Wide angle

Aareal Bank Group – Annual Report 2010

Aareal Bank Group

Wide angle: taking a wider perspective on our business

Dear readers,

"Wide angle" is the title and main topic of this year's annual report. This concept continues to reinforce our „close up" view from last year in a consistent manner. In this annual report for the year 2010, we will once again present our fields of actions – albeit in an extended overall context and with a wider perspective.

We are focusing, for example, on the future prospects of our sector and our business; within the scope of an interview, two recognised international property experts will explain how so-called mega trends will significantly change the property markets in the coming decades, and what effects these will have on the industry.

We will also outline in the next few pages the "wide angles" that we have already defined in our business operations. Amongst other things, we will illustrate how we combine bank-specific know-how and sector knowledge. Examples of cooperation across all divisions or the creation of synergies will be given.

However, any widening of our perspective depends on our firm stance; namely, our solid business model, which is based on two solid pillars, the Structured Property Financing and Consulting / Services segments. It is a known fact that it is better to stand on two feet. On this basis, we believe that we are well-positioned to deal with the challenges of the years ahead.

We hope you will enjoy reading the report.

Key Group Figures

Key Group Figures

	01 Jan - 31 Dec 2010	01 Jan - 31 Dec 2009	Change	
	Euro mn	Euro mn	Euro mn	
Income Statement				
Operating profit	134	87	47	
Net income/loss after non-controlling interests	76	49	27	
Indicators				
Cost/income ratio (%) [1]	50.4	47.9		
Earnings per share (Euro)	1.78	1.14		
RoE after taxes (%)	4.0	2.9		

	31 Dec 2010	31 Dec 2009	Change	Change
	Euro mn	Euro mn	Euro mn	%
Portfolio Data				
Property financing	22,884	21,838	1,046	5
of which: international	19,195	18,164	1,031	6
Property financing under management [2]	23,251	22,348	903	4
of which: international	19,195	18,164	1,031	6
Equity	1,985	2,077	-92	-4
Total assets	41,217	39,569	1,648	4
	%	%		
Regulatory Indicators				
Tier 1 ratio pursuant to AIRBA [3]	12.9 [4]	–		
Total capital ratio pursuant to AIRBA [3]	16.5 [4]	–		
Tier 1 ratio pursuant to CRSA	10.5 [4]	11.0		
Total capital ratio pursuant to CRSA	13.4 [4]	15.0		

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

[1] Structured Property Financing segment only
[2] The figures for property financing under management include property loans managed on behalf of Deutsche Pfandbriefbank AG
[3] Advanced Internal Ratings-Based Approach – applied as at 31 December 2010 for the first time
[4] After confirmation of Aareal Bank AG's financial statements 2010. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2010 is subject to approval by the Annual General Meeting.

Aareal Bank Group's business model is based on two segments:

In our Structured Property Financing segment, we facilitate property projects for our domestic and international clients within the framework of a three-continent strategy covering Europe, North America and Asia. 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. Aareal Bank Group offers these clients IT systems plus related consultancy services, integrated payments systems and a comprehensive range of services for managing property portfolios.

Key Group Figures

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Integrated communications

Banks have been at the centre of attention of both the media and capital markets participants throughout the 2010 financial year. Aareal Bank's key communications experts discuss current issues and challenges they face in their work.

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Financing special properties

The experts from Aareal Bank's Special Property Finance division focus on current market activity whilst closely observing the trends that predict future market conditions. Their focus is always on a single goal: to precisely understand the property at hand, its development and the potential it holds.

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Institutional Housing Unit

More efficiency in day-to-day work, more transparent data, cost savings – thanks to a future-proof investment: our BK 01 automated electronic payments solution is a real ”process booster“, in the institutional housing industry as well as in the commercial property sector. With this combination of technical expertise and superior industry know-how, we command a leading position in the German market.

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Understanding local markets will remain essential in the future

Mega trends will shape the property markets during the decades ahead – regardless of the financial markets crisis. We have discussed these mega trends, and their importance for the property sector, with two renowned experts for scientific property research: Professor John Glascock and Professor Dr Nico Rottke.

Professor Rottke, Professor Glascock, which mega trends do you expect to be decisive for developments on the property markets over the next decades?

Professor Dr Rottke: The key trends I anticipate for the coming decades are predominantly ongoing globalisation, as well as demographic changes reflecting migration and urbanisation trends. It is also fair to expect that technological progress, in combination with an increasing awareness of sustainability, will strongly influence the construction of buildings and the management of properties.

Professor Glascock: Globalisation – to talk about one of the mega trends – has not stopped short of property and financial markets: for many market participants, it has enhanced access to international capital markets and also to information about property markets – this has made cross-border investments easier. Moreover, globalisation has enabled market participants to spread their investments across different countries and regions, thus achieving a strategically sensible portfolio diversification.

But make no mistake: globalisation will not make local markets redundant. Despite some talk about a "de-localisation" of the property sector, there are limits to such developments. The only way to conduct property business successfully and sustainably is through extensive know-how of the local and regional property markets. Globalisation will not change that. For banks, the fundamental principles still apply: know your customers, know your markets, and keep an eye on your capitalisation!

You mentioned demographic change. What are the implications for the property sector?

Professor Dr Rottke: This will bring about profound changes regarding the functional features of buildings. In industrialised countries, we will need to come up with intelligent building concepts for coping with the needs of an ageing population. Based on current research, we must also assume that demographic changes will translate into a shrinking population in industrialised nations: in turn, this will have implications on demand for labour and residential space, on purchasing patterns, on the potential size of the working population, and on other macro-economic factors.

Professor Glascock: Even though current population trends in emerging countries would appear to precisely contradict the trends that prevail in most industrialised countries, it is worth taking a more differentiated view. For instance, an ana-

”From a bank’s perspective, all these mega trends translate into a few straightforward principles: know your customers, know your markets, and keep an eye on your capitalisation!“ Professor John Glascock

John Glascock is West Shell Professor of Real Estate Finance and Director of the Real Estate Center at the University of Cincinnati.

lysis of demographic developments in China shows that the ”one-child policy“ has brought about a strong decline in population growth – which will of course have a considerable impact on the age structure of the population. In this context, it is essential to distinguish demographic change and migration: the explosive growth of metropolitan areas such as Shanghai is not only a reflection of general population growth – which is, in fact, shrinking overall: it is predominantly due to migration flows. The consequences of this urbanisation trend will be visible on the property markets as well: predominantly, infrastructure will require further optimisation, and continued over-development will need to be avoided.

The concept of sustainability is growing in importance, on a global scale. What impact does this have on the property sector?

Professor Glascock: Actually, I do not really like the word. Most people talk about ”sustainability“ without considering what it really means. Living in a sustainable manner means more than just preserving resources: it means to harmonise ecological, economic and social interests. Therefore, let us first talk about efficiency. In future, we will have to use the resources available to us in a much more efficient manner. In many regions, rising demand for large space is faced with restricted supply. This means that commercial properties will need to become much more efficient. At the same time, technological progress means that buildings can be erected much faster and more efficiently, due to the use of prefabricated materials, more sophisticated tools, and so on.
Professor Dr Rottke: Besides the growing importance of ecological aspects in the construction and management of properties, the focus is increasingly on economic changes that can be measured in financial terms. Examples include economic value added from higher energy efficiency, or the increasing importance of sustainable financing methods. This is not limited to new buildings, but increasingly affects necessary investments for the modernisation of existing properties. The change that is becoming evident will thus impact the property markets in numerous ways.

How do you assess current trends to emphasise energy efficiency and environmental protection in this context?

Professor Dr Rottke: Current research has shown that higher energy efficiency and better environmental protection yield added economic value – not just as a one-off effect, but over time. For example, this is reflected by the sharp rise in the number of buildings with environmental certificates which we can see at present. In this respect, the trend towards energy efficiency and environmental improvements can be seen as part of the economic dimension of sustainability.

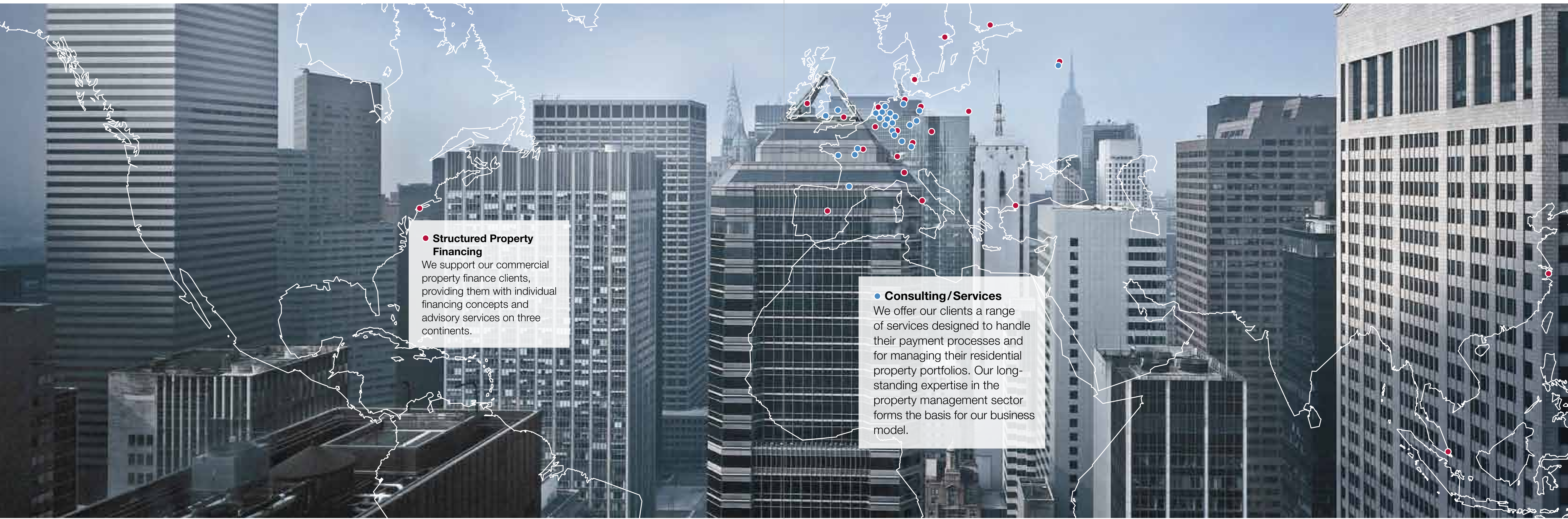
How will banks be able to benefit from these mega trends? Which financial services will they need to offer?

Professor Glascock: The mega trends we are anticipating will also affect investment behaviour. The longer life cycles of sustainable properties also imply longer investment horizons, whilst a risk mitigation shifts the risk / return ratio. We should not let short-to-medium-term market developments cloud the view of these long-term trends.

Professor Dr Rottke: What will remain decisive is to understand ”the property“ and the relevant market. This means that if certain type of usage – or specific sub-markets – are particularly sensitive to mega trends, providers of finance will need to develop sufficient expertise and understanding for these areas. Whether this is achieved through teams of experts or by way of other organisational measures is up to each market participant to decide.

Nico Rottke is Head of the Real Estate Management Institute at EBS Business School in Wiesbaden, where he also holds the Aareal Foundation Chair for Property Investment and Financing. He is also Adjunct Professor for Global Real Estate Capital Markets at the University of Central Florida in Orlando, Florida.

”What will remain decisive is to understand ’the property‘ and the relevant market.“ Professor Dr Nico Rottke



Stability based on two pillars

Our business model – comprising the Structured Property Financing and Consulting/Services segments – has not only proven itself to be resilient in the past. It is also well-equipped to deal with challenges the bank may face in the future.

A specialist for specialists

In the Structured Property Financing segment, we support domestic and international clients, providing them with individual financing concepts as well as a comprehensive advisory service. Within the framework of a three-continent strategy, our operations in this segment extend across Europe, North America and Asia.

We manage our business activities via a network of regional sales centres (hubs), from which we support our clients in the most important economic regions worldwide. What makes Aareal Bank particularly special is its direct client relationships, which – in very many cases – have been maintained over many years.

Our broad international market presence reduces our dependency on individual markets and our sensitivity to regional economic fluctuations. This broad diversification is reflected in our property financing portfolio, through the regional diversity and the variety of different properties in our portfolio. We operate as senior lender for most financing solutions and take the loans – which are generally senior secured – on our own books.

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

Prime banking partner for the institutional housing industry

Our Consulting/Services segment provides us with a strong second pillar that is largely independent of property cycles.

Aareal Bank has been the prime banking partner for the institutional housing industry in Germany for more than 50 years. We offer a range of specialist services for the automated settlement of mass payments, and for optimising downstream processes. Modern account maintenance tools, and the fact that our procedures are exclusively integrated in the leading software systems, allow our clients to largely automate manual processes within the scope of rent and ancillary cost accounting or deposit management. The deposits generated in this manner represent a stable refinancing source for Aareal Bank that is largely immune to developments on the capital markets.

We operate the IT systems consultancy and related advisory services for the institutional housing industry through our subsidiary Aareon AG, which offers products for managing and controlling residential property portfolios, as well as for rent management. These services meet the requirements of SMEs and large companies equally well.

Aareal Bank recognises the needs and wishes of its global client base: we operate in more than 20 countries on three continents. Our teams combine their experience in local markets with the knowledge amassed by our Wiesbaden-based specialists.

Integrated communications – focusing on all target groups

Throughout the 2010 financial year, banks were at the centre of attention, closely observed by the media as well as by capital markets participants. Uncertainty regarding the new regulatory framework kept the financial services sector concerned for most of the year; the situation was exacerbated by renewed financial market distortions, in the wake of the debt crisis. Against this background, all stakeholders required a permanently high level of information.

Communications play a central role in Aareal Bank's capital market presence. Jürgen Junginger, Managing Director, Investor Relations is responsible for Aareal Bank's communications with equity investors, analysts and rating agencies. Dr Tammo Diener, Managing Director, Treasury maintains close contact with fixed-income investors. Sven H. Korndörffer, Managing Director, Corporate Communications communicates with the media, politicians, and the general public. The three Heads of Division discuss the issues and challenges they dealt with during the 2010 financial year, commenting on the focal points of their communications activity going forward.

Have the information needs of your target groups changed over recent years?

Junginger: Yes, most definitely. Equity investors require much more information than before. Nowadays, investors want to know a lot more about the institution they place their money with: in particular, they scrutinise an institution's business model to a much greater degree of detail.

Diemer: This is something I can affirm without hesitation. At the Treasury, the target group we focus on comprises primarily fixed-income investors: those who invest in capital market products such as promissory note loans, bearer bonds, Mortgage Pfandbriefe and Public Sector Pfandbriefe issued by Aareal Bank – thus refinancing the loans we extend. This group of investors also increasingly focuses on individual companies: they want to understand their funding mix, and need to be sustainably convinced of the quality of the credit portfolio, the management, and the future strategy.

Korndörffer: These days, media interest in banks and the related issues has intensified considerably – having said that, the issues to be covered have become much more complex, not least due to the numerous regulatory requirements. Of course, it is far too early to judge the aggregate impact of such plans on banks and the real economy. Not surprisingly, this has led to a much greater need for discussion and explanation. Overall, you can say that media expectations regarding the quality of information we provide have increased.

You represent the three divisions of the bank that communicate – directly or indirectly – with relevant stakeholders for the capital markets. Which factors do you consider as particularly important in this context?

Korndörffer: Our approach is geared towards integrated communications. This means that our communications efforts should present the bank's strategy in the same way, comprehensively and in a targeted manner – via all channels, and towards all target groups. For this purpose, we analyse communication requirements from different perspectives. After all, each division has defined a different focus in communicating with the respective target groups. Nonetheless, all communications must lead to a consistent, uniform image.

Junginger: We coordinate the activities of our divisions during various meetings. As Sven Korndörffer already explained, the strategy we adhere to is a "one-voice" policy, meaning that we convey a uniform message across all external communications.

Diemer: We are talking to different stakeholders, whose interest in Aareal Bank is quite diverse. What is important to us is that we identify common ground as well as differences, providing information that is geared towards the target group concerned, whilst acting in the interests of everyone involved.

Jürgen Junginger, Managing Director Investor Relations

Mr Junginger, in your opinion, what were the key topics for equity investors during the 2010 financial year?

Junginger: There was a wide range of issues during the financial year under review. For instance, the quality of the credit portfolio received attention during the first half of the year. Generally speaking, the information needs of shareholders, analysts and rating agencies were high throughout.

How were you able to convince them of the high quality of Aareal Bank's credit portfolio?

Junginger: We were transparent in our information, explaining the exposures in our credit portfolio, and pointing out risk exposures and how we manage them. Aareal Bank has an edge thanks to its broad diversification, by country and types of property.

You said that the quality of the property financing portfolio received a lot of attention during the first half of 2010. What were the key topics during the second half?

Junginger: Issues related to the euro sovereign debt crisis: for example, questions about our exposure to Greek or Irish government bonds. We did not hold any Greek government bonds at all – our exposure to Irish government bonds was very limited indeed, and we liquidated that in mid-October. Toward the end of the year, attention focused increasingly on the profitability of our business. To me, this shows the trust investors and analysts alike place in the quality of our assets. Clearly, investors are looking ahead to the future – and those who ask about the future usually refrain from worrying about the past, or casting doubts on the present.

Dr Diemer, what were key issues for your target group?

Diemer: Fixed-income investors tend to take a long-term view, which is why they strongly focus on a bank's sustainable success. That is why, aside from a sound and viable business strategy geared towards continuous profitability, topics such as risk management and the bank's capitalisation play an important role. In short, the investors we talk to have a very high need for safety, as a result of their exposure. Against this background, having a transparent Group structure and adequate risk management and risk control systems is an advantage for Aareal Bank. This has really paid off during these turbulent times.

"For a bank to be successful, detailed knowledge about borrowers is not sufficient; it also needs to maintain close contact with depositors and investors."

Dr Tammo Diemer, Treasury

"We posted a profit for every quarter throughout the financial markets and economic crisis."

Jürgen Junginger, Investor Relations

Mr Korndörffer, which were your key communications aspects during 2010?

Korndörffer: Corporate communications were a particular challenge for the entire financial services sector last year. During the crisis, the banking sector as a whole suffered from a massive loss of reputation. Banks have thus faced the need to restore their reputation on the markets, and with the general public – this is an ongoing communications challenge.

What were the main areas of activity you pursued?

Korndörffer: We maintained an intensive dialogue with the media and politicians; in particular, we sought to build credibility and trust through personal meetings. In all these discussions, our goal was to explain the cross-relationships within the financial services industry, and to highlight the specific issues concerning Aareal Bank. We made good progress using this broad-based dialogue.

Dr Tammo Diemer, Managing Director Treasury

Dr Diemer, which clients do you maintain direct, personal contact with? I can imagine that this can be difficult with large fixed-income investors such as investment funds that are active in the wholesale markets.

Diemer: You really need to put the concept of "wholesale" funding into perspective for our bank: firstly, and in contrast to most of our competitors, we have access to a strong additional source of funding, thanks to the deposits from the institutional housing industry originated by our Consulting/Services segment. Secondly, we only engage in wholesale funding – in the strict sense of the word – to a very limited extent. Our funding mix is based primarily on private placements of registered Pfandbriefe, promissory note loans, and debt securities. Having maintained personal relationships with investors for many years, we keep up a regular dialogue – just like in our lending business. It is this client proximity that creates security and understanding, facilitating accurate interpretation of facts. As an issuer, we receive questions directly, and can answer them quickly and openly.

Why did Pfandbriefe fare particularly well during the crisis?

Diemer: Pfandbriefe have been a top-quality product all along, thanks to the security mechanisms of the underlying legal framework. In addition, various amendments to the legal framework have made Pfandbriefe even more competitive for the future: what's more, the German Pfandbrief concept is popular with many international investors, and has been copied in numerous jurisdictions. Throughout the crisis affecting financial markets and the economy, issuing Pfandbriefe was possible at all times. In this way, German Pfandbriefe once again demonstrated their crisis-proof qualities. Pfandbrief issuance will continue to play a major role in our funding mix during 2011.

"Communications must contribute to broad-based acceptance for the business we do in the society. This also involves establishing a fundamental understanding that a bank – like any other commercial enterprise – must be profitable in its business."

Sven H. Korndörffer, Corporate Communications

Sven H. Korndörffer, Managing Director
Corporate Communications

Questions regarding the viability of banks' business models are being raised, time and again, particularly in Germany. To what extent did you have to face such questions?
Junginger: This is a key topic for equity investors. Thanks to our positive business performance, having posted positive quarterly results on every occasion since the outbreak of the financial markets crisis, and given our very solid capitalisation, we can put forward very convincing arguments indeed. But as you know, the markets reflect expectations for the future. I am convinced that Aareal Bank's business model has built an excellent foundation for the bank to remain an attractive investment during the years ahead.

What makes you so certain?
Junginger: Our track record, our knowledge about the business, the generally positive outlook for the markets we cover – and not least the expertise of our staff.

Aareal Bank commenced repayment of the equity capital support provided by SoFFin in 2010 – the first German bank to do so, and so far the only one. What was the public reaction to this?
Korndörffer: This step was very well received by both the media and the capital markets. It is widely accepted across all relevant target groups that Aareal Bank has a special position amongst those institutions which received SoFFin funds. For us, drawing on SoFFin support was no emergency measure, but a precautionary one – a kind of insurance against market uncertainty following the collapse of Lehman Brothers. The fact that we already repaid a part of this cover – and have been the only bank so far to actually pay interest on the silent participation by SoFFin – provided us with further credibility in this respect.

What has been the success of the capital markets task force to date? Can you name any concrete examples where your close cooperation added value for Aareal Bank?
Diemer: Yes, indeed. We are coordinating numerous meetings and events with our target groups, which we attend jointly. This is a benefit for us as well as for our counterparts: seeing things from different perspectives, we can present the various issues even more precisely and vividly.
Junginger: One concrete example: Tammo Diemer and I jointly attended a road show for equity investors in London, where attention was focused on the bank's funding and asset / liability management. Of course, Dr Diemer has profound and detailed knowledge in this field – hence, our comments complemented each other. Accordingly, investor feedback to our joint visit was very positive, particularly regarding the transparency of our presentation.
Korndörffer: The ongoing exchange of information between our divisions helps us to keep an eye on all key issues. This means that we can respond quickly to new developments – particularly where topics are concerned that affect all three divisions. In this way, we are in an even better position to harmonise the various communication paths and target groups.

What are the communications challenges going forward? Where do you see the main issues for your area of responsibility?
Korndörffer: Our "post-crisis" communications strategies must be judged on the basis of their contribution to broad-based acceptance for the business we do in the society – as a single institution, and for the sector as a whole. In particular, this also involves establishing a fundamental, crisis-proof understanding as to what banks – like other commercial enterprises – must do today to hold their own in competition.
Diemer: During 2011, we believe that fixed-income investors will almost certainly focus on the question which segments of the securities markets will be regarded as reliable and successful investments in the future. In this context, the impetus will not only come from markets and investors, but also from regulatory authorities and from issuers' protection schemes.
If you take a moment to contemplate the events of the crisis, thinking about the weak points of individual business models, I believe there is one aspect to be learned in particular: for a bank to be successful, detailed knowledge about borrowers – and hence, credit risk exposure – is not sufficient; it also needs to maintain close contact with depositors and investors. Accordingly, actively maintaining such client relationships will account for a material part of our communications activities going forward.
Junginger: The right processing and dissemination of information is crucially important to us when trying to make sure that the share price adequately reflects the company value. Nowadays, generating value is no longer sufficient: it also needs to be communicated in an optimal manner. This has given rise to the concept of "value reporting", which has the primary objective of communicating the value of the enterprise – as opposed to the past, when simply publishing figures from external reporting was considered to be sufficient. Communicating enterprise value must be seen as an additional value driver. This is the communications policy Aareal Bank's Investor Relations team is committed to. More information reduces uncertainty, and hence risk for shareholders. Ultimately, a communications policy geared towards shareholder interests should support our share price.

Absolute performance of the Aareal Bank share (30 Dec 2009 - 30 Dec 2010)
(Euro)

Paths through the labyrinth

Wolf Lotter is co-founder and columnist of the business magazine ”Brand eins“

If asked the question ”what things are in scarce supply in our world?“, we come up with a lot of different answers. Obvious candidates include gold or oil, commodities in general, and of course – because tangible things have long since ceased to be the only important things – time.

And there is certainly something to all of these answers. Yet the rarest and most vitally necessary thing for people in this age of rapid transformation, in our global and complex world, usually does not come up when these sorts of questions are raised: maintaining an overview.

This important tool caused a sensation even in ancient times. The people of Crete were faced with a problem: there was a labyrinth that housed a half-human, half-bull creature known as the Minotaur. It constantly demanded human sacrifices. And the brave young men of Crete tried again and again to slay it. Yet one after the other, they lost their way and perished in the maze.

Until the Athenian Theseus arrived. As he wandered through the labyrinth, he left a thread behind him. It revealed which passages he had already taken. Anyone seeking to know where he is going must know where he came from. Theseus found the Minotaur, killed the beast and was celebrated as a hero.

This story has a lot to teach us today. It is about finding one's way in order to identify and master problems in a highly complex world. It is about confronting the seeming jumble of our day and age with knowledge, confidence and direction. A problem, once identified, is half as severe. Once visible, it is possible to think about how to resolve it. And, more often than not, this thought process gives rise to other perspectives.

We're drowning in information but are starved for knowledge.

We live in an age of transformation, of transition from the old industrial economy and society, to a new era called the age of knowledge. This is a challenging upheaval that is in full swing. The process of transformation we have seen over the past decades has made the world faster and more complex – whilst also making it more unpredictable for many. There are quite a few people that are afraid of the new era before us because they lack an overview. And many of their concerns sound exactly like those voiced 200 years ago when the world was changing from an agrarian economy to an industrial society. The world at the beginning of the industrial revolution – 200 years ago – was one in which nine out of ten people lived in the countryside. News was infrequent, and it took a long time for word to spread from cities to rural areas. Life's routines revolved around sunrise and sunset, and the seasons. A bell ringing in the church tower to mark noon was all that was needed. People kept to themselves. Proximity was the basis of every perspective. But despite what some people may think, these were anything but romantic times: beset with poverty and hunger; neither people nor the economy could really develop. Most people had no prospects at all.

Then the lens of our perception changed: the age of industrialisation arrived. The workday was divided down to the second. The number of specialists soared. Academic disciplines and sub-disciplines multiplied, with experts and even more specialists within the sub-areas. More and more information was needed to be able to get by. This development has yet to come to an end. Evermore precise details give rise to increasingly precise data – which can definitely be disconcerting.

In 1970 the American futurist Alvin Toffler published his book ”Future Shock“. In it he described the transition from the industrial age to the new knowledge society, via the ”detour“ of the information society. Toffler saw and thought in the wide angle. The central problem of our age, as Toffler pinpointed so incisively, was the information overload.

Toffler's colleague John Naisbitt put it astutely: ”We're drowning in information but are starved for knowledge.“ Phrased differently, we have not yet learned how to transform quantity into quality. A lot of information is just a rubbish heap of data that obstructs the long view.

What has happened since Toffler's observation? Since the 1980s, the amount of information available worldwide has doubled every four years. There are now oceans of computers, networks, mobile phones and storage devices of every kind. It's hard to find any sense of an overview, even in sub-areas. Three years ago, Google – the world's largest search engine platform – stopped disclosing the number of data searched by its algorithms.

And those who are more impressed with practice than statistics should ask themselves what happens when we misplace our mobile phones. These gadgets hold all our appointments, information and codes. What then? We feel almost as if we had lost our whole life.

And yet just a few years ago we thought quite differently. We mistook information for knowledge. Mistaking the labyrinth, so to speak, for the knowledge to get around in it.

In the flood of information, treacherous vortexes can develop that can easily pull us beneath the surface. And that is what we call a crisis. Numerous studies and insights indicate that crises do not arise from a lack of information, but are a consequence of an inflation of data and rules.

Some people recommend combating complexity by reducing the abundance of information. Slowing down and paring down have become popular refrains. Simply tear down the labyrinth if you cannot find your way. When nothing is left, we also gain a sort of overview, even if it is not the kind people should be pleased with. No complexity, no problems. It is a simple, indeed too simple formula. Never mind the fact that any attempt to turn back the wheel of time has always failed, we have to ask ourselves what we actually want to achieve. Ultimately, this plethora of information exists for good reason; there are many different ways to reach a goal. Wouldn't it be better to wrack our brains to figure out how to make better sense of this wonderful abundance?

The problem of complexity is like having the wrong focus on a camera. A complex world contains a wealth of detail. And so we attach the wide angle lens. But the picture turns out blurry. What adjustments can we make?

Knowing how to do just that is the key skill of the twenty-first century. People who can gain an overview and the right vision are the modern descendants of Theseus. How do these people think? Firstly, they do not go for ready-made solutions; they take other people seriously. They make other people's problems their own.

Yet transforming information into knowledge requires more than that: a very special something that makes the liquid flood of information stable and reliable. And this something has been out of fashion for some time, because people believed that they had found a series of substitutes to replace it. The stuff that makes an overview possible is called trust.

The stuff that makes an overview possible is called trust.

Trust, though it may sound a little starry-eyed and naive to some today, is one of the most pragmatic tools in a complex world. Why? Niklas Luhmann, the great German systems theorist, once described trust as the ”mechanism for reducing social complexity.“ Anyone seeking to control everything will drown in the sea of information, doomed to know nothing in the end. Those without trust will never gain an overview.

This is not a blind trust or naiveté, but well-earned trust, a state based on openness and transparency. These are the key ingredients for a better overview that allows us to identify where the different paths in the labyrinth lead.

Those who can shift their perspective in this way see more details. And clearly-defined contours. Let's put things into focus. There is still so much to discover in our pictures of the world.

Retail
The retail team examines new projects with regard to market potential through to the layout and focus of the shopping centre – the tenant mix must be tailored to suit the requirements of the target group.

Logistics
Our clients must bring experience and know-how with them. We attach great importance to proactive management and sustainable rentability of the properties.

Hotel
Our hotel financing activities are focused primarily on first-class hotels operated by well-known international providers in top locations in, North America Europe and Asia.

Specialists working for specialists – sector expertise across three continents

”Location, location, location“, the three classic criteria of property financing are no longer sufficient with regard to the financing of hotels, shopping centres and logistics properties. This is why the teams of experts from Aareal Bank’s Special Property Finance division, with their sound expertise in the special properties business, focus on current market activity whilst – at the same time – closely observing the trends that predict future market conditions.

”We are not satisfied with merely evaluating rental contracts and balance sheets. We want to have a precise understanding of the underlying properties, their potential and performance, as well as of the investor and his ability to manage and operate these types of property“ Christof Winkelmann, Managing Director and Head of Special Property Finance (SPF) stresses. ”We believe that expertise is the key to achieving long-term success in establishing and operating hotels, shopping centres and logistics centres around the world. This expertise is equally necessary with regard to financing.“ It is therefore logical to have a team of experts based at the Wiesbaden head office for each of these three types of property.

The hotel experts were the first team of specialists to start operating, back in 2000. Today, roughly half of the bank’s credit portfolio is accounted for by hotels, logistics and retail properties – SPF has therefore established itself as one of the company’s mainstays within ten years. The three sector teams are primarily acquisition units that promote the origination of new business. ”We benefit from our market expertise, our global network and the recommendations of our business partners, who not only appreciate the detailed know-how of our specialists, but also the consistent, ongoing and long-term approach adopted by Aareal Bank“, Christof Winkelmann explains. SPF is also continuously involved with Aareal Bank’s existing exposures, and contributes to portfolio management.

International experience is a standard

From the Wiesbaden head office, the hotel, retail and logistics teams operate across three continents. The teams process just short of one-third of the business in North America, almost two thirds in Europe, with individual projects in Asia making up the balance. ”We view the business as a global operation. We identify the countries that are the most attractive at present, where the market cycle for new business offers potential for success. We then support the investors accordingly“, states Christof Winkelmann. International experience is standard practice at SPF. ”All team members are multilingual; they have accumulated international experience and many come from different countries“, the Head of Division explains. In his view, openness to other cultures is a key qualification, since most of the bankers (who often carry experience in other fields such as the legal profession, valuations or engineering) have dealings with borrowers from many different countries. For example, they might be required to set up sharia-compliant financing solutions across several countries for business partners, if necessary. The Wiesbaden-

Christof Winkelmann, Managing Director and Head of Special Property Finance, graduated in the USA and Switzerland. In the course of his career, he has worked for hotel companies and banks, as an advisor in the US, Switzerland, Germany and Mauritius. He joined Aareal Bank in 2000.

based specialists cooperate closely with their colleagues located outside of Germany when initiating and implementing projects: "We offer sector expertise, whilst the colleagues on the ground contribute local knowledge. On the basis of their experience, they estimate for example, the level of rent that can be achieved on a property and its utilisation. They also know at which stage the country, the city and the special property in question are at in the economic cycle. The same approach is adopted vice-versa for financings of special properties acquired by the local branches."

SPF's clients are drawn predominantly from private and institutional investors that have specialised in hotels, retail or logistics centres and are active in several countries. These investors benefit most from the bank's international focus, since most other providers are not in a position to finance a portfolio of, for example, 28 properties in nine different countries.

Christof Winkelmann sees the sector-specific organisation as a real unique selling point for Aareal Bank: "Our internationally active clients do not want to change contacts for every individual country. A client may call us on Monday about a property in the UK. We might be talking about Italy on Tuesday and Spain on Wednesday – he will not only deal with the same contact person throughout but also with somebody who is thoroughly familiar with the particular features of the special type of property." Professional investors appreciate the bank's reliability, and the continuity of its business policy. "Leveraging our experts' know-how, we have confidence in our ability to finance properties in these segments – before, during and after a crisis. But when markets are at the peak of the economic cycle, this is not necessarily the best time to arrange a financing. This is why we will not just finance any object, at any LTV ratio, at any time."

Hotels: a demanding property class

Roughly 20 % of the bank's credit portfolio is accounted for at present by hotel projects. "We mainly finance existing properties", explains Bettina Graef, Head of the Hotel Properties team. The majority of current projects are in the luxury segment, and are located in major cities and metropolises worldwide. Today, Aareal Bank is viewed as one of the leading providers of hotel finance.

Of the three SPF teams, the hotel specialists have to manage the highest level of volatility: Aareal Bank mainly finances hotels run under management agreements. Annual income can fluctuate significantly especially in relation to a management agreement, since no fixed rent is agreed and the return on the investment is directly linked to the hotel's revenue. Hotel financings are usually structured for five years, so that

the hotel experts have to forecast the various influencing factors as precisely as possible. Besides the pure utilisation and average return per room, these include the costs per euro revenue that are common for the market at hand, or the adequate level of reserves for repairs and maintenance, insurance costs and marketing budgets. Not to forget the economy: "You could say that hotel revenues fluctuate in line with the global economy", explains the team leader.

Conservative approach

When preparing a lending decision, hotel financiers first of all analyse the fundamental data. There must be sufficient travel business at the location in question – the "feeder" business must be analysed in detail. Locations hosting popular trade shows have an obvious advantage, for example. Nonetheless, the experts make precise calculations: "In Düsseldorf, for example, many trade fairs are held on a two or three year basis." Bettina Graef explained. "These cycles overlap, so few events in one year are followed by two major trade fairs in the next. We must structure the financing in such a way that the loan can also be serviced during a trough, as opposed to an exposure financed on the basis of assumptions made during a cyclical high." "Know your business" is thus a key motto in Aareal Bank's hotel financing business.

Numerous other factors are also taken into consideration within the scope of making financing decisions. The attraction of the property plays a role as well as the local market situation: what other hotels are there already? What is planned or undergoing construction? Investors and operators should prove their understanding of the hotel business. The client base comprises mostly international investors, some of whom have been working with Aareal Bank for many years. "We are clearly focused on clients that have asset management abilities and many years investment experience", Bettina Graef says. "Investors must be aware of the fact that they must set aside reserves during the good times, to cover for bad times and to offset volatility in this property class."

The sector experience of SPF staff guarantees sound forecasting and careful portfolio monitoring. Within the scope of the annual review, the hotel team examines – amongst other things – the current level of hotel revenue as well as the figures disclosed by the client, and reviews compliance with the loan agreement. "Our colleagues are very well acquainted with the industry through the experience gained from their activities as hotel advisors and surveyors. Some of them have worked directly in the industry as part of their training",

As Head of Hotel Properties, Bettina Graef manages the expert team for hotel financing solutions. Having graduated from the Business School of Hospitality Management in Lausanne, she worked in New York as a hotel advisor and valuer. She has worked for Aareal Bank at an international level since 2003.

adds Bettina Graef. "Our network operates across three continents; besides generating new business, it also serves as an important source of information about trends and current market conditions." The team members come from Switzerland, the Netherlands, Belgium, Denmark and Germany: the team reflects the international profile of the hotel business.

Retail: high demands placed on centre management

Shoppers strolling through a shopping centre on a Saturday morning will hardly be aware of the accumulated know-how that is necessary to arrive at a successful choice of location and for an attractive shopping centre. Klaus Severin Schöttmer, Head of the Retail Properties and Logistics Properties team explains: "Customers shop where they can satisfy their needs and where they feel comfortable. Customer satisfaction is the key to a shopping centre's success." With this philosophy in mind, the SPF retail team examines new projects with regard to the fundamental market potential through to the centre's layout and focus: "The tenant mix is vital for a centre's existence; it must be suited to the market environment and the centre's target group, and requires constant adjustment. The position of the anchor tenants and optimum tailoring of the layout represent the basis for good footfall in all parts of the property."

Retail properties account for just short of one-quarter of Aareal Bank's lending volume, most of which comprise shopping centres and specialist retail centres around the world. There are many different financing structures, ranging from individual properties to larger portfolios on a domestic and international level. Especially in established markets, the focus is on revitalising or optimising existing properties. Overall, Klaus Severin Schöttmer sees great potential for high-quality centres.

The SPF industry experts support international investors and developers worldwide that operate in the retail segment and wish to have a central contact who covers all countries. "Bearing in mind that shopping centres are managed properties, the shopping centre expertise of our clients is a fundamental prerequisite", says the retail expert.

A shopping centre requires continuous modification, to meet the changes in market and consumer behaviour, and trends must be taken into consideration at an early stage. This also applies to local management. "We expect every centre to have an experienced and active centre management." Klaus Severin Schöttmer explained. "This management team must assist tenants in their endeavours to boost sales. Only if tenants generate good sales and at least earn their rent can a shopping centre achieve sustainable economic success."

Analysis of purchasing power and business trends

Prior to approving a loan, the experts examine the framework of the project just as intensively as the layout of the property and its micro location. Key factors are the trading volume the property might potentially achieve and the competitive environment. Furthermore, the retail team's historical experience gained from being involved in various financing solutions worldwide forms a key part of the analysis. This enables the team to ensure the centre is well positioned to face future competition, especially in the emerging markets.

As a financier with a long-term perspective, Aareal Bank also closely follows developments in the retail trade. In order to keep the finger on the pulse of this sector of the economy, the Aareal Bank experts invest great energy in their networks; the retail team is actively involved in the International Council of Shopping Centers (ICSC), a global industry association.

Logistics: short terms, long-term success

Roughly 10 % of Aareal Bank's loan portfolio is invested in logistics properties such as warehouses and distribution facilities, which meet the users' various requirements for instance, volume, available floor space and truck ramps. Services agreements in the logistics industry usually have a short duration of a few years only, since product cycles are becoming increasingly short and must be renegotiated when they end. Accordingly, logistics services providers are keen to conclude rental agreements for the properties that match the terms of their logistics service provider contracts. For this reason, Aareal Bank places high demands on the property and on its clients. Klaus Severin Schöttmer explains: "The property must allow for multiple purposes with regard to its features and location – this extends the group of potential users and makes it easy to find new tenants. We also generally finance larger portfolios, some of which are cross-border, with a diversified tenant and location profile, to further minimise the risk of rental payment defaults."

Logistics properties are hubs for the global flow of goods. Accordingly, the specialist team is made up of many nationalities: SPF's logistics experts come from Germany, France, the Netherlands, the UK and the US. Its clients are specialised, professional investors and developers that invest worldwide and have a strong business network. "It is crucially important that our property clients understand the underlying business – the logistics industry. Good management is fundamental for the property to achieve a sustainably good performance", Klaus Severin Schöttmer states. Experience and know-how are therefore vital for the clients. "We attach great importance to proactive management, and to property investors that know and address the needs of their tenants."

Klaus Severin Schöttmer is Director of Special Property Finance, and the Head of the Logistics Properties and Retail Properties departments. In addition to his degree in construction engineering, he graduated in business studies in Australia. He has held various positions at an international level in the bank since 2002.

Global, national and regional movement of goods

Good logistics properties with a high degree of third-party usability can be rented at any time; in addition to management skills, this is the foundation for a sustainable performance and the long-term value of the property. The logistics team therefore pays attention to a whole series of parameters within the scope of the assessment: if the property has a variety of uses, can it be subdivided? What is the maximum permissible floor load and ceiling height in the individual sections?

Besides various building specifications that define a multi-functional warehouse, the location is the most important criterion for the property to generate sustainable growth. "We carefully pursue the trend in relation to the movement of goods, production and distribution networks", Klaus Severin Schöttmer explains. This is most evident when looking at the changes to distribution networks over recent years. There has been a shift in purchasing power and production sites within the scope of EU enlargement: "A logistics location that is suitable on a permanent basis should be utilised equally for international, national and regional warehousing concepts." The SPF experts pay attention to short distances to the nearest port or major airport, and to the neighbouring conurbations. Such locations are suitable for the networks of different users, and are therefore the vital factor for the long-term rentability of the property.

Trust breeds long-standing partnerships

Christof Winkelmann emphasises: "We believe in long-standing client relationships. We have worked with a lot of our partners for many years around the world, during boom as well as in weaker phases." As a result, the clients and the bank are well-acquainted with each other and build on long-standing business relationships.

"We have weathered the crisis very well to date in all three sectors – hotel, retail and logistics. Our sector-specific approach has paid off and allows us to recognise trends at an early stage in the future, too and to implement these successfully for the benefit of Aareal Bank."

"A home for all stages in life" – the Joseph Foundation, a church housing organisation in Bamberg-Gaustadt, Bavaria, Germany

More efficiency in the institutional housing industry

Automated electronic payments are a real "process booster", in the institutional housing industry as well as in commercial property management. In this business, we combine technical know-how with sector-specific expertise, to provide market-leading products and services.

Aareal Bank's range of products and services for the institutional housing industry and the commercial property management sector comprises payments services, consultancy, and investments. BK 01, our core product in payments services provides for extensive automation of mass payments. Moreover, the software optimises the time and cost involved in day-to-day downstream processes. Our recipe for success with BK 01 is in combining two of our core areas of expertise. First of all, we apply our traditional banking expertise: more specifically, we provide an efficient, modern accounts system, together with user-friendly functionality that allows the processing of payments quickly, safely, and transparently.

In addition, we have a vast experience in the institutional housing industry, amassed over many years: we know our clients' processes and requirements. By combining these skills and experience, we create specific products customised to the needs of our clients' industry, creating significant added value.

The results speak for themselves. More than 2,700 clients already employ BK 01 to optimise their payments processes. It is worth noting that implementing the software does not require any costly projects: we integrate our product into our clients' systems – via a customised standard application.

Added value for clients

So how does BK 01 work, and what benefits does it bring to our clients? Housing enterprises handle various cash flows for the residential units they manage, such as incoming rental payments and ancillary costs. Each payment involves numerous individual processing steps. Without BK 01, enterprises have to carry out a significant volume of manual accounting entries and controls. BK 01 runs these processes electronically, fully automated, thus all but removing the need for manual processing. We assign virtual account numbers to each housing enterprise, with each account number assigned to a specific tenant. On this basis, the BK 01 user software automatically allocates incoming payments to the correct account, settling pending items. This makes it possible to achieve an allocation ratio of up to 100 % for incoming bank transfers – which are particularly prone to errors when using other methods based on the payment reference – and direct debits. In this way, we can help our clients to significantly reduce their error ratio and the resulting administrative efforts. Client satisfaction is thus enhanced, due to the enormous savings of time and resources, and improved loyalty of the housing enterprise's customers.

Seen in isolation, the virtual account number functionality and the related improvements in account allocation are not the key unique selling point of the BK 01 procedure. What is decisive is the extent to which we automate all payments-related processes in the enterprise's software environment:

Correspondence in the event of tenant changes: Once an account number has been assigned to a rental contract, the system will automatically create a letter to the new tenant containing all necessary data. BK 01 will initiate an automated reminder process if an incoming payment is missed.

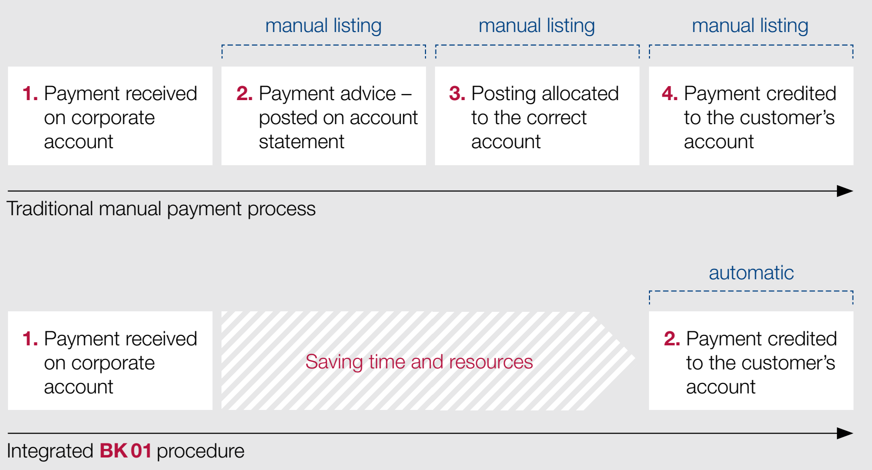
Deposit management: If a tenant leaves, and a staff member of the housing enterprise records the contract end in the software, the system will automatically generate the final invoice, and will transfer the deposit pledged with Aareal Bank (including interest) to the exiting tenant.

Outgoing payments: The BK 01 allocation algorithms also work in the opposite direction – for example, if a utility collects down payments for electricity from the housing enterprise, by way of direct debit. Such down payments will then be allocated and charged to individual tenants, using the customised BK 01 account numbers.

Clearly, these automated processes go way beyond a pure payments system, generating significant added value for our clients.

From our clients' perspective, their accounting system and the services provided by their bank form an integrated offer. We have made this easy for our clients: BK 01 is already fully integrated into the applications of leading providers of specific housing industry software solutions – including market leader Aareon AG, a wholly-owned subsidiary of Aareal Bank. The unique allocation of users allows for efficient downstream processing.

Standards for the automation of individual processes



Haus Allmeind, a multi-generation housing project in Regensburg-Burgweinting, Bavaria, Germany

Aareal Bank's housing industry experts and banking specialists cooperate in the continuous development of the BK 01 product, leveraging the expertise of both areas. Cooperation partnerships with leading industry software providers – such as SAP – ensure that ongoing developments of BK 01 procedures are harmonised with the release planning of the providers concerned. This facilitates planning for users.

The results speak for themselves. The quality of our products and services in this business goes back as far as the late 1950s, when we first started working on these solutions. The positive performance demonstrated by BK 01 as a core product is evident in more than 100 million client postings per year which are handled by our bank's account system: direct debits, transfers and payments for more than seven million residential units across Germany. Housing enterprises and cooperatives, third-party administrators, asset and property managers, and – since a few years back – energy utilities use the benefits available to them: more efficiency in their day-to-day work, more data transparency, time and cost savings – all with a secure investment.

Widening the view – establishing perspectives across borders

Aareon AG is focusing its international business activities on key strategic markets. Cross-border cooperation within the Aareon Group has been creating new business concepts, with a steady optimisation of products and services.

No matter how mobile modern life has become – thanks to globalisation and digitalisation – living has remained local. Residential property markets are thus local or regional, with each market functioning according to its very specific set of rules. Nonetheless, internationally the processes of commercial housing enterprises are similar in many aspects. Efficient administration and services designed to meet customers' needs are success factors in the institutional housing industry – in Germany and abroad.

International collaboration

As a leading consultancy and IT systems house for the German property sector, Aareon AG uses these principles for its systems and services. 70 % of Aareon's workforce are employed in its German home market, at ten office locations; in addition, Aareon Group has active subsidiaries in France, the UK and the Netherlands, where the company helps local property companies to better achieve their business objectives. As an IT services partner to the property sector, Aareon optimises processes and supports its clients in their drive to lower costs and explore new sources of income.

Aareon France is a good example for how successful Aareon Group entities are exploiting their joint know-how, boosting the Group's international business. More than two million residential units are currently managed using the French subsidiary's systems. One of its most important new clients is Logement Français Group, one of the leading names in French social housing. The company is looking to enhance the effectiveness of its property management platform, and to reduce the costs of its business processes.

For its corporate planning and management, Logement Français – managing more than 70,000 residential units – place their trust in Aareon France's ERP (enterprise resource planning) application PortalImmo Habitat 2.0. This new product generation was built following Aareon's takeover of the French company Sylogis.com in 2008, through a joint effort to develop existing systems and to network individual software modules. The platform is vivid proof of the technological and business advantages created by combining the two companies.

Securing client loyalty through professional dialogue

Aareon Group's entities cooperate closely on an international scale. Experts within the Group actively and regularly exchange experience and ideas – regarding new business models, technologies and developments, or with respect to collaboration with partners. Aareon passes on this intelligence to its clients – for example, at the annual Aareon Congress held in Garmisch-Partenkirchen, Bavaria, Germany. In 2010, this event – the largest of its kind for the German property management sector – took place for the twentieth consecutive year. Under the theme of a "turning point", high-calibre industry experts from business, science and politics convened once again to discuss current market developments, exchanging views with congress attendants.

Aareon France also hosted a client conference in 2010, to enhance the exchange of knowledge within the marketplace: industry representatives convened at the Hôtel des Invalides, in the heart of Paris. Workshops held with cooperation partners dealt with topics such as enhanced process integration for water consumption reading and invoicing, automated invoicing, and integrated complaints management. Aareal France used the occasion to present its latest product generations, providing an outlook on further developments and related strategic perspectives.

Exploiting market niches through technological transfer

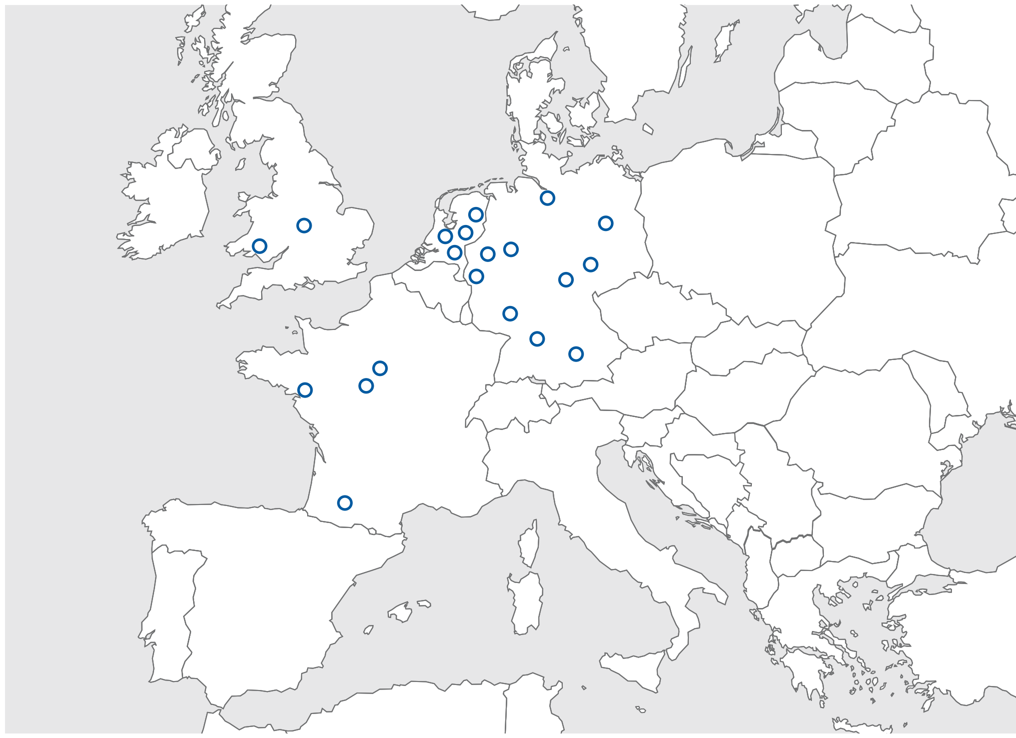
Congresses and similar events frequently raise issues which allow businesses to benefit from cross-border collaboration. This was once again evident at the end of September 2010, when the Congrès de l'Union sociale pour l'Habitat was held. Aareon France was present with a booth at this conference, which was hosted by the French equivalent to the Federation of German Housing Enterprises (GdW). The key topic at the event was the introduction of consumption-based invoicing for heating costs – something which to date has not been common in the French market. In Germany, in cooperation with energy suppliers, Aareon offers an invoicing function for heating and operating costs that is integrated into Aareon's ERP systems. French clients are thus in a position to benefit from the know-how accumulated by Aareon from a variety of user scenarios. Experience gained on the international markets will in turn benefit the German home market. Most recently, this was demonstrated by the "info monitor" for the new Wodis Sigma ERP product generation, as presented at the 2010 Wodis Forum: originally developed by Aareon France, the info monitor is used in property management to monitor configurable parameters via automatic notifications sent to system users. These notifications are distributed by e-mail or text messages, and can thus be received on mobile devices such as smartphones – relieving users from control tasks and enhancing transparency.

Aareon AG in Europe

Aareon France, headquartered in Meudon-la-Forêt, employs 140 staff at four locations. Approximately 250 clients – with more than 25,000 users – are working with Aareon France's systems.

Aareon UK has its headquarters in Coventry. A total of 50 employees work there, as well as at a second site in Swansea, Wales. The company currently has 95 clients, consisting predominantly of social housing enterprises and local authorities.

In the **Netherlands, Aareon AG** took over SG|automatisering bv with effect from 1 November 2010. The company's headquarters is in Emmen, with additional locations in Son en Breugel (near Eindhoven), Enschede and Leusden. It is the second-largest provider of IT solutions to the institutional housing industry in the Netherlands: currently, the company has approx. 200 customers and employs around 170 staff.



Aareon Group Locations
- Germany: Berlin, Dortmund, Erfurt, Hamburg, Hückelhoven, Leipzig, Mainz, Munich, Oberhausen, Stuttgart
- France: Meudon-la-Forêt, Nantes, Orléans, Toulouse
- United Kingdom: Coventry, Swansea
- The Netherlands: Emmen, Enschede, Leusden, Son en Breugel

Expansion across Europe

Aareon's growth is not limited to the German and French markets, however. As Europe's leading consultancy and IT systems house for the property sector, the company operates from 20 locations. In its international business, Aareon's focus when acquiring businesses is on markets which have a relevant volume, and on companies commanding a major position on their respective home market.

Within the framework of this strategy, Aareon acquired 100 per cent of the capital of Dutch SG|automatisering bv, based in Emmen. The takeover of this strong national market player has definitively expanded Aareon's leading European market position. As the second-largest provider of innovative IT solutions to the Dutch institutional housing industry, SG|automatisering has grown steadily over recent years. Going forward, the existing management team will adhere to its successful strategy – now from within Aareon Group. The company will leverage joint skills and expertise in Aareon Group for the continued development of its product range offered to clients in the Netherlands – who responded very well to news of the acquisition.

Networks
Networking is the key part of the work we do. It is vital to being able to excel on an international level.

From experts to experts
Our employees share their knowledge with their colleagues. We promote extensive interdisciplinary discourse.

International exchange
Engaging in the work of our local teams is an important way for our employees to enrich their range of experience.

Using dialogue to achieve more – from experts to experts

Expertise is a key success factor in business. Aareal Bank supports its employees to forge their career paths with targeted and practice-relevant measures.

Training is not a one-size-fits-all concept that can be prescribed. Both employees and the company need to contribute, to ensure that career development suits each employee and his or her respective tasks. As part of personnel development, Aareal Bank offers its employees a variety of career development measures in both business segments and thus fosters a culture of life-long learning. Above all, this means that employees themselves are motivated to learn.

Ulrike Gutzen believes expanding her knowledge base is an integral part of her work. As Director of Credit Management at Aareal Bank, she oversees large-volume loans in the UK and the Netherlands. That requires a wide variety of different skills. Not only does the manager need banking expertise, she also has to stay up-to-date on everything that is happening in her target markets. ”For me, being curious and alert – in terms of both my specialities and my colleagues in other departments and countries – is part of the wide angle that I need for my job“, the 45-year-old manager says. It is an idea that she puts into practice; last year she traded in her position in Wiesbaden to work with her Credit Management colleagues in Rome for 14 days. She quickly found a connection between the two: in Wiesbaden, Ulrike Gutzen covers the UK business of a company that is also active in Italy. Her work in Rome not only helped her gain a better understanding of the particularities of the Italian market, it also broadened her knowledge about her client.

Staying on the ball, leveraging international networks

This sort of exchange is by no means a one-way street. To the contrary, employees from Aareal Bank's international offices join Credit Management in Wiesbaden on a regular basis. ”We think of ourselves as a sort of educational support base, because we regularly help people who work with us,“ Ulrike Gutzen states. Her colleagues can learn from her: ”Practices on the Anglo-Saxon market repeatedly set standards for our business,“ explains the UK market expert. Dealing with that is precisely what her day-to-day job entails.

And of course, new employees at the Wiesbaden Head Office also find out about the particular characteristics of Aareal Bank; their colleagues are not far away from them, neither spatially nor personally. Networking is natural and simple. It is not necessary to convene a big meeting to consult other experts; colleagues exchange ideas informally over lunch in the staff restaurant. ”I believe our mid-sized structure is a tremendous asset to our bank,“ Ulrike Gutzen says. ”It allows a lot of issues to be clarified quickly and simply.“

There is no substitute for hands-on experience

The manager never ceases to be impressed that this sort of collaboration works so well on an international level. ”Over the last few years, we've been exchanging ideas with one another more extensively. It's always to our advantage,“ she contends. Employees from roughly 30 different countries


Ulrike Gutzen, Director Credit Management

work in Wiesbaden alone. In addition to cultural aspects, teamwork is also about sharing knowledge when employees rotate positions through other departments and countries. "Every bank has its own processes," the finance expert knows first-hand from the experiences she has gathered at other financial institutions. "Who needs to be consulted for what decision, when to involve the valuation department, and when different types of information need to be entered into our SAP system – these are the important standards that our colleagues at international subsidiaries need to be aware of as well." Practical experience is the key to learning. "In our business there is no substitute for hands-on experience, not even the best seminar," the banker with a vocational training as a banker remarks. She is equally clear about the need to have a sound theoretical and scientific background. Not only did she study at the German Bank Academy, the professional academy of the German banking sector, in parallel to her job – she also completed her studies in financial economics at European Business School in Wiesbaden, to become a Certified Financial Planner. Her membership to the German Financial Planning Standards Board requires regular continuing education.

The practice-oriented training that Ulrike Gutzen pursues is a good example of the work and employee-based approach of Aareal Bank's personnel development. It follows the Aareal Academy maxim: "We continuously invest directly in our staff, to develop our technical, business and communications expertise for the long term. We foster international collaboration and strengthen teamwork. We support our employees with targeted measures that cultivate their professional and interpersonal skills."

From experts for experts

The central focus is always on employees and personal initiative. It is not Aareal Bank's top priority that a central body provides training; first and foremost, employees must be personally committed to developing themselves and their colleagues. Human Resources provides an organisational platform for doing so.

One very concrete example is the "From experts for experts" seminar series. Norbert Herrmann is Director of Sales Management, and oversees new business in the Structured Property Financing segment as well as research. Along with his colleague Nicole Schaffelder, who is responsible for loan syndication, he conducted the first seminar in this series. Under the light-hearted title "From an Italian holiday to the bank's capital backing", the two colleagues presented a clear overview of how developments and parameters in the economy influence the property sector and impact the bank's management systems. More than 60 of their colleagues – experts from different business segments with a wide range of different responsibilities – participated in the event. Risk Control staff, for example, discussed the subject of the presentation with employees from Human Resources, the Legal department and Credit Management. Feedback was so resoundingly positive that Aareal Bank decided to continue the seminar series in 2011.

Networking matters

Norbert Herrmann believes that networking deserves special attention in the seminar series. "There are a lot of interconnected issues that pop up where a specialist may want to consult other specialists, to draw upon their knowledge," the 42 year old says. "Aareal Bank's mid-sized structure simplifies maintaining open communication lines to other experts. It makes it much easier to access their expertise and involve them when new or special issues arise."

Employees do not make it far within Aareal Bank with specialist knowledge alone. The experts that work here are not groomed to understand and work with just one limited area. It is important to the bank that experts contribute the full extent of their specialist knowledge to the company, and the best way for them to do so is to always look beyond their immediate purview. For specialists' career development, this means both expanding the depth of their knowledge in professional seminars, and enhancing their soft skills in seminar series that have been developed especially for experts, such as "Fit for Responsibility". Interpersonal skills are particularly important in working together with colleagues. "In order to ensure high-quality teamwork, specialist knowledge alone doesn't suffice," Norbert Herrmann emphasises. "I also need to be able to win over colleagues as a person."

> "For me, being curious and alert – in terms of both my specialities and my colleagues in other departments and countries – is part of the wide angle that I need for my job,"
> Ulrike Gutzen

Expert career path is well-supported

"With its expert career path, the bank offers its employees with analytical skills a good opportunity to develop themselves and advance their careers. This is one way that the bank distinguishes itself from other companies in the sector," the economist bases his praise on his own experience. A process for identifying individual potential supported him in finding the right track. He is currently applying his analytical and economic expertise by acting as an interface point in managing new business; he works with many different divisions at the Head Office and also serves as a contact for his colleagues at branches and representative offices throughout Germany and the rest of the world.

Tailor-made education
"Certified Property Manager"

As the prime banking partner and IT service provider for the institutional housing industry, Aareal Bank Group primarily employs staff with an educational background in business administration and information technology. In order to ensure that specialist knowledge about Aareal Bank's target markets is relayed in a practice-oriented and theoretically well-founded manner, Aareon AG collaborated with the Hochschule für Wirtschaft und Umwelt Nürtingen-Geislingen (HfWU) to develop a professional course of studies to become a "Certified Property Manager (HfWU)". Aareon, a subsidiary of Aareal Bank Group, supports this technical institute.

As part of this close cooperation with the institute, Professor Dr Hansjörg Bach, HfWU's prorector, laid out the most important areas of expertise and qualification as well as the subject matter of the continuing education courses. The subjects range from the historical development of the German institutional housing industry, with its various company formations, to rent law, the administration of residential property, controlling and facility management to project development.
The lecturers include technical institute instructors and professionals from the housing sector. Following the success of the first two groups, members of the third will begin expanding their knowledge of their specific areas of expertise in summer 2011.

Norbert Herrmann, Director Sales Management

”Aareal Bank’s mid-sized structure simplifies maintaining open communication lines to other experts. It makes it much easier to access their expertise and involve them when new or special issues arise.“ Norbert Herrmann

Norbert Herrmann believes that it makes sense for development to depend on employees’ personal initiative. ”Ongoing training is an especially difficult issue for experts. There aren’t very many institutions that cater to our specialities and can provide us with new information,“ he explains. That is why he likes the ”From Experts for Experts“ seminar series so much; it represents a very simple way that Aareal Bank uses its own resources to relay specialist knowledge. His seminar’s success not only motivated him to continue his work as a speaker, it also inspired other colleagues to use the seminar series as a platform to share their knowledge. This is one way for experts to help other experts widen their perspective and gain an even better understanding of banking within its complex environment.

Striking the right work-life balance, to benefit families

Being family friendly is an integrated part of Aareal Bank’s human resources policy. We actively support our staff in harmonising their career and family lives, through a number of initiatives:

- **Flexible worktime schemes** take the needs of families into account. Long-term accounts offer flexibility to accumulate time, to take time off for the family when needed, or to do some work at home.
- Thanks to our support of the **”Fit For Family Care“ crèche,** young parents can return to their jobs earlier. Long opening times, and its convenient location close to the bank make this institution a very attractive cooperation partner for us.
- Through a **cooperation with the City of Wiesbaden,** our employees’ children aged 6 to 15 can be looked after during their school holidays.

In particular, these measures are designed to support our female staff members to strike a better balance between their career and family life: this applies both to our female executives and to women looking to embark upon a management career path. This also fulfils a prerequisite for the share of women in executive positions to increase further, from its current level above 23 %.

Aareal Bank Group

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Dear shareholders, business associates and Aareal Bank staff,

Aareal Bank Group once again performed well during the 2010 financial year, in an environment that remained challenging. We posted markedly higher results, further expanded our market position, and see good potential for maintaining the positive trend.

Following the deep global recession, the recovery which commenced at the end of 2009 continued during 2010 in most economies, even though the upswing lost some of its momentum during the second half of the year. Overall, economic developments became increasingly diverse between regions, particularly in the euro zone economies. 2010 was characterised by a debate regarding the future of the euro, which commenced in the Spring, and by a sovereign debt crisis affecting some euro zone countries. This led to increasing stress and renewed high volatility on the financial markets during the second half of the year. Hence, at the end of 2010, talk of a return to normal conditions on the financial markets was still premature. Important aspects affecting the euro stability pact were not resolved during 2010. Moreover, the banking sector was strongly influenced by discussions regarding planned reforms in the financial services industry – specifically, regarding regulation, levies, and supervision. Particular attention was paid to the aggregate impact of such plans on banks and the real economy, as well as to how their implementation can be harmonised internationally, to prevent competitive disadvantages.

In the wake of economic recovery, confidence started returning to international property markets as well during the year under review. Some markets showed signs of bottoming out, with property values even rising slightly in some segments. Not all markets were able to benefit from economic recovery, though, as values in some areas remained low, or even showed slight declines. Transaction volumes clearly increased over 2009, albeit still at a low level overall. Altogether, these developments affirmed Aareal Bank's cautiously optimistic market view.

In this challenging environment during the 2010 financial year, the two strong pillars of our business model – Structured Property Financing, and Consulting / Services to the institutional housing industry – have once again proven themselves. At € 134 million, consolidated operating profit was up € 47 million (or 54 %) year-on-year: this meant that we already achieved our target of exceeding the previous year's result of € 87 million after the first three quarters of 2010. We maintained this positive performance during the final quarter. Aareal Bank Group also significantly exceeded its forecasts of other key performance indicators for the full year 2010. The results posted for the financial year under review once again provide clear evidence of Aareal Bank Group's strong operating performance. We consistently adhered to our strategic direction; this allowed us to further secure our position as one of the leading providers in the markets we cover.

Structured Property Financing: growing new business and decreasing risk costs

Aareal Bank Group believes that its pursuit of a sustainable, prudent and conservative business policy in the Structured Property Financing segment has once again been confirmed as the correct approach during 2010. Against the background of economic developments, improvements on some key commercial property markets, as well as increased transaction volumes, we markedly increased new business compared with the previous year – without compromising our selective stance with a strict focus on quality and on an adequate relationship between risk and return.

As in the previous years, we successfully continued our three-continent strategy, comprising business operations across Europe, North America and Asia. In the wake of the improving market situation, we consider the combination of this strategy with our medium-sized company structure as a major advantage: this allows Aareal Bank to quickly respond to market developments, effectively exploiting opportunities for attractive new business.

The volume of new business generated rose to € 6.7 billion during the 2010 financial year, compared to € 3.8 billion in the previous year. The share of loan renewals continued to decline year-on-year. We thus clearly exceeded the target corridor for new business of between € 4 billion and € 5 billion which we had forecast for 2010.

Net interest income in the Structured Property Financing segment for the financial year under review amounted to € 467 million. The increase over the previous year's figure of € 410 million was largely due to an increase of average interest margins achieved in the lending business, due to higher margins generated on new business and renewals concluded during 2009 and 2010, compared with previous years.

At € 105 million (2009: € 150 million), allowance for credit losses was markedly lower, once again reflecting the very high quality of Aareal Bank Group's credit portfolio. A non-recurring expense of € 20 million was recognised for the realignment of an investment property during the financial year under review. This expense was reflected in the results from investment properties, which amounted to € -17 million during the financial year (2009: € 0 million).

At € 108 million, operating profit in the Structured Property Financing segment was significantly up year-on-year (2009: € 67 million), in spite of the business environment remaining challenging.

Consulting / Services: good performance maintained despite an unfavourable interest rate environment

The Consulting / Services segment successfully confirmed its role as the second strong pillar in Aareal Bank Group's business model during the year under review, despite the fact that market conditions remained difficult, particularly for the deposit-taking business. Despite continued intense competition for client deposits and interest rate levels remaining at historic lows for long periods during the course of the year, the volume of deposits from the institutional housing industry slightly increased during the 2010 financial year, averaging € 4.1 billion. This reflects the long-standing, intensive and trusting cooperation with our clients in the German institutional housing industry.

Aareal Bank further expanded its market position in banking services provided to the industry, acquiring more than 80 new clients for payments and deposit-taking from the institutional housing industry, managing between them more than 150,000 residential units. This brings the number of business partners using our process-optimising products and banking services to more than 2,700.

Our subsidiary Aareon AG continued to develop on schedule during the year under review, maintaining the focus of its international business activities on those markets considered to be strategically relevant. Aareon acquired SG|automatisering bv, based in Emmen, Netherlands, effective 1 November 2010. With this takeover, Aareon expanded its international business to cover the important Dutch market, thereby expanding its European market position. In the context of focusing its international business on relevant sub-markets, Aareon sold its shares in Aareon Italia s.r.l. with effect from 30 September 2010. The Wodis Sigma product line, launched in 2009, continued to develop favourably: Aareon continued its successful market performance, winning 115 additional clients for this new product line during the financial year under review.

Overall, operating profit generated by the Consulting / Services segment amounted to € 26 million in the 2010 financial year, in line with the adjusted figures for the previous year. Taking the unfavourable market conditions for deposit-taking into consideration, this was a satisfactory result.

Successful issuance and solid capitalisation

During the 2010 financial year, Aareal Bank successfully implemented its planned funding activities, in a market environment that continued to be difficult, especially for unsecured issues. Overall, Aareal Bank placed € 1.5 billion in unsecured issues – a testament to the trust that investors continue to place in Aareal Bank and its management. Pfandbriefe – German covered bonds – continue to play an important role in Aareal Bank's funding strategy, and during 2010 we placed Pfandbrief issues totalling € 2.4 billion. In a market environment that was burdened by prevailing uncertainty, predominantly in the wake of the debt crisis, Pfandbrief issues once again proved to be a reliable source of funding, and will thus remain a key component of our funding activities in the future.

In addition, Aareal Bank opted to draw on the remaining € 2 billion available under the guarantee facility provided by the German Financial Markets Stabilisation Fund (SoFFin) in June 2010. This measure was purely precautionary, and the bank continues to hold the bond issued under the guarantee on its own books.

Aareal Bank has a solid capital base. With retroactive effect from 31 December 2010, the bank has applied the Advanced Internal Ratings-Based Approach (AIRBA) to determine capital requirements, in lieu of the Credit Risk Standard Approach (CRSA) that was previously applicable. Aareal Bank's Tier 1 ratio under the AIRBA as at 31 December 2010 was 12.9 %, compared with a Tier 1 ratio in accordance with the CRSA of 10.5 % (and of 10.4 % as at 30 September 2010). The Tier 1 ratio according to the AIRBA, excluding hybrid capital and the remaining SoFFin silent participation (of which Aareal Bank repaid an initial € 150 million tranche in July 2010), stood at 8.1 % as at the year-end.

Strong performance of the Aareal Bank share price

2010 was another very difficult year for bank shares. Their performance was strongly influenced by ongoing discussions in the context of the euro sovereign debt crisis – where Greece caused a stir in the Spring, and Ireland followed suit in late autumn – as well as impending changes to the regulatory environment.

Despite this uncertainty, the Aareal Bank share price once again performed very strongly last year, closing the year 2010 at € 22.80, a 72 % increase over the 2009 year-end price of € 13.26. The Aareal Bank share thus once again outperformed relevant benchmark indices during the year under review; in fact, it was one of the strongest performers in the MDAX.

This positive development was driven by factors including the high quality of our property financing portfolio, which became evident in the absence of any major negative surprises, with allowance for credit losses remaining at clearly manageable levels. Moreover, the capital markets evidently value the bank's open and transparent communications regarding our securities portfolio, in the context of the debt crisis, as well as the early repayment of SoFFin funds. Last but not least, the price increase seen during 2010 also reflects the trust placed by equity investors in Aareal Bank Group, its unique business model in the sector, and its management team.

Outlook: good potential for maintaining the positive trend

We remain convinced about the future potential for commercial property financing. This view is supported by the anticipated long-term increase in demand for property and property financings in many areas around the world, as well as the changes in the competitive environment and client behaviour as a consequence of the crisis.

Whilst the gradual normalisation of property markets is expected to continue, even though developments will be influenced by declines on certain markets, as well as by numerous uncertainties and challenges, including future economic developments on individual sub-markets, the situation on the capital markets, and the impact of the various regulatory actions on the banking sector.

We are confident, from today's perspective, that the bank will increase the good operating profit achieved during the 2010 financial year – in a challenging market environment – even if the banking sector should face additional burdens such as the bank levy.

Overall, we remain convinced that Aareal Bank Group is well-positioned to continue its successful track record of recent years during the financial years to come. Thanks to our tried-and-tested business model, our business policy rooted in solidity and sustainability, our flexible, medium-sized corporate structure and our business expertise, Aareal Bank is in an excellent position to further strengthen its market position in the years ahead, in a changed market and competitive environment, and to sustainably enhance our profitability. We will not let up in our efforts to keep our risks as well as our costs under control, and to continue optimising workflows and structures.

During the crisis, Aareal Bank Group demonstrated its ability to deal with the most challenging situations. Now that the focus is shifting increasingly towards the opportunities ahead, we will be equally successful, leveraging our tried-and-tested business model to create sustainable added value for all our stakeholder groups.

Yours sincerely,

The Management Board

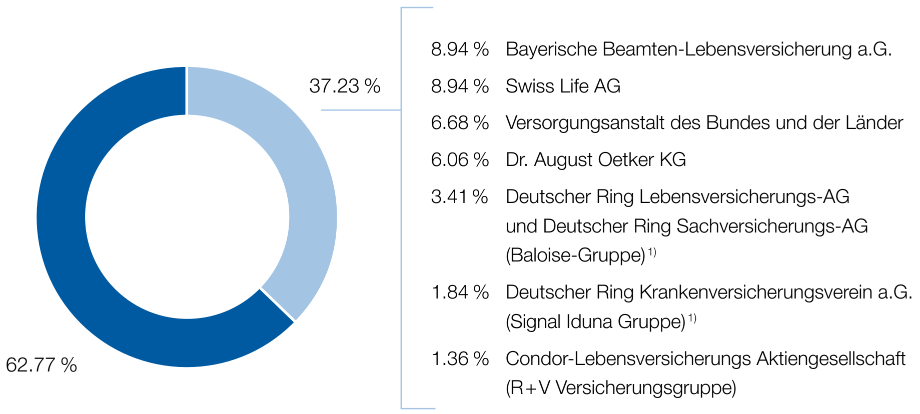
Dr Wolf Schumacher | **Dirk Große Wördemann** | **Hermann J. Merkens** | **Thomas Ortmanns**

Aareal Bank Share

Aareal Bank's well-balanced business model, incorporating the two pillars of Structured Property Financing and Consulting/Services, has proved to be particularly viable, especially in the difficult times experienced during the global financial markets and economic crisis. Aareal Bank's good results for the 2010 financial year not only met market expectations; the repayment of the first tranche of the SoFFin silent participation also came as a positive surprise. Not only is it the only bank to have paid interest on the SoFFin silent participation, Aareal Bank is the first bank that started repayments.

Our share has been trading on the Frankfurt Stock Exchange since 17 June 2002. Since 1 January 2003, it has also been included in the Prime Standard segment of the German Stock Exchange, and therefore meets the high international standards for transparency. Aareal Bank's major shareholder is Aareal Holding Verwaltungsgesellschaft mbH, whose 37.23 % stake in the bank remains unchanged.

Shareholder structure

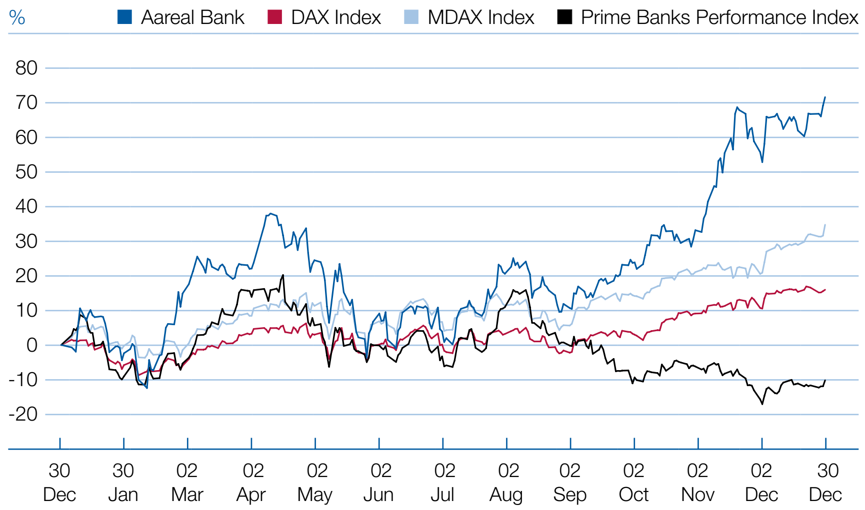


[1] Information given on a separate basis due to de-merger of Deutsche Ring Group.

Equity markets worldwide

2010 was once again a very inconsistent year for the international exchanges, which continued to be affected by the consequences of the global financial markets and economic crisis that was triggered by the collapse of the US investment bank Lehman Brothers in autumn 2008.

Relative Performance 2010 of the Aareal Bank share price



The first steps towards recovery at the start of the year were brought to a relatively abrupt and premature end, by the sharp rise in Greece's sovereign debt position and that of the other so-called PIIGS states (Portugal, Italy, Ireland, Greece and Spain). This led to speculation by the media and on international exchanges about the possible demise of the euro. The already negative sentiment was further exacerbated by fears that the US economy could enter a double-dip recession, as well as by concerns about Japan's persistent deflation.

Thanks to the unexpectedly strong revival of the German economy during the summer, the DAX and MDAX indices at last enjoyed a surprising degree of success in decoupling from the Dow Jones Industrial Average and the Japanese Nikkei during the third quarter. Buoyed by positive company data and an optimistic economic outlook, the Dow Jones and the Nikkei followed suit in the fourth quarter.

At year-end, the DAX reported a gain of 16 % in 2010, and the MDAX a sizeable 35 %. The Dow Jones Industrial Average managed to recoup some of its year-to-date losses and ended the year with a 10 % gain, whilst the Nikkei was down 3 % on the year-end 2009.

Besides the ongoing discussions about the introduction of a bank levy, and future capital and liquidity requirements under the new Basel III regime, the failure of the financial sector to follow the general positive development in Germany was largely attributable to the European debt crisis that intensified again during the third quarter. Initially, it appeared to have been averted following the bailout of Greece in early summer, before returning to the forefront of market interest again when the EU provided financial support to Ireland at the end of November. The situation on the financial markets of Belgium, Portugal and Spain also deteriorated further towards the end of the year.

Price development

Having ended the 2009 financial year at € 13.26, the Aareal Bank share was in demand right at the start of 2010, to satisfy pent-up demand from institutional investors in particular. In the course of the subsequent recovery, and supported by favourable business figures and the early repayment of the first SoFFin tranche, the share gained almost 40 % compared with the start of the year, climbing to € 18.32.

The rally was brought to an abrupt end – not only by the discussions about rising debt levels of the PIIGS countries; Aareal Bank also had to endure price losses that were not related in any way to its business model. As the debt crisis escalated into a euro crisis in May / June, the Aareal Bank share retreated to € 12.77.

The positive outcome for the (German) banks within the scope of the first EU bank stress test, the surprisingly positive trend in the German economy and – above all –

Aareal Bank's good third-quarter figures drove the share price up to € 22.80 at year-end.

This development is all the more encouraging, since the share price obviously succeeded in decoupling from the general bank trend when the EU debt crisis came to a head again in November 2010. While the Prime Banks Performance Index (CXPB) fell by approx. 10 % compared with the start of the year, the DAX and MDAX performed well, posting increases of 16 % and 35 % respectively. Having gained almost 72 % year-on-year, the Aareal Bank share once again clearly outperformed all the relevant indices.

Analysts' opinions

Of the 18 specialist brokers and analysts covering Aareal Bank up to year-end 2009, six institutions suspended their coverage of Aareal Group for personnel reasons. Two further institutions have taken up coverage of the share for the first time. The brokers and analysts regularly published independent studies and comments on the development of Aareal Bank Group in the course of the year.

At year-end, there were eleven buy recommendations, compared with two neutral views. There was one sell recommendation. The following statement published on 12 December 2010 in the Frankfurter Allgemeine Sonntagszeitung weekly newspaper highlighted the market's very positive assessment of the share: "With 72 % of all analysts recommending the share as a buy, the focus in Germany has shifted towards the property financing specialist Aareal Bank." This view, and the corresponding degree of confidence placed by analysts in the bank's management, was attributable especially to the unchanged solidity displayed in the quarterly financial statements – as well as to the first partial repayment of the SoFFin silent participation.

	2010	2009	2008
Key data and indicators of the Aareal Bank share			
Share price (Euro) 1)			
Year-end price	22.80	13.26	5.75
High	22.80	18.02	30.46
Low	11.60	3.25	5.06
Carrying amount per share (Euro)	31.97	30.62	27.55
Dividends per share in (Euro) 3)	–	–	–
Earnings per share (Euro)	1.78	1.14	1.42
Price/earnings ratio 2)	11.75	11.43	4.05
Dividend yield (%) 2)	–	–	–
Market capitalisation (Euro mn) 2)	975	567	246

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

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

Investor Relations activities

Aareal Bank attaches great importance to maintaining dialogue with investors and analysts. Against the background of the challenging market environment and the forthcoming regulatory changes (bank levy, Basel III, etc.) we keep capital markets participants informed about current company developments, in a transparent and timely manner. Capital markets communications were therefore reinforced even further in 2010. During the period under review, the Investor Relations team, accompanied on some occasions by members of the Management Board, participated in a total of nine international capital market conferences, organised 25 road shows around the world, and held more than 300 individual discussions with investors and analysts. Investors were highly appreciative of the fact that Management Board members were also available for one-to-one discussions. The annual press conference to present the financial statements and the analysts' conference was held in Frankfurt / Main on 31 March 2010, where the Management Board presented the previous year's results as well as the strategic outlook for the years ahead. International investors also participated by means of a conference call. Aareal Bank also held regular conference calls to report on our quarterly reports.

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

The internet has become an increasingly important tool to guarantee the provision of up-to-date capital market information. Extensive information on the Structured Property Financing and Consulting / Services segments is available to shareholders and analysts on the Aareal Bank homepage www.aareal-bank.com. The published ad-hoc disclosures and press releases, financial reports, as well as current investor relations presentations are available for download from our investor relations portal. The financial calendar offers an overview of the most important dates in the company calendar.

We will continue to adopt a proactive approach to capital market communications in the 2011 financial year, with a view to substantiating the sustained success of the business model and the confidence placed in the bank by its shareholders.

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Group Management Report

Aareal Bank Group is a leading international property specialist. With a staff base comprising employees from 30 different nations, it is active in more than 20 countries across three continents: in Europe, North America and Asia.

Business and Operating Environment

Group structure and business activities

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

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

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

Structured Property Financing

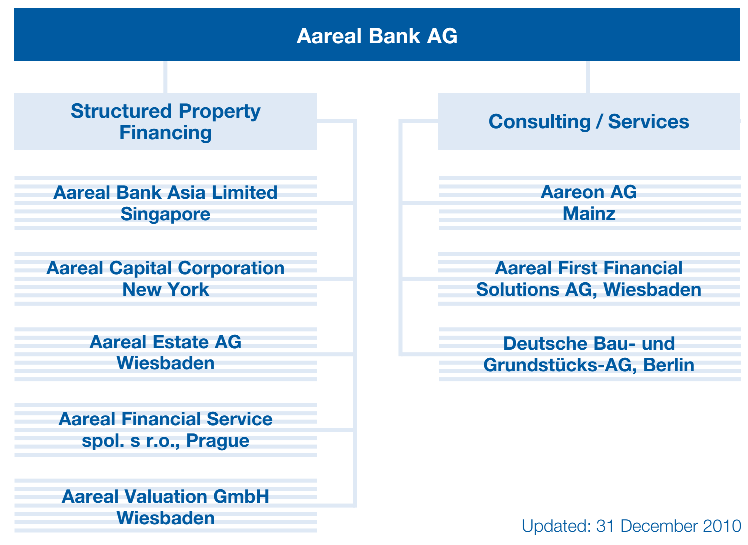
The Structured Property Financing segment comprises all property financing and refinancing activities.

In this segment, we facilitate property projects for our domestic and international clients. Aareal Bank is active in more than 20 countries across Europe, North America and Asia within the scope of its three-continent strategy. Its particular strength lies in its success in combining local market expertise and sector-specific know-how. In addition to local experts, the bank also has industry specialists at its disposal, to create financing packages for logistics properties, shopping centres and hotels. This enables us to structure tailor-made financing concepts to meet the special requirements of our national and international clients. What makes Aareal Bank special are its direct and long-standing client relationships. Aareal Bank has a broad refinancing base. It has established itself as an active issuer of Pfandbriefe, which account for a major share of the bank's long-term funding. The quality of the cover assets pool is confirmed by the triple-A rating of Aareal Bank's Pfandbrief issues.

To cater to a broad investor base, Aareal Bank also covers a wide range of other refinancing tools, including promissory notes and bank bonds. Capital market activities are focused on private placements. Larger public transactions with volumes of € 500 million and higher are entered into selectively. The Bank also generates deposits from its long-term business relationships with companies in the institutional housing industry, and with money market clients.

The success of capital and money market activities and the business with institutional housing industry clients is a result of a combination of a sustainable business model, a sound understanding of the capital markets, and the quality of the cover assets pool.

Group Structure of Aareal Bank



Updated: 31 December 2010

Consulting / Services

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

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

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

Corporate Management

Sustainable company development is at the core of Aareal Bank Group's management concept; the standard is to create added value for our shareholders, our clients, and our employees. Particularly against the background of the financial markets crisis, our corporate management's balanced approach proved its mettle.

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

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

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

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

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

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

In the Consulting / Services segment, subsidiary management is oriented towards specific indicators, primarily EBIT (earnings before interest and taxes) and the EBIT margin, depending on each entity's business focus. We also use specific performance indicators that are typical for consulting and services in the IT business, the focus of this segment. These include indicators relating to regular customer satisfaction surveys regarding project work as well as capacity utilisation indicators. For the banking business within this segment, the primary performance indicators are deposit volumes and margins. The volume of deposits represents a portion of the bank's overall liquidity, and the margin is crucial to profitability. These objectives are at times competitive, and are weighted according to the business context and environment.

Macroeconomic and industry-specific environment

Global business environment

Following the severe recession in the global economy, the economic recovery that began in mid-2009 continued in most economies in 2010. However, recovery lost momentum in the second half of the year, and economic development diverged widely. The financial markets were influenced by speculation concerning the euro, rising sovereign debt in euro zone countries and the US, as well as rescue packages for Greece and Ireland. Equities, and particularly commodities markets by contrast, proved to be resilient and in some cases saw considerable price increases for selected commodities.

Central banks in Europe and the US continued to supply the financial system throughout 2010 with sufficient liquidity at varying levels; they kept key interest rates at historic lows to ensure economic recovery. In China, by contrast, the central bank and government undertook measures to prevent the economy from overheating.

Economy

Following the severe recession in 2009, the year under review saw a marked recovery in major economies. The dramatic growth in China in particular stimulated global trade and lead to unexpected high growth in export-oriented economies in 2010.

There were a wide variety of different causes behind the positive economic development seen in many countries. The expansive monetary policies employed by central banks – comprising low key interest rates and an expansive open market policy – also made a contribution, as did the national economic stimulus programmes instituted in years prior that continued to have an impact during 2010. The easing seen on the financial markets following the high point of the crisis in autumn of 2008 also played a considerable role in the positive economic development, even if the debt crisis prevented the financial markets from normalising fully in 2010.

Economic recovery slowed slightly over the second half of the year. One reason was that the process of inventory replenishment by companies weakened considerably. A further cause was that numerous stimulus programmes expired over the course of the year and many different countries, among them Spain and the UK, simultaneously introduced austerity measures to reduce budget deficits.

In the wake of the economic and financial markets crisis, national budget deficits and debt levels expanded dramatically. In 2010, sovereign debt continued to grow, and budget deficits remained high across the vast majority of countries.

The positive development of the global economy was spearheaded by emerging economies in Asia. Particularly China, but also other Asian countries such as Singapore, exhibited remarkable growth rates. By contrast, the economies of industrialised nations in North America and Europe experienced slower recovery. Economic development also varied within these regions. Whilst the economies of Germany, Poland, Sweden and Turkey grew markedly (for example), economic development in Ireland, Greece and Spain declined.

Unemployment rose considerably over the course of the economic and financial markets crisis in the majority of countries. In 2010 most countries also saw unemployment continue to rise or stagnate at a high level. Only very few countries, Germany in particular, succeeded in achieving a notable decline in unemployment.

Financial markets, monetary policy and inflation

Whilst at the beginning of the year, some easing could be observed on the financial markets compared to the previous years, distortions mounted further as a result of the sovereign debt crisis in some countries at the periphery of the euro zone. Investor concerns heightened dramatically concerning the financial situation in Greece in spring, spreading into a confidence crisis. In April, Greece was no longer able to refinance maturing government bond issues on the capital markets without third-party support. Member states of the euro zone and the International Monetary Fund (IMF) supported Greece with an aid package totalling more than € 110 billion. As the loss of confidence amongst investors spread to certain other euro zone countries, such as Ireland, the European Union (EU), euro zone member states and the IMF launched a rescue package totalling € 750 billion. These packages offer financial support to those countries facing refinancing difficulties. Ireland subsequently took advantage of these financial stability measures in November. Some questions relating to the rescue package remain unresolved. These include the volume of the package, the question regarding what will happen after current support measures expire, and the issue of creditor involvement.

As an additional support measure, the European Central Bank (ECB) instituted a purchase programme in May 2010 for public-sector and private bonds from euro zone governments or public-sector entities and other legal entities within the European Monetary Union. Debt securities must be denominated in euros and exchange-listed to qualify. These bonds and their issuers must also fulfil the requirements set out by ECB guidelines for open-market transactions. Within the framework of this programme, the ECB then purchased various government bonds. The aim of this measure was to shore up market slumps and liquidity for bonds of certain euro zone states rated as high risk by the capital markets, and to correct disruptions on these securities markets.

The announcement of the various measures was greeted with a certain degree of easing on the financial markets. However, risk premiums for the government bonds of Greece, Ireland and Portugal widened significantly after a brief lag. Spain, Italy and Belgium also faced considerably higher refinancing costs as a result. At the same time, investor demand shifted to countries with more secure ratings, such as Germany and France. As a result, the difference in returns on the different government bond markets widened significantly. Spreads over Euribor for German Pfandbrief or promissory note issues widened only slightly by comparison. This testifies to investor confidence in the quality of the German Pfandbrief.

In response to persisting distortions on the financial markets and the lack of confidence in economic development, as well as in view of moderate inflation, major central banks continued to pursue expansive monetary policies. The key interest rates were kept at very low levels by the ECB, the Bank of England (BoE) and the US Federal Reserve (Fed) throughout the entire year. The Japanese central bank lowered its benchmark rate in October from 0.1 % to a corridor of 0.0 % to 0.1 %. The central banks of Sweden and Canada pursued a slightly different course, raising their key interest rates in 2010. However, at 1.25 % and 1.0 % respectively at year-end 2010, both were very low.

The open-market policy entailing central banks' securities purchasing to supply liquidity to the markets yielded a more complex picture. The BoE allowed an extensive securities purchasing programme to expire in January, and the ECB ended a twelve-month programme for purchasing covered bonds as planned in June. In May, the ECB launched the programme mentioned above to purchase public and private bonds. Accompanying measures were also taken to prevent the purchases from causing an increase in money supply. Other monetary policy measures, such as shortening the term of central bank loans to commercial banks, signalled a careful repeal of individual monetary policy measures taken in response to the financial markets crisis. The Federal Reserve's open-market policy, by contrast, was considerably more expansive. After the Fed indicated its intention in August to use funds released from its extensive covered mortgage bond purchasing programme to buy up government bonds, it announced a new purchase programme in November for government bonds that totalled USD 600 billion, in response to slow economic recovery. The Chinese central bank pursued a quite different track in the face of sharply rising loan volumes and prices for residential property, by increasing minimum reserve requirements for commercial banks and key interest rates.

As a consequence of the debt crisis, the euro initially suffered considerable losses against the US dollar and the pound sterling. After the mid-year point, these developments changed, and the euro rebounded before losing some ground in late autumn. By year-end, the value of the euro vis-à-vis the US dollar and the pound sterling was thus below its level at the beginning of the year. The Japanese yen appreciated significantly against both the euro and the US dollar. Amongst other factors, this appreciation can be traced back to China's efforts to achieve a higher weighting of the Japanese yen in its currency reserves. In response to the appreciation, the Japanese central bank intervened in the foreign exchange market in September – for the first time in six years – and sold large volumes of Japanese yen.

Interest rate developments varied widely depending on maturities. Short-term interest rates for currencies[1] in which we are active increased slightly, albeit from a very low level. Long-term interest rates, by contrast,[2] declined further. Annual inflation rates rose slightly in 2010 over the very low rates of 2009, yet remained at a moderate level. The rise in inflation was primarily attributable to higher commodity prices. The annual rate of inflation averaged 1.6 % in the euro zone, and 2.1 % in the EU. Inflation in the US developed comparably.

[1] Short-term interest rates were analysed on the basis of three-month LIBOR (London Interbank Offered Rate), Euribor and comparable reference rates.

[2] For long-term interest rates, the relevant ten-year swap rates served as a reference.

As household income has yet to see any material increase, and savings rates remained high compared to the period before the economic and financial markets crisis, this too contributed to moderate inflation in many countries. The UK, certain Eastern European countries and China experienced higher inflation rates. China in particular saw a rise in disposable income and a considerable increase in lending, causing the government and central bank to introduce significant measures to counteract any overheating on the horizon. Low deflation could be observed in Japan as well as in Ireland by contrast.

Global commercial property markets

Property performance is determined by a number of different factors. These include macroeconomic factors such as economic growth, unemployment trends and interest rate development. On most of the property markets where we are active, these underlying conditions improved in 2010. Other factors include local trends, such as regional economic development. In most of the regions in which we finance property, these were also positive during the year under review. The attractiveness of a property to users is also defined by specific factors such as location, modernisation status, area and energy efficiency, flexibility of use, and property management. From an investor's perspective, the tenant mix, the terms and conditions of rental contracts, and tenant quality also play a role. Given this multitude of influencing factors, it is clear that commercial property markets are not homogeneous. In making statements about general developments on the property markets, it is therefore important to take into account that individual properties may differ if property-specific factors are below-average.

In 2009, commercial property markets were largely affected by one consistent trend entailing rising vacancies, declining rents and lower market values in the wake of the economic and financial markets crisis. Few markets were able to break away from this trend, notably only during the second half of 2009. In 2010, market developments tended to vary more widely. Most property markets were split into two parts. One side included first-class properties that fared well under the aforementioned categories, due to their high quality. These properties were able to attract users, and rents generally stabilised or increased over the previous year. Investors focused on prime properties, and these were in greater demand in 2010 than in 2009. Investor yield requirements for these properties stabilised over the previous year, or even declined in some markets. The decrease in yield requirements and the stabilisation of rent expectations amongst investors resulted in rising market prices. Yield requirements still remained above the levels seen prior to the start of the economic and financial markets crisis. As such, property prices did not reach pre-crisis levels.

However, not all properties tracked these trends. Second-class properties faced difficulties in retaining users or finding new ones. As a consequence, rents for these properties continued to experience pressure. Demand amongst buyers and investors also remained low.

Transaction volumes on the commercial property markets increased markedly over the very low levels of the previous year, though they were still considerably lower than the high volumes seen in 2006 and 2007. The wide gap in price perceptions between potential buyers and sellers in 2009 narrowed in 2010, causing negotiation periods to shorten. Demand continued to concentrate on first-class properties in particular, as described above. On some markets, demand exceeded supply in this segment. Demand for second-class properties remained low. In addition to these factors, the availability of credit to refinance property investments is also an essential factor influencing market liquidity. This development varied widely – both globally and regionally, even in individual submarkets or market segments.

Throughout previous years, Asia's share of global transaction volumes increased whilst the North American share declined significantly. This trend changed over the course of 2010 as the share of the North American investment market in global transaction volumes increased again somewhat, though it remained significantly below its pre-crisis levels. The Asian and European investment markets saw rising revenues on the whole, though their shares in global transaction volumes underwent a slight year-on-year decline in 2010.

Rents were also differentiated between first-class and second-class properties. With respect to first-class properties, economic recovery had a positive effect on the rents that had been placed under considerable pressure during 2009. Rents for high-quality properties in many areas stabilised over the course of the year to the previous year's levels. In some markets, such as the market for premium office properties in London, Warsaw and Stockholm, rents rose. However, individual markets in the first-class property segment also experienced declining rents, such as the markets in Barcelona and Madrid. With regard to commercial property belonging to the class of less desirable property in terms of valuation factors, rents remained under pressure overall.

In the hotel sector, a number of different markets saw positive developments over the weakness seen in 2009. Due in particular to rising occupancy rates, average revenues per hotel room increased.

Economic and commercial property market development in individual regions

Western Europe

After Germany's economic output contracted significantly in 2009, the German economy proved to be the driving force behind Europe's positive economic development. The country's real gross domestic product rose by 3.5 %, driven by high growth in corporate investment and exports, whereas private consumption rose only slightly. The employment market in Germany developed favourably; as unemployment fell over the course of year, Germany stood out from the majority of European countries.

Economic development was also positive in France, though – at 1.5 % – growth was not as robust as in Germany. In combination with government expenditure and exports, private consumption contributed to recovery. Unemployment fell only slightly in France. With growth of 2.7 %, the economy in Switzerland experienced a marked recovery. The Austrian economy grew by 1.9 %.

In the Netherlands and Belgium, the real gross domestic products rose by 1.7 % and 2.1 % respectively. Unemployment rates remained largely unchanged over year-end 2009. Along with Austria, which experienced a rise in unemployment in 2010, the Netherlands was amongst the countries with the lowest unemployment rates within the EU.

The economy of the United Kingdom experienced a downturn comparable to the German economy in 2009 and achieved growth of 1.6 % in 2010. However, economic development declined during the final quarter in comparison to the previous quarter. Unemployment remained at a high, yet stable level for the UK during 2010.

The budget deficits that grew dramatically in the wake of the economic and financial markets crisis remained high in most Western European countries in 2010. At roughly 10 % of its gross domestic product, the public deficit in the UK was particularly high.

Ireland's public finances were heavily burdened by massive aid measures for Irish banks. The budget deficit amounted to approximately 32 % of its gross domestic product. In November, Ireland was forced to apply for monetary support as a result. € 85 billion in aid was supplied by the EU, euro zone member states as well as the UK, Sweden, Denmark, and the IMF. Whilst residential property prices had risen sharply prior to the crisis, there was a significant contraction which, in conjunction with low corporate investment and state austerity measures, burdened the economy. As a consequence, Ireland's real gross domestic product sank by 0.8 % in 2010. At the same time, unemployment continued to rise markedly.

The commercial property markets in Western Europe developed in line with the trend described above, with a market split between first-class properties and less desirable properties. The markets for second-class properties faced rental difficulties: as a result, rents tended to remain under pressure. This overall trend applied to office and retail properties, as well as to logistics properties.

Rent developments for first-class properties predominantly stabilised or increased. In many locations, rents for premium offices were stable compared with the previous year, including Frankfurt, Amsterdam, Utrecht, Marseilles and Geneva. Rising rents for high-quality office properties were also reported in many locations across Western Europe. This applied to Brussels, Lille, Lyon, Paris, Berlin, Düsseldorf, The Hague, Rotterdam and Zurich. In the UK, rents increased in the major centres London, Birmingham and Manchester, whilst remaining stable in Glasgow and falling in Edinburgh. Office rents in Hamburg and Munich also decreased slightly in the premium segment.

For first-class retail properties, major centres saw predominately stable rents over the course of the year. This applies to the German economic centres Dusseldorf and Hamburg as well as French economic centres. Rents for premium retail properties also remained stable in Amsterdam, The Hague, Brussels and Geneva, as well as in Edinburgh and London's West End. Top retail property rents in Berlin, Frankfurt, Munich and Zurich differed, rising as they also did in the UK markets of Birmingham, Glasgow and Manchester. Falling retail rents in the premium segment were however seen in the City of London as well as in Rotterdam and Utrecht in the Netherlands.

The picture of first-class logistics properties was less uniform. In Germany, rents remained stable in Berlin and Munich whilst Dusseldorf, Frankfurt and Hamburg experienced slight declines. The Benelux countries saw rents for first-class logistics properties increase in Amsterdam, whilst they decreased in Utrecht and Brussels. In contrast, rent price development was stable in The Hague and on the market in Rotterdam, which is of considerable importance as Europe's largest harbour. The trend in rents for first-class logistics properties in the greater Paris region was positive, and stable to slightly rising in Switzerland. The United Kingdom showed a mixed picture. There rents for prime logistics properties in Manchester increased, remained unchanged in Glasgow and London Heathrow, and declined in Birmingham and Edinburgh.

In the hotel property segment, major Western European locations for hotels such as London, Paris, Berlin, Frankfurt, Hamburg, Munich, Amsterdam and Brussels were able to report considerable increases in average revenues per room over the weak levels of the previous year. The rise in returns was attributable to improved occupancy ratios and room rates as economic recovery. Only few markets, such as Rotterdam, showed a drop in average revenues per room. At over 80 %, the occupancy ratio in London remained very high in a Europe-wide comparison.

Price development also showed differences between first-class and less desirable properties. After Western European investors' yield requirements for every property class increased significantly in the wake of the economic and financial markets crisis, 2010 saw yield requirements for premium properties stabilise or generally trend downwards. Declining investor yield requirements for first-class properties resulted in rising market values and prices.

Buyer interest in second-class properties remained low, however. Accordingly, market values were generally not able to develop positively, and were instead placed under pressure. The decisive issue was, however, the question of how the properties were to be assessed in terms of value-determining factors such as location, modernity, equipment, rental situation and tenant credit quality.

Southern Europe

Spain was heavily impacted by the economic and financial markets crisis and the associated collapse of housing prices and construction activity. Unlike the majority of countries, the economy was not able to gain real traction in 2010, and its real gross domestic product declined slightly by 0.2 %. Italy's economy developed more positively and saw slight growth of 1.0 % following the sharp collapse of 2009. At the same time, the unemployment rate rose slightly. It was, however, significantly lower than Spain's rise in unemployment during 2010, to clearly above 20 %. At 5.0 % of its gross domestic product, Italy's budget deficit was higher than the Maastricht threshold of 3 %, yet was much lower than the Spanish deficit of nearly 10 %. With a budget deficit of over 7 %, Portugal was also affected by the debt crisis which widened risk premiums on Portuguese government bonds considerably. Portugal's real gross domestic product did, however, show growth of 1.3 % in 2010.

Rents for first-class properties in both Italian economic centres Milan and Rome showed no year-on-year changes in 2010. This applied to both office and retail properties, as well as to logistics properties. Milan showed a slightly different picture with mild increases in rents for first-class retail properties. Across the different property qualities, the Italian national average for rents for office properties declined slightly in 2010, whilst the national average in the retail segment remained largely stable. The national average for residential property rents declined.

Rents in Spain, by contrast, decreased for both first-class and other properties. The economic centres Barcelona and Madrid saw rent declines for prime properties as well. Only high-quality retail properties in Barcelona enjoyed stable rents.

In the hotel segment, Rome, Milan, Barcelona and Madrid saw slight increases in average revenues per room, supported by high occupancy ratios.

Investor yield requirements for prime properties remained unchanged or declined slightly over the previous year in both Italian economic centres Milan and Rome, which had a positive impact on property values in these markets. The Italian national average for office and residential property prices declined slightly, whilst prices for retail properties were nearly stagnant.

In both Spanish economic centres, yield requirements in the premium segment in 2010 fell slightly. Investment demand for lesser-quality properties in Spain was low. As such, values were under pressure.

Northern Europe

At 5.3 %, Sweden could report the highest rate of economic growth in the Nordic region during 2010. Finland's and Denmark's economic output also grew markedly by 3.0 % and 2.2 % respectively. Norway's economy virtually stagnated, which was attributable to a significant decline in oil and energy production. Despite a mild increase, unemployment in Norway remained low. Economic recovery in Finland and Sweden saw a marked year-on-year decline in unemployment. In Denmark, it rose further. Public deficits varied widely in 2010. Whilst the budget deficit in Denmark rose to roughly 5.0 % of its gross domestic product, it was low in a Europe-wide comparison for Finland and Sweden at 3.8 % and 1.3 % of the countries' respective gross domestic products. Owing once again to income from oil production, Norway had a considerable budget surplus.

Rents for first-class properties saw stable to generally rising development in the major centres in Finland and Sweden. These rents continued to experience pressure in Denmark. Rents for high-quality office, retail and logistics properties increased in both Helsinki and Stockholm. Gothenburg saw stable rents for first-class office properties. Rents for prime office and logistics properties continued to decline in Copenhagen, but remained stable for premium retail properties. In Northern Europe, rents for lesser quality properties continued to be placed under pressure. This applied to both office and retail properties, as well as to logistics properties.

Copenhagen was one of the few hotel markets with declining average revenues per hotel room. This could be traced back to significant decreases in room rates. In Stockholm and Helsinki, by contrast, average revenues per hotel room rose.

The major economic centres in Finland and Sweden saw a decline in investor yield requirements for various types of first-class properties. This had a positive effect on market values. In Denmark, however, they were stable or declined slightly. Investment demand for lesser-quality properties also remained low in Northern Europe.

These property values thus tended to experience pressure, with the assessment of the various value-determining factors playing a significant role.

Eastern Europe

Economic development varied widely across Eastern Europe in 2010. Poland saw a 4.0 % year-on-year economic growth rate. The Czech Republic and Russia turned the tide of the 2009 downturn with growth of 2.3 % and 3.5 % respectively, whereby Russia's economic growth was attributable to increased commodity prices. Hungary experienced only a low growth in its real domestic product at only 1.1 %. The Turkish economy was able to break free from the previous year's economic downturn with 8.1 % growth in its real domestic product. In Turkey and Russia, the economic upturn was accompanied by a decline in the unemployment rate. Despite economic growth, the unemployment rate in Poland and Hungary climbed further. In the Czech Republic, unemployment increased slightly over the course of the year.

Budget deficits were also high in Eastern European countries, in the wake of the economic and financial markets crisis. Poland's budget deficit amounted to 7.7 % of its gross domestic product. Budget deficits (in terms of gross domestic product) were lower in the Czech Republic and Russia at approximately 5 %, just under 4 % in Hungary, and at about 3.7 % in Turkey.

In line with the general trend, rents and property values saw stable or positive developments for first-class property in Eastern European locations. Investor yield requirements for high-quality properties increased in Istanbul, Moscow, Prague and Warsaw, and remained stable in some markets. Yield requirements remained unchanged for high-quality retail properties in Moscow and Prague, as did high-quality office properties in Istanbul, whilst lesser-quality properties faced difficulties. This segment experienced low investor demand. Particularly in Russia, but also in Turkey, investor yield requirements remained significantly higher than the levels in Poland and the Czech Republic.

Rents for first-class office premises in Istanbul and Prague were unchanged. They increased, by contrast, in Moscow and Warsaw, where they had fallen sharply in 2009. In the retail sector, rents for premium properties in Prague and Warsaw remained stable and rose in Istanbul. Marginal declines were seen in Moscow. Rents for high-quality logistics properties were stable in Prague and Warsaw, whilst they rose slightly in Moscow. The logistics market in Istanbul is not yet highly developed with respect to high-quality properties. Rents for lesser-quality properties came under pressure in various countries.

Following the overall trend on the hotel markets, average revenues per room climbed in the Eastern European centres Moscow, Prague and Warsaw as a result of improved occupancy ratios. This also applied to Istanbul, which benefited from its status as the European Capital of Culture for 2010.

North America (NAFTA states)

The US economy recovered palpably at the beginning of the year, yet lost momentum in the second and third quarter before again returning to some more robust growth in the final quarter. The real domestic product of the United States rose by 2.9 %. Despite high unemployment and an increased savings ratio in comparison to pre-crisis levels, private consumption made an important contribution to growth, in combination with corporate investments. The overall economic trade balance slowed growth of gross domestic product due to increased imports. At just under 10 %, unemployment in the US was at a historic high over the course of the year. In December 2010 it amounted to 9.4 % and was thus slightly below the figure for 2009 (9.9 %). Spending programmes and declines in tax income incurred as a consequence of the economic and financial markets crisis caused the budget deficit to reach a high of just under 10 % of gross domestic product. As the economic upturn lost momentum, the US government once again adopted broad stimulus measures. The Fed's monetary policy remained very expansive with its launch of a new government bond purchasing programme totalling USD 600 billion, over and above the programmes already in existence.

Economic developments in Canada and Mexico are heavily influenced by the economic development of the US. Canada's real gross domestic product climbed 2.9 % in 2010, and Mexico saw an increase of 5.0 %.

The US commercial property market lagged behind the development of rents in Europe and Asia. The national average for office rents in the US experienced a slight year-on-year decline; this applied to both premium and less desirable office properties. The trend showed the formation of a bottom, albeit subject to some regional differences. Office rents for premium properties in the centre of Chicago remained stable, whilst they declined slightly in the centre of Los Angeles but climbed in Manhattan and the business districts of San Francisco and Washington D.C. Rents for offices in less central districts were under greater pressure and declined in the outskirts of Chicago, Los Angeles and San Francisco. In Canada, by contrast, the national average for rents for premium offices in city centres remained stable, yet rose on average in less central districts.

There was a decline in rents for retail properties on a national average in the US. Here too, regional differences could be observed, and retail rents rose markedly in New York City but sank in Los Angeles. Logistics property rents continued to experience pressure on a national average in the US. New York City defied the trend and saw climbing logistics rents. In Los Angeles, these rent prices remained largely stable, whilst they declined in Chicago and San Francisco.

High occupancy ratios resulted in an increase in average revenues per hotel room in the USA as well, after a weak 2009. Average revenues per hotel room also rose in Canada and Mexico.

In North America, the investment markets for commercial property recovered in 2010 over the previous year, and transaction volumes increased markedly. Revitalised investment activities in the US and Canada saw declines in investor return requirements. Various different property types were affected by this trend. Only a few sub-markets defied the trend of falling yield requirements.

Asia

Asia's economy saw robust growth in 2010. China assumed the role of the driver of growth with a 10.3 % increase in the country's real gross domestic product. Over the course of the year, concerns arose that the economy could be overheating in light of lending volume developments and the prices for residential property, which exhibited a significant year-on-year increase. In order to mitigate the threat of overheating, the Chinese government and central bank ushered in a number of different measures, such as increasing key interest rates and minimum reserve requirements for commercial banks.

Following a sharp contraction at the beginning of the previous year, Singapore's economy underwent tremendous growth beginning in mid-2009; this trend continued in 2010, with 14.8 % growth in the real gross domestic product. Buoyed by a strong uptick in exports, particularly to neighbouring Asian countries, Japan's economy was able to recover and its real gross domestic product grew markedly by 4.2 %. Japan's unemployment rate was low by international comparison but comparatively high historically. The budget deficit of Japan amounted to 8.0 % of its gross domestic product, against the background of an enormous debt level, totalling roughly twice its gross domestic product. However, Japan's government debt is largely refinanced within its own country. At 1.6 % of its gross domestic product, China's budget deficit was low on an international comparison, whilst Singapore's budget enjoyed a slight surplus.

Asia's strong and positive economic development also affected the commercial property markets. Rents for first-class office properties in prime locations in both of China's most populous cities, Beijing and Shanghai, increased in 2010 as they did in Singapore. In contrast, high-quality office rents in Tokyo continued to decline slightly.

Major shopping locations in Beijing and Shanghai saw rising rents for retail properties whilst the development was relatively stable in Singapore.

Rents for first-class logistics properties climbed slightly in Beijing and Shanghai. Singapore, which represents the region's most important trade centre due to its harbour, followed this trend of slight rent increases.

The hotel markets in Beijing, Shanghai and Singapore saw robust recovery, with strong growth in average revenues per room. This was attributable to improved occupancy ratios as well as higher average room rates. Shanghai in particular saw high growth rates in returns as the city benefited from the World Expo in 2010.

The property investment climate improved in Asia, and transaction volumes for commercial property were up year-on-year. Investor yield requirements for prime office and retail properties remained stable or decreased slightly in Shanghai, whilst Beijing noted a more pronounced decline. Returns for these property types were also down in Singapore during 2010. Falling yield requirements combined with rent developments in the three locations mentioned resulted in rising property values for office and retail properties. The first-class logistics properties segment was stable in Shanghai but increased in Beijing and Singapore. Yield requirements for high-quality office, retail and logistics properties remained unchanged from 2009 in Tokyo.

The German institutional housing industry

The German institutional housing industry proved once again to be a solid sector in 2010. The contributing factors were largely consistent and predictable rental income, and continued robust development in property values.

Despite the challenging market environment that persisted, investment activity amongst commercial housing enterprises remained at a stable level compared to 2009. The focus of investment was, as in the year prior, placed on building modernisation, repairs and maintenance. With regard to the ecological sustainability of property, commercial housing enterprises made ongoing investments in energetic renovation for flats. Roughly 60 % of residential portfolios in companies organised in the Federation of German Housing Enterprises have already undergone energetic modernisation.

The challenges posed by demographic changes were also a focus of investment activity. This included making residential property more accessible for seniors, such as renovations reducing barriers, as well as additions to technical aid equipment and the range of personal services.

The financial markets and economic crisis increased the investment appeal of residential property. The interest in residential property shown by institutional investors since 2009 continued to mount in the period under review. Low volatility and stable cash flows are decisive criteria amongst investors. Overall, residential property portfolios totalling roughly € 3.8 billion were traded, amounting to an 18 % year-on-year increase in turnover. A quarter of the transaction volume was transacted in sales lower than € 25 million.

On the buyer side, property funds, pension funds and German residential property companies largely determined transaction activity. 25 % of all property funds initiated during the first nine months of the year were launched in the residential property segment. High net worth private investors and family offices also influenced the residential property transaction market as investors. The focus on pension funds and special institutional funds rested primarily on development projects in urban areas, with average prices per square metre of € 2,000 to € 3,000. In contrast, foreign investment funds and private property companies generally purchased larger-sized portfolios at low prices. The share of foreign investors accounted for approx. 38 % of total turnover and increased nearly twofold over 2009 (20 %).

The recovery observed over the course of the year bolstered the positive development of rents on the German residential property market. Rents for newly built flats increased by 2.5 % in Germany during 2010. In medium-sized cities with populations between 200,000 to 300,000 residents, the increase for portfolio properties was even higher at roughly 5.3 %. The causes of this development include an increased demand for flats arising from the growing number of single-person households as well as a trend towards re-urbanisation in major cities in Eastern and Western Germany. In more than three quarters of cities with more than 60,000 inhabitants, city centres experienced stronger population growth than peripheries.

However, developments varied regionally. Vacancy ratios in Western Germany totalled roughly 3 % whilst roughly 10 % of flats in Eastern Germany were vacant. Growth regions continued to benefit from job-related population increases whilst residents moved out of weak economic regions.

The use of modern and user-friendly technology platforms gained importance on the market for property management software. Such systems offer more user-friendly designs, and allow new functionality to be implemented more quickly. Ways to integrate additional services were another focus. Both providers of proprietary products as well as SAP partners are active on the market.

Group Profitability

Aareal Bank Group concluded the financial year 2010 with a positive result, against the background of a challenging market environment. Consolidated operating profit amounted to € 134 million, after € 87 million the year before.

Consolidated net interest income amounted to € 509 million (2009: € 460 million) for the financial year under review. The increase in net interest income was mainly attributable to higher average margins generated on new exposures and renewals during 2009 and 2010. Margins from the deposit-taking business with the institutional housing industry declined, due to lower interest rate levels – which persisted for longer than anticipated.

Allowance for credit losses for the financial year amounted to € 105 million (2009: € 150 million).

Net commission income of € 123 million (2009: € 133 million) included € 30 million (2009: € 17 million) in running costs for the guarantee facility extended by SoFFin. Utilisation of the remaining SoFFin guarantee framework of € 2 billion at the end of June 2010 resulted in an increase in these costs compared with the previous year. Adjusted for these costs, net commission income exceeded the previous year's figure.

Net trading income / expenses of € 8 million (2009: € 44 million) was largely due to the measurement of trading derivatives used to hedge interest rate and currency risk, and to realised and unrealised changes in value from sold hedging instruments on selected EU sovereign countries. Results from non-trading assets of € -12 million (2009: € -22 million) were for the most part attributable to the sale of fixed-income securities.

A non-recurring expense of € 20 million was recognised for the realignment of an investment property during the financial year under review. This expense was reflected in the results from investment properties, which amounted to € -17 million during the financial year (2009: € nil).

Administrative expenses of € 366 million were virtually stable year-on-year (2009: € 361 million). This reflects the strict cost discipline pursued within the Group.

Net other operating income / expenses of € -9 million (2009: € -14 million) included project-related costs and provisions recognised for subsidiaries, amongst other factors.

Consolidated operating profit for the 2010 financial year totalled € 134 million, up from € 87 million in 2009. After deduction of € 40 million in taxes and € 18 million in non-controlling interests, net income attributable to shareholders of Aareal Bank AG amounted to € 76 million. (previous year: € 49 million). After deduction of the € 30 million interest payable on the SoFFin silent participation, consolidated net income stood at € 46 million (2009: € 23 million).

Consolidated Income Statement of Aareal Bank Group

	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Euro mn		
Net interest income	509	460
Allowance for credit losses	105	150
Net interest income after allowance for credit losses	**404**	**310**
Net commission income	123	133
Net result on hedge accounting	-2	-2
Net trading income/expenses	8	44
Results from non-trading assets	-12	-22
Results from investments accounted for using the equity method	5	1
Results from investment properties	-17	0
Administrative expenses	366	361
Net other operating income/expenses	-9	-14
Impairment of goodwill	0	2
Operating profit	**134**	**87**
Income taxes	40	20
Net income/loss	**94**	**67**
Allocation of results		
Net income/loss attributable to non-controlling interests	18	18
Net income/loss attributable to shareholders of Aareal Bank AG	76	49
Appropriation of profits		
Net income/loss attributable to shareholders of Aareal Bank AG	76	49
Silent participation by SoFFin	30	26
Consolidated profit/loss	**46**	**23**

Segment Reporting

Structured Property Financing

Business development

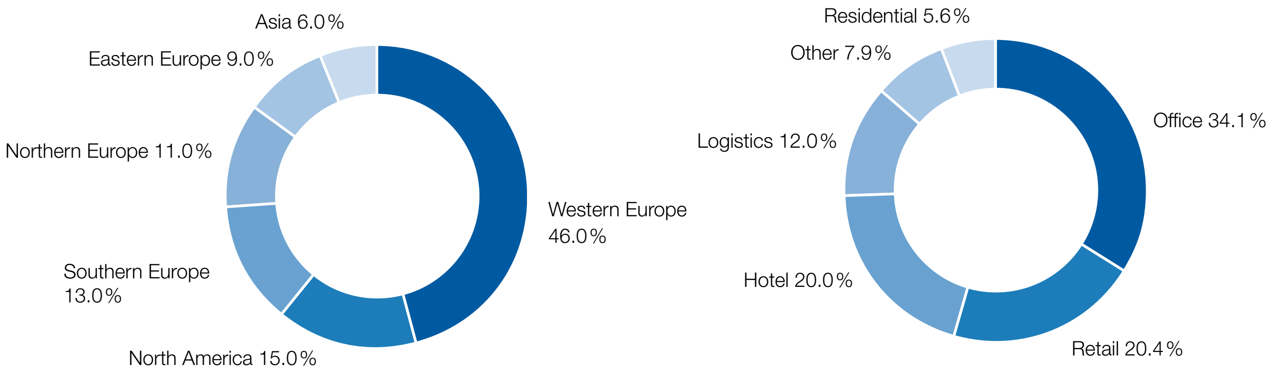
We continued to pursue our risk-sensitive lending policy in the 2010 financial year, as well as consistently managing our loan portfolio. Benefiting from economic recovery, and leveraging growing transaction volumes on the commercial property markets, we increasingly exploited opportunities available to originate attractive new business, which increased to € 6.7 billion during the 2010 financial year – up from € 3.8 billion the year before. The volume of new business in the year under review therefore exceeded the target corridor of € 4 billion to € 5 billion originally projected. The share of loan renewals relative to total new business was down compared with the previous year.

As in the previous years, we remained active in Europe, North America and Asia in the 2010 financial year as well. At 79 %, Europe accounted for the highest share of new business, followed by North America with 15 % and Asia with 6 %.[1] Leveraging the expertise and knowledge of our

[1] New business is allocated to the individual regions on the basis of the location of the properties to be financed. The geographical allocation of a small number of loans, where it was impossible to allocate by property, is based on the location of the borrower's registered office.

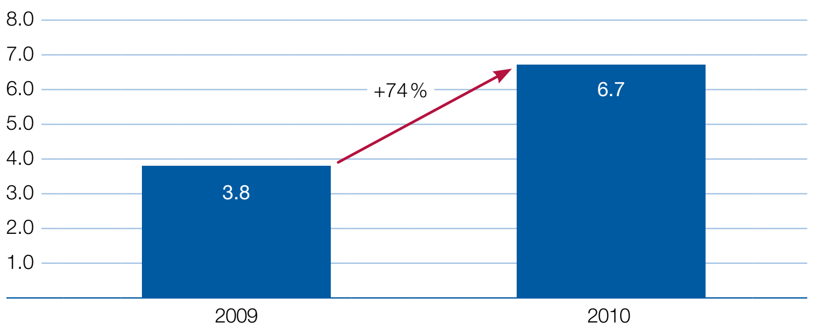
New business 2010

by region | by type of property



Development of new business

Euro bn



local branch network and industry specialists for financing hotels, retail and logistics property, we continued to expand our business through direct client relationships.

Key regional markets

Western Europe

At 46 %, Western Europe once again commanded the highest share of new business in the 2010 financial year, where we originated new business in the amount of € 3.1 billion.

We support our clients in Germany through our branches in Berlin, Hamburg, Munich as well as our Wiesbaden-based head office. New business in Germany stood at € 1.0 billion.

Our London branch is responsible for managing market activities in the United Kingdom and the Netherlands, where we also have a presence through our branch in Amsterdam. We generated new business totalling € 1.4 billion in the UK and the Netherlands.

With a view to improving process efficiency, we merged our French subsidiary Aareal Bank France S.A. into Aareal Bank AG. The merger was entered into the Wiesbaden Commercial Register on 29 April 2010, thus converting the Paris office into a branch. Besides assuming the sales functions for France, the Paris branch is also responsible for managing the Sales activities in Belgium and Switzerland. Clients are covered locally in Belgium through our Brussels branch, and in Switzerland through our branch in Zurich. The aggregate volume of new business achieved in Belgium, France and Switzerland amounted to € 0.7 billion in 2010, with France accounting for the largest share.

Southern Europe

In Southern Europe, we service our clients in Italy through our branch offices in Rome and Milan. We also have a presence in Southern Europe with our representative office in Madrid, which reports to our Paris branch. We originated new business in the amount of € 0.9 billion in Southern Europe, with Italy clearly dominating ahead of Spain. We did not extend any property financings to borrowers in Portugal and Greece in 2010; neither do we hold any exposures to these countries in our property financing portfolio.

Northern Europe

Our market activities in Northern Europe are managed by our Stockholm branch. Our representative offices in Helsinki and Copenhagen also give us a local presence.

The volume of new business concluded in Northern Europe amounted to € 0.7 billion. Sweden accounted for the highest share, followed by Denmark.

Eastern Europe

Sales activities in Eastern Europe (excluding Turkey) are managed by our branch office in Warsaw. We are also represented locally by our subsidiary Aareal Financial Service spol. s.r.o. in Prague, and our representative office in Moscow. We maintain a representative office in Istanbul, which reports directly to Aareal Bank AG's head office.

New business originated in Eastern Europe amounted to € 0.6 billion and was generated predominately in Russia, Poland and the Czech Republic.

North America (NAFTA states)

We have an active presence in North America through our subsidiary Aareal Capital Corporation, which has an office in New York. It also holds parts of Aareal Bank Group's loan portfolio in the US, unless these are included in the cover assets pool for Mortgage Pfandbriefe.

We originated new business in the amount of € 1.0 billion in North America. The greatest share by far of new business was conducted in the US, whilst Mexico and Canada accounted for only a marginal portion thereof.

Asia

Our Singapore subsidiary Aareal Bank Asia Limited is responsible for managing the Sales activities in Asia. We have a presence in China with our representative office in Shanghai.

We generated new business in the amount of € 0.4 billion in the Asian region, which was accounted for solely by China and Japan.

Pooling the resources of industry specialists internationally

In addition to the regional expertise of our regional teams, we have teams of sector specialists covering financing solutions for hotels, logistics and retail property at the Wiesbaden head office. Assuming the role of centres of competence, they are available to international investors as central points of contact. They also serve as internal consultants for specific issues related to the sectors they cover: hotels, logistics and retail.[1)]

Hotels

We generated new business of € 1.3 billion in hotel financings during the year under review. The regional focus was on Western Europe, followed by North America.

Logistics properties

New business for financing logistics properties amounted to € 0.8 billion, with exposures in Western Europe accounting for the highest share by far, followed by Eastern Europe.

Retail properties

New business for financing retail properties totalled € 1.4 billion, whereby the major part was attributable to North America, followed by Asia and Southern Europe.

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

Segment result

At € 108 million, operating profit in the Structured Property Financing segment was up significantly on the previous year (€ 67 million).

Net interest income posted by the segment for the financial year under review amounted to € 467 million (2009: € 410 million). This increase in net interest income was mainly attributable to higher average margins generated in the lending business, resulting from new exposures and renewals concluded during 2009 and 2010.

Allowance for credit losses for the financial year was recognised in the amount of € 105 million (2009: € 150 million).

Net commission income of € -9 million (2009: € 1 million) included € 30 million (2009: € 17 million) in running costs for the guarantee facility extended by SoFFin. Utilisation of the remaining SoFFin guarantee framework of € 2 billion at the end of June 2010 resulted in an increase in these costs compared with the previous year. Adjusted for these costs, net commission income exceeded the previous year's figure.

Net trading income / expenses of € 8 million (2009: € 44 million) was largely due to the measurement of trading derivatives used to hedge interest rate and currency risk, and to realised and unrealised changes in value from sold hedging instruments on selected EU sovereign countries. Results from non-trading assets of € -13 million (2009: € -22 million) were mainly attributable to the sale of fixed-income securities.

Additional compensation payment of € 5 million received in the second quarter of 2010 from the stake previously held by the Group in Deutsche Interhotel Holding GmbH & Co. KG was reflected in investments accounted for using the equity method.

Structured Property Financing segment

Euro mn	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Net interest income	467	410
Allowance for credit losses	105	150
Net interest income after allowance for credit losses	**362**	**260**
Net commission income	-9	1
Net result on hedge accounting	-2	-2
Net trading income/expenses	8	44
Results from non-trading assets	-13	-22
Results from investments accounted for using the equity method	5	1
Results from investment properties	-17	0
Administrative expenses	217	201
Net other operating income/expenses	-9	-12
Impairment of goodwill	0	2
Operating profit	**108**	**67**
Income taxes	32	13
Segment result	**76**	**54**
Allocation of results		
Segment result attributable to non-controlling interests	16	16
Segment result attributable to shareholders of Aareal Bank AG	60	38

A non-recurring expense of € 20 million was recognised for the realignment of an investment property during the financial year under review. This expense was reflected in the results from investment properties, which amounted to € -17 million during the financial year (2009: € 0).

At € 217 million, administrative expenses in the Structured Property Financing segment were higher than the corresponding figure for the previous year (2009: € 201 million). One of the factors contributing to this increase was higher provisions for share-based remuneration, due to the positive performance of Aareal Bank's share price during the financial year under review.

Taking into account net other operating income and expenses of € -9 million (2009: € -12 million), the operating profit for the Structured Property Financing segment amounted to € 108 million (2009: € 67 million). After deduction of tax expenses of € 32 million and € 16 million in non-controlling interests, the segment result was € 60 million (2009: € 38 million).

Consulting / Services

Business development

Aareon AG

Aareon AG is a leading international consultancy and IT systems house serving the property management sector. Business performance continued to be positive in 2010, with operating profit clearly exceeding the favourable results achieved in previous years. Sales revenue was down slightly on the previous year's levels.

Aareon AG's business comprises a range of ERP products (enterprise resource planning) and integrated services. The ERP systems facilitate efficient process design in property management as well as a wide range of evaluation options to support management decisions. With its multi-product strategy, Aareon meets the various requirements of the property management sector. It offers the Wodis / Wodis Sigma, Blue Eagle ERP products that are based on SAP®, and the GES and Wohn-Data systems. Current trends, as well as industry and client requirements, were incorporated in the continuous development process of the ERP products, such as for example, the system-integrated support of Zensus 2011 (building and apartment census within the scope of the German national census for 2011), the integration of the SCHUFA (Germany's retail credit rating agency) services, and statement of energy usage. During the 2010 financial year, many clients used the integrated services offered by Aareon (e.g. the Mareon service portal, Aareon DMS document management system), which can be networked with the ERP products. These services supported the collaboration between property management companies and their business partners to improve process efficiency.

The market success of the new Wodis Sigma product generation that was launched in 2009 continued in 2010. Wodis Sigma is based on one of the leading international development platforms, Microsoft®.NET™. Overall, 142 clients were working with the system in their day-to-day operations at the end of 2010. This comprises 138 production roll-outs in 2010, such as for example, the non-profit housing construction cooperative "Stadt Cottbus" eG, Cottbus and the Vitus Group, which is headquartered in Mönchengladbach and is active throughout Germany. An additional 115 clients decided in favour of Wodis Sigma during the financial year under review. The total number of Wodis Sigma clients stood at 321 as at year-end 2010. Aareon presented the new Wodis Sigma Release 2.0 – which comprises numerous functional extensions – at the Wodis Forum, the annual client event held in Bochum in November.

Although the environment for SAP®-based property management solutions was characterised by lower tender volumes in 2010, it remains highly competitive nonetheless. Notwithstanding this challenging environment, Aareon achieved success with its SAP advisory solutions. Aareon's clients NEULAND Wohnungsgesellschaft mbH, Wolfsburg, and Nibelungen-Wohnbau-GmbH, Braunschweig, decided in favour of company-specific customisation of the existing Blue Eagle solution. LEG Landesentwicklungsgesellschaft NRW GmbH, Dusseldorf, one of Germany's leading property management companies, signed a contract for implementing Blue Eagle Individual. GWG Gemeinnützige Wohnungsgesellschaft für den Kreis Viersen AG and VAB Viersener Aktien-Baugesellschaft AG jointly invited tenders to be submitted for new ERP software. Aareon was awarded the tender for the implementation and hosting of Blue Eagle Individual. Additionally, IGG (the Large GES Users Group) and Aareon signed a letter of intent for the implementation of SAP®-based systems (Blue Eagle Individual). Blue Eagle Release 6.1 was rolled out on schedule.

The two established GES (APS solution) and WohnData (in-house solution) systems were continuously developed further during the period under review, in line with major market requirements, and statutory regulation in particular. Various new functions were added to the two GES versions during 2010. Back in 2009, the WohnData Client Advisory Council and Aareon agreed on the WohnData run time: WohnData clients should determine their IT strategies. select their software and agree on a conversion project for 2010/2011. Most of the clients had already converted to another Aareon ERP product, and further conversions are planned.

For the purposes of integrating and optimising payment transaction processes, Aareon – together with the bank's Institutional Housing Unit – offers the BK 01® payment system for GES, Wodis/Wodis Sigma and WohnData, whilst the BK XL® system including a digital signature feature is exclusively available with Blue Eagle. These systems can be used by property management companies for efficient postings, payments and accounting.

Within the scope of the Integrated Services product line, the Mareon service portal was implemented by around 250 property companies and 8,500 crafts enterprises. 32 clients signed Mareon agreements in 2010 alone. The volume of orders placed through Mareon amounted to € 530 million during 2010. More than 100 clients meanwhile operate with Aareon DMS, of which more than 40 joined during 2010.

Aareon's international business was also positive during the period under review. Aareon France acquired additional clients in 2010, including Logement Français, one of France's leading commercial housing enterprises. Aareon France held its client congress in Paris in June. Clients showed strong interest, with the new product generations Prem'habitat 2.0 and PortalImmo Habitat 2.0 attracting particular attention. Despite facing aggressive price competition on the British market, Aareon UK acquired several new accounts.

In the course of expanding the international business in markets with relatively high volume and and high yields, Aareon acquired a 100 % stake in the Dutch SG|automatisering bv, Emmen, on 1 November 2010. The company is the second-largest provider of IT solutions to the institutional housing industry in the Netherlands. Aareon therefore expanded its international business to include the important Dutch market and continued to extend its position on the European market. As part of focusing its international activities, Aareon disposed of its shares in the subsidiary Aareon Italia S.r.l. as at 30 September 2010, selling the stake to eFM, Rome. Unlike Aareon's other business divisions, Aareon Italia operated exclusively in the area of commercial property, which generated few synergies with the other Aareon activities.

Payments and deposit-taking

BK 01, the leading payments system for the institutional housing industry, provides the basis for this business. Developed by our group subsidiary Aareal First Financial Solutions AG together with the bank's Institutional Housing Unit, this payments system has a high integration capability that facilitates a significant degree of process automation in the clients' systems.

During the 2010 financial year, we further strengthened our market position by acquiring 80 new institutional housing industry partners managing more than 150,000 units between them for the payments and deposit-taking businesses. Now, more than 2,700 business partners throughout Germany employ our process-optimising products and banking services.

Despite ongoing predatory competition for client deposits in terms of pricing during the 2010 financial year, the volume of deposits taken from the institutional housing industry averaged € 4.1 billion (2009: € 4.0 billion), a slight increase. This underscores the high level of confidence our clients place in our financial position and performance.

We continued to focus on the acquisition of new business partners during the financial year under review. On the one hand, we covered the area of commercial property management, where we acquired an additional three users with our efficiency-enhancing services and processes. On the other hand, four energy utilities decided in favour of our BK 01 immoconnect product, which allows companies operating in the housing and the energy sectors to jointly realise synergies.

In 2010, we strengthened our communications and distribution activities in the market for property management companies in order to tap the corresponding potential for new business partners.

Segment result

Operating profit in the Consulting/Services segment amounted to € 26 million (2009: € 20 million). While Aareon's business continued to develop on schedule, the prevailing low interest rate environment – which persisted for longer than anticipated – burdened profitability in the deposit-taking business.

Sales revenue amounted to € 199 million in the 2010 financial year (2009: € 209 million). The decline was largely due to the low interest rate environment, which impacted unfavourably on profitability of the deposit-taking business with the institutional housing industry. Nonetheless, the volume of deposits from this industry increased slightly, despite still facing predatory competition, averaging at around € 4.1 billion during the 2010 financial year. Sales revenue included € 5 million of revenue generated by SG|automatisering bv, a Dutch subsidiary acquired by Aareon during the fourth quarter of 2010.

Consulting / Services segment

	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Euro mn		
Sales revenue	199	209
Own work capitalised	2	2
Changes in inventory	0	0
Other operating income	8	7
Cost of materials purchased	23	25
Staff expenses	100	109
Depreciation, amortisation and impairment losses	13	14
Results from investments accounted for using the equity method	–	0
Other operating expenses	47	50
Interest and similar income/expenses	0	0
Operating profit	**26**	**20**
Income taxes	8	7
Segment result	**18**	**13**
Allocation of results		
Segment result attributable to non-controlling interests	2	2
Segment result attributable to shareholders of Aareal Bank AG	16	11

At € 8 million, net other operating income and expenses were unchanged from the previous year's level. This figure includes non-recurring income of € 1 million from the deconsolidation of Aareon Italia S.r.l. The interests in this company were disposed of as at 30 September 2010.

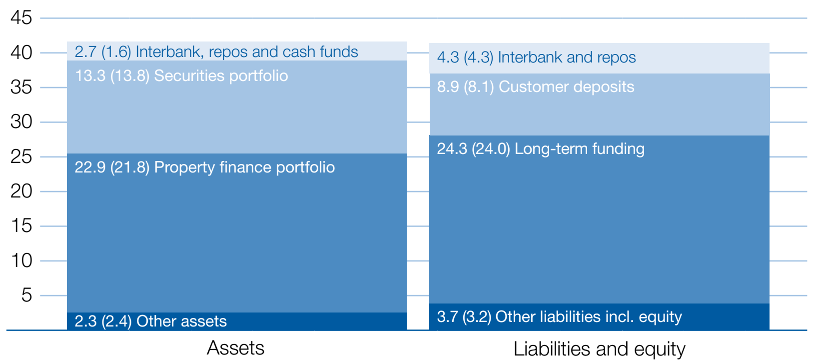
Staff expenses of € 100 million were down on the previous year (2009: € 109 million). The figure for the financial year under review includes costs of € 2 million incurred by the Dutch subsidiary SG|automatisering bv which was acquired by Aareon.

Write-downs in the amount of € 13 million (2009: € 14 million) as well as net other operating expenses of € 47 million (2009: € 50 million), were also lower than in the previous year.

On balance, operating profit for the Consulting / Services segment was € 26 million (2009: € 20 million). Adjusted to take into account taxes of € 8 million and € 2 million in non-controlling interests, the segment result stands at € 16 million (2009: € 11 million).

Statement of financial position – structure as at 31 Dec 2010 (31 Dec 2009)

Euro bn



Financial Position

Net assets

Consolidated total assets of Aareal Bank Group as at 31 December 2010 amounted to € 41.2 billion, after € 39.6 billion as at 31 December 2009.

Interbank deposits, repos, and cash funds

Interbank deposits, repos, and cash funds comprise short-term investments of surplus liquidity. As at 31 December 2010, this comprised predominately cash funds and deposits with central banks (€ 0.9 billion), term deposits and current account balances (€ 0.9 billion) as well as (reverse) repo transactions (€ 0.8 billion).

Securities portfolio

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

As at 31 December 2010, the securities portfolio[1] worth € 13.3 billion (nominal volume of € 12.3 billion) comprised the four asset classes of public sector borrowers, Pfandbriefe and other covered bonds, bank bonds, and asset-backed securities. 96 % of the overall portfolio is denominated in euros. 99.9 % of the portfolio has an investment-grade rating.[2]

Public sector borrowers are the largest asset class held, accounting for a share of approx. 72 %. These include securities and promissory note loans[3] that qualify as ordinary cover for Public Sector Pfandbriefe; in other words, predominately notes from or guaranteed by public sector issuers. 97 % of this asset class is attributable to borrowers registered within the EU. Roughly 91 % of the asset class are rated AA- or better, and a further 7 % have a single-A rating. The remaining 2 % also have an investment grade rating.

The share of Pfandbriefe and covered bonds at year-end was approx. 11 %. 95 % consists of European covered bonds, with the remainder invested in Canadian covered bonds. All of the securities in this asset class are at least rated AA+, with approx. 80 % having a triple-A rating.

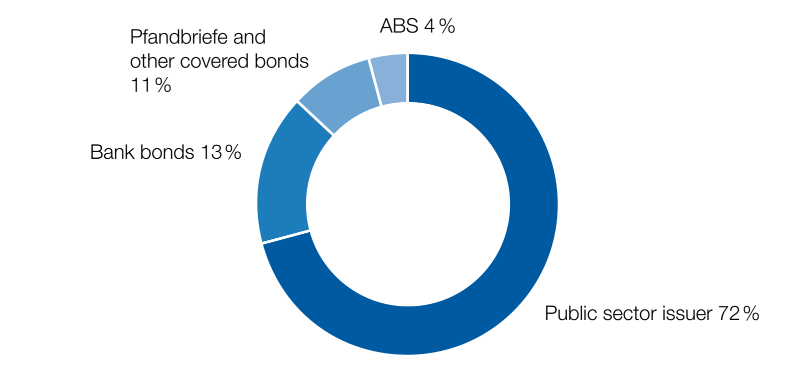
The bank bond asset class is made up predominately of European issuers of impeccable credit quality. The share of this asset class was approx. 13 % at year-end. Approx. 97 % of the asset class has a rating of single-A or better.

Additionally, around 4 % of the securities portfolio is invested in ABS securities, of which some 80 % are European mortgage-backed securities. The asset class comprises 63 % RMBS, 23 % CMBS, and 14 % asset-based securities on car and student loans.

[1] The percentage breakdown of the securities portfolio is based on nominal values.
[2] All rating details are based on composite ratings.
[3] Receivables from promissory note loans are reported in the IFRS statement of financial position under "Loans and advances to banks" and "Loans and advances to clients", respectively.

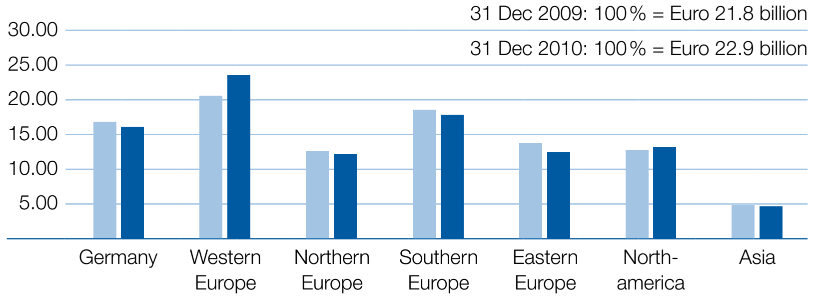
Securities portfolio as at 31 December 2010

% Total volume (nominal): Euro 12.3 billion



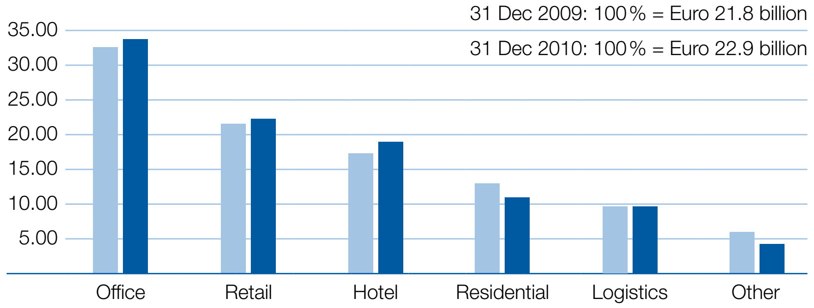
Property financing volumes (amounts drawn)

by region (%)



Property financing volumes (amounts drawn)

by type of property (%)



Property financing portfolio

Portfolio structure

The volume of Aareal Bank Group's property financings[1] expanded from from € 21.8 billion to € 22.9 billion in 2010. This equates to an increase of 4.7 %.

At the 2010 reporting date, Aareal Bank Group's property financing portfolio was composed as shown in the following graph, compared with the year-end 2009.

The allocation of the portfolio by region and continent changed only marginally in 2010 compared with the end of the previous year. The proportion

[1] As at 31 December 2010, the portfolio of property financing under management totalled € 23.3 billion (2009: € 22.3 billion). Property financings under management include the property financing portfolio managed for Deutsche Pfandbriefbank AG.

of portfolio exposures to Germany, Southern and Eastern Europe was down slightly, compared with an increase in the share accounted for by Western Europe and North America.

The allocation of the portfolio by property type remained more or less unchanged during the year under review, whereby the share of residential property financings was reduced further.

Portfolio development

New business including loan renewals originated during the 2010 financial year (2009: € 3.8 billion) amounted to € 6.7 billion, which we believe to be adequate in light of the market conditions.

Repayments on the property financing portfolio include all types of scheduled and unscheduled principal payments by clients. At € 2 billion (2009: € 2 billion), repayments remained stable during 2010. Based on the portfolio at year-end 2009, this represents a repayment ratio of 9.3 % (2009: 8.7 %).

This development is attributable to the still moderate volume of new investments on the property markets. Aareal Bank Group also adopted a selective approach to new business in 2010. The share of loan renewals relative to total new business has contracted further, compared with the previous year.

A portion of the property financing portfolio has been committed in foreign currencies. As a rule, foreign-currency loans are refinanced in the same currency. Although material exchange rate risks are hedged, exchange rate fluctuations impact on the performance of the euro equivalent of the portfolio volume. Some currencies fluctuated considerably against the euro in 2010 – in particular, the US dollar, the Canadian dollar and the Swiss franc. At year-end, the euro/US dollar exchange rate was slightly lower than at the start of the year; portfolio volume slightly increased as a result.

The volume of loans included in cover for mortgage bonds increased further during the year under review: from € 8.2 billion as at 31 December 2009 to € 8.5 billion as at 31 December 2010, up by around € 300 million. This equates to an increase of approx. 4 %.

The secondary market – the market for syndication and securitisation of commercial property financings – remained quite unreceptive during the financial year under review, due to persistent market tension and the resulting reticence of market participants. As in the previous year, only a limited amount of new syndications was therefore carried out through our international network of partner banks during the 2010 reporting period. However, the total volume of new syndications was increased relative to 2009.

No securitisations were carried out during the reporting period.

Financial position

Interbank and repo business

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

The funding portfolio as at 31 December 2010 included € 3.3 billion in funds raised via repo transactions as well as € 1.0 billion from other interbank transactions.

No open-market transactions were concluded with the ECB during 2010. No fixed-rate repurchase transactions were outstanding as at 31 December 2010.

Customer deposits

As part of our activities on the money market, we generate deposits from institutional housing clients, and from institutional investors. The volume of deposits from the institutional housing industry increased during the reporting period, reaching € 4.5 billion (2009: € 3.8 billion) as at 31 December 2010. Deposits from institutional investors also increased slightly in 2010, amounting to € 4.4 billion (2009: € 4.3 billion) as at 31 December 2010.

Long-term funding

Funding structure

Aareal Bank Group's funding is solid, as evidenced by the high proportion of long-term refinancing. This encompasses registered and bearer Pfandbriefe, promissory note loans, medium-term notes, other bonds and subordinated issues, including subordinated liabilities, profit-participation certificates, silent participations and trust preferred securities. As at 31 December 2010, the long-term refinancing portfolio accounted for € 24.3 billion. Mortgage Pfandbriefe accounted for € 6.6 billion and Public Sector Pfandbriefe for € 3.4 billion, whilst € 14.3 billion was made up of long-term unsecured and subordinated bonds and registered securities.

Overall, the share of Pfandbriefe as a proportion of total refinancing in 2010 once again increased over the previous year.

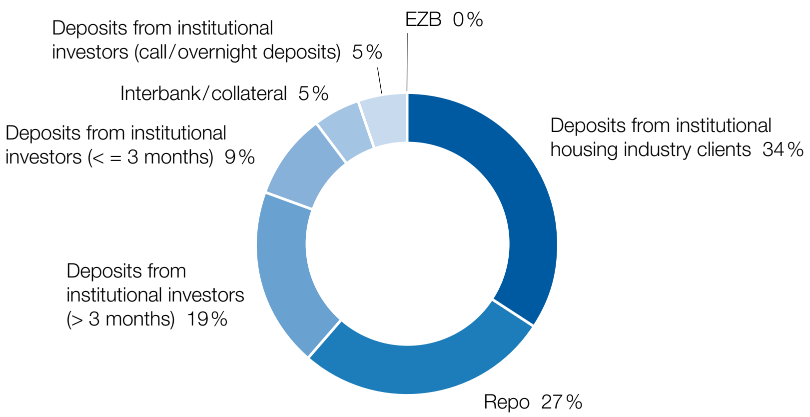
Refinancing activities

During the period under review, Aareal Bank succeeded in raising a total of € 3.9 billion of medium- and long-term funds on the capital market. The issue volume of long-term unsecured funds amounted to € 1.5 billion. Mortgage Pfandbriefe accounted for € 2.2 billion of the total volume and Public Sector Pfandbriefe for € 0.2 billion. This once again proves how very important Pfandbrief issuance is to Aareal Bank's refinancing activities. Of the various privately- and publicly-placed issues, particular mention should be made of the two benchmark Mortgage Pfandbriefe placed in January and June 2010, with terms of five and three years respectively, and an issue volume of € 500 million each.

Although the market environment remained challenging, the Pfandbrief proved itself once again in the 2010 financial year as a hallmark of security. In view of the level of quality, strict legal requirements and successful capital market history,

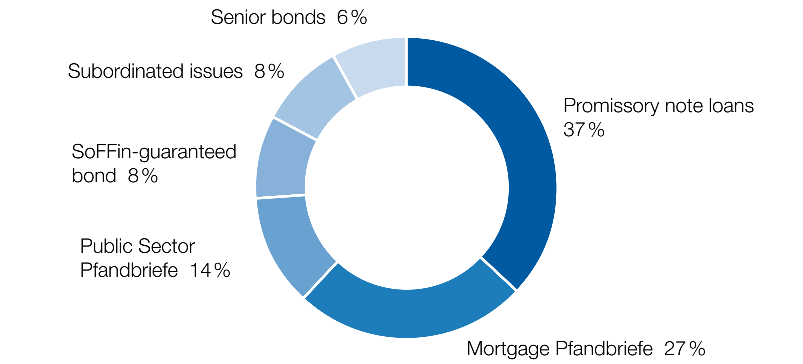
Money market refinancing mix as at 31 December 2010

% | Total voume: Euro 13.2 billion



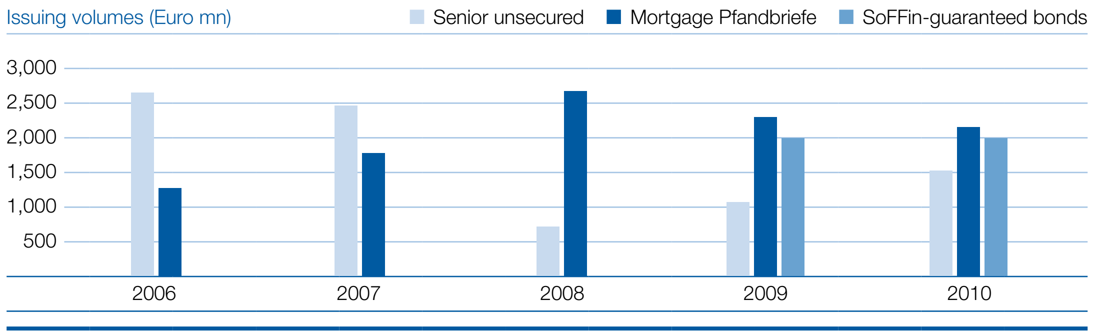
Capital market refinancing mix as at 31 December 2010

% | Total volume: Euro 24.3 billion



Pfandbriefe offer a reliable refinancing source and a refinancing option to Pfandbrief banks to raise long-term funds, especially during times when investors are demanding high security requirements. This offers Aareal Bank significant refinancing advantages. Pfandbrief issuance will continue to play a central role in Aareal Bank's refinancing mix.

Issuance – 2006 to 2010



In June 2010, Aareal Bank exercised the option of drawing on the remaining € 2 billion available under SoFFin's guarantee facility. This measure was purely precautionary. Aareal Bank will continue to hold the bond on its own books. The guarantee facility will continue to secure financial flexibility for the bank's refinancing activities until 2013. This precautionary drawing on the SoFFin guarantee facility is a reflection of our efforts to ensure that we are able to respond quickly and flexibly at all times to possible market disruptions in this uncertain market environment.

Effects of the financial markets, economic and debt crises

Following the severe recession, the global economic recovery that set in as of mid-2009 remained intact in most economies in 2010. However, recovery lost momentum in the second half of the year, and economic development diverged widely across different regions. The emerging economies of Asia – China in particular – experienced the most positive development. In contrast, growth rates in North America and Europe were down and differed depending on the specific country in question. The economies in Germany, Poland, Sweden and Turkey posted significant recoveries, whereas real economic output in Ireland, Greece and Spain contracted.

Financial markets were impacted by the debt crisis of some of the euro zone's peripheral countries, such as Greece and Ireland, leading to considerable distortions during the course of the year. In April, Greece was no longer able to refinance maturing government bond issues on the capital markets without third-party support. As a reaction to this situation, euro zone member countries and the IMF put together a € 110 billion rescue package for Greece. Because the loss of confidence that prevailed among investors spread to some other euro zone countries such as Ireland, the EU, the IMF and euro zone members issued another rescue package totalling € 750 billion. These support measures provide financial support to those countries that have encountered problems in raising funding. Ireland also sought support in November, which it was granted in the amount of € 85 billion, to cover the budget's refinancing requirements: the Irish government had run into trouble following a massive bailout of Irish banks, which were recapitalised using the support provided. In the course of the debt crisis, the risk premiums for government bonds considered by the capital markets to be subject to higher levels of risk, such as Greece, Ireland and Portugal, widened significantly during 2010. As a result, the risk premiums of different countries' bonds also widened considerably, whereas German Pfandbrief spreads only widened marginally. Overall, the financial markets clearly relaxed after the tensions in the wake of the financial markets crisis peaked in the autumn of 2008. Nonetheless, they had not yet fully returned to normal last year.

The economic recovery improved the climate on the commercial property markets, and the volume of transactions increased considerably compared with the weakness seen in 2009. However, there was evidence of a clear split on commercial property markets, distinguishing first-class and second-class properties. Investor demand was concentrated on first-class properties. The previous year's significant rise in yield requirements for first-class properties stabilised on many markets or even declined, which had a positive effect on market values. Meanwhile, market values and prices for second-rate properties tended to remain under pressure. This division was also evident on the rental markets. Rents for first-class properties remained stable or increased on the vast majority of markets, whilst the rents for properties of lesser quality were weaker or came under pressure.

Benefiting from economic recovery, and leveraging growing transaction volumes, we increasingly exploited opportunities available to originate attractive new business, which increased to € 6.7 billion during the 2010 financial year – up from € 3.8 billion the year before. The increase in the volume of new business reduced the share of renewals compared with the previous year. We continued to pursue our risk-sensitive lending policy during the 2010 financial year, as well as consistently managing our loan portfolio.

Against the background of the debt crisis, the volatile development on capital markets led to fluctuations in the value of our portfolio of government bonds from the second quarter onwards. The Bank held no Greek bonds in its portfolio during the financial year under review; taking a forward-looking stance, small holdings of Irish government bonds were liquidated. Bearing in mind that future EU rescue mechanisms have not been finally resolved by the EU, markets are expected to remain volatile during 2011.

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

On the money market, Aareal Bank's deposit-taking business returned to normal for the most part, even though the market environment remained difficult. The volume of deposits from institutional investors rose slightly from € 4.3 billion at the start of 2010 to € 4.4 billion as at 31 December 2010.

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. Developments on financial markets forced us to accept additional costs. Although the situation eased somewhat during the fourth quarter, derivatives on some currencies (such as the US dollar or pound sterling) still imply a premium.

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 from the institutional housing industry, had a negative impact. Nonetheless, the volume of deposits from the institutional housing industry were increased slightly over the previous year, amounting to € 4.5 billion as at 31 December 2010 (2009: € 3.8 billion).

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

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

Regulatory indicators

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

Aareal Bank Group applied the Advanced IRB approach (AIRBA) for the first time as at 31 December 2010, replacing the previous Credit Risk Standard Approach (CRSA). In contrast to the CRSA, the Advanced IRB Approach is based on internal models: it allows for a more accurate measurement of credit risks, and hence, for a more precise and risk-adequate allocation of capital.

To ensure the figures are comparable, the tables below are shown in accordance with the AIRBA as well as the CRSA.

Employees

As at 31 December 2010, Aareal Bank Group employed 2,407 employees, so that the number of employees has increased by 92 compared to 31 December 2009. The rise in employee numbers is largely due to the takeover of Dutch SG|automatisering bv, Emmen, by subsidiary Aareon AG on 1 November 2010.

Age structure and fluctuation

The fluctuation ratio for 2010 was 2.0 %. The average number of years of service in the company was twelve. These two figures are a reflection of the strong relationship of the employees with the company. On average, our employees are 43 years of age.

Qualification and training programmes

Aareal Bank invests in its employees on an ongoing basis, and in a targeted manner. The emphasis is on supporting specialist, entrepreneurial and communicative skills over the long term. The international orientation of the continued professional development is also particularly important. Specifically, this involves preparing and training to achieve linguistic and cultural competencies.

The broad range of management, qualification and training programmes offered by our internal corporate university, the "Aareal Academy", underlines the great importance Aareal Bank attaches to promoting qualification and continuing professional development. Our range of courses was expanded further during the year under review and used regularly by Aareal Bank staff members.

Aareal Bank views its training and continued professional development activities as an investment in its own employees, and therefore in the future of the entire Group. More than 1,000 individual development measures were agreed between management and employees at the start of 2010. As a result, 3,064 employees participated in continuing professional development measures during the year under review. This represents an increase of 16 % over 2009.

Additionally, Human Resources advises the various divisions on strategic human resources development, providing a starting point for the development measures offered, particularly in the case of Aareal Bank's experts. Human Resources developed the corresponding customised measures for the different divisions. The outcome of this systematic Human Resources development approach is that Aareal Bank employees of Aareal Bank invested one week a year on average in professional development seminars and workshops in 2010.

The bank also focused on professional development programmes for systematic executive development and to strengthen the expert career path. The internal series of events "From Experts for Experts" established another element in the transfer of knowledge.

An intensive executive development programme started in the 2010 financial year, which was oriented on the results of the employee reviews. At the same time, a procedure for assessing potential was established in 2010, which offers systematic support prior to the transfer of a management duty or specialist (expert) position.

Aareal Bank actively promoted international networking and teamwork during the 2010 financial year. Managers were involved in the development of corresponding training units for the experts in both the Sales units and Credit Management functions. Particular attention in this context was paid to the new business seminars relating to all aspects of the lending business that were developed on a joint basis and across the various units.

Regulatory indicators pursuant to AIRBA

	31 Dec 2010[1]	31 Dec 2009
Euro mn		
Core capital	2,284	2,415
Liable capital	2,910	3,290
Risk-weighted assets (incl. market risk)	17,663	–
%		
Tier 1 ratio	12.9	–
Total capital ratio	16.5	–

Regulatory indicators pursuant to CRSA

	31 Dec 2010[1]	31 Dec 2009
Euro mn		
Core capital	2,284	2,415
Liable capital	2,910	3,290
Risk-weighted assets (incl. market risk)	21,675	21,875
%		
Tier 1 ratio	10.5	11.0
Total capital ratio	13.4	15.0

[1] After confirmation of the financial statements 2010 of Aareal Bank AG. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2010 is subject to approval by the Annual General Meeting.

Personnel data as at 31 December 2010

	31 Dec 2010	31 Dec 2009	Change
Number of employees of Aareal Bank Group	2,407	2,315	4.0 %
Number of employees of Aareal Bank AG	999	987	1.2 %
of which: outside Germany	121	106	14.2 %
of which: Proportion of woman	46.0 %	46.8 %	
Number of years of service	12.0 years	11.8 years	0.2 years
Average age	43.0 years	42.7 years	0.3 years
Staff turnover rate	2.0 %	1.2 %	
Part-time ratio	17.4 %	15.7 %	
Retired employees and surviving dependants	573	583	-1.7 %

In cooperation with the EBS Business School (EBS) and its Real Estate Management Institute, Aareal Bank offers its employees the chance to participate in executive courses of study specific to the property sector. Employees may also attend events arranged by EBS, the bank's partner institution of higher education. This good working relationship is also boosted in particular by the fact that Aareal Bank staff actively support the development of the training courses by acting in the capacity of guest lecturers. Aareal Bank extended its cooperation with the EBS Business School for a further three years. With the Aareal Foundation Chair for Property Investment and Financing at the EBS Real Estate Management Institute (EBS-REMI), Aareal Bank has been one of the most important supporters of the university since 2006.

Group subsidiary Aareon AG implemented the training measures that were devised by the development centre for executives in the 2010 financial year. New executives also participated in a development centre in 2010. The training also focused on enhancing the qualifications of facilitators, training offers for the Wodis Sigma product line, plus the revival of the training programme to become a Certified Property Manager at the Hochschule für Wirtschaft und Umwelt Nürtingen-Geislingen (HfWU).

Promoting the next generation

Promoting the next generation through training is a central element of our HR work. To this end, Aareal Bank has been offering an individually tailored trainee programme for university graduates since 2000. This programme has now been offered for the last ten years. Six new employees embarked on the Aareal Bank trainee programme during the period under review.

The comprehensive work placement programme introduced in 2008 met with a very good response. During the 2010 financial year, numerous students took up the opportunity to become more familiar with one of the Bank's divisions – or one of its locations – through active collaboration. A well-functioning network has been created on the basis of the good response to this programme.

Group 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 real estate management, in cooperation with the University of Cooperative Education in Leipzig and the Duale Hochschule Baden-Württemberg (DHBW) in Mannheim.

Recognition as a top employer

Aareal Bank has been listed as one of Germany's "Top Employers" for the third time now. Certification is awarded by the independent CRF Institute research company. The list is exclusively made up of companies that nurture a positive corporate culture and provide intensive support to their employees. Aareal Bank achieved particularly good results in the area of corporate culture and development potential, and was ranked third among all participating companies in relation to work / life balance.

Work / life balance

Aareal Bank also supported a private initiative offering crèche places in Wiesbaden during the period under review, thus helping its employees to improve the compatibility of family and working life. Additionally, the company cooperated with the City of Wiesbaden to offer childcare facility to its employees during the school holidays. We also offer our employees – provided the position allows it – the opportunity to incorporate home working into their working hours, as well as offering flexible part-time working arrangements.

Report on material events after the reporting date

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

Risk Report

Aareal Bank Group Risk Management

The responsible targeted handling of risks is crucially important to a bank's stability and business performance. Therefore, a professional risk management infrastructure is at the heart of our business decisions. Against this background, we have committed extensive human and technological resources to continue developing our risk management system during the financial year under review.

Risk management – scope of application and areas of responsibility

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

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

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

Strategies

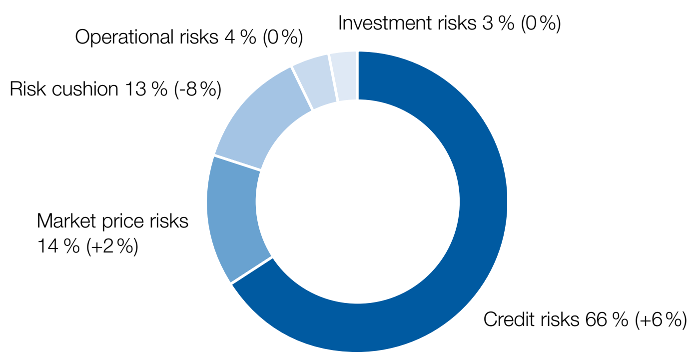
The business policy set by the Management Board, and approved by the Supervisory Board, provides the conceptual framework for risk management. Taking this as a basis, and strictly considering the bank's risk-bearing capacity, we have formulated detailed strategies for managing the various types of risk.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

Risk-bearing capacity and risk limits

The bank's ability to carry and sustain risk – which is defined by the amount of aggregate risk cover – is a core determining factor governing the structure of its risk management system. Aggregate risk cover is defined as core (Tier 1) capital less any negative differences between the carrying amount of securities held and their market value, plus the budgeted net income before taxes. The calculation does not include additional funds such as supplementary and subordinated capital. The aggregate risk cover is updated at least once a year, and additionally in the event of significant changes occurring (such as a capital increase, or a change in earnings projections). We have thus implemented a system based upon limits defined in a conservative manner, and differentiated according to the type of risk. The aggregation of individual limits is based on the assumption that no risk-mitigating correlation effects exist amongst different types of risk. A monthly report submitted to the Management Board provides information regarding the utilisation of individual limits for the material types of risk, as well as on the overall limit utilisation.

Allocation of aggregate risk cover

% (Change from 31 Dec 2009 (% points)) Updated: 31 Dec 2010



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

At 66 %, credit risks account for the largest part of the bank's aggregate risk cover; 14 % is retained to cover market price risks, 4 % for operational risks and 3 % for investment risks. In addition, a substantial portion (13 %) of the aggregate risk cover serves as a risk cushion, which is not applied to risk limits, and is thus available for risk types that cannot be quantified (for example, reputational or strategic risks). Overall, aggregate risk cover and risk limits are harmonised to ensure Aareal Bank's ability to bear risk at any time, based on the going concern assumption – even against the background of market distortions as a result of the financial markets crisis. The diagram below shows the allocation of aggregate risk cover to types of risk as at 31 December 2010.

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

Stress testing

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

Approval to apply the Advanced Internal Ratings-Based Approach (AIRBA)

We have applied to the German Federal Financial Supervisory Authority (BaFin) to approve the application of internal ratings-based methods for our core business of commercial property financing. Following the successful audit of our models, BaFin approved Aareal Bank's application of the Advanced Internal Ratings-Based Approach (AIRBA) with effect from 31 December 2010. The risk classification procedures we use constitute a core element of our credit risk management infrastructure. Internal ratings have been used for the first time, as at the 31 December 2010 reporting date, to determine the regulatory capital requirements to cover our counterparty credit risk exposure in commercial property financing.

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 division, which is not involved in making lending decisions, is responsible for monitoring all material risks whilst ensuring an adequate and targeted risk reporting system at a portfolio level.

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

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

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

Process requirements

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

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

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

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

Early risk detection procedures

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

In particular, the procedures applied for the early detection of risks serve the purpose of identifying borrowers or exposures where higher risks start emerging, at an early stage. For this purpose, we generally monitor individual exposures and the parties involved (such as borrowers or guarantors) throughout the credit term, assessing quantitative and qualitative factors, using 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.

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

Extensive IT resources are deployed to identify risk positions, and to monitor and measure risks. Overall, the existing set of tools and methods enable the bank to adopt suitable risk management measures, where required, at an early stage.

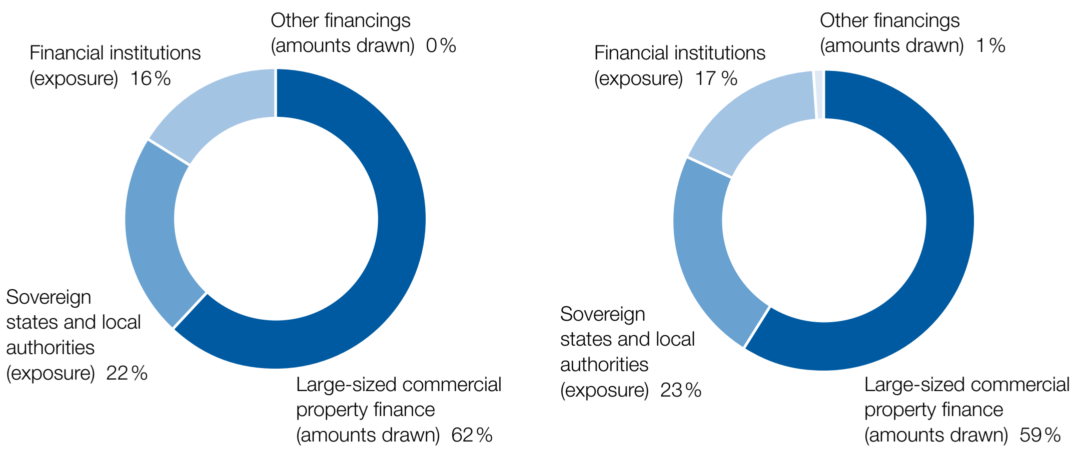
Actively managing client relationships is crucially important in this context: approaching clients in time to jointly develop a solution to any problems which may arise. Where necessary, we muster the support of experts from the independent risk prevention, restructuring, and recovery units.

Risk classification procedures

Aareal Bank employs various risk classification procedures for the initial, regular, or event-driven assessment of counterparty risk. The rating scales

Breakdown of exposure / amounts drawn by rating procedure

31 Dec 2010 | 31 Dec 2009 100 % = Euro 37.1 billion | 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 development banks backed by a sovereign guarantee. Such institutions accounted for 20 % of all rated financial institutions as at 31 December 2010.

and exposure definitions have been customised to match the respective methods. Responsibility for development, quality assurance, monitoring the implementation of risk classification procedures, as well as the annual validation of such procedures, is outside the Sales units.

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

Property financing business

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

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

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

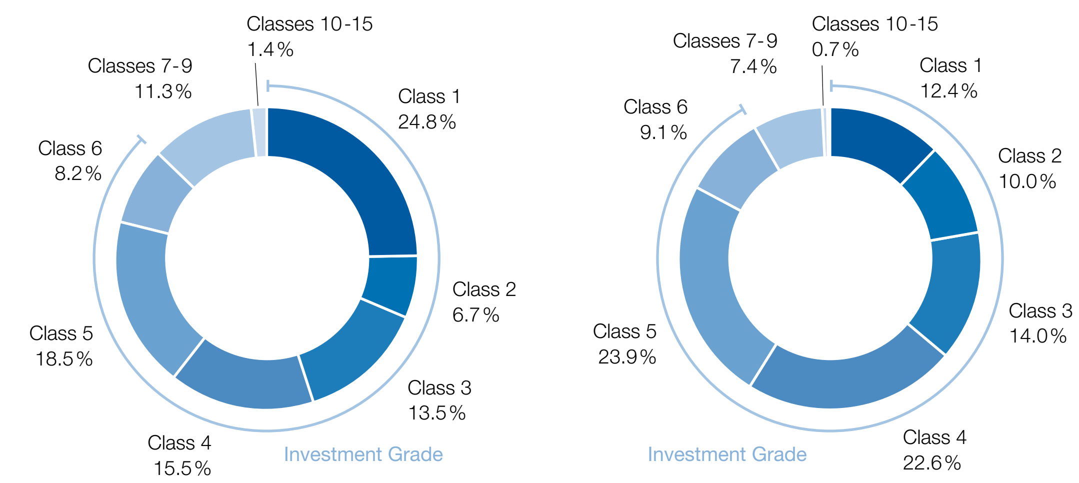
The second step involves calculating the loss given default (LGD). The LGD estimates the extent of the economic loss in the event of a borrower defaulting. In simple terms, this is the amount of the claim not covered by the proceeds from the realisation of collateral. The LGD procedure applied in the bank was further modified during the financial year under review on the basis of the requirements of the Solvency Ordinance.

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

The expected loss (EL) in the event of default of an exposure is determined as the product of

Large-sized commercial property finance

by internal Expected Loss classes as at 31 Dec 2010 | as at 31 Dec 2009



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 on page 85 depict the distribution of lending volume by EL classes as at 31 December 2010 and 31 December 2009, based on the maximum current or future drawdown. The distribution excludes exposures for which no rating has been concluded, or which are in default (as defined under Basel II).

Financial institutions

Aareal Bank employs an internal rating procedure for financial institutions, which incorporates qualitative and quantitative factors as well as our client's group affiliation, to classify the risk exposure to banks, financial services providers, securities firms, public-sector development banks, and insurance companies. Financial institutions are assigned to a specific rating grade by way of assessing relevant financial indicators and taking into account expert knowledge. The changes in the distribution of exposures the exposure across rating classes from 2009 to 2010 do not reflect shifts in the portfolio, but were caused by general sector trends.

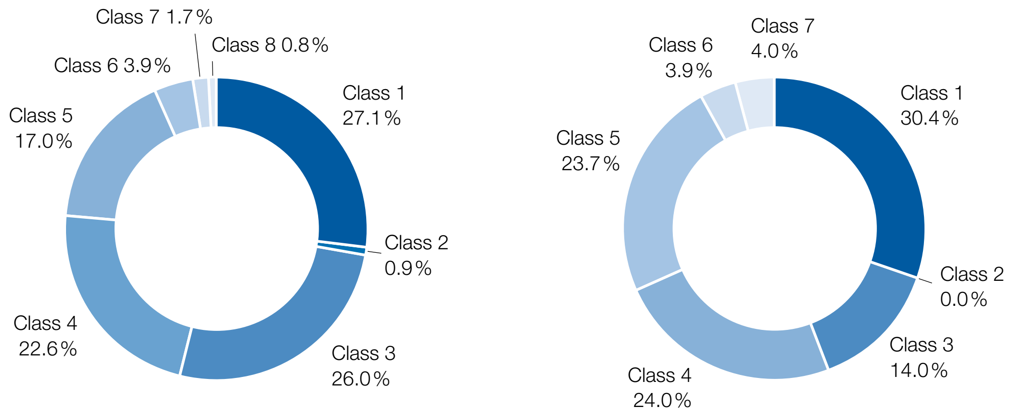
Sovereign states and local authorities

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

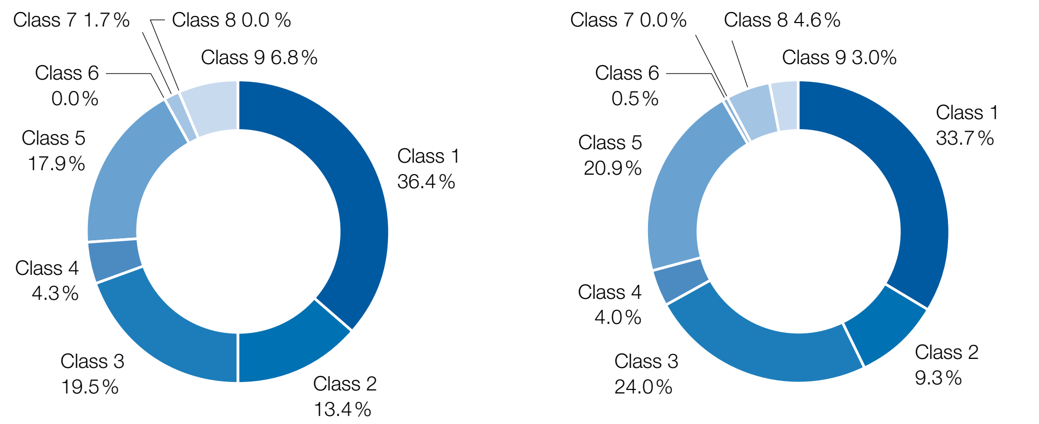
by rating class | as at 31 Dec 2010 | as at 31 Dec 2009



Classes 9-10: 0% | Classes 8-10: 0%

Sovereign states and local authorities

by rating class | as at 31 Dec 2010 | as at 31 Dec 2009



Classes 10-20: 0% | Classes 10-20: 0%

Trading activities

Functional separation

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 front office side, the processing chain comprises the Treasury division; back office tasks (as defined by MaRisk) are carried out by the independent Operations and Risk Controlling divisions. Beyond this, Finance and Audit are responsible for tasks not directly related to processes.

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

The detailed assignment of responsibilities is outlined below.

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

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

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

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

The tasks of the Risk Controlling division comprise identifying, quantifying and monitoring market price, liquidity and counterparty risk exposure from trading activities, and 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 standardised 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 credit risk – as the risk of losses being incurred due to (i) a business partner defaulting on contractual obligations; (ii) collateral being impaired; or (iii) a risk arising upon realisation of collateral. Both credit business and trading activities may be subject to counterparty credit risk. Counterparty credit risk exposure from trading activities may refer to risk exposure vis-à-vis counterparties or issuers. Country risk is also defined as a form of counterparty credit risk.

Credit risk strategy

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

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

Risk measurement and monitoring

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

Based on the results of these models, the bank's decision-makers are regularly informed of the performance and risk content of property financing exposures, and of business with financial institutions. The models permit to identify, measure, monitor and manage risks at a portfolio level. During the financial year under review, our credit risk model was adjusted to take account of the property financing business, where default correlations between borrowers have a significant effect on the credit value-at-risk. The bank oriented the parametrisation of the asset correlation on the regulatory requirements for capital adequacy as laid down by the Solvency Ordinance.

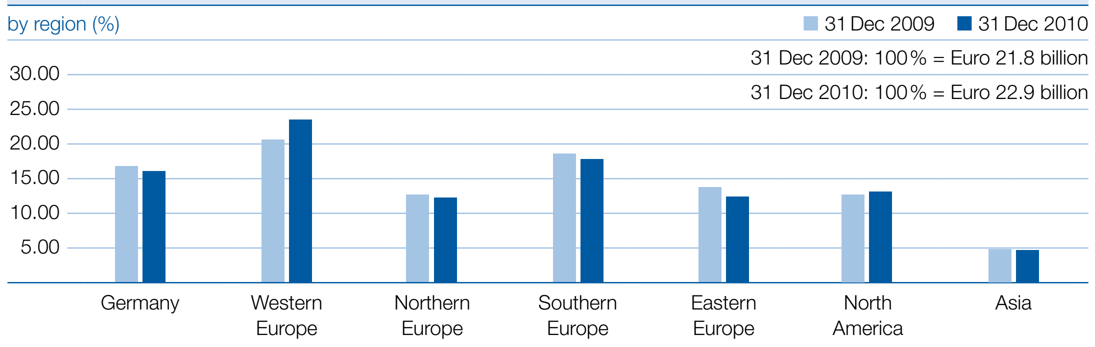
It focuses in particular on the identification, monitoring and management of risk concentrations, where both quantitative and qualitative methods are being used. With regard to counterparty credit risk, these include for example, the regular analysis of our largest borrower units and the analysis of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

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

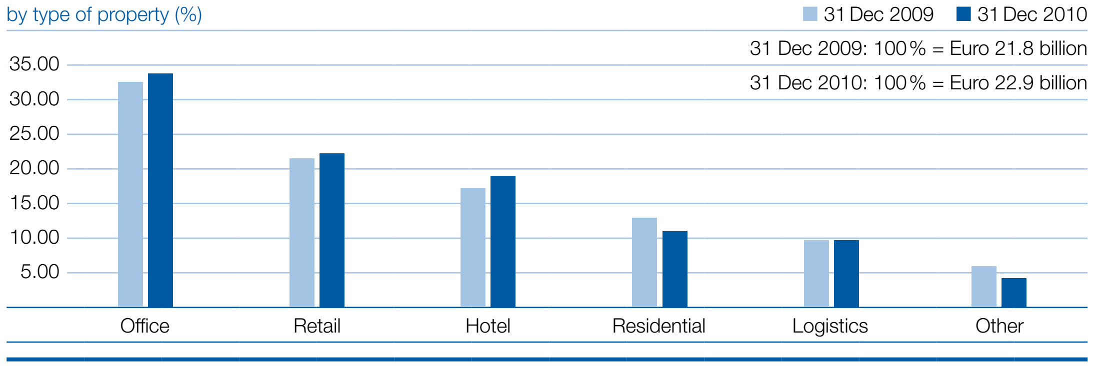
In addition, the bank uses specific tools to monitor individual exposures on an ongoing basis where this is required: besides the tools already described, this includes rating reviews, monitoring of construction phase loans or residential property developers, the monitoring of payment arrears, and the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

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

Property financing volumes (amounts drawn)



Property financing volumes (amounts drawn)



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

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

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

The bank also accepts guarantees or indemnities as well as financial collateral (such as securities or payment claims) as standard forms of collateral. The collateral value of the indemnity or guarantee is determined by the guarantor's credit quality. For this purpose, the bank differentiates between banks, public-sector banks, and other guarantors. The value of financial collateral is determined according to the type of collateral. Haircuts are generally applied when determining the value of guarantees / indemnities and financial collateral. The credit processes provide for the regular review of collateral value. The risk classification is adjusted in the event of material changes in collateral value, and other measures taken as deemed appropriate.

An extraordinary review of collateral is carried out where the bank becomes aware of information indicating a negative change in collateral value. Moreover, the bank ensures that disbursement is only made after the agreed conditions for payment have been met.

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

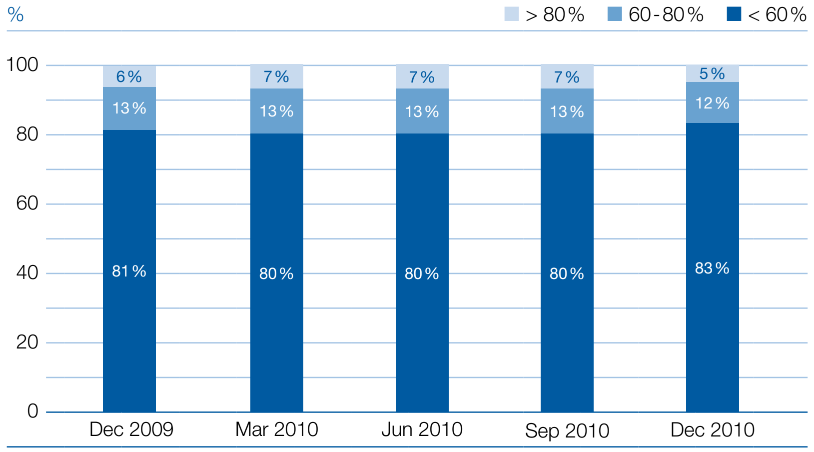
To reduce counterparty credit risk in Aareal Bank's trading business, the master agreements for derivatives and securities repurchase transactions (repos) used by the bank provide for various credit risk mitigation techniques, via mutual netting agreements.

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

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

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

Property finance portfolio by LtV range (quarterly comparison)



Note that the loan-to-value ratios are calculated on the basis of market values, taking into account valuable supplementary collateral from December 2010 onwards.

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

Country risk measurement and monitoring

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

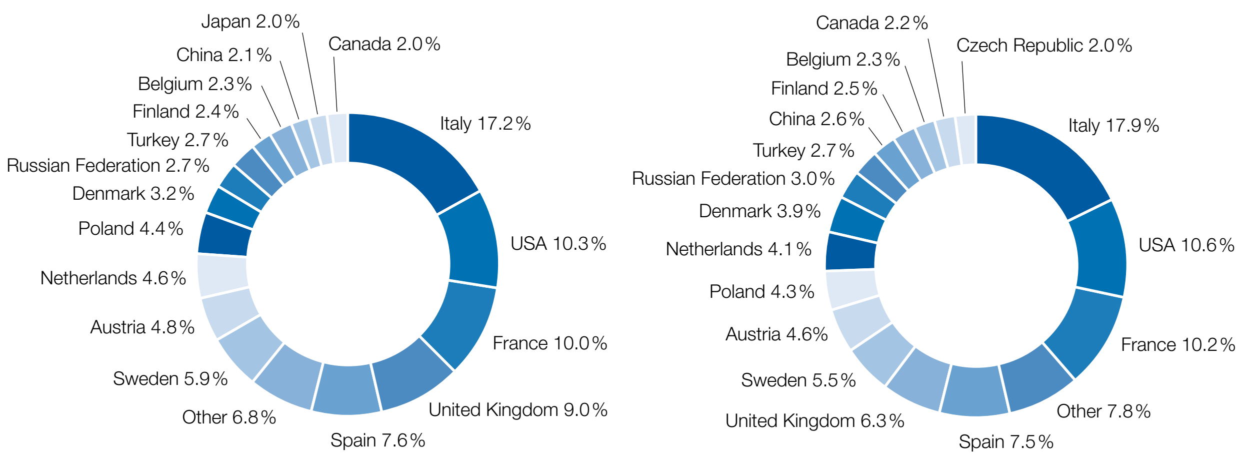
Country risk exposure is managed using a cross-divisional process. The Counterparty and Country Limit Committee carries out a risk assessment of the relevant countries, grades them in country risk groups, and conducts an annual review in terms of country rating. The limits are set by the Management Board.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

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

The diagram below 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

Breakdown of country exposures in the international business

% | 2010 | 2009



the property used as collateral. For exposures not collateralised by property, the allocation is based on the borrower's country of domicile. This reflects the exposure of the property financing business, as well as the activities of Treasury.

Market price risks

Definition

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

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

Risk measurement and monitoring

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

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

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

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

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

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

Euro mn	MAX	MIN	Mean	Limit
2010 (2009 values); 99 %, 10-day holding period				
Aareal Bank Group – general market price risk	71.5 (76.0)	36.5 (39.4)	46.2 (62.2)	– (–)
Group VaR (interest rates)	67.5 (71.3)	30.6 (31.3)	40.9 (56.8)	– (–)
Group VaR (FX)	17.9 (23.1)	13.4 (15.1)	15.6 (20.6)	– (–)
VaR (funds)	11.9 (12.6)	6.0 (4.0)	7.7 (9.0)	60.0 (60.0)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (3.8)	0.0 (0.0)	0.0 (0.8)	20.0 (20.0)
Trading book VaR (interest rates)	0.0 (1.5)	0.0 (0.0)	0.0 (0.1)	– (–)
Trading book VaR (FX)	0.0 (0.1)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.6)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	112.4 (137.3)	71.4 (80.9)	96.2 (106.0)	– (–)
Aggregate VaR – Aareal Bank Group	122.2 (153.5)	85.4 (105.4)	108.0 (124.6)	181.0 (181.0)

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

Euro mn	MAX	MIN	Mean	Limit
2010 (2009 values); 99 %, 1-day holding period				
Aareal Bank Group – general market price risk	22.6 (24.0)	11.5 (12.5)	14.6 (19.7)	– (–)
Group VaR (interest rates)	21.3 (22.6)	9.7 (9.9)	12.9 (18.0)	– (–)
Group VaR (FX)	5.7 (7.3)	4.2 (4.8)	4.9 (6.5)	– (–)
VaR (funds)	3.8 (4.0)	1.9 (1.3)	2.4 (2.8)	19.0 (19.0)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (1.2)	0.0 (0.0)	0.3 (0.3)	6.3 (6.3)
Trading book VaR (interest rates)	0.0 (0.5)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.2)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	35.5 (43.4)	22.6 (25.6)	30.4 (33.5)	– (–)
Aggregate VaR – Aareal Bank Group	38.7 (48.5)	27.0 (33.3)	34.2 (39.4)	57.2 (57.2)

Aggregate VaR – Aareal Bank Group

Limits were unchanged during the financial year under review. 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). The number of negative outliers at Group level did not exceed five during 2010, affirming the high forecasting quality of the VaR model we use.

Stress testing

Although VaR has become a standard tool, the concept may fail to adequately project the actual risk in extreme situations – for example, the end-2008 phase of the financial markets crisis. For this reason, the VaR projection is supplemented by simulating stress scenarios on a monthly basis. Aareal Bank calculates present value fluctuations both on the basis of real extreme market movements over recent years, and also using simulated market movements (parallel shifts, structural changes, steepening of the yield curve). This analysis requires that all positions are revalued fully on the basis of these market scenarios. The resulting impact on present value is compared against a special stress limit within the scope of weekly and monthly stress test reporting.

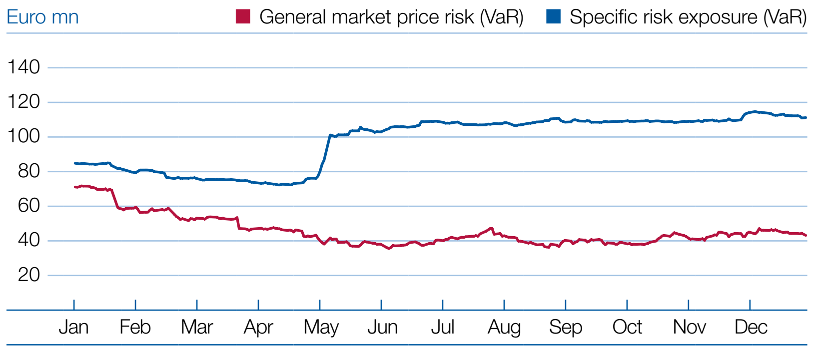
The increase in specific risk from May 2010 onwards reflected a general widening of credit spreads, as well as higher volatility in the wake of the sovereign debt crisis affecting certain European countries.

The worst-case scenario used in the financial year under review was a hypothetical scenario, where the deteriorating financial markets crisis caused bond and CDS spreads to widen due to rating downgrades, combined with an appreciation of the euro and unchanged interest rate markets. This scenario implied a present value loss of 18 % of the stressed aggregate risk cover limit as at 31 December 2010. No breach of set limits occurred during 2010.

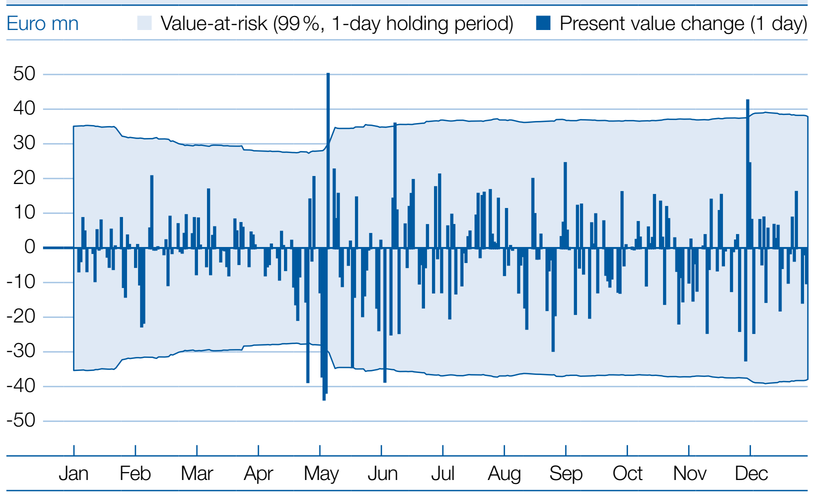
Interest rate sensitivity

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.

General market price risk and specific risk during 2010



Present values and 1-day VaR during the course of 2010



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 that no such trades were concluded during 2010, trading book risks played a negligible role in the overall risk scenario.

Liquidity risks

Definition

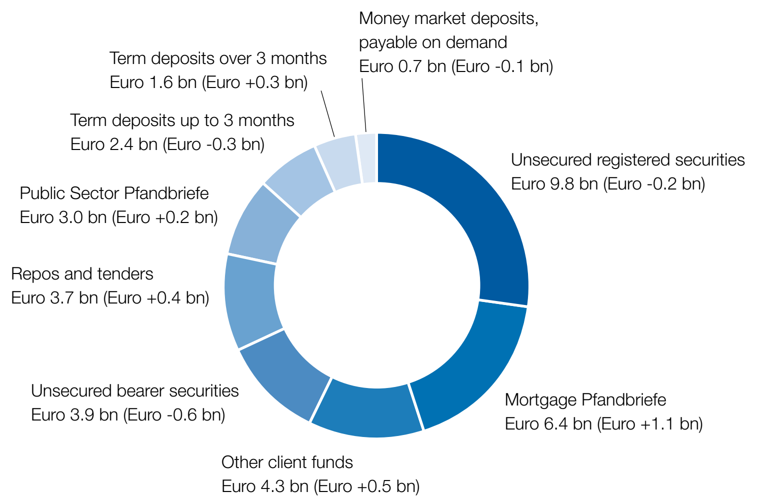
Liquidity risk in the narrower sense is defined as the risk that current or future payment obligations cannot be met in full or on time. Aareal Bank's liquidity risk management system is designed to ensure that the bank has sufficient cash and cash equivalents to honour its payment obligations at any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

Risk measurement and monitoring

Treasury is responsible for managing liquidity risks, whilst Risk Controlling ensures the continuous monitoring, including a 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.

Refinancing portfolio diversification – by product

as at 31 Dec 2010 (30 Dec 2009) Total: Euro 35.7 billion



a) Cash flow forecast

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

b) Liquidity run-off profile

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

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

c) Funding profile

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

Stress testing

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

We generally consider the withdrawal of customers' current account balances as the most significant

scenario. Even in this stress scenario, liquidity is sufficient to cover the expected liquidity needs under stress conditions.

Liquidity Ordinance

The requirements of the liquidity ratio in accordance with the Liquidity Ordinance, which is relevant to liquidity management, were always complied with throughout the year 2010, 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.

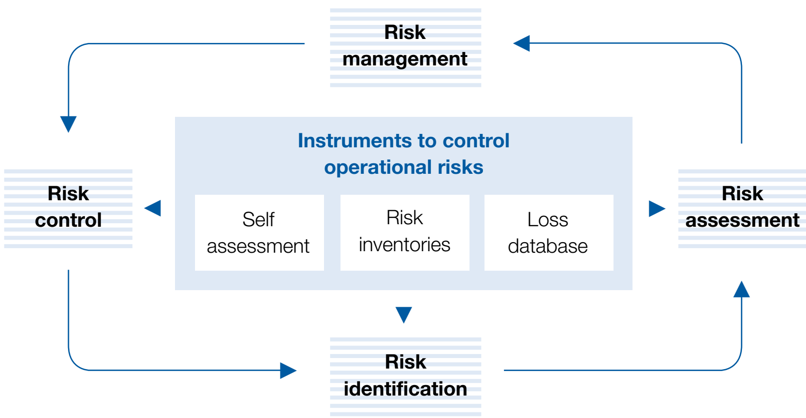
By means of this control toolkit, decentralised data capture as well as centralised and timely compilation of all material operational risks across the Group are ensured.

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.

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

Analyses conducted using the instruments employed have shown that the bank is not exposed to disproportionate operational risks; nor did they indicate any material risk concentration. There were cases reported in the loss database during the financial year under review, but there were no losses involving significant monetary damages.

Management of operational risks



Further to these tools, the bank reviews relevant individual scenarios, and implements any measures required, on the basis of external data. Taken together, these tools for managing operational risks result in an integrated control circuit which leads to risk identification, evaluation, and management – through to risk control.

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

Investment risks

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

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

Definition

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

Risk measurement and monitoring

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

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

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

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

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

Risk exposure specific to the Structured Property Financing segment

Deutsche Structured Finance GmbH

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

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

The future risk exposure of DSF is determined by the risk / reward structure of funds yet to be launched, which among other, are subject to discussion by the Company's Advisory Board. Reflecting demand for closed-end funds, the Company invested only in assets providing stable income during the year under review. Investors clearly prefer risk-averse investments, while the Company refrained from investments offering higher rates of return, given their higher implied risk premium. The company believes it has therefore taken sufficient measures to limit future risks.

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

Risk exposure in 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 customer requirements, where products need to be tailored to customers' needs.

Key entities within this segment are the subsidiaries Aareon AG and Aareal First Financial Solutions AG. Aareal Bank AG's Institutional Housing Unit is responsible for the distribution of banking products.

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

Aareon AG

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

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

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

Financial risks

Business development with Aareon AG's subsidiaries also involves earnings risks. To counter these risks, the restructuring and consolidation measures already embarked on were continued in 2010, with new measures being introduced and implemented. The chosen strategy is reviewed regularly. Aareon addresses the risk that the planned number of client projects may not be successfully executed by monitoring costs, deadlines and project quality within the scope of its project management. Aareon cooperates with the consulting unit of the product line concerned on individual critical projects whose contractual agreements are not yet fulfilled on the agreed milestone dates, taking additional measures designed to safeguard the planned revenue. Aareon AG continues to counter risk exposure arising from its costs by means of cost-sensitive action that is realised through the corresponding budgeting.

Market risks

Aareon AG has responded to the increasingly heterogeneous demands that are being placed on the property management sector by implementing our multi-product strategy, which also incorporates integrated services. To identify the correct market potential, issues that are relevant to the future are discussed, evaluated and prioritised according to their strategic importance. Aareon counters the risk of not being able to implement list prices on the market by analysing competitors' prices in detail. Competition analysis conducted regularly by the Marketing department, and supported by measures taken by regional distribution units, ensures that Aareon is familiar with the strengths of its competitors' products, using such knowledge in its own distribution efforts. Aareon AG also deals with general market risks, including the possible migration of clients, pressure on the market prices that can be realised, increasing demands placed on software systems and the emergence of new competitors on the market. Aareon AG counters these risks by means of a monthly report submitted for review to the Management Board; in addition to its client base, the report also contains a detailed description of the sales pipeline (list of potential clients including an analysis of the probability). Further tools deployed to control risk include the active engagement in property management associations at a federal and state level, as well as competition analyses. To minimise qualitative risks, Aareon AG regularly conducts surveys regarding its customers' requirements. A standardised, anonymous customer survey which is conducted on an annual basis is the key indicator of customer acceptance of the company's products and the Aareon brand. This allows Aareon to recognise the market requirements, and to take them into consideration at an early stage in product development.

Management and organisational risks

Aareon is using integration projects to implement material organisational changes, such as for example, merging the Wodis / Wodis Sigma and WohnData product lines. The focus is on involving and informing everyone concerned, assuring professional and transparent project planning, as well as on actively identifying and dealing with the risks involved. All those involved in a project are connected under the motto of "One Company": this is realised, for example, by establishing cross-entity meetings, jointly working on jobs, and through the extensive exchange of information. The targeted project management approach is completed by 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 international business continues to conduct regular reviews of Aareon's international subsidiaries.

To ensure that the required resources are available at the right time and in the right place, and that they possess the required skills, the subsidiary Aareon Wodis GmbH initiated two series of qualification courses training staff members from other product lines in handling tickets, and providing on-site training courses.

Aareon endeavours to optimise internal processes and supporting systems with its "moveIT" strategy project, which is focused on reducing the complexity of the systems for users, removing redundancies in the systems, and simplifying the processes to achieve greater transparency in terms of structure.

Environmental / business issues

For Aareon AG, the category of environmental and business risks comprise legal risks. As a rule, software development is exposed to the risk of failing to comply fully with client requirements in relation to the level of service or promises set out in the relevant agreement, which may result in warranty claims or claims for damages. To reduce such risks, Aareon AG's sales support ensures that offers contain solutions that can be met and that sufficient resources are in place to operate the Aareon project management model. Additionally, the risk of potential claims for damages from software implementation projects is being mitigated via a relaunched complaints management system designed to restore the satisfaction of customers having submitted a complaint through the swift and qualified rectification. Dealing with customer complaints at an early stage can help to rectify erroneous developments, preventing associated damages.

Production risks

Aareon AG's ERP solutions and integrated services are being developed further, with a focus on creating added value for customers. The risk arising from developing software is in the potential inability to complete such developments within budgeted costs, with the required quality, and within the timeframe anticipated by the market. Development work is therefore generally executed within the scope of project management methods that meet the internationally recognised 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. The Management Board regularly examines the list of all software development projects (which includes a risk assessment).

Aareon's IT centre operations internal control system was audited and certified in accordance with Audit Standard PS951 Type A and B promulgated by the Institute of Public Auditors in Germany ("IDW"), and the suitability and effectiveness of the service-based internal control system for the period from 1 July to 31 December 2009. The processes – such as availability, physical safety, network-, database and system security, data backups and job processing – are essentially audited in the IT centre operations.

Risk exposure from potential major disasters affecting the operation of clients' software are minimised, through well-documented and regularly-tested practical counter-measures, to the extent that downtimes are kept at tolerable levels – thus avoiding material damages to the customer's or service provider's business. To date, 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.

Aareal First Financial Solutions AG

Aareal First Financial Solutions AG develops innovative products and services for account maintenance and payments for the housing sector and operates the respective systems. The material risks resulting from this business consist of operational risks regarding the further development and the operation of systems, as well as an indirect market risk, which is due in particular to the close relationship with Aareal Bank, who 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 with ERP providers of institutional housing or utility software 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 account maintenance system (as the successor to the ZKF tool underlying BK 01® solutions) is based on Release 8.01 that is already in production, it does not involve any material risks. Risk exposure resulting from the operation of the the BK@1 software solution is sufficiently covered through the operational processes installed.

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 counter-measures. Monthly project status reports are assessed by the management bodies identified within the framework of Aareal First Financial Solutions AG's project management system. This allows for continuous monitoring, facilitating swift counteraction if necessary.

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 – either directly or through its subsidiaries – covering about eight decades in the property management sector. The business focus is on commercial services, but also on technical and infrastructure services in property management and real estate asset management; predominantly for residential property, but also increasingly for commercial and special property. BauGrund manages properties on behalf of institutional investors and companies, the German federal government, local authorities and 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. As the volume of transactions persisted at low levels in 2010, property investors remained under pressure to hold on to their inventory of assets. Accordingly, an improvement in the property management services was aimed at in order to achieve the target returns on property investments. Property management and marketing services were largely upheld with existing service providers, while at the same time regularly agreeing measures for improving performance.

Going forward however, there is a distinct expectation that property managers who fail to deliver the service standards demanded by clients – despite being given the opportunity to improve – stand to be replaced. BauGrund anticipates increasing its market share when such property management mandates are reassigned. This expectations is also based on its own observations during the financial year under review. BauGrund aims 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, particularly by winning additional mandates from existing clients. Contracts from new clients were acquired to a lesser extent. Although BauGrund succeeded in maintaining existing contracts for the most part, it failed to achieve last year's fee volume owing to to the scheduled sales of properties from the portfolio. While client loyalty in real estate asset management and property management can be seen as confirmation of BauGrund's performance, the sub-optimum quality of the service offered to the residential property management sector in recent years was reflected by the expiration of some contracts.

In 2010, BauGrund was rewarded by the growing level of success achieved through the realignment and focus on the areas of real estate asset management and property management, as well as on the residential property management sector. BauGrund's success here can be identified and quantified by the market perception of the company and its success in winning property management mandates. Fulfilling the necessary market standards and increasingly enhancing the efficiency of internal processes will go hand in hand with further operative improvements. Given that risk exposure from BauGrund's legacy business activities could be largely eliminated, the risks typically associated with current business operations are meanwhile mostly significant.

The company's main risks therefore remained the planned business expansion, and the acquisition of new clients. To advance 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 earlier 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

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

Other risks are predominantly managed and monitored through qualitative measures. A Group-wide Code of Conduct sets the framework regarding integrity and professional conduct for all activities. The Code provides a standard that is binding for all employees of the 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 the risk management system (RMS)

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

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

Organisation of the accounting-related ICS and RMS

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

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

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

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

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

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

Components of the accounting-related ICS and RMS

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

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

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

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

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

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

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

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

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

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

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

Future Opportunities and Outlook

Macroeconomic and industry-specific environment

Global business environment

The economic recovery lost some of its momentum during the second half of the previous year. Financial markets have not returned to normal, not least due to the sovereign debt crisis affecting certain countries at the euro zone periphery. Significant uncertainty remains with respect to future economic developments. Hence, any assessment of economic performance going forward is bound to be affected by a degree of uncertainty.

Economy
At present, factors burdening future economic developments are the high level of unemployment in many countries, combined with a high savings ratio which depresses consumer demand. In addition, capacity utilisation in many economies – despite some improvement – is still very low: a factor which dampens the propensity to invest. To reduce their high budget deficits, numerous countries have either implemented significant tax increases (which burden consumption), as well as public spending cuts, or have announced their

intention to do so. Government support programmes are about to expire in some countries. On top of this, consumer demand in many regions is also burdened by rising inflation rates, which are driven by soaring commodity prices, and which are not offset by corresponding salary increases. Conversely, central banks and governments in some overheating markets – which are unaffected by some of the factors mentioned – are taking strict measures to slow down economic growth. Where credit-financed asset bubbles have occurred in precious few regions, active measures are being adopted to tackle these. As long as inflation remains commodity-driven, and does not feed through to salaries, and provided that credit growth does not reach unhealthy levels, we expect the central banks of developed industrialised nations to only increase their interest rates moderately, in order to prevent any additional burdens to growth or public-sector budgets. Looking at these effects, economic growth during 2011 and 2012 is only expected to be moderate, with momentum set to be lower than in 2010 in many markets. We consider the risk of growth rates falling below 1 % in major economies (such as the US, Germany, France, and the UK) to be relatively low – in our view, another recession is unlikely, but not entirely impossible.

In this context, it must be noted that historically, economic recovery phases went hand in hand with lending developments. In other words, the ability of the financial services sector to extend credit (in the broadest sense) is another factor that should not be ignored. There is a risk of this ability being burdened by regulatory measures – which have sometimes been uncoordinated, and in some cases have had add-on effects – and by charges levied by governments.

The situation might also be exacerbated by the very funding ability of individual EU countries being questioned, which may lead to escalating euro zone turbulence. Considering the extensive cross-relationships amongst euro zone economies, such a development could also severely affect countries such as Germany, within the scope of second-round or third-round effects – due to loss of exports to affected countries, for example.

Despite these burdening factors and risks, the more probable scenario from our perspective is for the economy to continue showing a marked recovery during the current year and 2012, even though this trend is likely to be less dynamic, with lower growth rates compared to the previous year. Further support for the economy is expected to come from central banks, which we believe will maintain their expansive monetary policy.

By contrast, future financial market developments remain a major risk factor for the real economy, in view of investor uncertainty caused by high debt levels and budget deficits of various countries – particularly those at the euro zone's periphery. Whilst the support measures implemented by the EU and the IMF have a positive effect on economic development, the prevailing high risk premiums for those government bonds considered by the capital markets to be subject to higher levels of risk clearly indicate that the market has not returned to normal as yet. In this scenario, any assessment of future economic developments is subject to considerable uncertainty.

We expect the strong economic divergence between the various regions, as seen during the year under review, to prevail and persist during 2011 and 2012. The Asian economic regions – especially the Chinese economy – will continue to post stronger growth, albeit with slightly lower momentum. Conversely, economic growth in North America and Europe is expected to be lower, but still positive. Growth rates will diverge notably, even within Europe, where only a few economies – such as Greece, Italy, or Portugal – are likely to continue posting negative growth rates during the current year or the next.

In view of the anticipated slower economic growth, unemployment in many countries is expected to fall at a slow pace, or might even stagnate. This means that unemployment rates will remain at a high level in many countries – with a few exceptions, such as Germany. In some countries (e.g. Spain), unemployment is even expected to rise further. Assuming a continued recovery, we expect some relief on the labour markets next year.

Inflation, monetary policy and interest rates
Annual inflation rates were moderate in many countries during the year under review. Given the expected sluggish recovery going forward, and in the absence of any major changes to the environment, inflation is set to remain subdued during 2011 and 2012. Higher inflation rates are possible however in some Eastern European countries, such as Russia, and in the Asian emerging market economies, although the Japanese price level is expected to remain virtually unchanged. The value-added tax hike, which some European countries such as the UK introduced in order to consolidate their budgets, might trigger a temporary inflation increase. The assessment of future inflation rates is made difficult by the fact that commodity prices – being one of the key input factors for price developments – are influenced by speculation and political factors.

Although some central banks, including the ECB, have taken steps towards exiting their comprehensive liquidity support measures provided in the wake of the financial markets crisis, current monetary policy continues to be expansive, especially in the US. Looking at the moderate inflation outlook and the forecast slow economic recovery, there are no indications of a short-term reversal of the expansive policy stance. Against this background, for the current year we expect slight to moderate increases in short-term and long-term interest rates for the currencies in which we are active. For the following year, we consider a more pronounced interest rate increase to be possible.

Global commercial property markets

Many commercial property markets exhibited divergence during the year under review. At the top end of the market, rents for first-class commercial property generally stabilised, or increased over the previous year. Investor yield requirements for these properties also stabilised; in some markets, they decreased. Accordingly, the decrease in yield requirements and the stabilisation of rent expectations resulted in rising market prices. In contrast, the rents and prices of properties of lesser quality tended to come under pressure. Similar and ongoing market divergence is conceivable for the current year and the next.

The improving investment climate on numerous commercial property markets, as well as expected economic growth provide for a positive outlook for commercial property. Bearing in mind that growth rates are likely to remain moderate in many economies, and that unemployment is expected to stagnate (or to fall only slowly), we are cautious regarding future rent and price developments; our overall view is that we anticipate stable to moderately rising rents and prices, both for the current year as well as for 2012. Whilst the expected relief on the labour markets would indicate a more favourable outcome, this might be neutralised by potential interest rate increases, especially from 2012 onwards.

First-class properties have potential to outperform the market average: already during the year under review, this segment has experienced a notable increase in demand, both for rentals and acquisitions. Provided that the financial markets remain stable, moderate increases in values and rents will be possible for first-class properties. In contrast, developments on markets that are burdened by extremely weak (or stagnating) economic and labour market developments are likely to be less positive or even negative, even in the segment for first-class properties. Lower-quality properties are generally expected to underperform first-class properties.

Further developments on property markets will be influenced by the extent to which uncertain economic factors will dominate overall economic development. The future situation on the financial markets will be of particular importance to the performance of the property markets. Significant distortions on financial markets, due to the debt crisis, could result in negative feedback on the property markets. The high volume of commercial property financings that will mature in the current year and the next – bank loans as well as commercial property securitisations – represents another element of uncertainty. A failure by finance providers to renew these exposures, combined with a lack of buyers for the properties concerned, might trigger distressed sales – which would in turn depress prices. To date, we have not observed such effects in the commercial property markets to any material extent. The low volume of building completions, due to the economic and financial markets crisis, might have a positive impact on rents and property values. Completions during the years 2011 and 2012 are anticipated to be lower, particularly in the US, but also in Europe – whereas the level of completions in Asia is high. Bearing this low volume of new construction in North America and Europe in mind, a shortage of new, modern floorspace in attractive locations is likely to develop in both regions.[1]

Economic and commercial property market development in individual regions

Europe

During the current year we expect growth in most European economies to be rather slow and moderate. Some economies – such as Germany and Sweden – which posted strong growth rates last year, are likely to experience somewhat lower momentum this year, but should still be growing. A recession is only expected in very few European countries this year: this could apply to Greece, Ireland and Portugal, whose economies are burdened by the debt crisis and the resulting cuts to government budgets. In fact, Spain was still in recession during 2010 – the expectation there is for the economy to turn positive again, albeit at weak growth rates. The highest rates of real GDP growth in Europe are expected in some of the emerging market economies such as Turkey and Russia. Overall, in most economies, a moderate recovery is anticipated for 2012, which should be largely comparable to the situation seen during the current year.

For European commercial property markets, we envisage the general trend of stabilising average rents and market values to prevail during 2011 and 2012 – possibly growing moderately. Some submarkets may diverge, however: further pressure on rents and prices is possible especially in economies burdened by very low growth rates and very high unemployment. Particularly from 2012 onwards, commercial property markets may be negatively affected by potential interest rate increases.

[1] Assessments of individual sub-markets and properties could deviate from the general assessment of the commercial property markets outlined in this section, and in the following one.

North America (NAFTA states)

Economic growth in the US and Canada is expected to be moderate this year. Despite the burdens on the US economy, due to lower house prices and high unemployment, growth could still be possible, thanks to current sizeable government stimulus programmes and the continued expansive monetary policy. The recovery is expected to be more pronounced in Mexico. For 2012, all three economies are expected to slightly accelerate.

Looking at the development of rents and prices during the current year and the next, we remain cautious for the North American commercial property markets, despite expected economic growth, and we anticipate levels to remain stable on average. In the case of the US, it should be noted that there is a high volume of property loans maturing during the forecast period which were funded through securitisations: this could lead to forced sales, which in turn would exercise pressure on prices.

Asia

Emerging Asian economies – and China in particular – will continue to post the highest global growth rates during 2011 and 2012. However, various economic and monetary policy measures are likely to slow down Chinese growth rates compared with the previous year. Singapore's economy is predicted to grow significantly, albeit falling short of the extraordinary growth rates seen during 2010. It is also unlikely that Japan will be able to repeat its remarkable performance of the previous year in 2011 and 2012: however, positive growth rates are nevertheless expected.

Even though robust economic growth – again, particularly in China – might support developments on the commercial property markets going forward, this effect might be neutralised to some extent by a more restrictive monetary policy, and hence rising interest rate levels. Overall, we remain cautious regarding developments on Asian commercial property markets during 2011 and 2012.

The German institutional housing industry

We anticipate the development of the German institutional housing industry to remain stable during 2011 and 2012, thanks mainly to largely constant rental returns and long-term financing structures.

Due to a significant lack of housing suitable for the elderly, companies are increasingly facing the need to adapt existing residential units to the changing needs of an ageing population. Furthermore, investments for modernisation – and especially, refurbishments to improve the energy efficiency of buildings – will grow in importance. Subsidies for carbon dioxide emission optimisation of buildings and urban development programmes will however be cut during 2011: these curbs on investment incentives for housing enterprises bear the risk that the planned refurbishment projects may fail to materialise.

Nonetheless, the German residential property market is expected to remain stable during 2011 and 2012, whereby residential demand will continue to be driven by regional economic performance. Against the background of accelerating economic recovery, the trend towards urban living – as well as the labour market-driven migration to growth regions – are both set to continue.

Given the growing number of single-person households and the weak construction activity during recent years, continued demand – particularly in the prospering conurbations – meets limited supply. Hence, rent increases of between 3 % and 4 % are anticipated for newly-built flats in Berlin, Frankfurt, Hamburg and Munich during next year. Conversely, structurally weak regions may be affected by the younger population – in particular – migrating to other regions, burdening the residential market and leading to excess supply.

Against the background of the sound German residential market overall, and the continuing search for secure investments, we expect ongoing investor interest in the German residential property market during 2011 and 2012. In this context, institutional investors are expected to continue dominating the market. Should demand for core investments exceed available supply, buyers might extend their focus to include more risky value-added portfolios.

Accordingly, there are numerous indications for 2011 transaction volumes to exceed the previous year's levels – whereby the size of residential portfolios changing hands is also expected to rise. Property owners who bought residential portfolios during the boom years in the transaction market, from 2004 to 2007, might join the ranks of sellers going forward, as they look to sell their properties before 2012, to pre-empt the impending portfolio refinancing and restructuring process.

Corporate development

Aareal Bank Group will need to be prepared for uncertainties and challenges arising during the 2011 financial year, including future economic developments, the situation on the financial markets, as well as the impact of regulatory measures on the banking sector.

Structured Property Financing

Rents and market values for first-class commercial property stabilised on numerous markets, even showing recovery in certain locations, whereas lesser-quality properties were predominantly under pressure.

Economic growth and an improving investment climate for commercial property markets provide a positive outlook for commercial property. Bearing in mind that growth rates are likely to remain moderate in many economies, and that unemployment is expected to stagnate (or to fall only slowly), we are however cautious regarding future rent and price developments; overall, we anticipate stable to moderately rising rents and prices during 2011 and 2012. Nonetheless, further pressure – even falling rents and prices should not be excluded – is conceivable, especially in economies burdened by very low growth rates and very high unemployment.

We have taken these developments on board when determining allowance for credit losses. We will continue to focus on the consistent management of our credit portfolio, as well as on active portfolio management and broad diversification of our portfolio by region and property type.

Likewise, we will continue to adhere to our lending policy focused on risk and return. The share of loan renewals is expected to be slightly lower during 2011 and 2012, compared with previous years. At the same time, we expect this share to remain higher than during the property boom years of 2006 and 2007.

Syndicated lending showed initial signs of a recovery during the year under review, thus improving the opportunities for sharing credit risk exposure for large-sized financings amongst several banks, and also to enhance the diversification regarding individual credit risks. We envisage a further revitalisation of syndication markets during this year and the next. In contrast, the options for placing credit risks and refinancing via securitisations remain restricted. The securitisation market for commercial property exposures ground to a halt during the past two years. There are initial signs of a re-start, which might evolve into a slight recovery during 2011 and 2012 – which, however, is likely to be limited to the US market: Europe is expected to lag behind. In the Asian markets, securitisation has only played a minor role to date.

Subject to the performance of the relevant foreign currencies vis-à-vis the euro, we expect a stable or slightly higher portfolio volume of property financings for 2011 and 2012. The regional portfolio distribution will continue to be influenced by our three-continent strategy.

Our forecast is based on the assumption that the financial markets will not be exposed to major tensions, particularly as a result of the sovereign debt crisis affecting certain euro member states – even though we do not expect financial markets to fully normalise during the forecast period. In the event of recurring major tensions, the share of renewals is likely to exceed forecasts: this would likely restrict the scope of syndication markets, and also prevent the expected re-start of securitisation markets.

Consulting/Services

Aareon AG

We expect both sales revenues and overall results to increase in the 2011 and 2012 financial years.

The use of modern technology platforms is increasingly gaining importance on the market for property management software. Such systems offer more user-friendly designs, and allow new functionality to be implemented more quickly. With its "Wodis Sigma" ERP product generation, Aareon enjoys a very good market position. Within the scope of scheduled development, the new product release (Wodis Sigma 3.0) will be available on the market during 2011. We assume that clients using WohnData and Wodis will migrate to Wodis Sigma, and hence expect consulting revenues to grow.

For the SAP®-based solutions and the Blue Eagle product line, we anticipate being able to acquire individual large projects; we also expect being able to sell further advisory-based solutions. Both effects are expected to grow sales revenues. Looking at the existing GES system, we assume that GES users will increasingly migrate to other Aareon ERP solutions, which will lead to a shift in revenues to other product lines.

In the Integrated Services product line, we expect sales revenues to increase due to successful sales activities, particularly with respect to the Mareon service portal, the document management system Aareon DMS, and the BauSecura insurance service. In the IT Outsourcing product line, lost revenues

due to the termination of a contract with a major client will only be partially compensated for.

We anticipate a marked increase in sales revenues from the international business, a major part of which will be accounted for by the Dutch SG|automatisering group, which Aareon acquired on 1 November 2010. Its SG|tobiasAX software is expected to establish itself on the market.

For our French subsidiary, Aareon France SAS, we anticipate continued market success for its ERP products Prem'Habitat 2.0 and PortalImmo Habitat 2.0. Despite the continued predatory price competition on the British market, we expect to increase sales revenues through the acquisition of new clients.

Total expenses of the Aareon Group are expected to increase, predominantly on account of higher personnel expenses – and in particular, due to the increase in staff numbers by around 170 employees following the acquisition of SG|automatisering.

BK 01 payments services/deposit-taking business

The process optimisation procedures for electronic mass payment services (BK 01 products) offered by the bank's Institutional Housing Unit generates very stable deposits for the bank's refinancing activities. During the 2010 financial year, we further strengthened our market position by acquiring 80 new institutional housing industry partners managing more than 150,000 units between them – these partners will henceforth process their rent collections through Aareal Bank.

We were able to maintain deposit volumes at a high level, despite massive competition on terms, and even slightly increased them during the course of the year. We rate this as a sign of the confidence our clients place in the bank. We expect the positive trend to continue in 2011, especially in the area of deposits paid by tenants.

Given the ongoing low interest rate environment, we expect margins will continue to remain under pressure during 2011. Since we already succeeded in winning new clients during 2010, whilst increasing the product penetration with the existing client base, we continue to see good opportunities for comparable successes during the current year and the next.

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

We envisage slightly higher interest rates during 2012; this will enhance margins and is thus expected to increase the contribution to segment results.

Group targets

For the 2011 financial year, Aareal Bank Group sees good prospects for maintaining its good overall business performance, despite the market environment for commercial property financing – which is set to remain challenging during the current year.

Against the background of slightly rising interest rates during the 2011 financial year, net interest income is expected to be stable or slightly higher than in the previous year. Higher margins achieved on new business originated during 2009 and 2010 have boosted average lending margins. We expect this positive effect to fade, to some extent. For 2012, we expect net interest income to be stable compared with 2011, or slightly higher. Negative factors could arise, however, especially from a change to the underlying interest rate environment on which the planning is based.

The gradual return of property markets to normality is expected to continue, even though some markets will still face losses during the current year; also, the various uncertainties and challenges involved in commercial property financing are likely to persist. Specifically, these include future economic developments in certain sub-markets, the situation on the capital markets, and the impact of the various regulatory actions. Against this background, we expect allowance for credit losses to remain within a range of € 110 million to € 140 million during the 2011 financial year. In a business environment that will remain challenging, we nonetheless anticipate slightly lower relative risk costs during 2012. As in the previous years, the bank cannot rule out additional allowances for credit losses that may be incurred during 2011 and 2012 – especially in the event of negative developments in the business environment.

We expect a moderate year-on-year rise in net commission income for 2011. The repayment of the SoFFin-guaranteed bond will have a positive impact on this item from 2012 onwards, as guarantee fees will no longer be payable. The anticipated increase in net commission income will also be supported by expected further improvements in Aareon's results.

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). 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. As a result, it is impossible to forecast net trading income / expenses for 2011 and 2012.

Because of the consistent and conservative risk policy we have pursued in recent years, we anticipate no material burden on the results from non-trading assets during 2011 and 2012.

Administrative expenses continue to be defined by the unchanged cost discipline, and the figure for 2011 is expected to be marginally higher than in the previous year, taking the burden associated with the bank levy into account. Our ongoing efforts to enhance efficiency are expected to have a positive impact on administrative expenses for 2012.

We are confident, from today's perspective, that the bank will increase the good operating profit achieved during the 2010 financial year, in a challenging market environment. Based on the conditions set out above, we expect 2012 operating profit to clearly exceed the figure for 2011, reaching a double-digit return on equity before taxes. Despite the additional burdens facing banks as a result of the bank levy, Aareal Bank considers a return on equity before taxes of at least 12 % to be achievable in a normal market environment.

From today's perspective, new business originated in the Structured Property Financing segment during 2011 is expected to be in line with the previous year's levels.

In the Consulting / Services segment, we anticipate the interest rate environment to remain difficult for segment results in 2011. We thus expect operating profit to be slightly higher compared with the financial year under review. For 2012, we are forecasting higher interest rates, and a corresponding increase in margins generated in this segment. Together with the expected increase in Aareon's sales revenues, this is likely to further benefit the segment result.

Principles of Remuneration

The Supervisory Board determines the structure and amount of remuneration for members of the Management Board. Specifically, it determines 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 variable remuneration, comprising a cash bonus and a long-term component in the form of phantom shares allocated. 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 (IFRSs), as well as qualitative and quantitative targets, which are re-defined annually.

To the extent that the Company distributes dividends, a corresponding payment is made as other remuneration.

In addition to fixed salary components, which are paid in twelve identical monthly instalments, members of the Management Board who were appointed on or after 1 November 2010 receive a variable remuneration, which comprises a cash bonus and phantom shares in equal proportions; 40 % of these components is paid out immediately, and the remaining 60 % after a retention period. The precise details governing variable remuneration comply with the requirements of the German Ordinance on Remuneration in Financial Institutions (Institutsvergütungsverordnung), with the variable remuneration commitment being subject to further specifications of supplementary remuneration rules.

In the context of the bank's agreement entered into with the German Financial Markets Stabilisation Fund (SoFFin), the members of the Management Board have foregone payment of contractually agreed fixed remuneration components over and above € 500,000, as well as any variable remuneration components.

Remuneration for the services of the Supervisory Board members is specified in Article 9 of the Memorandum and Articles of Association of Aareal Bank AG. The resolution passed at the Annual General Meeting of 23 May 2006 determined the current remuneration that was adjusted in line with the remuneration system of the Supervisory Board.

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

The remuneration systems for members of Aareal Bank Group staff are based on the Group's business strategy, the long-term, sustainable development of the business, and the results of operations. Limits to variable remuneration components are designed to avoid any incentives for taking excessive risks. The remuneration systems were agreed upon with the employee representative bodies in the respective Group entities, and have been published. Salary comparisons are carried out regularly, to ensure that individual remuneration packages are appropriate. The objective is to offer a remuneration level that is both appropriate and attractive to all Group employees.

The German Ordinance Regarding the Regulatory Requirements for Remuneration Systems of Institutions (Institutsvergütungsverordnung – "Instituts-VergV" – referred to below as the "Ordinance"), which came into effect on 13 October 2010, introduced new financial requirements regarding remuneration systems. The Ordinance is applicable to Aareal Bank AG, as well to all subsidiaries which are banks / credit institutions or financial enterprises, or who offer ancillary services.

Supported by external advisors, Aareal Bank AG is working on adjusting and realigning its remuneration systems in order to implement the requirements under the Ordinance throughout the Aareal Bank Group. The necessary negotiations to implement new remuneration systems were still ongoing at the time of going to print with this annual report. In principle, the plan is to apply the new remuneration systems with retrospective effect from 1 January 2011. Aareal Bank AG will publish the legally required disclosures on its website as soon as the specifications of the new remuneration rules have been defined.

Disclosures in accordance with Section 315 (4) of the German Commercial Code (HGB)

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

The composition of Aareal Bank AG's subscribed capital is shown in Note 65 to the consolidated financial statements. Each share casts one vote at a General Meeting. There are no shares with special rights granting supervisory powers to any shareholder or shareholder group. The company currently does not hold any treasury shares, which would not be entitled to vote.

Restrictions affecting voting rights or the transfer of shares

The German Financial Markets Stabilisation Fund (SoFFin) agreed to provide a stabilisation measure to the bank in March 2009, in the form of a silent participation. In the context of this stabilisation measure, SoFFin and the bank's main shareholder, Aareal Holding Verwaltungsgesellschaft mbH ("Aareal Holding") entered into an agreement under which Aareal Holding has undertaken to maintain its stake in the bank's capital (currently 37.23 %) throughout the term of the recapitalisation, and to act in SoFFin's interest when casting certain votes during the General Meeting (or to seek SoFFi's opinion prior to such a poll). Furthermore, Aareal Holding has undertaken to exercise its voting rights for resolutions to be adopted by a General Meeting in such a way that Aareal Holding will retain its blocking minority.

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

Shareholdings exceeding 10 % of voting rights

Details regarding any shareholdings exceeding 10 % of voting rights are provided in Note 88 to the consolidated financial statements.

Shares with special rights granting the holder supervisory powers

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

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

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

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

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

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

Authorisation of the Management Board to issue or repurchase shares

Authorised capital

The Annual General Meeting held on 19 May 2010 resolved to authorise the Management Board to increase, on one or more occasions, the Company's share capital by up to a maximum total amount of € 64,132,500 (Authorised Capital) by issuance of new shares for contribution in cash or in kind. This authorisation will expire on 18 May 2015. The shareholders must be granted subscription rights in the event of a capital increase against cash contributions. The Management Board is authorised to exclude shareholders' pre-emptive subscription rights in the event of a capital increase not exceeding 10 % of the issued share capital at the time of the authorisation becoming effective or being exercised, subject to approval by the Supervisory Board and provided that the issue price is not significantly lower than the prevailing market price of shares already listed, at the time of final determination of the issue price. Article 5 (4) lit. b) to d) of the Memorandum and Articles of Association sets out further conditions for excluding shareholders' pre-emptive subscription rights. The Management Board may exclude shareholders' pre-emptive subscription rights in the event of a capital increase against contributions in kind. When exercising this authorisation, the Management Board will restrict the exclusion of shareholders' pre-emptive rights to a total of 20 % of the Company's registered share capital. Accordingly, the aggregate exclusion of shareholders' subscription rights upon exercise of this authorisation must not exceed 20 % of the registered share capital at the time said authorisation comes into effect or is exercised. No use has been made to date of the authorised capital.

Conditional capital

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

Authorisation to purchase treasury shares

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

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

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

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

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

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

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

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Consolidated Financial Statements
Statement of Comprehensive Income

Income statement

	Note	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Euro mn			
Interest income		903	1.160
Interest expenses		394	700
Net interest income	26	**509**	**460**
Allowance for credit losses	27	105	150
Net interest income after allowance for credit losses		**404**	**310**
Commission income		187	188
Commission expenses		64	55
Net commission income	28	**123**	**133**
Net result on hedge accounting	29	-2	-2
Net trading income/expenses	30	8	44
Results from non-trading assets	31	-12	-22
Results from investments accounted for using the equity method	32	5	1
Results from investment properties	33	-17	0
Administrative expenses	34	366	361
Net other operating income/expenses	35	-9	-14
Impairment of goodwill	36	0	2
Operating profit		**134**	**87**
Income taxes	37	40	20
Net income/loss		**94**	**67**
Allocation of results			
Net income/loss attributable to non-controlling interests		18	18
Net income/loss attributable to shareholders of Aareal Bank AG		76	49
Appropriation of profits			
Net income/loss attributable to shareholders of Aareal Bank AG		76	49
Silent participation by SoFFin		30	26
Consolidated profit/loss		**46**	**23**
Euro			
Earnings per share	38	**1.78**	**1.14**
Diluted earnings per share	38	**1.78**	**1.14**

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

Statement of Comprehensive Income

Reconciliation from Net Income/Loss to Total Comprehensive Income

	Note	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Euro mn			
Net income/loss		**94**	**67**
Changes in revaluation surplus	39	2	75
Changes in hedging reserves	39	0	0
Changes in currency translation reserves	39	1	-1
Changes in reserves from transactions under common control	39	-1	9
Others	39	–	-4
Gains and losses directly recognised in equity (after taxes)		**2**	**79**
Total comprehensive income		**96**	**146**
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		78	128

Statement of Comprehensive Income

Income Statement (Quarterly Development)[1)]

Euro mn	Quarter 4 2010	Quarter 3 2010	Quarter 2 2010	Quarter 1 2010	Quarter 4 2009
Interest income	250	231	215	207	209
Interest expenses	111	100	93	90	94
Net interest income	**139**	**131**	**122**	**117**	**115**
Allowance for credit losses	8	32	33	32	35
Net interest income after allowance for credit losses	**131**	**99**	**89**	**85**	**80**
Commission income	56	42	44	45	55
Commission expenses	19	18	12	15	16
Net commission income	**37**	**24**	**32**	**30**	**39**
Net result on hedge accounting	-4	-2	2	2	1
Net trading income/expenses	13	2	-13	6	3
Results from non-trading assets	-23	-3	14	0	-3
Results from investments accounted for using the equity method	0	0	5	–	1
Results from investment properties	-17	0	0	0	-1
Administrative expenses	95	88	92	91	83
Net other operating income/expenses	-2	1	-6	-2	-12
Impairment of goodwill	0	–	0	0	2
Operating profit	**40**	**33**	**31**	**30**	**23**
Income taxes	11	11	9	9	5
Net income/loss	**29**	**22**	**22**	**21**	**18**
Allocation of results					
Net income/loss attributable to non-controlling interests	4	5	4	5	5
Net income/loss attributable to shareholders of Aareal Bank AG	25	17	18	16	13

[1)] The quarterly figures were not audited by the auditors.

Statement of Comprehensive Income

Reconciliation from Net Income/Loss to Total Comprehensive Income (Quarterly Development)[1)]

Euro mn	Quarter 4 2010	Quarter 3 2010	Quarter 2 2010	Quarter 1 2010	Quarter 4 2009
Net income/loss	**29**	**22**	**22**	**21**	**18**
Changes in revaluation surplus	8	19	-43	18	6
Changes in hedging reserves	–	–	0	0	0
Changes in currency translation reserves	1	-2	2	0	-2
Changes in reserves from transactions under common control	-1	0	0	–	-1
Others	–	–	–	–	–
Gains and losses directly recognised in equity (after taxes)	**8**	**17**	**-41**	**18**	**3**
Total comprehensive income	**37**	**39**	**-19**	**39**	**21**
Allocation of Total comprehensive income					
Total comprehensive income attributable to non-controlling interests	4	5	4	5	5
Total comprehensive income attributable to shareholders of Aareal Bank AG	33	34	-23	34	16

[1)] The quarterly figures were not audited by the auditors.

Statement of Financial Position

Euro mn	Note	31 Dec 2010	31 Dec 2009
Assets			
Cash funds	40	922	990
Loans and advances to banks	41	2,034	801
Loans and advances to customers	42	24,661	23,459
Allowance for credit losses	43	-332	-283
Positive market value of derivative hedging instruments	44	1,321	1,244
Trading assets	45	428	689
Non-current assets held for sale and discontinued operations	46	–	8
Non-trading assets	47	11,428	11,929
Investments accounted for using the equity method	48	3	3
Investment properties	49	220	103
Intangible assets	50	91	78
Property and equipment	51	95	99
Income tax assets	52	31	47
Deferred tax assets	53	69	121
Other assets	54	246	281
Total		**41,217**	**39,569**
Equity and liabilities			
Liabilities to banks	55	5,168	5,083
Liabilities to customers	56	22,846	21,361
Certificated liabilities	57	7,619	7,862
Negative market value of derivative hedging instruments	58	1,181	940
Trading liabilities	59	675	490
Provisions	60	237	256
Income tax liabilities	61	30	10
Deferred tax liabilities	62	27	70
Other liabilities	63	181	151
Subordinated capital	64	1,268	1,269
Equity	65		
Subscribed capital		128	128
Capital reserves		511	511
Retained earnings		836	780
Other reserves		-108	-110
Silent participation by SoFFin		375	525
Non-controlling interest		243	243
Total equity		1,985	2,077
Total		**41,217**	**39,569**

Statement of Changes in Equity

Euro mn	Subscribed capital	Capital reserves	Retained earnings	Other reserves: Reserves from transactions under common control	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Reserves for currency translation reserve	Silent participation by SoFFin	Total	Non-controlling interest	Equity
Equity as at 1 Jan 2010	**128**	**511**	**780**	**1**	**-112**	**0**	**1**	**525**	**1,834**	**243**	**2,077**
Total comprehensive income for the period			76	-1	2	0	1		**78**	18	**96**
Capital increase											
Capital reduction											
Disbursements to non-controlling interests										-18	**-18**
Dividends											
Silent participation by SoFFin								-150	**-150**		**-150**
Costs associated with silent participation by SoFFin			-30						**-30**		**-30**
Other changes [1)]			10						**10**		**10**
Equity as at 31 Dec 2010	**128**	**511**	**836**	**–**	**-110**	**–**	**2**	**375**	**1,742**	**243**	**1,985**

[1)] In the context of the final allocation of the project to optimise the financial reporting process, Aareal Bank AG reclassified an amount of € 10 million from other liabilities to retained earnings.

Euro mn	Subscribed capital	Capital reserves	Retained earnings	Other reserves: Reserves from transactions under common control	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Reserves from currency translation	Silent participation by SoFFin	Total	Non-controlling interest	Total equity
Equity as at 1 Jan 2009	**128**	**511**	**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**

Statement of Cash Flows

Euro mn	Cash flow 1 Jan-31 Dec 2010	Cash flow 1 Jan-31 Dec 2009
Net income/loss for the year	**94**	**67**
Write-downs, valuation allowances and write-ups on loans and advances	105	156
Additions to and reversals of loan loss provisions, net	7	0
Amortisation, depreciation, impairment and write-ups on non-current assets	58	29
Other non-cash changes	538	838
Gains/losses on the disposal of non-current assets	-11	13
Other adjustments	-650	-1,489
Subtotal	**141**	**-386**
Changes in loans and advances to banks	-1,221	442
Changes in loans and advances to customers	-1,059	1,146
Changes in trading assets	13	–
Changes in other assets from operating activities	116	154
Changes in liabilities to banks	-172	-3,836
Changes in liabilities to customers	1,395	696
Changes in certificated liabilities	-193	1,415
Changes in trading liabilities	-12	–
Changes in provisions	-84	-41
Changes in other liabilities from operating activities	-157	-294
Income taxes paid/income tax refunds	-5	-12
Interest received	1,164	864
Interest paid	-237	835
Dividends received	–	–
Cash flow from operating activities	**-311**	**983**
Proceeds from the disposal of non-trading assets and investments accounted for using the equity method	2,003	520
Payments for the acquisition of non-trading assets and investments accounted for using the equity method	-1,553	-1,701
Proceeds from the disposal of property and equipment, intangible assets and investment properties	8	3
Payments for the acquisition of property and equipment, intangible assets and investment properties	-46	-27
Effect of changes in reporting entity structure	–	–
Changes due to other investing activities	–	–
Cash flow from investing activities	**412**	**-1,205**
Dividends paid	–	–
Changes in subordinated capital	-1	12
Changes due to other financing activities	-168	507
Cash flow from financing activities	**-169**	**519**
Cash and cash equivalents as at 1 January	**990**	**693**
Cash flow from operating activities	-311	983
Cash flow from investing activities	412	-1,205
Cash flow from financing activities	-169	519
Cash and cash equivalents as at 31 December	**922**	**990**

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 2010 in accordance with International Financial Reporting Standards (IFRSs) applicable within the European Union (EU) as of the reporting date, in connection with the provisions pursuant to section 315a (1) of the German Commercial Code (Handelsgesetzbuch – "HGB"). The reporting currency is the euro (EUR).

The Management Board approved the consolidated financial statements for publication on 7 March 2011. The consolidated financial statements are expected to be published on 31 March 2011.

All subsidiaries and joint ventures of Aareal Bank AG have been included in the consolidated financial statements as at 31 December 2010 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 83 (previous year: 90) fully-consolidated subsidiaries, 0 (previous year: 1) proportionately consolidated joint ventures and 19 (previous year: 23) companies accounted for using the equity method.

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

The group company Aareon AG acquired SG|automatisering bv, Emmen, effective 1 November 2010. The company acquired is the second-largest supplier of IT solutions for the institutional housing sector in the Netherlands. SG|automatisering bv holds shares in SG|Facilitor B.V. (51 %), SG|stravis B.V. (70 %), SG|Professional Service B.V. (100 %), SG2All B.V. (50 %) and SG|webbsolutions B.V. (51 %), and has an indirect shareholding in SG|Detachering B.V. (51 %) via SG|Facilitor B.V. SG2All B.V. is classified as a jointly controlled entity and therefore accounted for using the equity method. In accordance with IFRS 3, any consideration transferred in connection with the business combination, including contingent consideration, is measured and reported at the fair value applicable at the time of acquisition. The purchase price for SG|automatisering bv consists of a fixed price of € 13.5 million and a contingent purchase price. The fair value of the contingent purchase price was measured at € 4.5 million. The pro-rata fair value of the assets and liabilities amounts to € 5.1 million. This resulted in goodwill of € 12.9 million. This goodwill reflects the strengthened market position in the international business through the penetration of the Dutch market, which improved the European market position. The pro-rata fair value of the assets acquired and liabilities assumed is allocated as follows: intangible assets (€ 6.0 million), other non-current assets (€ 4.2 million), loans and advances (€ 1.2 million), other assets (€ 0.6 million) as well as liabilities (€ 7.0 million). The share in net income attributable to Aareal Bank Group that was generated by the acquired company since 1 November 2010 (date of initial consolidation) amounts to € 1.4 million.

On 10 September 2010, Aareal Bank AG (1 %) as well as Aareal Bank Group company ZMP Zentralmessepalast Entwicklungsgesellschaft mbH, Wiesbaden (99 %) jointly acquired 100 % of the shares in ZAO Toros, Moscow, at a price of € 1 via PLP Holding GmbH, Wiesbaden. ZAO Toros owns and operates the Redwood logistics park close to Moscow. As a result of control now exercised, the company was initially consolidated as of 10 September 2010 pursuant to IFRS 3 in conjunction with IAS 27. The pro-rata fair value of the assets acquired and liabilities assumed is allocated as follows: properties (€ 131 million) and other assets (€ 24 million) as well as liabilities (€ 139 million) and other liabilities (€ 16 million). No goodwill was identified during initial consolidation. The share in net income attributable to Aareal Bank Group that was generated by the acquired company amounts to € 2 million.

In the past financial year, 18 companies were de-consolidated. This de-consolidation did not have any significant effects on profit or loss.

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

General accounting policies

(1) Accounting standards

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

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

Information is presented in accordance with the principle of materiality.

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

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

In the preparation of the financial statements, assets and liabilities were primarily measured using amortised cost or fair value. Which measurement method will actually be used for a particular item is defined by the applicable standard (see section ”Specific accounting policies“). Financial instruments are accounted for in accordance with the classification and measurement principles as defined in IAS 39. Derivative hedging instruments are accounted for on the basis of the provisions for hedge accounting.

The presentation of the financial position and the financial performance in the consolidated financial statements depends on the recognition and measurement methods underlying the preparation of the financial statements, as well as on estimates and assumptions as a result of the uncertainty associated with future events. Any assumptions and estimates required for recognition and measurement are in line with the relevant accounting standards. Estimates and assumptions are based on historical experience and other factors, such as planning and current expectations and forecasts with respect to the occurrence of future events.

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

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

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

(2) Currency translation

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

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

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

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

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

(3) Consolidation

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

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

Initial consolidation of entities is based on the purchase method, in accordance with IFRS 3, whereby remeasured amounts must be used when recognising assets and liabilities (including any hidden reserves and hidden encumbrances) of an entity to be consolidated. This may lead to the recognition of new assets and liabilities that were previously not reported in the 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.

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

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

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

(4) Changes in accounting policies

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

- 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 Financial Instruments: Recognition and Measurement: Eligible Hedged Items
- Revised IFRS 1: First-time Adoption of IFRS
- IFRIC 17 Distributions Non-Cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
- Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions
- Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements to IFRSs; issued by the IASB in April 2008)
- Improvements to IFRSs (issued by the IASB in April 2009)
- Amendments to IFRS 1 Additional Exemptions for First-time Adopters

In accordance with the revised IFRS 3 Business Combinations, any acquirer now has the option for each single business combination where less than 100 % of the shares are being acquired, to recognise any non-controlling interests including any goodwill attributable to them, or, as previously, at the fair value of the identifiable assets and liabilities attributable to the non-controlling interests. In addition, acquisition-related costs such as legal and consulting fees are no longer included as part of the purchase price for the acquired company, but normally have to be recognised in the income statement.

The amendments to IAS 27 Consolidated and Separate Financial Statements eliminate the option to choose between the "economic entity model" and the "modified parent company model" for share purchases after control is obtained. Now, IAS 27 (revised) requires the "economic entity model" to be used. Differences between the purchase price and the pro-rata carrying amount have to be recognised in equity. Sales of ownership interests not involving a loss of control have to be accounted for as equity transactions (i.e. transactions with owners in their capacity as owners), while sales of ownership interests that result in a loss of control (also for the retained investment) have to be recognised in profit or loss. Until 31 December 2010, the following financial reporting standards (IASs / IFRSs) and interpretations (SICs and IFRICs) had been published by the International Accounting Standards Board (IASB):

- Amendment to IAS 32 Financial Instruments: Presentation: Classification of Rights Issues
- Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters IFRS 7
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement
- Revised IAS 24 Related Party Disclosures
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Amendment to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- Amendments to IFRS 7 IFRS Disclosures – Transfers of Financial Assets
- IFRS 9 Financial Instruments
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets
- Improvements to IFRSs (issued by the IASB in May 2010)

IFRS 9 Financial Instruments represents the first step to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 fundamentally changes the previous rules for classification and measurement of financial assets. The Group has not yet completed a comprehensive analysis of the effects of IFRS 9; however, it is expected from today's perspective that the application will impact the recognition of financial assets within the Group. IFRS 9 is required to be applied for financial years beginning on or after 1 January 2013. Early application is permitted. The standard has yet to be endorsed by the EU.

Aareal Bank Group did not opt for early application of these standards in 2010, which are required to be applied in future financial years. With the exception of IFRS 9 Financial Instruments, the new and revised standards and interpretations will not have material consequences for the consolidated financial statements of Aareal Bank Group.

Specific accounting policies

(5) Definition and classification of financial instruments

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

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

- Cash funds
- Loans and advances to banks
- Loans and advances to customers
- Positive market value of derivative hedging instruments
- Trading assets
- Non-trading assets
- Other assets
- Liabilities to banks
- Liabilities to customers
- Certificated liabilities
- Negative market value of derivative hedging instruments
- Trading liabilities
- Other liabilities
- Subordinated 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. Trade date and settlement date are not the same for regular way purchases and sales of financial assets. Such regular way purchases and sales may be accounted for either at trade date or at settlement date. At Aareal Bank Group, financial instruments classified as held for trading are recognised at the trade date, while all other financial instruments are recognised at the settlement date. Financial assets are de-recognised upon final maturity or where material risks or opportunities under such assets have lapsed, or control over the contractual rights from such assets has expired. Financial liabilities are de-recognised 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 financial assets, but not to the measurement of financial liabilities.

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

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

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

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

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

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

In the event of impairment, the amount of the impairment loss incurred for a financial asset of the categories "Loans and receivables" or "Held to maturity" is determined as the difference between the carrying amount of the asset and the present value of the expected future cash flows, discounted using the original effective interest rate applicable upon first-time recognition. If the asset is subject to variable interest, the current contractually agreed reference interest rate has to be used as the discount rate. The impairment is recognised in the income statement. Where reasons for impairment lapse subsequently, the necessary reversals of impairments (write-backs) are generally recognised in income. The carrying amount after the reversal of an impairment loss may not exceed the asset's (amortised) cost. If an impairment of a financial asset of the "Available for sale" category has been identified, the amount of the impairment is calculated as the difference between the asset's (amortised) cost and its current fair value. In the event of such 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 write-back (up to amortised cost) to be recognised in income is permitted only for debt securities. Amounts exceeding amortised cost as well as reversals of impairment losses of equity instruments are always recognised directly in equity, in the revaluation surplus.

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

- Financial liabilities at fair value through profit or loss
- Financial liabilities measured at amortised cost (LaC)

The "Financial liabilities at fair value through profit or loss" category corresponds to the same category for financial assets. Upon first-time recognition, financial liabilities allocated to the category "Financial liabilities at fair value through profit and loss" are recognised at fair value (excluding transaction costs), and subsequently measured at fair value.

All financial liabilities not designated as at fair value through profit or loss are allocated to the category "Financial liabilities measured at amortised cost". Financial liabilities of that category are initially recognised at fair value (less transaction costs), and subsequently measured at amortised cost.

If, in accordance with IAS 39.11, embedded derivatives are required to be separated, the host contract is accounted for pursuant to the standards applicable for the financial instrument concerned, while the separated derivative is accounted for separately, or the entire contract is accounted for using the fair value option.

(6) Loans and advances

Loans and advances are disclosed under the line items "Loans and advances to customers", "Loans and advances to banks" or "Other assets"; they are classified as "Loans and receivables".

Interest income on lending is amortised over the term of the loan, with accrued interest disclosed with the corresponding receivable.

Interest income is no longer recorded, if – irrespective of the legal position – the inflow of interest is no longer deemed likely.

(7) Allowance for credit losses

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

Specific allowances for credit losses are recognised where expected future cash flows fall below the carrying amount of a loan receivable. This is reviewed if there is objective evidence that not all interest and principal payments will be made as contractually agreed. The estimated recoverable amount is determined on the basis of the present values of expected future cash flows from the asset (taking into account the marketability of collateral provided). Cash flows determined in this way are discounted over the estimated marketing period, using the effective interest rate. Loans and advances subject to variable interest rates are discounted using the currently agreed interest rate. Collateral is largely provided in the form of land charges or mortgages; these are measured in line with the measurement methods used for investment property as described in Note (13).

Portfolio-based valuation allowances are recognised for risks which have already materialised, but which cannot be allocated to individual loans and advances due to lack of knowledge. For this purpose, groups of financial assets with comparable default risk profiles are combined in portfolios and reviewed for impairment. The method to calculate the amount of the portfolio-based valuation allowance was refined in the year under review. In the past, portfolio-based valuation allowances were determined using historical default data specific for Aareal Bank Group. The calculations were based on risk parameters, determined using standard risk costs. In addition, a valuation allowance based on the development of the economy was recognised. Both methods were combined in the approach used for the first time in the financial year 2010. The valuation allowances are now calculated using a formula-based procedure based on the following Basel II parameters used in the advanced IRB Approach: expected loss given default (LGD) and probability of default (PD).

Recognition and reversal of allowances for credit losses are directly reflected in income. The balance of allowances for credit losses is shown in a separate allowance account. The increase of the present value over time of an impaired loan or advance (so-called unwinding) leads to a corresponding change in the allowance account, which 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 de-recognised against specific valuation allowances previously recognised, or written off directly. Payments on loans and advances previously written off are recognised in income.

(8) Trading assets and trading liabilities

Trading assets 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 is included in net interest income.

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

An asset is classified as held for sale when it is available for immediate sale in its present condition and sale is highly probable. Sale is deemed to be highly probable, amongst other things, when the sale is expected to occur within one year.

Non-current assets and disposal groups, including discontinued operations that are classified as held for sale in accordance with IFRS 5, are generally measured at the lower of carrying amount or fair value less costs to sell and have to be reported in a separate item in the statement of financial position. Gains or losses from discontinued operations have to be shown separately in the income statement as well.

(10) Hedging relationships

The bulk of Aareal Bank Group's portfolio of derivative financial instruments (derivatives) have been entered into in order to hedge interest rate and currency risk exposures.

The use of derivatives as hedging instruments (and corresponding hedge accounting) involves extensive documentation requirements, and the hedging relationship has to be tested for effectiveness on a quarterly basis at least.

Hedge accounting is based on clean fair values.

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 net result on hedge accounting). A fully effective hedging relationship results in offsetting measurement gains or losses. Interest on the underlying transaction and the hedge is recognised in net interest income.

The hedging relationship may result in adjustments to be made to the carrying amount of the underlying transaction. Such adjustments will only be recognised in income at the end of the transaction term. Derivatives used as hedging instruments for the purposes of a cash flow hedge serve to hedge future cash flows against changes in interest payments and exchange rate fluctuations. The effective portion of measurement gains or losses from the derivative is recorded in equity, in the revaluation surplus. The ineffective portion is recorded directly in income (in net result on hedge accounting). When the hedging relationship ceases to exist, the amounts recorded in the revaluation surplus are transferred to the income statement at the same time as profits or losses on the former underlying transaction are recognised in income. The underlying transaction is recognised in line with the rules for the measurement category to which the underlying transaction has been allocated.

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.

(11) Non-trading assets

Non-trading assets of Aareal Bank Group include securities in the form of bonds or other debt securities, equities, and fund units. In addition, this item includes investments in companies over which Aareal Bank AG neither has economic control nor may exercise any significant influence.

All assets included in other financial assets are recognised at cost, plus attributable transaction costs. Premiums and discounts are amortised over their term.

Bonds and debt securities reported in non-trading assets are allocated to the measurement categories "Available for sale", "Loans and receivables" and "Held to maturity". The remaining securities and equity investments are classified as "Available for sale" or "At fair value through profit or loss".

As regards the presentation in the statement of comprehensive income, interest and dividends from these assets are allocated to net interest income. Gains and losses from the fair value measurement of assets classified as available for sale are reported in the revaluation surplus.

(12) Investments accounted for using the equity method

Investments in associates included in this item are recognised at cost when the significant influence arises, and subsequently carried at amortised cost whereby, in particular, the share of results of operations of any financial year is recognised in income.

(13) Investment properties

Investment properties include land and buildings held for rental purposes or on grounds of an expected increase in value.

Investment property is measured annually, at fair value based on rents agreed, or on prevailing market rents and management costs specific to the property. Methods used for determining the fair value are the income capitalisation approach, or the discounted cash flow method. The interest rates used can be derived from the type and location of the property, as well as from the current market situation. Reductions in vacancies, or structural vacancies, are taken into account accordingly.

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

Investment property held as of the reporting date is classified as operating leases.

(14) 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 recognised in income, on a straight-line basis over the term of the lease.

(15) Intangible assets

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

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 several other conditions are fulfilled. They are amortised on a straight-line basis, using an estimated economic life of between five and ten years. Purchased software is also deemed to have a limited useful life. The procedure followed for the determination of amortisation of purchased software is the same as the procedure used for proprietary software. Amortisation is recognised in administrative expenses.

Goodwill is defined as the excess of the cost of acquiring an entity over the fair value of the Group's interest in the net assets of the acquired entity, at the time of acquisition (positive difference). An impairment test is performed at least once a year. Goodwill is carried at original cost (fair value) less accumulated impairments. Any negative goodwill arising upon acquisition is immediately charged against income. Where there are indications of impairment of intangible assets (as set out in IAS 36) at the reporting date, and the recoverable amount is lower than the carrying amount of the asset concerned, the asset is written down against income, to the estimated recoverable amount.

If it is impossible to estimate the recoverable amount for a specific asset, the recoverable amount of the cash-generating unit that the asset belongs to must be determined. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Aareal Bank Group defines cash-generating units either on the basis of a single subsidiary, or on a product level. The recoverable amount of an asset or a cash-generating unit is the higher of fair value less costs to sell and value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset or cash-generating unit. Future cash flows are determined based on medium-term projections. The present value of the future cash flows is determined using discount factors which are in line with the risks involved.

(16) Property and equipment

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

(Owner-occupied) buildings reported under property and equipment are depreciated on a straight-line basis, over a period of 50 years. (Owner-occupied) land is not depreciated. Please refer to the explanations in the notes on other assets and investment property for the accounting method to be applied for land and buildings which are not owner-occupied. Other property and equipment items are initially depreciated using the declining-balance method, subsequently reverting to straight-line depreciation, applying the following periods:

	Depreciation period
Other property and equipment	
Tenant's improvements	10 years
IT equipment	3-7 years
Other office furniture and equipment	5-13 years

For details on recognising impairments as defined in IAS 36, please refer to the explanations in Note (15) "Intangible assets" in this section.

Gains and losses upon disposal of property and equipment are recognised in income (in net other operating income / expenses).

The costs to purchase low-value assets in the amount of up to € 150.00 are expensed as incurred.

Any assets with a cost of more than € 150.00, but not exceeding € 1,000.00, are combined in a collective account for the year, which is then depreciated on a straight-line basis over a period of five years.

(17) Deferred taxes

In accordance with IFRS, deferred taxes are recognised for all temporary measurement and recognition differences between the carrying amount of an asset or liability and its tax base. Under this approach, all differences are recognised (irrespective of their origin) if they result in future tax credits or tax charges. Deferred tax liabilities are recorded for differences which, when reversed at a later date, will result in a higher tax charge; deferred tax assets are recorded for those differences which, when reversed, will result in a tax credit.

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

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

Deferred taxes are calculated at local tax rates, which are in force or announced as at the balance sheet date. Deferred tax assets or liabilities are adjusted to the tax rates in force or announced at the balance sheet date. Tax rates for Germany 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.

(18) Other assets

Properties reported under other assets are intended for short-term disposal, though the IFRS 5 criteria are not met. They are measured at the lower of cost or net realisable value, in accordance with IAS 2.

(19) Financial liabilities

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

(20) Provisions

Apart from provisions for pensions, the provisions recognised within Aareal Bank Group include, among other things, provisions for staff expenses, loan loss provisions as well as restructuring provisions. Provisions are set aside for commitments to third parties if utilisation is probable and the amount of the commitment can be reasonably estimated. Provisions are measured on the basis of the best estimate of the expenditure required to settle the obligation, in accordance with IAS 37.36. If utilisation in the short term, i.e. within twelve months, from the obligation is not expected, the provision will be recognised at present value.

(21) Pension liabilities

Aareal Bank Group maintains various pension plans as defined in IAS 19. For the purpose of reporting pension obligations, IAS 19 makes a distinction between defined contribution plans and defined benefit plans.

Under defined contribution plans, an enterprise pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions paid to the statutory pension insurance scheme are also classified as defined contribution plans. The contributions paid to a defined contribution plan are recorded as staff expenses.

All pension obligations which do not fulfil the criteria of defined contribution plans are classified as defined benefit plans. The amount of obligations usually depends on one or several factors, including age, length of service, and salary.

The Group's obligations under defined benefit plans are recognised as a provision in the statement of financial position.

Provisions for pensions and similar obligations under defined benefit plans are determined in accordance with IAS 19 on the basis of the projected unit credit method. Projected economic and demographic developments, as well as salary and career trends, must be applied to the calculations of the provisions. The discount factor used to determine the present value of the obligation is based on the capital market rate of corporate bonds with impeccable credit ratings at the reporting date. Calculating the amount of provisions in the Group is based on actuarial opinions which are prepared by external actuaries on the basis of specific and Group-wide standardised parameters.

Provisions for pensions and similar obligations, as recognised in the statement of financial position, are based on company agreements on an employee pension scheme, individual agreements with executive staff, as well as individual agreements with the members of the company's senior management.

Accumulated actuarial gains or losses are not recognised, to the extent that they do not exceed 10 % of the present value of the defined benefit plan and the fair value of plan assets (corridor approach). Any amounts in excess of this 10 % threshold are recognised in the financial year following occurrence of the excess, and amortised in income over the average remaining working lives of the employees covered by the defined benefit plans.

(22) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when due. A guarantor recognises a financial guarantee contract as a liability at the date of addition at its fair value. The obligation is subsequently measured at the greater of a provision recorded in accordance with IAS 37 and the original amount, less any accumulated amortisation. Within Aareal Bank Group, financial guarantee contracts are presented based on the present value of the claim resulting from the future premium payments of the holder and offset with the obligation for the guarantee (net basis).

(23) Share-based payment

Aareal Bank Group currently maintains share-based payment plans subject to cash settlement in accordance with IFRS 2. We refer to the remuneration report as part of the management report, which includes a detailed description of the plans and their scope as well as information on the valuation model applied and the effects of share-based payments on the Group's financial position and performance.

A provision for obligations under the remuneration programmes has been recognised against administrative expenses, in the amount of the fair value of the relevant obligation at the reporting date.

(24) Equity and non-controlling interest

Pursuant to IFRSs, equity instruments are such instruments which constitute a residual interest in the assets of a company after deduction of all its liabilities.

Non-controlling interests, as well as the silent participation from SoFFin, are recorded as a separate item within equity.

(25) 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 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.

IFRSs do not provide guidance for the presentation of spin-offs.

Assets and liabilities taken over from the former DEPFA Deutsche Pfandbriefbank AG were 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 were recognised directly in equity, under reserves from transactions under common control.

In the meantime, the assets and liabilities transferred have been realised to a large extent. The residual amount existing as at 31 December 2010 was reclassified to retained earnings.

(B) Notes to the Statement of Comprehensive Income

(26) Net interest income

Euro mn	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Interest income from		
Property loans	570	661
Public sector loans	27	52
Other lending and money market operations	121	185
Debt and other fixed-income securities	184	257
Current dividend income	1	4
Other interest income	–	1
Total interest income	**903**	**1,160**
Interest expenses for		
Bonds issued	92	152
Registered Mortgage Pfandbriefe	49	79
Borrowed funds	116	192
Subordinated capital	28	37
Term deposits	83	207
Payable on demand	24	33
Other banking transactions	2	0
Total interest expenses	**394**	**700**
Total	**509**	**460**

Interest income from property loans includes income from impaired loans (so-called unwinding) in the amount of € 12 million (2009: € 9 million).

The increase of net interest income was mainly attributable to higher average margins generated in the lending business on new exposures and renewals during 2009 and 2010. Margins from the deposit-taking business with the institutional housing industry declined, due to lower interest rate levels – which have persisted for longer than anticipated.

(27) Allowance for credit losses

Euro mn	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Additions	142	155
Reversals	54	53
Direct write-offs	25	53
Recoveries on loans and advances previously written off	8	5
Total	**105**	**150**

(28) Net commission income

	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Euro mn		
Commission income from		
Consulting and other services	148	150
Trustee loans and administered loans	5	6
Securities transactions	2	2
Securitisation transactions	1	2
Other lending and capital market transactions	18	13
Other commission income	13	15
Total commission income	**187**	**188**
Commission expenses for		
Consulting and other services	22	26
Securities transactions	31	17
Securitisation transactions	3	4
Other lending and capital market transactions	3	2
Other commission expenses	5	6
Total commission expenses	**64**	**55**
Total	**123**	**133**

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

Commission expenses for securities transactions include expenses of € 30 million (2009: € 17 million) for the guarantee facility of € 2 billion extended by the German Financial Markets Stabilisation Fund (SoFFin) at the end of March 2009 and the end of June 2010.

The utilisation of the remaining amount of the SoFFin guarantee facility at the end of June 2010 led to an increase of these expenses compared to the previous year.

(29) Net result on hedge accounting

	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Euro mn		
Ineffective portion of fair value hedges	-2	-2
Ineffective portion of cash flow hedges	–	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.

(30) Net trading income / expenses

	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Euro mn		
Results from derivative financial instruments	5	47
Currency translation	2	-5
Net income / expenses from other positions held for trading	1	2
Total	**8**	**44**

The results from derivative financial instruments arise from the valuation of trading derivatives used as economic hedges for interest rate and currency risks, and from realised and unrealised changes in value from sold hedging instruments on selected EU sovereign countries.

(31) Results from non-trading assets

	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Euro mn		
Result from debt securities and other fixed-income securities	-25	-1
of which: Loans and receivables	-14	1
Available for sale	-11	-2
Result from equities and other non-fixed income securities	13	-22
of which: Available for sale	12	-19
Designated as at fair value through profit or loss	1	-3
Results from equity investments (AfS)	0	1
Total	**-12**	**-22**

The result from debt securities and other fixed-income securities is attributable to the sale of European government bonds (€ -10 million) and bank bonds (€ -4 million). The measurement of European government bonds results in expenses of € 11 million.

The positive result from equities and other non-fixed-income securities primarily represents a realised price gain in relation to units held in a mutual investment fund (€ 14 million).

(32) Result from investments accounted for using the equity method

The results from investments accounted for using the equity method amounting to € 5 million (2009: € 1 million) is mainly the result of a further distribution made by the former group participation in Deutsche Interhotel Holding GmbH & Co KG.

(33) Results from investment property

Euro mn	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Rental income	4	1
Expenses for the operation of properties rented out	0	0
Results from the measurement of properties	-21	-1
Results from the sale of properties	0	–
Total	**-17**	**0**

A non-recurring expense of € 20 million was recognised for the realignment of an investment property during the financial year under review.

(34) Administrative expenses

Euro mn	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Staff expenses	226	221
Other administrative expenses	119	118
Depreciation, amortisation and impairment of property and equipment and intangible assets	21	22
Total	**366**	**361**

One of the factors contributing to this year-on-year increase was higher provisions for share-based remuneration, due to the positive performance of Aareal Bank's share price during the financial year under review.

Staff expenses include contributions to defined contribution plans in the amount of € 10 million (2009: € 10 million).

Other administrative expenses include administrative costs for research and development not eligible for capitalisation in the amount of € 3 million (2009: € 3 million). This item also includes the total fees charged by the auditor of the consolidate financial statements in the financial year 2010, which consists of the following sub-items:

Euro 000's	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Auditing fees	3,390	3,578
Other assurance services	141	480
Tax advisory services	172	231
Other services	2,275	1,137
Total	**5,978**	**5,426**

(35) Net other operating income/expenses

Euro mn	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Income from properties	9	4
Income from the reversal of provisions	6	4
Income from goods and services	5	4
Miscellaneous	18	18
Total other operating income	**38**	**30**
Expenses for property	14	6
Expenses for services used	0	3
Write-downs of trade receivables	0	1
Expenses for other taxes	2	2
Miscellaneous	31	32
Total other operating expenses	**47**	**44**
Total	**-9**	**-14**

Miscellaneous other operating expenses include expenses for project-related costs and for provisions for subsidiaries, as well as research and development costs of € 3 million which could not be capitalised.

(36) Impairment of goodwill

In the financial year 2010, there was no significant impairment of goodwill (2009: € 2 million).

(37) Income taxes

Euro mn	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Current income taxes	40	24
Deferred taxes	0	-4
Total	**40**	**20**

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

Euro mn	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Operating profit (before income taxes)	134	87
Expected tax rate	31.2%	31.2%
Calculated income taxes	42	27
Reconciliation to reported income taxes		
Different foreign tax burden	3	-7
Tax attributable to tax-exempt income	-11	-7
Tax attributable to non-deductible expenses	7	4
Remeasurement of deferred taxes	8	5
Taxes for previous years	-1	3
Effect of changes in tax rates	-1	0
Non-controlling interests	-6	-6
Other tax effects	-1	1
Reported income taxes	**40**	**20**
Effective tax rate	30%	23%

The expected tax rate of 31.2 % (2009: 31.2 %), including a trade tax rate of assessment of 440 %, comprises trade taxes (15.4 %), corporation taxes (15 %) and the solidarity surcharge (0.825 %; 5.5 % of corporation tax).

(38) Earnings per share

	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Net income/loss attributable to shareholders of Aareal Bank AG (Euro mn)	76	49
Average number of shares outstanding	42,755,159	42,755,159
Earnings per share (Euro)	**1.78**	**1.14**

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, since no convertible instruments were issued.

(39) Reconciliation from net Income/loss to total comprehensive income

Euro mn	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Net income/loss	**94**	**67**
Changes in revaluation surplus (after tax)	**2**	**75**
Gains and losses on remeasuring available-for-sale financial instruments (before tax)	-7	49
Reclassifications to the income statement (before tax)	12	49
Taxes	-3	-23
Changes in hedging reserves (after tax)	**0**	**0**
Profit/loss from derivatives used to hedge future cash flows (before tax)	0	0
Reclassifications to the Income statement (before tax)	–	0
Taxes	0	–
Changes in Currency translation reserves (after tax)	**1**	**-1**
Profit/loss from translating foreign operations' financial statements (before taxes)	1	-1
Reclassifications to the Income statement (before taxes)	0	–
Taxes	–	–
Changes in reserves from transactions under common control (after tax)	**-1**	**9**
Gains and losses from transactions under common control (before tax)	-1	9
Reclassifications to the Income statement (before tax)	–	–
Taxes	–	–
Other Changes (after tax)	**–**	**-4**
Other Changes (before tax)	–	-6
Taxes	–	2
Profit/Loss directly recognised in equity (after tax)	**2**	**79**
Total	**96**	**146**

As at 31 December 2010, total gains and losses recognised directly in equity were as follows:

Euro mn	31 Dec 2010	31 Dec 2009
Revaluation surplus	-110	-112
Hedging reserves	–	0
Currency translation reserves	2	1
Reserves from transactions under common control	–	1
Total	**-108**	**-110**

(C) Notes to the Statement of Financial Position

(40) Cash funds

Euro mn	31 Dec 2010	31 Dec 2009
Cash on hand	0	0
Balances with central banks	922	990
Total	**922**	**990**

(41) Loans and advances to banks

Euro mn	31 Dec 2010	31 Dec 2009
Term deposits and current account balances	958	521
Public sector loans	213	234
Receivables from securities repurchase transactions	811	–
Other loans and advances	52	46
Total	**2,034**	**801**

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

(42) Loans and advances to customers

Euro mn	31 Dec 2010	31 Dec 2009
Property loans	22,392	21,288
Public sector loans	1,641	1,717
Other loans and advances	628	454
Total	**24,661**	**23,459**

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

(43) Allowance for credit losses

	Specific valuation allowances		Portfolio-based valuation allowances		Total	
Euro mn	2010	2009	2010	2009	2010	2009
Balance as at 1 January	**183**	**150**	**100**	**85**	**283**	**235**
Additions/transfers	130	133	–	15	130	148
Write-downs	26	55	–	–	26	55
Reversals	49	45	12	–	61	45
Currency adjustments	6	0	0	0	6	0
Position as at 31 December	**244**	**183**	**88**	**100**	**332**	**283**

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

(44) Positive market value of derivative hedging instruments

Euro mn	31 Dec 2010	31 Dec 2009
Positive market values of fair value hedges	947	820
Pro rata interest receivable	374	424
Total	**1,321**	**1,244**

(45) Trading assets

Euro mn	31 Dec 2010	31 Dec 2009
Debt and other fixed-income securities	–	1
Positive market value of trading derivatives	428	688
Total	**428**	**689**

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

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

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

Euro mn	31 Dec 2010	31 Dec 2009
Property, real estate	–	8
Total	**–**	**8**

(47) Non-trading assets

Euro mn	31 Dec 2010	31 Dec 2009
Debt and other fixed-income securities	11,393	11,817
of which: Loans and receivables (LaR)	6,463	7,039
Held to maturity (HtM)	557	412
Available for sale (AfS)	4,373	4,366
Equities and other non-fixed income securities	34	108
of which: Available for sale (AfS)	29	98
Designated as at fair value through profit or loss (dFVtPL)	5	10
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	1	4
Total	**11,428**	**11,929**

The item "Debt and other fixed-income securities" mainly consists of securities issued by public-sector entities as well as asset-covered bonds (Pfandbriefe) and bank bonds. In addition, the item includes asset-backed securities in a nominal amount of € 452 million (2009: € 537 million).

The item "Equities and other non-fixed income securities" comprises structured financial instruments amounting to € 5 million (2009: € 10 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	2010	2009	2010	2009
Debt and other fixed-income securities	11,304	11,759	59	57
Equities and other non-fixed income securities	–	–	–	55
Total	**11,304**	**11,759**	**59**	**112**

(48) 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 and / or unrecognised losses at the 2010 and 2009 reporting dates. The share of Aareal Bank Group in gains and losses of associates taken into account in 2010 totalled € 1 million (2009: € 1 million).

The material companies accounted for using the equity method as at 31 December 2010 had assets of € 7 million (2009: € 106 million) and liabilities of € 1 million (2009: € 94 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 2010 and 30 September 2010, respectively.

(49) Investment properties

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

Euro mn	2010	2009
Carrying amount as at 1 January	**103**	**94**
Additions		
from the purchase of properties	–	–
from subsequent expenditure	7	10
from business combinations	131	–
Reclassification in accordance with IFRS 5	–	–
Disposals	–	–
Net results from fair value measurement	-21	-1
Carrying amount as at 31 December	**220**	**103**

A non-recurring expense of € 20 million was recognised for the realignment of an investment property during the financial year under review.

(50) Intangible assets

Euro mn	31 Dec 2010	31 Dec 2009
Goodwill	50	37
Proprietary software	26	28
Other intangible assets	15	13
Total	**91**	**78**

Reported goodwill mainly refers to the Aareon sub-group.

The amount shown for proprietary software includes € 8 million (2009: € 10 million) for the electronic payments system BK@1; the software is amortised over a remaining term of four years.

The same item also includes € 6 million (2009: € 8 million) for the property management software suite Blue Eagle; the software is amortised over an average remaining term of five years.

Intangible assets developed as follows:

	2010				2009			
Euro mn	Proprietary software	Goodwill	Other intangible assets	Total	Proprietary software	Goodwill	Other intangible assets	Total
Cost								
Balance at 1 January	**64**	**94**	**50**	**208**	**63**	**94**	**48**	**205**
Additions	3	–	3	6	1	0	4	5
Transfers	0	–	1	1	0	–	0	–
Disposals	0	0	5	5	0	0	2	2
Changes in basis of consolidation	–	13	6	19	–	–	–	–
Currency translation differences	–	–	0	0	–	0	0	0
Balance at 31 December	**67**	**107**	**55**	**229**	**64**	**94**	**50**	**208**
Amortisation and impairment losses								
Balance at 1 January	**36**	**57**	**37**	**130**	**29**	**55**	**35**	**119**
Amortisation and impairment losses	5	0	7	12	7	2	4	13
of which: impairment losses	–	0	–	0	–	–	–	–
Write-ups	–	–	–	–	–	–	–	–
Transfers	–	0	0	0	–	–	–	–
Asset retirement	0	–	4	4	0	–	2	2
Changes in basis of consolidation	–	0	0	0	–	–	–	–
Currency translation differences	–	0	0	0	–	0	0	0
Balance at 31 December	**41**	**57**	**40**	**138**	**36**	**57**	**37**	**130**
Carrying amount as at 1 January	**28**	**37**	**13**	**78**	**34**	**39**	**13**	**86**
Carrying amount as at 31 December	**26**	**50**	**15**	**91**	**28**	**37**	**13**	**78**

(51) Property and equipment

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

Property and equipment changed as follows:

	2010				2009			
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	**87**	**74**	**1**	**162**	**88**	**67**	**0**	**155**
Additions	2	4	4	10	0	11	1	12
Transfers	6	–	0	6	0	0	–	–
Disposals	2	10	4	16	1	4	0	5
Changes in basis of consolidation	3	-2	–	1	–	–	–	–
Currency translation differences	–	0	–	0	–	0	–	0
Balance at 31 December	**96**	**66**	**1**	**163**	**87**	**74**	**1**	**162**
Depreciation and impairment losses								
Balance at 1 January	**10**	**53**	**0**	**63**	**9**	**49**	**0**	**58**
Depreciation and impairment losses	3	7	–	10	3	8	–	11
of which: impairment losses	–	–	–	–	–	–	–	–
Write-ups	–	–	–	–	1	–	–	1
Transfers	6	–	–	6	–	–	–	–
Disposals	1	9	–	10	1	4	–	5
Changes in basis of consolidation	–	-1	–	-1	–	–	–	–
Currency translation differences	–	0	–	–	–	0	–	0
Balance at 31 December	**18**	**50**	**0**	**68**	**10**	**53**	**0**	**63**
Carrying amount as at 1 January	**77**	**21**	**1**	**99**	**79**	**18**	**0**	**97**
Carrying amount as at 31 December	**78**	**16**	**1**	**95**	**77**	**21**	**1**	**99**

(52) Income tax assets

Income tax assets of € 31 million as at 31 December 2010 (2009: € 47 million) include € 11 million (2009: € 19 million) expected to be realised after a period exceeding twelve months.

(53) 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 € 410 million (2009: € 692 million).

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

Euro mn	31 Dec 2010	31 Dec 2009
Loans and advances to banks/to customers	11	19
Positive and negative market value of derivative hedging instruments	16	208
Trading assets and trading liabilities	60	174
Non-trading assets	14	53
Investment properties	1	1
Intangible assets	–	0
Property and equipment	1	1
Other assets/liabilities	0	0
Liabilities to banks/to customers, and certificated liabilities	246	234
Provisions	37	28
Non-controlling interest	16	21
Tax loss carryforwards	77	74
Deferred tax assets	**479**	**813**

Of the deferred taxes on loss carryforwards, an amount of € 56 million is attributable to foreign subsidiaries and permanent establishments. As a result of the type of the business, we expect that taxable profit will be generated in the next three years to offset these losses.

Deferred tax assets not recognised totalled € 19 million (2009: € 18 million). They entirely relate to tax loss carryforwards that are neither recognised nor subjected to valuation adjustments. These loss carryforwards may generally be carried forward for an unlimited period: however, they were neither recognised nor subjected to valuation adjustments, since we currently do not expect that these loss carryforwards will be realised.

Deferred tax assets as at 31 December 2010 include € 63 million (2009: € 71 million) expected to be realised after a period exceeding twelve months.

(54) Other assets

Euro mn	31 Dec 2010	31 Dec 2009
Properties	125	160
Trade receivables (LaR)	27	26
Miscellaneous	94	95
Total	**246**	**281**

(55) Liabilities to banks

Euro mn	31 Dec 2010	31 Dec 2009
Payable on demand	583	509
Term deposits	290	247
Promissory note loans borrowed	634	595
Liabilities from securities repurchase transactions and open-market operations	3,336	3,236
Registered Mortgage Pfandbriefe	94	49
Registered Public Sector Pfandbriefe	147	162
Miscellaneous	84	285
Total	**5,168**	**5,083**

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

(56) Liabilities to customers

Euro mn	31 Dec 2010	31 Dec 2009
Payable on demand	3,813	3,543
Term deposits	5,093	4,523
Promissory note loans borrowed	8,370	8,518
Registered Mortgage Pfandbriefe	2,448	1,942
Registered Public Sector Pfandbriefe	3,122	2,834
Miscellaneous	–	1
Total	**22,846**	**21,361**

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

(57) Certificated liabilities

Euro mn	31 Dec 2010	31 Dec 2009
Medium-term notes	1,197	1,791
Bearer Mortgage Pfandbriefe	4,058	3,632
Bearer Public Sector Pfandbriefe	99	113
Other debt securities	2,265	2,326
Total	**7,619**	**7,862**

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

(58) Negative market value of derivative hedging instruments

Euro mn	31 Dec 2010	31 Dec 2009
Negative market values of fair value hedges	992	739
Pro rata interest payable	189	201
Total	**1,181**	**940**

(59) Trading liabilities

Euro mn	31 Dec 2010	31 Dec 2009
Negative market value of trading derivatives	675	490
Total	**675**	**490**

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

(60) Provisions

Euro mn	31 Dec 2010	31 Dec 2009
Provisions for pensions and similar obligations	92	117
Other provisions	145	139
Total	**237**	**256**

Provisions for pensions and similar obligations

The pension obligations result mainly from retirement benefit plans maintained at Aareal Bank AG and Aareon AG, which are classified as defined benefit plans in accordance with IAS 19.

There are currently five different retirement benefit plans within Aareal Bank AG, of which four plans have been closed (and no longer admit employees). The various types of benefits are backed by insurance cover and securities. According to the type of retirement plan, the amount of benefits depends on various factors, including eligible salary, period of employment, benefits from the statutory pension insurance fund as well as on returns generated where external funding is involved.

In 2010, Aareal Bank contributed parts of the assets held to cover existing pension obligations into a Contractual Trust Arrangement (CTA). This is to ensure an improved insolvency protection of the pension claims, as a result of the limited protection provided by the German Pension Guarantee Association (Pensionssicherungsverein; PSVaG).

There are currently six different retirement benefit plans within Aareon AG. All plans have been closed, and no longer admit employees. According to 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 2010	31 Dec 2009
Calculation method	Projected Unit Credit	Projected Unit Credit
Calculation basis	Actuarial tables issued by K. Heubeck in 2005	Actuarial tables issued by K. Heubeck in 2005
Actuarial assumptions (%)		
Interest rate used for valuation	5.00	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	3.00	3.20
Expected return on plan assets	–	–

Development of pension liabilities:

Euro mn	2010	2009
Present value of pension liabilities as at 1 January	**131**	**123**
Service cost	5	3
Interest cost	7	7
Actuarial gains (-) / losses	7	4
Pension benefits paid	6	6
Present value of pension liabilities as at 31 December	**144**	**131**
of which funded entirely or in part by plan assets	33	–
of which not funded by plan assets	111	131

Reconciliation of pension liabilities to provisions for pensions:

Euro mn	2010	2009
Present value of pension liabilities as at 31 December	**144**	**131**
Fair value of plan assets as at 31 December	31	–
Unrealised gains/losses (-)	-21	-14
Provisions for pensions as at 31 December	**92**	**117**

Provisions for pensions carried at 31 December 2010 include € 86 million (2009: € 111 million) expected to be realised after a period of more than twelve months.

Pension expense:

Euro mn	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Service cost	5	3
Interest cost	7	7
Expected return on plan assets	–	–
Actuarial gains (-) / losses	0	0
Past service cost	0	–
Pension expense	**12**	**10**

Development of plan assets:

Euro mn	2010
Fair value of plan assets as at 1 January	**–**
Employer's contributions	31
Expected return on plan assets	0
Actuarial gains / losses (-)	0
Pension benefits paid	–
Fair value of plan assets as at 31 December	**31**

The right to reimbursement, which was reported in the notes to the consolidated financial statements for the financial year 2009 in accordance with IAS 19.104A in the amount of € 14 million, was contributed into a Contractual Trust Arrangement (CTA) in the year under review, along with other assets.

In the case of securities, the expected return on plan assets is based on the actual nominal interest rate of the underlying securities or on the capital market developments observed in the past, as appropriate. In the case of insurance policies, the calculation of expected return is based on the consensus expectations with regard to participation features.

Plan assets can be broken down as follows:

Euro mn	2010
Securities	17
Insurance policies	14
Total	**31**

The funded status changed as follows:

Euro mn	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007	31 Dec 2006
Present value of pension obligations	**144**	**131**	**123**	**117**	**136**
Fair value of plan assets	31	–	–	–	–
Funded status	**113**	**131**	**123**	**117**	**136**

As at the balance sheet date 31 December 2010, the following experience adjustments had to be made in accordance with IAS 19.120A (p):

Euro mn	31 Dec 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007	31 Dec 2006
Gains/losses (-) arising from					
Changes in number of beneficiaries	1	-4	-1	0	-1
Changes of actuarial assumptions	-8	0	-	21	6
Gains/losses (-) from pension liabilities	**-7**	**-4**	**-1**	**21**	**5**
Actual return on plan assets	0	–	–	–	–
Expected return on plan assets	0	–	–	–	–
Experience-based gains/losses (-) from plan assets	**0**	**–**	**–**	**–**	**–**
Total gains/losses (-) for the period	**-7**	**-4**	**-1**	**21**	**5**

Contributions in the amount of € 6 million (2009: € 6 million) are expected to be paid in the financial year 2011.

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

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 Jan 2010	**3**	**60**	**28**	**48**	**139**
Additions	2	43	12	21	78
Utilisation	1	27	6	11	45
Reversals	2	9	5	11	27
Reclassifications	–	0	–	0	0
Carrying amount as at 31 Dec 2010	**2**	**67**	**29**	**47**	**145**

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 Jan 2009	**0**	**65**	**38**	**44**	**147**
Additions	3	36	8	26	73
Utilisation	0	32	7	11	50
Reversals	–	9	11	11	31
Reclassifications	–	–	–	–	0
Carrying amount as at 31 Dec 2009	**3**	**60**	**28**	**48**	**139**

Provisions for staff expenses and non-staff operating costs include provisions set aside for bonuses and for anniversary bonuses. We expect that a large portion of these provisions will be realised in the financial year 2011.

An amount of € 16 million (2009: € 16 million) in provisions relating to the capital guarantees provided for Deutsche Pfandbriefbank AG (formerly DEPFA Deutsche Pfandbriefbank AG) within the context of the separation in 2002 was recognised as at the balance sheet date. We expect that a large portion of the total provisions for the lending business will be realised within two years.

Other provisions include an amount of € 17 million (2009: € 9 million) for interest rate guarantees provided in the context of the separation in 2002 relating to the property loan portfolio held by Deutsche Pfandbriefbank AG. We expect that a large portion of these provisions will be realised within two years.

The interest cost on provisions recognised at present values due to an estimated minimum remaining term of one year resulted in expenses in the financial year 2010 in the amount of € 2 million.

(61) Income tax liabilities

Income tax liabilities in a total amount of € 30 million as at 31 December 2010 (2009: € 10 million) include € 4 million (2009: € 9 million) expected to be realised after a period of more than twelve months.

(62) 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 € 410 million (2009: € 692 million).

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

Euro mn	31 Dec 2010	31 Dec 2009
Loans and advances to banks/to customers	105	112
Positive and negative market values of derivative hedging instruments	42	246
Trading assets and trading liabilities	70	200
Non-trading assets	170	141
Investment properties	5	1
Intangible assets	7	8
Property and equipment	8	9
Other assets/liabilities	0	4
Liabilities to banks/to customers, and certificated liabilities	1	15
Provisions	27	26
Non-controlling interest	2	0
Deferred tax liabilities	**437**	**762**

Deferred taxes on temporary differences not recognised through profit or loss amounted to € 29 million (2009: € 32 million) and were directly recognised in the revaluation surplus. Deferred tax liabilities as at 31 December 2010 include € 94 million (2009: € 54 million) expected to be realised after a period exceeding twelve months.

(63) Other liabilities

Euro mn	31 Dec 2010	31 Dec 2009
Liabilities from outstanding invoices	8	10
Deferred income	4	6
Liabilities from other taxes	29	15
Trade payables (lac)	10	10
Other liabilities (lac)	130	110
Other liabilities	**181**	**151**

Other liabilities include proportionate interest in connection with the silent participation from SoFFin in the amount of € 41 million (2009: € 35 million).

(64) Subordinated capital

Euro mn	31 Dec 2010	31 Dec 2009
Subordinated liabilities	560	559
Profit-participation certificates	480	482
Contributions by silent partners [1]	228	228
Total	**1,268**	**1,269**

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

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

Subordinated liabilities

Subordinated funds raised in accordance with section 10 (5a) of the KWG do not provide for any early repayment obligation. In the event of liquidation or insolvency, claims on interest and principal from these liabilities are subordinated to the claims of all other creditors, which are not themselves subordinated. This also applies to those subordinated funds raised that are not specified in detail.

As at the balance sheet date, the bank had no knowledge of any individual items exceeding 10 % of total subordinated liabilities.

Interest expenses for all subordinated liabilities during 2010 totalled € 27 million (2009: € 24 million). Interest was paid on subordinated liabilities at an average rate of 4.78 % (2009: 4.27 %).

Profit-participation certificates

Profit-participation certificates issued by Aareal Bank AG (as shown below) comply with the provisions of section 10 (5) of the:

	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 distriution during the term of the profit-participation certificates would cause a net loss, said interest claim would be reduced, possibly down to zero, creating a claim for backpayment during the term of the certificates at the same time.

Repayment takes place at the nominal amount (subject to any loss sharing), on the day after the Annual General Meeting passing resolutions regarding the relevant financial year. The profit-participation certificates evidence creditors' rights; they do not grant any share in the liquidation proceeds.

An amount of € 27 million (2009: € 27 million) in interest expenses was incurred with respect to profit-participation certificates issued.

Contributions by silent partners

Contributions by silent partners to Aareal Bank Group totalled € 220 million (2009: € 220 million). These contributions comply with the requirements for liable capital pursuant to section 10 (4) of the KWG. The contributions by silent partners are used as core capital for regulatory purposes (2009: € 220 million) in their full amount.

Total expenditure for silent participations amounted to € 10 million (2009: € 12 million) in the financial year 2010.

(65) Equity

	31 Dec 2010	31 Dec 2009
Euro mn		
Subscribed capital	128	128
Capital reserves	511	511
Retained earnings	836	780
Other reserves		
Reserves from transactions under common control	–	1
Revaluation surplus	-110	-112
Hedging reserves	–	0
Currency translation reserves	2	1
Silent participation by SoFFin	375	525
Non-controlling interest	243	243
Total	**1,985**	**2,077**

Subscribed capital

Aareal Bank AG's subscribed capital amounted to € 128 million as at the reporting date (2009: € 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 was authorised by the Annual General Meeting held on 19 May 2010 to purchase and sell treasury shares, pursuant to section 71 (1) no. 7 of the AktG, until 18 May 2015. The volume of shares acquired for this purpose must not exceed 5 % of the Company's share capital at the end of any day. The lowest price at which a share may be acquired is determined by the average closing price of the Company's shares in Xetra (or a comparable successor system) on the three last trading days on the Frankfurt / Main stock exchange prior to such purchase, or assumption of an obligation to purchase, less ten per cent (10 %). The highest price shall not exceed such average closing price plus ten per cent (10 %). The Company was authorised at the same Annual General Meeting to purchase own shares, not exceeding 10 % of the bank's share capital, for other purposes than securities trading, up until 18 May 2015. 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 Company'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 19 May 2010. 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 € 64,132,500 (Authorised Capital) by issuance of new bearer shares for contribution in cash or in kind (where such contribution may represent the full contribution, or part thereof), subject to the approval of the Supervisory Board; this authority will expire on 18 May 2015. In the event of a capital increase against cash contributions, the shareholders shall be granted a subscription right, unless the Management Board exercises its authority to exclude shareholder's pre-emptive subscription rights. The Management Board may exclude shareholders' subscription rights, subject to approval by the Supervisory Board and the conditions set out below:

a) in the event of a capital increase against cash contributions, provided that the issue price of the new shares is not significantly below the prevailing stock exchange price of the Company's listed shares at the time of the final determination of the issue price. However, this authorisation shall be subject to the proviso that the aggregate value of shares sold to the exclusion of shareholders' subscription rights, in accordance with section 186 (3) sentence 4 of the AktG, shall not exceed ten per cent (10 %) of the registered share capital at the time said authorisation comes into effect or is exercised. Any shares that were issued or sold during the term and prior to the exercising of said authorisation, in direct or analogous application of section 186 (3) sentence 4 of the AktG, shall count towards the above threshold of ten per cent (10 %) of the registered share capital. Said ten per cent threshold shall also include shares, the issuance of which is required under the terms of debt securities with embedded conversion or option rights on shares issued pursuant to section 186 (3) sentence 4 of the AktG (excluding shareholders' subscription rights), which were (or may be) issued during the validity of this authorisation;

b) for fractional amounts arising from the determination of the applicable subscription ratio;

c) where this is necessary to grant subscription rights to the holders of bonds with warrants or convertible bonds issued (or to be issued) by the Company or its affiliated companies, which subscription rights are required to entitle these holders to the same extent as they would have been entitled to upon exercising their conversion or option rights, or upon performance of a conversion obligation, if any, thus protecting such holders against dilution;

d) 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. When exercising this authorisation, the Management Board will restrict the exclusion of shareholders' pre-emptive rights to a total of 20 % of the Company's registered share capital. Accordingly, the aggregate exclusion of shareholders' subscription rights upon exercise of this authorisation must not exceed 20 per cent (20 %) of the registered share capital at the time said authorisation comes into effect or is exercised.

Said authorisation was not utilised during the reporting year.

Conditional capital

The share capital is subject to a conditional capital increase of up to € 30 million by means of issuing up to 10 million new no-par value bearer shares, with a share in the Company's share capital of € 3.00 each. Such conditional capital increase serves to enable the company to service convertible bonds and/or bonds with warrants on the basis of the authorisation resolution of the Annual General Meeting held on 19 May 2010. Said resolution authorised the Management Board, subject to the consent of the Supervisory Board, to issue, on one or more occasion until 18 May 2015, convertible bonds and/or bonds cum warrants with a limited or an unlimited term in an aggregate nominal amount of € 600 million, and to grant option and/or conversion rights to bearers or holders of bonds with regard to no-par value bearer shares of the Company, equivalent to a share in the share capital of up to € 30 million.

The bonds may be issued in euro as well as in any other currency – with the corresponding equivalent value – which is the legal tender of, for example, an OECD member state. They may also be issued via an indirect or a direct subsidiary of the Company; in this case, the Management Board is authorised, subject to the consent of the Supervisory Board, to issue a guarantee with regard to the bonds on behalf of the Company and to grant to the bondholders conversion or option rights to new no-par value bearer shares of the Company.

The conditional capital increase will be executed only to the extent that holders of conversion or option rights exercise such rights, or any conversion obligation from such convertible bonds and/or bonds with warrants are performed, and to the extent that treasury shares are not utilised to service such convertible bonds and/or bonds with warrants. The new shares will be entitled to a share in the profits from the beginning of the financial year in which they come into existence through the exercise of conversion or option rights or the performance of conversion obligations.

No convertible bonds or warrants were in issue as at the balance sheet date.

Capital reserves

The capital reserves contain premiums received upon the issuance of shares.

Retained earnings

Retained earnings are comprised of legal reserves (pursuant to section 150 of the AktG) of € 5 million (2009: € 5 million) and of other retained earnings of € 831 million (2009: € 775 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 were recognised directly in equity, in the reserves from transactions under common control (see Note 25). In the meantime, the assets and liabilities transferred have been realised to a large extent. The residual amount existing as at 31 December 2010 was reclassified to retained earnings.

Revaluation surplus

The revaluation surplus comprises effects from fair value measurement of financial instruments of the measurement category "Available for sale (AfS)".

Silent participation by SoFFin

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

On 16 July 2010, Aareal Bank AG repaid a first tranche of € 150 million of the € 525 million silent participation provided by the German Financial Markets Stabilisation Fund (SoFFin).

Non-controlling interest

€ 250 million (2009: € 250 million) in preference shares issued by a subsidiary were outstanding at the end of the 2010 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 (2009: € 18 million). The tax relief resulting from distributions leads to a reduction of income taxes as reported in the statement of comprehensive income.

Dividends

The Management Board proposes to the Annual General Meeting that the net retained profit of Aareal Bank AG in the amount of € 400,000.00 for the financial year 2010, as reported under the German Commercial Code (HGB), be transferred to other retained earnings.

(D) Reporting on Financial Instruments

A detailed description of the system in place at Aareal Bank AG to measure, limit, and manage risks throughout Aareal Bank Group is presented in the risk report as part of the management report. The disclosures on the description, and the extent of the risks arising from financial instruments in accordance with IFRS 7, are included in part in the risk report.

(66) Fair value of financial instruments

Definition

The fair value of financial instruments within the meaning of IFRS is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. To that extent, it is equivalent to the amount that will be paid for an asset in a „regular way" transaction between two parties that are independent from one another.

Fair value hierarchy

Aareal Bank Group determines the fair value of financial instruments in accordance with the hierarchy specified in IAS 39.48 et seq.

The existence of observable quoted prices in an active market is the best evidence of fair value, and when they exist they are used to measure the financial asset or financial liability involved. In order to determine the quoted market price of a financial instrument in an active market, a transaction involving the financial instrument concerned on the reporting date or the last trade date must be used as the basis. If no transaction has occurred in the financial instrument on the reporting date, the reporting entity shall rely on transaction prices applicable shortly before the reporting date.

Exchange-traded financial instruments (such as equities, bonds, or other debt securities) as well as exchange-traded derivatives are generally measured on the basis of applicable market prices if there is an active market.

If the market for a financial instrument is not (or no longer) active, the fair values of these products are established by using valuation techniques. In this context, the fair values are derived from market prices of recent transactions in the corresponding financial instrument or currently observable market prices of comparable financial instruments using a particular valuation technique.

If past or comparable market prices are not available for certain products, we use proven valuation models or indicative pricing information for pricing financial instruments. The pricing using proven valuation models is based on parameters observable in the market (such as interest rates, volatilities, credit spreads). Cash flows are determined on the basis of the contractual arrangements until the expected end of the term and discounted using the interest rate curve of the relevant market, taking into account mark-ups based on credit quality and liquidity, if applicable.

Financial instruments belonging to Treasury activities are measured within Aareal Bank Group by a unit which is independent from Trading. This unit is responsible for controlling and monitoring the relevant valuation processes on a centralised basis. Measurement procedures are reviewed on a regular basis as to their applicability on the various different financial instruments. The pricing data and parameters used in the valuation models are critically reviewed and developed on an ongoing basis.

Current market developments are continuously monitored; if necessary, valuation adjustments are made.

Determination of the fair value of financial instruments

Financial instruments carried at fair value in the statement of financial position

Non-trading assets available for sale: Fixed-income securities and equity instruments for which stock exchange turnover in a meaningful volume can be observed on or shortly before the reporting date are measured at their quoted market prices. The fair value of securities where no transactions have been carried out recently is determined on the basis of the latest available market prices or on the basis of a comparison with the current fair value of another largely identical instrument. For this purpose, the available market prices are adjusted to take account of all risk-related changes and of new information that has become available in the meantime.

If no similar market prices for securities or equity instruments are available, such securities or equity instruments will be measured using valuation models whose inputs are based on observable market data. These models include the discounted cash flow (DCF) method which is used to determine the present value of contractual cash flows until the expected end of the term and adjusted using the benchmark curve of the relevant market, taking into account mark-ups based on credit quality and liquidity. The valuation model used for options included in the transaction is the commonly used Black-Scholes model or appropriate numerical procedures.

In case the fair value of unlisted equity instruments cannot be determined reliably, the instruments are accounted for using cost.

Non-trading assets designated as at fair value through profit or loss: Indicative prices provided by pricing services are available for the index certificates included in this category.

Positive and negative market values from derivative hedging instruments as well as from derivatives held for trading: Exchange-traded derivatives are measured at their quoted market price. The fair value of over-the-counter (OTC) derivatives is determined using standard valuation models commonly accepted in the financial industry, such as the present value technique and option pricing models. These techniques or models use inputs quoted on active markets. The fair value of foreign exchange forwards is generally based on current forward exchange rates.

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. In the year under review, the valuation technique to determine the fair values was improved through the use of counterparty-specific credit and cost spreads. Discounting of future cash flows of a transaction is based on transaction-specific risk-adjusted interest rates. These are derived on the basis of a virtually risk-free market interest rate for each currency depending on the relevant term, taking into account add-ons for specific risks as well as credit costs. In the case of loans subject to fixed interest rates, the contractually agreed payments are used as future cash flows. The future cash flows for floating-rate loans are derived using the future forward interest rates, taking into account the relevant spread for customer-specific terms and conditions.

Amortised cost is an adequate estimate of fair value for short-term money market transactions, current account balances and other short-term receivables and liabilities included in these classes. Quoted market prices are normally not available for promissory note loans of the "Loans and receivables" category. Therefore, they are measured through discounting the future cash flows using the currency-specific benchmark curve. The liquidity and creditworthiness components are taken into account using issuer-specific spreads.

Registered profit participation certificates of the "Liabilities measured at amortised cost" category which are backed through assets (covered issues) are also measured using the discounted cash flow method on the basis of the benchmark curve. In addition, we take into account covered bond spreads as determined by the Association of German Pfandbrief Banks. Future contractual cash flows of uncovered issues are discounted using an interest rate adequate for Aareal Bank.

Non-trading assets of the "Loans and receivables" and "Held to maturity" categories: These classes include fixed-income bonds and debt securities whose fair value is determined following the same procedure for available-for-sale non-trading assets, based on prices on active markets or valuation methods such as the discounted cash flow method. The asset-backed securities (mainly CMBS and RMBS) which are also included in these classes are measured using indicative prices, if quoted market prices are not available, as there is no generally accepted valuation model for these securitisation instruments. These indicative prices are initially reviewed and assessed by means of a comparison with other price sources. In addition, Aareal Bank takes into account in its analysis the collateralisation status of the tranches and the collateral structures, analyses of the receivables included in the ABS (look-through principle), in particular with respect to repayment schedules as well as payment arrears and defaults of the receivables securitised with the ABS, trigger events and rating changes.

Certificated liabilities measured at amortised cost: Unless prices on active markets are available, the fair value for bearer securities is determined in accordance with the procedure used for registered securities, with a distinction being made between covered and uncovered issues.

Subordinated 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 loan commitments and contingent liabilities correspond to their carrying amounts.

Disclosures relating to the fair value hierarchy

With the introduction of IFRS 7.27A in 2009, a three-tier fair value measurement hierarchy was established in IFRSs to disclose measurement information for financial instruments recognised at fair value in the statement of financial position:

Level 1 – Quoted 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:

31 Dec 2010

Euro mn	Total Fair value 31 Dec 2010	Fair value level 1 31 Dec 2010	Fair value level 2 31 Dec 2010	Fair value level 3 31 Dec 2010
Positive market value of derivative hedging instruments	**1,321**	**–**	**1,321**	**–**
Assets Held for trading	**428**	**–**	**428**	**–**
Trading derivatives	428	–	428	–
Trading securities	0	–	–	–
Non-trading assets Available for sale	**4,402**	**695**	**3,707**	**0**
Fixed-income securities	4,373	682	3,691	–
Equities/funds	29	13	16	0
Non-trading assets designated as At fair value through profit or loss	**5**	**–**	**5**	**0**
Negative market value of derivative hedging instruments	**1,181**	**–**	**1,181**	**–**
Liabilities Held for trading	**675**	**–**	**675**	**–**
Trading derivatives	675	–	675	–

31 Dec 2009

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**	**–**
Trading derivatives	688	0	688	–
Trading securities	1	–	1	–
Non-trading assets Available for sale	**4,464**	**1,295**	**3,169**	**0**
Fixed-income securities	4,366	1,213	3,153	–
Equities/funds	98	82	16	0
Non-trading assets designated as At fair value through profit or loss	**10**	**–**	**10**	**0**
Negative market value of derivative hedging instruments	**940**	**–**	**940**	**–**
Liabilities Held for trading	**490**	**0**	**490**	**–**
Trading derivatives	490	0	490	–

In the financial year 2010, fixed-income securities of the "Available for sale" category at a fair value of € 628 million were transferred from Level 1 to Level 2. On the other hand, fixed-income securities of the same category at a fair value of € 65 million were transferred from Level 2 to Level 1.

The transfers from Level 1 to Level 2 were necessary as regular price quotations for the securities concerned were no longer available in the required extent; the securities, therefore, were measured using generally accepted valuation methods. Certain securities were able to be transferred from Level 2 to Level 1 of the fair value hierarchy, since prices on active markets were available.

The fair value of financial instruments of Level 3 of the fair value hierarchy did not change in the year under review. The fair value of non-trading assets of the dFVtPL category included in hierarchy level 3 is € 0 million, and the fair value of non-trading assets of the AfS category assigned to hierarchy level 3 also amounts to € 0 million.

In the previous year, the fair values of these financial instruments changed as follows during the reporting period:

Euro mn	Non-trading assets dFVtPL 2009	Non-trading assets AfS 2009
Fair value as at 1 January 2009	**0**	**0**
Measurement gains and losses, recognised in profit or loss	**-2**	**-1**
Net income from financial investments	-2	-1
Net trading income/expenses	–	–
Changes in number of beneficiaries	**-1**	**–**
Disposals through sale	-1	–
Change of hierarchy level	**3**	**1**
Transfer to level 3	3	1
Fair value as at 31 December 2009	**0**	**0**

The following measurement gains and losses were recognised in the profit or loss for the year for Level 3 financial instruments carried at fair value and still included in the statement of financial position as at the reporting date:

Euro mn	Non-trading assets dFVtPL 31 Dec 2010	Non-trading assets AfS 31 Dec 2010	Non-trading assets dFVtPL 31 Dec 009	Non-trading assets AfS 31 Dec 2009
Net income from financial investments	1	0	-3	-1
Total	**1**	**0**	**-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 2010 Carrying amount	31 Dec 2010 Fair value	31 Dec 2009 Carrying amount	31 Dec 2009 Fair value
Cash on hand and balances with central banks	**0.9**	**0.9**	**1.0**	**1.0**
Loans and advances to banks (LaR)	2.0	2.0	0.8	0.8
Loans and advances to customers (LaR)	24.3	25.3	23.2	23.7
Non-trading assets (LaR)	6.5	6.3	7.0	7.0
Other assets (LaR)	0.1	0.1	0.1	0.1
Total Loans and receivables	**32.9**	**33.7**	**31.1**	**31.6**
Non-trading assets Held to maturity	**0.6**	**0.6**	**0.4**	**0.4**
Non-trading assets Available for sale	**4.4**	**4.4**	**4.5**	**4.5**

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Euro bn	31 Dec 2010 Carrying amount	31 Dec 2010 Fair value	31 Dec 2009 Carrying amount	31 Dec 2009 Fair value
Non-trading assets designated as at fair value through profit or loss	**0.0**	**0.0**	**0.0**	**0.0**
Positive market value of derivative hedging instruments	**1.3**	**1.3**	**1.2**	**1.2**
Assets Held for trading	**0.4**	**0.4**	**0.7**	**0.7**
Liabilities to banks (LaC)	5.2	5.2	5.1	5.1
Liabilities to customers (LaC)	22.8	22.2	21.4	20.7
Certificated liabilities (LaC)	7.6	7.6	7.9	7.9
Other liabilities (LaC)	0.1	0.1	0.1	0.1
Subordinated equity (LaC)	1.3	1.1	1.3	1.1
Total Liabilities measured at amortised cost	**37.0**	**36.2**	**35.8**	**34.9**
Negative market value of derivative hedging instruments	**1.2**	**1.2**	**0.9**	**0.9**
Liabilities Held for trading	**0.7**	**0.7**	**0.5**	**0.5**
Financial guarantee contracts	**0.3**	**0.3**	**0.3**	**0.3**
Loan commitments	**1.7**	**1.7**	**2.0**	**2.0**

(67) 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 2010	1 Jan-31 Dec 2009
Result from Loans and receivables	698	24
Result from financial instruments Held for trading	-20	50
Result from assets designated as At fair value through profit or loss	1	-2
Result from assets Available for sale	17	-37
of which: directly recognised in equity	-40	49
Result from derivative hedging instruments	-714	131
Result from Liabilities measured at amortised cost	-143	-243

The amount reclassified from equity into the income statement for "Available for sale" assets in the year under review is € -25 million (2009: € -15 million).

The result from financial guarantee contracts amounted to € -7 million (2009: € 3 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.

(68) Impairment losses

The following overview shows the impairment losses recognised for financial instruments by class during the year under review:

Euro mn	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Loans and advances to customers (LaR)	151	196
Non-trading assets (LaR)	15	4
Non-trading assets (AfS)	3	4
Other assets (LaR)	5	3
Financial guarantee contracts	12	8
Total	**186**	**215**

(69) Reclassification of financial assets

In 2008 and 2009, Aareal Bank Group made use of the possibility to reclassify financial assets into another measurement category, in accordance with IAS 39.50A et seq.

The following table is a comparison of the carrying amounts and the fair values of the reclassified securities and also shows the measurement effects which would have arisen without reclassification in the current financial year and in the previous year:

	Reclassified assets, total				Results from fair value measurement without reclassification			
Euro mn	Carrying amount at reporting date 31 Dec 2010	Carrying amount previous year 31 Dec 2009	Fair value at reporting date 31 Dec 2010	Fair value previous year 31 Dec 2009	Effect on the income statement 1 Jan-31 Dec 2010	Effect on the income statement 1 Jan-31 Dec 2009	Effect on the revaluation surplus 1 Jan-31 Dec 2010	Effect on the revaluation surplus 1 Jan-31 Dec 2009
from AfS to LaR	**5,537**	**5,729**	**5,357**	**5,706**	**–**	**–**	**-71**	**118**
Asset-backed securities	31	50	30	46	–	–	2	4
Bank bonds	984	1,234	1,004	1,260	–	–	16	70
Covered bonds	683	673	652	676	–	–	-19	6
Government bonds	3,839	3,772	3,671	3,724	–	–	-70	38
from HfT to LaR	**388**	**455**	**347**	**410**	**4**	**10**	**–**	**–**
Asset-backed securities	382	449	341	403	5	9	–	–
Government bonds	6	6	6	7	–1	1	–	–
Total	**5,925**	**6,184**	**5,704**	**6,116**	**4**	**10**	**-71**	**118**

In the financial year 2010, impairment losses had to be recognised for the reclassified assets in the amount of € -15 million (2009: € -4 million). The disposal of reclassified securities resulted in the realisation of capital losses of € -7 million (2009: capital gains of € 1 million). Interest income from reclassified assets amounted to € 207 million (2009: € 297 million) in the year under review.

(70) Transfer of financial assets without derecognition

Aareal Bank Group has entered into securities repurchase agreements as borrower. Within the scope of such agreements, securities were transferred to lenders without resulting in a de-recognition 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 2010	31 Dec 2009
Bonds and debt securities (LaR)	435	–
Bonds and debt securities (AfS)	677	1,545
Total	**1,112**	**1,545**

In connection with these securities, Aareal Bank recognised obligations resulting from genuine repurchase agreements in an amount of € 1,736 million (2009: € 1,486 million) under liabilities from banks, as well as receivables from repurchase agreements in the amount of € 811 million (2009: € –) under loans and advances to banks. Within the scope of providing collateral through GC pooling, the net position from receivables and obligations from repurchase agreements is collateralised.

(71) Assets provided or accepted as collateral

Assets provided as collateral

Aareal Bank Group has provided financial assets as collateral for its liabilities or contingent liabilities. The following overview shows the carrying amount of the collateral provided and the items of the statement of financial position in which they are reported.

Euro mn	31 Dec 2010	31 Dec 2009
Loans and advances to banks	774	387
Non-trading assets	1,677	1,779
Total	**2,451**	**2,166**

The carrying amount of financial assets pledged as collateral where the protection buyer has the right to sell or re-pledge the assets is € 1,112 million (2009: € 1,545 million). They are recognised in the item ”Non-trading assets“ in the statement of financial position.

Assets accepted as collateral

Aareal Bank Group accepts financial assets as collateral. These assets may be sold or pledged without the collateral owner being in default. As in the previous year, no such collateral had been accepted as at the balance sheet date.

Collateral is provided and accepted predominantly on the basis of standardised agreements on securities repurchase transactions, and on the collateralisation of forward transactions. In addition, the securities are collateralised by securitisation transactions to secure credit-linked notes issued by Aareal Bank Group.

(72) 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 2010	31 Dec 2009
Loans and advances to banks	**2,034**	**801**
Term deposits and current account balances	958	521
Public sector loans	213	234
Other loans and advances	863	46
Loans and advances to customers	**24,417**	**23,276**
Property loans	22,148	21,105
Public sector loans	1,641	1,717
Other loans and advances	628	454
Positive market value of derivative hedging instruments	**1,321**	**1,244**
Trading assets	**428**	**689**
Non-trading assets (LaR)	**6,463**	**7,039**
Fixed-income securities	6,463	7,039
Non-trading assets (AfS)	**4,403**	**4,468**
Fixed-income securities	4,373	4,366
Equities and other non-fixed income securities	29	98
Other investments	1	4
Non-trading assets (HtM)	**557**	**412**
Fixed-income securities	557	412
Non-trading assets (dFVtPL)	**5**	**10**
Equities and other non-fixed income securities	5	10
Other assets	**74**	**76**
Trade receivables	27	26
Other loans and advances	47	50
Financial guarantee contracts	**310**	**323**
Irrevocable loan commitments	**1,191**	**1,486**
Total	**41,203**	**39,824**

The assets held as collateral and other instruments used to collateralise loans are described in the Risk Report.

(73) Financial assets that are past due but not impaired

The following overviews show the amount of property loans past due but not impaired within the class "Loans and advances to customers (LaR)".[1)]

Breakdown by region

31 December 2010

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 31 Dec 2010
Regions						
Germany	1	9	12	4	19	45
Western Europe	–	2	1	–	–	3
Northern Europe	3	2	–	–	–	5
Southern Europe	4	32	13	0	19	68
North America	–	–	–	35	–	35
Total	8	45	26	39	38	156

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 31 Dec 2009
Regions						
Germany	1	1	1	7	66	76
Western Europe	–	–	3	–	–	3
Northern Europe	18	–	–	–	3	21
Southern Europe	0	49	24	13	66	152
North America	–	–	–	–	–	–
Total	19	50	28	20	135	252

[1)] The overview shows assets that are past due for a period of at least ten days, but not impaired, with an amount past due of at least € 100 or 2.5 % of the commitment.

Breakdown by borrower group

31 December 2010

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 31 Dec 2010
Borrower groups						
Public sector	–	–	–	–	–	–
Companies	8	42	25	35	23	133
Private individuals	0	1	1	4	15	21
Other	–	2	0	–	0	2
Total	8	45	26	39	38	156

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 31 Dec 2009
Borrower groups						
Public sector	0	–	–	–	–	0
Companies	18	40	27	18	116	219
Private individuals	1	10	1	2	18	32
Other	–	–	–	0	1	1
Total	19	50	28	20	135	252

The fair value of property collateral received (land charges) for property loans past due but not impaired amounts to € 128 million (2009: € 232 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.

On the reporting date, the amount of loans and advances of the "Other assets" class that were past due but not impaired was € 1 million (2009: € 1 million). There were no other financial assets past due but not impaired on the reporting date.

(74) Impaired financial assets

The following overviews indicate the amount of impaired property loans under management[1], together with the related allowance for credit losses:

Breakdown by region:

31 December 2010

Euro mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of loan loss provisions
Regions			
Germany	214	60	16
Western Europe	151	14	–
Northern Europe	72	31	–
Southern Europe	174	66	–
Eastern Europe	105	49	–
North America	75	25	–
Total	**791**	**245**	**16**

31 December 2009

Euro mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of loan loss provisions
Regions			
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	–
Total	**710**	**186**	**16**

[1] The figure for property financing under management includes property loans managed on behalf of DEPFA Deutsche Pfandbriefbank AG. A reconciliation of property financings from the category "Loans and advances to customers" to the "Property financing under management" category can be found in the section "Key Group Figures" at the beginning of this Annual Report.

Breakdown by borrower group

31 December 2010

Euro mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of loan loss provisions	Changes of specific valuation allowances and loan loss provisions	Direct write-downs
Borrower groups					
Companies	737	222	10	92	17
Private individuals	50	21	5	-2	4
Other	4	2	1	1	–
Total	**791**	**245**	**16**	**91**	**21**

31 December 2009

Euro mn	Drawdowns of impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of loan loss provisions	Changes of specific valuation allowances and loan loss provisions	Direct write-downs
Borrower groups					
Companies	636	149	11	83	43
Private individuals	69	34	4	5	6
Other	5	3	1	–	–
Total	**710**	**186**	**16**	**88**	**49**

As at the reporting date, the amount of portfolio-based valuation allowances for loans and advances to customers was € 88 million (2009: € 100 million) and for financial guarantees € 13 million (2009: € 12 million). Net additions amounted to € 2 million (2009: € 18 million) in the year under review. Payments on loans and advances previously written off amounted to € 8 million in the year under review (2009: € 5 million).

The fair value of property collateral received (land charges) for impaired property loans amounts to € 530 million (2009: € 508 million).

Valuation allowances for non-trading assets (LaR) came to € 11 million (2009: € 4 million) in relation to a volume of € 97 million (2009: € 17 million). The valuation allowances relate to government bonds issued from Eastern European countries. Impairment allowances for non-trading assets (AfS) in a volume of € 14 million amounted to € 3 million (2009: volume of impaired assets as at 31 December 2009 € 5 million, amount of the impairment: € 1 million). The impairment recognised for non-trading assets (AfS) was mainly in connection with a company in Northern Europe. The amount of impaired receivables of the "Other assets" class as at the reporting date was € 9 million (2009: € 6 million). The related impairment allowance amounts to € 7 million (2009: € 3 million). These receivables mainly referred to companies in Eastern Europe.

The carrying amount of assets acquired upon realisation of collateral during the 2010 financial year and recognised in the financial statements as at 31 December 2010 was € 3 million (2009: € 43 million). These assets are 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 subsequently renegotiated was € 46 million (2009: € 27 million) as at 31 December 2010.

(75) Maturities of financial liabilities

The following two overviews show the future undiscounted cash flows of non-derivative financial liabilities and of loan commitments.

Maturities as at 31 December 2010

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	583	1,312	2,464	600	272	**5,231**
Liabilities to customers	3,813	3,561	2,465	5,809	14,328	**29,976**
Certificated liabilities	–	1,350	344	5,724	653	**8,071**
Subordinated capital	–	16	91	692	694	**1,493**
Financial guarantee contracts	310	–	–	–	–	**310**
Loan commitments	1,697	–	–	–	–	**1,697**

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 capital	–	6	37	674	351	**1,068**
Financial guarantee contracts	323	–	–	–	–	**323**
Loan commitments	1,970	–	–	–	–	**1,970**

The Risk Report includes a detailed description of the liquidity risk associated with financial liabilities.

(76) Derivative financial instruments

Aareal Bank Group enters into derivative financial instruments primarily in order to hedge market risks, as well as for refinancing purposes. Derivatives which are designated for hedging purposes and meet the hedge accounting criteria are reported in the statement of financial position as derivative hedging instruments.

Derivatives classified as "Held for trading" are reported as "Assets or liabilities held for trading". They are also mainly used to hedge the economic market risk exposure. Spot and forward foreign exchange transactions are almost exclusively used within the context of refinancing. Credit derivatives are used 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 ratings of Fitch IBCA, Moody's and Standard & Poor's. Collateral is generally provided in the form of cash collateral, which is released to the pledger as soon as the purpose of collateralisation ceases to exist.

Derivative transactions are generally entered into on the basis of the German Master Agreement for Financial Derivatives, or the ISDA Master Agreements only. Such master agreements provide for the netting of claims and liabilities in the event of insolvency or counterparty default, and thus further reduce counterparty risk.

Fair value hedges

Fair value hedges are entered into by Aareal Bank Group in order to hedge interest rate and currency risks inherent in securities, mortgage loans, promissory note loans, money market instruments, registered covered bonds (Namenspfandbriefe), certificated liabilities, and subordinated 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 2010	1 Jan-31 Dec 2009
Result from hedging instruments	-162	299
Result from hedged items	160	-301
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.

In the year under review, Aareal Bank Group did not hold any cash flow hedges in its portfolio. Therefore, there were no future cash flows from hedged items subject to cash flow hedges.

No gains and losses determined as the effective portion of the hedge from derivatives included in cash flow hedges were recognised directly in equity during 2010.

The amount from cash flow hedges transferred from hedging reserves to the income statement in the previous year can be allocated to the following income statement items:

Euro mn	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Net interest income	-1	–
Total	**-1**	**0**

In the year under review, no amounts were 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 2010		Fair value as at 31 Dec 2009	
Euro mn	positive	negative	positive	negative
Trading derivatives				
Interest rate instruments				
OTC products				
Interest rate swaps	276	257	331	311
Caps, Floors	19	19	18	19
Total interest rate instruments	**295**	**276**	**349**	**330**
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	16	33	7	36
Cross-currency interest rate swaps	116	340	330	98
Total currency-related instruments	**132**	**373**	**337**	**134**
Other transactions				
OTC products				
Credit default swaps	–	25	–	24
Other derivative transactions	1	1	2	2
Exchange-listed contracts				
Futures	–	–	–	–
Total Other transactions	**1**	**26**	**2**	**26**
Total Trading derivatives	**428**	**675**	**688**	**490**
Fair value hedge derivatives				
Interest rate instruments				
OTC products				
Interest rate swaps	1,296	1,094	1,224	898
Swaptions	–	0	–	–
Total interest rate instruments	**1,296**	**1,094**	**1,224**	**898**
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	4	–	–	5
Cross-currency interest rate swaps	21	87	20	37
Total currency-related instruments	**25**	**87**	**20**	**42**
Total fair value hedge derivatives	**1,321**	**1,181**	**1,244**	**940**
Total	**1,749**	**1,856**	**1,932**	**1,430**

Derivatives have been entered into with the following counterparties:

	Fair value as at 31 Dec 2010		Fair value as at 31 Dec 2009	
Euro mn	positive	negative	positive	negative
OECD banks	1,524	1,842	1,655	1,420
Companys and private indidiuals	225	14	277	10
Total	**1,749**	**1,856**	**1,932**	**1,430**

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 2010

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 2010
Interest rate instruments					
Interest rate swaps					
Cash inflows	356	869	3,415	1,290	5,930
Cash outflows	319	720	3,086	1,313	5,438
Swaptions					
Cash inflows	–	–	–	–	–
Cash outflows	–	–	0	–	0
Caps, floors					
Cash inflows	1	5	15	1	22
Cash outflows	2	5	15	1	23
Currency-related instruments					
Spot and forward foreign exchange contracts					
Cash inflows	2,479	11	–	–	2,490
Cash outflows	2,492	11	–	–	2,503
Cross-currency swaps					
Cash inflows	531	2,904	4,567	280	8,282
Cash outflows	572	3,000	4,714	271	8,557
Other transactions					
Credit default swaps					
Cash inflows	0	1	3	1	5
Cash outflows	–	3	5	–	8
Options, futures					
Cash inflows	–	–	–	–	–
Cash outflows	–	–	–	–	–
Other derivative transactions					
Cash inflows	–	–	–	–	–
Cash outflows	2	–	1	–	3
Total Cash inflows	**3,367**	**3,790**	**8,000**	**1,572**	**16,729**
Total Cash outflows	**3,387**	**3,739**	**7,821**	**1,585**	**16,532**

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
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 contractss					
Cash inflows	1,901	66	–	–	1,967
Cash outflows	1,935	66	–	–	2,001
Cross-currency 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**

(E) Segment Reporting

In the financial year 2010, 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. The **Structured Property Financing** segment brings together all the property financing and refinancing activities. In this segment, we are servicing domestic and international clients on their property projects in more than 20 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 structure tailor-made financing concepts to meet the special requirements of our domestic and international clients. What makes Aareal Bank special are its direct and long-standing client relationships.

Aareal Bank has a broad refinancing base. The bank has established itself as an active issuer of Pfandbriefe, which account for a major share of the its long-term funding. The AAA rating of the Pfandbriefe confirm the quality of the cover assets pool. To cater for a broad investor base, Aareal Bank also covers a wide range of other refinancing tools, such as promissory notes and debt securities. Private placements are the focus of the bank’s capital market activities. Larger public transactions with a volume of € 500 million or more are carried out only in limited cases. In addition, the bank generated deposits from long-term business relationships with companies of the institutional housing industry and with money market clients.

The successful activities on the capital and monetary markets, as well as the business with the institutional housing industry, is based on the combination of the bank’s sustainable business model, ts deep understanding of the capital markets, and the quality of its cover assets pool.

The **Consulting/Services** segment offers services and products 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 Institutional Housing Unit of the bank.

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 and the proprietary software Wodis with the new Wodis Sigma product generation, as well as the established GES and WohnData solutions. This product range is combined with extensive advisory and integrated services, which support the networking of property companies and their business partners.

Through its Institutional Housing Unit, Aareal Bank markets 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.

Management reporting of Aareal Bank is based on IFRS accounting policies. These reports are used to define the segment information to be disclosed in the segment report.

Income and expenses within Aareal Bank Group are predominantly attributable to transactions with third parties, and are directly allocated to the responsible operating segment. The transactions between operating segments are always executed in line with prevailing market conditions, allocated to the relevant segment and consolidated. Significant sales revenue generated from transactions between Aareal Bank’s segments did not occur. Therefore, we elected not to distinguish between internal and external sales revenue in the following disclosures. Administrative expenses not directly attributable to any of the operating segments are segmented in line with the internal cost allocation, based on the principle of causation.

The segment information disclosed is fully reconciled with the figures in the consolidated financial statements. Apart from the reclassification of income from deposits taken in connection institutional housing, the column ”Consolidation/Reconciliation” only includes consolidation items.

The results of the operating segments are determined by the operating profit as well as by the return on equity (RoE) and the cost/income ratio (CIR). RoE, which indicates a segment’s profitability, is calculated as the ratio of segment result (after non-controlling interests) and the portion of shareholders’ equity allocated to that segment on average. The cost/income ratio – determined as the ratio of input to output of resources – is used as an indicator for the cost efficiency of operating segments.

In the financial year 2010, allocated equity is calculated in segment reporting for the first time on the basis of the advanced IRB Approach (AIRBA).

Aareal Bank generates its sales revenue mainly through interest income. As management reporting is based on the measure ”net interest income”, interest income and interest expenses are not reported separately in the segment report.

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

Euro mn	Structured Property Financing 2010	Structured Property Financing 2009	Consulting/Services 2010	Consulting/Services 2009	Consolidation/Reconciliation 2010	Consolidation/Reconciliation 2009	Aareal Bank Group 2010	Aareal Bank Group 2009
Net interest income	467	410	0	0	42	50	509	460
Allowance for credit losses	105	150					105	150
Net interest income after allowance for credit losses	**362**	**260**	**0**	**0**	**42**	**50**	**404**	**310**
Net commission income	-9	1	176	184	-44	-52	123	133
Net result on hedge accounting	-2	-2					-2	-2
Net trading income/expenses	8	44					8	44
Results from non-trading assets	-13	-22	1	0			-12	-22
Results from investments accounted for using the equity method	5	1		0			5	1
Results from investment properties	-17	0					-17	0
Administrative expenses	217	201	152	163	-3	-3	366	361
Net other operating income/expenses	-9	-12	1	-1	-1	-1	-9	-14
Impairment of goodwill	0	2		0			0	2
Operating profit	**108**	**67**	**26**	**20**	**0**	**0**	**134**	**87**
Income taxes	32	13	8	7			40	20
Net income/loss	**76**	**54**	**18**	**13**	**0**	**0**	**94**	**67**
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	60	38	16	11	0	0	76	49
Allocated equity	1,502	1,241	83	68	312	360	1,897	1,669
Cost/income ratio (%)	50.4	47.9	85.6	88.8			60.6	60.2
RoE after taxes (%)	4.0	3.1	18.8	15.4			4.0	2.9
Employees (average)	**934**	**985**	**1,360**	**1,398**			**2,294**	**2,383**
Investments accounted for using the equity method	2	2	1	1			3	3
Segment investments	8	8	30	9			38	17
Segment depreciation/amortisation	9	8	12	14			21	22

Segment results (quarterly development)[1]

Euro mn	Structured Property Financing Quarter 4 2010	Structured Property Financing Quarter 4 2009	Consulting/Services Quarter 4 2010	Consulting/Services Quarter 4 2009	Consolidation/Reconciliation Quarter 4 2010	Consolidation/Reconciliation Quarter 4 2009	Aareal Bank Group Quarter 4 2010	Aareal Bank Group Quarter 4 2009
Net interest income	129	103	0	0	10	12	139	115
Allowance for credit losses	8	35					8	35
Net interest income after allowance for credit losses	**121**	**68**	**0**	**0**	**10**	**12**	**131**	**80**
Net commission income	-1	2	49	50	-11	-13	37	39
Net result on hedge accounting	-4	1					-4	1
Net trading income/expenses	13	3					13	3
Results from non-trading assets	-23	-3	0	0			-23	-3
Results from investments accounted for using the equity method	0	1		0			0	1
Results from investment properties	-17	-1					-17	-1
Administrative expenses	56	42	40	42	-1	-1	95	83
Net other operating income/expenses	-2	-10	0	-2	0	0	-2	-12
Impairment of goodwill	0	2		0			0	2
Operating profit	**31**	**17**	**9**	**6**	**0**	**0**	**40**	**23**
Income taxes	8	3	3	2			11	5
Net income/loss	**23**	**14**	**6**	**4**	**0**	**0**	**29**	**18**
Allocation of results								
Net income/loss attributable to non-controlling interests	4	4	0	1			4	5
Net income/loss attributable to shareholders of Aareal Bank AG	19	10	6	3	0	0	25	13
Allocated equity	1,502	1,241	83	68	312	360	1,897	1,669
Cost/income ratio (%)	59.5	44.4	82.4	87.3			67.2	58.7
RoE after taxes (%)	5.0	3.1	29.2	17.1			5.2	3.0

[1] The segment results for the fourth quarter are derived as a residual item, based on the figures for the full financial year and the published unaudited quarterly results.

Results by geographical region

Euro mn	Germany 2010	Germany 2009	International 2010	International 2009	Consolidation/ Reconciliation 2010	Consolidation/ Reconciliation 2009	Aareal Bank Group 2010	Aareal Bank Group 2009
Net interest income	146	114	363	346			509	460
Allowance for credit losses	4	9	101	141			105	150
Net interest income after allowance for credit losses	**142**	**105**	**262**	**205**			**404**	**310**
Net commission income	105	111	18	22			123	133
Net result on hedge accounting	-2	-2	0	0			-2	-2
Net trading income/expenses	13	26	-5	18			8	44
Results from non-trading assets	0	-22	-12	0			-12	-22
Results from investments accounted for using the equity method	5	1					5	1
Results from investment properties	0	0	-17	0			-17	0
Administrative expenses	230	229	136	132			366	361
Net other operating income/expenses	-4	-2	-5	-12			-9	-14
Impairment of goodwill	0	2					0	2
Operating profit	**29**	**-14**	**105**	**101**			**134**	**87**
Allocated equity	441	351	1,144	958	312	360	1,897	1,669
Cost/income ratio (%)	87.4	101.5	39.9	35.4			60.6	60.2
RoE before taxes (in %)	5.5	-4.1	8.0	10.5			6.1	5.2
Employees (average)	**1,554**	**1,675**	**740**	**708**			**2,294**	**2,383**

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 – industrial enterprise	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**
Income statement classification – bank	2010		0	176	1		152	1		**26**	8	**18**
	2009		0	184	0	0	163	-1	0	**20**	7	**13**
Sales revenue	2010	199		199								
	2009	209		209								
Own work capitalised	2010	2					2					
	2009	2					2					
Changes in inventory	2010	0						0				
	2009	0						0				
Other operating income	2010	8			1			7				
	2009	7			0		1	6				
Cost of materials purchased	2010	23		23								
	2009	25		25								
Staff expenses	2010	100					100					
	2009	109					109					
Depreciation, amortisation and impairment losses	2010	13					13					
	2009	14					14		0			
Results from investments accounted for using the equity method	2010											
	2009	0				0						
Other operating expenses	2010	47					41	6				
	2009	50			0		43	7				
Interest and similar income/expenses	2010	0	0									
	2009	0	0									
Operating profit	**2010**	**26**	**0**	**176**	**1**		**152**	**1**				
	2009	**20**	**0**	**184**	**0**	**0**	**163**	**-1**	**0**			
Income taxes	2010	8									8	
	2009	7									7	
Segment result	**2010**	**18**										
	2009	**13**										

(F) Remuneration Report

Principles of the remuneration of the Management Board

The Supervisory Board determines the structure and amount of remuneration for 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 cash 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 (IFRSs), as well as qualitative and quantitative targets, which are re-defined annually. The remuneration for Mr Große Wördemann, who joined the Management Board effective 1 November 2010, is based on the German Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions (Instituts-Vergütungsverordnung). Further specifications for variable remuneration will be defined in the context of the further implementation of the above-mentioned regulation.

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	2010	500,000.00	–	25,260.61	525,260.61
	2009	500,000.00	–	25,269.47	525,269.47
Dirk Große Wördemann [2]	2010	83,333.30	–	3,063.62	86,396.92
	2009	–	–	–	–
Norbert Kickum [3]	2010	416,666.70	–	2,581,107.19	2,997,773.89
	2009	500,000.00	–	29,161.42	529,161.42
Hermann J. Merkens	2010	500,000.00	–	48,965.16	548,965.16
	2009	500,000.00	–	48,901.86	548,901.86
Thomas Ortmanns	2010	500,000.00	–	27,187.71	527,187.71
	2009	500,000.00	–	23,323.02	523,323.02
Total	**2010**	2,000,000.00	–	2,685,584.29	**4,685,584.29**
	2009	2,000,000.00	–	126,655.77	**2,126,655.77**

[1] Other remuneration for 2010 includes payments for company cars in the amount of € 86,234.36 (2009: € 73,146.71) as well as benefits related to social security contributions totalling € 44,318.88 (2009: € 43,922.16).
[2] Appointed with effect from 1 November 2010
[3] Retired with effect from 31 October 2010. Other remuneration includes an amount of € 2,545,833.00 as compensation for the fixed and variable remuneration claims for the remaining term of the employment contract until 31 March 2013. Moreover, Norbert Kickum was granted no further benefits. The settlement of the phantom shares, to which Norbert Kickum is entitled, was made in accordance with the contractual regulations of the employment contract.

No benefits were granted or committed to any member of the Management by third parties with respect to his Management Board activities during the year under review.

Long-term component

In 2010, the members of the Management Board did not receive payments from long-term components pursuant 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	2010	0.00	0.00
	2009	0.00	0.00
Dirk Große Wördemann [1]	2010	0.00	0.00
	2009	–	–
Norbert Kickum [2]	2010	0.00	0.00
	2009	0.00	0.00
Hermann J. Merkens	2010	0.00	0.00
	2009	0.00	0.00
Thomas Ortmanns	2010	0.00	0.00
	2009	0.00	0.00

[1] Appointed with effect from 1 November 2010; [2] Retired with effect from 31 October 2010

Pensions, retirement benefits and severance pay

The benefit regulations as agreed in the employment contract apply to the members of the Management Board of Aareal Bank. Accordingly, they are entitled to receive pension payments after completing their 60th year of age, or earlier in case of a permanent disability of service. Pension claims of the Management Board members who joined before 1 November 2010, are vested.

Members of the Management Board who joined the Company before 1 January 2005 are entitled to receive contractual pension payments in the amount of € 72,000, based on older contractual stipulations, before they reach the age of 60 when they have served for a period of five years, in case the bank rejects extension of their service contracts.

The following overview shows the pension claims of the members of the Management Board as at the balance sheet date, as well as the related present values and the amounts recognised as provisions[1]:

Euro 000's	2010 Pension claims p.a.	2010 Balance of pension provisions[1] as at 31 Dec 2010	2010 Increase of pension provisions[1] in 2010	2009 Pension claims p.a.	2009 Balance of pension provisions[1] as at 31 Dec 2009	2009 Increase of pension provisions[1] in 2009
Dr Wolf Schumacher	350	1,961	1,108	350	853	284
Dirk Große Wördemann[2]	200	28	28	–	–	–
Norbert Kickum[3]	200	3,065	2,455	200	610	336
Hermann J. Merkens	200	997	558	200	439	109
Thomas Ortmanns	200	871	493	200	378	200
Total	**1,150**	**6,922**	**4,642**	**950**	**2,280**	**929**

[2] Appointed with effect from 1 November 2010
[3] Retired with effect from 31 October 2010. As a result of the retirement of Mr Kickum, the pension claims – which previously had been reported on a pro-rata basis until reaching pensionable age – had to be reported immediately in one single amount.

The pension claims are adjusted to take account of the development of standard wages within the private banking sector as from the beginning of actual payments of pensions.

The pension paid to widows amounts to 60 % of the pension of the member of the Management Board, while pensions to orphans and half-orphans amount to 20 % and 10 %, respectively.

Service cost incurred in financial year 2010 in connection with the pension claims of members of the Management Board totalled € 2,465 thousand (2009: € 698 thousand).

The pension provisions for active and former members of the Management Board and their surviving dependants were increased by a total of € 7,371 thousand[1] (2009: € 1,093 thousand[1]) in the year under review. The total amount of pension provisions now comes to € 18,004 thousand[1] (2009: € 10,633 thousand[1]). Of that amount, € 14,147 thousand[1] related to former members of the Management Board and their surviving dependants (2009: € 8,354 thousand[1]). Payments to former Management Board members of Aareal Bank AG and their surviving dependants totalled € 579 thousand (2009: € 523 thousand).

As announced in the previous year, we implemented the Contractual Trust Arrangement (CTA) in 2010. For this purpose, we established Aareal Pensionsverein e.V. as trustee. The existing assets for the pension commitments towards members of the Management Board were transferred to Aareal Pensionsverein e.V. (by analogy with the current pension scheme for employees). Aareal Pensionsverein e.V. also protects the pension commitments previously not covered by the German Pension Guarantee Association (Pensionssicherungsverein; PSVaG).

[1] The figures reported for the balance and changes of provisions represent the provisions determined pursuant to the rules set out in the German Commercial Code (HGB). The provisions as determined under IFRSs 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, 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 fixed one-off payment. Depending on the type of the change of control – termination by the company or termination by the respective Board member –, the agreed benefits for the members of the Management Board are as follows:

Euro		Terminated by the company	Terminated by the Board member
Dr Wolf Schumacher	per month of remaining contract term[1]	141,667	70,833
	One-off payment	350,000	225,000
Dirk Große Wördemann[2]	per month of remaining contract term[1]	120,833	54,167
	One-off payment	225,000	162,500
Norbert Kickum[3]	per month of remaining contract term[1]	120,833	54,167
	One-off payment	225,000	162,500
Hermann J. Merkens	per month of remaining contract term[1]	120,833	54,167
	One-off payment	225,000	162,500
Thomas Ortmanns	per month of remaining contract term[1]	120,833	54,167
	One-off payment	225,000	162,500

[1] Upon request of the member of the Management Board, the benefits may be paid in form of a one-off payment. In this case, the amount is discounted using the interest rate of the ECB for one-year deposits of private households in the month of payment.
[2] Appointed with effect from 1 November 2010; the regulations for the change of control applicable to Mr Große Wördemann are suspended for the term of the silent participation by SoFFin, pursuant to the employment contract.
[3] Retired with effect from 31 October 2010

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 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 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 previous three full financial years. The long-term profit-oriented remuneration is not paid if the average value is negative.

The maximum long-term performance-related remuneration is capped at 50 % of the individual assessment basis, so that the aggregate variable remuneration may amount to a maximum of 100 % of the fixed remuneration component.

The fixed remuneration is due at the end of each financial year. The variable remuneration component is due after the Annual General Meeting in which a resolution is passed on the appropriation of net income for the relevant financial year. The bank reimburses the VAT amounts to be paid on the remuneration.

In accordance with the methodology presented, the members of the Supervisory Board receive a fixed remuneration for the 2010 financial year in the amount of € 559,300.00, which is the same amount paid in 2009. The Management Board proposes to the Annual General Meeting that the net retained profit of Aareal Bank AG in the amount of € 400,000.00 for the financial year 2010, as reported under the German Commercial Code (HGB), be transferred to other retained earnings and that no dividends be paid. 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 %).

	Year	Fixed remuneration	Variable remuneration	Total
Euro				
Hans W. Reich,	2010	107,100.00	–	107,100.00
Chairman	2009	107,100.00	–	107,100.00
Erwin Flieger,	2010	59,500.00	–	59,500.00
Deputy Chairman	2009	59,500.00	–	59,500.00
York-Detlef Bülow,	2010	59,500.00	–	59,500.00
Deputy Chairman	2009	59,500.00	–	59,500.00
Tamara Birke [1]	2010	13,784.17	–	13,784.17
	2009	35,700.00	–	35,700.00
Dieter Kirsch [2]	2010	21,915.83	–	21,915.83
	2009	–	–	–
Thomas Hawel	2010	23,800.00	–	23,800.00
	2009	23,800.00	–	23,800.00
Helmut Wagner	2010	23,800.00	–	23,800.00
	2009	23,800.00	–	23,800.00
Christian Graf von Bassewitz	2010	47,600.00	–	47,600.00
	2009	47,600.00	–	47,600.00
Manfred Behrens	2010	23,800.00	–	23,800.00
	2009	23,800.00	–	23,800.00
Joachim Neupel	2010	59,500.00	–	59,500.00
	2009	59,500.00	–	59,500.00
Dr Herbert Lohneiß	2010	35,700.00	–	35,700.00
	2009	35,700.00	–	35,700.00
Prof Dr Stephan Schüller	2010	47,600.00	–	47,600.00
	2009	47,600.00	–	47,600.00
Wolf R. Thiel	2010	35,700.00	–	35,700.00
	2009	35,700.00	–	35,700.00
Total	**2010**	**559,300.00**	**–**	**559,300.00**
	2009	**559,300.00**	**–**	**559,300.00**

[1] Member until 19 May 2010; [2] Member since 19 May 2010

The members of the Supervisory Board did not provide any consulting or agency services, or other personal services, in 2010. Therefore, no additional remuneration was paid.

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:

	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Euro 000's		
Short-term employee benefits	17,848	16,821
Post-employment benefits	3,775	1,553
Other long-term benefits	–	45
Termination benefits	2,546	–
Share-based remuneration	1,084	1,004
Total	**25,253**	**19,423**

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

The following regulations apply in relation to the granting of phantom shares for the members of the Management Board appointed before 1 November 2010:

- 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.
- One fourth of the awarded phantom shares become exercisable each year. This also applies to the year in which they are awarded. Phantom shares not exercised in a particular year are accumulated.
- The phantom shares may be exercised within five business days after the publication of a quarterly report.
- There are no exercise hurdles in form of a minimum stock appreciation target or other market or performance-related criteria.
- Phantom shares that have not been exercised carry full dividend rights, i.e. the beneficiaries receive for each phantom share not yet exercised a cash payment equivalent to the amount of the approved dividend.

Virtual share plan 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 the 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 at pre-determined dates, subject to a holding period, if applicable. The exercise period varies according to the relevant payment transaction.

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. The obligations from the cash-settled share-based payment transactions are measured using the Black-Scholes valuation model.

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: 0 % p.a. (members of the Management Board) and 2 % p.a. (executive staff)
- Termination of contract by employer (due to operational requirements or change of ownership): 0 % p.a. (members of the Management Board) and 2 % p.a. (executive staff)

The vesting of the rights is based on the individual cash-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 AG 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 AG share (return) is calculated using the standard deviation of the daily historical returns over a rolling reference period. The length of this period corresponds to the term of the option. 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:

	2010	2009
Quantity (number)		
Balance at 1 January	**880,832**	**616,876**
Granted	52,356	396,057
Expired	–	–
Exercised	311,336	137,086
Other	–	4,985
Balance at 31 December	**621,852**	**880,832**
of which: exercisable	265,404	46,346

Between the date of launching the above-mentioned share plans and until 31 December 2010, a total of 1,262,410.50 shares have been granted.

The phantom or virtual shares exercisable in the year under review have a weighted average fair value of € 5,828,334 (2009: € 3,438,758) 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 € 17.38 (2009: € 7.46).

The intrinsic value of the phantom or virtual shares exercisable at the reporting date amounted to € 14,204,144 (2009: € 11,012,023).

The share price used for the phantom shares exercised during the financial year 2010 was € 16.42 respectively € 16.12 (2009: € 7.71). 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 2010 was € 17.38 (2009: € 6.15). 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 exercisable at 31 December 2010 have a limited contract term. The weighted average remaining contract term of these phantom or virtual shares amounts to 907.88 days (2009: 1,228.22 days).

d) Effects on financial position and performance

The total amount expensed for share-based payments was € 11.6 million during the financial year 2010 (2009: € 5.4 million). The portion of the total amount expensed attributable to members of the Management Board amounts to € 7.2 million (2009: € 3.6 million) and can be broken down to the individual members of the Management Board as follows.

	2010	2009
Euro		
Dr Wolf Schumacher	1,786,199	907,956
Dirk Große Wördemann [1]	–	–
Norbert Kickum [2]	2,096,497	871,748
Hermann J. Merkens	1,854,944	885,895
Thomas Ortmanns	1,495,867	907,865

[1] Appointed with effect from 1 November 2010; [2] Retired with effect from 31 October 2010

The liability from share-based payments amounts to € 13.8 million (2009: € 5.2 million) as at 31 December 2010.

(G) Other Notes

(77) Assets and liabilities in foreign currency

Foreign currency assets

Euro mn	31 Dec 2010	31 Dec 2009
USD	4,594	6,373
GBP	2,056	1,944
SEK	1,552	1,420
CHF	566	461
DKK	564	579
JPY	536	322
Other	889	888
Total	**10,757**	**11,987**

Foreign currency liabilities

Euro mn	31 Dec 2010	31 Dec 2009
USD	4,583	6,327
GBP	2,046	1,924
SEK	1,551	1,412
CHF	554	459
DKK	560	591
JPY	536	321
Other	865	881
Total	**10,695**	**11,915**

The basis for presenting assets and liabilities denominated in foreign currency is the regulatory overall currency position pursuant to section 294 of the German Solvency Regulation (Solvabilitätsverordnung, SolvV). In the previous year, the basis for calculation was the sum total of the individual items of group companies (gross presentation, before consolidation). In 2010, the calculation basis was changed to a net presentation (after consolidation). The decline of the reported amounts compared to the previous year is largely attributable to this change in the calculation basis.

(78) 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 2010	31 Dec 2009
Loans and advances to customers	1	3
Total	**1**	**3**

(79) 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 2010	31 Dec 2009
Aareal Bank Group as lessee		
up to one year	17	14
longer than one year, and up to five years	46	39
longer than five years	83	45
Total minimum lease payments	**146**	**98**
Aareal Bank Group as lessor		
up to one year	24	7
longer than one year, and up to five years	83	27
longer than five years	37	1
Total minimum lease payments	**144**	**35**

Of the properties subject to the operating lease, one property with a carrying amount of € 131 million (2009: no property) is classified as an investment property in accordance with IAS 40 and measured at fair value.

In the financial year, lease payments of € 15 million (2009: € 14 million) were recognised as expenses in the financial year.

(80) Trust business

Aareal Bank Group's trust business at the balance sheet date is analysed below:

Euro mn	31 Dec 2010	31 Dec 2009
Trust assets		
Loans and advances to customers	831	952
Non-trading assets	2	2
Total trust assets	**833**	**954**
Trust liabilities		
Liabilities to banks	441	444
Liabilities to customers	392	509
Total trust liabilities	**833**	**953**

(81) Contingent liabilities and loan commitments

Euro mn	31 Dec 2010	31 Dec 2009
Contingent liabilities on guarantees and indemnity agreements	310	323
Loan commitments	1,697	1,970
of which: irrevocable	1,191	1,486

Contingent liabilities on guarantees include € 63 million (2009: € 71 million) in capital guarantees extended by Aareal Bank to DEPFA Deutsche Pfandbriefbank AG (within the scope of splitting the former DEPFA Group), for the purpose of providing cover against risks of default with respect to the property loan portfolio held by DEPFA Deutsche Pfandbriefbank AG. € 16 million (2009: € 16 million) in provisions related to these capital guarantees was recognised as at 31 December 2010.

Disclosures in accordance with IAS 37.86 and IAS 37.89 are waived for reasons of practicability in accordance with IAS 37.91.

(82) Statement of cash flows

Aareal Bank Group's statement of cash flows records cash flows pertaining to the areas of operating activities, investing activities and financing activities for the period under review. The starting point of the consolidated statement of cash flows is the amount of cash and cash equivalents, consisting of cash on hand, balances with central banks as well as public-sector debt instruments and bills of exchange eligible for refinancing at central banks.

The definition of the term "operating activities" is consistent with the composition of the operating profit in the statement of comprehensive income. Cash flows from investing activities include proceeds from and payments in relation to property and equipment, non-trading assets and investment property. Cash flows from financing activities include cash flows from transactions with providers of equity capital, as well as from borrowings raised or repaid.

(83) 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 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.

As of 31 December 2010, Aareal Bank Group – for the first time – switched from the Credit Risk Standard Approach (CRSA) to the advanced IRB Approach (AIRBA). Compared to the Credit Risk Standard Approach, the Advanced IRB Approach (which is based on internal models) allows for a more accurate measurement of credit risks, and hence, for a more precise and risk-adequate allocation of capital.
The objective of capital management is to meet the targeted equity ratios, which are significantly above the regulatory minimum requirements. Capital management is an integral part of overall Group planning.

Quantitative disclosures

Euro mn	31 Dec 2010 [1]	31 Dec 2009
Core capital (Tier 1)	**2,284**	**2,415**
Paid-in capital	1,430	1,584
Other eligible reserves	669	655
Special item for general banking risks	168	154
Other components of Tier 1 capital	39	46
Amounts to be deducted from Tier 1 capital	-22	-24
Supplementary capital (Tier 2)	**626**	**875**
Class 1 Tier 2 capital (profit-participation certificates)	196	418
Class 2 Tier 2 capital (subordinated capital)	443	470
Amounts to be deducted from Tier 2 capital	-13	-13
Liable equity capital pursuant to Section 10a of the KWG	**2,910**	**3,290**
Tier 3 capital	–	–
Regulatory capital	**2,910**	**3,290**
Risk-weighted assets pursuant to AIRBA	**17,663**	**–**
of which: assets exposed to market risks	75	–
Risk-weighted assets pursuant to CRSA	**21,675**	**21,875**
of which: assets exposed to market risks	75	125
%		
Regulatory indicators pursuant to KWG		
Tier 1 ratio pursuant to AIRBA [2]	12.9	–
Total capital ratio pursuant to AIRBA [2]	16.5	–
Tier 1 ratio pursuant to CRSA [3]	10.5	11.0
Total capital ratio pursuant to CRSA [3]	13.4	15.0

[1] After confirmation of the financial statements 2010 of Aareal Bank AG. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2010 is subject to approval by the Annual General Meeting.
[2] Advanced Internal Ratings-Based Approach; applied for the first time for 31 December 2010; [3] Credit Risk Standardised Approach

(84) Related party disclosures in accordance with IAS 24

Throughout the financial year 2010, the bank has reported purchases and sales subject to reporting requirements under No. 6.6 of the German Corporate Governance Code, as well as under section 15a of the German Securities Trading Act (WpHG) to BaFin, the German financial services regulatory agency, without delay, and also published such details on its website. Furthermore, Aareal Bank AG has undertaken in its Code to disclose on its website, without delay, each reported purchase or sale by members of the Management Board or the Supervisory Board.

The following list provides an overview of existing loans to related parties:

Euro mn	31 Dec 2010	31 Dec 2009
Management Board	–	–
Supervisory Board	1.2	1.2
Other related parties	1.7	2.0
Total	**2.9**	**3.2**

Loans extended to members of the Supervisory Board generally have a term between ten and 18 years, and bear interest at (nominal) rates between 4.60 % and 5.66 %. Collateral was provided in line with usual market practice. In the year under review, repayments on these loans amounted to € 0.1 million.

Loans extended to other related parties generally have a term between 14 and 16 years, and bear interest at (nominal) rates between 2.65 % and 3.65 %. Collateral was also provided in line with usual market practice. In the year under review, repayments on these loans amounted to € 0.3 million.

In addition, there were no further significant transactions within the meaning of IAS 24.

(85) Events after the reporting date

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

(86) 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.

(87) Contingencies

By means of letters of comfort, Aareal Bank AG ensures that Deutsche Structured Finance GmbH, Frankfurt, DSF Beteiligungsgesellschaft mbH, Frankfurt, DSF Zwölfte Verwaltungsgesellschaft mbH, Frankfurt, and Aareal Bank Capital Funding LLC, Wilmington, are able to fulfil their contractual obligations.

By means of a letter of comfort in favour of the Monetary Authority of Singapore, Aareal Bank AG has undertaken to ensure that Aareal Bank Asia Ltd. is able to fulfil its obligations at any time.

Due to its participating interest in Liquiditäts-Konsortialbank GmbH, Frankfurt/Main, in the nominal amount of € 1 million, Aareal Bank AG has call commitments of up to € 6 million. In addition, Aareal Bank AG has a pro-rata principal liability in the event of non-fulfilment of call commitments by other co-shareholders, who hold aggregate interests of € 63 million.

(88) Notice pursuant to section 21 (1) of the WpHG

Pursuant to the German Securities Trading Act (WpHG), any investor whose shareholding in a listed company reaches, exceeds or falls short of certain threshold values in terms of voting rights (whether by purchase, sale or by any other means) must notify the company and the German Federal Financial Supervisory Authority. The lowest threshold for this notification requirement is 3 %. 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 %.

Deutsche Bank AG, London, UK, notified us that its subsidiary DWS Investment GmbH, Frankfurt, Germany exceeded the 3 % threshold in April 2010, and the 5 % threshold in May 2010. The share of voting rights held at that time was 5.019 %. In November 2010, Deutsche Bank AG, London, UK, notified us that its subsidiary DWS Investment GmbH, Frankfurt, Germany had fallen below the 5 % threshold. The share of voting rights held at that time was 4.983 %.

We are not aware of any direct or indirect shareholdings of 10 % or more of the voting rights.

(89) Declaration of compliance in accordance with Section 161 of the AktG

The Management Board and the Supervisory Board issued the Declaration of Compliance as stipulated in section 161 of the AktG, and made this Declaration available to shareholders. It is available to the public on the Company's website on http://www.aareal-bank.com/investor-relations/corporate-governance/.

(90) Employees

The number of Aareal Bank Group employees at 31 December 2010 is shown below:

	31 Dec 2010	31 Dec 2009
End-of-year numbers		
Salaried employees	2,331	2,232
Executives	76	83
Total	**2,407**	**2,315**
of which: part-time employees	415	361

The average number of Aareal Bank Group employees during 2010 is shown below:

	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Yearly average		
Salaried employees	2,217	2,299
Executives	77	84
Total	**2,294**	**2,383**
of which: part-time employees	376	369

(H) List of Shareholdings

pursuant to section 313 (2) of the HGB as at 31 December 2010

No.	Company name	Registered office	Share in capital (%)	Equity (Euro mn)	Results (Euro mn)
1	Aareal Bank AG	Wiesbaden			
	I. Consolidated companies				
2	Aareal Bank Asia Ltd.	Singapore	100.0	4.1 mn S $	0.0 mn S $ [1]
3	Aareal Bank Capital Funding LLC	Wilmington	100.0	250.0	0.0
4	Aareal Bank Capital Funding Trust	Wilmington	100.0	0.0	0.0
5	Aareal Capital Corporation	Wilmington	100.0	174.1 mn USD	25.7 mn USD [2]
6	Aareal Estate AG	Wiesbaden	100.0	2.8	0.0 [3]
7	Aareal Financial Service Polska Sp.z o.o. w.l.	Warsaw	100.0	2.1 mn PLN	0.0 mn PLN [2]
8	Aareal First Financial Solutions AG	Wiesbaden	100.0	3.2	0.0 [3]
9	Aareal Gesellschaft für Beteiligungen und Grundbesitz Dritte mbH & Co. KG	Wiesbaden	100.0	0.8	-3.5 [1]
10	Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG	Wiesbaden	94.9	0.1	0.0 [1]
11	Aareal IT Beteiligungen GmbH	Wiesbaden	100.0	145.0	0.0 [3]
12	Aareal Partecipazioni S.p.A.	Rome	100.0	6.9	0.0 [2]
13	Aareal Participations France S.à.r.l.	Paris	100.0	1.8	0.0 [2]
14	Aareal Property Services B.V.	Amsterdam	100.0	29.8	0.1 [1]
15	Aareal Valuation GmbH	Wiesbaden	100.0	0.5	0.0 [3]
16	Aareal-Financial Service, spol. s r.o.	Prague	100.0	31.5 mn CZK	0.2 mn CZK [2]
17	Aareon AG	Mainz	100.0	72.9	11.3
18	Aareon Deutschland GmbH	Mainz	100.0	32.2	0.0 [3]
19	Aareon France S.A.S.	Meudon-la Forêt	100.0	3.8	1.3
20	Aareon Immobilien Projekt GmbH	Oberhausen	51.0	0.8	0.0
21	Aareon Software Handelsgesellschaft mbH	Mainz	100.0	-0.5	0.2
22	Aareon UK Ltd.	Coventry	100.0	2.1	0.2
23	Aareon Wodis GmbH	Dortmund	100.0	2.0	0.0 [3]
24	arsago Alternative Investments SPC	Grand Cayman	67.0	n/a	n/a
25	Aufbaugesellschaft Prager Straße mbH	Dresden	100.0	0.1	0.0 [1]
26	BauBo Bau- und Bodenverwertungs- und -verwaltungsgesellschaft mbH	Wiesbaden	100.0	13.5	0.0 [3]
27	BauContact Immobilien GmbH	Wiesbaden	100.0	31.2	1.0
28	BauGrund Immobilien-Management GmbH	Bonn	100.0	0.5	0.0 [3]
29	BauGrund TVG GmbH	Munich	100.0	0.2	0.0
30	BauSecura Versicherungsmakler GmbH	Hamburg	51.0	2.5	2.4
31	Capital Funding GmbH & Co. KG	Frankfurt	100.0	0.0	0.0 [1] [5]
32	Deutsche Bau- und Grundstücks-Aktiengesellschaft	Berlin	100.0	1.7	-0.1
33	Deutsche Structured Finance GmbH	Frankfurt	100.0	0.1	-4.8
34	Deutsche Structured Finance GmbH & Co. Alphard KG	Frankfurt	100.0	1.2	0.1
35	Deutsche Structured Finance GmbH & Co. Deneb KG	Frankfurt	100.0	3.4	0.3
36	Deutsche Structured Finance GmbH & Co. Titan KG	Frankfurt	100.0	0.0	0.2
37	DSF Aircraft Leasing (Ireland) Limited	Dublin	100.0	0.0	0.0 [1]
38	DSF Anteils GmbH	Frankfurt	100.0	0.1	-0.5

[1] Preliminary figures as at 31 December 2010; [2] Capital/reserves and profit/loss as at 31 December 2009; [3] Profit transfer agreement/control and profit transfer agreement
[4] Difference financial year; [5] 10% of the voting rights, in contrast to the equity interest held; n/a No data

No.	Company name	Registered office	Share in capital (%)	Equity (Euro mn)	Results (Euro mn)
39	DSF Beteiligungsgesellschaft mbH	Frankfurt	100.0	0.1	0.1 [1]
40	DSF Dritte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [1]
41	DSF Elfte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [1]
42	DSF Energia Naturale S.r.l.	Rome	100.0	0.0	0.0 [2]
43	DSF Flugzeugportfolio GmbH	Frankfurt	100.0	-0.3	-0.4
44	DSF Fünfzehnte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [1]
45	DSF German Office Fund GmbH & Co. KG	Frankfurt	94.0	3.6	0.3
46	DSF Immobilienverwaltung GmbH	Frankfurt	100.0	0.0	0.0 [1]
47	DSF LUX INTERNATIONAL S.à.r.l	Luxembourg	100.0	0.3	0.4 [1]
48	DSF Neunte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [1]
49	DSF Sechzehnte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [1]
50	DSF Solar Italien GmbH & Co. KG	Frankfurt	100.0	0.0	0.0 [4]
51	DSF Treuhand GmbH	Frankfurt	100.0	0.0	0.0 [1]
52	DSF Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [1]
53	DSF Vierte Verwaltungsgesellschaft mbH	Frankfurt	100.0	4.9	0.1
54	DSF Zwölfte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.3	0.0 [1]
55	GEV GmbH	Wiesbaden	100.0	52.9	0.0 [3]
56	IMMO Consulting S.p.A.	Rome	95.0	0.7	0.0 [2]
57	IV Beteiligungsgesellschaft für Immobilieninvestitionen mbH	Wiesbaden	100.0	0.2	0.2
58	La Sessola S.r.l.	Rome	100.0	44.6	-1.7 [2]
59	Main Triangel GmbH	Frankfurt	75.0	12.7	-2.6 [1]
60	Main Triangel Gastronomie GmbH	Wiesbaden	100.0	0.7	-0.3 [1]
61	Mercadea S.r.l.	Rome	100.0	4.0	0.1 [2]
62	PLP Holding GmbH	Wiesbaden	100.0	0.0	0.0
63	Real Verwaltungsgesellschaft mbH	Idstein	100.0	27.2	0.7 [1]
64	Rehabilitationsklinik Barby Besitzgesellschaft mbH	Wiesbaden	100.0	-7.5	0.8 [1]
65	Rehabilitationsklinik Templin Besitzgesellschaft mbH	Wiesbaden	100.0	-3.7	0.4
66	SaPiVerno Sole S.r.l. & Co. S.a.s.	Rome	100.0	0.0	0.0 [2]
67	SG Automatisering B.V.	Emmen	100.0	6.9	2.3
68	SG | Detachering B.V.	Emmen	100.0	n/a	n/a
69	SG | Facilitor B.V.	Enschede	51.0	0.7	0.2
70	SG | Professional Services B.V.	Emmen	100.0	0.0	0.0
71	SG | stravis B.V.	Emmen	70.0	0.0	0.0
72	SG | webbsolutions B.V.	Enschede	51.0	0.0	0.0
73	Sole Giano S.r.l. & Co. S.a.s.	Rome	100.0	0.0	0.0 [2]
74	Sustainable Solar Future – Hellas Limited Liability Company	Athen	99.0	0.0	0.0 [1]
75	Sustainable Solar Future Northern – Hellas Limited Liability Company	Athen	99.0	0.0	0.0 [1]
76	Sustainable Solar Thermal Future East – Crete Limited Liability Company	Heraklion	99.0	0.5	0.0 [1]
77	Terrain-Aktiengesellschaft Herzogpark	Wiesbaden	99.9	4.7	0.0 [3]
78	Vernotico Energia Naturale S.r.l. & Co. S.a.s.	Rome	100.0	0.0	0.0 [2]
79	ZAO Toros	Moscow	100.0	-403 mn RUR	80 mn RUR [2]
80	Woodside S.à.r.l.	Paris	100.0	-0.5	-0.1
81	ZMP Zentral Messepalast Entwicklungsgesellschaft mbH	Wiesbaden	100.0	66.3	0.0 [3]
	II. Associated companies accounted for at equity				
82	B & P / DSF Windpark GbR	Frankfurt	50.0	0.1	0.8
83	Bavaria Solar I Verwaltungsgesellschaft mbH	Frankfurt	24.0	0.0	0.0 [1]
84	berlinbiotechpark Management GmbH	Berlin	50.0	0.1	0.0 [1]
85	berlinbiotechpark Verwaltung GmbH	Berlin	50.0	0.1	0.0 [1]
86	Deutsche Operating Leasing AG	Frankfurt	19.4	-1.8	14.2 [4]
87	DSF berlinbiotechpark Verwaltungsgesellschaft mbH	Frankfurt	50.0	0.1	0.0 [1]
88	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Frankfurt	48.4	0.4	-0.1 [2]
89	DSF Vierzehnte Verwaltungsgesellschaft mbH	Frankfurt	50.0	0.1	0.0
90	DSF Zehnte Verwaltungsgesellschaft mbH	Frankfurt	50.0	0.0	0.0 [1]
91	Fachklinik Lenggries GmbH	Lenggries	49.0	0.0	0.0 [1]
92	Innovative Banking Solutions AG	Wiesbaden	49.0	1.4	-0.9 [4]
93	Rehabilitationsklinik Uckermark GmbH	Templin	49.0	n/a	n/a
94	SG2ALL B.V.	Huizen	50.0	0.2	0.1
95	Treu Verwaltungsgesellschaft mbH	Bad Salzungen	49.0	0.0	0.0
96	Treu Verwaltungsgesellschaft mbH Heimstatt & Co. KG	Bad Salzungen	49.0	0.1	0.0
97	Westhafen Haus GmbH & Co. Projektentwicklungs KG	Frankfurt	25.0	-0.3	-0.3 [2]
98	Westhafen-Gelände Frankfurt am Main GbR	Frankfurt	33.3	1.5	0.0 [2]
99	Windpark Ahlerstedt Verwaltungsgesellschaft mbH	Frankfurt	20.0	0.0	0.0
100	Windpark Borsum Verwaltungsgesellschaft mbH	Frankfurt	20.0	0.0	0.0
101	Windpark Portfolio Verwaltungs GmbH	Freiburg	20.0	0.1	0.0

[1] Preliminary figures as at 31 December 2010; [2] Capital/reserves and profit/loss as at 31 December 2009; [3] Profit transfer agreement/control and profit transfer agreement
[4] Difference financial year; [5] 10% of the voting rights, in contrast to the equity interest held; n/a No data

[1] Preliminary figures as at 31 December 2010; [2] Capital/reserves and profit/loss as at 31 December 2009; [3] Profit transfer agreement/control and profit transfer agreement
[4] Difference financial year; [5] 10% of the voting rights, in contrast to the equity interest held; n/a No data

(J) Executive bodies of Aareal Bank AG

Offices held in accordance with section 285 no. 10 of the German Commercial Code (HGB) in conjunction with section 125 (1) sentence 3 of the German Public Limited Companies Act (AktG)

Supervisory Board

Hans W. Reich, Chairman of the Supervisory Board
Chairman Public Sector Group, Citigroup Inc.

Aareal Bank AG	Chairman of the Supervisory Board	
Citigroup Global Markets Deutschland AG & 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	

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	until 13 December 2010
Bank für Sozialwirtschaft Aktiengesellschaft	Member of the Supervisory Board	
Deutscher Ring Krankenversicherungsverein a.G.	Deputy Chairman of the Supervisory Board	
OVB Holding AG	Member of the Supervisory Board	
OVB Vermögensberatung AG	Member of the Supervisory Board	since 1 September 2010
SIGNAL IDUNA Allgemeine Versicherung AG	Member of the Supervisory Board	
SIGNAL IDUNA Holding AG	Member of the Supervisory Board	
Societaet CHORVS AG	Member of the Supervisory Board	

Manfred Behrens
Chairman of the Management Board of AWD Holding AG

Aareal Bank AG	Member of the Supervisory Board	
AWD Allgemeiner Wirtschaftsdienst AG	President of the Board of Directors	
tecis Finanzdienstleistungen AG	Chairman of the Supervisory Board	

Tamara Birke*
Aareal Bank AG

Aareal Bank AG	Member of the Supervisory Board	until 19 May 2010

* 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	

Dieter Kirsch*
Aareal Bank AG

Aareal Bank AG	Member of the Supervisory Board	since 19 May 2010

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	until 30 September 2010
Aareal Valuation GmbH	Chairman of the Supervisory Board	until 22 December 2010
Aareon AG	Member of the Supervisory Board	

Dirk Große Wördemann, Member of the Management Board (since 1 November 2010)		
Aareal Bank Asia Limited	Member of the Board of Directors	since 11 February 2011
Aareal Bank Asia Limited	CEO (Chairman)	since 11 February 2011
Aareal Capital Corporation	Chairman of the Board of Directors	since 15 December 2010
Aareal Financial Service spol. s r.o.	Member of the Supervisory Board	since 6 December 2010
Aareon AG	Member of the Supervisory Board	since 3 February 2011
Pacific Star Europe GmbH	Managing Director	until 28 February 2011

Norbert Kickum, Member of the Management Board (until 31 October 2010)		
Aareal Bank France S.A.	Member of the Board of Directors	until 29 April 2010
Aareal Financial Service Polska Sp.z o.o.	Member of the Supervisory Board	until 31 October 2010
Aareal Bank Asia Limited	Member of the Board of Directors	until 31 October 2010
Aareal Bank Asia Limited	CEO (Chairman)	until 31 October 2010
Aareal Capital Corporation	Chairman of the Board of Directors	until 31 October 2010
Aareal Financial Service spol. s r.o.	Member of the Supervisory Board	until 31 October 2010
Aareon AG	Member of the Supervisory Board	until 31 October 2010
Deutsche Structured Finance GmbH	Member of the Advisory Board	until 31 October 2010

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	until 30 September 2010
Aareal Valuation GmbH	Member of the Supervisory Board	until 22 December 2010
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	until 8 December 2010
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	until 29 April 2010
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	

(K) Offices held by employees of Aareal Bank AG

pursuant to section 340a (4) no. 1 of the HGB

Dr Michael Beckers, Bank Director		
Aareal Financial Service Polska Sp.z o.o.	Member of the Supervisory Board	
Aareal Financial Service spol. s r.o.	Member of the Supervisory Board	until 13 September 2010

Sven Eisenblätter		
Aareal Valuation GmbH	Member of the Supervisory Board	

Ulf Ekelius, Bank Director		
Aareal Financial Service spol. s r.o.	Member of the Supervisory Board	since 13 September 2010

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	until 8 December 2010

Uli Gilbert		
Terrain-Aktiengesellschaft Herzogpark	Member of the Supervisory Board	

Hans-Ulrich Kron, Bank Director		
Aareal Estate AG	Member of the Supervisory Board	since 1 October 2010

Dr Stefan Lange, Bank Director		
Aareal Estate AG	Member of the Supervisory Board	
Aareal First Financial Solutions AG	Member of the Supervisory Board	
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Deputy Chairman of the Supervisory Board	
Terrain-Aktiengesellschaft Herzogpark	Chairman of the Supervisory Board	

Peter Mehta, Bank Director		
Innovative Banking Solutions AG	Member of the Supervisory Board	

Dirk Pasewald		
Aareal Property Services B.V.	Member of the Supervisory Board	since 1 October 2010

Markus Schmidt		
Aareal Property Services B.V.	Member of the Supervisory Board	since 1 October 2010

Christine Schulze Forsthövel, Bank Director		
Aareal Bank France S.A.	President of the Board of Directors	until 29 April 2010
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	until 29 April 2010

Composition of Supervisory Board committees

Executive Committee	
Hans W. Reich	Chairman
Erwin Flieger	Deputy Chairman
York-Detlef Bülow	Deputy Chairman
Prof Dr Stephan Schüller	
Wolf R. Thiel	

Committee for Urgent Decisions	
Hans W. Reich	Chairman
Dr Herbert Lohneiß	
Christian Graf von Bassewitz	
Erwin Flieger	
Joachim Neupel	

Accounts and Audit Committee	
Joachim Neupel	Chairman
Prof Dr Stephan Schüller	Deputy Chairman
Christian Graf von Bassewitz	
York-Detlef Bülow	
Hans W. Reich	

Nomination Committee
Hans W. Reich
Erwin Flieger

Risk Committee	
Hans W. Reich	Chairman
Dr Herbert Lohneiß	Deputy Chairman
Christian Graf von Bassewitz	
Erwin Flieger	
Dieter Kirsch	
Joachim Neupel	

(L) Responsibility Statement

Statement pursuant to section 37y of the German Securities Trading Act (WpHG) in conjunction with section 37v (2) no. 3 of the WpHG

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Wiesbaden, 1 March 2011

The Management Board

Dr Wolf Schumacher **Dirk Große Wördemann** **Hermann J. Merkens** **Thomas Ortmanns**

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 2010. 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. (paragraph) 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 § 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, the additional requirements of German commercial law pursuant to § 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, 7 March 2011

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

Christian F. Rabeling	**ppa. Andreas Hülsen**
Wirtschaftsprüfer	**Wirtschaftsprüfer**
(German Public Auditor)	**(German Public Auditor)**

Transparency

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Corporate Governance Statement pursuant to Section 289a of the HGB

Declaration of Compliance within the meaning of 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" (the "Code") (as amended on 18 June 2009) since the last Declaration of Compliance was issued in December 2009, and with the amended version since its publication in the electronic German Federal Gazette (elektronischer Bundesanzeiger) on 2 July 2010, in each case, except for the recommendations stated below.

Section 3.8 of the 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 Supervisory Board members.

Section 4.2.3 nos. (4) and (5) of the Code recommends the imposition of a cap on severance payments within the scope of the remuneration of members of the Management Board. The contracts entered into with members of the Management Board do not contain any provisions regarding severance payments. Where a contract with a member of the Management Board needs to be terminated without good cause, there is no cap on the fulfilment of contractual claims. The Supervisory Board believes that it is preferable to deal with each individual case on its own merits, and to retain flexibility for negotiations on a cancellation agreement. However, any agreement regarding severance payments should take the cap into account, as recommended by the Code.

The contracts entered into with members of the Management Board contain change-of-control clauses providing for severance payments not exceeding the levels recommended by the Code.

Aareal Bank will also comply with the recommendations of the German Corporate Governance Code (as amended on 26 May 2010) throughout the financial year 2011, with the aforementioned exceptions of sections 3.8 and 4.2.3 (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 2010

The Management Board

Dr Wolf Schumacher **Dirk Große Wördemann** **Hermann J. Merkens** **Thomas Ortmanns**

For the Supervisory Board

Hans W. Reich (Chairman)

Corporate Governance Report

Responsible and transparent corporate governance is of great importance to Aareal Bank AG, and considered the essence of prudent commercial conduct by both the Management Board and the Supervisory Board. Accordingly, Aareal Bank welcomes and supports the objectives and purposes of the German Corporate Governance Code, and regularly observes the amendments and extensions of the guidelines adopted by the German Government Commission on Corporate Governance.

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. Accordingly, the bank's Memorandum and Articles of Association, as well as the internal rules of procedure for the Management Board and the Supervisory Board, are reviewed regarding compliance, and are amended as necessary. Our annual Declaration of Compliance gives information on the extent to which the bank complies with recommendations. The Declaration of Compliance is adopted by the Management Board and the Supervisory Board, and then published on the bank's website, where Declarations issued in past years are also archived.

Code of Conduct

We believe that the principles of integrity and responsible conduct must be observed by all our employees across the enterprise, regardless of their functions and duties. Our internal Code of Conduct is an integral part of responsible corporate governance. The Code of Conduct contains binding rules governing the legal and ethical conduct of employees vis-à-vis clients, business partners, and colleagues. Aareal Bank's efforts in this context are also motivated by the desire to affirm and further strengthen the confidence placed by stakeholders – our clients, investors, and staff.

Recommendations of the German Corporate Governance Code

The German Corporate Governance Code was last amended on 26 May 2010. Having reviewed the most recent amendments to the Code in detail, Aareal Bank's Management Board and Supervisory Board issued and signed their Declaration of Compliance pursuant to section 161 of the German Public Limited Companies Act (Aktiengesetz – "AktG") on 16 December 2010. The Declaration was published on the bank's website, and is included in this annual report as part of the Corporate Governance Statement.

Aareal Bank AG complies with the German Corporate Governance Code, as last amended, to a large extent, and only diverges from the recommendations in a few aspects, as outlined below.

In the section on the cooperation between the Management Board and the Supervisory Board, section 3.8 of the Code recommends that a deductible be agreed where a company takes out D&O insurance cover 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 a company's executive bodies. For this reason, the members of the company's executive bodies believe that no deductible is required.

Section 4.2.3 nos. 4 and 5 of the Code recommend the imposition of a cap on severance payments within the scope of the remuneration of members of the Management Board. The contracts entered into with members of the Management Board do not contain any provisions regarding severance payments. Where a contract with a member of the Management Board needs to be terminated without good cause, there is no cap on the fulfilment of contractual claims. The Supervisory Board believes that it is preferable to deal with each individual case on its own merits, and to retain flexibility for negotiations on a cancellation agreement. However, any agreement regarding severance payments should take the cap into account, as recommended by the Code.

The contracts entered into with members of the Management Board contain change-of-control clauses providing for severance payments not exceeding the levels recommended by the Code.

Please refer to the Remuneration Report for details regarding incentives, as recommended by section 7.1.3 of the Code.

Management Board

The Management Board is responsible for managing the company. In doing so, it is obliged to act in the best interest of the company and undertakes to increase its sustainable enterprise value. The Management Board ensures that all provisions of law are complied with, and endeavours to achieve their compliance throughout Group companies. The Management Board develops company strategy, coordinates it with the Supervisory Board, and ensures its implementation. It ensures appropriate and sustainable risk management and risk control throughout the Company. The Management Board cooperates on the basis of trust with Aareal Bank AG's other executive bodies, and with employee representatives.

There were no conflicts of interest affecting members of the Management Board within the meaning of the Corporate Governance Code in the 2010 financial year.

Main components of the compensation system for members of the Management Board

The Supervisory Board determines the structure and amount of remuneration for members of the Management Board. Please refer to the Remuneration Report for details regarding the remuneration of members of the Management Board. The remuneration paid during the 2010 financial year has complied with the conditions set by the German Financial Markets Stabilisation Agency, in connection with the measures agreed upon in 2009.

Diversity

Aareal Bank AG promotes an appropriate level of diversity, as recommended in section 4.1.5 of the Code.

International profile

Thanks to its active business presence across three continents, the bank is dedicated to its motto "Local Expertise meets Global Excellence". Against this background, taking the various nationalities of its staff into consideration when planning for executive positions comes naturally, particularly with respect to the bank's international entities.

Career and family

To ensure that Aareal Bank's employees can strike an appropriate balance between work and family life, the bank has taken various measures designed to permit employees – particularly female members of staff – to successfully perform their professional duties and develop on their career path without sacrificing responsibility for their families. Measures taken include:

- participating in initiatives to provide a sufficient number of day-care facilities for children;
- cooperating with a third-party provider, to improve the availability of crèches;
- offering part-time positions, flexible working hours, and long-term working time accounts, to permit flexible working schedules; and
- establishing home workplaces.

One of the objectives of the measures taken is to increase the share of women in executive positions.

Supervisory Board

The task of the Supervisory Board is to regularly advise and supervise the Management Board in the management of the company. It is involved in decision-making that is of fundamental importance to the company, and cooperates closely and on the basis of trust with the Management Board.

The Supervisory Board has created committees for its work. Responsibility for individual duties has been delegated to these committees. The members of the Supervisory Board and their functions in the Supervisory Board's committees are outlined in the "Description of Management Board and Supervisory Board work processes", and in the List of Offices Held, both of which form part of this annual report. The Supervisory Board reports on its duties and the events of the 2010 financial year in its report.

The option of preparing meetings separately with shareholder representatives and employee representatives is used by the Supervisory Board in exceptional cases only. No such separate preparations took place during 2010, nor were there any Supervisory Board meetings without the members of the Management Board in attendance.

In line with the recommendation of section 5.2 of the Code, the Chairman of the Supervisory Board does not chair the Accounts and Audit Committee: this position is held by Joachim Neupel, an experienced public auditor and tax advisor.

The members of the Supervisory Board have declared in writing that no conflicts of interest pursuant to section 5.5.2 of the Corporate Governance Code arose during the financial year under review.

The Supervisory Board regularly reviews the efficiency of its own activities, using a proprietary questionnaire. The results of this review serve to further improve the work carried out by the Supervisory Board as well as enhancing the cooperation between the Supervisory Board and the Management Board. The Chairman of the Supervisory Board presented the results of the examination of efficiency for the year 2010 in the meeting on 16 December 2010, and discussed these with the members in detail. No measures to enhance efficiency were required.

The Supervisory Board has the required knowledge, skills, and professional expertise to properly perform its duties. In accordance with section 5.4.1 of the Code, the Supervisory Board members regularly attend continuous professional development measures, and are supported to this effect by the Company.

The Report of the Supervisory Board provides a detailed review of the activities of the Supervisory Board and its Committees.

Remuneration system for the Supervisory Board

The remuneration structure for members of the Supervisory Board is governed by the resolution passed by the Annual General Meeting 2006. Details regarding the remuneration structure and amounts paid in 2010 are provided in the Remuneration Report.

Guidelines regarding the composition of the Supervisory Board (shareholder representatives)

Key factors taken into account for nomination to the Supervisory Board are the professional aptitude and the experience of candidates – also in relation to the Group's international activities.

Any individual whose circumstances may give rise to conflicts of interest cannot be considered as candidates. At the time of election to the Supervisory Board, candidates should generally be less than 70 years old.

The Supervisory Board endeavours to increase the share of women amongst its members to at least 30 %. Given that the last regular Supervisory Board elections took place in 2010, the earliest time that this objective may be taken into account, in principle, will be the next regular Supervisory Board elections, to be held in the year 2015.

Purchase or sale of the company's shares

No transactions involving the company's shares were carried out in 2010 by members of the company's executive bodies. At the end of the financial year, aggregate shareholdings of members of executive bodies in the company's shares were less than 1 % of the issued share capital of Aareal Bank AG.

Transactions with related parties

Related party transactions are detailed in the Notes to the financial statements.

Accounting policies

Aareal Bank AG prepares the Group's accounts in accordance with International Financial Reporting Standards (IFRSs). The single-entity financial statements of Aareal Bank AG are prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB). The Management Board prepares the financial statements of Aareal Bank AG and the consolidated financial statements. The external auditors submit their report on the audit of the financial statements and consolidated financial statements to the Supervisory Board. The Annual General Meeting on 19 May 2010 appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, as the auditors for the 2010 financial year. Having ascertained the independence of the external auditors, the Supervisory Board appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft in this capacity, and defined the focal points of the audit as defined by the Supervisory Board. The external auditors conducted the audit in line with instructions given. The fees paid to the external auditors are shown in the Notes to the financial statements.

The Supervisory Board approves – and thus confirms – the financial statements and consolidated financial statements of Aareal Bank AG. Details regarding the examinations carried out by the Supervisory Board, and the results of such examinations, are provided in the Supervisory Board Report.

Relationship to shareholders

Aareal Bank holds a General Meeting of shareholders once a year. Shareholders are thus given the opportunity to actively participate in the development of the company.

At the Annual General Meeting, the shareholders decide, in particular, on the formal approval for the members of the Supervisory Board and Management Board for the financial year under review, on the appropriation of any net retained profit, amendments to the Memorandum and Articles of Association, and authorisations on capital adjustments. The Annual General Meeting also elects the 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 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.

Communications

Aareal Bank assigns great importance to extensive communications with all of the bank's stakeholders. We have set ourselves the targets of actively and openly communicating with all stakeholders, taking into account the interests of all stakeholders. In this context, we make extensive use of our website to inform about current developments affecting the Group, and to provide information to all target groups at the same time. All press releases, ad-hoc disclosures, corporate presentations, as well as annual and quarterly reports published by Aareal Bank are available on the bank's website to any

interested person, and may be downloaded from there. In addition, the financial calendar is regularly updated, providing information about relevant corporate events.

Aareal Bank publishes details on the financial position and performance four times annually.
On these occasions, the Management Board gives a personal account of results, within the scope of press conferences and analysts' events.

We are not currently broadcasting parts of the Annual General Meeting on the internet, nor is it currently possible to give instructions or cast votes online. This is because the low level of acceptance of such a service amongst our shareholders would render the related efforts and costs excessive. Aareal Bank will continue to review demand for such a service on a regular basis.

Disclosures regarding Corporate Governance standards

Aareal Bank AG is a public limited company under German law (Aktiengesellschaft – "AG") whose shares are included in the mid-cap MDAX index. Aareal Bank AG's corporate governance practices are governed, inter alia, by legal rules applicable to public limited companies and credit institutions, and by the Company's Memorandum and Articles of Association, which are published on its website and in its Commercial Register entry (under company number HRB 13184). Based on the Memorandum and Articles of Association, the Supervisory Board has adopted internal rules of procedure for itself, and for the Management Board. Aareal Bank AG has also adopted an internal Code of Conduct, providing guidelines for correct, ethical and responsible conduct of employees and executive bodies. Moreover, Aareal Bank's corporate governance is guided by a comprehensive set of internal rules and regulations, which provide concrete guidance on the conduct and processing of the bank's business, in line with legal and regulatory rules. All members of staff have access to these documents, via common internal communications channels such as the bank's intranet.

Description of the activities of the Management Board and the Supervisory Board

The Supervisory Board

In accordance with Aareal Bank AG's Memorandum and Articles of Association, the Supervisory Board consists of twelve members. Once elected by the Annual General Meeting, the members of the Supervisory Board elect a Chairman and two Deputy Chairmen from amongst them, for the duration of their term of office. At present, Mr Hans W. Reich serves as Chairman of the Supervisory Board.
His deputies are Mr Erwin Flieger (as shareholder representative) and Mr York-Detlef Bülow (as employee representative). The members of the Supervisory Board were re-elected for a further term of office by the Annual General Meeting held on 19 May 2010. Employee representatives were elected by the special negotiating body, a body representing employees following the merger of Aareal Bank France S.A. into its parent company Aareal Bank AG. During the financial year under review, the company's Supervisory Board comprised:

Hans W. Reich, Chairman of the Supervisory Board of Aareal Bank AG
Chairman Public Sector Group, Citigroup Inc.
Supervisory Board offices held: Citigroup Global Markets Deutschland AG & Co.KGaA, HUK-COBURG Haftpflicht Unterstützungskasse kraftfahrender Beamter Deutschlands a. G. in Coburg, HUK-COBURG-Holding AG

Erwin Flieger, Deputy Chairman of the Supervisory Board of Aareal Bank AG
Chairman of the Supervisory Boards of Bayerische Beamten Versicherungsgruppe
Supervisory Board offices held: Bayerische Beamten Lebensversicherung a.G., Bayerische Beamten Versicherung AG, BBV Holding AG, DePfa Holding Verwaltungsgesellschaft mbH, MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH, Neue Bayerische Beamten Lebensversicherung AG

* Employee representative of the Supervisory Board of Aareal Bank AG

York-Detlef Bülow*, Deputy Chairman of the Supervisory Board of Aareal Bank AG
Employee of Aareal Bank AG

Christian Graf von Bassewitz
Banker (ret'd.); former Spokesman of the General Partners of Bankhaus Lampe KG
Supervisory Board offices held:
Bank für Sozialwirtschaft Aktiengesellschaft, Deutscher Ring Krankenversicherungsverein a.G., OVB Holding AG, OVB Vermögensberatung AG, SIGNAL IDUNA Holding AG, SIGNAL IDUNA Allgemeine Versicherung AG, Societaet CHORVS AG

Manfred Behrens
Chairman of the Management Board of AWD Holding AG
Supervisory Board offices held:
AWD Allgemeiner Wirtschaftsdienst AG, tecis Finanzdienstleistungen AG

Tamara Birke (until 19 May 2010)*
Employee of Aareal Bank AG

Thomas Hawel*
Employee of Aareon Deutschland GmbH
Supervisory Board offices held:
Aareon Deutschland GmbH

Dieter Kirsch (since 19 May 2010)*
Employee of Aareal Bank AG

Dr Herbert Lohneiß
Former Chief Executive Officer of Siemens Financial Services GmbH (ret'd.)
Supervisory Board offices held:
UBS Global Asset Management (Deutschland) GmbH

Joachim Neupel, Chairman of the Accounts and Audit Committee of the Supervisory Board
German Public Auditor and tax advisor

Professor Dr Stephan Schüller
Spokesman of the General Partners of Bankhaus Lampe KG
Supervisory Board offices held:
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
Supervisory Board offices held:
DePfa Holding Verwaltungsgesellschaft mbH

Helmut Wagner*
Employee of Aareon Deutschland GmbH
Supervisory Board offices held:
Aareon Deutschland GmbH

* Employee representative of the Supervisory Board of Aareal Bank AG

The members of the Supervisory Board are independent as defined by the Code. The shareholder representatives have sufficient professional knowledge to competently perform their duties. They have held – or still hold – executive positions in banks or insurance companies. As a German Public Auditor and tax advisor – and hence, an independent financial expert – Joachim Neupel chairs the Accounts and Audit Committee of Aareal Bank AG's Supervisory Board.

The Supervisory Board conducts its business in the best interests of the Company and its Group entities, in accordance with the law, the Memorandum and Articles of Association, the internal rules of procedure, the German Corporate Governance Code, and Aareal Bank AG's Code of Conduct. The Supervisory Board determines which transactions have fundamental importance, and hence require the approval of the Supervisory Board.

The Supervisory Board has established five committees in order to perform its supervisory duties in an efficient manner: the Executive Committee, the Risk Committee (former 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. The Executive Committee consists of the Chairman of the Supervisory Board, and up to four additional Supervisory Board members.

The committee has the following members:

Mr Reich	Chairman
Mr Bülow	Deputy Chairman
Mr Flieger	Deputy Chairman
Prof Dr Schüller	
Mr Thiel	

The Executive Committee prepares the plenary meetings of the Supervisory Board, together with proposed resolutions. The committee's area of responsibility also includes assessing the internal condition of the Group, and issues concerning personnel planning for the Management Board (also regarding the contracts with individual Management Board members, based on the remuneration system adopted by the plenary meeting of the Supervisory Board). Where required, the Executive Committee prepares proposals for possible or necessary adjustments to the remuneration system for the Management Board. Furthermore, the Executive Committee discusses decision proposals regarding connected-party loans as well as other transactions between members of administrative, management and supervisory bodies and the Company or its subsidiaries.

Risk Committee

To adequately reflect the variety of its tasks, the former Credit and Market Risk Committee was renamed the Risk Committee.

The Risk Committee consists of the Chairman of the Supervisory Board and up to five additional members. During 2010, the Risk Committee had the following members:

Mr Reich	Chairman
Dr Lohneiß	Deputy Chairman
Graf von Bassewitz	
Mrs Birke (until 19 May 2010)	
Mr Kirsch (since 19 May 2010)	
Mr Flieger	
Mr Neupel	

The Risk Committee deals with all types of risk Aareal Bank is exposed to in its business activities. Besides credit risks, this also encompasses market risks, liquidity risks, and operational risks, taking into account the bank's risk-bearing capacity as defined in the Minimum Requirements for Risk Management in Banks (MaRisk). The monitoring of credit risks also includes approving loans which, pursuant to the internal rules of procedure for the Management Board, require the approval of the Supervisory Board. This also includes decisions on connected-party loans pursuant to section 15 (1) nos. 6-12 of the German Banking Act (KWG), unless such loans are dealt with by the Executive Committee.

The committee 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 Risk Committee. Its members are elected from amongst the members of the parent committee. The committee members are:

Mr Reich	Chairman
Graf von Bassewitz	
Mr Flieger	
Dr Lohneiß	
Mr Neupel	

The Committee for Urgent Decisions takes lending decisions which, pursuant to the internal rules of procedure for the Management Board, require Supervisory Board approval, and which are particularly urgent. Since the committee passes its resolutions by way of circulation, it does not hold any meetings. Any decisions which were taken between meetings of the Risk Committee were discussed at the subsequent meeting.

Accounts and Audit Committee

The Accounts and Audit Committee is concerned with all accounting issues, as well as regarding the audit of Aareal Bank AG and Aareal Bank Group. The committee is chaired by an independent financial expert as defined in section 100 (5) of the German Public Limited Companies Act (Aktiengesetz – „AktG").

During the financial year under review, the Accounts and Audit Committee had the following members:

Mr Neupel	Chairman
Prof Dr Schüller	Deputy Chairman
Graf von Bassewitz	
Mr Bülow	
Mr Reich	

The committee is responsible for the preparation and conduct of the audit of the financial statements and the consolidated financial statements; it prepares the decisions to be taken by the Supervisory Board on the basis of the committee's analysis of the external auditors' reports. For this purpose, the committee reports to the plenary meeting of the Supervisory Board on the results of its analysis and the assessments derived. Preparing the audit of the financial statements also comprises the preparations for instructing the external auditors (by virtue of the corresponding resolution passed by the Annual General Meeting), verifying the independence of the external auditors, negotiating the auditors' fees, and determining focal points of the audit. The Accounts and Audit Committee also discusses the quarterly and half-yearly financial reports with the Management Board, and obtains the external auditors's report on their review of the half-yearly report.

Furthermore, the Accounts and Audit Committee is responsible for examining the projections submitted by the Management Board; the reports by the Group Compliance Officer and Internal Audit are addressed to the committee. The Accounts and Audit Committee is also responsible for monitoring the effectiveness of the internal control system.

Nomination Committee

The members of the Nomination Committee are the Chairman of the Supervisory Board and Mr Erwin Flieger, Deputy Chairman; in accordance with the German Corporate Governance Code, the committee only comprises shareholder representatives. The committee is responsible for coordinating and carrying out the search for new shareholder representatives on the Supervisory Board, if a member representing shareholders retires from the Supervisory Board. When preparing the suggestions for the nomination of candidates for Supervisory Board membership, the Nomination Committee takes into account the prerequisites set out in the German Corporarte Governance Code.

The merger of Aareal Bank France S.A. into Aareal Bank AG required the re-election of the Supervisory Board during the 2010 financial year. Accordingly, the Nomination Committee took the initiative: in its meeting on 29 March 2010 it resolved to propose to the Supervisory Board that all existing shareholder representatives be nominated for re-election by the Annual General Meeting for the next term of office. The plenary meeting approved this proposal.

The Management Board

The Management Board manages Aareal Bank AG's business in accordance with the law, the German Corporate Governance Code, the internal rules of procedure for the Management Board adopted by the Supervisory Board, and the Code of Conduct of Aareal Bank AG. The Management Board develops the overall company strategy, discusses it with the Supervisory Board, and ensures its implementation. The Management Board distributes responsibilities amongst its members.

[During the financial year 2010,] the members of the Management Board were:

Dr Schumacher	Chairman
Mr Große Wördemann [1]	
Mr Kickum [2]	
Mr Merkens	
Mr Ortmanns	

[1] Appointed with effect from 1 November 2010
[2] Retired with effect from 31 October 2010

The Management Board informs the Supervisory Board regularly, without delay and comprehensively, orally and in writing, on all issues in respect of which the Supervisory Board requires information to fully perform its duties and obligations.

Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Dear shareholders,

Aareal Bank once again succeeded in posting positive results for all quarters of the financial year under review – and hence, also for the 2010 financial year as a whole. This means that Aareal Bank AG has generated positive quarterly results on each occasion since the outbreak of the international crisis affecting financial markets and the economy back in 2008.

The bank posted a marked increase in operating profit compared with the previous year. From the Supervisory Board's perspective, this positive performance of Aareal Bank AG is a resounding confirmation for the viability of the Group's business model.

Bearing in mind that the environment on property markets was difficult throughout the year, and also given the significant nervousness and volatility on financial markets, the results are very satisfactory. Since the second quarter of 2010, developments on financial markets were seriously influenced by the sovereign debt crisis which affected certain European countries. As such, the ongoing discussions concerning budget deficits meant that sovereign credit spreads for some European countries remained high until the end of the year. The environment for the property sector continued to be challenging throughout the year, even though signs for bottom-building were evident in numerous markets.

Thanks to careful and forward-looking management, Aareal Bank AG continued to have sufficient liquidity at all times during the 2010 financial year, together with a sound funding base. The positive business development permitted Aareal Bank AG to repay a first tranche of the silent participation by SoFFin. At the same time, to be prepared for further market uncertainty, the bank drew on the unutilised portion of the guarantee facility provided by SoFFin to issue a € 2 billion guaranteed bond, which the bank took on its own books.

During the financial year under review, the Supervisory Board continually advised, monitored, and supervised the management of the company.
The Management Board informed the Supervisory Board regularly, without delay and comprehensively, both orally and in writing, of all issues important to the Group with regard to its situation, business development, key financial indicators, and market developments. In addition, detailed reports and explanations were given to the Supervisory Board regarding the current liquidity status and liquidity management measures taken, the prevailing risk situation, and on risk control and risk management measures taken within the Group. The Supervisory Board also received comprehensive reports on the development of business segments, and on operative and strategic planning. The Supervisory Board was informed about, and involved in, all important decisions. All material events were discussed and examined in detail; where a Supervisory Board resolution was required, the decision proposals were submitted to the Supervisory Board and a decision taken. In cases where resolutions needed to be passed in between Supervisory Board meetings, such resolutions were passed by way of circulation.

Furthermore, between the meetings of the Supervisory Board, the Chairman of the Management Board kept the Chairman of the Supervisory Board informed, on a continuous and regular basis, both orally and in writing, on all material developments of the company. The Chairman of the Management Board maintained close contact with the Chairman of the Supervisory Board, in order to discuss key issues and important decisions personally.

Activities of the Supervisory Board

Twelve plenary meetings of the Supervisory Board took place during the financial year under review, of which five were scheduled meetings. Four of the extraordinary meetings were held by way of a conference call. During the meetings, the members of the Supervisory Board received reports and explanations by the members of the Management Board, and discussed these in detail. Proceedings and reports during all scheduled meetings focused on the way the bank dealt with the challenges posed by the sovereign debt crisis affecting individual European countries, and with the impact of continued high levels of financial market nervousness and volatility on the bank's business environment.

The plenary meetings of the Supervisory Board also discussed the partial repayment of SoFFin's silent participation, and the utilisation of the remaining guarantee facility. These measures were coordinated with the Supervisory Board, and approved them.

In its discussions, the Supervisory Board also concerned itself with changes to the regulatory framework, in great detail. During the year under review, such changes included resolutions adopted by the G 20 countries and financial markets regulators regarding the new capital requirements for banks (commonly referred to as "Basel III"), the resolutions to establish a European financial markets regulatory authority, the repeated revision to the Minimum Requirements for Risk Management in Banks (MaRisk), and the amendments to the German Corporate Governance Code.

Throughout the financial year, in the course of all meetings as well as during the periods between meetings, the Management Board informed the Supervisory Board about economic and market developments and their potential impact on Aareal Bank Group, in a timely, complete and comprehensible manner. This included detailed explanations of the appropriate measures taken in response to the challenges arising from the sovereign debt crisis affecting certain European countries, and from other market developments.

During the scheduled plenary meetings of the Supervisory Board, the Management Board reported to the Supervisory Board, regularly and comprehensively; these reports also covered the development of the Structured Property Financing and Consulting / Services segments, focusing on current economic developments. Within regular intervals, the Supervisory Board was informed of the bank's liquidity status and the related steps taken by the bank's Treasury. In addition, the Supervisory Board was informed about business development of the entire Aareal Bank Group, on the basis of actual figures and projections. The Management Board also reported regularly on the quality of the property financing portfolio, against the background of general market trends and expected changes on the various property markets.

During the March, September and December meetings, various remuneration issues were presented in the context of the new German Ordinance on Remuneration in Financial Institutions, as well as other regulatory requirements. This included a detailed inventory of remuneration systems throughout Aareal Bank Group, as well as issues concerning Management Board remuneration which were raised by the new regulations.

The focal points of the various Supervisory Board meetings are presented below:

During three meetings in January and February, the Supervisory Board discussed in detail the strategic options available to Aareal Bank Group in a changed market environment.

In its March meeting, the Supervisory Board concerned itself in detail with the financial statements and consolidated financial statements presented for the 2009 financial year, and with the auditors' report. The relevant facts were presented in the Supervisory Board report for the previous year. The meeting also discussed the proposal for the appointment of external auditors to be submitted to the Annual General Meeting, as well as the details of the subsequent instructions to be given to them, including the contents and focal points for the audit during the 2010 financial year, as specified by the Supervisory Board.

Further topics discussed during the March meeting included preparing the Annual General Meeting held in May 2010, as well as the annual reports submitted by Internal Audit and the Compliance Officer. In accordance with the German Act on the Modernisation of the Accounting and Reporting Laws (Bilanzrechtsmodernisierungsgesetz – "BilMoG"), the plenary meeting also received a presentation of the internal control system used to manage Group subsidiaries, together with measures planned in this context.

In April, another Supervisory Board meeting was held to discuss strategic issues, following up on topics for which further work had been instructed during the meetings at the beginning of the year.

The May meeting of the Supervisory Board was held after the Annual General Meeting of Aareal Bank AG; this was the constituting meeting of the newly-elected Supervisory Board and its committees. During this meeting, the Supervisory Board also followed up on the Annual General Meeting. Certain aspects of the credit risk strategy were discussed and adopted, and a final report provided on the merger of Aareal Bank France S.A. into the parent company Aareal Bank AG, which had necessitated the early re-election of the Supervisory Board.

The topics of the subsequent extraordinary meetings included discussions and the passing of resolutions regarding the first partial repayment of the silent participation by SoFFin, and the drawdown of the remaining guarantee facility, to guarantee a bond issue.

During the September meeting, the 2010 amendments to the German Corporate Governance Code were presented and discussed, alongside other regulatory changes. Certain aspects of lending approval management were reviewed, and corresponding resolutions passed.

The two meetings in October and November focused on the personnel changes in the Management Board of Aareal Bank AG; specifically, the retirement of Mr Norbert Kickum and the appointment of Mr Dirk Große Wördemann.

During the December meeting, the Management Board reported on the Group's business plan, which it submitted to the Supervisory Board and gave detailed explanations. Corporate governance issues were discussed as well: in this context, the Supervisory Board adopted the Declaration of Compliance, pursuant to section 161 of the AktG, for the year 2010, which was subsequently published on the bank's website. Another key aspect was to bring Aareal Bank AG's rules and regulations in line with the modified corporate governance framework.

In accordance with good corporate governance practice, the Supervisory Board also regularly examines the efficiency of its activities in order to identify any areas requiring improvement. The results of the examination of efficiency conducted during the 2010 financial year were acknowledged by the members of the Supervisory Board, and were discussed in detail. Measures were discussed and initiated in order to realise the minor improvements identified.

Strategy documents were regularly submitted to, and discussed by the Supervisory Board, in accordance with the Minimum Requirements for Risk Management in Banks (MaRisk).

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 in detail.

Any Supervisory Board decisions which were taken by way of circulation were discussed at the subsequent meeting, to ensure that the members were able to reconcile the implementation of such decisions.

As part of preparing Supervisory Board decisions, a routine examination is carried out as to whether there are any conflicts of interest. Against this background, during the financial year under review a lending decision was taken by the Committee for Urgent Decisions without the participation of the Chairman of the Supervisory Board, in order to prevent a potential conflict of interest.

Beyond this, the members of the Supervisory Board did not give notice of any conflicts of interest (pursuant to section 5.5.3 of the German Corporate Governance Code) during 2010.

In addition to its regular meetings, the Supervisory Board convened for a separate meeting during which auditors PricewaterhouseCoopers provided information on current changes and deliberations in the regulatory and legal framework. This meeting provided the opportunity for a more detailed analysis and discussion of key topics, outside the regular work of the Supervisory Board.

Activities of Supervisory Board committees

The Supervisory Board has established five committees in order to perform its supervisory duties in an efficient manner: the Executive Committee, the Risk Committee (previously: Credit and Market Risk Committee), the Committee for Urgent Decisions, the Accounts and Audit Committee, and the Nomination Committee.

The Executive Committee held five meetings, including two extraordinary meetings, one of which was convened as a conference call. The Executive Committee has prepared the plenary meetings of the Supervisory Board, together with proposed resolutions. In its meeting in March 2010, the Executive Committee discussed the merger of Aareal Bank France S.A. into the parent company, and the re-election of the Supervisory Board which became necessary as a result. Discussions also concerned strategic issues related to the SoFFin support measures. The extraordinary meetings focused on the personnel changes to the Management Board, and all issues involved.

The Risk Committee held three meetings during the year under review. The Management Board submitted detailed reports to the committee, covering all markets in which the bank is active in the property financing business, as well as supplementary reports regarding the bank's investments in securities portfolios. The committee members discussed these reports and market views in detail. The committee also regularly dealt with loans requiring approval and transactions subject to reporting requirements. The committee discussed individual exposures of material importance to the bank, which were presented and explained by the Management Board. Also, detailed reports were given regarding the bank's liquidity status and funding.

The committee regularly discussed reports on the bank's risk situation, which were submitted and explained by the Management Board. Having discussed the contents with the Management Board, these were duly noted and approved by the members of the committee. Besides credit and country risks, the committee concerned itself with market risks, liquidity risks, and operational risks. The committee also decided on any other transactions requiring the Supervisory Board's approval pursuant to the company's Memorandum and Articles of Association, or the Managing Board's internal rules of procedure.

The Committee for Urgent Decisions is a subcommittee of the Risk Committee. As the committee approves loans subject to approval requirements by way of circulation, it did not convene any meeting. Any decisions which were taken between meetings of the Risk Committee were discussed at the subsequent meeting.

The Accounts and Audit Committee held six meetings during the year under review. During its meeting in March 2010, the Accounts and Audit Committee received the external auditors' report on the 2009 financial year and discussed the results with the auditors in detail. The committee members read the audit reports provided; they formed their own judgement of the audit results on the basis of these reports, and by way of extensive discussions with the external auditors. In accordance with its duties under the Memorandum and Articles of Association, the Accounts and Audit Committee also discussed the instruction of external auditors and the focal aspects of the audit for 2010 during the same meeting.

Proceedings at the meetings in August and November included information regarding the progress of audit activities for the 2010 financial year; follow-up questions were also discussed. In addition to a further updated report on the audit progress, the updated Group planning was presented and explained to the committee during its December meeting. The committee also received reports submitted by Internal Audit, and by the Compliance Officer, requesting and receiving detailed explanations.

Furthermore, during the committee meetings in February, May, August and November 2010, the Management Board presented the quarterly results for the financial year, as well as the preliminary full-year results for 2009 prior to publication, in accordance with the German Corporate Governance Code; the committee members discussed the reports with the Management Board. As in the financial year under review, the preliminary results for 2010 were discussed at a meeting in February 2011.

In its meeting on 24 March 2011, the Accounts and Audit Committee received the external auditors' detailed report on the audit and audit results for the 2010 financial year, and extensively discussed these results with the auditors and the Management Board.

The Nomination Committee, which was established during the year under review, met for one meeting during 2010. The task of the committee is to coordinate and carry out the search for new shareholder representatives on the Supervisory Board, if a member representing shareholders retires from the Supervisory Board. All members of the Supervisory Board had to be re-elected during the financial year under review, due to the merger of the French subsidiary Aareal Bank France S.A. into the parent company. Fulfilling their duties in this context, during their meeting on 30 March 2010, the members of the Nomination Committee resolved to propose to the Supervisory Board that all existing shareholder representatives be nominated for re-election by the Annual General Meeting for the next term of office. This proposal was accepted by the plenary meeting of the Supervisory Board. The shareholder representatives on the Supervisory Board were re-elected for a further term of office by the Annual General Meeting held on 19 May 2010.

Where members of the Supervisory Board were unable to attend a meeting, they had announced their absence in advance, giving reasons. If material decisions were on the agenda, these Supervisory Board members submitted written instructions for the casting of their votes, or cast their votes afterwards, in writing.

Transactions of particular importance during 2010

In its meeting on 23 June 2010, the Supervisory Board approved the proposal submitted by the Management Board for a partial repayment in the amount of € 150 million on the silent participation by SoFFin, and to simultaneously utilise the remaining € 2 billion guarantee facility. The € 2 billion SoFFin guarantee was used to issue a new unsecured bond in the same amount, with a maximum term of 36 months, which the bank took on its own books.

The remaining framework guarantee was utilised for purely precautionary reasons; it was designed to retain Aareal Bank AG's ability to react quickly and flexibly to potential market distortions over a medium-term horizon – at any time, and even during a turbulent phase. No decision has been taken to date on the repayment of the remaining SoFFin silent participation.

The process of merging Aareal Bank France S.A. into the parent company Aareal Bank AG was completed during the financial year under review. This measure was a further step in the continuous process to simplify the structure of the Group, and to enhance the efficiency of credit processes. The term of office of the Supervisory Board ended prematurely as a result of this merger, and the necessary election was held. Henceforth, Aareal Bank AG's presence in Paris is a branch office. This organisational change had no effect upon Aareal Bank AG's clients.

Financial statements and consolidated financial statements

The Supervisory Board instructed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt / Main, who were elected as auditors by the Annual General Meeting 2010, with the audit of the financial statements. The external auditors appointed submitted a statement regarding their independence to the Supervisory Board, who duly noted it. The Supervisory Board has no reason to doubt the accuracy of this statement of independence. Fulfilling their duties as commissioned by the Supervisory Board, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code (HGB) and the consolidated financial statements prepared in accordance with IFRSs, as well as the Management Report and the Group Management Report. Based on the results of their audit, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft issued an unqualified audit opinion for the financial statements and consolidated financial statements.

All members of the Supervisory Board received the audit reports regarding the financial statements and the consolidated financial statements, including all annexes thereto, in good time before the meeting during which the audit results were discussed. Having examined the documents provided, the Supervisory Board members formed their own judgement of audit results. The representatives of the external auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, attended the Supervisory Board meeting during which the financial statements were discussed, giving a detailed account of the results of their audit and were available to answer further questions, and to provide additional information. All questions were answered to the full satisfaction of the Supervisory Board.

No objections were raised following the detailed examination of the financial statements and Management Report of Aareal Bank AG, prepared in accordance with the HGB; the consolidated financial statements and the Group Management Report prepared in accordance with IFRSs; the proposal of the Management Board regarding the appropriation of profit; and of the audit report. In its meeting on 24 March 2011, the Supervisory Board approved the results of the audit. The Supervisory Board approved the financial statements and Management Report of Aareal Bank AG, prepared in accordance with the HGB, together with the consolidated financial statements and the Group Management Report prepared in accordance with

IFRSs, which are thus confirmed. Having examined and discussed it with the Management Board, the Supervisory Board has endorsed the proposal for the appropriation of profit submitted by the Management Board.

Mr Norbert Kickum, who, as a member of the Management Board, was responsible for Aareal Bank AG's property financing business on international markets, left the bank with effect from 31 October 2010. His departure was for purely personal reasons, by amicable and mutual consent. The Supervisory Board would like to thank Mr Kickum for his contribution during the challenging past years. Mr Dirk Große Wördemann was appointed to the Management Board of Aareal Bank AG with effect from 1 November 2010. The Supervisory Board looks forward to working with Mr Große Wördemann, and wishes him every success in his new office.

Due to the merger of Aareal Bank France S.A. into the parent company, the term of office of all Supervisory Board members ended prematurely, necessitating a re-election. Given the re-election of employee representatives to the Supervisory Board, the office of Ms Tamara Birke was terminated at the end of the Annual General Meeting of Aareal Bank AG on 19 May 2010. The Supervisory Board would like to thank Ms Birke for her trusting and constructive cooperation over many years. The employees elected Mr Dieter Kirsch to succeed Ms Birke as employee representative to the Supervisory Board. The Supervisory Board wishes Mr Kirsch every success in his new function.

In conclusion, the Supervisory Board would like to thank the Management Board and all of the company's employees for their strong commitment and successful work during the eventful 2010 financial year. Once again, it was thanks to the motivation and contribution of Aareal Bank Group staff that enabled the Company to successfully master the challenges of recent months.

Kronberg, March 2011

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 88099100
Fax: +49 30 88099470

Brussels
7, rue Guimard
1040 Brussels, Belgium
Phone: +32 2 5144090
Fax: +32 2 5144092

Copenhagen
New since October 2010:
St. Kirkestræde 1, 3
1073 Copenhagen K, Denmark
Phone: +45 3369 1818
Fax: +45 70 109091

Hamburg
Pelzerstrasse 7
20095 Hamburg, Germany
Phone: +49 40 33316536
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 5127217
Fax: +49 89 51271220

New York
Aareal Capital Corporation
250 Park Avenue · Suite 820
New York NY 10177, USA
Phone: +1 212 5084080
Fax: +1 917 3220285

Paris
New since 21 March 2011:
29 bis, rue d'Astorg
75008 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, 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
München 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
Filiale Stuttgart
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

Glossary

Accrued interest
Interest which has accrued on debt securities (such as bonds, covered bonds or other fixed-income securities) since last coupon payment. When buying such a security, the buyer must pay accrued interest to the seller.

Actual rate of interest
The yield of an investment, measured in terms of the actual rate of interest generated on the capital invested.

Ad-hoc disclosure
Pursuant to section 15 of the German Securities Trading Act (WpHG), issuers of securities are obliged to publish information that may influence the prices of their securities without delay. This is carried out using "ad-hoc disclosures", which may refer to the issuer's financial position and performance, or to its general business development. Designed to prevent insider trading, there is a statutory ad-hoc disclosure obligation in Germany, as well as in all other major financial centres.

Advanced Internal Ratings Based Approach (AIRBA)
The Advanced IRB Approach is used to quantify regulatory capital requirements. In contrast to the Credit Risk Standard Approach (CRSA), the AIRBA is based on internal models: it allows for a more accurate measurement of credit risks, and hence, for a more precise and risk-adequate allocation of capital.

AfS (Available for sale)
Financial assets may be classified as "Available for sale", in contrast to loans and advances, financial instruments held for trading (HfT) or held to maturity (HtM). AfS financial instruments include, in particular, fixed-income securities which cannot be held to final maturity (or where the holding entity does not intend to hold them to maturity), as well as equity instruments which do not have a defined maturity.

Associated enterprise
An entity that is not fully consolidated or included via proportionate consolidation, but accounted for in the consolidated financial statements using the equity method, over whose business or financial policies a consolidated entity exercises significant influence.

Basel II
The concept of "Basel II" refers to the framework agreement on capital measurement and capital standards, as adopted by the Basel Committee on Banking Supervision in mid-2004. The Committee, which regularly convenes at the Bank for International Settlements (BIS) in Basle and comprises representatives of central banks and banking supervisory authorities of the major industrial nations, issues general strategic recommendations for the regulatory framework and standards applicable to banks. Basel II provides a framework for measuring risk-weighted assets and minimum capital requirements for banks.

Bonds
Market term for fixed-income securities, also referred to as debt securities.

Capital market
Generic term referring to the markets for any type of medium to long-term funds; more specifically, the marketplace where securities supply and demand are matched.

Cash flow hedge
A swap used to hedge the risk of future interest payments under a floating-rate balance sheet asset or liability.

Cash flow statement
The cash flow statement (statement of consolidated cash flows) provides an overview of cash and cash equivalents generated or used by an enterprise during a financial year, from operating, investment, and financing activities, plus the amount of cash and cash equivalents at the beginning and end of the financial year.

Collateral
Security rights granted to the bank by the borrower, allowing the bank to recover its receivables in the event of any borrower default. Credit collateral may be provided in the form of personal collateral (e.g. a guarantee) or impersonal collateral (such as a land charge). As a rule, collateral reduces the risk to which a bank is exposed if a borrower is no longer able to meet its financial obligations.

Corporate Governance
The concept of "corporate governance" refers to the legal and factual framework for managing and supervising enterprises. The recommendations of the Corporate Governance Code are designed to create transparency, and predominantly to protect shareholders; the Code's objective is to strengthen the trust in good and responsible company management.

Cost/income ratio
Financial indicator expressing the ratio of expenses to income during a reporting period.

Covered bonds
Covered bonds is a generic term for debt securities whose principal and interest payments are collateralised by assets. In Germany, covered bonds are mainly issued in the form of "Pfandbriefe": the German Pfandbrief Act (Pfandbriefgesetz) sets the legal framework for collateralisation (by mortgages of public-sector loans).

Credit default swap (CDS)
A financial contract where the risk of a predefined credit event (such as insolvency or deterioration of credit quality) is transferred from a protection buyer to a protection seller. Regardless of whether the credit event actually occurs, the protection buyer pays a regular premium to the protection seller, as compensation for assuming the credit risk.

DAX®
The DAX® reflects the performance of the 30 largest (by market capitalisation) and most-actively traded (by exchange order book turnover) German companies listed in the Prime Standard segment of the Frankfurt Stock Exchange. Calculation of the index is based on price data from the electronic trading system Xetra; it starts at 09:00 CET and ends with the prices from the Xetra closing auction, which starts at 17:30 CET.

Debt security
Certificate in which the issuer undertakes vis-à-vis the holder to repay the borrowed sum, and – depending on the specifications – to make current interest or other payments.

Default risks
Default risks may occur in the form of (counterparty) credit, issuer or country risks. They refer to the potential loss occurred as a result of the default (or a deterioration of credit quality) of the bank's borrowers, of issuers of promissory note loans or securities, or of counterparties to transactions in the money market, securities or derivatives markets.

Deferred taxes
Income taxes payable or receivable in the future, reflecting differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. At the time of recognition, deferred taxes do not yet represent an actual receivable from, or liability to the tax authorities.

Derivatives
Derivatives are instruments whose price is derived from the price of an underlying instrument (as well as from the price fluctuations and/or price expectations), such as equities, bonds, or foreign exchange. Derivatives include a variety of swaps, options, futures or forwards.

Discount
The discount below par of a security or loan, defined as the difference between the cost of purchase and the nominal value.

Earnings per share
Financial indicator expressing net income (for the year) after non-controlling interest income per share, based on the average number of ordinary shares outstanding.

Effective interest method
Calculation method where the difference between the cost of purchase and the nominal value of a financial instrument (the premium or discount) is amortised using the effective interest rate of a financial asset or liability.

Euribor (European Interbank Offered Rate)
The rate at which euro interbank term deposits are offered by one prime bank to another prime bank in Europe, for fixed terms between one week and twelve months.

Fair Value
The fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing and independent parties in an arm's length transaction; fair value is often identical to the market price.

Fair value hedge
Hedging a fixed-rate balance sheet asset (such as a receivable or security) or liability against market risk; fair value hedges are measured at fair or market value.

Financial instruments
Generic term for instruments such as loans and advances granted and other receivables, fixed-income securities, equities, investments, liabilities or derivatives.

German Accounting Standards (Deutsche Rechnungslegungs-Standards – DRS)
A set of recommendations for German accounting standards, published by the German Accounting Standards Board (GASB), a committed organised by the Accounting Standards Committee of Germany (ASCG).

Goodwill
The amount that the buyer of an enterprise is prepared to pay, over and above the fair value of net assets less debt (net asset value), taking into account expected future returns.

Hedge accounting
The concept of "hedge accounting" refers to the recognition or financial reporting of two or more contracts (including financial instruments) which form a hedging relationship. Specifically, this relationship between or amongst the contracts refers to opposing contractual features related to certain risks, mostly financial risks. As a result, these contracts offset their respective risk exposure, in full or in part. The most common hedge relationship involves an underlying transaction (the contract which gives rise to the risk(s) being hedged) and a hedge (the contract entered into to hedge the risk exposure of the underlying transaction).

HtM (Held to maturity)
The held-to-maturity category includes financial assets (acquired from a third party) with a fixed maturity as well as cash flows with fixed or determinable payments, which an enterprise has the intention and the ability to hold to final maturity.

International Financial Reporting Standards (IFRS)
Accounting standards adopted and published by the International Accounting Standards Board (IASB), an international organisation of professional accounting associations. The objective of IASs is to establish transparent and comparable accounting standards on an international level.

International Financial Reporting Standards comprise:

a. International Financial Reporting Standards (IFRSs);
b. International Accounting Standards (IAS); and
c. interpretations of IFRSs issued by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

LIBOR (London Inter Bank Offered Rate)
LIBOR is the reference interest rate for interbank deposits, as determined by the British Bankers Association.

Minimum Requirements for Risk Management in Banks (MaRisk – BA)
The Minimum Requirements for Risk Management in Banks ("MaRisk") are binding rules stipulated by the German Federal Financial Supervisory Authority (BaFin) for the organisation of risk management in German banks. With the MaRisk, BaFin has provided specific rules pursuant to section 25a of the German Banking Act: BaFin brought together, updated and supplemented the legacy regulations in force at the time (the Minimum Requirements for the Trading Activities of Credit Institutions – "MaH", Minimum Requirements for the Internal Audit Function of Credit Institutions – "MaIR", and the Minimum Requirements for the Credit Business of Credit Institutions – "MaK").

MDAX
The MDAX comprises the shares of 50 Prime Standard companies – known as mid-caps – from traditional sectors that, in terms of exchange turnover and market capitalisation, rank immediately below the companies included in the DAX. Calculation of the index is based on price data from the electronic trading system Xetra; it starts at 09:00 CET and ends with the prices from the Xetra closing auction, which starts at 17:30 CET.

Medium-Term Notes (MTNs)
MTNs are issued within the framework of a debt issuance programme: within such a programme, unsecured bonds can be issued at different points in time, with flexible issue volume, currencies and terms (1 to 10 years), depending on the funding requirements.

Nominal interest rate
Return on a security defined by reference to its nominal value.

Premium
The premium over par of a security or loan, defined as the difference between the cost of purchase and the nominal value.

Present value
The present value of a future cash flow, determined by discounting all future cash inflows and outflows to the present date.

Profit-participation certificate
Securities evidencing profit-participation rights, which may be issued by companies of any legal form, and which are listed in official exchange trading. Depending upon their terms and conditions, profit-participation certificates may be eligible for inclusion in a bank's liable capital.

Public sector covered bonds
Debt securities issued by Pfandbrief issuers, which are collateralised by claims against the public sector.

Rating
Risk assessment regarding a borrower (internal rating), or credit quality rating of an issuer and its securities determined by specialised agencies (external rating).

Real property lien
Lien on real property; the creation and realisation of real property liens is governed by comprehensive legal regulations. In practice, German banks use land charges (Sicherungsgrundschulden), which collateralise the land charge creditor's (the bank's) claim against the owner of a plot of land, as stipulated in a collateral agreement.

Repo transaction
A securities repurchase ("repo") transaction is a short-term money-market transaction collateralised by securities.

Return on equity
Financial indicator expressing the ratio of net income (for the year) or a pre-tax result (such as profit before taxes) to average equity; return on equity indicates the rate of return on the capital invested by a company (or its owners/shareholders).

Revaluation reserve
The revaluation surplus includes changes in the market value of available-for-sale securities and investments, which are recognised directly in equity (taking into account deferred taxes).

Segment Reporting
Breakdown of aggregate consolidated figures by individual segments – for example, by operating segments (business segments) or geographical segments (regions); this provides insights regarding the development of individual segments, and their contribution to consolidated net income.

Swap
Fundamentally, an exchange of cash flows, for example, an exchange of fixed and floating interest cash flows in the same currency (an interest rate swap), or the exchange of cash flows in different currencies (cross-currency swap).

Unwinding
The concept of ‚unwinding' refers to the changes in present value which occurs in respect of allowance for credit losses determined on a present-value basis; unwinding simply reflects the different time values of cash flows (recoverable amounts) as at the reporting date.

Value at risk
The value-at-risk method quantifies the maximum potential loss, given a certain probability and a set holding period.

Financial Calendar

10 May 2011	Presentation of interim report as at 31 March 2011
18 May 2011	Annual General Meeting – Kurhaus, Wiesbaden
August 2011	Presentation of interim report as at 30 June 2011
November 2011	Presentation of interim report as at 30 September 2011

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wirDesign, Berlin Braunschweig, Germany
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Aareal Bank AG
Investor Relations
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

03/2011

Aareal Bank Group