposit-taking business returned to normal as the year progressed. Deposits from institutional investors rose from just under € 3.6 billion at the start of the year to as high as € 6.3 billion in July 2009. As at 31 December 2009, deposits from institutional investors totalled € 4.3 billion and were thus considerably up on the previous year. Whilst short-term deposits benefited from clients returning at the beginning of the year, a lengthening in the average terms has also been in evidence since the start of the second quarter.

As a result of our business activities in a range of foreign currencies, we have secured our foreign currency liquidity over the longer term by means of appropriate measures. Limited by developments on the financial markets, which have to a certain degree made it more difficult to access the relevant markets, we have also had to put up with additional costs. Despite a certain easing of the situation in the final quarter, premiums are still required on some currencies (e.g. USD, GBP) on the foreign-currency derivative market.

The stable Consulting / Services segment was also unable to completely escape the effects of the financial and economic crisis. The low interest rate environment, which is very unfavourable in terms of income earned from deposits in the housing sector, had a negative impact. The volume of deposits from the institutional housing industry remained stable and averaged at around € 4.0 billion in the 2009 financial year. Additionally, there was a certain level of reticence towards large-scale new investments among some of Aareon's client segments.

To ensure the long-term success of its sustainable business over the long term and, at the same time, to overcome the very difficult market situation, Aareal Bank Group and the German Financial Markets Stabilisation Fund (SoFFin) entered into an agreement on 15 February 2009 whereby SoFFin provided Aareal Bank with a perpetual silent participation of € 525 million, as well as providing a guarantee facility for new unsecured issues with a total volume of up to € 4 billion. The bank pays a commitment fee of 0.1 % p.a. on the undrawn portion of the guarantee facility. A fee of 0.5 % is calculated for the issue of guaranteed bonds with a term of up to 12 months. The fee for terms of more than one year is around 0.95 % p.a.

In March 2009 we made use of the SoFFin guarantee framework and successfully placed a state-backed bond with a volume of € 2 billion on the capital market. The term of the as yet unused portion of the guarantee in the amount of € 2 billion has been extended to the end of 2010.

Regulatory indicators

Aareal Bank Group's liable capital in accordance with Section 10a of the German Banking Act (KWG) totalled € 3,290 million according to the approved annual statement of financial position. Of this, € 2,415 million was Tier 1 capital. Aareal Bank Group applies the Credit Risk Standard Approach (CRSA) as defined in the German Solvency Ordinance. On this basis, the CRSA indicators as at 31 December 2009 stand at 11.0% for the Tier 1 capital ratio and at 15.0 % for the total capital ratio. Aareal Bank Group's risk-weighted assets according to CRSA amounted to € 21,875 million, which includes € 125 million in assets exposed to market risk.

As at 31 December 2008, according to the approved annual financial statements of Aareal Bank AG, the Tier 1 capital ratio in accordance with the German Banking Act was 8.0 %, with a total capital ratio of 12.0 %.

Our Employees

Personnel data as at 31 December 2009

	31 Dec 2009	31 Dec 2008	Change
Total (Aareal Bank Group)	2,315	2,502	-7.5%
Total (Aareal Bank AG)	987	1,056	-6.5%
of which: outside Germany	106	112	-5.4%
Proportion of woman	46.8%	47.3 %	
No. of years service	11.8 years	11.1 years	0.7 years
Average age	42.7 years	41.9 years	0.8 years
Staff turnover rate	1.2%	4.4 %	
Part-time ratio	15.7%	14.9 %	
Retired employees and surviving dependants	583	567	2.8%

The requisite personnel measures in conjunction with the realignment of lending business and the capacity adjustments required in terms of personnel numbers at Aareon were successfully concluded during the reporting period.

Qualification and continuing professional development

Aareal Bank invests in its employees on an ongoing basis and in a targeted manner. The emphasis is on supporting and nurturing specialist, entrepreneurial and communicative skills over the long term.

The broad range of courses available through our in-house corporate university known as the "Aareal Academy" underlines how much Aareal Bank values training and the continuing professional development of its staff. Aareal Bank employees make regular use of the various different measures and courses offered by Aareal Academy.

The Structured Appraisal and Target Setting Dialogue scheme introduced throughout the bank in 2007 provides a starting point for all training and successor planning measures. Drawing on the experiences of our employees and their line managers, we overhauled our Structured Appraisal and Target Setting Dialogue system, which serves as a central management tool, in 2009. The main aim was to reinforce and extend the concept of direct dialogue between employees and their managers. In so doing, we want to promote the further development of our open corporate culture.

More than 400 individual development measures were agreed between managers and employees in 2009. Additionally, the Human Resources department advises the departments on strategic Human Resources development, providing a basis for the development measures offered, particularly in the case of Aareal Bank's experts. Human Resources develops customised measures for the different departments. The result of this systematic Human Resources development approach is that Aareal Bank employees invest on average one week per year in Corporate Professional Development seminars and workshops.

Aareal Bank actively promoted international networking and team work during the 2009 financial year, via targeted training measures. Managers were involved in the development of training units for the bank's experts in both Sales units and Credit Management functions.

In cooperation with the European Business School (EBS) and its Real Estate Management Institute (REMI), Aareal Bank offers its employees the chance to complete executive courses of study specific to the property sector, combining course attendance with their job at the bank. Additionally, employees may also attend events arranged by the partner institution of higher education. This good working relationship is also boosted by the fact that Aareal Bank staff teach on these courses in the capacity of guest lecturers.

In 2009, the subsidiary Aareon AG continued to run the Development Centre for managerial staff launched in 2008. Further focuses of continuing professional development included more training for expert advisors and the implementation for the first time of a training course to become a property manager, this course being offered by the Nürtingen-Geislingen University.

Sponsoring new talent

Sponsoring new talent by ensuring training is a central element of our HR work. This is why Aareal Bank has been offering an individually tailored trainee programme for university graduates since 2000. We have also been continuing with this trainee programme in 2009 despite the difficult market environment.

The comprehensive work placement programme introduced in 2008 has met with a very good response. During the 2009 financial year many students took up the opportunity to complete an internship with us and become more familiar with an area of the bank's work or one of the bank's locations. A well-functioning network has been created on the basis of the good response to this programme.

The subsidiary Aareon AG also offers vocational training in various careers: office administrator, IT applications developer, IT system integrator, in addition to the opportunity to study for a degree (BA) in business administration, specialising in property management. The trainees are given training and the chance to take on responsibility for project-based tasks at an early stage in their careers.

Recognition as a top employer

For the second time now, Aareal Bank has been included in the list of Germany's "Top Employers", a list compiled by an independent research company. This list is exclusively made up of companies that excel thanks to their positive corporate culture and the intensive support given to their employees. This seal of quality is also very beneficial to Aareal Bank's image as it competes to attract new employees from the labour market.

Work/life balance

By supporting a privately operated nursery in Wiesbaden, Aareal Bank has helped its employees to reconcile family and working life more easily. Additionally, we also offer our employees the opportunity to incorporate home working into their working hours, as well as offering flexible part-time employment arrangements.

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.

Risik Report

Aareal Bank Group Risk Management

The ability to correctly assess risks, and to manage them in a targeted manner, is a core skill in banking. Accordingly, being able to control risks in all their relevant variations is crucial for a bank's sustainable commercial success. Besides this purely economic motivation for a state-of-the-art risk management system, there are extensive regulatory requirements. It was against this background that we continued to develop our risk management system, allocating significant resources, during the financial year under review.

Risk management – scope of application nd areas of responsibility

Aareal Bank Group' 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.

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

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 are 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 at a 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 AG. The adjacent diagram provides an overview of the responsibilities assigned to the respective organisational units.

Strategies available

The business policy set by the Management Board, and approved by the Supervisory Board, provides the conceptual framework for 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 in a way so as to ensure risk-awareness, and a professional handling of risk exposure. 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. Suitable risk management and risk control processes are deployed to implement the bank's strategies, and to ascertain its uninterrupted ability to bear risk. 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

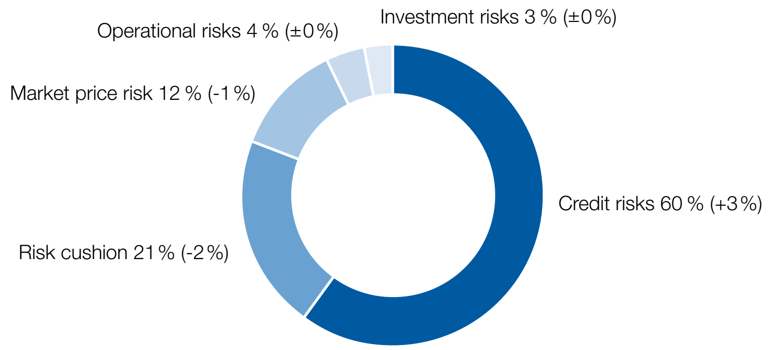
The bank's ability to carry and sustain risk – which is defined by the amount of aggregate risk cover – is a core determining factor governing the structure of its risk management system. Aggregate risk cover is defined as the Tier I capital less any negative mark-to-market effects in the securities 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. The utilisation of individual limits for key types of risk as well as the overall limit utilisation is reported to the Management Board on a monthly basis.

We also maintain a significant part of our aggregate risk cover (around 21 % as at 31 December 2009 – 31 December 2008: approx. 23 %) 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 during the financial year under review. No breach of set limits occurred during the financial year 2009. The diagrams below illustrate the allocation or aggregate risk cover across individual types of risk as at 31 December 2009 and 31 December 2008, respectively. There was little change in the allocation of aggregate risk cover across various types of risk, compared with the previous year. The share of credit risk increased moderately, by three percentage points to 60 %, reflecting the general credit market developments during 2009. Accordingly, the risk cushion decreased to 21 % of aggregate risk cover, a level that is still comfortable. The share of market price risk exposure remained virtually unchanged year-on-year, at 12 %.

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".

Allocation of aggregate risk cover

% (Change from 31 Dec 2008 (% points)) Updated: 31 Dec 2009



Implementation of amendments to the Minimum Requirements for Risk Management in Banks ("MaRisk")

The German Federal Financial Supervisory Authority ("BaFin") published an amended version of its Minimum Requirements for Risk Management ("MARisk") in a circular published on 14 August 2009. Our approach to managing the bank's business has focused on continuously optimising our risk management system for many years. Hence, when implementing the new MaRisk requirements, we could afford to concentrate on the targeted refinement of our existing risk management system. The key aspects of this implementation are summarised below.

Risk concentrations

The structure and design of our risk management system have focused on identifying, monitoring and managing risk concentrations from the very beginning. Hence, we have been assessing risk concentrations both on a qualitative and quantitative level for many years.

Looking at counterparty risk, this includes regular checks of the largest borrower units in our portfolio, and analysing the portfolio according to various factors such as countries, risk classes and types of collateral. The bank uses the credit risk models deployed to conduct a model-based analysis of risk concentrations, and for monitoring them. In terms of market price risks, we monitor and manage risk concentrations particularly with respect to relevant risk factors (interest rate risks, currency risks, etc.), products, and individual Aareal Bank Group entities. In the context of liquidity risks, the analysis focuses on liquidity providers, the instruments used to raise liquidity, and on any concentrations of liquidity needs which may arise over time. Risk concentrations in terms of operational risk are monitored and managed by way of regular risk inventories. Regular risk audits and assessments are carried out for the relevant Group entities within the bank‘s portfolio of equity investments.

Against this background, when implementing the requirements of MaRisk (as amended), we concentrated particularly on further refining our existing risk management tools. For instance, in the property finance business we implemented a ”traffic light" system supplementing the existing toolbox for assessing risk concentrations in particular market segments or regarding individual product groups. In addition, we refined our credit risk reporting system, to include a presentation of risk concentrations which is used for the purposes of quarterly reporting of concentration risks to the Management Board.

Risk concentrations involving multiple types of risk are incorporated through global scenario analyses, as described below.

Stress testing

The amended MaRisk require that stress tests be carried out for all material risks, based on validated historical data as well as using hypothetical scenarios. With this in mind, we supplemented our existing, extensive stress tests by adding additional scenarios. To be able to assess cross-relationships between various types of risk as well, we further developed stress scenarios involving multiple risk types, within the scope of so-called global stress tests. The historical scenario used for this purpose analyses the impact of the financial markets crisis on various types of risk, as well as on overall risk exposure. We implemented a deterioration of the financial markets crisis as a hypothetical scenario. The stress testing methodology implemented also considers the effects of potential risk concentrations.

We determine the aggregate risk cover available in a stress situation within the framework of of the risk-bearing capacity analysis. By comparing the results of stress scenarios to this aggregate risk cover, we can assess Aareal Bank's risk-bearing capacity in a stress scenario. The Management Board is notified of the results of these stress analyses within the scope of the regular quarterly reporting package.

Further adjustments

Over and above the refinements described above, we carried out various adjustments and additions to our risk management system. These changes (which were mostly small in scope) included the further development of procedures to ensure intraday liquidity, or additions to trade settlement business processes.

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 and Credit Management, up to and including senior management level.

In addition, the Risk Controlling unit, 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 units. 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 market and risk management process across all relevant units.

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 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.

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 implementation of risk classification procedures, is outside the Sales units. The relevant units are also responsible for the annual validation of risk classification procedures.

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.

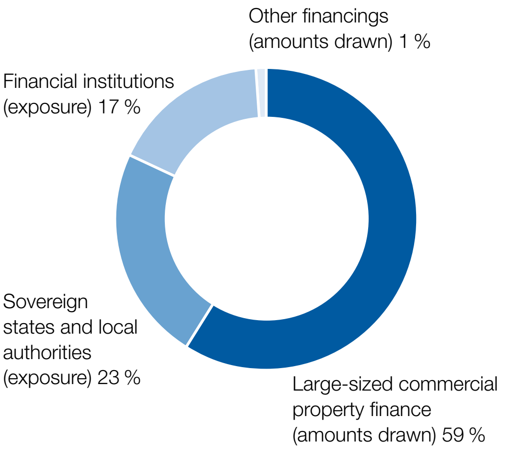
The relative impact of the two rating components on the rating result is determined by the structure of the exposure concerned. The client's current and future default probability is determined based on specific financial indicators, together with qualitative aspects and expert knowledge.

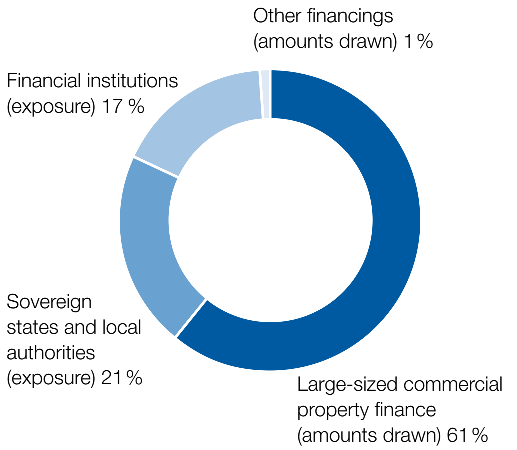
The second step involves calculating the loss given default (LGD), through an assessment of collateral provided for the relevant financing. The bank's maximum risk exposure (plus a cushion for potential fees and charges incurred) is determined for this purpose: expected proceeds from the realisation of collateral, and from uncollateralised residual receivables, are deducted from this exposure at default (EaD). When evaluating collateral, haircuts

Breakdown of exposure / amounts drawn by rating procedure

31 Dec 2009 | 31 Dec 2008

100 % = Euro 36,7 billion

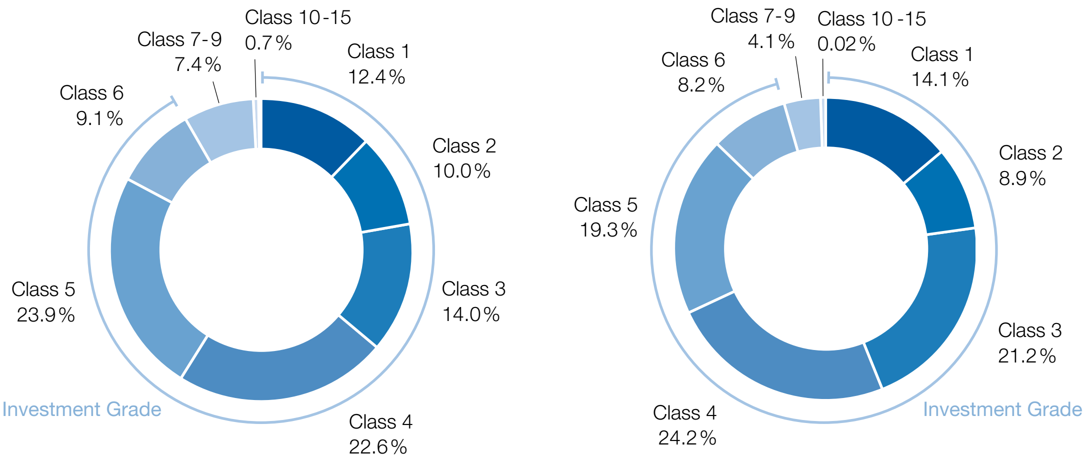




Note that the rating procedure applied for financial institutions also covers institutions with a zero weighting pursuant to the Solvency Ordinance, such as public-sector development banks backed by a sovereign guarantee. Such institutions accounted for 22 % of all rated entities as at 31 December 2009.

Large-sized commercial property finance

by internal Expected Loss classes as at 31 Dec 2009 | as at 31 Dec 2008



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 2009 and 31 December 2008, 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 classifies the risk exposure to banks, financial services providers, securities firms, development banks and insurance companies using its internal rating procedure for financial institutions. This classification is based on qualitative and quantitative aspects, also taking into account clients' group affiliation. Financial institutions are assigned to a specific rating grade by way of assessing relevant financial indicators and taking into account expert knowledge. The changes in the distribution of exposures across rating classes from 2008 to 2009 do not reflect shifts in the portfolio, but were caused by general sector trends.

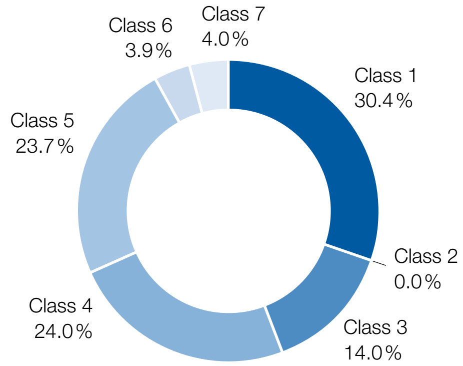
Sovereign states and local authorities

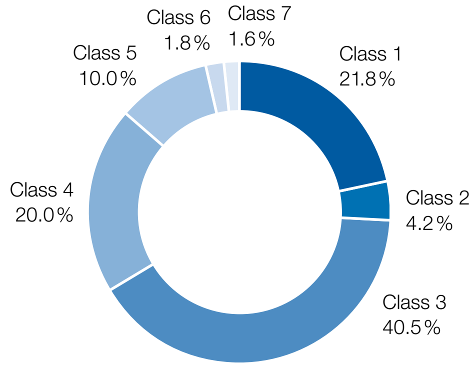
In addition, Aareal Bank Group employs internal rating methods for sovereign borrowers and regional governments, local and other public-sector entities. In this context, rating grades are assigned using clearly-defined risk factors, such as fiscal flexibility or the level of debt. The expert knowledge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

Financial institutions

by rating class as at 31 Dec 2009 | per 31 Dec 2008

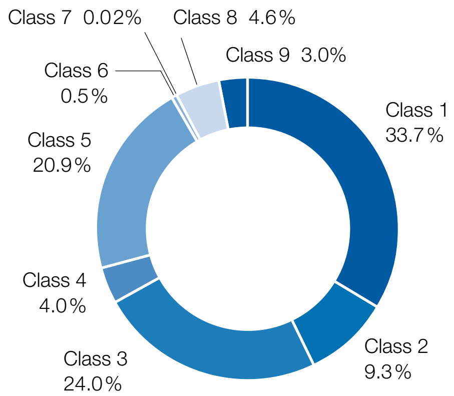


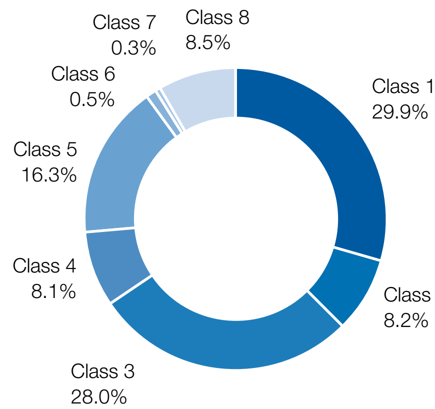


Classes 8-10: 0% Classes 8-10: 0%

Sovereign states and local authorities

by rating class as at 31 Dec 2009 | as at 31 Dec 2008





Classes 10-20: 0% Classes 9-20: 0%

Trading activities

Division of functions

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

On the Sales side, the processing chain comprises Treasury and Credit Treasury, whilst Credit Management tasks are carried out by the independent divisions of Operations and Risk Controlling. 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 roles and responsibilities along the entire 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.

Within the scope of trading activities, Credit Treasury is responsible for entering into credit derivatives, in individual cases requiring specific approval in each case. The bank did not enter into any such trades during the reporting period.

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 unit comprise identifying, quantifying and monitoring market price, liquidity and counterparty risk exposure from trading activities, and for 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 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.

As part of the limit monitoring process, the Management Board and Treasury are notified of limits and their current usage on a daily basis. 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 risk as the risk of losses being incurred due to (i) a business partner defaulting on contractual obligations; (ii) collateral being impaired; or (iii) a risk arising upon realisation of collateral. Both credit business and trading activities may be subject to counterparty risk. Counterparty risk exposure from trading activities may refer to risk exposure vis-à-vis counterparties or issuers. Country risk is also defined as a form of counterparty risk.

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 units, 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 and Credit Management units, who submit a proposal (on which they have 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

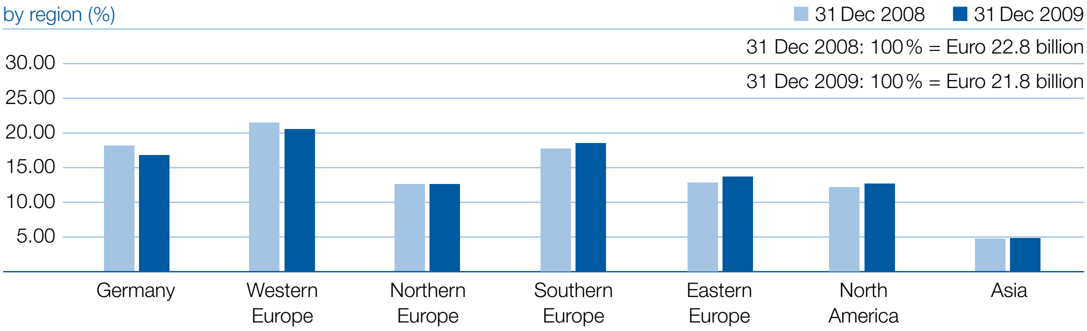
The credit business is subject to a variety of risk measurement and monitoring processes. This includes the application of two different credit risk models incorporating concentration and diversification effects at a portfolio level, from which both the expected and unexpected loss (credit-value-at-risk) 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 stress tests conducted on the basis of these models were expanded during the financial year under review, by including a scenario involving increased default correlations in the property financing business.

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

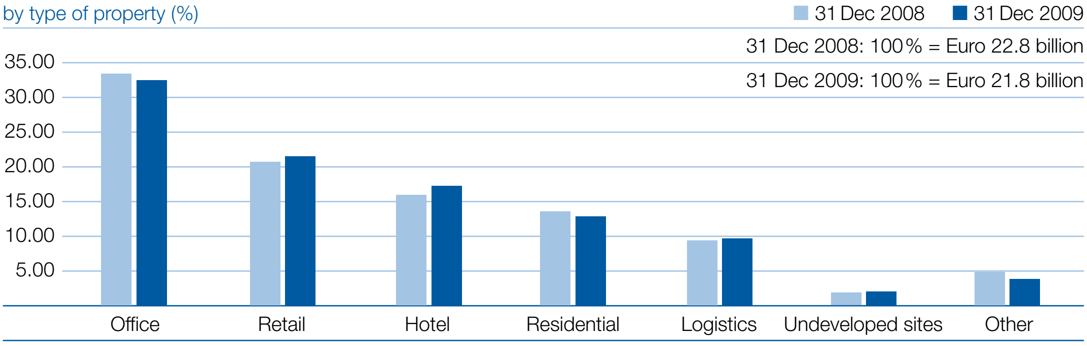
Property financing volumes (amounts drawn)

by region (%)



Property financing volumes (amounts drawn)

by type of property (%)



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 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 finance 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 mortgage lending value determined by the bank must not exceed the value assessed by independent internal or external appraisers.

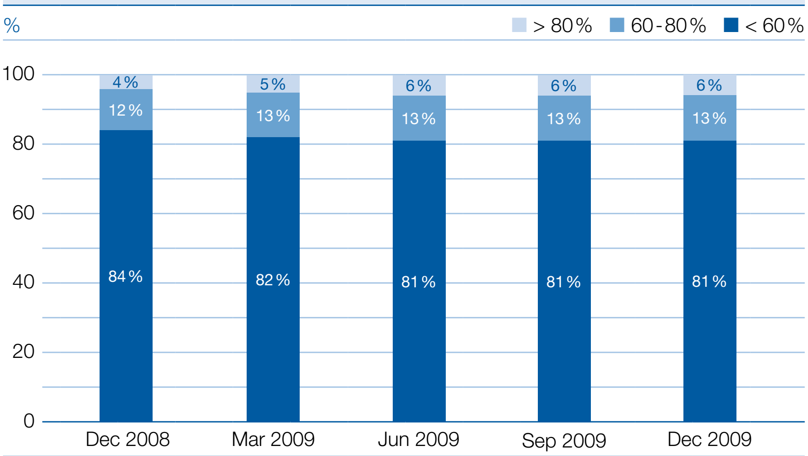
To mitigate credit risk, the bank also accepts collateralisation through a pledge of shareholdings in property companies or special-purpose entities not listed on a stock exchange. The bank has set out detailed provisions governing the valuation of such collateral.

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 weighting. 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 credit system, including all material details.

Property finance portfolio by LtV range (quarterly comparison)



Note that loan-to-value ratios are calculated on the basis of market values, without taking supplementary collateral into account.

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 department 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.

Aareal Bank enters into credit derivatives exclusively with financial institutions having an investment-grade rating.

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

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.

Country risk

Definition

When defining country risk, in addition to the risk of sovereign default or default of state entities, Aareal Bank AG 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 risk-bearing capacity 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.

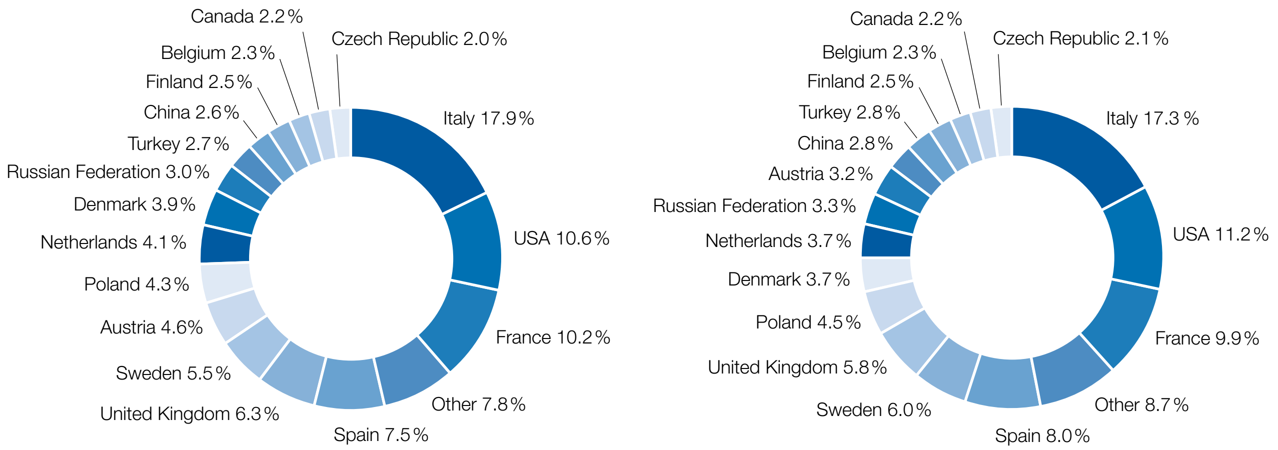
Country risk exposure is managed using a cross-divisional process. The Counterparty and Country Limit Committee carries out a risk assessment of the relevant countries, grades them in country risk groups, and conducts an annual review in terms of country rating. The limits are set by the Management Board. 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 following diagram 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 finance business, as well as the activities of Treasury.

Breakdown of country exposures in the international business

% 2009 | 2008



Market price risks

Definition

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

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

Risk measurement and monitoring

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

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

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

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

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

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

	MAX	MIN	Mean	Limit
2009 (2008 values); 99 %, 10-day holding period				
Aareal Bank Group – general market price risk	76.0 (50.1)	39.4 (26.7)	62.2 (36.8)	– (–)
Group VaR (interest rates)	71.3 (35.6)	31.3 (7.3)	56.8 (22.3)	– (–)
Group VaR (FX)	23.1 (16.1)	15.1 (3.8)	20.6 (8.7)	– (–)
VaR (funds)	12.6 (29.9)	4.0 (10.3)	9.0 (24.1)	60.0 (60.0)
Aggregate VaR in the trading book (incl. specific risk exposure VaR)	3.8 (12.4)	0.0 (1.3)	0.8 (4.1)	20.0 (20.0)
Trading book VaR (interest rates)	1.5 (11.8)	0.0 (0.1)	0.1 (2.0)	– (–)
Trading book VaR (FX)	0.1 (0.2)	– (–)	– (–)	– (–)
VaR (equities)	0.6 (1.9)	0.0 (0.0)	0.0 (0.2)	– (–)
Spec. VaR (Aareal Bank Group)	137.3 (112.0)	80.9 (40.1)	106.0 (65.4)	– (–)
Total VaR (Aareal Bank Group)	153.5 (118.3)	105.4 (51.3)	124.6 (75.3)	181.0 (181.0)

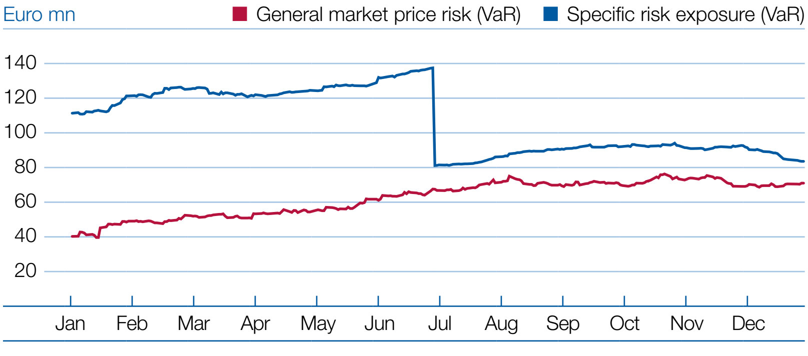
To ensure that Aareal Bank's figures are comparable to those published by other institutions, the risk parameters shown below were determined for a one-day holding period.

	MAX	MIN	Mean	Limit
2009 (2008 values); 99 %, 1-day holding period				
Aareal Bank Group – general market price risk	24.0 (15.8)	12.5 (8.4)	19.7 (11.7)	– (–)
Group VaR (interest rates)	22.6 (11.3)	9.9 (2.3)	18.0 (7.0)	– (–)
Group VaR (FX)	7.3 (5.1)	4.8 (1.2)	6.5 (2.8)	– (–)
VaR (funds)	4.0 (9.5)	1.3 (3.3)	2.8 (7.6)	19.0 (19.0)
Aggregate VaR in the trading book (incl. specific risk exposure VaR)	1.2 (3.9)	0.0 (0.4)	0.3 (1.3)	6.3 (6.3)
Trading book VaR (interest rates)	0.5 (3.7)	– (–)	0.0 (0.6)	– (–)
Trading book VaR (FX)	0.0 (0.1)	– (–)	– (–)	– (–)
VaR (equities)	0.2 (0.6)	– (–)	0.0 (0.1)	– (–)
Spec. VaR (Aareal Bank Group)	43.4 (35.4)	25.6 (12.7)	33.5 (20.7)	– (–)
Total VaR (Aareal Bank Group)	48.5 (37.4)	33.3 (16.2)	39.4 (23.8)	57.2 (57.2)

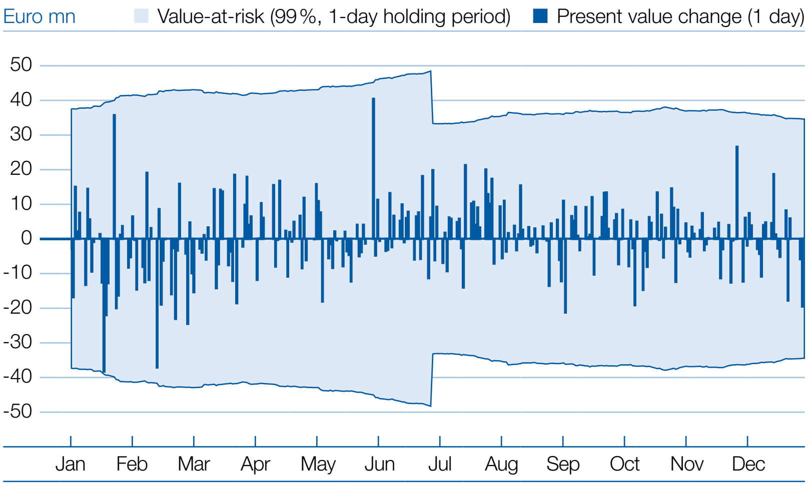
Aggregate VaR – Aareal Bank Group
Limits were unchanged during the 2009 financial year. No limit breaches were detected.

Backtesting
The quality of forecasts made using this statistical model is checked through a weekly backtesting process. The quality of the statistical procedure used to measure risk is checked using a binomial test, whereby daily profits and losses from market fluctuations are compared with the upper projected loss limit (VaR) forecast on the previous day (known as "clean backtesting"). In line with the selected confidence level of 95 %, only a small number of events are expected to break out of the VaR projection (≤5 for a 250-day period). Within the scope of this regular review, we have recalibrated the risk calculation parameters for specific risks with effect from 1 July 2009, against the background of a marked decline in volatility over the course of the year, particularly in the bond markets. The VaR change resulting from this recalibration is illustrated in the chart above. The number of negative outliers at Group level was always lower than one during 2009, also after recalibration (and was always lower than five at Group level during 2008), affirming the high forecasting quality of our VaR model.

General market price risk and specific risk exposure throughout 2009



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



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 1997 crisis in Asia. For this reason, the VaR projection is supplemented by simulating stress scenarios on a weekly basis.

Aareal Bank calculates present value fluctuations both on the basis of real extreme market movements over recent years (German reunification, Asian crisis, 11 September 2001, etc.), 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 reporting.

The "worst-case" scenario used in the financial year under review was a 100 basis point upwards parallel yield curve shift. This scenario implied a present value loss of 27 % of the market risk limit as at 31 December 2009. 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.

Trading book
Being authorised to maintain a trading book, Aareal Bank AG is the Group entity that is in a position to assign transactions to the trading portfolio as defined by the German Banking Act. Given the small number of transactions and low volumes concluded during 2009, trading book risks played a low role in the overall risk scenario.

During the 2009 financial year, the processes employed proved to be able to quantify the risks arising from market price fluctuations in a timely and accurate manner.

Liquidity risks

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

Risk measurement and monitoring
Treasury is responsible for managing liquidity risks, whilst Risk Controlling ensures the continuous monitoring, including a weekly 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:

a) Cash flow forecast
We have developed a cash flow forecast, tracking cash flows from all statement of financial position 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.

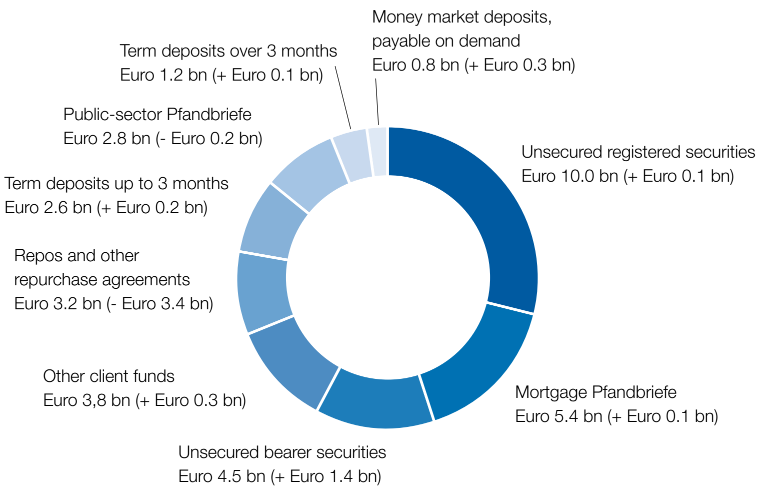
b) Liquidity run-off profile
The appropriateness of the bank's liquidity is assessed using a liquidity run-off profile: the aggregate of all potential cash inflows and outflows over a three-month period is compared to the liquidity stock (i.e. all assets which can be liquidated at very short notice). 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.

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 client deposits and funds invested by institutional clients – alongside covered and uncovered bond issues – constitute the foundation of our liability profile.

Refinancing portfolio diversification – by product

as at 31 Dec 2009 (30 Dec 2008) Total: Euro 34.3 billion



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 different, standardised scenarios used, which are evaluated on the basis of the liquidity run-off profile.

We generally consider the withdrawal of clients' 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 during 2009, 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.

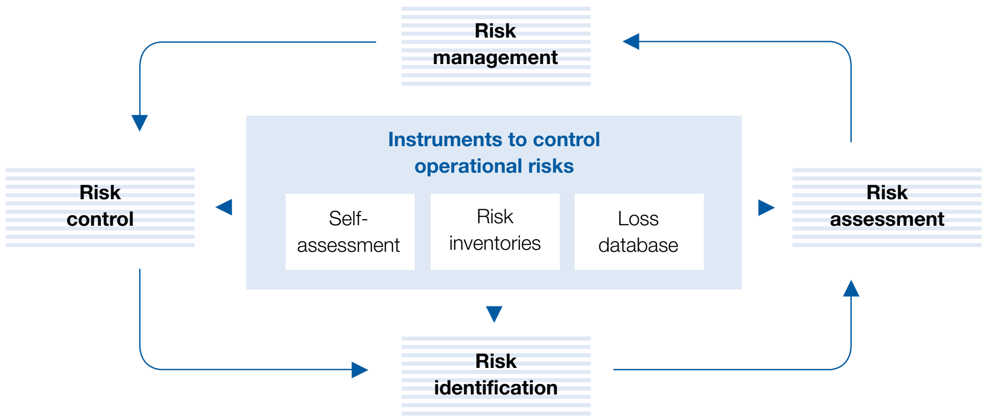
By means of this control toolkit, decentralised data capture as well as centralised and timely compilation of all material operational risks across the Group are ensured.

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.

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.

Management of operational risks



Tools to control operational risk are supplemented by a system to monitor and manage outsourced activities and processes, whereby the relevant organisational units regularly assess the performance of outsourcing providers in regular intervals. 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 an 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 to equity investments. The concept of investment risk also encompasses risks arising from contingencies vis-à-vis 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 risk-bearing capacity, and for the purpose of limitation.

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 equity risks in the Structured Property Financing segment, the activities of Aareal Bank's Deutsche Structured Finance GmbH subsidiary are particularly relevant. The focus of this entity's business is on structuring, launching and placing closed-end funds – particularly involving property investments – and subsequently managing them.

In addition to risks related to income from current fund management fees, the financial markets and economic crisis highlighted risk exposures from commitments or guarantees extended for funds launched in earlier periods. In this context, the risk strategy adopted by Deutsche Structured Finance GmbH is geared towards the early identification of the relevant risks, which are predominantly linked to valuations. The intention is to minimise risk exposure, in cooperation with investors, lenders and guarantors, and to ensure an adequate sharing of the related burdens. The turbulence brought about by the financial markets and economic crisis created problems regarding the valuation of assets: as a result, the risk exposure of Deutsche Structured Finance GmbH exceeded the opportunities available. For this reason, the company regularly absorbs any risk exposures arising on existing funds when they arise.

The future risk exposure of Deutsche Structured Finance GmbH is determined by the risk / reward structure of funds yet to be launched, which, among others, is subject to discussions by the Company's Advisory Board. Reflecting demand for closed-end funds, the Company only invested in assets providing stable income during the year under review. Since the outbreak of the crisis affecting financial markets and the economy, closed-end fund investors clearly prefer risk-averse investments. In contrast, the company often refrained from investments offering higher rates of return, given their higher implied risk premium. The company believes that it has thus taken sufficient measures to limit future risks.

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 sector. 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 client requirements, where products need to be tailored to clients' 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.

Represented by the Deutsche Bau- und Grundstücks Aktiengesellschaft subsidiary, the focus in the property management and marketing business is on the management of residential property, on consultancy and marketing services for the privatisation of residential property, and on property management services.

Aareon AG

Previously, Aareon AG's material risk groups were defined as software development risks, project and financial risks as well as market, organisational and technical risks. Within the framework of migrating to a new risk management tool, these groups were redefined, to include financial and market risks, management and organisational risks, environmental risks and production risks. These risks are related to each other in most of the cases.

The process of change in the property management sector continued during 2009, against the background of the financial markets crisis. Aareon has been responding to this change for several years, having implemented a multi-product strategy that accounts for the increasingly heterogeneous requirements of its clients, with growing needs for customisation.

Against the background of the financial markets crisis, the creditworthiness of individual outsourcing clients was verified. No further measures were necessary to date.

Aareon also deals with general market risks in its business, including a possible loss of clients to competitors, pressure on market prices that can be realised, increasing requirements on software systems, and the emergence of new competitors. Aareon AG analyses these risks through a monthly report submitted to its Management Board: besides information about the client base, the report contains a detailed description of the sales pipeline, and a comparison of market prices achieved with the assumptions made in the business plan. Further measures to control risks include the active engagement in property management associations, inhouse studies and competition analyses.

Aareon AG's ERP solutions and integrated services are being developed further, with a focus on creating added value for clients. 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. Recognising this risk, development work is generally executed within the scope of the Aareon Project Management model, which meets internationally accepted standards on the 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. In addition, the Management Board regularly examines the list of all software development projects (which includes a risk assessment).

Software development is also generally exposed to the risk of being unable to fully comply with client requirements set out in the relevant agreements, which may result in claims for damages or warranty claims. To counter such risks, Aareon AG deploys a tool-based requirements management system which tracks all requirements and the relevant compliance. Testing at various levels forms an integral part of the development process. In addition, ERP software systems have been certified on the basis of Audit Standard 880 of the Institute of Public Auditors in Germany: within the scope of certification, the software manufacturer's external auditors affirm compliance with generally-accepted accounting principles. The software user's external auditors are expected to accept certification under the relevant Audit Standard. Finally, information regarding release documentation is forwarded internally, to the sales and consulting teams.

Aareon's IT centre operations also provide for an integrated control system, which has been audited and certified (including its regulations and process policies) in accordance with Audit Standard 951 (Type A). Under this standard, IT centre processes determining availability, physical safety, network, database and system security, data backups and jobs processing are audited. The audit framework also encompasses related fields such as IT-relevant aspects of company management, human resources management, risk management, and internal audit.

The risk of potential claims for damages from software implementation projects is being mitigated via a complaints management system designed to restore the satisfaction of clients having submitted a complaint through the swift and qualified rectification. Dealing with client complaints at an early stage can help to rectify erroneous developments, preventing associated damages.

To minimise qualitative risks, Aareon regularly conducts surveys regarding its clients' requirements. A standardised, anonymous customer survey which is conducted on an annual basis is the key indicator of client acceptance of the company's products and the Aareon brand. The annual survey was supplemented by detailed survey throughout 2009, which analysed client satisfaction with trainings, support services, and the software implementation projects carried out. This allows Aareon to recognise the market requirements, and to take them into consideration at an early stage in product development and services management.

Executing individual client projects represents a major component of Aareon's business. Such projects are exposed to risks in terms of time and costs, and of quality, should the company fail to meet client expectations. Aareon mitigates these risks through its proprietary project management standards, whereby project launch, project management and closing are divided into phases (initialisation, concept design, realisation, implementation, and closing). The records from client projects as well as internal projects (including the status report, project progress and key results / scheduled progress plus target / actual comparison) are discussed by Aareon AG's Management Board once a month. The multiple project management approach developed by the German Project Management Society was chosen in order to simultaneously coordinate several projects, also facilitating larger and more complex client projects.

Requirements for internal organisational development were recognised and implemented within the scope of related projects during the period under review. Aareon deploys an extensive priority-setting process (involving senior management) to counter the risk of being unable to fulfil all internal requirements.

Aareon AG uses integration projects to implement organisational changes. The focus is on involving everyone concerned, assuring professional and transparent project planning, and 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 integrating staff across different Group entities in Germany, supporting integration projects by staff with change management skills, and by leveraging experience gained and procedures developed with past organisational projects.

The Management Committee for the international business continues to conduct regular reviews of Aareon AG's international entities. Business development with the international subsidiaries also involves earnings risks. To counter these risks, the restructuring and consolidation measures embarked upon were continued during 2009, with the chosen strategy being reviewed regularly.

Aareon AG deploys a growth programme to ensure its strategic development: the programme's key elements include expanding Blue Eagle Individual and SAP-based solutions, further developing the ERP product strategy, optimising the product portfolio, exploring new business lines related to the property management sector, pursuing the strategy for the international business, and fine-tuning human resources programmes. Aareon AG believes that this strategic project has minimised potential risks to income. The company also explores new sources of income, such as the new Wodis Sigma product generation that was introduced at the Aareon Congress in the spring of 2009. The new product generation already generated a tangible contribution to revenue growth during the first year of its active life. Risks of cost increases are countered through cost-conscious business conduct, implemented by way of budgeting.

Risk exposure from potential major disasters affecting the operation of clients' software are minimised, through well-documented and regularly-rehearsed practical counter-measures, to the extent that downtimes are kept at tolerable levels – thus avoiding material damages to the client's or service provider's business. To date, aside from unavoidable problems and short interruptions, no disasters 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. Overall, there were no risks which would have jeopardised the continued existence, or which would have had a material impact on the net assets, financial position, and results of operations of Aareon AG or its subsidiaries.

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. This is due in particular to the close relationship with Aareal Bank, which is responsible for the distribution of banking products.

The risk arising from developing software with respect to the initial and continued development of BK 01 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.

Development partnerships that do not comply with these stringent quality requirements will not be extended, or will be terminated.

As the ongoing development of the BK@1 software solution (as the successor to the ZKF tool underlying BK 01® solutions) is based on Release 7.01 that is already in production, it does not involve any material risks. The legacy ZKF account-keeping system was decommissioned on 30 June 2009, ending the parallel operation of BK@1 and ZKF. Following the migration to the new BK@1 accounting system, the risk exposure due to the parallel operation of the legacy ZKF accounting system has been fully eliminated.

Risk exposure resulting from the operation of the the BK@1 software solution is sufficiently covered through the operational processes installed. No serious faults which would have led to serious damages have occurred during the first five years of production.

The company’s Management Board applies a standardised project risk management methodology, whereby risks are assessed monthly on a qualitative level, in order to identify any risks at an early stage and take appropriate countermeasures. 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.

A standardised procedure for the management of operational risks has been implemented. 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.

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 BK 01® 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 AG

Deutsche Bau- und Grundstücks AG (BauGrund) looks back on a track record – in its own right and through 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 increasingly for commercial and special property. BauGrund manages properties on behalf of institutional investors and corporations, the German federal government and local authorities, as well as for private investors including home owners' associations.

The company's key risk factors are developments in the German property market, particularly regarding residential property, which in turn influence the behaviour of BauGrund's private, institutional, and public-sector clients. Due to extremely low transaction volumes during 2009, property investors were increasingly forced to hold on to their inventory of assets. Accordingly, there was growing pressure to enhance target returns by improving the performance of their property management operations. Nevertheless, property management and marketing contracts were largely maintained with existing service providers.

Going forward, however, there is a distinct expectation that property managers who fail to deliver the service standards demanded by clients (despite being given an opportunity to improve) stand to lose their contracts in the near future. BauGrund anticipates increasing its market share when such property management mandates are re-assigned. This expectation is also based on the company's own observations during the financial year under review. BauGrund plans to improve its risk resilience by further enhancing the diversification of its contract base by counterparties and maturities.

To date, BauGrund has succeeded in expanding its contract base by winning additional mandates from existing clients. Contracts from new clients were acquired only to a minor extent. BauGrund succeeded in renewing existing contracts, often with increased fees and with fixed or longer contract maturities – evidence of client appreciation of the company's performance.

Increasingly, the results of the realignment and the related focusing on the areas of property management and residential property management became apparent during 2009. It was in the context of this reorganisation that the company created the prerequisites for fulfilling and documenting the standards required for winning property management mandates. Given sustained and systematic enhancements to the quality and efficiency of all processes, further improvements to operations are expected. Risk exposure from BauGrund's legacy business activities could be fully eliminated during 2009. Hence, the relevant exposure is clearly to risks typically associated with the current business activities.

The company's material risks thus continued to relate to the planned business expansion, and the acquisition of new clients. To expedite the achievement of its target market position – which is also expected to facilitate generating the necessary return on equity over the medium term – BauGrund aims to increase the share of commercial property mandates, at the expense of its original purely residential property focus.

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

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.

Internal Control and Risk Management System related to Accounting and Financial Reporting

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

Pursuant to section 315 (2) No. 5 of the German Commercial Code (HGB), the tasks of the accounting-related ICS and RMS mainly include ensuring proper conduct of business activities, guaranteeing proper internal and external accounting, as well as ensuring compliance with statutory and legal requirements applicable to the company.

Organisation of the accounting-related ICS and RMS

The Management Board of Aareal Bank AG prepares the single-entity financial statements as well as the consolidated financial statements of Aareal Bank Group.

The Supervisory Board approves both the single-entity statement of financial position of Aareal Bank AG and the consolidated statement of financial position. Measures taken by the Supervisory Board to ensure an efficient performance of its control functions include the establishment of an Accounts and Audit Committee. The Committee analyses and assesses the financial statements submitted to it, internal risk reports as well as the annual report submitted by Internal Audit. In addition, it is responsible for determining the focal points of the audit as well as for evaluating the auditors' findings.

Internal Audit, as a process-independent unit, conducts a risk-based review concerning the effectiveness and appropriateness of the process-dependent internal control and risk management system. To perform its tasks, Internal Audit has full and unrestricted information rights with respect to activities and processes as well as the 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.

Aareal Bank Group's consolidated financial statements are prepared centrally by the Finance department at the Wiesbaden head office. In order to ensure a sufficient degree of control, activities that are incompatible are separated both from an organisational and a functional perspective.

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 into account current standards.

Current developments of statutory and legal provisions applicable for Aareal Bank AG are constantly monitored by a steering committee established by the bank. This committee also coordinates any necessary adjustments to systems and processes.

Adherence of Group accounting to generally accepted accounting principles is ensured by controls within the accounting process itself, as well as through a comprehensive analysis of processed data. The number of employees involved in the accounting process, as well as their qualifications, are in line with requirements. The employees have the necessary skills and experience relevant for performing their tasks and duties.

The bank's Risk Manual summarises the material elements of Aareal Bank Group's risk management system. Above all, the Manual describes the organisational workflows as well as methods and instruments used in the context of risk management. For more information, please refer to our explanations in the Risk Report.

Components of the accounting-related ICS and RMS

The consolidated financial statements of Aareal Bank AG are prepared in accordance with International Financial Reporting Standards (IFRS) and comprise all subsidiaries. To ensure uniform accounting throughout the Group, the subsidiaries are provided with an accounting manual (IFRS Group Accounting Manual), which is updated on an annual basis.

The preparation of the consolidated financial statements is characterised by multiple analyses and plausibility checks. Besides the analysis of individual accounting issues, these include comparisons of periods, and between target and actual data. Adequate control processes have been implemented for both manual and automated accounting transactions.

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.

Where no integrated approval system / dual control feature has been implemented in the IT systems for significant transactions in Group accounting, this has been integrated and documented in the manual process workflows.

A differentiated access authorisation concept is in place for the systems used for finance and accounting, preventing unauthorised access. Authorisation levels are approved, reviewed regularly and adjusted if necessary in accordance with internal criteria.

Aareal Bank Group uses both standard and customised software. 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 performed independently. 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.

Future Opportunities and Outlook

Macroeconomic and industry-specific environment

Global business environment

Following the severe downturn of the global economy at the beginning of last year, there were signs of recovery based on a low level in the second half of the year, as well as a gradual easing on financial markets.

Economy

It is difficult to assess at present whether these development are sustainable and will continue in the form of a considerable recovery or if setbacks can be expected, in light of the considerable opportunities and risks to hand.

The recent largely positive development of early indicators such as orders received, production and sentiment indices, support a continuation of the recovery. Alternating reinforcing effects from higher inventories and revived demand also represent an opportunity for positive economic development. On the other hand, the process of boosting inventories could subside and no further momentum would emerge. A cautious revival is also supported by the fact that the economy's capacity utilisation is low and comparatively little corporate investment would be required to stretch production. At the same time, rising unemployment adversely affects consumer demand from the private households. The end of many state economic recovery programmes, especially in the second half of 2010, could result in further negative effects on the economy.

In the medium-term, the issue of state budget consolidation will become increasingly important, which could have a dampening effect. The financial markets that have eased – but have not yet returned to normal – carry additional risk potential. The severe turbulence on the financial markets, especially in the course of the insolvency of the investment bank Lehman Brothers in autumn 2008, showed how fragile the situation can be on financial markets and how quickly sentiment can collapse. Higher capital requirements of the banks and further write-downs on their assets as a consequence of the economic crisis could limit the scope for lending and therefore weaken economic recovery.

Bearing these issues in mind, we are cautious in relation to economic development in 2010 and assume that most industrial nations will only experience a slow, cautious recovery this year. The anticipated growth in Europe in particular is low and is even slightly negative in a few individual European countries. A slow recovery is expected for the USA – albeit at a stronger pace than for most European economies. The first and at the same time most pronounced signs of recovery were seen in the East Asian emerging markets, especially China, in the year under review. The positive development in East Asia is expected to remain intact. Given that unemployment and corporate bankruptcies lag behind economic development as a late indicator, we should expect these figures to continue rising during 2010. We also expect intensified economic momentum in 2011. This could benefit the labour markets, even if somewhat tentatively. However, further, moderate increases in unemployment are also possible occasionally in 2011.

Inflation, monetary policy and interest rates

In view of the rise in commodity prices since their low at the start of 2009, the low inflation rates of most of the countries are likely to rise. We anticipate a moderate increase only this year, since economic recovery is expected to be slow. A somewhat stronger rise in inflation is expected in 2011 for most countries in the course of stronger economic growth. However, there are major uncertainties, too. Besides the uncertainties in relation to economic development, doubts about commodity price development is another issue, since these important influencing variables are also affected by speculation and political factors. Uncertainty also prevails as to whether the expansive fiscal and monetary policy pursued to date will drive up inflation again in the medium term.

At the end of 2009, the ECB first signalled a gradual withdrawal from the extraordinary liquidity support measures, by conducting the last refinancing tender with a 12-month term in mid-December. Owing to the anticipated hesitant economic revival, we expect largely moderate increases in short-term as well as in long-term interest rates this year, in all the currencies in which we operate. We believe market interest rates in the most important currencies will rise further in 2011.

Global commercial property markets

The uncertainties surrounding future general economic development make it difficult to forecast the progress of commercial property markets. Individual sub-markets or properties could deviate substantially from the general market assessments outlined below.

We are cautious about future rental and price development and assume that these variables will remain under pressure for most markets in 2010. This is due to the fact that property market performance tends to follow the economy with a time lag. Late indicators such as the expected increase in unemployment and company insolvencies put pressure on rents and return on property. Lower demand for office space, a reluctant stance in relation to consumption and travel, limits on the movement of goods and tenant defaults impact negatively on rents and returns on various types of commercial property. We are more optimistic about rental and price development in 2011, given the stronger economic upturn that is expected that year. A stable base should have been reached by then and, higher rents and price increases are possible.

The gross entry yields for investments in commercial property have stabilised recently. Some markets even experienced a decline, which had a positive effect on prices. Yields may continue to stabilise further as the high level already reached could be used by investors as a buying opportunity. We are cautious regarding a widespread sharp decline in yields in 2010, given the risks associated with the general economic development. Nonetheless, yields could well fall in various markets. Increased economic revival could lead to falling yield requirements in the year ahead. Renewed tensions on financial markets could entail some risk together with the fact that numerous financings for many property transactions that were also refinanced through CMBS securitisations (commercial mortgage backed securities) will mature in the next two years.

Given the high gross entry yields, we expect transaction volumes in 2010 and 2011 to recover over 2009, albeit from a very low level.

All told, we are guarded about the current year, due to the hesitant economic recovery anticipated as well as the late indicators (unemployment and company insolvencies) that impact on the commercial property markets. We expect rents to remain under pressure, which will also burden price development. The outlook is more positive for 2011, since the steady economic recovery will ease pressure on rents, and in conjunction with falling yields, could lead to price increases. Moderate new commercial property building activity that has led to a relative shortage of high-quality space also supports the more positive outlook for prices and rents in 2011. However, we would like to point our that the outlook up to the year 2011 is associated with major uncertainties and risks.

Economic and commercial property market development in the individual regions

Europe

We expect most European economies to grow at a slow and reticent pace in 2010. On the other hand, negative growth could persist in Spain, as a result of very high unemployment. Negative growth is also likely again for the Baltic States, which were badly affected by the economic crisis, while positive growth is expected in the other Eastern European states. This also applies to Russia, which should benefit from rising commodity prices. Economic output is generally expected to rise in 2011. However, economic output in many countries is not expected to return to pre-recession levels before 2012.

We see the European commercial property markets performing argely in line with the general trend, i.e. pressure on rents and prices with stabilising yields are expected for 2010. We anticipate a slightly more positive development during 2011. Some markets may deviate from the general trend. For instance, markets that did not exhibit excessive rental increases in the past – such as some German market segments – will be less affected by downside potential in relation to rents, and could therefore show more stable price development.

North America (NAFTA states)

We are forecasting moderate growth for the US economy in 2010, which should strengthen somewhat in the following year. Growth in the current year could be slightly higher that in many Western European countries. This means that the US economy could already return to pre-recession levels in the course of 2011. Canada and Mexico are expected to follow the general economic trend of the USA. Following the sharp downturn of the Mexican economy last year, comparatively higher growth rates than Canada and the USA are likely in the current and coming year.

We are also cautious about rental and price development in North America in the current year and assume that these variables will come under further pressure. Given the high volume of borrowing that was funded through CMBS securitisations, especially in the USA, the threat of distressed sales is high when the exposures mature. US unemployment, which reacts quicker to economic development than in many European countries and economic recovery in 2010 that would stabilise the development of unemployment can be seen as positive for the future performance of commercial property markets in the US. Along the same lines as Europe, we expect the downtrend for rents and prices in the USA to end in 2011. Developments in Mexico bode somewhat more positive due to higher estimated economic growth rates, while we are more cautious vis-a-vis Canada.

Asia / Pacific

The strongest economic development at present is recorded in the East Asian emerging markets and China in particular. Internal demand is becoming increasingly important against the background of falling export surpluses. Growth rates in China are assumed to be strong in 2010 and 2011, approximately in line with the performance during 2009. There is a danger of overheating, which could lead to subdued economic policy. High growth is expected for Singapore this year followed by a slightly falling trend in the next. A slow recovery is expected for Japan this year and the next, similar to many Western European countries.

Despite the faster economic recovery in East Asia, we remain cautious about developments in its commercial property markets in the current year. Buoyant construction activity, particularly in Singapore and China, could dampen rents and prices in the future. We see performance falling in Singapore this year and stabilising in 2011, while China's development is expected to remain relatively constant over the next two years. The anticipated slow economic recovery on the Japanese market in 2010 and 2011 could adversely affect the commercial property markets and exercise pressure on rents and prices.

The German institutional housing industry

Stable business development in the German institutional housing industry will continue in 2010 and 2011, due to largely stable rental income.

Tenants' rising life expectancy and increased, energetic demand for residential property – over and above the year 2010 – require increased investments by the companies. These qualitative challenges as well as greater differentiation of the tenants' living requirements will determine the development measures to be taken by the industry in the future. In view of a potential increase again in commodity prices as of 2010 due to pending scarce resources, more attention is being placed on sustainability in all investment decisions taken by the institutional housing industry.

The continued price pressure on German institutional housing companies will heighten the importance of optimising the management and associated process. The industry is focusing increasingly on process optimisation to enhance efficiency. As we see it, this trend will remain intact in 2010 and 2011, too.

Transaction volumes in the residential property sector are likely to rise in 2010. We believe this recovery of the transactions market will continue in 2011.

Investors' greater aversion to risk and the search for the corresponding, security-oriented investment products will restore interest in residential property again. Residential property funds in particular could benefit from this We assume that most strategically-oriented investors with conservative return targets will emerge in the future and that the transaction market will be defined by growing demand for residential property – especially from the new mutual funds.

The rental market will also be defined in the future by highly differentiated regional population development. Cities and local authorities in structurally-weak and rural regions will be confronted with the problem of a major trend towards migration and an increase in the proportion of elderly people. In contrast, big cities and other economically attractive regions in Germany are experiencing immigration. This additional demand cannot be met by the current housing stock.
If the necessary construction activity in the big cities continues to lag behind demand, rents and purchasing prices could rise in the medium- to long-term.

We believe the recession could generate the risk that a significant rise in unemployment plus a decline in work place-related settlement and new rentals could temporarily have an adverse effect on rental development. Quick economic recovery coupled with low residential property completions could counteract this trend as of 2011.

Despite a slight overall economic recovery, we continue to expect a slightly higher, but still low propensity for IT investment plans in the property management sector in the 2010 financial year.
The number of tenders is therefore expected to remain low overall in 2010 and 2011.

Corporate development

All in all, we believe the 2010 financial year will be as challenging as 2009 – this is taken into consideration in our forecast for future business development:

Structured Property Financing

Owing to the massive collapse of the global economy and only gradual recovery, the situation surrounding the commercial property markets was largely strained during the financial year under review. We expect market values for commercial property to remain under pressure in 2010. We should return to a stable base in the following year.

We assume that the anticipated development of the market environment will be reflected in a reduction in the earnings and values of property, and will probably lead to higher average loan-to-value ratios (LtV) on the loans we have granted.

We have accounted for this development with the corresponding allowance for credit losses for the years ahead. We will also continue to focus on the consistent management of our credit portfolio. Thanks to this active portfolio management and our broad diversification by region and property types, we expect to maintain the allowance for credit losses at a manageable level, even in this challenging environment.

We want to continue to represent a reliable partner for our existing client base in 2010, We also want to further enhance our acquisition and new business activities, and continue to pursue this policy next year, too.

Because of the expected economic conditions in 2010, we believe that the repayment ratio will remain at 2009 levels. The economic recovery expected for 2011 should lead to a higher repayment ratio – which would open up additional scope for new business next year.

Similarly, we do not expect much improvement in the framework for the placement of credit risks through securitisation and syndication in 2010 over 2009. We do not anticipate a more significant recovery of the syndication and securitisation markets before 2011.

Subject to the performance of the relevant foreign currencies vis-a-vis the euro, we expect a stable or slightly higher portfolio volume of property financings for 2010. Increased volume of new business should significantly increase the portfolio volume as of 2011.

Our three-continent strategy will continue to define the regional distribution in the property financing portfolio in 2010 and 2011.

Consulting/Services

Aareon

Despite a slight overall economic recovery, we continue to expect a slightly higher, but still cautious propensity for IT investment plans in the property management sector in the 2010 financial year. The number of tenders is therefore to remain low. Against this background, we expect an approximately constant turnover in 2010. Nonetheless, cost reductions should increase the contribution to the segment result. This will be achieved especially through lower personnel expenses as a consequence of the measures implemented in 2009. We expect increased turnover in the 2011 financial year, on a stable cost base and therefore further earnings growth.

Aareon's integrated product portfolio is developed continuously. Further major migrations are planned for the SAP-based Blue Eagle product line for the years ahead. The market introduction of the new Wodis Sigma product generation in 2009 was very successful. We assume that many clients will convert to Wodis Sigma in the coming years. The introduction of Wodis Sigma Release 2.0 with additional functional extensions is planned for the 2010 financial year. We expect the market share of the established system GES will remain largely stable for the next two years.

We also expect positive performance for the next two years of the integrated services that are networked with the ERP products. The positive trend in client acquisition should continue for the document management system Aareon DMS, the insurance service BauSecura and the service portal Mareon.

BK 01-payments/deposit-taking business

The process optimisation procedures for electronic mass payment services (BK 01 products) offered by the bank's Institutional Housing Unit will continue to generate stable deposits for the bank's refinancing activities. We successfully developed our market position in this area in 2009, too, and acquired 64 new clients with more than 178,000 properties under management that will settle their rental collections through our bank in future.

Deposit volumes remained high, despite massive competition regarding terms. We rate this as a sign of the confidence our clients place in the bank. We expect the positive trend, especially in the area of deposits, to continue in 2010.

Given the ongoing low interest rate environment, we expect margins will continue to remain under pressure in 2010. In light of the success we had already enjoyed in acquiring new clients in 2009 and product penetration with existing customers, we see good opportunities for achieving similar successes in the two years ahead, too.

This also applies to our payments services for energy suppliers: our "BK 01 immoconnect" product, which offers benefits to institutional housing enterprises as well as to utilities and disposal companies, has met with good market response.

We expect a slightly higher interest rate environment in 2011 and therefore wider margins. This should improve the contribution to the segment result.

Group targets

Against the background of a slight to moderate increase in interest rates, we expect net interest income for the current financial year to grow to a range of € 460-480 million. This projection is based on higher lending margins, together with a lower burden from liquidity reserves. We expect net interest income to increase in 2011, compared to 2010. Burdens could arise especially from a change to the underlying interest rate environment on which the planning is based.

In our view, the business environment in commercial property finance will remain just as challenging this year as in 2009. Accordingly, we expect allowance for credit losses to remain at clearly manageable levels during the 2010 financial year. Allowance for credit losses recognised in income is expected to range between € 117 million to € 165 million: the actual level will depend in particular on the extent to which the additional allowance for credit losses (which was increased from € 34 million to € 48 million in the 2009 financial year) will, in fact, be utilised. As in the previous year, the bank cannot rule out additional allowances for credit losses that may be incurred during 2010. With an environment that is set to remain challenging, we expect risk costs to remain stable in 2011.

We expect a moderate year-on-year rise in net commission income in 2010. An improvement in the environment is not expected to impact on this item before 2011.

Net trading income / expenses essentially comprises the results of hedge transactions related to refinancing our core business, predominantly currency and interest rate hedges. We only engage in traditional own-account trading to a very limited extent. The item also includes changes in value from the sale of hedges for selected EU governments, so-called credit default swaps (CDS). Furthermore, only the costs for our securitisation transactions that are still outstanding, are included in net trading income / expenses. In our opinion, the valuation of the hedging transactions remains subject to the same high volatility as in the last two years, especially in the current environment. This means that net trading income / expenses cannot be forecasted for 2010 and 2011.

Because of the consistent conservative risk policy we have pursued in recent years, we anticipate no material burden on the results from non-trading assets in 2010 and 2011.

Administrative expenses continue to be defined by the unchanged cost discipline, and are thus expected to remain unchanged from 2009 levels in 2010 and 2011.

From today's perspective, Aareal Bank sees good potential for increasing operating profit for the full 2010 financial year, even though the market environment continues to be fraught with uncertainty. Assuming that the conditions described will materialise, we expect operating profit for the 2011 financial year to be higher than for the 2010 financial year.

New business generated in the Structured Property Financing segment is currently expected to range between € 4 billion and € 5 billion in 2010. We will continue to concentrate on the funding requirements of our existing client base. The expected increase in the volume of new business will reduce the share of loan renewals relative to new business, a trend which we expect to also see in the following year.

In the Consulting / Services segment, we anticipate the interest rate environment to remain difficult for segment results in 2010. We thus expect profit before taxes to be slightly higher than clean operating profit for the financial year under review. We expect a slightly higher interest rate environment in 2011, which should lead to an increase in this segment's margins. Together with the expected increase in Aareon's sales revenues, the overall effect on segment results will continue to be positive.

Main Features of the Remuneration System

The Supervisory Board determines the structure and amount of remuneration for members of the Management Board. The Supervisory Board defines the structure of salaries and other remuneration components for members of the Management Board.

Aareal Bank AG has entered into fixed-term service contracts with the members of its Management Board. In addition to fixed salary components, which are paid in twelve identical monthly instalments, the members of the Management Board receive a bonus in form of a variable remuneration and are granted phantom shares as a long-term remuneration. The basis for this variable remuneration component is a target system, largely based on net income (of the Group) as reported under International Financial Reporting Standards (IFRS), as well as qualitative and quantitative targets, which are redefined annually. The phantom shares granted as a long-term component may be exercised in whole or in part during an exercise period of four years after the reference date, up to one fourth per year. They may be exercised for the first time in the year of allocation, in each case within five working days after the publication of the quarterly report. Phantom shares not exercised in a particular year may be exercised in the subsequent year. Upon exercise, the relevant proportion of virtual shares is converted at the weighted average price as reported by Bloomberg on the exercise date.

If dividends are paid on the Company's shares during the exercise period, a corresponding distribution is made and classified as other remuneration.

In view of the conclusion of the agreement entered into with the Financial Markets Stabilisation Fund (SoFFin), the members of the Management Board waived the portion of the contractually fixed remuneration exceeding € 500,000 as well as the variable remuneration component for the financial years 2009 and 2010, respectively.

The remuneration of the Supervisory Board is specified in Section 9 of the Memorandum and Articles of Association of Aareal Bank AG. The resolution adopted by the Annual General Meeting on 23 May 2006, which resulted in a change of the remuneration system of the Supervisory Board, currently applies.

The total remuneration of the Supervisory Board comprises a fixed and a variable remuneration component comparable to the remuneration package of the Management Board. The variable remuneration is performance-related and comprises a short-term and a long-term component.

Please refer to Note 86 in the Consolidated Statement of Financial Position (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.

The remuneration systems for the employees of Aareal Bank Group are based on the business strategy and the long-term and sustainably positive business and earnings development of the Group. Incentives for excessive risk-taking are avoided by capping variable remuneration. The remuneration systems were agreed with the representative bodies for employees elected for each Group company and then published. In order to ensure an appropriate individual remuneration, salaries are compared on a regular basis. The objective is to pay remuneration to Group employees that is both adequate and attractive.

Disclosure pursuant to Section 315 (4) of the HGB and Explanatory Report pursuant to Section 120 of the AktG

Composition of subscribed capital and associated rights and duties

Please refer to Note 66 to the consolidated financial statements for details regarding the composition of Aareal Bank AG's subscribed capital 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

In March 2009, the German Financial Markets Stabilisation Fund (SoFFin) provided a silent participation to Aareal Bank AG. Within the scope of this stabilisation measure, SoFFin and Aareal Holding Verwaltungsgesellschaft mbH, the bank's main shareholder, entered into an agreement under which Aareal Holding undertook to (i) retain its current stake of 37.23 % of the bank's issued share capital during the term of the capital support; and to (ii) act in SoFFin's interests for the purpose of certain resolutions to be taken by the General Meeting (or to coordinate voting with SoFFin prior to the General Meeting). Furthermore, Aareal Holding agreed to exercise its voting rights, in the event of a General Meeting resolution on capital measures, in a manner so as to retain its blocking minority.

Otherwise, the exercise of voting rights and the transferability of shares by shareholders are governed exclusively by applicable law. There are no limitations to voting rights to a given number of shares or votes. All shareholders who have registered for attending the General Meeting in good time, providing evidence of their entitlement to attending the General Meeting and casting votes, are entitled to exercise the voting rights from all the shares they hold and have 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

Please refer to Note 90 to the consolidated financial statements for details regarding shareholdings exceeding 10 % of voting rights.

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 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, amendments to the Memorandum and Articles of Association 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 (8) 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 15 June 2005 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 € 58.3 million (Authorised Capital) by issuance of new shares for contribution in cash or in kind. This authorisation will expire on 14 June 2010. 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 exercising the authorisation, subject to approval by the Supervisory Board and provided that the issue price is not significantly lower than the prevailing market 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. Following the capital increase resolved on 6 November 2005 and implemented on 21 November 2005, the residual amount of this authorised capital currently amounts to € 46,639,504.

In addition, the Annual General Meeting held on 21 May 2008 resolved to authorise the Management Board to increase, on one or more occasions, the company's share capital by up to a maximum nominal amount of € 12,826,545 by issuance of new shares for contribution in cash or in kind. This authorisation will expire on 20 May 2013. In the event of a capital increase against cash contributions, shareholders must be granted a subscription right unless this is exceeded by virtue of one of the reasons set out in Article 5 (6) lit. a) to d) of the Memorandum and Articles of Association. The Management Board may exclude shareholders' pre-emptive subscription rights in the event of a capital increase against contributions in kind.

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 21 May 2008, which authorises the issue of convertible bonds and / or bonds cum warrants in an aggregate nominal amount of € 600 million until 20 May 2013. 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 21 May 2008. 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 7 May 2009 authorised the Management Board, pursuant to Section 71 (1) No. 8 of the AktG, up to 6 November 2010, to acquire and sell treasury shares for purposes other than securities trading, up to a maximum volume of ten per cent (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. 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 ten per cent (10 %) of the issued share capital at the time of exercising said authorisation. 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.

Renewing the authorisation to purchase treasury shares on an annual basis 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 in the event of a takeover offer

Please refer to Note 86 to the consolidated financial statements regarding company compensation agreements entered into with members of the Management Board in the event of a takeover bid.

Consolidated Financial Statements

Contents II

Consolidated Financial Statements
Statement of Comprehensive Income[1)]

Income statement

	Note	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Euro mn			
Interest income		1,160	2,085
Interest expenses		700	1,585
Net interest income	27	**460**	**500**
Allowance for credit losses	28	150	80
Net interest income after allowance for credit losses		**310**	**420**
Commission income		188	211
Commission expenses		55	62
Net commission income	29	**133**	**149**
Net result on hedge accounting	30	-2	2
Net trading income/expenses	31	44	-31
Results from non-trading assets	32	-22	-102
Results from investments accounted for using the equity method	33	1	7
Results from investment properties	34	0	-1
Administrative expenses	35	361	364
Net other operating income/expenses	36	-14	30
Impairment of goodwill	37	2	0
Operating profit		**87**	**110**
Income taxes	38	20	45
Net income/loss		**67**	**65**
Allocation of results			
Net income/loss attributable to non-controlling interests		18	18
Net income/loss attributable to shareholders of Aareal Bank AG		49	47
Appropriation of profits			
Net income/loss attributable to shareholders of Aareal Bank AG		49	47
Silent participation by SoFFin		26	–
Consolidated profit/loss		**23**	**47**
Euro			
Earnings per share	39	**1.14**	**1.10**
Diluted earnings per share	39	**1.14**	**1.10**

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

[1)] The comparative figures were partially adjusted. Further information is included in Note (5) in the notes to the consolidated financial statements.

Statement of Comprehensive Income

Reconciliation from Net Income/Loss to Total Comprehensive Income

Euro mn	Note	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Net income/loss		**67**	**65**
Changes in Revaluation surplus	40	75	-253
Changes in Currency translation reserves	40	-1	2
Changes in Reserves from transactions under common control	40	9	18
Others	40	-4	–
Profit/Loss directly recognised in equity (after taxes)		**79**	**-233**
Total comprehensive income		**146**	**-168**
Allocation of Total comprehensive income			
Total comprehensive income attributable to non-controlling interests		18	18
Total comprehensive income attributable to shareholders of Aareal Bank AG		128	-186

Statement of Comprehensive Income

Income Statement (Quarterly Development)

Euro mn	Quarter 4 2009	Quarter 3 2009	Quarter 2 2009	Quarter 1 2009	Quarter 4 2008
Interest income	209	262	310	379	519
Interest expenses	94	150	194	262	377
Net interest income	**115**	**112**	**116**	**117**	**142**
Allowance for credit losses	35	36	42	37	20
Net interest income after allowance for credit losses	**80**	**76**	**74**	**80**	**122**
Commission income	55	42	44	47	69
Commission expenses	16	14	14	11	21
Net commission income	**39**	**28**	**30**	**36**	**48**
Net result on hedge accounting	1	-4	0	1	-2
Net trading income/expenses	3	18	5	18	-25
Results from non-trading assets	-3	-3	1	-17	-61
Results from investments accounted for using the equity method	1	–	–	–	4
Results from investment properties	-1	1	0	0	-1
Administrative expenses	83	92	92	94	91
Net other operating income/expenses	-12	-3	1	0 [1]	16
Impairment of goodwill	2	0	–	–	0
Operating profit	**23**	**21**	**19**	**24**	**10**
Income taxes	5	5 [1]	2 [1]	8 [1]	3
Net income/loss	**18**	**16**	**17**	**16**	**7**
Allocation of results					
Net income/loss attributable to non-controlling interests	5	4	5	4	4
Net income/loss attributable to shareholders of Aareal Bank AG	13	12	12	12	3

[1] The one-off expenses and income tax benefits in connection with the silent participation provided by SoFFin in March 2009 were recognised in the income statement until 30 September 2009. These items are now offset directly in equity. The comparative figures were adjusted accordingly.

Statement of Comprehensive Income

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

Euro mn	Quarter 4 2009	Quarter 3 2009	Quarter 2 2009	Quarter 1 2009	Quarter 4 2008
Net income/loss	**18**	**16**	**17**	**19**	**7**
Changes in Revaluation surplus	6	52	24	-7	-113
Changes in Hedging reserves	0	0	0	0	-1
Changes in Currency translation reserves	-2	1	0	0	1
Changes in Reserves from transactions under common control	-1	8	2	0	1
Others	–	–	–	-4	–
Profit/Loss directly recognised in equity (after taxes)	**3**	**61**	**26**	**-11**	**-112**
Total comprehensive income	**21**	**77**	**43**	**5**	**-105**
Allocation of Total comprehensive income					
Total comprehensive income attributable to non-controlling interests	5	4	5	4	4
Total comprehensive income attributable to shareholders of Aareal Bank AG	16	73	38	1	-109

Statement of Financial Position[1)]

Euro mn	Note	31 Dec 2009	31 Dec 2008	1 Jan 2008
Assets				
Cash funds	41	990	693	1,051
Loans and advances to banks	42	801	1,244	2,621
Loans and advances to customers	43	23,459	24,765	25,143
Allowance for credit losses	44	-283	-235	-192
Positive market value of derivative hedging instruments	45	1,244	932	395
Trading assets	46	689	2,155	1,808
Non-current assets held for sale and discontinued operations	47	8	8	20
Non-trading assets	48	11,929	10,653	8,810
Investments accounted for using the equity method	49	3	3	92
Investment properties	50	103	94	10
Intangible assets	51	78	86	80
Property and equipment	52	99	97	102
Income tax assets	53	47	60	32
Deferred tax assets	54	121	147	47
Other assets	55	281	321	223
Total		**39,569**	**41,023**	**40,242**
Equity and liabilities				
Liabilities to banks	56	5,083	8,934	5,653
Liabilities to customers	57	21,361	20,665	21,569
Certificated liabilities	58	7,862	6,424	7,870
Negative market value of derivative hedging instruments	59	940	994	629
Trading liabilities	60	490	633	980
Provisions	61	256	260	274
Income tax liabilities	62	10	21	18
Deferred tax liabilities	63	70	75	41
Other liabilities	64	151	308	247
Subordinated equity	65	1,269	1,257	1,299
Equity	66			
Subscribed capital		128	128	128
Capital reserves		511	511	511
Retained earnings		780	762	740
Other reserves		-110	-193	40
Silent participation by SoFFin		525	–	–
Non-controlling interest		243	244	243
Total equity		2,077	1,452	1,662
Total		**39,569**	**41,023**	**40,242**

[1)] The comparative figures were partially adjusted. Further information is included in Note (5) in the notes to the consolidated financial statements.

Statement of Changes in Equity [1)]

Euro mn	Sub-scribed capital	Capital reserves	Retained earnings	Other reserves: Reserves from transactions under common control	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Reserves for currency translation reserve	Silent participation by SoFFin	Total	Non-controlling interest	Equity
Equity as at 1 Jan 2009	**128**	**511**	**738**	**-8**	**-184**	**-1**	**1**		**1,185**	**244**	**1,429**
Adjustments to comparative figures			24		-3	1	1		23		23
Equity as at 1 Jan 2009 (adjusted)	**128**	**511**	**762**	**-8**	**-187**	**0**	**2**		**1,208**	**244**	**1,452**
Total comprehensive income for the period			45	9	75	0	-1		128	18	146
Capital increase											
Capital reduction											
Disbursements to non-controlling interests										-18	-18
Dividends											
Silent participation by SoFFin								525	525		525
Costs associated with Silent participation by SoFFin			-26						-26		-26
Other changes			-1						-1	-1	-2
Equity as at 31 Dec 2009	**128**	**511**	**780**	**1**	**-112**	**0**	**1**	**525**	**1,834**	**243**	**2,077**

Euro mn	Sub-scribed capital	Capital reserves	Retained earnings	Other reserves: Reserves from transactions under common control	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Reserves for currency translation reserve	Total	Non-controlling interest	Equity
Equity as at 1 Jan 2008	**128**	**511**	**701**	**-26**	**69**	**1**	**0**	**1,384**	**243**	**1,627**
Adjustments to comparative figures			39		-3	-1		35		35
Equity as at 1 Jan 2008 (adjusted)	**128**	**511**	**740**	**-26**	**66**	**–**	**0**	**1,419**	**243**	**1,662**
Total comprehensive income for the period			47	18	-253	0	2	-186	18	-168
Capital increase										
Capital reduction										
Disbursements to non-controlling interests									-18	-18
Dividends			-21					-21		-21
Other changes			-4					-4	1	-3
Equity as at 31 Jan 2008 (adjusted)	**128**	**511**	**762**	**-8**	**-187**	**0**	**2**	**1,208**	**244**	**1,452**

[1)] The comparative figures were partially adjusted. Further information is included in Note (5) in the notes to the consolidated financial statements.

Statement of Cash Flows[1)]

Euro mn	Cash flow 1 Jan-31 Dec 2009	Cash flow 1 Jan-31 Dec 2008
Net income/loss	**67**	**65**
Write-downs, valuation allowances and write-ups on loans and advances	156	80
Additions to and reversals of loan loss provisions, net	0	10
Amortisation, depreciation, impairment and write-ups on non-current assets	29	89
Other non-cash changes	838	-2,723
Gains/losses on the disposal of non-current assets	13	65
Other adjustments	-1,489	413
Subtotal	**-386**	**-2,001**
Changes in loans and advances to banks	442	1,089
Changes in loans and advances to customers	1,146	519
Changes in trading assets	–	–
Changes in other assets from operating activities	154	188
Changes in liabilities to banks	-3,836	4,250
Changes in liabilities to customers	696	-599
Changes in certificated liabilities	1,415	-1,323
Changes in trading liabilities	–	0
Changes in provisions	-41	-82
Changes in other liabilities from operating activities	-294	-132
Income taxes paid/income tax refunds	-12	-44
Interest received	864	1,632
Interest paid	835	-1,837
Dividends received	–	0
Cash flow from operating activities	**983**	**1,660**
Proceeds from the disposal of non-trading assets and investments accounted for using the equity method	520	591
Payments for the acquisition of non-trading assets and investments accounted for using the equity method	-1,701	-2,404
Proceeds from the disposal of property and equipment, intangible assets and investment properties	3	22
Payments for the acquisition of property and equipment, intangible assets and investment properties	-27	-140
Effect of changes in reporting entity structure	–	–
Changes due to other investing activities	–	–
Cash flow from investing activities	**-1,205**	**-1,931**
Dividends paid	–	-21
Changes in subordinated equity	12	-49
Changes due to other financing activities	507	-17
Cash flow from financing activities	**519**	**-87**
Cash and cash equivalents as at 1 January	**693**	**1,051**
Cash flow from operating activities	983	1,660
Cash flow from investing activities	-1,205	-1,931
Cash flow from financing activities	519	-87
Cash and cash equivalents as at 31 December	**990**	**693**

[1)] The comparative figures were partially adjusted. Further information is included in Note (5) in the notes to the consolidated financial statements.

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 2009 in accordance with International Financial Reporting Standards (IFRS) applicable within the European Union (EU) as at the reporting date, in connection with the provisions pursuant to section 315a (1) of the German Commercial Code (Handelsgesetzbuch – ”HGB“). The reporting currency is the euro (EUR).

The Management Board approved the consolidated financial statements for publication on 22 March 2010. The consolidated financial statements are expected to be published on 31 March 2010.

All subsidiaries and joint ventures of Aareal Bank AG have been included in the consolidated financial statements as at 31 December 2009 by way of consolidation. Companies over which Aareal Bank AG may exercise a significant influence (”associates“) are measured using the equity method.

The reporting entity structure included 90 (previous year: 92) fully-consolidated subsidiaries, 1 (previous year: 1) proportionately consolidated joint venture and 23 (previous year: 26) companies accounted for using the equity method.

There were no material changes to the scope of consolidation during the financial year 2009.

An overview of selected subsidiaries as at 31 December 2009 (quoting their country of domicile and the percentage of voting rights held) is given in section (G) ”List of Shareholdings“ of this annual report. The full list of shareholdings has been published in the electronic Federal Gazette and is available to the public.

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.

The bank observes the general prohibition of setting off assets against liabilities. If the criteria of IAS 12.74 are met, deferred tax assets and deferred tax liabilities are offset.

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, items 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 that the asset can be reliably measured.

An obligation is recognised as a liability if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or if the amount of the obligation can be measured with sufficient reliability.

(2) Currency translation

Individual line items in the financial statements of each Group entity are measured on the basis of the currency of the primary economic environment in which the respective entity operates ("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 into 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 exchange 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 has assumed 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.

Assets, liabilities, income and expenses of jointly-controlled entities are reported in the consolidated financial statements using proportionate consolidation.

First-time 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 balance sheet 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.

Intra-group 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.

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 International Accounting Standards Board (IASB) published the revised IAS 1 ”Presentation of Financial Statements“ (rev. 2007) in September 2007; the revised standard was adopted by the European Commission in January 2008. The amendments to IAS 1 (rev. 2007) led to changes in the presentation of the income statement and the statement of changes in equity. Accordingly, the income statement needs to be supplemented by income / loss recognised directly in equity, together forming a statement of comprehensive income. Aareal Bank Group has implemented this requirement under the amended standard, supplementing its income statement by adding a reconciliation from net income to total comprehensive income. The statement of changes in equity will include total comprehensive income / loss, condensed into a single line item. In accordance with applicable law, the amended accounting standard was applied for the first time in the interim financial statements as at 31 March 2009.

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

In addition, the following financial reporting standards (IAS / IFRS) and interpretations (IFRICs) were applied for the first time in the financial year 2009:

- Amendments to IAS 23 Borrowing Costs
- Amendments to IFRS 2 Share-Based Payment: Vesting Conditions and Cancellations
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Improvements to IFRSs (issued by the IASB in May 2008)
- Amendment to IFRIC 9 and IAS 39 Embedded Derivatives
- Amendments to IFRS 7 Improving Disclosures about Financial Instruments
- IFRIC 18 Transfers of Assets from Customers

In the financial year 2009, the following financial reporting standards (IASs / IFRSs) and interpretations (SICs and IFRICs) were published by the International Accounting Standards Board (IASB) and adopted by the EU Commission:

- IFRIC 12 Service Concession Arrangements
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
- Amendments to IAS 27 Consolidated and Separate Financial Statements
- Revised IFRS 3 Business Combinations
- IFRIC 15 Agreements for the Construction of Real Estate
- Amendment to IAS 39 Reclassification of Financial Assets: Effective Date and Transition
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items
- Revised IFRS 1: First Time Adoption of IFRS
- IFRIC 17 Distribution of Non-Cash Assets to Owners
- Amendment to IAS 32 Financial Instruments: Presentation: Classification of Rights Issues

Aareal Bank Group did not opt for early application of these standards and interpretations. With the exception of the above-mentioned amendments to IAS 1 (rev. 2007), the new and revised standards and interpretations do not have any material effects on the consolidated financial statements of Aareal Bank Group.

(5) Adjustments to comparative figures

a) In the financial year 2009, Aareal Bank AG successfully completed a multi-year project in the area of financial reporting under IFRS. This project resulted in the introduction of a new IFRS financial reporting system effective 31 December 2009. This new financial reporting system leads to a considerable optimisation of the financial reporting process within Aareal Bank AG and also to a more precise presentation of individual accounting issues. Changes to the original presentation format were made with respect to the following key accounting issues:

1. The amortisation of premiums and discounts for the purpose of determining amortised cost of financial assets and liabilities is now based on the effective interest method. Previously, amortisation of premiums and discounts was made on a straight-line basis, which led to timing differences in the statement of financial position and the income statement compared to amortisation using effective interest rates. An analysis of all the periods under review shows that the figures reported in the balance sheet and the income statement are identical for both methods.

2. The calculation of amortised cost for property loans now includes so-called loan origination fees as part of effective interest. Amortisation of these loan origination fees is made using constant effective interest rates over the term of the underlying transaction. On the basis of a simplified approach, we previously amortised the cumulative effects over the average remaining term of the underlying transactions on a straight-line basis. The amortisation of loan origination fees based on constant effective interest rates results in timing differences in the balance sheet and the income statement. An analysis of all the periods under review shows that the figures reported in the balance sheet and the income statement are identical for both methods.

3. Within the framework of accounting for fair value hedges, upon designation of hedged items already in the portfolio, any differences between the previous carrying amount and the risk-induced value of the hedged item are amortised over the term of the hedge. Previously, this difference was not amortised over the term of the hedge but simply recognised in income at the end of the hedge.

   In addition, we followed a simplified approach to amortisation of the hedge adjustments in case of an early discontinuation of a hedging relationship. Now, amortisation is based on effective interest rate over the term of the hedged item.

   For hedged items which are part of a fair value hedge the hedge adjustments are now amortised based on a more appropriate approach, taking into account existing premiums / discounts. This changed accounting approach results in timing differences between the balance sheet and the income statement. An analysis of all the periods under review shows that the figures reported in the balance sheet and the income statement are identical for both methods.

4. In the past, transactions were allocated to individual balance sheet and income statement items on a cumulative basis, partially using a simplified approach. Now, accounting is more strongly focused on individual trades, resulting in a more precise allocation of individual accounting issues to the relevant balance sheet and income statement items. This sometimes leads to transfers between individual balance sheet items or between individual income statement items. The net effects fully offset each other within the balance sheet and the income statement, respectively.

5. Other changes from the introduction of the new IFRS financial reporting system mainly resulted in connection with the measurement of foreign currency items, which was more strongly focused on individual trades and taking into account the respective value dates, an amortisation of impaired property loans based on relevant effective interest rates as well as a largely transaction-specific determination of deferred taxes.

   The adjustment amounts resulting from the introduction of the new IFRS financial reporting system cannot be clearly allocated to one of the above mentioned issues in all cases. Accordingly, the allocations presented in the following overviews were partially made on the basis of simplified assumptions.

b) In the context of a review of Aareal Bank AG's tax loss carryforwards calculated in the previous years, we identified that the calculation was incorrect in certain aspects. This error was corrected in the past financial year.

c) We use interest rate and currency derivatives within the framework of our asset/liability management. Since 1 April 2009, interest received from such derivatives has been reported in the items of the income statement where the interest from the relevant hedged items is also recognised. This method is designed to increase the informational value. Until 31 March 2009, such interest had been reported on a net basis in a separate item either in the item "Other interest income" or in "Interest expenses from banking transactions".

d) Within the scope of the preparation of the consolidated financial statements for 2009, it was identified that an opinion on pensions prepared as of 31 December 2008 in accordance with IFRS was incorrect. This error was corrected in the past financial year.

Prior period disclosures were adjusted retrospectively in case these changes or corrections had an effect on such prior periods.

The following overviews are a reconciliation of the originally reported amounts to the adjusted amounts for the balance sheets for the financial years 2008 and 2007 as well as the statement of comprehensive income for the financial year 2008. In addition, the notes affected by these changes were adjusted accordingly with retrospective effect. For the sake of simplification, in the context of the presentation of the quarterly development of the statement of comprehensive income, the effects on profit or loss resulting from these changes and corrections were distributed on a pro rata basis.

Statement of financial position as at 31 December 2008 (adjusted)

Euro mn	Note	Statement of financial position (published)	Note (5) a) 1. (Premiums/Discounts)	Note (5) a) 2. (Loan originations Fees)	Note (5) a) 3. (Hedge Accounting)	(Impairment)	Note (5) a) 4. (Changes in recognition)	Note (5) a) 5. (Others)	Note (5) b) (losses carried forward)	Note (5) c) (Interests Hedge Derivatives)	Note (5) d) (Provisions for pensions)	Adjustment Total	Statement of financial position after adjustment
Assets													
Cash funds	41	693										–	693
Loans and advances to banks	42	1,165	-1	0	–		87	-7				79	1,244
Loans and advances to customers	43	24,771	8	-1	10		-23	0				-6	24,765
Allowance for credit losses	44	-232				-1		–2				-3	-235
Positive market value of derivative hedging instruments	45	1,256			–		-326	2				-324	932
Trading assets	46	2,168			–		-15	2				-13	2,155
Non-current assets held for sale and discontinued operations	47	8										–	8
Non-trading assets	48	10,654	-2		3			–2				-1	10,653
Investments accounted for using the equity method	49	3										–	3
Investment properties	50	94										–	94
Intangible assets	51	86										–	86
Property and equipment	52	96						1				1	97
Income tax assets	53	60										–	60
Deferred tax assets	54	135					0	35	-23			12	147
Other assets	55	202					119					119	321
Total		**41,159**	**5**	**-1**	**13**	**-1**	**-158**	**29**	**-23**	**–**	**–**	**-136**	**41,023**
Equity and liabilities													
Liabilities to banks	56	8,977	0		0		-37	-6				-43	8,934
Liabilities to customers	57	20,605	-2		2		68	-8				60	20,665
Certificated liabilities	58	6,424	2		-3			1				–	6,424
Negative market value of derivative hedging instruments	59	1,313					-320	1				-319	994
Trading liabilities	60	649					-15	-1				-16	633
Obligations from disposal groups held for sale and discontinued operations		–										–	–
Provisions	61	258						1			1	2	260
Income tax liabilities	62	21										–	21
Deferred tax liabilities	63	55	0				0	20				20	75
Other liabilities	64	162	-4				149	1				146	308
Subordinated equity	65	1,266	13		-18		-3	-1				-9	1,257
Equity	66												
Subscribed capital		128										–	128
Capital reserves		511										–	511
Retained earnings		738	-1	-1	32	-1		21	-25		-1	24	762
Other reserves		-192	-3						2			-1	-193
Silent participation by SoFFin		–										–	–
Non-controlling interest		244										–	244
Total equity		1,429	-4	-1	32	-1	–	21	-23	–	-1	23	1,452
Total		**41,159**	**5**	**-1**	**13**	**-1**	**-158**	**29**	**-23**	**–**	**–**	**-136**	**41,023**

Income statement for the period from 1 January 2008 to 31 December 2008

Euro mn	Note	P&L (published)	Note (5) a) 1. (Premiums/Discounts)	Note (5) a) 2. (Loan originations Fees)	Note (5) a) 3. (Hedge Accounting)	(Impairment)	Note (5) a) 4. (Changes in recognition)	Note (5) a) 5. (Others)	Note (5) b) (losses carried forward)	Note (5) c) (Interests Hedge Derivatives)	Note (5) d) (Provisions for pensions)	Adjustment Total	Statement of financial position after adjustment
Interest income		2,002	4	13	10	-2	139	-1		-80		83	2,085
Interest expenses		1,530	7		-6		132	2		-80		55	1,585
Net interest income	**27**	**472**	**-3**	**13**	**16**	**-2**	**7**	**-3**	**–**	**–**	**–**	**28**	**500**
Allowance for credit losses	28	80	0			2		-2				–	80
Net interest income after allowance for credit losses		**392**	**-3**	**13**	**16**	**-4**	**7**	**-1**	**–**	**–**	**–**	**28**	**420**
Commission income		212		-1			0					-1	211
Commission expenses		62										0	62
Net commission income	**29**	**150**	**–**	**-1**	**–**	**–**	**0**	**–**	**–**	**–**	**–**	**-1**	**149**
Net result on hedge accounting	30	0			0	1		1				2	2
Net trading income/expenses	31	-23			0		-1	-7				-8	-31
Results from non-trading assets	32	-95					-5	-2				-7	-102
Results from investments accounted for using the equity method	33	7										–	7
Results from investment properties	34	-1										–	-1
Administrative expenses	35	347		12				4			1	17	364
Net other operating income/expenses	36	34					-1	-3				-4	30
Impairment of goodwill	37	0										0	0
Operating profit		**117**	**-3**	**0**	**16**	**-3**	**0**	**-16**	**–**	**–**	**-1**	**-7**	**110**
Income taxes	38	39	0					3	3			6	45
Net income/loss		**78**	**-3**	**0**	**16**	**-3**	**0**	**-19**	**-3**	**–**	**-1**	**-13**	**65**
Allocation of results													
Net income/loss attributable to non-controlling interests		18										–	18
Net income/loss attributable to shareholders of Aareal Bank AG		60	-3	0	16	-3	0	-19	-3	–	-1	-13	47
Appropriation of profits													
Net income/loss attributable to shareholders of Aareal Bank AG		60	-3	0	16	-3	0	-19	-3	–	-1	-13	47
Silent participation by SoFFin												–	–
Consolidated profit/loss		**60**	**-3**	**0**	**16**	**-3**	**0**	**-19**	**-3**	**–**	**-1**	**-13**	**47**
Euro													
Earnings per share	39	1.41	-0.07	0.00	0.36	-0.07	0.00	-0.44	-0.07	0.00	-0.02	-0.31	1.10
Diluted earnings per share	39	1.41	-0.07	0.00	0.36	-0.07	0.00	-0.44	-0.07	0.00	-0.02	-0.31	1.10

Statement of financial position as at 1 January 2008 (adjusted)

Euro mn	Statement of financial position (published)	Note (5) a) 1. (Premiums/Discounts)	Note (5) a) 2. (Loan originations Fees)	Note (5) a) 3. (Hedge Accounting)	Note (5) a) 3. (Impairment)	Note (5) a) 3. (Changes in recognition)	Note (5) a) 4. (Others)	Note (5) b) (losses carried forward)	Note (5) c) (Interests Hedge Derivatives)	Note (5) d) (Provisions for pensions)	Adjustment Total	Statement of financial position (adjusted)
Assets												
Cash funds	1,051										–	1,051
Loans and advances to banks	2,245			1		474	-99				376	2,621
Loans and advances to customers	24,985		-1	5	7	168	-21				156	25,143
Allowance for credit losses	-190				-6		4				-2	-192
Positive market value of derivative hedging instruments	899					-503	-1				-504	395
Trading assets	1,819					-11	–				-11	1,808
Non-current assets held for sale and discontinued operations	20										–	20
Non-trading assets	8,811						-1				-1	8,810
Investments accounted for using the equity method	92										–	92
Investment properties	10										–	10
Intangible assets	80										–	80
Property and equipment	101						1				1	102
Income tax assets	32										–	32
Deferred tax assets	61					-12	18	-20			-14	47
Other assets	186					36	1				37	223
Total	**40,202**	**–**	**-1**	**6**	**1**	**152**	**-98**	**-20**	**–**	**–**	**40**	**40,242**
Passiva												
Liabilities to banks	4,953			3		797	-100				700	5,653
Liabilities to customers	21,790	-3	1			-201	-18				-221	21,569
Certificated liabilities	7,862	1		-2		8	1				8	7,870
Negative market value of derivative hedging instruments	1,128					-499	–				-499	629
Trading liabilities	995					-15					-15	980
Obligations from disposal groups held for sale and discontinued operations	–										–	–
Provisions	273						1				1	274
Income tax liabilities	18										–	18
Deferred tax liabilities	55					-12	-2				-14	41
Other liabilities	183	1	4			85	-26				64	247
Subordinated equity	1,318	-2		-6		-11					-19	1,299
Equity												
Subscribed capital	128										–	128
Capital reserves	511										–	511
Retained earnings	701	3	-6	11	1		50	-20			39	740
Other reserves	44						-4				-4	40
Silent participation by SoFFin	–										–	–
Non-controlling interest	243										–	243
Total equity	1,627	3	-6	11	1	–	46	-20	–	–	35	1,662
Total	**40,202**	**0**	**-1**	**6**	**1**	**152**	**-98**	**-20**	**–**	**–**	**40**	**40,242**

Specific accounting policies

(6) 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 of 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 equity

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. Financial assets are derecognised upon final maturity or where material risks or opportunities under such assets have lapsed, or where 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 into 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 assets, but not to the measurement of liabilities.

Upon first-time recognition, financial instruments allocated to the sub-category ”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 those that are held for an unspecified period of time and may be sold if there is a need for liquidity or 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 results 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, the downgrade of an external credit rating to ”BBB or worse“, arrears with respect to interest and principal payments, and 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 of more than 20% below the average acquisition costs or when the price of the equity instrument concerned at the valuation date is below the average acquisition costs for more than one year. The criteria for reviewing property loans for impairment are strong indications for a decline in 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 the reasons for impairment cease to exist subsequently, the necessary reversals of impairments (write-ups) 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 an 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 reversal (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, then the host contract is accounted for pursuant to the standards applicable for the financial instrument concerned, whilst the separated derivative is accounted for separately – or the entire contract is accounted for using the fair value option.

Purchase and sales of financial assets, and financial liabilities of the ”Held for trading“ category, are recognised at the trade date. All other financial instruments are recognised or derecognised at the settlement date.

(7) 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.

(8) Allowance for credit losses

The allowance for credit losses comprises specific valuation allowances as well as portfolio-based valuation allowances.

Where it is probable that the expected future cash flows fall below the carrying amount of a loan or an advance, specific valuation allowances are recorded. This is reviewed if there is objective evidence that not all interest and principal payments can 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 (14).

Portfolio-based valuation allowances are determined using historical default data for Aareal Bank Group. The risk parameters used for calculation are primarily based on the average loan-to-value ratio of the Group‘s property financing portfolio, which is determined in regular intervals.

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 in the present value over time of an impaired loan or advance (so-called unwinding) leads to a corresponding change of the allowance account: such 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 previously written off are recognised in income.

(9) Trading assets and trading liabilities

Trading assets of Aareal Bank Group comprise positive market values of derivative financial instruments, which are not part of recognised hedging relationships, and securities held for short-term sale. The trading liabilities include negative market values from trading derivatives. In addition, receivables and liabilities from money-market transactions are reported under trading assets or trading liabilities, respectively. Financial instruments disclosed under these items are classified under the measurement category ”At fair value through profit or loss“. Net interest income / expense as well as measurement results, or realised gains or losses on trading assets or liabilities, are reflected in net trading income. Interest on foreign exchange forwards entered into for funding purposes are included in net interest income.

(10) 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 and 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.

(11) 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.

Derivatives used as hedging instruments are classified as fair value hedges or cash flow hedges.

The purpose of a fair value hedge is the protection of the market value of an underlying transaction (hedged item). 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 results from hedging relationships). 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 results from hedging relationships). 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.

Measurement gains or losses from trading derivatives used to hedge economic market price risks but which do not fulfil the formal criteria for applying hedge accounting are reported in net trading income, together with the effects from the assessment of the hedged risk. Current interest earned from such derivatives is reported in net interest income, together with interest from the hedged underlying transactions.

(12) 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 non-trading assets are recognised at cost, plus attributable transaction costs.

Premiums and discounts are amortised over the term, and recognised in income.

Debt and other fixed-income 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".

(13) 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.

(14) 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 carried out by in-house experts. Changes to fair value are recognised in income (in results from investment properties).

(15) Leases

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 amortised on a straight-line basis over the term of the lease and recognised in net other operating income / expenses in the income statement.

(16) Intangible assets

Intangible assets (except goodwill) are carried at cost, less accumulated amortisation and impairment losses, if applicable.

All research costs for proprietary software are directly recognised as expenses. Development costs are capitalised from the time when the software development can be regarded as completed from a technical perspective, and when several other conditions are fulfilled. They are amortised on a straight-line basis, using an estimated economic life of between five and ten years.

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 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.

(17) Property and equipment

Property and equipment is measured at cost, less accumulated depreciation and impairment losses.

Land and buildings reported under property and equipment are depreciated on a straight-line basis, over a period of 50 years. Land is not depreciated. 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 (16) "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.

(18) 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.

Deferred tax assets are created on losses carried forward for tax purposes, provided that the use of such existing tax loss carryforwards is sufficiently probable.

Existing deferred tax assets are reviewed for impairment on a regular basis.

Deferred taxes are calculated at local tax rates 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. Tax rates are deemed announced when the lower house of the German parliament (Bundestag), and – in case of laws requiring approval – additionally the upper house of the German parliament (Bundesrat), have consented to a change in the relevant tax rates.

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.

(19) 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.

(20) Financial liabilities

(Non-derivative) financial liabilities are carried at amortised cost, unless they are hedged transactions within the meaning of hedge accounting requirements. 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.

(21) 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 12 months, from the obligation is not expected, the provision will be recognised at present value.

(22) Pension obligations

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 (or 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, on individual agreements with executive staff as well as on 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 (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.

(23) 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 incurred 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).

(24) Share-based remuneration

Aareal Bank Group currently maintains three share-based payment transactions subject to cash settlement in accordance with IFRS 2. Note (86) 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 three remuneration programmes has been recognised against administrative expenses, in the amount of the fair value of the relevant obligation at the reporting date.

(25) Equity and non-controlling interest

Pursuant to IFRS, 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.

(26) Reserves from transactions under common control

The split of the former DEPFA Group, which was completed during the financial year 2002, resulted in the transfer of various property financing portfolios, various participations and several properties from DEPFA Deutsche Pfandbriefbank AG (now operating under the name Deutsche Pfandbriefbank AG) to Aareal Bank Group. In turn, some participations previously held by Aareal Bank AG were transferred to the former DEPFA Deutsche Pfandbriefbank AG. Moreover, Aareal Bank AG provided individual maximum default guarantees for individual loans within the property finance portfolio of former DEPFA Deutsche Pfandbriefbank AG. The transfer of said assets was decided upon whilst Aareal Bank still belonged to the DEPFA Group; it was still ongoing during the 2009 financial year.

IFRS does not provide guidance for the presentation of spin-offs.

Assets and liabilities taken over from the former DEPFA Deutsche Pfandbriefbank AG are stated, applying the separate reporting entity method, at the same values which DEPFA Deutsche Pfandbriefbank AG would have presented in accordance with IFRS, at the time of transfer. Any differences between cost and IFRS carrying amounts are recognised directly in equity, under reserves from transactions under common control.

(B) Notes to the Statement of Comprehensive Income[1)]

(27) Net interest income

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Interest income from		
Property finance	661	1.099
Public-sector loans	52	103
Other Lending and money market transactions	185	424
Fixed-income securities and debt register claims	257	443
Current dividend income	4	16
Other interest income	1	0
Total interest income	**1,160**	**2,085**
Interest expenses from		
Bonds issued	152	325
Registered Pfandbriefe	79	226
Borrowed funds	192	465
Subordinated equity	37	68
Term deposits	207	410
Payable on demand	33	90
Other banking transactions	0	1
Total interest expenses	**700**	**1,585**
Total	**460**	**500**

Interest income from property loans includes income from impaired loans (so-called unwinding) in the amount of € 9 million (2008: € 8 million).

(28) Allowance for credit losses

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Additions	155	134
Reversals	53	55
Direct write-offs	53	11
Payments on loans and advances previously written off	5	10
Total	**150**	**80**

[1)] The comparative figures were partially adjusted. Further information is included in Note (5) in the notes to the consolidated financial statements.

(29) Net commission income

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Commission income from		
Consulting/Services	150	150
Trustee loans and administered loans	6	9
Securities transactions	2	4
Securitisation transactions	2	9
Other lending and capital market transactions	13	23
Other commission income	15	16
Total commission income	**188**	**211**
Commission expenses from		
Consulting/Services	26	39
Securities transactions	17	1
Securitisation transactions	4	15
Other lending and capital market transactions	2	2
Other commission expenses	6	5
Total commission expenses	**55**	**62**
Total	**133**	**149**

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

Net commission income generated from securities transactions includes expenses of € 17 million for the guarantee facility extended by the German Financial Markets Stabilisation Fund (SoFFin).

(30) Net result on hedge accounting

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Ineffective portion of fair value hedges	-2	2
Ineffective portion of cash value hedges	0	0
Total	**-2**	**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.

(31) Net trading income/expenses

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Results from derivative financial instruments	47	-19
Currency translation	-5	-2
Net income/expenses from other positions held for trading	2	-10
Total	**44**	**-31**

The results from derivative financial instruments relate to recoveries in the value of credit-specific derivatives in the amount of € 34 million.

(32) Results from non-trading assets

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Result from debt securities and other fixed-income securities	-1	26
of which: Loans and receivables	1	0
Available for sale	-2	26
Result from equities and other non-fixed income securities	-22	-129
of which: Available for sale	-19	-102
Designated as at fair value through profit or loss	-3	-27
Results from equity investments (AfS)	1	1
Total	**-22**	**-102**

The result from equities and other non-fixed-income securities was largely due to restructuring measures carried out in the securities portfolio at the beginning of 2009.

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

The results from investments accounted for using the equity method – amounting to € 1 million (2008: € 7 million) – were mainly the result of the pro-rata net profit/loss received from associates.

(34) Results from investment properties

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Rental income	1	1
Expenses for the operation of properties rented out	0	0
Results from the measurement of properties	-1	-2
Total	**0**	**-1**

(35) Administrative expenses

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Staff expenses	221	226
Other administrative expenses	118	116
Depreciation, amortisation and impairment of property and equipment and intangible assets	22	22
Total	**361**	**364**

Staff expenses include contributions for the statutory pension insurance scheme (employer's contribution) in the amount of € 10 million (2008: € 11 million).

Other administrative expenses include research and development costs not eligible for capitalisation in the amount of € 3 million (2008: € 1 million). This item also includes the total fees charged by the auditor of the consolidate financial statements in the financial year 2009, which consists of the following sub-items:

Euro 000's	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Auditing services	3,578	2,908
Audit or valuation services	480	433
Tax advisory services	231	176
Other services	1,137	1,149
Total	**5,426**	**4,666**

(36) Net other operating income/expenses

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Income from properties	4	9
Income from the reversal of provisions	4	11
Income from goods and services	4	1
Miscellaneous	18	53
Total other operating income	**30**	**74**
Expenses from property	6	7
Expenses from services used	3	0
Write-downs of trade receivables	1	1
Expenses from other taxes	2	1
Miscellaneous	32	35
Total other operating expenses	**44**	**44**
Total	**-14**	**30**

Miscellaneous other operating income include € 3 million in tax refunds.

Miscellaneous other operating expenses include provisions for settlement risks of € 8 million, research and development costs of € 3 million which could not be capitalised, and expenses for other taxes of € 2 million.

(37) Impairment of goodwill

Impairment of goodwill amounted to € 2 million (2008: € 0 million) in the financial year 2009, mainly referring to impairment of goodwill capitalised in connection with Deutsche Structured Finance GmbH.

(38) Income taxes

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Current income taxes	24	39
Deferred taxes	-4	6
Total	**20**	**45**

The differences between calculated and actual tax expense is presented in the following reconciliation:

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Operating profit (before income taxes)	87	110
Applicable tax rate	31.2%	31.2%
Calculated income taxes	27	34
Reconciliation to reported income taxes		
Corporate income tax credit	-1	-1
Effect of different tax rates in other countries	-7	15
Tax-free income	-7	23
Non-deductible expenses	1	1
Taxes for previous years	3	-29
Changes in tax rates for deferred taxes	–	–
Non-controlling interest	-6	-6
Remeasurement of deferred taxes	5	4
Trade income tax	3	2
Other differences	2	2
Reported income taxes	**20**	**45**

The tax rate used for Group companies in Germany was 31.2% (2008: 31.2%). Companies subject to corporation tax only were charged a tax rate of 15.8% (2008: 15.8%).

(39) Earnings per share

	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Net income/loss attributable to shareholders of Aareal Bank AG (Euro million)	49	47
Average number of shares outstanding (Number)	42,755,159	42,755,159
Earnings per share (Euro)	**1.14**	**1.10**

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. For Aareal Bank Group, diluted earnings per share correspond to basic earnings per share, as no convertible instruments were issued.

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

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Net income/loss	**67**	**65**
Changes in revaluation reserve (after taxes)	**75**	**-253**
Gains and losses on remeasuring available-for-sale financial instruments (before tax)	49	-402
Reclassifications to the Income statement (before taxes)	49	78
Taxes	-23	71
Changes in hedging reserves (after taxes)	**0**	**0**
Profit/loss from derivatives used to hedge future cash flows (before taxes)	0	0
Reclassifications to the Income statement (before taxes)	0	–
Taxes	–	–
Changes in Currency translation reserves (after taxes)	**-1**	**2**
Profit/loss from translating foreign operations‘ financial statements (before taxes)	-1	2
Reclassifications to the Income statement (before taxes)	–	–
Taxes	–	–
Changes in reserves from transactions under common control (after taxes)	**9**	**18**
Gains and losses from transactions under common control (before taxes)	9	–
Reclassifications to the Income statement (before taxes)	–	18
Taxes	–	–
Other Changes (after taxes)	**-4**	**–**
Other Changes (before taxes)	-6	–
Taxes	2	–
Profit/Loss directly recognised in equity (after taxes)	**79**	**-233**
Total comprehensive income	**146**	**-168**

As at 31 December 2009, total gains and losses recognised directly in equity are as follows:

Euro mn	31 Dec 2009	31 Dec 2008
Revaluation surplus	-112	-187
Hedging reserves	0	0
Currency translation reserves	1	2
Reserves from transactions under common control	1	-8
Total	**-110**	**-193**

(C) Notes to the Statement of Financial Position[1)]

(41) Cash funds

Euro mn	31 Dec 2009	31 Dec 2008
Cash on hand	0	0
Balances with central banks	990	693
Total	**990**	**693**

(42) Loans and advances to banks

Euro mn	31 Dec 2009	31 Dec 2008
Term deposits and current account balances	521	907
Public-sector loans	234	268
Other loans and advances	46	69
Total	**801**	**1,244**

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

(43) Loans and advances to customers

Euro mn	31 Dec 2009	31 Dec 2008
Property financing	21,288	22,546
Public-sector loans	1,717	1,876
Other loans and advances	454	343
Total	**23,459**	**24,765**

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

[1)] The comparative figures were partially adjusted. Further information is included in Note (5) in the notes to the consolidated financial statements.

(44) Allowance for credit losses

Euro mn	Specific valuation allowances 2009	Specific valuation allowances 2008	Portfolio write-downs 2009	Portfolio write-downs 2008	Total 2009	Total 2008
Balance as at 1 January	**147**	**150**	**85**	**40**	**232**	**190**
Adjustments to comparative figures	3	2	–	–	3	2
Balance as at 1 January (adjusted)	**150**	**152**	**85**	**40**	**235**	**192**
Additions/transfers	133	76	15	45	148	121
Drawdowns	55	18	–	–	55	18
Reversals	45	60	–	–	45	60
Balance as at 31 December	**183**	**150**	**100**	**85**	**283**	**235**

The allowance for credit losses is entirely related to loans and advances to customers. They are classified as "Loans and receivables" (LaR).

(45) Positive market value of derivative hedging instruments

Euro mn	31 Dec 2009	31 Dec 2008
Positive market values of fair value hedges	820	666
Pro rata interest receivable	424	266
Total	**1,244**	**932**

(46) Trading assets

Euro mn	31 Dec 2009	31 Dec 2008
Debt and other fixed-income securities	1	466
Positive market value of trading derivatives	688	1,039
Other assets held for trading	–	650
Total	**689**	**2,155**

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

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

(47) Non-current assets held for sale, and discontinued operations

Euro mn	31 Dec 2009	31 Dec 2008
Properties	8	8
Total	**8**	**8**

The sale of a property (valued at € 8 million), originally planned for 2009, has been delayed. The Group still has the intention to sell this property.

(48) Non-trading assets

Euro mn	31 Dec 2009	31 Dec 2008
Debt and other fixed-income securities	11,817	10,343
of which: Loans and receivables (LaR)	7,039	4,152
Held to maturity (HtM)	412	412
Available for sale (AfS)	4,366	5,779
Equities and other non-fixed income securities	108	305
of which: Available for sale (AfS)	98	213
Designated as at fair value through profit or loss (dFVtPL)	10	92
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	4	5
Total	**11,929**	**10,653**

The item "Debt and other fixed-income securities" mainly consists of securities and promissory notes 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 € 537 million (2008: € 590 million).

The item "Equities and other non-fixed income securities" comprises structured financial instruments amounting to € 10 million (2008: € 92 million), which are allocated to the category "Designated as at fair value through profit or loss" (dFVtPL).

Carrying amounts of negotiable non-trading assets:

	Listed		Unlisted	
Euro mn	2009	2008	2009	2008
Debt and other fixed-income securities	11,759	10,104	57	240
Equities and other non-fixed income securities	–	66	55	149
Total	**11,759**	**10,170**	**112**	**389**

(49) Investments accounted for using the equity method

As in the previous year, there were no unrecognised pro-rata losses incurred from companies accounted for using the equity method during the financial year. There were no accumulated, unrecognised losses at the 2009 and 2008 reporting dates. The share of Aareal Bank Group in gains and losses of associates taken into account in 2009 totalled € 1 million (2008: € 7 million).

The material companies accounted for using the equity method as at 31 December 2009 had assets of € 106 million (2008: € 139 million) and liabilities of € 94 million (2008: € 123 million) in aggregate.

The equity method was based on the most recent available financial statements prepared under local GAAP. The relevant reporting dates were 31 March 2009, 30 June 2009 and 30 September 2009, respectively.

(50) Investment properties

Investment properties, as shown in the statement of financial position, developed as follows:

Euro mn	2009	2008
Carrying amount as at 1 January	**94**	**10**
Additions		
from the purchase of properties	–	89
from subsequent expenditure	10	5
from business combinations	–	–
Reclassification in accordance with IFRS 5	–	-8
Disposals	–	–
Net results from fair value measurement	-1	-2
Carrying amount as at 31 December	**103**	**94**

(51) Intangible assets

Euro mn	31 Dec 2009	31 Dec 2008
Goodwill	37	39
Proprietary software	28	34
Other intangible assets	13	13
Total	**78**	**86**

Reported goodwill mainly refers to the Aareon sub-group.

The amount shown for software developed in-house includes € 10 million (2008: € 12 million) for the electronic payments system BK@1; the software is amortised over a remaining term of five years.

The same item also includes € 8 million (2008: € 9 million) for the property management software suite Blue Eagle; the software is amortised over an average remaining term of six years.

Intangible assets developed as follows:

	2009				2008			
Euro mn	Proprietary software	Goodwill	Other intangible assets	Total	Proprietary software	Goodwill	Other intangible assets	Total
Cost								
Balance at 1 January	**63**	**94**	**48**	**205**	**60**	**84**	**50**	**194**
Additions	1	0	4	5	5	10	4	19
Transfers	0	–	0	–	–	–	–	–
Disposals	0	–	2	2	2	0	6	8
Balance at 31 December	**64**	**94**	**50**	**208**	**63**	**94**	**48**	**205**
Depreciation, amortisation and impairment losses								
Balance at 1 January	**29**	**55**	**35**	**119**	**23**	**55**	**36**	**114**
Depreciation, amortisation and impairment losses	7	2	4	13	7	0	4	11
of which: impairment losses	–	–	–	–	–	–	–	–
Write-ups	–	–	–	–	–	–	–	–
Transfers	–	–	–	–	–	–	–	–
Disposals	0	–	2	2	1	–	5	6
Balance at 31 December	**36**	**57**	**37**	**130**	**29**	**55**	**35**	**119**
Carrying amount as at 1 January	**34**	**39**	**13**	**86**	**37**	**29**	**14**	**80**
Carrying amount as at 31 December	**28**	**37**	**13**	**78**	**34**	**39**	**13**	**86**

(52) Property and equipment

Euro mn	31 Dec 2009	31 Dec 2008
Land and buildings and construction in progress	78	79
Office furniture and equipment	21	18
Total	**99**	**97**

Property and equipment changed as follows:

	2009				2008			
Euro mn	Land and buildings	Office furniture and equipment	Construction in progress	Total	Land and buildings	Office furniture and equipment	Construction in progress	Total
Cost								
Balance at 1 January	**88**	**67**	**0**	**155**	**75**	**78**	**16**	**169**
Additions	0	11	1	12	18	9	0	27
Transfers	0	0	–	–	–	–	–	–
Disposals	1	4	0	5	5	20	16	41
Balance at 31 December	**87**	**74**	**1**	**162**	**88**	**67**	**0**	**155**
Depreciation, amortisation and impairment losses								
Balance at 1 January	**9**	**50**	**0**	**59**	**7**	**61**	**0**	**68**
Adjustments to comparative figures	–	-1	–	-1	–	-1	–	-1
Balance at 1 January (adjusted)	**9**	**49**	**0**	**58**	**7**	**60**	**0**	**67**
Depreciation, amortisation and impairment losses	3	8	–	11	4	7	–	11
of which: impairment losses	–	–	–	–	–	–	–	–
Write-ups	1	–	–	1	–	–	–	–
Transfers	–	–	–	–	–	–	–	–
Disposals	1	4	–	5	2	18	–	20
Balance at 31 December	**10**	**53**	**0**	**63**	**9**	**49**	**0**	**58**
Carrying amount as at 1 January (adjusted)	**79**	**18**	**0**	**97**	**68**	**18**	**16**	**102**
Carrying amount as at 31 December	**77**	**21**	**1**	**99**	**79**	**18**	**0**	**97**

(53) Income tax assets

Income tax assets in a total amount of € 47 million as at 31 December 2009 (2008: € 60 million) include € 19 million (2008: € 23 million) expected to be realised after a period of more than twelve months.

(54) 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 € 692 million (2008: € 401 million).

Deferred tax assets were recognised in relation to the following items in the statement of financial position:

Euro mn	31 Dec 2009	31 Dec 2008
Loans and advances to banks/to customers	19	5
Positive and negative market value of derivative hedging instruments	208	–
Trading assets and trading liabilities	174	–
Non-trading assets	53	–
Investment properties	1	1
Intangible assets	0	–
Tangible fixed assets	1	–
Other assets/liabilities	0	165
Liabilities to banks/to customers, and certificated liabilities	234	276
Provisions	28	11
Non-controlling interest	21	–
Tax loss carryforwards	74	90
Deferred tax assets	**813**	**548**

Deferred tax assets not recognised totalled € 18 million (2008: € 20 million). They entirely relate to unrecognised tax loss carryforwards the realisation of which is no longer expected.

Deferred tax assets as at 31 December 2009 include € 71 million (2008: € 108 million) expected to be realised after a period exceeding twelve months.

(55) Other assets

Euro mn	31 Dec 2009	31 Dec 2008
Properties	160	93
Trade receivables (LaR)	26	38
Miscellaneous	95	190
Total	**281**	**321**

(56) Liabilities to banks

Euro mn	31 Dec 2009	31 Dec 2008
Payable on demand	509	560
Term deposits	247	401
Promissory note loans borrowed	595	825
Liabilities from securities repurchase transactions and open-market operations	3,236	6,606
Registered Pfandbriefe	211	272
Miscellaneous	285	270
Total	**5,083**	**8,934**

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

(57) Liabilities to customers

Euro mn	31 Dec 2009	31 Dec 2008
Payable on demand	3,543	2,864
Term deposits	4,523	4,380
Promissory note loans borrowed	8,518	8,651
Registered Pfandbriefe	4,776	4,768
Miscellaneous	1	2
Total	**21,361**	**20,665**

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

(58) Certificated liabilities

Euro mn	31 Dec 2009	31 Dec 2008
Medium-term notes	1,791	1,998
Bearer Pfandbriefe	3,745	3,704
Other debt securities	2,326	722
Total	**7,862**	**6,424**

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

New issues of certificated liabilities during 2009 totalled € 5,875 million (2008: € 2,923 million). This included issues guaranteed by SoFFin in the amount of € 2.0 billion. The amounts reported include accrued interest.

(59) Negative market value of derivative hedging instruments

Euro mn	31 Dec 2009	31 Dec 2008
Negative market values of fair value hedges	739	881
Negative market values of cash flow hedges	–	1
Pro rata interest payable	201	112
Total	**940**	**994**

(60) Trading liabilities

Euro mn	31 Dec 2009	31 Dec 2008
Negative market value of trading derivatives	490	495
Other assets held for trading	–	138
Total	**490**	**633**

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

(61) Provisions

Euro mn	31 Dec 2009	31 Dec 2008
Provisions for pensions and similar obligations	117	113
Other provisions	139	147
Total	**256**	**260**

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 reinsurance cover to a certain extent; some are funded. 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.

Aareal Bank intends to contribute parts of the assets held to cover existing pension obligations into a Contractual Trust Arrangement (CTA) in 2010. 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.

The determination of the amount of provisions for pensions is based on the following actuarial assumptions:

	31 Dec 2009	31 Dec 2008
Calculation method	Projected Unit Credit	Projected Unit Credit
Calculation basis	Actuarial tables 2005 G issued by K. Heubeck	Actuarial tables 2005 G issued by K. Heubeck
Actuarial assumptions (%)		
Interest rate used for valuation	5.50	5.50
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	3.20	3.20

Development of pension liabilities:

Euro mn	2009	2008
Present value of pension liabilities as at 1 January	**123**	**117**
Service cost	3	4
Interest cost	7	6
Changes in actuarial profit (-)/loss	4	1
Pension benefits paid	6	5
Present value of pension liabilities as at 31 December	**131**	**123**

Reconciliation of pension liabilities to provisions for pensions:

Euro mn	2009	2008
Present value of pension liabilities as at 31 December	**131**	**123**
Unrealised profit/loss (-)	-14	-10
Provisions for pensions as at 31 December	**117**	**113**

Provisions for pensions carried at 31 December 2009 include € 111 million (2008: € 108 million) expected to be realised after a period of more than twelve months.

The present value of pension liabilities developed as follows:

Euro mn	31 Dec 2009	31 Dec 2008	31 Dec 2007	31 Dec 2006	31 Dec 2005
Present value of pension liabilities	131	123	117	136	136

Expenses incurred under pension obligations during the financial year are shown in administrative expenses.

As at the balance sheet date 31 December 2009, the following experience adjustments had to be made in accordance with IAS 19.120A(p):

Euro mn	31 Dec 2009	31 Dec 2008	31 Dec 2007	31 Dec 2006
Gains and losses (-) arising from				
Changes in inventory	-4	-1	0	-1
Changes in the actuarial assumptions	0	–	21	6
Total profit/loss (-) for the period	**-4**	**-1**	**21**	**5**

Contributions in the amount of € 6 million are expected to be paid in the financial year 2010.

Effective on 1 December 2009, we entered into reinsurance policies to cover pension obligations. The resulting refund claim in accordance with IAS 19.104A changed as follows:

Euro mn	2009	2008
Fair value of refund claim as at 1 January	**–**	**–**
Employer's contribution	14	–
Expected income from refund claims	0	–
Actuarial gains and losses	0	–
Benefits paid	–	–
Fair value of refund claim as at 1 January	**14**	**–**

Other provisions

Other provisions developed as follows:

Euro mn	Restructuring provisions	Provisions for staff expenses and non-staff operating costs	Provisions in the lending business	Miscellaneous other provisions	Total
Carrying amount as at 1 January 2009	**0**	**65**	**38**	**44**	**147**
Additions	3	36	8	26	73
Utilisation	0	32	7	11	50
Reversals	–	9	11	11	31
Reclassifications	–	–	–	–	–
Carrying amount as at 31 December 2009	**3**	**60**	**28**	**48**	**139**

Euro mn	Restructuring provisions	Provisions for staff expenses and non-staff operating costs	Provisions in the lending business	Miscellaneous other provisions	Total
Carrying amount as at 1 January 2008	**1**	**73**	**46**	**46**	**166**
Additions	–	36	15	28	79
Utilisation	1	34	18	22	75
Reversals	0	9	5	9	23
Reclassifications	–	-1	–	1	0
Carrying amount as at 31 December 2008	**0**	**65**	**38**	**44**	**147**

Provisions for staff expenses and non-staff operating costs include provisions set aside for bonuses and for anniversary bonuses.

An amount of € 16 million (2008: € 18 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.

Other provisions include provisions for interest rate guarantees provided in the context of the separation in 2002 relating to the property loan portfolio held by Deutsche Pfandbriefbank AG.

Provisions existing at the reporting date are expected to be realised within a twelve-month period following the reporting date, with the exception of provisions for the lending business.

(62) Income tax liabilities

Income tax liabilities in a total amount of € 10 million as at 31 December 2009 (2008: € 21 million) include € 9 million (2008: € 3 million) expected to be realised after a period of more than twelve months.

(63) 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 € 692 million (2008: € 401 million).

Deferred tax liabilities were recognised in relation to the following items of the statement of financial position:

Euro mn	31 Dec 2009	31 Dec 2008
Loans and advances to banks/to customers	112	50
Positive and negative market value of derivative hedging instruments	246	48
Trading assets and trading liabilities	200	97
Non-trading assets	141	90
Investment properties	1	1
Intangible assets	8	9
Property and equipment	9	12
Other assets/liabilities	4	167
Liabilities to banks/to customers, and certificated liabilities	15	–
Provisions	26	2
Non-controlling interest	0	–
Deferred tax liabilities	**762**	**476**

An amount of € 32 million (2008: € 55 million) related to deferred taxes on measurement differences between the tax balance sheet and the consolidated balance sheet was directly recognised in the revaluation surplus. Deferred tax liabilities as at 31 December 2009 include € 54 million (2008: € 115 million) expected to be realised after a period exceeding twelve months.

(64) Other liabilities

Euro mn	31 Dec 2009	31 Dec 2008
Liabilities from outstanding invoices	10	20
Deferred income	6	7
Liabilities from other taxes	15	18
Trade payables (LaC)	10	8
Other liabilities (LaC)	110	255
Other liabilities	**151**	**308**

Other liabilities include proportionate interest in connection with the silent participation from SoFFin in the amount of € 35 million.

(65) Subordinated equity

Euro mn	31 Dec 2009	31 Dec 2008
Subordinated liabilities	559	552
Profit-participation certificates	482	473
Contributions by silent partners [1]	228	232
Total	**1,269**	**1,257**

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

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

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 2009 totalled € 24 million (2008: € 30 million). Interest was paid on subordinated liabilities at an average rate of 4.27 % (2008: 5.42 %).

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 Euro million	Issue currency	Interest rate (% p.a.)	Maturity
Bearer securities				
	125.0	EUR	6.750	2002 - 2011
	100.0	EUR	6.375	2002 - 2011
	60.0	EUR	6.125	2003 - 2013
	285.0			
Registered securities				
	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. Where a distribution during the term of the profit-participation certificates would cause a net loss, said interest claim would be reduced, creating a claim for back payment 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 € 27 million (2008: € 28 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 (2008: € 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 (2008: € 220 million) in their full amount.

Total expenditure for silent participations totalled € 12 million (2008: € 16 million) in the financial year 2009.

(66) Equity

Euro mn	31 Dec 2009	31 Dec 2008
Subscribed capital	128	128
Capital reserves	511	511
Retained earnings	780	762
Other reserves		
Reserves from transactions under common control	1	-8
Revaluation surplus	-112	-187
Hedging reserves	0	0
Currency translation reserves	1	2
Silent participation by SoFFin	525	–
Non-controlling interest	243	244
Total	**2,077**	**1,452**

Subscribed capital

Aareal Bank AG's subscribed capital amounted to € 128 million as at the reporting date (2008: € 128 million). It is divided into 42,755,159 notional no-par value shares ("unit 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. There was no change in the number of shares issued in the year under review.

Treasury shares

The Company has been authorised by the Annual General Meeting held on 7 May 2009 to purchase and sell treasury shares, pursuant to section 71 (1) no. 7 of the AktG, until 6 November 2010. The volume of shares acquired for this purpose must not exceed 5% of the bank's share capital at the end of any day. The lowest price at which a share may be acquired is determined by the closing price of the shares in Xetra (or a comparable successor system) on the trading day prior to such purchase less 10%. The highest price shall not exceed such average closing price plus 10%.

The Company was authorised at the same Annual General Meeting in accordance with Section 71 (1) No. 8 of the AktG to purchase own shares not exceeding 10% of the bank's share capital for other purposes than securities trading until 6 November 2010. Shares may be acquired via the stock exchange or by means of a public offer to buy, directed at all shareholders. Neither the purchase price, excluding ancillary costs, (if the acquisition takes place via the stock market) nor the offering price, excluding ancillary costs, (in case of a public offer to buy) may exceed or fall below the average closing price of the bank's shares in Xetra (or a comparable successor system) during the three trading days prior to the purchase or the public announcement of the purchase offer by more than ten per cent (10%).

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 15 June 2005. Accordingly, the Management Board is authorised to increase, on one or more occasions, the Company's share capital by up to a maximum total amount of € 58,300,000 (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 14 June 2010. 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 is not significantly below the prevailing stock exchange price. However, this authorisation shall be subject to the proviso that the aggregate value of shares issued 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 issued share capital at the time of exercising said authorisation. 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 issued capital. Said ten-per-cent threshold shall also include shares which were issued (or the issuance of which is required) under the terms of debt securities with embedded conversion or option rights on shares, where such debt securities are issued pursuant to section 186 (4) sentence 4 of the AktG at the time of exercising said 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) up to an amount of € 4,000,000 in order to offer employees (of the Company or its affiliated companies) shares for subscription;

e) where the new shares will be issued against contributions in kind.

Exercising said authorisations, and with the approval of the Supervisory Board, the Management Board resolved on 6 November 2005 to increase the Company's issued share capital by € 11,660,496 (equivalent to 10% of the issued share capital prior to the increase) to € 128,265,477, by issuing

3,886,832 bearer shares against cash contributions, at an issue price of € 25.75. Excluding shareholders' pre-emptive subscription rights, Aareal Holding Verwaltungsgesellschaft mbH, Bayerische Beamtenversicherung and Neue Bayerische Beamten Lebensversicherung AG were admitted to subscribe and acquire the new shares. The capital increase was carried out, and entered in the Commercial Register on 21 November 2005.

Following this increase, the remaining authorised capital amounts to € 46,639,504. This authorisation will expire on 14 June 2010.

The Annual General Meeting held on 21 May 2008 resolved to approve additional authorised capital. The Management Board is authorised to increase, on one or more occasions, the Company's share capital by up to a maximum total amount of € 12,826,545.00 (Authorised Capital) by issuing new bearer shares for contribution in cash or in kind (where such contribution may represent the full contribution, or part thereof) through the issue of up to 4,275,515 bearer shares with a share in the Company's share capital of € 3.00 each, subject to the approval of the Supervisory Board; this authority will expire on 20 May 2013. In the event of a capital increase against cash contributions, the shareholders shall be granted a subscription right. However, the Management Board is authorised to 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 does not fall significantly below the prevailing stock exchange price of the exchange-listed shares of the same description and features, and the total pro-rata share of the new shares, for which the subscription right has been excluded, in the share capital does not exceed ten per cent (10%) at the time of this authorisation entering into effect or – if this amount is lower – does not exceed the share capital existing at the time this authorisation 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 issued capital. Said ten-per-cent threshold shall also include shares which are required to be issued under the terms of debt securities with embedded conversion or option rights on shares, where such debt securities are issued pursuant to section 186 (3) sentence 4 of the AktG during the term of this authorisation;

b) for fractional amounts arising from 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) up to an amount of € 4,000,000 in order 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.

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 21 May 2008. Said resolution authorised the Management Board, subject to the consent of the Supervisory Board, to issue, on one or more occasions until 20 May 2013, 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 or 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 (2008: € 5 million) and of other retained earnings of € 775 million (2008: € 757 million).

Changes in retained earnings have been reflected in the statement of changes in equity.

Reserves from transactions under common control

Any differences between cost of assets agreed upon within the scope of the split of the former DEPFA Group and the notional IFRS carrying amounts of assets earmarked for transfer are recognised directly in equity, in the reserves from transactions under common control (see Note 26).

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.

Non-controlling interest

€ 250 million (2008: € 250 million) in preference shares issued by a subsidiary were outstanding at the end of the 2009 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 (2008: € 18 million). The tax relief resulting from distributions leads to a reduction of income taxes as reported in the statement of comprehensive income.

Dividend

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

(D) Reporting on Financial Instruments[1)]

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 resulting from financial instruments in accordance with IFRS 7 are also included in the risk report.

(67) 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.

As a result of the implications from the crisis on the financial markets, certain securities were characterised in the past by the lack of an active market. Therefore, the fair value of these securities was determined

[1)] The comparative figures were partially adjusted. Further information is included in Note (5) in the notes to the consolidated financial statements.

on the basis of valuation models. In the current financial year, an active market has developed again for some of these securities, to the extent that regular price quotations are now available for these securities. In these cases, the market prices observable in the market are used for the purpose of determining fair values.

Financial instruments belonging to Treasury activities are measured within Aareal Bank Group by a department, which is independent from Trading. This department 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 further 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: Positive and negative market values from derivative hedging instruments as well as from derivatives held for trading 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.

Other assets and liabilities held for trading: The bonds included in the trading portfolio are fixed-income bonds. These are measured using the same valuation methods as are used for securities of the available-for-sale portfolio.

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 the contractually agreed cash flows is initially made on the basis of risk-free interest rates available on the market. The fair values attributable to changes in interest rates are then adjusted by the default risk. In order to calculate the creditworthiness component of the fair value, the current standard risk costs and costs of equity capital are weighted separately for the various sub-portfolios per loan category using the relevant sensitivity (price value of a basis point) and then included in the determination of the fair value.

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 Pfandbrief 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 equity: 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 contingent liabilities and loan commitments 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 IFRS to disclose measurement information for financial instruments recognised at fair value in the statement of financial position:

Level 1 – Quoted prices 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:

Euro mn	Total Fair value 31 Dec 2009	Fair value level 1 31 Dec 2009	Fair value level 2 31 Dec 2009	Fair value level 3 31 Dec 2009
Positive market value of derivative hedging instruments	**1,244**	**–**	**1,244**	**–**
Assets Held for trading	**689**	**0**	**689**	**0**
Trading derivatives	688	0	688	–
Trading securities	1	–	1	–
Other trading assets	0	–	–	–
Non-trading assets Available for sale	**4,464**	**1,295**	**3,169**	**0**
Fixed-income securities	4,366	1,213	3,153	–
Equities/Fund	98	82	16	–
Non-trading assets designated as At fair value through profit or loss	**10**	**–**	**10**	**–**
Negative market value of derivative hedging instruments	**940**	**–**	**940**	**–**
Liabilities Held for trading	**490**	**0**	**490**	**0**
Trading derivatives	490	0	490	–
Other trading liabilities	0	–	–	–

The fair values of financial instruments recognised at fair value in the statement of financial position that are assigned to Level 3 of the fair value hierarchy have developed as follows during the year under review:

Euro mn	Non-trading assets dfvtpl 2009	Non-trading assets AfS 2009
Fair value as at 31 December 2009	**0**	**0**
Measurement gains or losses P&L	**-2**	**-1**
Result from non-trading assets	-2	-1
Net trading income/expenses	–	0
Changes in inventory	**-1**	**0**
Disposal through sale	-1	–
Change of hierarchical level	**3**	**1**
Change to level 3	3	1
Fair value as at 31 December 2009	**0**	**0**

The following measurement gains and losses were recognised in the income statement for Level 3 financial instruments carried at fair value and still included in the statement of financial position as at the reporting date:

Euro mn	Non-trading assets dfvtpl 31 Dec 2009	Non-trading assets AfS 31 Dec 2009
Result from non-trading assets	-3	-1
Total	**-3**	**-1**

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:

Euro bn	31 Dec 2009 Carrying amount	31 Dec 2009 Fair Value	31 Dec 2008 Carrying amount	31 Dec 2008 Fair Value
Cash on hand and balances with central banks	**1.0**	**1.0**	**0.7**	**0.7**
Loans and advances to banks (LaR)	0.8	0.8	1.2	1.1
Loans and advances to customers (LaR)	23.2	23.7	24.5	24.8
Non-trading assets (LaR)	7.0	7.0	4.2	3.9
Other assets (LaR)	0.1	0.1	0.2	0.2
Total Loans and receivables	**31.1**	**31.6**	**30.1**	**30.0**
Non-trading assets Held to maturity	**0.4**	**0.4**	**0.4**	**0.4**
Non-trading assets Available for sale	**4.5**	**4.5**	**6.0**	**6.0**

Euro bn	31 Dec 2009 Carrying amount	31 Dec 2009 Fair Value	31 Dec 2008 Carrying amount	31 Dec 2008 Fair Value
Non-trading assets designated as At fair value through profit or loss	**0.0**	**0.0**	**0.1**	**0.1**
Positive market value of derivative hedging instruments	**1.2**	**1.2**	**0.9**	**0.9**
Assets Held for trading	**0.7**	**0.7**	**2.2**	**2.2**
Liabilities to banks (LaC)	5.1	5.1	8.9	8.9
Liabilities to customers (LaC)	21.4	20.7	20.7	19.8
Certificated liabilities (LaC)	7.9	7.9	6.4	6.3
Other liabilities (LaC)	0.1	0.1	0.3	0.3
Subordinated equity (LaC)	1.3	1.1	1.3	1.0
Total Liabilities measured at amortised cost	**35.8**	**34.9**	**37.6**	**36.3**
Negative market value of derivative hedging instruments	**0.9**	**0.9**	**1.0**	**1.0**
Liabilities Held for trading	**0.5**	**0.5**	**0.6**	**0.6**
Financial guarantee contracts	**0.3**	**0.3**	**0.6**	**0.6**
Loan commitments	**2.0**	**2.0**	**3.3**	**3.3**

(68) 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:

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Result from Loans and receivables	24	-47
Result from financial instruments Held for trading	50	-29
Result from financial instruments designated as At fair value through profit or loss	-2	-27
Result from financial instruments Available for sale	-37	123
of which: directly recognised in equity	49	-405
Result from derivative hedging instruments	131	479
Result from Liabilities measured at amortised cost	-243	-1.031

The amount reclassified from equity into the income statement for Available for sale assets in the year under review is -€ 15 million (2008: -€ 74 million).

The result from financial guarantee contracts amounted to € 3 million (2008: -€ 10 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.

(69) Impairment losses

The following overview shows the impairment losses recognised for financial instruments by measurement category during the year under review:

	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Euro mn		
Loans and advances to customers (LaR)	196	131
Non-trading assets (LaR)	4	–
Non-trading assets (AfS)	4	66
Other assets (LaR)	3	1
Financial guarantee contracts	8	15
Total	**215**	**213**

(70) Reclassification of financial assets

After the reclassification of securities during the second half of 2008, Aareal Bank Group again made use of the reclassification options provided for by IAS 39.50A et seq., as amended in 2008, in the first quarter of 2009. Specifically, government bonds, other public-sector bonds, and bank bonds were reclassified from the IFRS measurement categories ”Available for sale“ (AfS) and ”Held for trading“ (HfT) to ”Loans and receivables“ (LaR), as at 2 January 2009.

This reclassification takes account of the fact that an active market no longer existed for these securities at the date of reclassification and that Aareal Bank Group has the intention and ability to hold such securities for a longer term. The criteria used for the existence of an inactive market were lack of trading volume (at the stock exchange), widening of bid-ask spreads and arbitrage possibilities between various brokers.

Reclassification was based on the fair value applicable as at the date of reclassification. Until the date of reclassification, the financial assets had been measured at fair value. These securities are now measured at amortised cost. At the date of reclassification, the amount added to the new category corresponded to the amount deducted from the old category.

The carrying amounts as well as the measurement effects of the securities reclassified during the year under review are presented in the following table:

Financial assets reclassified during the year under review

		Results from fair value measurement			
	Carrying amount at the time of re-classification	Effect on the income state-ment 1 Jan-31 Dec 2009	Effect on the income state-ment 1 Jan-31 Dec 2008	Effect on the revaluation surplus 1 Jan-31 Dec 2009	Effect on the revaluation surplus 1 Jan-31 Dec 2008
Euro mn					
from AfS to LaR	**2,952**	**–**	**–**	**16**	**-64**
Asset-backed securities	–	–	–	–	–
Bank bonds	810	–	–	9	-34
Mortgage Pfandbriefe	263	–	–	0	–6
Government bonds	1,879	–	–	7	-24
from HfT to LaR	**5**	**–**	**1**	**–**	**–**
Asset-backed securities	–	–	–	–	–
Government bonds	5	0	1	–	–
Total	**2,957**	**–**	**1**	**16**	**-64**

Aareal Bank expected cash flows from the reclassified assets in the amount of € 3,475 million.

In the financial years 2008 and 2009, the following effects resulted from the securities reclassified until the relevant balance sheet date:

Reclassified financial assets, total

	Total value of assets reclassified in the respective financial year				Results from fair value measurement without reclassification			
	Carrying amount at reporting date 31 Dec 2009	Carrying amount previous year 31 Dec 2008	Fair value at reporting date 31 Dec 2009	Fair value (previous year) 31 Dec 2008	Effect on the income statement 1 Jan-31 Dec 2009	Effect on the income statement 1 Jan-31 Dec 2008	Effect on the revalu-ation surplus 1 Jan-31 Dec 2009	Effect on the revalu-ation surplus 1 Jan-31 Dec 2008
Euro mn								
from AfS to LaR	**5,729**	**2,924**	**5,706**	**2,748**	**–**	**–**	**118**	**-143**
Asset-backed securities	50	53	46	45	–	–	4	-1
Bank bonds	1,234	396	1,260	327	–	–	70	-10
Mortgage Pfandbriefe	673	369	676	363	–	–	6	-8
Government bonds	3,772	2,106	3,724	2,013	–	–	38	-124
from HfT to LaR	**455**	**508**	**410**	**452**	**10**	**-20**	**–**	**–**
Asset-backed securities	449	501	403	445	9	-19	–	–
Bank bonds	6	7	7	7	1	-1	–	–
Total	**6,184**	**3,432**	**6,116**	**3,200**	**10**	**-20**	**118**	**-143**

Impairment losses of € 4 million (2008: € nil) had to be recognised for reclassified financial assets in the 2009 financial year. The disposal of reclassified securities resulted in a realisation of capital gains of € 1 million. Interest income from reclassified assets amounted to € 297 million in the year under review.

(71) 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 a derecognition of the securities 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:

Euro mn	31 Dec 2009	31 Dec 2008
Bonds and debt securities (AfS)	1,545	1,711
Total	**1,545**	**1,711**

In connection with these securities, Aareal Bank recognised obligations resulting from genuine repurchase agreements in an amount of € 1,486 million (2008: € 1,606 million) under liabilities to banks.

(72) 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.

Euro mn	31 Dec 2009	31 Dec 2008
Loans and advances to banks	387	438
Non-trading assets	1,779	4,768
Total	**2,166**	**5,206**

The carrying amount of financial assets pledged as collateral where the protection buyer has the right to sell or re-pledge the assets is € 1,545 million (2008: € 1,711 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 at the balance sheet date, no such collateral had been accepted (2008: € 15 million).

Collateral is provided and accepted predominantly on the basis of standardised agreements on securities repurchase transactions and on the collateralisation of forward transactions. In addition, the securities are collateralised by securitisation transactions to secure credit-linked notes issued by Aareal Bank Group.

(73) Disclosures on maximum credit risk exposure

The following overview shows the carrying amount of all financial assets less impairment, without taking into account any collateral:

Euro mn	31 Dec 2009	31 Dec 2008
Loans and advances to banks	**801**	**1,244**
Term deposits and current account balances	521	907
Public-sector loans	234	268
Other loans and advances	46	69
Loans and advances to customers	**23,276**	**24,615**
Property financing	21,105	22,396
Public-sector loans	1,717	1,876
Other loans and advances	454	343
Positive market value of derivative hedging instruments	**1,244**	**932**
Trading assets	**689**	**2,155**
Non-trading assets (LaR)	**7,039**	**4,152**
Fixed-income securities	7,039	4,152
Non-trading assets (AfS)	**4,468**	**5,997**
Fixed-income securities	4,366	5,779
Equities and other non-fixed income securities	98	213
Other investments	4	5
Non-trading assets (HtM)	**412**	**412**
Fixed-income securities	412	412
Non-trading assets (dfvtpl)	**10**	**92**
Equities and other non-fixed income securities	10	92
Other assets	**76**	**201**
Trade receivables	26	38
Other loans and advances	50	163
Financial guarantee contracts	**323**	**560**
Irrevocable loan commitments	**1,486**	**2,959**
Total	**39,824**	**43,319**

The assets held as collateral and other instruments used to collateralise loans are described in the Risk Report.

(74) 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)]

31 December 2009

Euro 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
Geographical segments						
Germany	1	1	1	7	66	**76**
Western Europe	–	–	3	–	–	**3**
Northern Europe	18	–	–	–	3	**21**
Southern Europe	0	49	24	13	66	**152**
Eastern Europe	–	–	–	–	–	**–**
North America	–	–	–	–	–	–
Asia	–	–	–	–	–	–
Total	**19**	**50**	**28**	**20**	**135**	**252**
Compare Total 31 December 2008	**5**	**28**	**78**	**44**	**136**	**291**

31 December 2009

Euro 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
Borrower Groups						
Institutions	–	–	–	–	–	**–**
Public sector	0	–	–	–	–	**–**
Companies	18	40	27	18	116	**219**
Private individuals	1	10	1	2	18	**32**
Others	–	–	–	0	1	**1**
Total	**19**	**50**	**28**	**20**	**135**	**252**
Compare Total 31 December 2008	**5**	**28**	**78**	**44**	**136**	**291**

The fair value of property collateral received (land charges) for property loans past due but not impaired amounts to € 232 million (2008: € 276 million).

In addition to property collateral, further collateral in the form of assignment of claims, guarantees and securities has been provided to cover the portfolio. Given the collateral pledged, no impairment was recognised.

[1)] The overview shows assets past due but not impaired which were at least 10 days overdue, and where the amount overdue is at least € 100 or 2.5 % of the commitment.

On the reporting date, the amount of loans and advances of the "Other assets" category that were past due but not impaired was € 1 million (2008: € 2 million). There were no other financial assets past due but not impaired on the reporting date.

(75) Impaired financial assets

The following overviews indicate the amount of impaired property loans under management[2)], together with the related allowance for credit losses, grouped by countries and debtors:

31 December 2009

Euro mn	Drawdowns on impaired property loans before allowance for credit losses	Balance Specific valuation allowances	Balance of provisions related to capital guarantees
Geographical segments			
Germany	260	80	14
Western Europe	52	3	–
Northern Europe	57	15	2
Southern Europe	151	37	–
Eastern Europe	77	24	–
North America	113	27	–
Asia	–	–	–
Total	**710**	**186**	**16**
Compare Total 31 December 2008	**452**	**150**	**29**

31 December 2009

Euro mn	Drawdowns of impaired property loans before allowance for credit losses	Balance Specific valuation allowances	Balance of provisions related to capital guarantees	Change of Specific valuation allowances	Direct write-downs
Borrower Groups					
Institutions	–	–	–	–	–
Public sector	–	–	–	–	–
Companies	636	149	11	83	43
Private individuals	69	34	4	5	6
Others	5	3	1	–	–
Total	**710**	**186**	**16**	**88**	**49**
Compare Total 31 December 2008	**452**	**150**	**29**	**-6**	**10**

[2)] The figure for "Property finance under management" includes property loans managed on behalf of Deutsche Pfandbriefbank AG. A reconciliation of property financings from the category "Loans and advances to customers" to the "Property finance under management" category can be found in the section "Key Group Figures" at the beginning of this Annual Report.

As at the reporting date, the amount of portfolio-based valuation allowances for loans and advances to customers was € 100 million (2008: € 85 million) and for financial guarantees € 12 million (2008: € 9 million). Net additions amounted to € 18 million (2008: € 40 million) in the year under review. Payments on loans and advances previously written off amounted to € 5 million in the year under review (2008: € 10 million).

The fair value of property collateral received (land charges) for impaired property loans amounts to € 508 million (2008: € 276 million).

Adjustments to the carrying amount of non-trading assets (LaR) came to € 4 million (2008: –) in relation to a volume of € 17 million. These adjustments relate to companies in North America. Impairment allowances for non-trading assets (AfS) in a volume of € 5 million amounted to € 1 million (2008: volume of impaired assets as at 31 December 2008 € 185 million, amount of the impairment: € 37 million). The impairment recognised for non-trading assets (AfS) was mainly in connection with companies in North America. The amount of impaired trade receivables of the "Other assets" category as at the reporting date was € 6 million (2008: € 3 million). The related impairment allowance amounts to € 3 million (2008: € 2 million). These trade receivables were primarily due from domestic companies.

The carrying amount of assets acquired upon realisation of collateral during the 2009 financial year and recognised in the financial statements as at 31 December 2009 was € 43 million (2008: –). These assets are largely commercial 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.

The carrying amount of property loans for which terms were renegotiated subsequently was € 27 million (2008: € 13 million) as at 31 December 2009.

(76) 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 2009

Euro mn	payable on demand	up to 3 months	3 months up to 1 year	1 year up to 5 years	more than 5 years	Total
Liabilities to banks	742	2,420	1,761	505	292	**5,720**
Liabilities to customers	3,898	3,331	1,979	5,418	14,524	**29,150**
Certificated liabilities	–	1,271	1,345	5,018	705	**8,339**
Subordinated equity	–	6	37	674	351	**1,068**
Financial guarantee contracts	323	–	–	–	–	**323**
Loan commitments	1,970	–	–	–	–	**1,970**

Maturities as at 31 December 2008

Euro mn	payable on demand	up to 3 months	3 months up to 1 year	1 year up to 5 years	more than 5 years	Total
Liabilities to banks	579	3,756	3,763	700	290	**9,088**
Liabilities to customers	2,859	4,303	1,503	4,428	11,869	**24,962**
Certificated liabilities	–	812	1,464	3,990	561	**6,827**
Subordinated equity	–	6	63	760	986	**1,815**
Financial guarantee contracts	495	5	57	4	–	**561**
Loan commitments	3,337	–	3	12	4	**3,356**

The Risk Report includes a detailed description of the liquidity risk associated with financial liabilities.

(77) 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 both to hedge Aareal Bank Group's existing credit risk exposure and 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 using 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 Pfandbriefe, certificated liabilities, and subordinated equity. 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:

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Result from hedging transactions	299	194
Result from hedged items	-301	-192
Total	**-2**	**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. Cash flow hedges refer to changes in interest payments and fluctuations of exchange rates.

As at the reporting date, Aareal Bank Group did not have any cash flow hedges in its portfolio; therefore, there were no future cash flows from hedged items subject to cash flow hedges.

In the previous year, the following amounts were reported in this context:

Cash flows from hedged items – Cash flow hedges as at 31 December 2008

Euro mn	up to 3 months	3 months up to 1 year	1 year up to 5 years	more than 5 years	Total
Cash flows from hedged assets	–	–	–	–	**–**
Cash flows from hedged liabilities	0	1	2	–	**3**

In 2009, 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 € 0 million (2008: -€ 2 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:

Euro mn	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Net interest income/loss	0	–
Results from non-trading assets	0	–
Net result on hedge accounting	0	0
Total	**0**	**0**

In the year under review, € 0 million (2008: € 0 million) was recognised directly in the income statement due to inefficiencies of cash flow hedges.

The following table shows positive and negative market values (including pro-rata interest) of derivative financial instruments:

	Fair value as at 31 Dec 2009		Fair value as at 31 Dec 2008	
	positive	negative	positive	negative
Euro mn				
Trading derivatives				
Interest rate instruments				
OTC products				
Interest rate swaps	331	311	354	281
Swaptions	–	–	0	0
Caps, Floors	18	19	17	17
Total interest rate instruments	**349**	**330**	**371**	**298**
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	7	36	210	46
Cross-currency interest rate swaps	330	98	438	92
Total currency-related instruments	**337**	**134**	**648**	**138**
Other transactions				
OTC products				
Credit default swaps [1]	–	24	–	59
Other derivative transactions	2	2	20	–
Exchange-listed contracts				
Futures	0	–	–	–
Total Other transactions	**2**	**26**	**20**	**59**
Total Trading derivatives	**688**	**490**	**1,039**	**495**
Derivatives from fair value hedges				
Interest rate instruments				
OTC products				
Interest rate swaps	1,224	898	905	941
Swaptions	–	0	–	1
Total interest rate instruments	**1,224**	**898**	**905**	**942**
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	–	5	8	–
Cross-currency interest rate swaps	20	37	19	51
Total currency-related instruments	**20**	**42**	**27**	**51**
Total derivatives from fair value hedges	**1,244**	**940**	**932**	**993**
Derivatives from cash flow hedges				
Interest rate instruments				
OTC products				
Interest rate swaps	–	–	–	1
Total interest rate instruments	**–**	**–**	**–**	**1**
Total Cash Flow Hedge Derivative	**–**	**–**	**–**	**1**
Total	**1,932**	**1,430**	**1,971**	**1,489**

Derivatives have been entered into with the following counterparties:

	Fair value as at 31 Dec 2009		Fair value as at 31 Dec 2008	
	positive	negative	positive	negative
Euro mn				
OECD banks	1,655	1,420	1,704	1,476
Companies and private individuals	277	10	267	13
Total	**1,932**	**1,430**	**1,971**	**1,489**

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 2009

Euro mn	up to 3 months	3 months up to 1 year	1 year up to 5 years	more than 5 years	Total 31 Dec 2009
Interest rate instruments					
Interest rate swaps					
Cash inflows	376	893	3,876	1,513	6,658
Cash outflows	285	741	3,567	1,442	6,035
Forward Rate Agreements					
Swaptions					
Cash inflows	–	–	–	–	–
Cash outflows	–	–	0	–	–
Caps, Floors					
Cash inflows	1	5	14	1	21
Cash outflows	2	6	14	1	23
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	1,901	66	–	–	1,967
Cash outflows	1,935	66	–	–	2,001
Cross-currency interest rate swaps					
Cash inflows	661	2,692	3,941	584	7,878
Cash outflows	650	2,555	3,872	546	7,623
Other transactions					
Credit default swaps					
Cash inflows	1	1	6	3	11
Cash outflows	–	4	6	–	10
Options, futures					
Cash inflows	6	–	–	–	6
Cash outflows	7	–	–	–	7
Other derivative transactions					
Cash inflows	1	–	2	–	3
Cash outflows	6	–	–	–	6
Total Cash inflows	**2,947**	**3,657**	**7,839**	**2,101**	**16,544**
Total Cash outflows	**2,885**	**3,372**	**7,459**	**1,989**	**15,705**

31 December 2008

Euro mn	up to 3 months	3 months up to 1 year	1 year up to 5 years	more than 5 years	Total 31 Dec 2009
Interest rate instruments					
Interest rate swaps					
Cash inflows	491	1,091	3,973	1,538	7,093
Cash outflows	494	986	3,601	1,420	6,501
Forward Rate Agreements					
Swaptions					
Cash inflows	–	0	–	–	0
Cash outflows	0	0	1	0	1
Caps, Floors					
Cash inflows	1	3	15	3	22
Cash outflows	1	3	15	3	22
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	3,273	1,131	20	–	4,424
Cash outflows	3,127	1,098	20	–	4,245
Cross-currency interest rate swaps					
Cash inflows	380	1,409	3,697	621	6,107
Cash outflows	357	1,259	3,444	617	5,677
Other transactions					
Credit default swaps					
Cash inflows	2	3	10	4	19
Cash outflows	1	3	4	–	8
Options, futures					
Cash inflows	20	–	2	–	22
Cash outflows	4	–	2	–	6
Other derivative transactions					
Cash inflows	–	–		–	–
Cash outflows	–	–	–	–	–
Total Cash inflows	**4,167**	**3,637**	**7,717**	**2,166**	**17,687**
Total Cash outflows	**3,984**	**3,349**	**7,087**	**2,040**	**16,460**

(E) Segment Reporting[1)]

In the financial year 2009, 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.

Operating segments of Aareal Bank

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. With 23 offices in 19 countries across three continents, our Structured Property Financing segment facilitates property projects for our domestic and international clients in more than 25 countries. Our particular strength lies in the success we have in combining local market expertise and sector-specific know-how, for financing logistics properties, shopping centres and hotels.

Our Consulting / Services segment offers a wide range of services to the German institutional housing industry, comprising IT systems plus related consultancy services, integrated payments systems and a comprehensive range of services for managing residential property portfolios. Both segments are market leaders in Germany.

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. 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 institutional housing, the column "Consolidation / Reconciliation" only includes consolidation items.

[1)] The comparative figures were partially adjusted. Further information is included in Note (5) in the notes to the consolidated financial statements.

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 result (after minority interest) 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.

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.

Information about geographical areas

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.

Segment results

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	2009	2008	2009	2008	2009	2008	2009	2008
Euro mn								
Net interest income	410	431	0	0	50	69	460	500
Allowance for credit losses	150	80					150	80
Net interest income after allowance for credit losses	**260**	**351**	**0**	**0**	**50**	**69**	**310**	**420**
Net commission income	1	28	184	193	-52	-72	133	149
Net result on hedge accounting	-2	2					-2	2
Net trading income/expenses	44	-31					44	-31
Results from non-trading assets	-22	-102	0	0			-22	-102
Results from investments accounted for using the equity method	1	7	0				1	7
Results from investment properties	0	-1				0	0	-1
Administrative expenses	201	217	163	151	-3	-4	361	364
Net other operating income/expenses	-12	29	-1	2	-1	-1	-14	30
Impairment of goodwill	2		0	0			2	0
Operating profit	**67**	**66**	**20**	**44**	**0**	**0**	**87**	**110**
Income taxes	13	31	7	14			20	45
Net income/loss	**54**	**35**	**13**	**30**	**0**	**0**	**67**	**65**
Allocation of results								
Net income/loss attributable to non-controlling interests	16	16	2	2			18	18
Net income/loss attributable to shareholders of Aareal Bank AG	38	19	11	28	0	0	49	47
Allocated equity	1,241	964	68	72	360	327	1,669	1,363
Cost/income ratio (%)	47.9	59.8	88.8	77.5			60.2	65.7
RoE after taxes (%)	3.1	2.0	15.4	38.5			2.9	3.4
Employees (average)	**985**	**1,085**	**1,398**	**1,397**			**2,383**	**2,482**
Investments accounted for using the equity method	2	2	1	1			3	3
Segment investments	8	29	9	17			17	46
Segment depreciation/amortisation	8	8	14	14			22	22

Segment results (quarterly development)

	Structured Property Financing		Consulting/ Services		Consolidation/ Reconciliation		Aareal Bank Group	
	Quarter 4 2009	Quarter 4 2008	Quarter 4 2009	Quarter 4 2008	Quarter 4 2009	Quarter 4 2008	Quarter 4 2009	Quarter 4 2008
Euro mn								
Net interest income	103	125	0	0	12	17	115	142
Allowance for credit losses	35	20					35	20
Net interest income after allowance for credit losses	**68**	**105**	**0**	**0**	**12**	**17**	**80**	**122**
Net commission income	2	13	50	53	-13	-18	39	48
Net result on hedge accounting	1	-2					1	-2
Net trading income/expenses	3	-25					3	-25
Results from non-trading assets	-3	-61	0	0			-3	-61
Results from investments accounted for using the equity method	1	4	0				1	4
Results from investment properties	-1	-1					-1	-1
Administrative expenses	42	51	42	41	-1	-1	83	91
Net other operating income/expenses	-10	17	-2	-1	0	0	-12	16
Impairment of goodwill	2		0	0			2	0
Operating profit	**17**	**-1**	**6**	**11**	**0**	**0**	**23**	**10**
Income taxes	3	-1	2	4			5	3
Net income/loss	**14**	**0**	**4**	**7**	**0**	**0**	**18**	**7**
Allocation of results								
Net income/loss attributable to non-controlling interests	4	4	1	0			5	4
Net income/loss attributable to shareholders of Aareal Bank AG	10	-4	3	7	0	0	13	3
Allocated equity	1,241	964	68	72	360	327	1,669	1,363
Cost/income ratio (%)	44.4	74.1	87.3	76.8			58.7	75.2
RoE after taxes (%)	3.1	-1.9	17.1	39.0			3.0	1.0

Results by geographical region

	Germany		International		Consolidation/ Reconciliation		Aareal Bank Group	
	2009	2008	2009	2008	2009	2008	2009	2008
Euro mn								
Net interest income	114	186	346	314			460	500
Allowance for credit losses	9	15	141	65			150	80
Net interest income after allowance for credit losses	**105**	**171**	**205**	**249**			**310**	**420**
Net commission income	111	121	22	28			133	149
Net result on hedge accounting	-2	2	0	0			-2	2
Net trading income/expenses	26	-19	18	-12			44	-31
Results from non-trading assets	-22	-82	0	-20			-22	-102
Results from investments accounted for using the equity method	1	7					1	7
Results from investment properties	0	-1	0	0			0	-1
Administrative expenses	229	239	132	125			361	364
Net other operating income/expenses	-2	41	-12	-11			-14	30
Impairment of goodwill	2	0					2	0
Operating profit	**-14**	**1**	**101**	**109**			**87**	**110**
Allocated equity	351	354	958	682	360	327	1,669	1,363
Cost/income ratio (%)	101.5	93.7	35.4	41.9			60.2	65.7
RoE before taxes (in %)	-4.1	0.2	10.5	16.0			5.2	8.1
Employees (average)	**1,675**	**1,835**	**708**	**647**			**2,383**	**2,482**

Consulting/Services Segment – Reconciliation of the segment result from an "industrial enterprise" classification of the income statement to the "bank" classification, which is the basis for segment reporting

Euro mn			Income statement classification – bank									
			Net interest income	Net commission income	Results from non-trading assets	Results from investments accounted for using the equity method	Administrative expenses	Net other operating income/expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	2009		0	184	0	0	163	-1	0	**20**	7	**13**
	2008		0	193	0		151	2	0	**44**	14	**30**
Income statement classification – industrial enterprise												
Sales revenue	2009	209		209								
	2008	229		229								
Own work capitalised	2009	2					2					
	2008	1					1					
Changes in inventory	2009	0						0				
	2008	0						0				
Other operating income	2009	7			0		1	6				
	2008	12			0		2	10				
Cost of materials purchased	2009	25		25								
	2008	36		36								
Staff expenses	2009	109					109					
	2008	99					99					
Depreciation, amortisation and impairment losses	2009	14					14		0			
	2008	14					14		0			
Results from investments accounted for using the equity method	2009	0				0						
	2008											
Other operating expenses	2009	50			0		43	7				
	2008	49					41	8				
Interest and similar income/expenses	2009	0	0									
	2008	0	0									
Operating profit	**2009**	**20**	**0**	**184**	**0**	**0**	**163**	**-1**	**0**			
	2008	**44**	**0**	**193**	**0**		**151**	**2**	**0**			
Income taxes	2009	7									7	
	2008	14									14	
Segment result	**2009**	**13**										
	2008	**30**										

(F) Other Notes [1)]

(78) Assets and liabilities in foreign currency

Foreign currency assets

Euro mn	31 Dec 2009	31.12.2008
USD	6,373	6,858
GBP	1,944	2,519
SEK	1,420	1,548
CHF	461	586
DKK	579	586
JPY	322	461
Others	888	822
Total	**11,987**	**13,380**

Foreign currency liabilities

Euro mn	31 Dec 2009	31.12.2008
USD	6,327	6,847
GBP	1,924	2,511
SEK	1,412	1,549
CHF	459	586
DKK	591	583
JPY	321	463
Others	881	815
Total	**11,915**	**13,354**

(79) 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:

Euro mn	31 Dec 2009	31.12.2008
Loans and advances to customers	3	3
Total	**3**	**3**

[1)] The comparative figures were partially adjusted. Further information is included in Note (5) in the notes to the consolidated financial statements.

(80) 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

Euro mn	31 Dec 2009	31.12.2008
Aareal Bank Group as lessee		
up to one year	14	15
longer than one year, and up to five years	39	41
longer than five years	45	27
Total minimum lease payments	**98**	**83**
Aareal Bank Group as lessor		
up to one year	7	2
longer than one year, and up to five years	27	4
longer than five years	1	–
Total minimum lease payments	**35**	**6**

As in the previous year, none of the properties subject to the operating lease is classified as an investment property in accordance with IAS 40 and measured at fair value.

In the financial year, lease payments of € 14 million (2008: € 13 million) were recognised as expenses in the financial year.

(81) Trust business

Aareal Bank Group's trust business at the reporting date is analysed below:

Euro mn	31 Dec 2009	31.12.2008
Trust assets		
Loans and advances to customers	952	1,172
Non-trading assets	2	2
Total trust assets	**954**	**1,174**
Trust liabilities		
Liabilities to banks	444	480
Liabilities to customers	509	694
Total trust liabilities	**953**	**1,174**

(82) Contingent liabilities and loan commitments

Euro mn	31 Dec 2009	31 Dec 2008
Contingent liabilities on guarantees and indemnity agreements	323	560
Loan commitments	1,970	3,356
of which: irrevocable	1,486	2,959

Contingent liabilities on guarantees include € 71 million (2008: € 81 million) in capital guarantees extended by Aareal Bank to 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 Deutsche Pfandbriefbank AG. € 16 million (2008: € 18 million) in provisions related to these capital guarantees was recognised as at 31 December 2009.

Disclosures in accordance with IAS 37.86 and IAS 37.89 are waived for reasons of practicability in accordance with IAS 37.91.

(83) 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 and payments from the disposal and acquisition of property and equipment and non-trading assets. Cash flows from financing activities include cash flows from transactions with providers of equity capital, as well as from borrowings raised or repaid.

(84) 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 reserve 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. Since 1 January 2008, the Group has calculated its risk exposure in accordance with the German Solvency Regulation (Solvabilitätsverordnung). 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) on a quarterly basis. Capital requirements were complied with at any time during the reporting period.

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

	31 Dec 2009 [1]	31 Dec 2008 [1]
Euro mn		
Core capital ratio (Tier 1)	**2,415**	**1,863**
Paid-in capital	1,584	1,048
Other eligible reserves	655	655
Special item for general banking risks	154	132
Other components of Tier 1 capital	46	53
Amounts to be deducted from Tier 1 capital	-24	-25
Supplementary capital (Tier 2)	**875**	**915**
Tier 2/class 1 capital (profit-participation certificates)	418	418
Tier 2/class 2 capital (subordinated capital)	470	507
Deductible items from Tier 2 capital	-13	-10
Liable equity capital pursuant to Section 10a of the KWG	**3,290**	**2,778**
Tier 3 capital	–	–
Liable equity	**3,290**	**2,778**
Risk-weighted assets	**21,875**	**23,238**
of which: assets exposed to market risks	125	50
%		
Regulatory indicators pursuant to KWG		
Core capital ratio	11.0	8.0
Total capital ratio	15.0	12.0

[1] After confirmation of the financial statements 2009 of Aareal Bank AG, subject to the approval of the Annual General Meeting. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2009 is subject to approval by the Annual General Meeting.

(85) Related party disclosures in accordance with IAS 24

Throughout the financial year 2009, 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 Supervisory Authority, 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.

The following list provides an overview of existing loans to related parties:

Euro mn	31 Dec 2009	31 Dec 2008
Management Board	–	–
Supervisory Board	1.2	1.5
Other related parties	2.0	2.1
Total	**3.2**	**3.6**

Loans extended generally have a term between ten and 18 years, and bear interest at (nominal) rates between 3.06 % and 5.66 %. Collateral was provided in line with usual market practice. In the year under review, repayments on loans extended amounted to € 0.6 million.

In addition, there were no further significant transactions within the meaning of IAS 24.

(86) Remuneration report

Principles of the remuneration of the Management Board

The Supervisory Board determines the structure and amount of remuneration for the members of the Management Board. The Supervisory Board defines the structure of salaries and other remuneration components for the members of the Management Board.

In view of the conclusion of the agreement entered into with the Financial Markets Stabilisation Fund (SoFFin), the members of the Management Board waived the portion of the contractually fixed remuneration exceeding € 500,000 as well as the variable remuneration component for the financial years 2009 and 2010, respectively.

Aareal Bank AG has entered into fixed-term service contracts with the members of its Management Board. In addition to fixed salary components, which are paid in twelve identical monthly instalments, the members of the Management Board receive a bonus in form of a variable remuneration and are granted phantom shares as a long-term remuneration. The basis for this variable remuneration component is a target system, largely based on net income (of the Group) as reported under International Financial Reporting Standards (IFRS), as well as qualitative and quantitative targets, which are redefined annually. The phantom shares granted as a long-term component may be exercised in whole or in part during an exercise period of four years after the reference date, up to one fourth per year. They may be exercised for the first time in the year of allocation, in each case within five working days after the publication of the quarterly report. Phantom shares not exercised in a particular year may be exercised in the subsequent year. Upon exercise, the relevant proportion of virtual shares is converted at the weighted average price as reported by Bloomberg on the exercise date. If dividends are paid on the Company's shares during the exercise period, a corresponding distribution is made and classified as other remuneration.

Remuneration

Remuneration of the members of the Management Board can be broken down as follows:

Euro	Year	Fixed remuneration	Cash bonus	Other [1]	Total
Dr Wolf Schumacher	2009	500,000.00	–	25,269.47	525,269.47
	2008	725,000.04	712,500.00	22,864.84	1,460,364.88
Norbert Kickum	2009	500,000.00	–	29,161.42	529,161.42
	2008	562,500.03	243,750.00	25,018.20	831,268.23
Hermann J. Merkens	2009	500,000.00	–	48,901.86	548,901.86
	2008	592,500.03	243,750.00	33,288.31	869,538.34
Thomas Ortmanns	2009	500,000.00	–	23,323.02	523,323.02
	2008	562,500.03	243,750.00	20,595.74	826,845.77
Total	**2009**	2,000,000.00	–	126,655.77	**2,126,655.77**
	2008	2,442,500.13	1,443,750.00	101,767.09	**3,988,017.22**

[1] Other remuneration includes payments (in particular for company cars) in the amount of € 73,146.71 for 2009 (2008: € 58,233.74) as well as benefits related to social security contributions totalling € 43,922.16 for 2009 (2008: € 42,794.40).

No benefits were granted or committed to any member of the Management Board by third parties with respect to his Management Board activities during the year under review.

Long-term component

In 2009, the members of the Management Board did not receive payments from long-term components pursuant to the terms and conditions of the share-based payment transactions, based on the agreement entered into with SoFFin.

		Long-term component	
Euro	Year	Value at award date	Quantity
Dr Wolf Schumacher	2009	0.00	0.00
	2008	375,000.00	59,618.44 [1]
Norbert Kickum	2009	0.00	0.00
	2008	375,000.00	59,618.44 [1]
Hermann J. Merkens	2009	0.00	0.00
	2008	375,000.00	59,618.44 [1]
Thomas Ortmanns	2009	0.00	0.00
	2008	375,000.00	59,618.44 [1]

[1] In the remuneration report for 2008, the conversion of granted € amounts into a certain number of phantom shares was based on the share price as at 31 December 2008 (€ 5.75). The share price upon granting the phantom shares was € 6.29. The holding period for these phantom shares is three years; the subsequent exercise period is also three years.

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, the members of the Management Board are entitled to receive pension payments after completing their 60th year of age, or earlier in case of a permanent disability of service. The pension claims listed below are vested.

The following overview shows the pension claims of the members of the Management Board as at the balance sheet date:

Euro 000's	31 Dec 2009	31 Dec 2008
Dr Wolf Schumacher	350	350
Norbert Kickum	200	200
Hermann J. Merkens	200	200
Thomas Ortmanns	200	200
Total	**950**	**950**

Service cost incurred in the financial year 2009 in connection with the pension claims of members of the Management Board totalled € 698,000 (2008: € 491,000).

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.

Aareal Bank intends to contribute parts of the assets held to cover existing pension obligations into a Contractual Trust Arrangement (CTA) in 2010. 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).

Members of the Management Board who joined the Company before 1 January 2005 are entitled to receive contractual pension payments before they reach the age of 60 when they have served for a period of five years, in case the bank rejects an extension of their service contract.

The pension provisions for active and former members of the Management Board and their surviving dependants were increased by € 1,093,000 (2008: € 1,689,000)[1] in the year under review. The total amount of pension provisions was € 10,633,000 (2008: € 10,640,000)[1]. Of that amount, € 8,354,000 related to former members of the Management Board and their surviving dependants (2008: € 8,190,000)[1]. Payments to former Management Board members of Aareal Bank AG and their surviving dependants totalled € 523,000 (2008: € 510,000).

[1] The figures reported represent the provisions determined pursuant to the provisions of the German Commercial Code (HGB). The pension provisions as determined under IFRS cannot be allocated to individual groups of persons due to the application of the corridor approach.

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 change of control and a resulting loss of membership in the Management Board, the members affected receive, in settlement of their total remuneration, their fixed remuneration, as agreed in their employment contracts, as well as a contractually agreed compensation for the variable remuneration, paid in monthly instalments during the remaining term of the agreements. In addition, the members of the Management Board receive a lump-sum payment of up to approx. 45 % (2008: 45 %) of their fixed remuneration for 2009, while the Chairman receives 70 % (2008: 70 %) of his fixed remuneration for 2009.

If, in case of a change of control, members of the Management Board resign from office or are not willing to extend their office in spite of an offer on the part of the Company, the respective member of the Management Board receives, in settlement of the total remuneration, an amount not exceeding 50 % of the relevant fixed remuneration, as agreed in the employment contracts, and the contractually agreed compensation for the variable remuneration. In addition, the relevant member of the Management Board receives a lump-sum payment of up to approx. 32.5 % (2008: 32.5 %) of his fixed remuneration for 2009, while the Chairman receives 45 % (2008: 45 %) of his fixed remuneration for 2009.

Principles of the remuneration of the Supervisory Board

The remuneration of the Supervisory Board is specified in Section 9 of the Memorandum and Articles of Association of Aareal Bank AG. The resolution adopted by the Annual General Meeting on 23 May 2006, which resulted in a change of the remuneration system of the Supervisory Board, currently applies.

The total remuneration of the Supervisory Board comprises a fixed and a variable remuneration component comparable to the remuneration package of the Management Board. 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 Credit and Market 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 Committee for Urgent Decisions, which is a part of the Credit and Market 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 a 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 currently 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 Group 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 performance-related remuneration is not paid if the average value is negative. On this basis, the members of the Supervisory Board are not entitled to a long-term performance-related remuneration for the 2009 financial year.

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.

In accordance with the methodology presented, the members of the Supervisory Board receive a fixed remuneration for the 2009 financial year in the amount of € 559,300.00, which is the same amount paid in 2008. As a result of the agreement entered into with SoFFin, the management proposes not to pay dividends for the financial year 2009. Therefore, as in the previous year, no variable remuneration will be paid to the members of the Supervisory Board.

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 %).

Euro	Year	Fixed remuneration	Variable remuneration	Total
Hans W. Reich,	2009	107,100.00	–	107,100.00
Chairman	2008	107,100.00	–	107,100.00
Erwin Flieger,	2009	59,500.00	–	59,500.00
Deputy Chairman	2008	59,500.00	–	59,500.00
York-Detlef Bülow,	2009	59,500.00	–	59,500.00
Deputy Chairman	2008	59,500.00	–	59,500.00
Tamara Birke	2009	35,700.00	–	35,700.00
	2008	35,700.00	–	35,700.00
Thomas Hawel	2009	23,800.00	–	23,800.00
	2008	23,800.00	–	23,800.00
Helmut Wagner	2009	23,800.00	–	23,800.00
	2008	23,800.00	–	23,800.00
Christian Graf von Bassewitz	2009	47,600.00	–	47,600.00
	2008	47,600.00	–	47,600.00
Manfred Behrens	2009	23,800.00	–	23,800.00
	2008	23,800.00	–	23,800.00
Joachim Neupel	2009	59,500.00	–	59,500.00
	2008	59,500.00	–	59,500.00
Dr Herbert Lohneiß	2009	35,700.00	–	35,700.00
	2008	35,700.00	–	35,700.00
Prof Dr Stephan Schüller	2009	47,600.00	–	47,600.00
	2008	47,600.00	–	47,600.00
Wolf R. Thiel	2009	35,700.00	–	35,700.00
	2008	35,700.00	–	35,700.00
Total	**2009**	**559,300.00**	**–**	**559,300.00**
	2008	**559,300.00**	**–**	**559,300.00**

The members of the Supervisory Board did not provide any consulting or agency services, or other personal services in 2009. Therefore, no additional remuneration was paid.

Principles of the remuneration of employees of Aareal Bank Group

The remuneration systems for the employees of Aareal Bank Group are based on the business strategy and the long-term and sustainably positive business and earnings development of the Group. Incentives for excessive risk-taking are avoided by capping variable remuneration. The remuneration systems were agreed with the representative bodies for employees elected for each Group company and then published. In order to ensure an appropriate individual remuneration, salaries are compared on a regular basis. The objective is to pay remuneration to Group employees that is both adequate and attractive.

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 (heads of divisions) of Aareal Bank AG.

Total remuneration of executives in key positions is analysed below:

Euro 000's	01 Jan-31 Dec 2009	01 Jan-31 Dec 2008
Salaries and other short-term benefits	16,821	21,050
Post-employment benefits	1,553	1,198
Other long-term benefits	45	258
Termination benefits	–	406
Share-based remuneration	1,004	2,504
Total	**19,423**	**25,416**

Cash-settled share-based payment

a) Description of the cash-settled share-based payment transactions

Key executive staff members were granted cash-settled share-based remuneration (so-called phantom shares or virtual shares) as a variable remuneration component. The relevant share plans are subject to slightly different regulations with respect to term and exercise criteria.

Phantom share plan for members of the Management Board of Aareal Bank AG / Long-term Component

In the years prior to 2009, the members of the Management Board were granted phantom shares in accordance with the following regulations:

- The beneficiaries receive a remuneration denominated in euro, which will be converted into an equivalent number of phantom shares. The conversion is based on the weighted average price during the five (Xetra) trading days after the publication of the annual financial statements adopted by the Supervisory Board.
- The phantom shares are subject to a holding period of three years in which they may not be exercised.
- There are no exercise hurdles in form of a minimum stock appreciation target or other market or performance-related criteria.
- With respect to phantom shares that have not been exercised, beneficiaries receive for each phantom share not yet exercised a cash payment equivalent to the amount of the approved dividend.
- Under the phantom share plans, phantom shares may be exercised during the three years following the holding period four times per year within five days after the publication of the quarterly report.
- No phantom shares as defined by the currently applicable contractual regulations have been granted to members of the Management Board.

Phantom share plan (virtual shares) for the key executive staff (excluding members of the Management Board of Aareal Bank AG)

Key executive staff members, excluding members of the Management Board of Aareal Bank AG, are granted virtual shares in accordance with the following rules:

- The beneficiaries receive a remuneration denominated in euro which will be converted into an equivalent number of virtual shares. The basis for conversion is the average price of Aareal Bank AG share on the date of publication of the annual report and the four subsequent trading days (subscription price).

- The shares resulting from such a grant are automatically exercised in the three years following the year of grant, with one third being exercised in each year.
- The basis for exercise is the average price of the Aareal Bank AG share on the date of publication of the annual report and the four subsequent trading days.
- There are no exercise hurdles in form of a minimum stock appreciation target or other market or performance-related criteria.
- With respect to virtual shares that have not been exercised, beneficiaries receive for each virtual share not yet exercised a cash payment equivalent to the amount of the approved dividend.

b) Valuation model and valuation assumptions

Valuation model

The cash-settled share-based payment transactions have the following structure: an option may be exercised during a pre-determined exercise period at pre-determined dates, subject to a holding period, if applicable. The exercise period varies according to the relevant payment transaction. For example, the exercise period for the Management Board pursuant to Long-term Component I amounts to three years following a holding period of three years.

According to the terms and conditions of the equity-settled share-based payment transactions, a dividend will be paid for each phantom or virtual share, irrespective of whether the option has been exercised or not. This means that an earlier exercise does not result in a separate claim for cash settlement in the amount of the dividend. Therefore, there is no reason for an earlier exercise of an option due to cash settlement. As can be demonstrated, it may always make sense to hold an option until the end of the exercise period. Therefore, the phantom or virtual share is held until final maturity. The Black-Scholes valuation model can be applied.

Valuation assumptions

The following probabilities for elementary events are used for the calculation of the probabilities of the occurrence of the exercise events:

- Death or invalidity: 0.2 % p.a. (members of the Management Board) and 0.175 % p.a. (executive staff)
- Termination of contract by employee: 3 % p.a. (members of the Management Board) and 0.0 % p.a. (executive staff)
- Termination of contract by employer (due to operational requirements or change of ownership): 1 % p.a. (members of the Management Board) and 0.0 % p.a. (executive staff)

The vesting of the rights is based on the individual equity-settled share-based payment transactions. It has been assumed, in the event of death or invalidity, that the outstanding option rights may be exercised immediately and in the full amount, irrespective of the extent of the rights earned until that date. Options are valued using the Black-Scholes model. The relevant indicators for the valuation are (+: value of the option increases when the relevant indicator increases)

- the price of the Aareal Bank share on the valuation date (+)
- the exercise price of the phantom or virtual share on the exercise date (-)
- the term to exercise date (+)
- the volatility of the change (in percent) of the price of the Aareal Bank share (+)
- the risk-free interest rate for a safe investment until the exercise date (+)

The Xetra closing price of the Aareal Bank share is determined on the valuation date. The exercise price for each cash-settled share-based payment transaction is nil since the beneficiary receives the full equivalent of a share upon exercise. There is no cash settlement in the amount of the dividend payment with respect to the phantom or virtual shares upon exercise since cash settlements for dividend payments are made irrespective of any exercise. The term of an option in the event tree is always the maximum time as contractually agreed until the exercise event. The exercise events "death / invalidity" or "termination" are always assumed to occur in the middle of future periods. The expected volatility (standard deviation) of the percentage change of the price of the Aareal Bank share (return) is calculated using the standard deviation of the daily historical returns over a rolling reference period of 200 days, with the values being additionally smoothed subsequently. The yield curve for risk-free German zero-coupon government bonds, as published daily by the Deutsche Bundesbank applicable at the valuation date, will be used to discount future payments.

c) Volume of cash-settled share-based payment transactions of key executive staff:

The number of phantom or virtual shares outstanding for key executive staff has changed as follows:

	2009	2008
Quantity (number)		
Balance at 1 January	**616,876.02**	**305,077.34**
granted (+)	396,056.76	363,268.88
expired (-)	–	7,412.33
exercised (-)	137,085.80	44,057.87
Miscellaneous	4,895.33	–
Balance at 31 December	**880,742.31**	**616,876.02**
of which: exercisable	46,345.81	92,402.79

The phantom or virtual shares granted in the year under review have a weighted average fair value of € 5,740,318.51 (2008: € 6,503,881.84) as at the balance sheet date.

The weighted average share price of the phantom or virtual shares exercised in the year under review amounted to € 7.46 (2008: € 21.39).

The intrinsic value of the phantom or virtual shares outstanding at the reporting date amounted to € 11,012,023 (2008: € 3,132,678).

The share price used for the phantom shares exercised during the financial year 2009 was € 7.71 (2008: no options exercised). This corresponds to the weighted Xetra average price published by Bloomberg on the exercise date, as defined in the regulations for share-based remuneration for the members of the Management Board.

The share price used for the virtual shares exercised during the financial year 2009 was € 6.15 (2008: € 22.29). In accordance with the regulations for allocation and exercise of virtual shares, this share price is determined on the basis of the weighted Xetra average price as published by Bloomberg on the day the Annual Report is published and the four following trading days.

The phantom or virtual shares outstanding at 31 December 2009 have a limited contract term. The weighted average remaining contract term of these phantom or virtual shares amounts to 1,228.22 days (2008: 1,335.17 days).

d) Effects on financial position and performance

The total amount expensed for share-based payments was € 5.4 million during the financial year 2009 (2008: € -0.3 million). The portion of the total amount expensed attributable to members of the Management Board amounts to € 3.6 million (2008: € -0.3 million). The liability from share-based payments amounts to € 5.2 million (2008: € 0.9 million) as at 31 December 2009.

(87) Events after the balance sheet date

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

(88) 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.

(89) Contingencies

By means of letters of comfort, Aareal Bank AG ensures that Deutsche Structured Finance GmbH, Frankfurt, DSF Beteiligungsgesellschaft 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 Limited 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.

(90) 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 Financial Supervisory Authority (BaFin). The lowest threshold for this notification requirement is 3 %. 62.77 % of Aareal Bank AG shares are held in free float. The largest shareholder of the Company is Aareal Holding Verwaltungsgesellschaft mbH with an interest of 37.23 %.

As a result of the agreement entered into with SoFFin, we were notified on 17 March 2009 by SoFFin pursuant to sections 21 (1) and 22 (2) of the WpHG that the threshold of 30% has been exceeded. In addition, Wellington Management Company LLP, Boston, Massachusetts, USA, exceeded the 3 % threshold and fell below that threshold again in the same year.

We are not aware of any other direct or indirect shareholdings of 10 % or more of the voting rights.

(91) Declaration of Compliance within the meaning of section 161 of the German Public Limited Companies Act (AktG)

The Management Board and the Supervisory Board issued 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/.

(92) Employees

The number of Aareal Bank Group employees at 31 December 2009 is shown below:

	31 Dec 2009	31 Dec 2008
End-of-year numbers		
Number of employees in the banking business	1,034	1,113
Number of employees in other businesses	1,281	1,389
Total	**2,315**	**2,502**
of which: part-time employees	361	355

The average number of Aareal Bank Group employees in 2009 is shown below:

	1 Jan-31 Dec 2009	1 Jan-31 Dec 2008
Yearly average		
Number of employees in the banking business	1,062	1,137
Number of employees in other businesses	1,321	1,345
Total	**2,383**	**2,482**
of which: part-time employees	369	358

(G) List of Shareholdings

Selected Participating Interests of Aareal Bank AG as at 31 December 2009

The list of shareholdings of Aareal Bank AG pursuant to section 313 (2) of the HGB has been published in the electronic Federal Gazette, and is available on the internet (http://www.aareal-bank.com).

No.	Company name	Registered office	Interest held (% of capital)	Equity (Euro mn)	Results (Euro mn)
1	Aareal Bank AG	Wiesbaden			
	I. Consolidated companies				
2	Aareal Bank Asia Limited	Singapore	100.0	4.2 mn S $	0.5 mn S $ [2]
3	Aareal Bank France S.A.	Paris	100.0	47.4	3.0 [3]
4	Aareal Capital Corporation	Wilmington	100.0	175.5 mn USD	-11.1 mn USD
5	Aareal Estate AG	Wiesbaden	100.0	2.8	0.0 [1) 5)]
6	Aareal-Financial Service, spol. s r.o.	Prague	100.0	44.3 mn CZK	16.4 mn CZK [3]
7	Aareal First Financial Solutions AG	Wiesbaden	100.0	3.2	0.0 [1]
8	Aareal Valuation GmbH	Wiesbaden	100.0	0.5	0.0 [1]
9	Aareon AG	Mainz	100.0	60.8	8.0 [5]
10	Deutsche Bau- und Grundstücks-Aktiengesellschaft	Berlin	100.0	1.8	-2.3
11	Deutsche Structured Finance GmbH	Frankfurt	100.0	4.9	-8.4
	II. Associated companies accounted for at equity				
12	Innovative Banking Solutions AG	Wiesbaden	49.0	2.3	0.7 [4]

1) Controlling and profit transfer agreement
2) Preliminary figures as at 31 December 2009
3) Shareholders' equity and profit/loss as at 31 December 2008
4) Financial year ending 31 March 2009
5) Indirect shareholding

(H) 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

Aareal Bank AG	Chairman of the Supervisory Board	
Citigroup Global Markets Deutschland AG & Co.KGaA	Chairman of the Supervisory Board	
HUK-COBURG Haftpflicht Unterstützungskasse kraftfahrender Beamter Deutschlands a. G. in Coburg	Member of the Supervisory Board	
HUK-COBURG-Holding AG	Member of the Supervisory Board	
ThyssenKrupp Steel AG	Member of the Supervisory Board	until 30 September 2009

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	
Balance Vermittlungs- und Beteiligungs-AG	Deputy Chairman 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	
SIGNAL IDUNA Allgemeine Versicherung AG	Member of the Supervisory Board	since 26 March 2009
SIGNAL IDUNA Holding AG	Member of the Supervisory Board	since 26 March 2009
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	

Tamara Birke*
Aareal Bank AG

Aareal Bank AG	Member of the Supervisory Board	
SIRWIN AG	Member of the Supervisory Board	until 7 May 2009

* Employee representative member of the Supervisory Board of Aareal Bank AG

Thomas Hawel*	
Aareon Deutschland GmbH	
Aareal Bank AG	Member of the Supervisory Board
Aareon Deutschland GmbH	Deputy Chairman 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
hanse chemie AG	Chairman of the Supervisory Board
NANORESINS AG	Chairman of the Supervisory Board
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		
Aareal Estate AG	Deputy Chairman of the Supervisory Board	
Aareal Valuation GmbH	Chairman of the Supervisory Board	
Aareon AG	Member of the Supervisory Board	
Leica AG	Chairman of the Supervisory Board	until 31 August 2009

Norbert Kickum, Member of the Management Board	
Aareal Bank France S.A.	Member of the Board of Directors
Aareal Financial Service Polska Sp.z o.o.	Member of the Supervisory Board
Aareal Bank Asia Limited	Member of the Board of Directors
Aareal Bank Asia Limited	CEO (Chairman)
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
Deutsche Structured Finance GmbH	Member of the Advisory Board

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
Aareal Property Services B.V.	Chairman of the Supervisory Board
Aareal Valuation GmbH	Member of the Supervisory Board
Aareon AG	Member of the Supervisory Board
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Chairman of the Supervisory Board
Deutsche Interhotel Holding GmbH & Co. KG	Member of the Council of Shareholders
Deutsche Structured Finance GmbH	Member of the Advisory Board
RMS Risk Management Solutions GmbH	Member of the Supervisory Board

Thomas Ortmanns, Member of the Management Board	
Aareal Bank France S.A.	Member of the Board of Directors
Aareal First Financial Solutions AG	Chairman of the Supervisory Board
Aareon AG	Chairman of the Supervisory Board
Innovative Banking Solutions AG	Member of the Supervisory Board

(J) 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	
Aareal Financial Service spol. s r.o.	Member of the Supervisory Board	
Sven Eisenblätter		
Aareal Valuation GmbH	Member of the Supervisory Board	
Dr Christian Fahrner, Bank Director		
Innovative Banking Solutions AG	Deputy Chairman of the Supervisory Board	
Ralf Gandenberger, Bank Director		
Terrain-Aktiengesellschaft Herzogpark	Deputy Chairman of the Supervisory Board	
Deutsche Interhotel Holding GmbH & Co. KG	Member of the Council of Shareholders	
Uli Gilbert		
Terrain-Aktiengesellschaft Herzogpark	Member of the Supervisory Board	
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	Member of the Supervisory Board	since 23 February 2009
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Deputy Chairman of the Supervisory Board	since 18 June 2009
Terrain-Aktiengesellschaft Herzogpark	Chairman of the Supervisory Board	
Peter Mehta, Bank Director		
Innovative Banking Solutions AG	Member of the Supervisory Board	
Markus Schmidt		
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Deputy Chairman of the Supervisory Board	until 23 February 2009
Christine Schulze Forsthövel, Bank Director		
Aareal Bank France S.A.	President of the Board of Directors	
Aareal Financial Service Polska Sp. z o.o.	Member of the Supervisory Board	
Aareal-Financial Service spol. s r.o.	Member of the Supervisory Board	
Martin Vest, Bank Director		
Aareal Bank France S.A.	Member of the Board of Directors	

Composition of Supervisory Board committees

Executive Committee	
Mr Reich	Chairman
Mr Flieger	Deputy Chairman
Mr Bülow	Deputy Chairman
Prof Dr Stephan Schüller	
Mr Thiel	

Committee for Urgent Decisions	
Mr Reich	Chairman
Dr Lohneiß	
Graf von Bassewitz	
Mr Flieger	
Mr Neupel	

Accounts and Audit Committee	
Mr Neupel	Chairman
Prof Dr Stephan Schüller	Deputy Chairman
Graf von Bassewitz	
Mr Bülow	
Mr Reich	

Nomination Committee
Mr Reich
Mr Flieger

Credit and Market Risk Committee	
Mr Reich	Chairman
Dr Lohneiß	Deputy Chairman
Graf von Bassewitz	
Mrs Birke	
Mr Flieger	
Mr Neupel	

Wiesbaden, 22 March 2010

The Management Board

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

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, den 22 March 2010

The Management Board

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

Auditors' Report

After the results of our audit, we issued the following unqualified audit opinion dated 22 March 2010:

Auditors' Report

We have audited the consolidated financial statements prepared by the Aareal Bank AG, Wiesbaden, comprising the statement of financial position, the statement of comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2009. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. 1 HGB ("Handelsgesetzbuch": German Commercial Code) and supplementary provisions of the articles of incorporation is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § (Article) 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). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. 1 HGB and supplementary provisions of the articles of incorporation and 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 group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, 22 March 2010

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Christian F. Rabeling	**ppa. Kerstin Klein**
Wirtschaftsprüfer	**Wirtschaftsprüferin**
(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 German Public Limited Companies Act (Aktiengesetz – "AktG")

The Management Board and Supervisory Board of Aareal Bank AG declare, in accordance with section 161 of the AktG, that:

Aareal Bank AG has complied with the recommendations of the Government Commission "German Corporate Governance Code" (as amended on 6 June 2008 and, with effect from 5 August 2009, as amended on that date) since the last Declaration of Compliance was issued in December 2008; in each case, except for the recommendations stated below.

Section 3.8 of the German Corporate Governance Code recommends that a suitable deductible be agreed where the company takes out a D&O (directors and officers' liability insurance) policy for members of the Supervisory Board.

Aareal Bank AG has taken out a D&O liability insurance policy for members of the Supervisory Board that does not provide for a deductible. Responsible action is an integral obligation for all members of Aareal Bank AG's executive bodies; for this reason it does not require a deductible for the Supervisory Board.

Item 4.2.3 sections 4 and 5 of the Code recommends the imposition of a cap on compensation paid within the scope of the remuneration of members of the Management Board. The Supervisory Board of Aareal Bank AG already concerned itself with severance payment caps in detail in the past: the present contracts for members of the Management Board include for example, limits imposed on compensation payments in the event of a change of control.

The recommendation introduced in June 2008 on the compensation caps, in the event of prematurely terminating term of office as a member of the Management Board, is based on new contracts for members of the Management Board to be concluded and is therefore not relevant to Aareal Bank AG from today's perspective. The Supervisory Board of Aareal Bank AG will review the implementation of the recommendation as soon as a new contract is concluded.

Aareal Bank AG will also comply with the recommendations of the German Corporate Governance Code (as amended on 5 August 2009) throughout the current financial year, with the aforementioned exceptions of sections 3.8 and 4.2.3 no's 4 and 5.

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 2009

The Management Board

Dr Wolf Schumacher **Norbert Kickum** **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.

Aareal Bank AG regularly observes and analyses the annual changes to the German Corporate Governance Code. The Supervisory Board discusses the changes and agrees – together with the Management Board – on which points Aareal Bank AG complies with or deviates from the recommendations. 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 adjusted accordingly. Our annual Declaration of Compliance gives information on the extent to which the bank complies with recommendations. Following adoption by the Management Board and the Supervisory Board, the Declaration is published on the internet. The archived Declarations of recent years can also be found there.

Code of Conduct

As a rule, the principles of integrity and responsible conduct must be observed by all our employees across the enterprise, regardless of their functions and duties. Therefore, our internal Code of Conduct is an integral part of responsible corporate governance. We revised and extended the Code of Conduct during the 2009 financial year. The Code contains binding rules governing the legal and ethical conduct of all employees vis-à-vis colleagues, clients and business partners. Aareal Bank's efforts in this context are motivated by the desire to affirm and further strengthen confidence placed in the company by the stakeholders, our clients, investors and staff.

Recommendations of the German Corporate Governance Code

The German Corporate Governance Code was last amended on 5 August 2009. Having reviewed the most recent amendments to the Code in detail, Aareal Bank's Management Board and the Supervisory Board issued and signed their Declaration of Compliance pursuant to section 161 of the German Public Limited Companies Act on 21 December 2009. The Declaration was published on the bank's website, and is shown as part of the Corporate Governance Statement in this Annual Report.

Aareal Bank AG complies for the most part with the German Corporate Governance Code, as last amended, and only diverges in a few aspects, as outlined below.

In the section on cooperation between the Management Board and the Supervisory Board, section 3.8 of the Code recommends that a suitable deductible be agreed where D&O insurance cover is taken out for members of the Supervisory Board. Aareal Bank has taken out a D&O liability insurance policy for members of the Supervisory Board that does not provide for a deductible. Responsible action is an integral obligation for all members of the company's executive bodies. For this reason, the members of the company's executive bodies believe that the bank does not require a deductible.

The Code recommends in section 4.2.3 no's 4 and 5 to impose a cap on compensation paid within the scope of the remuneration of the members of the Management Board. The Supervisory Board of Aareal Bank AG already concerned itself with severance payment caps in detail in the past: The contracts for members of the Management Board include, for example, limits imposed on compensation payments in the event of a change of control. The recommendation introduced in June 2008 on the compensation caps, in the event of prematurely terminating term of office as a member of the Management Board, is based on new contracts for members of the Management

Board to be concluded and is therefore not relevant to Aareal Bank AG from today's perspective. The Supervisory Board of Aareal Bank AG will review the implementation of the recommendation as soon as a new contract is concluded.

Please refer to the remuneration report in relation to the recommended information on incentive schemes referred to under item 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 interests 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. It ensures appropriate and sustained risk management and risk controlling 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 2009 financial year.

Principles of the remuneration 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 pertaining to the remuneration of members of the Management Board. The extent of the remuneration in the 2009 financial year corresponds to the conditions of the Financial Markets Stabilisation Fund within the framework of the measures agreed in 2009.

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 stated in the section "Activities of the Management Board and the Supervisory Board", and in the list of executives bodies and offices held, both of which constitute a part of this Annual Report. The Supervisory Board reports on its duties and the events of the 2009 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 separate meeting preparations took place in 2009. Neither were meetings of the Supervisory Board held without attendance of the Management Board.

In line with the recommendation of item 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, who is an experienced German public auditor and tax consultant.

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 reviews the efficiency of its own activities on a regular basis, by means of an in-house survey. The results of the evaluation serve to further improve the work carried out by the Supervisory Board as well as enhancing the cooperation between the Supervisory Board and the Management Board. The Chairman of the

Supervisory Board presented the results of the 2009 examination of efficiency in the meeting on 21 December 2009, and discussed these with the plenary meeting of the Supervisory Board in detail. No measures to enhance efficiency were required.

The Report of the Supervisory Board provides a review of the duties of the Supervisory Board and its Committees.

Remuneration system for the Supervisory Board

The remuneration structure for members of the Supervisory Board is governed by the resolution passed by the Annual General Meeting 2006. Precise details regarding the remuneration structure and amounts paid in 2009 are provided in the Remuneration Report.

Purchase or sale of the company's shares

Two transactions involving the company's shares were carried out in 2009 by members of the company's executive bodies. These were published in accordance with the legal provisions. At the end of the financial year, aggregate shareholdings of members of the executive bodies in the company's shares amounted to less than 1 % of the issued share capital of Aareal Bank AG.

Transactions with related parties

Transactions with related parties are listed in the Notes.

Accounting policies

Aareal Bank AG prepares the Group's accounts in accordance with International Financial Reporting Standards (IFRS). 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 7 May 2009 appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt / Main, as the external auditors for the 2009 financial year. On the basis of its conviction about the independence of the external auditors, the Supervisory Board appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and determined the focal points of the audit, as defined by the Supervisory Board. The external auditors conducted the audit in line with instructions given. The fees paid to the auditors are set out in the Notes to the financial statements.

The Supervisory Board approves the financial statements and the consolidated financial statements. This approval thus confirms the financial statements. Details regarding the examinations conducted by the Supervisory Board, and the results of such examinations, are provided in the Report of the Supervisory Board.

Relationship to shareholders

The 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 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 external 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 in person 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 contributions of the shareholders and the proposals submitted to the shareholders' meeting prior to the Annual General Meeting are taken up by the Management Board or the Supervisory Board during the general debate at the Annual General Meeting, in order to answer questions or express an opinion on other contributions to the discussions.

Communication

Aareal Bank assigns great importance to extensive communications with all of the bank's stakeholders. We have set ourselves the target to communicate actively, openly and transparently with all of our stakeholders, and to incorporate the interests of all stakeholders equally. 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, 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 of the company four times a year. 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 possible to give instructions or cast votes online. The low degree of acceptance amongst our shareholders would render the related technical efforts and costs excessively. Nevertheless, Aareal Bank will continue to review the demand for such a service on a regular basis.

Details on Corporate Governance practices

Aareal Bank is a public limited company listed in the MDAX index segment. Corporate Governance is subject, amongst other things, to the legal requirements for public limited companies and credit institutions, and to the Company's Memorandum and Articles of Association, which are published on Aareal Bank AG's website and deposited with the Commercial Register (Reg. No. HRB 13184). On the basis of the Memorandum and Articles of Association, the Supervisory Board issued internal rules of procedure for the Supervisory Board itself and for the Management Board. Aareal Bank AG also follows an internal Code of Conduct as a guideline for correct, ethical and responsible conduct of its employees and executive bodies. Furthermore, the Corporate Governance of Aareal Bank is based on comprehensive internal rules and regulations, which include concrete guidelines for the implementation and processing of the bank's business operations within the meaning of the legal and regulatory provisions. These documents are available to all of the company's employees through the usual internal means of communication, such as the bank's intranet.

Description of the activities of the Management Board and the Supervisory Board

The Supervisory Board

In accordance with the Company's Memorandum and Articles of Association, the Supervisory Board of Aareal Bank AG consists of twelve members. After their election by the Annual General Meeting and for the duration of their term of office, the members of the Supervisory Board select a chairman and two deputy chairmen. Hans W. Reich currently holds the office of Chairman of the Supervisory Board. His deputies are Erwin Flieger as shareholder representative, and York-Detlef Bülow as employee representative. During the financial year under review, the Supervisory Board comprised the following persons:

Hans W. Reich, Chairman of the Supervisory Board of Aareal Bank AG

Chairman Public Sector Group, Citigroup

Offices held on Supervisory Boards:
Citigroup Global Markets Deutschland AG & Co.KGaA,
HUK-COBURG Haftpflicht Unterstützungskasse kraftfahrender Beamter Deutschlands a.G. in Coburg,
HUK-COBURG-Holding AG,
ThyssenKrupp Steel AG (until 30 September 2009)

Erwin Flieger, Deputy Chairman of the Supervisory Board of Aareal Bank AG

Chairman of the Supervisory Boards of Bayerische Beamten Versicherungsgruppe

Offices held on Supervisory Boards:
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

Offices held on Supervisory Boards:
Balance Vermittlungs- und Beteiligungs-AG,
Bank für Sozialwirtschaft Aktiengesellschaft,
Deutscher Ring Krankenversicherungsverein a.G.,
OVB Holding AG,
SIGNAL IDUNA Holding Aktiengesellschaft (since 26 March 2009),
SIGNAL IDUNA Allgemeine Versicherung Aktiengesellschaft (since 26 March 2009),
Societaet CHORVS AG

Manfred Behrens

Chairman of the Management Board of AWD Holding AG

Tamara Birke*

Employee of Aareal Bank AG

Offices held on Supervisory Boards:
SIRWIN AG (until 7 May 2009)

Thomas Hawel*

Employee of Aareon Deutschland GmbH

Offices held on Supervisory Boards:
Aareon Deutschland GmbH

Dr Herbert Lohneiß

Former Chief Executive Officer of Siemens Financial Services GmbH (retired)

Offices held on Supervisory Boards:
UBS Global Asset Management (Deutschland) GmbH

Joachim Neupel, Chairman of the Accounts and Audit Committee

German Chartered Accountant, tax consultant

Prof Dr Stephan Schüller

Spokesman of the General Partners of Bankhaus Lampe KG

Offices held on Supervisory Boards:
DePfa Holding Verwaltungsgesellschaft mbH,
hanse chemie AG, NANORESINS AG,
Universal-Investment-Gesellschaft mbH

Wolf R. Thiel

President and Chairman of the Management Board of Versorgungsanstalt des Bundes und der Länder

Offices held on Supervisory Boards:
DePfa Holding Verwaltungsgesellschaft mbH

Helmut Wagner*

Employee of Aareon Deutschland GmbH

Offices held on Supervisory Boards:
Aareon Deutschland GmbH

The members of the Supervisory Board are independent within the meaning of the Corporate Governance Code. The shareholder representatives have sufficient expertise to carry out their duties in a competent manner. They hold or held senior positions in banks or insurance companies. Joachim Neupel – as an independent financial expert, a German Public Auditor and tax advisor – heads the Accounts and Audit Committee of the Supervisory Board of Aareal Bank AG.

The Supervisory Board manages its business operations in the interest of the company and its Group companies in accordance with the law, the Memorandum and Articles of Association, its internal rules of procedure, the current German Corporate Governance Code and the Code of Conduct of Aareal Bank AG. The Supervisory Board determines which transactions are of

* Employee representative of the Supervisory Board of Aareal Bank AG

fundamental importance to the bank and therefore require Supervisory Board approval.

The Supervisory Board has established five committees in order to perform its supervisory duties in an efficient manner: the Executive Committee, the Credit and Market 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. Besides the Chairman of the Supervisory Board, the Committee includes up to four members of the Supervisory Board. The Committee comprises the following members:

Mr Reich	Chairman
Mr Flieger	Deputy Chairman
Mr Bülow	Deputy Chairman
Prof Dr Schüller	
Mr Thiel	

The Executive Committee prepares the plenary meetings of the Supervisory Board, together with proposed resolutions. The Executive Committee is also responsible for assessing the internal condition of the Group, personnel planning issues in the Management Board and negotiating individual contracts with regard to the Management Board on the basis of the remuneration system determined by the plenary meeting. The Executive Committee draws up proposals, where required, for potential or necessary adjustments to the remuneration system of the Management Board. At the same time, the Executive Committee advises on submissions regarding connected-party loans and other transactions between members of executive bodies and the company or Group companies.

Credit and Market Risk Committee

The Credit and Market Risk Committee comprises the Chairman of the Supervisory Board and up to five additional persons.

The Committee comprised the following persons in 2009:

Mr Reich	Chairman
Dr Lohneiß	Deputy Chairman
Graf von Bassewitz	
Mrs Birke	
Mr Flieger	
Mr Neupel	

The Credit and Market Risk Committee deals with all types of risk related to Aareal Bank's business operations. In addition to credit risk, these include market risk, liquidity risk and operational risk. Monitoring of credit risks also involves the approval to grant loans that require approval pursuant to the internal rules of procedure for the Management Board. These also include decisions on connected-party loans pursuant to section 15 (1) no's 6 to 12 of the German Banking Act (Kreditwesengesetz, "KWG"), provided these are not part of the Executive Committee's responsibilities.

The Committee also deals with the contents of the credit risk strategy in accordance with MaRisk. The submission of the credit risk strategy to the plenary meeting of the Supervisory Board remains unaffected by this function, as is intended in the MaRisk.

Committee for Urgent Decisions

The Committee for Urgent Decisions is a subcommittee of the Credit and Market Risk Committee. Its members are selected from the Board members. The current members are:

Mr Reich	Chairman
Graf von Bassewitz	
Mr Flieger	
Dr Lohneiß	
Mr Neupel	

The Committee for Urgent Decisions makes lending decisions by way of circulation that, according to the internal rules of procedure of the Management Board, are particularly urgent and fall within the remit of the Supervisory Board. For this reason, the Committee for Urgent Decisions did not convene any meetings. Decisions taken between the meetings of the Credit and Market Risk Committee were dealt with in the subsequent meetings of the Credit and Market Risk Committee.

Accounts and Audit Committee

The Accounts and Audit Committee is responsible for all accounting issues and for reviewing the Group and Aareal Bank AG. It is chaired by an independent financial expert within the meaning of section 100 (5) of the AktG. The Accounts and Audit Committee comprised the following Supervisory Board members in the year under review:

Mr Neupel	Chairman
Prof Dr Schüller	Deputy Chairman
Graf von Bassewitz	
Mr Bülow	
Mr Reich	

The Committee is responsible for preparing and conducting the audit of the financial statements and the consolidated financial statements, and for preparing the decisions of the Supervisory Board on the basis of its evaluation of the audit reports submitted by the external auditors. For this purpose, it reports the results of its evaluations and the valuations derived thereof to the Supervisory Board. The preparation of the external audit also comprises the preparations for the appointment of the external auditor on the basis of the resolution of the Annual General Meeting, the review of the independence of the external auditor, the agreement regarding the audit fee and identification of major focuses of the audit. The Accounts and Audit Committee also discusses the quarterly and interim reports with the Management Board, and receives the review of the half-year accounts from the auditors. The Accounts and Audit Committee is also responsible for reviewing the projections submitted by the Management Board and for accepting the reports submitted by the Group's compliance officers.

Nomination Committee

The Nomination Committee consists of the Chairman of the Supervisory Board and Mr Flieger, Deputy Chairman of the Supervisory Board, and is therefore staffed solely by shareholder representatives, in line with the German Corporate Governance Code. Its role is to coordinate and conduct the search for new shareholder representatives in the Supervisory Board, when a shareholder representative retires. In the light of potential changes to the Supervisory Board in the 2010 financial year, the Nomination Committee entered into preparatory consultations at year-end.

The Management Board

The Management Board manages the business of Aareal Bank AG. It is subject to the legal requirements, the German Corporate Governance Code, the internal rules of procedure for the Management Board issued by the Supervisory Board and the Code of Conduct of Aareal Bank AG. The Management Board develops the Company's strategic guidelines, discusses them with the Supervisory Board, and ensures their implementation. The Management Board independently determines the distribution of responsibilities among its members.

The following people are members of the Management Board:

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

The Management Board informs the Supervisory Board regularly, in a timely and detailed manner and extensively, both in written form and orally, about all matters on which the Supervisory Board requires information, in order to exercise all of its management duties in full.

Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Ladies and gentlemen, dear shareholders,

During the significant market turbulences in the course of the crisis affecting financial markets, Aareal Bank AG always reacted in a forward-looking manner, making use of the opportunities that arose to further safeguard the bank against negative market developments. Aareal Bank had sufficient cash and cash equivalents, and a solid refinancing base at all times throughout the 2009 financial year.

Aareal Bank's utilisation of the opportunities presented by the Financial Markets Stabilisation Act reflects its forward-looking approach. This Act was originally designed to strengthen fundamentally sound banks against further turbulences on financial markets, thus preventing them from being affected by the general developments. On this basis, Aareal Bank AG sought SoFFin support.

The Supervisory Board continuously advised, controlled and monitored Aareal Bank AG's senior management throughout the challenging financial year under review. The Management Board informed the Supervisory Board regularly, and in a timely and detailed manner, without delay and comprehensively, both orally and in writing, of all issues important to the Group with regard to its situation, business development, and key financial indicators and market developments. Additionally, the Supervisory Board was informed in detail about the current liquidity status and measures for liquidity management, as well as about the risk situation, the risk controlling measures and the risk management system of the Group. The Supervisory Board was also comprehensively informed about the situation in relation to the business segments and the operative and strategic planning. It was involved in, and informed about, all key resolutions. All important events were subject to in-depth discussions and reviews. If a resolution by the Supervisory Board was necessary, the proposals for resolution were presented to the Supervisory Board and a decision was taken.

Furthermore, the Chairman of the Management Board provided the Chairman of the Supervisory Board with a continuous and regular update between the individual meetings, both in written form and orally, about all material developments within the company. The Chairman of the Management Board maintains regular close contact with the Chairman of the Supervisory Board, in order to discuss important issues and decisions within the scope of personal discussions.

Aareal Bank Group generated a profit in all quarters since the outbreak of the crisis affecting financial markets. The Supervisory Board sees this as an impressive confirmation of the sustainability of the Group's business model.

Activities of the Supervisory Board

Four ordinary plenary meetings and one extraordinary plenary meeting of the Supervisory Board were convened during the financial year under review. Within the scope of the meetings, the members of the Supervisory Board received the reports and explanations from the members of the Management Board, which they discussed intensively. One important issue of the activities and reporting in all meetings was the manner in which the challenges posed by the financial markets crisis and the changes to the bank's business environment, as a consequence of the ensuing global economic crisis were dealt with. The process for making use of the opportunities presented by the Financial Markets Stabilisation Act is also associated with this. The entire process of applying for and negotiating the support from SoFFin was fully supported by the Supervisory Board.

The changes to the regulatory environment this year were also discussed intensively within the scope of the Supervisory Board's discussions; these include the amendments to the Minimum Requirements for Risk Management (MaRisk), the implementation of the German Accounting Law Reform Act (Bilanzrechtsmodernisierungsgesetz, "BilMoG"), the far-reaching changes to the corporate governance regulations and the adjustments to the generally accepted accounting principles under German commercial law.

The Management Board informed the Supervisory Board about the potential effects of economic developments, in a timely, extensive and comprehensive manner throughout the financial year as a whole, within the scope of all meetings and otherwise. It outlined in full the measures that were taken, in order to react appropriately to the challenges and the effects of the economic development on Aareal Bank AG.

In all ordinary plenary meetings of the Supervisory Board, the Management Board regularly provided the Supervisory Board with extensive reports about, including other things, the performance of the Structured Property Financing and Consulting/Services segments, especially taking into account current economic developments. The Supervisory Board was regularly informed about the liquidity situation and the corresponding measures taken by the bank's Treasury. Current figures and projections were also used to explain to the Supervisory Board the business development of Aareal Bank Group as a whole. Furthermore, the quality of the property financing portfolio was regularly reported against the background of the crisis affecting financial markets and the associated situation on the various property markets. The following key issues outlined below were also dealt with in individual meetings.

The planned utilisation of the SoFFin support measures, in the form of a silent participation in the amount of € 525 million and guarantees for issuing unsecured bonds up to a maximum of € 4 billion, was presented to the Supervisory Board and discussed conclusively at an extraordinary meeting held on 15 February 2009. The Supervisory Board approved the proposed procedure and the related agreements at this meeting.

In its meeting in March of last year, the Supervisory Board concerned itself intensively with the financial statements and consolidated financial statements presented for the 2008 financial year, as well as the external auditor's report. The relevant facts were reported in the Supervisory Board report of the previous year. Additionally, the proposal for selecting the external auditor for the Annual General Meeting was discussed and the subsequent appointment to be conducted. This also included the scope and focal points of the audit for the 2009 financial year, as defined by the Supervisory Board.

Other issues covered in the March meeting included the preparations for the Annual General Meeting in May 2009, the annual reports of the Internal Audit and of the compliance officer.

The purpose of the Supervisory Board meeting in May was especially to debrief on the previous Annual General Meeting of Aareal Bank AG.

The fundamental aspects of the business plan for the years ahead was discussed in the meeting held in September. Corporate governance issues were also dealt with. These included the update of the German Corporate Governance Code, as well as the measures and procedures for implementing the BilMoG and other regulatory changes.

In the December meeting, the Management Board reported on projections for the Group from 2010 to 2012. The Management Board submitted and explained the projections in detail to the Supervisory Board. Corporate governance issues were discussed as well: within this context, the Supervisory Board adopted the Declaration of Compliance, pursuant to section 161 of the German Public Limited Companies Act (Aktiengesetz, "AktG"), for the year 2009, which was subsequently published on the bank's website. Another important issue in relation to the changes to the Corporate Governance regulation was the adjustment of Aareal Bank AG's existing rules and regulations in line with the updated status.

The Supervisory Board regularly examines the efficiency of its own working processes in order to identify any areas requiring improvement. The efficiency review conducted in the 2009 financial year confirmed the previous year's good results. The results were acknowledged by the members of the Supervisory Board, and were discussed in detail. No organisational changes to enhance efficiency were required this year either.

The Management Board regularly informed the Supervisory Board about the implementation of new or amended regulations, for example the amendments to the Minimum Requirements for Risk Management (MaRisk) and the current status of the capital adequacy requirements in accordance with Basel II. The Management Board outlined the impact of such regulations on the bank, and discussed any changes to the regulatory framework with the Supervisory Board. In this context, the business strategy in accordance with the Minimum Requirements for Risk Management in Banks (MaRisk) was submitted and discussed, as scheduled.

The Chairmen of Supervisory Board committees regularly gave account of the work in the committees to the plenary meeting, answering all related questions by the plenary meeting members in detail.

Supervisory Board decisions that were met by way of circulation, were reported in the subsequent meeting. Thus, the implementation of the decisions taken was confirmed.

No conflicts of interest of members of the Supervisory Board, as defined in no. 5.5.3 of the German Corporate Governance Code, were reported by the members of the Supervisory Board during the financial year 2009.

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 Credit and Market Risk Committee, the Committee for Urgent Decisions, the Accounts and Audit Committee, and the Nomination Committee.

The Executive Committee of the Supervisory Board convened four times. The Executive Committee prepared the plenary meetings of the Supervisory Board, together with proposed resolutions. In its meeting in March, it discussed issues concerning the remuneration of the Management Board that arose as a consequence of the utilisation of the SoFFin funds and the associated regulations on the remuneration of members of the Management Board.

The Credit and Market Risk Committee convened three times. The Management Board submitted detailed reports to the Committee, covering all markets in which the bank operates in the property finance business, as well as supplementary reports on property markets that are particularly affected by the financial markets crisis. The reports and market assessments were discussed in detail by the members of the Committee. The Committee also dealt with the granting of loans requiring approval and transactions subject to reporting requirements. The Management Board presented individual significant exposures to the Committee, and discussed these with it.

Decisions were also reached on all other issues 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 received regular reports on the bank's risk situation, which were submitted and explained by the Management Board. Having discussed the contents with the Management Board in detail, these were duly noted and approved by the members of the Committee. The Committee dealt with market risk, liquidity risk and operational risk, in addition to credit and country risks.

The Committee for Urgent Decisions is a subcommittee of the Credit and Market Risk Committee. Since the Committee for Urgent Decisions approves loans subject to approval requirements by way of circulation,it did not convene any meetings. Decisions taken between the meetings convened by the Credit and Market Risk Committee were dealt with in each of the subsequent meetings of the Credit and Market Risk Committee.

The Accounts and Audit Committee convened for six meetings. In its meeting in March 2009, the Committee received the external auditors' report on the 2008 financial year and discussed the results in detail with the auditors. The members examined the audit reports intensively and formed an opinion on the results of the audit on this basis, as well as within the scope of in-depth discussions held with the external auditors. Similarly, in accordance with the duties incumbent upon it pursuant to the Memorandum and Articles of Association, the Accounts and Audit Committee discussed the appointment of the external auditor in its meeting, and the focal points of the audit for 2009. The meetings held in August and November served to submit initial information on the progress of the audit activities for the 2009 financial year and to discuss issues that arose in the course of preparing the financial statements. In its December meeting, the Committee was presented with another report on the progress of the audit, as well as with the updated Group planning, which was also explained. The Committee also received reports submitted by Internal Audit, and the Compliance Report, which were explained in detail.

Within the scope of the meetings convened in February, May, August and November, the Committee received by the Management Board the quarterly results for the financial year and the preliminary results for the year 2008 to be published as a whole, in accordance with the provisions of the German Corporate Governance Code and the explanations thereof.

In its meeting on 29 March 2010, the Accounts and Audit Committee received a comprehensive report from the external auditors on the audit and audit results for the 2009 financial year; the results were extensively discussed with the auditors and the Management Board.

The Nomination Committee, which was established in 2008, did not convene in 2009. The Committee is charged with coordinating and conducting the search for new shareholder representatives in the Supervisory Board, when a shareholder representative resigns from office. In view of potential changes to the composition of the Supervisory Board in the 2010 financial year, preparatory consultations were entered into in the financial year under review.

Where members of the Supervisory Board were unable to attend a meeting, their absence was announced and the reasons therefore were stated in advance. In relation to material decisions, these members of the Supervisory Board were represented by proxy or submitted their decision retrospectively in writing to the minutes. Two members of the Supervisory Board were unable to participate at fewer than half of the Supervisory Board meetings, due to external circumstances beyond their control.

Transactions of particular importance during 2009

On 15 February 2009, the Supervisory Board agreed to draw down funds made available within the scope of the Financial Markets Stabilisation Act. The Supervisory Board supported the preceding process and agreed to utilise a silent participation in the amount of € 525 million and a framework guarantee totalling up to € 4 billion for new unsecured issues with a maximum term of 36 months. The Supervisory Board is convinced that Aareal Bank has a viable business model and a sound funding structure: for this reason, the bank should be prepared for unpredictable developments on the financial markets, which are outside the bank's control. In deciding to make use of the opportunities presented by the Financial Markets Stabilisation Act, the Supervisory Board believes Aareal Bank AG is well-positioned to deal with challenges that may arise within the course of the economic crisis.

Financial statements and consolidated financial statements

The Supervisory Board instructed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt / Main, who were elected as external auditors by the Annual General Meeting 2009, to conduct the audit of the financial statements. The external auditors appointed submitted a statement regarding their independence to the Supervisory Board, which was duly noted. The Supervisory Board has no reason to doubt the accuracy of this statement of independence. Fulfilling their duties, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code (Handelsgesetzbuch, "HGB") and the Management Report, the consolidated financial statements prepared in accordance with IFRS, and the Group Management Report of Aareal Bank AG, and certified the financial statements without qualification.

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 prior to the meeting during which the audit results were discussed. They informed themselves about the audit results on the basis of the documents received. The representatives of the external auditor participated in the meeting and presented the results of their audit in detail. The representatives of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft were available to the Supervisory Board to answer further questions afterwards, and to provide additional information. All questions were answered to the full satisfaction of the Supervisory Board.

The financial statements and management report of Aareal Bank AG – prepared in accordance with the HGB, the consolidated financial statements prepared in accordance with IFRS and the Group Management Report, the proposal of the Management Board regarding the appropriation of profit and the audit report were all examined in detail. No objections were raised to the audit results.
At its meeting on 30 March 2010, the Supervisory Board approved the results of the audit. The Supervisory Board therefore approved the financial statements and Management Report of Aareal Bank AG, prepared in accordance with the HGB, together with the consolidated financial statements prepared in accordance with IFRS and the Group Management Report, thus confirming the financial statements of Aareal Bank AG. The Supervisory Board examined and discussed with the Management Board its proposal regarding the

appropriation of profit. On the basis of the discussion, the Supervisory Board 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 Group's employees for their commitment and successful work during the challenging 2009 financial year. The employees' commitment and motivation during the recent months characterised by the general economic crisis, have undoubtedly contributed to the success enjoyed by Aareal Bank in this challenging situation.

Kronberg, March 2010

For the Supervisory Board

Hans W. Reich (Chairman)

Offices

Wiesbaden Head Office

Aareal Bank AG
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3480
Fax: +49 611 3482549

Structured Property Financing

Amsterdam
Byzantium Building
Stadhouderskade 14e
1054 ES Amsterdam, The Netherlands
Phone: +31 20 5898660
Fax: +31 20 5898666

Berlin
Wallstrasse 9-13
10179 Berlin, Germany
Phone: +49 30 880990
Fax: +49 30 88099470

Brussels
7, rue Guimard
1040 Brussels, Belgium
Phone: +32 2 5144090
Fax: +32 2 5144092

Copenhagen
Frederiksgade 7, 1
1265 Copenhagen K, Denmark
Phone: +45 70 109090
Fax: +45 70 109091

Hamburg
Pelzerstrasse 7
20095 Hamburg, Germany
Phone: +49 40 33316546
Fax: +49 40 33316599

Helsinki
Aleksanterinkatu 44, 4. OG
00100 Helsinki, Finland
Phone: +358 9 6961010
Fax: +358 9 69610111

Istanbul
Ebulula Mardin Caddesi
Maya Meridyen Iş Merkezi · D:2 Blok
Kat. 11 · 34335 Akatlar-Istanbul, Turkey
Phone: +90 212 3490200
Fax: +90 212 3490299

London
38 Lombard Street
London EC3V 9BS, United Kingdom
Phone: +44 20 74569200
Fax: +44 20 79295055

Madrid
Paseo de la Castellana, 60 - 4D
28046 Madrid, Spain
Phone: +34 915 902420
Fax: +34 915 902436

Milan
Via Paolo Andreani, 6
20122 Milan, Italy
Phone: +39 02 76419001
Fax: +39 02 764190211

Moscow
Business Centre "Mokhovaya"
4/7 Vozdvizhenka Street · Building 2
125009 Moscow, Russia
Phone: +7 499 2729002
Fax: +7 499 2729016

Munich
Prinzregentenstrasse 22
80538 Munich, Germany
Phone: +49 89 51270
Fax: +49 89 5127275

New York
Aareal Capital Corporation
250 Park Avenue · Suite 820
New York NY 10177, USA
Phone: +1 212 5084080
Fax: +1 917 3220285

Paris
Aareal Bank France S.A.
5, rue Scribe
75009 Paris, France
Phone: +33 1 44516630
Fax: +33 1 42669794

Prague
Aareal Financial Service spol. s r.o.
FORUM Building · Václavské námestí 19
11000 Prague 1, Czech Republic
Phone: +420 234656006
Fax: +420 234656011

Rome
Via Mercadante, 12/14
00198 Rome, Italy
Phone: +39 06 83004200
Fax: +39 06 83004250

Shanghai
Suite 2902 · Tower 2 Plaza 66
No. 1266 Nanjing West Road
Jing An District
Shanghai 200040, P. R. of China
Phone: +86 21 62889908
Fax: +86 21 62889903

Singapore
Aareal Bank Asia Limited
3 Church Street
17-03 Samsung Hub
Singapore 049483, Singapore
Phone: +65 6372 9750
Fax: +65 6536 8162

Stockholm
Hamngatan 11
11147 Stockholm, Sweden
Phone: +46 8 54642000
Fax: +46 8 54642001

Warsaw
RONDO 1
Rondo ONZ 1
00-124 Warsaw, Poland
Phone: +48 22 5449060
Fax: +48 22 5449069

Wiesbaden
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482950
Fax: +49 611 3482020

Zurich
Rennweg 52
8001 Zurich, Switzerland
Phone: +41 43 8887575
Fax: +41 43 8887576

Aareal Estate AG
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482446
Fax: +49 611 3483587

Aareal Valuation GmbH
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482059
Fax: +49 611 3482640

Deutsche Structured Finance GmbH
Westendstrasse 24
60325 Frankfurt / Main, Germany
Phone: +49 69 9714970
Fax: +49 69 971497510

Consulting / Services

Aareal Bank AG
Institutional Housing Unit
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482967
Fax: +49 611 3482499

Institutional Housing Unit
Berlin Branch
Wallstrasse 9-13
10179 Berlin, Germany
Phone: +49 30 88099444
Fax: +49 30 88099470

Institutional Housing Unit
Essen Branch
Huyssenallee 48
45128 Essen, Germany
Phone: +49 201 81008100
Fax: +49 201 81008200

Institutional Housing Unit
Hamburg Branch
Pelzerstrasse 7
20095 Hamburg, Germany
Phone: +49 40 33316850
Fax: +49 40 33316399

Institutional Housing Unit
Leipzig Branch
Neumarkt 2-4
04109 Leipzig, Germany
Phone: +49 341 2272150
Fax: +49 341 2272101

Institutional Housing Unit
Munich Branch
Prinzregentenstrasse 22
80538 Munich, Germany
Phone: +49 89 5127265
Fax: +49 89 51271264

Institutional Housing Unit
Rhine-Main Branch
Paulinenstrasse 15
65189 Wiesbaden, Germany
Hotline: +49 611 3482000
Fax: +49 611 3483002

Institutional Housing Unit
Stuttgart Branch
Kriegerstrasse 3
70191 Stuttgart, Germany
Phone: +49 711 2236116
Fax: +49 711 2236160

Aareon AG
Isaac-Fulda-Allee 6
55124 Mainz, Germany
Phone: +49 6131 3010
Fax: +49 6131 301419

Aareal First Financial Solutions AG
Peter-Sander-Strasse 30
55252 Mainz-Kastel, Germany
Phone: +49 6134 560119
Fax: +49 6134 560319

Deutsche Bau- und Grundstücks-Aktiengesellschaft
Chlodwigplatz 1
53119 Bonn, Germany
Phone: +49 228 5180
Fax: +49 228 518298

Deposit-taking

Dublin
4 Custom House Plaza · IFSC
Dublin 1, Ireland
Phone: +353 1 6369220
Fax: +353 1 6702785

Financial Calendar

11 May 2010	Presentation of interim report as at 31 March 2010
19 May 2010	Annual General Meeting – Rhein-Main-Hallen, Wiesbaden
August 2010	Presentation of interim report as at 30 June 2010
November 2010	Presentation of interim report as at 30 September 2010

Imprint
Contents:
Aareal Bank AG, Corporate Communications
Photographs:
xvision, Andreas Fechner, Dusseldorf, Germany
Other sources:
Cover picture: Getty Images/Stockbyte
P. 17: FPM AG
P. 21: Wolfgang Schmid
P. 34, picture 1: Torsten George, picture 2: Aareal Bank AG
P. 38: Stephan Höck
P. 39: Andreas Varnhorn, Foster & Martin Fotografie
P. 40 and 42: Torsten George
P. 41: Stephan Höck, Foster & Martin Fotografie
Design / Layout:
S/COMPANY GmbH, Fulda, Germany
Kuhn, Kammann & Kuhn AG, Cologne, Germany
Production:
Druckerei Chmielorz GmbH, Wiesbaden-Nordenstadt. Germany

Intertwined, the hands of two of Aareal Bank's colleagues symbolise team spirit and proximity. In a corporate context – reflected here by the band containing the Aareal Bank Group logo – it also symbolises the close cooperation between the Group's individual departments.

Miriam Schmidt, Daniela Thyssen and Michelle Lynn Smith, who are employed in three different departments of the bank and work closely together, conceived the idea behind this photograph. It was voted the winner in a photo campaign – entitled "Close-up" – within the scope of Aareal Bank Group's New Year's Reception.

Aareal Bank AG
Corporate Communications
Paulinenstrasse 15
65189 Wiesbaden, Germany

Phone: +49 611 348 3009
Fax: +49 611 348 2637
E-mail: aareal@aareal-bank.com
www.aareal-bank.com

03/2010

Aareal Bank Group