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2011

Aareal Bank AG – Annual Report 2011

Aareal Bank

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Management Report

Business and operating environment

Group structure and business activities

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

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

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

Structured Property Financing

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

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

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

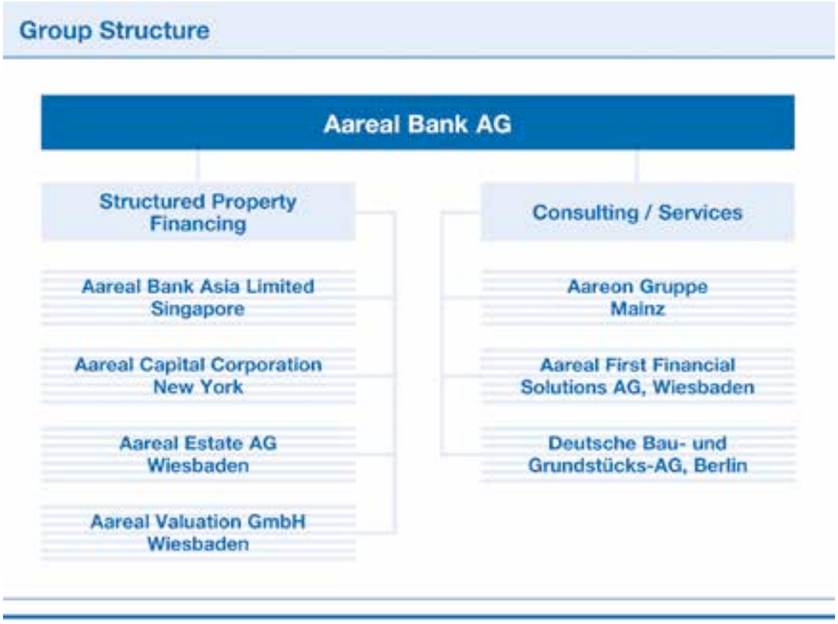
The success of our capital and money market activities, and the business with institutional housing industry clients, results from the combination of a sustainable business model with a sound understanding of the capital markets, and the quality of our property financing portfolio.

Consulting/Services

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

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



Company management

Since Aareal Bank AG's business is managed at Group level, the following description of company management has been prepared from the Group's perspective.

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

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

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

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

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

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

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

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

Macro-economic environment

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

Economy

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

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

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

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

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

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

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

Sovereign debt crisis

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

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

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

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

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

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

Financial and capital markets, monetary policy and inflation

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

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

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

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

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

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

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

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

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

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

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

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

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

Regulatory and competition environment

The environment in which the banks were operating was defined in recent years by a rapid rise in regulatory requirements. Examples of these are the comprehensive Basel II framework and its implementation in national law, as well as the introduction of (and multiple amendments to) the Minimum Requirements for Risk Management (MaRisk).

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

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

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

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

Segments and business development

Structured Property Financing segment

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

As in previous years, Aareal Bank was also active in Europe and North America, as well as in Asia during the year under review. At 78.8 %, Europe accounted for the highest share of new business, followed by North America with 19.7% and Asia with 1.5 %.[1)] We generate our new business through our local branches as well as through our teams of sector specialists covering financing solutions for retail, logistics and hotel properties.

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

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

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

Developments in the individual regions

Europe

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

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

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

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

[1)] Die Zuordnung des Neugeschäfts zu den einzelnen Regionen erfolgt nach der Belegenheit der als Sicherheit dienenden Immobilie. Falls eine Forderung nicht durch eine Immobilie besichert wird, erfolgt die Zuordnung über das Sitzland des Kreditnehmers.

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

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

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

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

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

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

We achieved new business of € 6.3 billion in Europe in the 2011 financial year. At € 4.0 billion, Western Europe accounted for the highest share thereof[2)] and also dominated transaction volumes on the European markets. We concluded new business of € 1.0 billion in Northern Europe, followed by Southern Europe with € 0.8 billion and Eastern Europe with € 0.5 billion. We are not active in property financing in Greece, Ireland or Portugal.

North America (NAFTA states)

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

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

The American hotel market enjoyed a marked recovery in the year under review. Average revenues per available hotel room rose considerably on national average in the USA. This was attributable to improved

[1)] Die Zuordnung des Neugeschäfts zu den einzelnen Regionen erfolgt nach der Belegenheit der als Sicherheit dienenden Immobilie. Falls eine Forderung nicht durch eine Immobilie besichert wird, erfolgt die Zuordnung über das Sitzland des Kreditnehmers.

occupancy ratios as well as higher average room rates. San Francisco posted the highest increase in average revenues.

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

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

Asia

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

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

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

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

Pooling the resources of industry specialists across borders

The Wiesbaden-based team of sector specialists covering financial solutions for hotel, logistics and retail properties complete our distribution network. Assuming the role of competent key personnel, they are available to international investors as central points of contact. They also serve as internal consultants for specific issues related to the sectors they cover.[3)]

Hotels

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

Logistics properties

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

Retail properties

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

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

Consulting/Services segment

Institutional Housing Unit

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

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

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

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

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

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

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

Despite continued intense competition, the volume of deposits from the institutional housing industry remained unchanged at € 4.7 billion in the 2011 financial year (2010: € 4.1 billion). Deposits averaged € 4.9 billion in the fourth quarter of 2011. This reflects the strong trust placed in Aareal Bank by our clients.

With a 12 % increase in 2011, we once again succeeded in significantly growing the volume of deposits over the previous year, especially in rent deposits. The Aareal Account rent deposit product, which was introduced in 2011 in addition to our classic BK01 deposits management, met with good market response, as did BK01 immoconnect for energy and waste disposal companies.

Aareon AG

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

Aareon AG consistently integrates these requirements and trends in its broad range of products. Country-specific ERP products are at the core of Aareon Group's product portfolio. The ERP systems facilitate efficient process design in property management as well as a wide range of analytic options to support management decisions. With its ERP multi-product strategy in Germany, Aareon meets the various requirements across the board on the property market. It offers the ERP products Wodis Sigma and SAP®-based solutions such as Blue Eagle, and the GES system. The international subsidiaries offer ERP systems that are tailored to meet the needs of the respective market. These are Prem'Habitat and PortalImmo Habitat in France, QL in the UK, as well as SG|tobias and the new product generation SG|tobias^{AX} in the Netherlands. In conjunction with sector-specific advisory services (ERP, SAP®, process and IT advisory services), all of these systems offer great benefit to their users. Integrated services and sector-specific supplementary solutions complement the product portfolio. Their functions include the collaboration between property companies and their business partners, to improve process efficiency. These include web-based solutions, service portals and document management systems. In Germany, Aareon also offers IT processing services that are provided by the certified data-processing centre in Mainz, including Software as a Service (SaaS) from the exclusive Aareon Cloud[4)].

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

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

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

Aareon offers its integrated payments service in cooperation with Aareal Bank; this is integrated with Aareon's ERP systems. The BK01® payments system can be used for the Wodis Sigma, GES and WohnData systems, and the BKXL® system (which includes integrated digital signature functionality) for SAP®-based Blue Eagle.

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

The international business – where Aareon focuses on key strategic markets – remained positive during the period under review, accounting for more than a quarter of Aareon Group's sales revenues. Within the scope of its product and business development, Aareon Group benefits from the constant exchange of information and experience on an international level. Areas of synergy (business models, technologies, cooperation partners) are systematically identified and exploited. Aareon France for example, has also cooperated with

[4)] Aareon Cloud is an ”exclusive cloud” that is available only to clients or Aareon Group.

SAP since 2011, and the first systems of the Dutch subsidiary SG|automatisering were installed in Aareon's data-processing centre in Mainz.

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

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

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

Financial performance

Aareal Bank AG posted € 285 million (up 16 % – 2010: € 246 million) in operating profit (excluding loan loss provisions) for the 2011 financial year – a year which, like 2010, was shaped by a challenging environment.

At € 543 million, the aggregate of net interest income and net commission income showed a marked improvement of € 63 million compared with the previous year. Interest income from lending and money market transactions were up by € 180 million, whilst income from securities decreased by € 53 million. Interest expenses were up by € 77 million. Current income of € 10 million (2010: € 20 million) was attributable to investment fund distributions and to profit distributions by subsidiaries. Net commission income of € 43 million was € 23 million higher than in the previous year; the increase was due to higher commission income from the lending business and to lower expenses for the utilisation of support by the German Financial Markets Stabilisation Fund ("SoFFin").

Administrative expenses (including depreciation and amortisation of intangible and tangible fixed assets) totalled € 240 million, up € 10 million year-on-year. The bank levy – which was charged in 2011 for the first time – was one of the factors contributing to this increase.

Net other operating income and expenses declined by € 14 million, to € -17 million compared with the previous year; the net figure includes € 11 million in expenses incurred in connection with the capital increase 2011.

The balance of provisions for loan losses and the result from securities held as liquidity reserve was € -239 million (2010: € -172 million). This figure includes expenditure for specific and general loan loss provisions. Securities held as liquidity reserve were revalued strictly at the lower of cost or market; the item also includes capital gains and losses realised on this portfolio.

Net other income and expenses of € -1 million includes the results and revaluation of subsidiaries, as well as the results from investment securities.

Taking into account a tax liability of € -25 million (2010: € -3 million), the bank posted net income of € 20 million (2010: € 0.4 million); net retained profit (after appropriation of € 10 million to revenue reserves) amounted to € 10 million (2010: € 0.4 million).

Financial position

Net assets

Aareal Bank AG had total assets of € 41.3 billion as at 31 December 2011, compared with € 44.9 billion as at 31 December 2010. The decline was largely attributable to lower holdings of debt and other fixed-income securities.

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

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

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

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

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

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

Property financing portfolio

Portfolio structure

The volume of Aareal Bank AG's property financings expanded from € 21.6 billion to € 22.5 billion in 2011. This equates to an increase of 4 %. On a consolidated level, Aareal Bank Group's property loans totalled € 24.0 billion as at 31 December 2011 (2010: € 22.9 billion).

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

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

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

Portfolio development

Aareal Bank Group's new business (including renewals) totalled € 8.0 billion in the 2011 financial year. We consider this volume to be a very good result, in light of the market conditions.

[1)] As at 31 December 2011, the securities portfolio was carried at € 11.0 billion (2010: € 15.2 billion), including accrued interest.
[2)] All rating details are based on composite ratings.

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

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

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

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

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

No securitisations were carried out during the reporting period.

Financial position

Interbank and repo business

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

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

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

Customer deposits

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

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 subordinate issues, including subordinated liabilities, profit-participation certificates, silent participations and trust preferred securities. As at 31 December 2011, the long-term refinancing portfolio amounted to € 25.8 billion.

Refinancing activities

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

We also successfully placed a three-year € 500 million bearer bond on the capital market in May 2011.

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

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

Regulatory indicators

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

Regulatory indicators pursuant to A-IRBA

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

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

Our employees

Employee data as at 31 December 2011

	31 Dec 2011	31 Dec 2010	Change
Number of employees of Aareal Bank Group	2,353	2,407	-2.2 %
Number of employees of Aareal Bank AG	942	999	-5.7 %
of which: outside Germany	111	121	-8.3 %
of which: Proportion of women	45.0%	46.0%	
Proportion of women in executive positions	23.2%	23.2%	
No. of years service	13.0 Jahre	12.0 Jahre	1.0 years
Average age	43.9 Jahre	43.0 Jahre	0.9 years
Staff turnover rate	2.8%	2.0%	
Part-time ratio	18.5%	17.4%	
Retired employees and surviving dependants	553	573	-3.5 %

Age structure and fluctuation

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

Remuneration system

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

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

Salaries are reviewed annually, to ensure that individual remuneration packages are appropriate. The objective is to offer a remuneration level that is both appropriate and attractive to all Group employees.

Qualification and training programmes

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

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

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

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

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

Aareal Bank views its training and continued professional development activities as an investment in its own employees, and therefore in the future of the entire Group. The "Structured Appraisal and Target Setting Dialogue", Aareal Bank’s employee review, is the starting point for the individual development plans. Once again, more than 1,000 development measures were agreed between management and employees at the start of 2011. As a result of these plans, 3,217 employees participated in Aareal Bank's training measures during the year under review. This represents an increase of 5 % over 2009.

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

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

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

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

Promoting the next generation

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

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

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

Work/life balance

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

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

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

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

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

Report on material events after the reporting date

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

Risk Report

Risk management at Aareal Bank AG

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

Risk management – scope of application and areas of responsibility

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

We also maintain a material part of our aggregate risk cover 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.

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

Stress testing

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

Organisational structure and workflows

Lending business

Division of functions and voting

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

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

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

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

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

Process requirements

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

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

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

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

Early risk detection procedures

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

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

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

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

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

Risk classification procedures

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

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

Property financing business

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

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

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

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

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

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

Financial institutions

Aareal Bank AG 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.

Sovereign states and local authorities

In addition, Aareal Bank AG 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.

Trading activities

Functional separation

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

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

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

The detailed assignment of responsibilities is outlined below.

Treasury is responsible for risk management and trading activities as defined by the Minimum Requirements for Risk Management ("MaRisk") set out by BaFin. Treasury is also responsible for asset/liability manage--ment, 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 credit risk in the trading business, Operations prepares a rating for all counterparties and issuers on a regular or event-driven basis. The rating is a key indicator used to determine the limit for the relevant counterparty or issuer.

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

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

Process requirements

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

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

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

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

Risk exposure by type of risk

Credit risks

Definition

Aareal Bank AG 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 finance exposures, and of business with financial institutions. The models permit to identify, measure, monitor and manage risks at a portfolio level.

The bank focuses in particular on the identification, monitoring and management of risk concentrations, where both quantitative and qualitative methods are being used. With regard to counterparty risk, these include for example, the regular analysis of our largest borrower units and the analysis of the portfolios by countries (covering risk classes and categories of collateral). Thresholds are set within this system for individual sub-markets and product groups. Risk Controlling uses 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.

Trading activities are generally restricted to counterparties for whom the requisite limits are in place. Replacement and settlement risks are taken into account when determining counterparty limit usage. Persons holding position responsibility are informed about relevant limits and their current usage without delay. Trading activities also require the establishment of issuer limits.

All trades are immediately taken into account for the purposes of borrower-related limits. Compliance with limits is monitored in real time by Risk Controlling. Any limit breaches are documented, together with action taken in response. Where limit transgressions exceed an amount defined in line with risk considerations, these are escalated to the responsible members of senior management, using a standardised escalation process.

Credit risk mitigation

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

As an international property finance house, Aareal Bank AG 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 AG's trading business, the master agreements for derivatives and securities repurchase transactions (repos) used by the bank provide for various credit risk mitigation techniques, via mutual netting agreements.

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

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

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

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

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

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

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

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

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

Limits were unchanged during the financial year under review. No limit breaches were detected. The average utilisation of the VaR limit, which we have defined for the aggregate of general market price risk and specific risk exposure, was 69.3% during the course of the year.

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 three during 2011, affirming the high forecasting quality of the VaR model we use.

Stress testing

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

Aareal Bank AG 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 at Group level.

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

Interest rate sensitivity

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

Interest rate gap analysis

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

Trading book

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

Liquidity risks

Definition

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

Risk measurement and monitoring

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

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 covered and uncovered bond issues – constitute the foundation of our liability profile.

Stress testing

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

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

Liquidity Ordinance

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

Operational risks

Definition

Aareal Bank AG 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 AG 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.

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.

Other risks

Definition

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

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

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

Risk measurement and monitoring

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

Other risks are predominantly managed and monitored through qualitative measures. A Group-wide Code of Conduct sets the framework regarding integrity and professional conduct for all activities. The Code provides a standard that is binding for all employees of Aareal Bank AG – 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 AG 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 AG's Management Board is responsible for managing strategic risk; it coordinates its actions with the Supervisory Board. The Management Board is supported in this task by Corporate Development, for instance, via the continuous monitoring of trends which may be relevant to business policy.

Accounting-related internal control and risk management system

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

The accounting-related internal control and risk management system includes principles, procedures and measures to ensure the effectiveness and the efficiency of internal and external accounting, in accordance with applicable legal provisions. Pursuant to section 289 (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 AG 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. 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 Finance division is predominantly responsible for accounting and assumes central process responsibility for the preparation of Aareal Bank AG's annual and interim financial statements. This responsibility includes, amongst other items, preparing the financial statements (including the management report) in accordance with the HGB, and preparing monthly management reports. Finance is also responsible for developing accounting principles under German GAAP and IT specifications.

The number of employees within Aareal Bank AG'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 AG'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 objective and risk-oriented auditing and consulting services which are designed to optimise Aareal Bank AG'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. 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. Any detected weaknesses regarding the identification, evaluation and reduction of risks are reported and addressed within the context of specific action plans.

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 established by the bank. The audit activities of Internal Audit comprise all of the bank'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 AG, 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 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 AG'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 single-entity and consolidated 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 AG 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.

Activities required within the scope of preparing the financial statements are defined by internal accounting instructions. Aareal Bank AG's voucher documentation rules set out the rules governing accounting vouchers for all of the bank's posting entities. Legal requirements and the relevant accounting standards are set out in detail in the accounting instructions, and by reference to the plan of accounts. The Finance division regularly reviews these documents, and updates them if necessary. Measurement within Aareal Bank AG 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. Where valuation units (Bewertungseinheiten) are used for measurement purposes, defined criteria are reviewed on a regular basis. For further information on measurement, please refer to the relevant notes to the financial statements.

Moreover, 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 accounting IT systems for material transactions, this has been integrated and documented in the manual process workflows.

Adherence of 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 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. Reconciliation of balances and positions with clients and counterparties is carried out in line with existing regulations. Control processes in accordance with MaRisk have been implemented for credit risk provisioning. Reconciliations take place between the main ledger and upstream position-management systems, as well as on the level of individual accounts. Adequate control processes have been implemented for both manual and automated accounting transactions. Additional control processes are in place to ascertain the complete recording of all transactions in the bank's accounting systems.

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 AG uses both standard and customised software. The bank'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 any unauthorised access. Authorisations are allocated to responsible employees, reviewed regularly, and adjusted if necessary in accordance with internal criteria.

Aareal Bank AG 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 bank's organisational structure, to the business model, or new legal requirements.

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

Report on expected developments

Macro-economic environment

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

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

Economy

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

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

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

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

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

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

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

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

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

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

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

Financial and capital markets, monetary policy and inflation

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

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

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

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

Regulatory and competition environment

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

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

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

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

Segments and business developments

Structured Property Financing segment

The development of rents and property values on the commercial property markets will be extensively influenced by future economic trends, such as economic performance and labour market developments.[5)] Considering the clearly more pessimistic economic outlook and the prevailing high tensions on the financial and capital markets, we expect lower to almost stable property values on average in the majority of countries during 2012. A slightly positive trend in values is expected in very few countries only. Likewise, we expect rent levels for new agreements and renewals to be lower on average. High unemployment in many countries also burdens rents and property values, whereas the forecast low interest rate environment is expected to support market values during 2012.

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

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

The burdens to commercial property markets described above might be mitigated to some extent by investors increasingly favouring commercial property as an investment alternative, against the background of discussions concerning the safety of government bonds of some countries and the low yields available on other government bond markets. Whilst this shift might support valuation levels, the extent to which this effect would actually materialise is difficult to assess. Given the weak economic outlook and the deteriorating sentiment, we expect property values to come under pressure on average during 2012, as well as lower transaction volumes being seen on the commercial property markets. Investors will focus on first-class properties in good locations, offering a solid rental situation. Rents and values for these properties will tend to suffer from less pressure compared to lower-quality properties or those in second-tier locations.

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

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

Especially in Europe, against the background of an economic outlook that has clearly deteriorated, average market values and rents are expected to be at best stable to lower during 2012, with developments in

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

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

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

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

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

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

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

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

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

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

Consulting/Services segment

Institutional Housing Unit

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

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

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

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

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

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

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

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

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

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

Aareon AG

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

A significant increase in sales revenues is expected for the Wodis Sigma product line over the next years. Since the market launch of Wodis Sigma Release 3.0 in December 2011, this ERP solution has also been available with a SaaS (software as a service) option, through the Aareon Cloud. Accordingly, Aareon anticipates a marked increase in the share of SaaS revenue for Wodis Sigma over the years to come.

Responding to strong demand for Wodis Sigma, Aareon already invested in advisory and support resources during the financial year under review. A high number of new clients, and those migrating from other Aareon solutions, is expected during the following years. For this reason, the Company plans to further increase its resources for advice and support – which will in turn increase consultancy revenues further.

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

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

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

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

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

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

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

Group targets

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

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

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

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

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

Thanks to our consistent conservative risk policy pursued during recent years, we currently do not anticipate any write-downs on non-trading assets during the years 2012 and 2013. Against the background of current market developments for European government bonds, shifts in our securities portfolio are possible, within the scope of active portfolio management. Moderate burdens to net income from non-trading assets from the sale of securities cannot be ruled out.

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

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

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

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

Corporate Governance Statement Pursuant to Section 289a of the HGB

The Corporate Governance Statement, including the Declaration of Compliance pursuant to section 161 of the AktG, disclosures regarding Corporate Governance standards, the description of work processes for the Management Board and the Supervisory Board, as well as Aareal Bank AG's Corporate Governance Report, are publicly available on the Company's website, at http://www.aareal-bank.com/investor-relations/corporate-governance/. Reference is made to the details disclosed there.

Principles of remuneration of members of the Management Board and the Supervisory Board

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

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

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

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

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

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

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

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

Disclosures in accordance with Section 289 (4) of the German Commercial Code (HGB)

Composition of subscribed capital

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

Restrictions affecting voting rights or the transfer of shares

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

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

71b of the AktG prohibits the exercise of rights vested in such shares. We are not aware of any other restrictions affecting voting rights or the transfer of shares.

Shareholdings exceeding 10 % of voting rights

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

Shares with special rights granting the holder supervisory powers

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

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

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

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

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

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

Authorisation of the Management Board to issue or repurchase shares

Authorised capital

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

General Meeting on 19 May 2010, under convertible bonds and/or bonds with warrants issued excluding the pre-emptive rights of shareholders.

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

Conditional capital

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

Authorisation to purchase treasury shares

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

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

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

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

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

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

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

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

Annual financial statements

Income statement of Aareal Bank AG for the period from 1 January to 31 December 2011

€ mn			2011	2010
Expenses				
Interest expenses			**1,179.0**	1,101.7
Commission expenses			**34.8**	46.8
Net expense from the trading portfolio			**-**	0.1
General administrative expenses				
a) Staff costs				
aa) Wages and salaries	113.9			
ab) Social security contributions, pensions and other employee benefits	19.1	133.0		
including: for pensions 7.7				
b) Other administrative expenses		103.4	**236.4**	225.8
Amortisation, depreciation and write-downs of intangible and tangible fixed assets			**3.8**	4.0
Other operating expenses			**35.2**	27.5
Write-downs and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions			**239.2**	172.2
Amortisation and write-downs on participations, interests in affiliated companies, and investment securities			**27.7**	34.0
Expenses for assumption of losses			**1.0**	20.1
Additions to the fund for general banking risks			**-**	15.6
Extraordinary expenses			**-**	40.9
Net income taxes			**24.8**	3.4
Other taxes not reported under other operating expenses			**0.4**	0.0
Net income			**20.0**	0.4
Total expenses			**1,802.3**	**1,692.5**
Net income / net loss			**20.0**	0.4
Profit carried forward from the previous year			**-**	-
Withdrawals from retained earnings				
from the reserves for treasury shares			**-**	-
from other retained earnings			**-**	-
Transfer to retained earnings				
to the reserve for treasury shares			**-**	-
to other retained earnings			**10.0**	-
Net retained profit			**10.0**	**0.4**

€ mn		2011	2010
Income			
Interest income from			
a) Lending and money market transactions	1.221,3		
b) Fixed-income securities and debt register claims	447,3	**1.668,6**	1.541,8
Current income from			
a) Equities and other non-fixed-income securities	6,1		
b) Participating interests	0,0		
c) Interests in affiliated companies	3,9	**10,0**	20,2
Income from profit pools, profit transfer agreements and partial profit transfer agreements		**28,3**	21,3
Commission income		**77,7**	66,3
Other operating income		**17,7**	24,1
Extraordinary income		**-**	18,8
Total income		**1.802,3**	**1.692,5**

Balance Sheet of Aareal Bank AG as at 31 December 2011

€ mn			2011	2010
Assets				
Cash funds				
a) Cash on hand		0.0		
b) Balances with central banks		588.2	**588.2**	922.5
including: with Deutsche Bundesbank 542.1				
Loans and advances to banks				
a) Payable on demand		2,271.2		
b) Other loans and advances		655.4	**2,926.6**	2,360.4
Loans and advances to customers			**25,357.5**	24,534.5
including: secured by charges on real property 11,934.8				
Loans to local authorities 1,341.4				
Debt and other fixed-income securities				
a) Money market instruments		--		
b) Bonds and notes				
ba) Public-sector issuers	5,475.5			
including: securities eligible as collateral with Deutsche Bundesbank 5,054.0				
bb) Other issuers	3,609.9	9,085.4		
including: securities eligible as collateral with Deutsche Bundesbank 3,284.6				
c) Own bonds		1,942.5	**11,027.9**	15,230.0
Nominal amount 1,937.6				
Equities and other non-fixed income securities			**464.6**	475.5
Participating interests			**2.2**	3.1
including: interests in banks 0.8				
Interests in financial services providers -				
Interests in affiliated companies			**589.6**	514.7
including: interests in banks 1.8				
Interests in financial services providers -				
Trust assets			**126.3**	541.4
including: Trustee loans 124.8				
Intangible assets				
a) Internally generated industrial property rights and similar rights and assets		--		
b) Purchased concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets		2.7		
c) Goodwill		0.4		
d) Advance payments made		--	**3.1**	3.4
Tangible fixed assets			**9.6**	7.3
Other assets			**52.0**	64.9
Prepaid expenses			**107.1**	135.0
Deferred tax assets			**75.9**	76.3
Total assets			**41,330.6**	**44,869.0**

€ mn			2011	2010
Equity and liabilities				
Liabilities to banks				
a) Payable on demand		730.8		
b) With an agreed maturity or notice period		2,361.2	**3,092.0**	5,421.9
Liabilities to customers				
a) Savings deposits				
aa) With an agreed notice period of three months	0.0			
ab) With an agreed notice period of more than three months	0.0	0.0		
b) Other liabilities				
ba) Payable on demand	4,029.2			
bb) With an agreed maturity or notice period	20,289.2	24,318.4	**24,318.4**	22,803.6
Certificated liabilities				
a) Bonds issued		9,384.8		
b) Other certificated liabilities		--	**9,384.8**	11,977.0
Trust liabilities			**126.3**	541.4
including: Trustee loans 124.8				
Other liabilities			**589.6**	405.9
Deferred income			**97.2**	115.2
Deferred tax liabilities			**32.6**	39.5
Provisions				
a) Provisions for pensions and similar obligations		83.1		
b) Tax provisions		14.8		
c) Other provisions		124.5	**222.4**	241.3
Subordinated liabilities			**712.4**	782.6
including: maturing within two years 154.3				
Profit-participation certificates			**450.0**	450.3
including: maturing within two years 225.0				
Fund for general banking risks			**167.6**	167.6
Equity				
a) Subscribed capital		179.6		
Contributions by silent partners		520.2		
b) Capital reserve		727.8		
c) Retained earnings				
ca) Legal reserve	4.5			
cb) Reserve for treasury shares	--			
cc) Statutory reserves	--			
cd) Other retained earnings	695.2	699.7		
d) Net retained profit		10.0	**2,137.3**	1,922.7
Total equity and liabilities			**41,330.6**	**44,869.0**
Contingent liabilities				
a) Contingent liabilities from discounted forwarded bills		--		
b) Liabilities from guarantees and indemnity agreements		686.9		
c) Liability from the pledging of collateral for third-party liabilities		--	**686.9**	646.5
Other commitments				
a) Repurchase obligations from securities repurchase agreements		--		
b) Placement and underwriting obligations		--		
c) Irrevocable loan commitments		1,618.3	**1,618.3**	1,793.7

Notes

Basis of accounting

The financial statements of Aareal Bank AG for the financial year 2011 were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – ”HGB”) and the supplementary regulations of the German Public Limited Companies Act (Aktiengesetz – ”AktG”) and the German Accounting Directive for Banks and Financial Services Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – ”RechKredV”).

Accounting and valuation principles

Loans and advances

Loans and advances to banks and customers are carried at amortised cost, including deferred interest. Premiums and discounts are shown under deferred items, in accordance with section 340e (2) of the HGB. Credit risks are accounted for by setting aside provisions in the amount of the expected loss, using prudent estimates.

Portfolio-based valuation allowances are recognised for risks which have already materialised, but which cannot yet be allocated to individual loans and advances due to lack of knowledge. For this purpose, groups of financial assets with comparable default risk profiles are combined in portfolios and reviewed for impairment. The valuation allowances are calculated using a formula-based procedure based on the following Basel II parameters used in the advanced IRB Approach: expected loss given default (LGD) and probability of default (PD). The transition of the one-year probability of default, which represents the basis for the concept of expected loss pursuant to the German Solvency Regulation (Solvabilitätsverordnung), to the concept of incurred loss is made using the LIP (Loss Identification Period) factor. The LIP factor is a correction factor to adjust the one-year probability of default to the estimated time period, from the date the loss is incurred up to the identification of the actual loss.

Securities

Bonds and other fixed-income securities, as well as equities and other non-fixed income securities, are measured strictly at the lower of cost or market value, as prescribed for current assets, taking into account hedging instruments. Where the reasons for the write-down no longer apply, write-ups are made in accordance with section 253 (5) of the HGB. Investment securities are valued at the lower of cost or market. Differences between cost and amounts repayable are amortised in income on a pro-rata basis.

Participating interests, interests in affiliated companies, intangible assets and tangible assets

Participating interests, interests in affiliated companies and tangible assets as well as purchased intangible assets are stated at purchase or production costs, less depreciation/amortisation. Write-downs are required in the event of impairments in value deemed to be other than temporary.

Where the reasons for the write-down no longer apply, write-ups are recognised for participating interests, interests in affiliated companies, intangible assets and tangible assets in accordance with section 253 (5) of the HGB. Where land and buildings were acquired to salvage loans and have been in the possession of the bank for more than five years, these are reported under tangible fixed assets. Additions of low-value commercial goods ("geringwertige Wirtschaftsgüter") of not more than € 150 are fully written off in the year of acquisition, and accounted for as disposals. In addition, Aareal Bank AG made use of the simplification rule pursuant to section 6 (2a) of the German Income Tax Act (Einkommensteuergesetz - "EStG").

The option to disclose a net amount, pursuant to section 340c (2) of the HGB has been exercised. The relevant amount was reported in an expense or income line item.

Liabilities

Liabilities are shown on the balance sheet at the settlement amount. The difference between the settlement amount and the initial carrying amount of liabilities is recognised under deferred items, and amortised over the term of the liability.

Provisions

Provisions are recognised in the amount of the required settlement amount, as determined based on prudent commercial judgement. Pursuant to section 253 (2) sentence 1 of the HGB, provisions with a remaining term of more than one year have to be discounted using the average market interest rate of the past seven years applicable for their average remaining term. Provisions for pensions have to be recognised at the settlement amount, taking into account future wage, salary and pension trends. The amount recognised has to be discounted pursuant to the provisions set out in section 253 (2) of the HGB.

Provisions for pensions and similar obligations are determined in accordance with actuarial principles.

The values determined in the actuarial pension report are based on the following methods and assumptions:

	31 Dec 2011	31 Dec 2010
Actuarial method applied:	Projected unit credit method	Projected unit credit method
Fundamental assumptions for calculation:		
Discount rate in %	5.13	5.16
Expected wage and salary increases in %	2.25	2.25
Mortality tables used	"Richttafeln 2005G" mortality tables by Prof Dr Klaus Heubeck	"Richttafeln 2005G" mortality tables by Prof Dr Klaus Heubeck

Assets which are held exclusively for the purpose of fulfilling pension obligations are netted against provisions for pensions, within the framework of a Contractual Trust Agreement (CTA) where the trustee is acting on behalf of both parties (in the capacity of an administrative trustee and security trustee).

€ mn	31 Dec 2011	31 Dec 2010
Pension obligation	120.1	111.7
Fair value of plan assets	37.0	30.5
Cost of plan assets	36.0	29.8
Provisions for pensions and similar obligations	**83.1**	**81.2**

The plan assets comprise the following items, all of which are exclusively reserved to meet Aareal Bank AG's pension obligations vis-à-vis its active and retired employees in Germany.

€ mn	31 Dec 2011	31 Dec 2010
Fund units	9.0	13.8
Bonds	10.3	2.9
Reinsurance cover	17.7	13.8
Fair value of plan assets	**37.0**	**30.5**

The following table shows the income and expenses in relation to pension obligations and the associated plan assets that were offset and recognised in the income statement of the reporting year.

€ mn	31 Dec 2011	31 Dec 2010
Interest cost on pension obligations	4.6	3.6
Income from plan assets	0.4	1.1
Net interest cost (-)	**4.2**	**2.5**

Provisions for taxes and other provisions have been set aside for existing legal or constructive obligations in the settlement amount, as required by prudent commercial judgement. Pursuant to section 253 (2) sentence 1 of the HGB, provisions with a remaining term of more than one year have to be discounted using the average market interest rate of the past seven years applicable for their average remaining term.

Currency translation

The bank has classified all foreign exchange transactions as ”specific cover” in accordance with section 340h of the HGB. Hence, income and expenses from currency translation were recognised in the income statement.

The bank decomposes foreign exchange forward transactions into an agreed spot base and the swap rate, recognising a deferred liability (reported under other liabilities) equivalent to the net aggregate difference between the spot base and the exchange rates prevailing on the reporting date. Forward premiums or discounts are amortised in net interest income over the term of the transaction.

Currency translation income and expenses are reported in net other operating income/expense.

Trading portfolio

There were no financial instruments of the trading portfolio as at the balance sheet date.

Hedging relationships

The bank establishes hedging relationships within the meaning of section 254 of the HGB. Accordingly, fixed-income securities of the liquidity reserve in the amount of € 3,057.8 million are hedged against changes in value attributable to interest rate risk, on the basis of so-called "micro hedges". In this context, the underlying transaction and the hedge generally are acquired within the framework of so-called "asset swap packages", i.e. they are so-called "perfect hedges" where all value-affecting factors between the hedged portion of the underlying transaction substantially correspond to the hedging portion of the hedge. The prospective effectiveness of the hedging relationship, which refers to the period until the security's final maturity, is proven, based on the so-called "critical terms match method". Regression and correlation coefficients are used as criteria to measure retrospective effectiveness.

This is presented in the financial statements using the so-called "net hedge presentation method" (Einfrierungsmethode). Under this method, the cumulative changes in the value of the underlying transaction is determined on the basis of the hedged risk, and compared to the changes in the value of the hedge. Any previously existing ineffectiveness based on the hedged risk is reflected in a provision for hedging relationships. The changes in value attributable to the hedged risk are reflected on a portfolio basis, in the form of a write-down on the security concerned.

The bank continues to establish hedging relationships between repurchased own bonds in an amount of € 1,934.2 million and the corresponding securitised liabilities.

Measurement convention

In addition, Aareal Bank AG recognises derivative financial instruments of the banking book (non-trading book) for the purpose of controlling various risks as part of overall management of the bank. In accordance with HGB, these instruments represent "pending transactions" which are not recognised in the balance sheet. They form a "hedging relationship", together with the recognised assets and liabilities. No provision for anticipated losses had been recognised as at the balance sheet date. The present value of the banking book is positive as at 31 December 2011.

Derivatives

Derivative financial instruments are considered pending transactions, and are therefore generally not recorded in the balance sheet.

Exchange-traded derivatives are included at their quoted market price. The market price 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. The fair value of foreign exchange forwards is generally based on current forward exchange rates.

Acquired as well as issued structured products were accounted for as groups of uniform assets and liabilities in accordance with IDW RS HFA 22.

Structured products subject to different types of risks or rewards are accounted for separately as individual receivables or liabilities.

Notes to the Income Statement

Income by geographical segment

The aggregate of (i) interest income, (ii) current income on equities and other non-fixed income securities, and on participating interests and interests in affiliated companies, (iii) commission income and (iv) other operating income is broken down by the following regions, in accordance with section 34 of the RechKredV.

€ mn	2011	2010
Germany	1.590,5	1.446,7
Europe / America / Asia	183,5	205,7
Total	**1.774,0**	**1.652,4**

Administration and intermediation services rendered to third parties

The following administration and intermediation services were rendered to third parties: Administration and intermediation of loans and trust assets.

Other operating income and expenses

Other operating income totals € 17.7 million (2010: € 24.1 million) and comprises income from the reversal of provisions in the amount of € 8.4 million as well as income under agency contracts for other Group subsidiaries in the amount of € 2.2 million.

Other operating expenses total € 35.2 million (2010: € 27.5 million) and include, among other items, expenses in connection with the capital increase implemented in 2011 in the amount of € 11.5 million as well as expenses for subsidiaries in the amount of € 9.8 million, of which € 4.0 million are attributable to agency contracts for other Group companies. In addition, other operating expenses include the result from currency translation of € -4.7 million and expenses from the unwinding of the discount of provisions in the amount of € 5.8 million.

Extraordinary income and expenses

Extraordinary income amounted to € 0 million (2010: € 18.8 million). The previous year's figure included gains arising from the merger of Aareal Bank France S.A. into Aareal Bank AG. In addition, extraordinary income for the previous year comprised income from the first-time application of the German Accounting Law Modernisation Act (BilMoG).

Extraordinary income amounted to € 0 million (2010: € 40.9 million). The previous year's figure included expenses from the first-time application of the BilMoG.

Net income taxes

The net income tax position amounts to € 24.8 million (2010: € 3.4 million) in expenses, of which € 24.0 million in current taxes is payable in Germany: this figure comprises € 18.7 million in corporation tax and € 8.7 million in trade tax payable for the current year, as well as € 3.4 million in tax refunds for previous years. Current tax expenses also include € 4.7 million in expenses for the reversal of deferred tax assets and € 3.9 million in income from the bank's foreign branch offices.

The tax reconciliation is used to determine why the reported tax expense (current taxes and deferred taxes) differs from the expense derived from the calculation using a flat tax rate. This was based on an expected tax rate of 31.2 %, which represents the current tax rate in Germany (trade tax rate of 15.4 %, corporation tax rate of 15 % and solidarity surcharge of 0.8 %).

€ mn	31 Dec 2011	31 Dec 2010
Income before income taxes	44.8	3.8
Expected income tax expenses; tax rate: 31.2% (unchanged yoy)	14.0	1.2
Reconciliation		
Different foreign tax burden	13.3	6.5
Tax attributable to tax-exempt income	-11.9	-24.2
Tax attributable to non-deductible expenses	14.2	22.7
Remeasurement of deferred taxes	0.0	0.0
Prior-period actual taxes	-4.9	-1.9
Effect of changes in tax rates	0.0	-0.9
Other tax effects	0.1	0.0
Reported income tax expenses	24.8	3.4
Effective tax rate (%)	55.4	89,64

Prohibition of distribution

A total amount of € 44.4 million in profits is subject to a prohibition of distribution, pursuant to section 268 (8) of the HGB, of which € 43.4 million is attributable to the balance resulting from recognised deferred tax assets and recognised deferred tax liabilities. A prohibition of distribution applies to a net amount of € 1.0 million (after fair-value netting of assets), pursuant to section 246 (2) sentence 2 of the HGB.

Notes to the Balance Sheet

Securities negotiable at a stock exchange

Analysis of securities negotiable at a stock exchange in the balance sheet line items shown below (excluding pro-rata interest):

€ mn	Listed 31 Dec 2011	Unlisted 31 Dec 2011
Debt and other fixed-income securities	10,699.8	126.7
Equities and other non-fixed income securities	0.8	3.1
Participating interests	-	-
Interests in affiliated companies	-	-

Hedging relationships as defined by section 254 of the HGB have been created with respect to negotiable securities in an aggregate amount of € 4,915.4 million (2010: € 7,515.85 million).

Bonds and notes of € 11,027.9 million (2010: € 15,230.0 million) (including accrued interest) reported under debt and other fixed-income securities include € 746.8 million (2010: € 671.7 million) in securities which are not eligible as collateral with Deutsche Bundesbank. Of that amount, € 371.3 million (2010: € 345.76 million) relate to sovereign foreign-currency bonds, which are eligible for securities lending.

Bonds of selected European countries

The following table is an overview of the bonds issued by public-sector entities and bank bonds of selected European countries, included in the item "debt securities and other fixed-income securities":

Bond values as at 31 Dec 2011

€ mn		Greece	Italy	Ireland	Portugal	Spain	Hungary	Total
Bonds issued by public-sector entities (liquidity reserve)*								
	amount		360			25		**385**
	value		279			26		**305**
	Fair value		312			27		**339**
Bonds issued by public-sector entities (securities held as fixed assets) *								
	amount		839		155	312		**1,306**
	value		860		156	314		**1,330**
	Fair value		687		93	268		**1,048**
Covered bank bonds (liquidity reserve)								
	amount		70		60	100		**230**
	value		62		37	97		**196**
	Fair value		63		42	100		**205**
Covered bank bonds issued by public-sector entities (securities held as fixed assets) *								
	amount					516		**516**
	value					531		**531**
	Fair value					506		**506**
Senior unsecured bank bonds (liquidity reserve)								
	amount		13					**13**
	value		12					**12**
	Fair value		13					**13**
Senior unsecured bank bonds (securities held as fixed assets) *								
	amount		23					**23**
	value		23					**23**
	Fair value		23					**23**
Total	**Nominal amount**		**1,305**		**215**	**953**		**2,473**

* All bonds issued by public-sector debtors, including government-guaranteed bonds.

Bond values as at 31 Dec 2010

€ mn		Greece	Italy	Ireland	Portugal	Spain	Hungary	Total
Bonds issued by public-sector entities (liquidity reserve)*								
	amount		410					**410**
	value		397					**397**
	Fair value		407					**407**
Bonds issued by public-sector entities (securities held as fixed assets) *								
	amount		914		155	537	99	**1,705**
	value		936		156	536	93	**1,721**
	Fair value		913		136	487	93	**1,629**
Covered bank bonds (liquidity reserve)								
	amount		70		60	70		**200**
	value		70		47	67	-	**184**
	Fair value		67		47	68	-	**182**
Covered bank bonds issued by public-sector entities (securities held as fixed assets) *								
	amount					566		**566**
	value					584		**584**
	Fair value					556		**556**
Senior unsecured bank bonds (liquidity reserve)								
	amount		13	12				**25**
	value		12	10				**22**
	Fair value		12	10				**22**
Senior unsecured bank bonds (securities held as fixed assets) *								
	amount		23					**23**
	value		23					**23**
	Fair value		24					**24**
Total	**Nominal amount**		**1,430**	**12**	**215**	**1,173**	**99**	**2,929**

* All bonds issued by public-sector debtors, including government-guaranteed bonds.

Investment fund units

€ mn	Book value 31 Dec 2011	Market value 31 Dec 2011	Book value 31 Dec 2010	Market value 31 Dec 2010
AllianzGI MMS I-Globalfonds	327.0	327.2	327.0	331.0
DBB INKA	92.9	92.9	92.0	92.0
Arsago Multistrategie	40.7	41.3	41.0	41.0
As at 31 Dec 2011	**460.6**	**461.4**	**460.0**	**464.0**

AllianzGI MMS-Globalfonds and DBB INKA are investment funds under German law (Sondervermögen) which invest in assets permitted under the German Investment Act (Investmentgesetz - "InvG"), observing the principle of risk diversification. The Arsago Multistrategie fund is a multi-strategy hedge fund which uses derivative instruments to gain exposure to various interest rate, currency and macro strategies.

Daily fund unit redemption is subject to certain restrictions. The value of investment fund units as defined by section 36 of the InvG is € 461.0 million. Distributions made by AllianzGI MMS Globalfonds amounted to € 6.0 million during the financial year.

Subordinated assets

The following items comprise subordinated assets in the amount shown (excluding pro-rata interest):

€ mn	31 Dec 2011	31 Dec 2010
Loans and advances to banks	-	-
Loans and advances to customers	17.6	18.5
Debt and other fixed-income securities	-	-
Equities and other non-fixed income securities	0.8	0.8
Other assets	-	-

Movements in fixed assets:

The changes in fixed assets are presented in the fixed assets development schedule shown below.

The values shown for debt and other fixed-income securities include additions and disposals, as well as changes in inventory due to the amortisation of premiums and discounts (excluding accrued interest).

As at 31 December 2011, the securities held as fixed assets include an ABS portfolio of high credit quality, bonds of North American financial institutions as well as securities issued by Eastern and Southern European debtors. Securities with a nominal amount of € 5,864.7 million were not measured at the lower of cost or market. An analysis of cost vs. market value as at 31 December 2011 did not indicate any temporary impairment. The difference between market value and book value (incl. effects from the related derivatives) amounted to € 859.7 million.

€ mn	Debt and other fixed-income securities (Assets – item #5)	Participating interests (Assets – item #7)	Interests in affiliated companies (Assets – item #8)	Intangible assets (Assets – item #11)	Tangible assets: Office furniture and equipment (Assets – item #12)	Tangible assets: Land and buildings (Assets – item #12)
Cost						
Balance as at 1 Jan 2011	7,114.3	3.3	587.9	37.1	30.0	0.1
Additions	0.0	0.1	86.7	1.5	4.5	0.0
Disposals	1,278.0	1.0	2.2	0.0	2.2	0.0
Changes in inventory / transfers	0.0	0.0	0.0	0.0	0.0	0.0
Balance as at 31 Dec 2011	**5,836.3**	**2.4**	**672.4**	**38.6**	**32.3**	**0.1**
Depreciation, amortisation and write-downs						
Balance as at 1 Jan 2011	**0.0**	**0.2**	**73.2**	**33.7**	**22.8**	0.0
Depreciation and amortisation	0.0	0.0	9.8	1.8	2.0	0.0
Write-downs	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	2.0	0.0
Transfers	0.0	0.0	0.0	0.0	0.0	0.0
Write-ups	0.0	0.0	0.2	0.0	0.0	0.0
Balance as at 31 Dec 2011	**0.0**	**0.2**	**82.8**	**35.5**	**22.8**	**0.0**
Book value as at 31 Dec 2011	**5,836.3**	**2.2**	**589.6**	**3.1**	**9.5**	**0.1**
Book value as at 31 Dec 2010	7,114.3	3.1	514.7	3.4	7.2	0.1

€ mn	Book value 31 Dec 2011	Book value 31 Dec 2010
Participating interests	2.2	3.1
Interests in affiliated companies	589.6	514.7
Debt and other fixed-income securities	5,836.3	7,114.3

The option to aggregate non-trading assets, pursuant to section 34 (3) of the RechKredV, has been exercised.

The bank has rented the majority of business land and buildings used for its business operations from one of its subsidiaries.

As part of the transfer of some of the business activities from DEPFA Deutsche Pfandbrief Bank AG to Aareal Bank AG, goodwill has been capitalised and will be amortised over the associated useful life of ten years.

Any other goodwill reported under intangible assets will be amortised over the expected useful life of five years.

Other assets

Other assets include, in particular, receivables from profit and loss transfer agreements as well as € 32.5 million in receivables from profit distributions and € 16.9 million in tax receivables.

In the previous year, other assets included, in particular, € 27.3 million in tax receivables and € 25.2 million in receivables from profit and loss transfer agreements.

Deferred taxes

As at December 31, 2011, € 75.9 million (2010: € 76.3 million) in deferred tax assets and € 32.6 million (2010: € 39.5 million) in deferred tax liabilities were reported. Deferred taxes are recorded in the amount of the assumed tax burden or relief in coming financial years based on the respective future local tax rates for 2011.

Apart from loss carryforwards in the amount of € 7.5 million (2010: € 19.1 million), deferred tax assets were also recognised for valuation differences for debt and fixed-income securities compared to their tax base, provisions for impending losses from executory contracts, as required under German commercial law, on flat-rate specific provisions for loans and advances to customers, as well as on provisions for pensions.

Deferred tax liabilities were recognised primarily for flat-rate specific provisions on receivables of the permanent establishment in Rome as well as for off-balance sheet corrections related to earnings from special funds.

Other liabilities

Other liabilities include, in particular, € 511.1 million in liabilities recognised from currency translation, and € 37.4 million in interest liabilities on silent participations .

In the previous year, other liabilities included, in particular, € 299.1 million in liabilities recognised from currency translation, and € 48.1 million in interest liabilities on silent participations.

Subordinated liabilities

Subordinated funds raised in accordance with section 10 (5a) of the KWG do not provide for any early repayment obligation for Aareal Bank AG. In the event of liquidation or insolvency, claims on interest and principal from these liabilities are subordinated to the claims of all other creditors of Aareal Bank AG, which are not themselves subordinated. This also applies to those subordinated funds raised that are not specified in detail.

Total interest expenses for subordinated liabilities of € 42.5 million include € 10.7 million in deferred interest not yet due.

Aareal Bank AG has € 250.0 million in subordinated equity from Aareal Capital Funding LLC, Delaware, USA, at its disposal. The amount exceeds 10 % of the aggregate nominal value of all subordinated liabilities; this bears an interest of 7.135 %. These subordinated funds are due for repayment on 31 December 2026. The bank has had a right to terminate, on a quarterly basis, since 31 December 2006; the creditors do not have any early termination rights.

Profit-participation certificates

The terms and conditions of the profit-participation certificates issued comply with the requirements of section 10 (5) of the KWG. It comprises the following profit-participation certificates issued by Aareal Bank AG:

€ mn	Nominal amount	Issue currency	Interest rate	Maturity
Bearer profit-participation certificates:	125.0	EUR	6.750	2002 - 2011
	100.0	EUR	6.375	2002 - 2011
	60.0	EUR	6.125	2003 - 2013
	285.0			
Registered profit participation certificates:	5.0	EUR	7.010	2002 - 2012
	10.0	EUR	7.010	2002 - 2012
	5.0	EUR	7.010	2002 - 2012
	10.0	EUR	7.010	2002 - 2012
	5.0	EUR	7.100	2002 - 2012
	10.0	EUR	7.150	2002 - 2012
	5.0	EUR	7.030	2002 - 2012
	5.0	EUR	7.220	2002 - 2016
	5.0	EUR	7.220	2002 - 2016
	5.0	EUR	6.080	2003 - 2013
	20.0	EUR	6.120	2003 - 2013
	5.0	EUR	6.310	2003 - 2017
	10.0	EUR	5.750	2004 - 2014
	2.0	EUR	5.470	2004 - 2014
	5.0	EUR	5.480	2004 - 2014
	5.0	EUR	5.380	2004 - 2016
	20.0	EUR	5.950	2004 - 2016
	6.0	EUR	5.830	2005 - 2017
	138.0			

Pursuant to the terms and conditions of issue, holders of profit-participation certificates have a claim on interest payments which takes precedence over the profit entitlements of shareholders. To the extent that a distribution would cause a net loss, said interest claim would be reduced, possibly down to zero, creating a claim for backpayment during the term of the certificates at the same time.

Repayment takes place at the nominal amount (subject to any loss sharing), after the Annual General Meeting passing resolutions regarding the relevant financial year.

€ 27.3 million in interest expenses were incurred in 2011 with respect to profit-participation certificates issued.

The profit-participation certificates evidence creditors' rights; they do not grant any share in the liquidation proceeds.

Profit-participation certificates meet the requirements for liable equity capital pursuant to section 10 (5) of the KWG.

Purchase of treasury shares

The Company has been 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 has been authorised by the same Annual General Meeting in accordance with section 71 (1) no 8 of the AktG to purchase own shares not exceeding 10 % of the bank's share capital for other purposes than securities trading until 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 bank's shares in Xetra (or a comparable successor system) during the three trading days prior to the purchase or the public announcement of the purchase offer by more than ten per cent (10 %).

Said authorities were not utilised. No treasury shares were held at the end of the year under review.

Development of shareholders' equity reported on the balance sheet

€ mn	Subscribed capital	Capital reserves	Retained earnings: Legal reserve	Retained earnings: Other retained earnings	Net retained profit	Equity
Balance as at 1 Jan 2011	**723.5**	**509.5**	**4.5**	**684.8**	**0.4**	**1,922.7**
Capital increase	51.3	218.3	-	-	-	269.6
(of which: contributions by silent partners)	(595.2)	-	-	-	-	(595.2)
Transfer from net retained profit 2010	-	-	-	0.4	-0.4	-
Transfer from net income 2011	-	-	-	10.0	10.0	20.0
Partial repayment to SoFFin	-75.0	-	-	-	-	-75.0
Balance as at 31 Dec 2011	**699.8**	**727.8**	**4.5**	**695.2**	**10.0**	**2,137.3**
(of which: contributions by silent partners)	(520.2)	-	-	-	-	(520.2)

Subscribed capital amounts to € 179.6 million (2010: € 128.3 million) and is divided into 59,857,221 (2010: 42,755,159) bearer shares with a proportionate share in the nominal share capital of € 3.00 per share.

On 14 April 2011, the Management Board of Aareal Bank AG resolved, with the approval of the Supervisory Board, to increase the Company's share capital in a rights issue against cash contributions. 17,102,062 new ordinary bearer shares with a proportionate share in the nominal share capital of € 3.00 per share were issued. As a result, the Company's share capital increased from € 128.3 million to € 179.6 million. Gross issue proceeds amounted to € 269.6 million.

On 31 March 2009, the German Financial Markets Stabilisation Fund (SoFFin) provided a € 525.0 million silent participation to Aareal Bank AG, agreed upon as part of the package of support measures on 15 February 2009. This perpetual silent participation bears interest at 9% p.a. On 16 July 2010, Aareal Bank AG repaid a first tranche of € 150.0 million of the € 525.0 million silent participation provided by the German Financial Markets Stabilisation Fund (SoFFin). On 28 April 2011, Aareal Bank AG made a second partial repayment, in the amount of € 75 million.

Aareal Bank has opted to determine regulatory indicators at Group level only from 2007 onwards; as a result of this waiver, regulatory details no longer need to be disclosed at a single-entity level.

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 % of the registered share capital at the time said authorisation comes into effect or is exercised. This limit also includes shares that are issued based on the authorisation passed by the General Meeting on 19 May 2010 as a result of convertible bonds and/or bonds with warrants issued subject to exclusion of shareholders' pre-emptive rights.

On 14 April 2011, the Management Board resolved, with the approval of the Supervisory Board granted on the same date, to exercise this authorisation and to increase the Company's share capital from € 128,265,477 by € 51,306,186 to € 179,571,663 against cash contributions through the issuance of 17,102,062 new ordinary bearer shares with a proportionate share in the nominal share capital of € 3.00 per share at an issue price of € 3.00 per share. The Company's shareholders entitled were granted indirect subscription rights. After this increase, the remaining authorised capital amounts to € 12,826,314.

Conditional capital

The share capital is subject to a conditional capital increase of up to € 30 million by means of issuing up to ten million new no-par value bearer shares, with a share in the Company’s share capital of € 3.00 each. Such conditional capital increase serves to enable the company to service convertible bonds and/or bonds with warrants on the basis of the authorisation resolution of the Annual General Meeting held on 19 May 2010. Said resolution authorised the Management Board, subject to the consent of the Supervisory Board, to issue, on one or more occasions until 18 May 2015, convertible bonds and/or bonds cum warrants with a limited or an unlimited term in an aggregate nominal amount of € 600 million and to grant option and/or conversion rights to bearers or holders of bonds with regard to no-par value bearer shares of the Company, equivalent to a share in the share capital of up to € 30 million.

The bonds may be issued in euro as well as in any other currency – with the corresponding equivalent value – which is the legal tender of, for example, an OECD member state. They may also be issued via an indirect or a direct subsidiary of the Company; in this case, the Management Board is authorised, subject to the consent of the Supervisory Board, to issue a guarantee with regard to the bonds on behalf of the Company and to grant to the bondholders conversion or option rights to 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. Neither said authorisation nor conditional capital were exercised or utilised in the year under review.

Contingent liabilities and other commitments

Contingent liabilities as at 31 December 2011 include € 53.9 million (2010: € 62.8 million) in maximum default guarantees extended 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 pbb Deutsche Pfandbriefbank AG.

Liabilities did not have to be recognised for obligations from indemnity agreements vis-à-vis third parties and other obligations, which were entered into in favour of affiliated companies, as the underlying liabilities are likely to be fulfilled by the affiliated companies. Therefore, we do not expect any utilisation in this regard.

Irrevocable loan commitments are made up of credit and loan commitments. Of the total amount, € 87.3 million (2010: € 79.2 million) relates to domestic borrowers and € 1,531.0 million (2010: € 1,714.5 million) to foreign borrowers.

Unrecognised transactions (section 285 no. 3 of the HGB, as amended)

Leasing: Aareal Bank AG is the lessee mainly of operating leases. Rental and lease contracts relate to the buildings of the bank's head office in Wiesbaden used for the bank's operations and of the foreign branch offices and representative offices as well as to the vehicle fleet and certain operating and office equipment. In all cases, the contracts are so-called operating leases which are not recognised in the financial statements of the bank. The key benefit of such contracts is a lower amount of capital lock-up compared to an acquisition and the elimination of the realisation risk. At the moment, there are no indications that risks may result from the lease term.

Disclosures on repurchase agreements and derivatives are presented in the following section of the notes.

Remaining terms

€ mn	31 Dec 2011	31 Dec 2010
Loans and advances to banks	**2,926.6**	**2,360.4**
Payable on demand	2,271.2	834.0
Up to 3 months	-	818.4
Between 3 months and 1 year	27.9	30.3
Between 1 year and 5 years	96.5	59.4
More than 5 years	33.3	132.1
Pro rata interest	497.7	486.2
Loans and advances to customers	**25,357.5**	**24,534.5**
Up to 3 months	1,141.2	2,098.7
Between 3 months and 1 year	3,165.3	2,949.4
Between 1 year and 5 years	15,381.1	13,825.5
More than 5 years	5,524.8	5,511.6
Indefinite maturity	-	-
Pro rata interest	145.1	149.3
Debt and other fixed-income securities maturing in the following year (nominal amount)	**487.4**	**789.3**
Liabilities to banks	**3,092.0**	**5,421.9**
Payable on demand	730.8	588.1
Up to 3 months	1,086.1	1,331.2
Between 3 months and 1 year	334.5	2,416.9
Between 1 year and 5 years	314.5	462.2
More than 5 years	284.0	275.9
Pro rata interest	342.1	347.6
Savings deposits with agreed notice period	**0.0**	**0.0**
Up to 3 months	0.0	0.0
Between 3 months and 1 year	0.0	0.0
Between 1 year and 5 years	0.0	0.0
Pro rata interest	0.0	0.0
Other deposits from customers	**24,318.4**	**22,803.6**
Payable on demand	4,029.2	3,870.6
Up to 3 months	4,172.7	2,732.8
Between 3 months and 1 year	2,198.5	2,234.0
Between 1 year and 5 years	4,312.2	4,169.5
More than 5 years	9,263.0	9,486.5
Pro rata interest	342.8	310.2
Bonds issued maturing in the following year (nominal amount)	**2,911.0**	**2,025.4**
Other certificated liabilities	**0.0**	**0.0**

Deferred items

Prepaid expenses and deferred income primarily include upfront payments as well as any premiums and discounts on registered bonds, claims under promissory note loans and other loans that have been amortised over the relevant terms.

Prepaid expenses in the amount of € 107.1 million (2010: € 135.0 million) include € 3.4 million (2010: € 4.7 million) in premiums on originated loans, in accordance with section 340e (2) sentence 3 of the HGB, as well as € 33.0 million (2010: € 40.1 million) in discounts on bonds issued and borrowings pursuant to section 250 (3) of the HGB as well as € 68.9 million (2010: € 89.1 million) from upfront payments/option premiums in connection with derivatives.

€ 7.8 million (2010: € 5.5 million) of deferred income (total 2011: € 97.2 million; total 2010: € 115.2 million) refers to discounts on originated loans, in accordance with section 340e (2) sentence 2 of the HGB, and to upfront payments/option premiums in connection with derivatives in the amount of € 87.3 million (2010: € 107.9 million).

Trust business

€ mn	Trust assets 31 Dec 2011
Loans and advances to banks	-
Loans and advances to customers	124.8
Equities and other non-fixed income securities	1.5
Total	**126.3**

€ mn	Trust liabilities 31 Dec 2011
Liabilities to banks	29.2
Liabilities to customers	97.1
Total	**126.3**

€ mn	Trust assets 31 Dec 2010
Loans and advances to banks	-
Loans and advances to customers	539.9
Equities and other non-fixed income securities	1.5
Total	**541.4**

€ mn	Trust liabilities 31 Dec 2010
Liabilities to banks	415.4
Liabilities to customers	126.0
Total	**541.4**

Notes on affiliated companies and enterprises with a participatory interest

	Affiliated companies 2011		Enterprises with a participatory interest 2011		Affiliated companies 2010		Enterprises with a participatory interest 2010	
€ mn	Certificated	Not certificated	Certificated	Not certificated	Certificated	Not certificated	Certificated	Not certificated
Loans and advances to banks	-	-	-	-	-	-	-	-
Loans and advances to customers	-	1,994.9	-	-	-	1,848.7	-	-
Debt and other fixed-income securities	-	0.0	-	-	-	-	-	-
Liabilities to banks	-	0.0	-	-	-	-	-	-
Liabilities to customers	-	343.7	-	0.7	-	341.2	-	1.0
Certificated liabilities	-	-	-	-	-	-	-	-
Subordinated liabilities	-	250.0	-	-	-	250.0	-	-

Shareholdings

As at 31 December 2011, Aareal Bank AG holds interests in the following companies within the meaning of section 271 (1) of the HGB. In contrast to the disclosure on the balance sheet, this list includes companies in which the bank holds an indirect interest (section 285 no. 11 of HGB).

No.	Company name	Registered office	Share in capital (%)	Equity € mn	Results € mn
1	Aareal Bank AG	Wiesbaden	100,0		
2	Aareal Bank Asia Limited	Singapore	100,0	SGD 4.0 mn	SGD 0.0 mn [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	USD 181.1 mn	USD 7.0 mn
6	Aareal Estate AG	Wiesbaden	100,0	2,8	0,0 [3]
7	Aareal First Financial Solutions AG	Wiesbaden	100,0	3,2	0,0 [3]
8	Aareal Gesellschaft für Beteiligungen und Grundbesitz Dritte mbH & Co. KG	Wiesbaden	100,0	1,0	0,4 [1]
9	Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG	Wiesbaden	94,9	0,1	0,0 [1]
10	Aareal IT Beteiligungen GmbH	Wiesbaden	100,0	145,0	0,0 [3]
11	Aareal Partecipazioni S.p.A.	Rome	100,0	6,9	0,0 [2]
12	Aareal Property Services B.V.	Amsterdam	100,0	30,2	0,4
13	Aareal Valuation GmbH	Wiesbaden	100,0	0,5	0,0 [3]
14	Aareal Financial Service, spol. s r.o.	Prague	100,0	CZK 27.5 mn	CZK -4.0 mn [2]
15	Aareon AG	Mainz	100,0	73,3	9,8
16	Aareon Deutschland GmbH	Mainz	100,0	32,2	0,0 [3]
17	Aareon France S.A.S.	Meudon-la Forêt	100,0	4,2	1,2
18	Aareon Immobilien Projekt GmbH	Oberhausen	51,0	-0,3	-1,1
19	Aareon Softw are Handelsgesellschaft mbH	Mainz	100,0	-0,3	0,2
20	Aareon UK Ltd.	Coventry	100,0	2,9	0,7
21	Aareon Wodis GmbH	Dortmund	100,0	2,0	0,0 [3]
22	arsago Alternative Investments SPC	Grand Cayman	67,0	n/a	n/a
23	Aufbaugesellschaft Prager Straße mbH	Dresden	100,0	0,1	0,0 [1]
24	BauBo Bau- und Bodenverw ertungs- und -verw altungsgesellschaft mbH	Wiesbaden	100,0	10,4	0,0 [3]
25	BauContact Immobilien GmbH	Wiesbaden	100,0	28,7	1,0
26	BauGrund Immobilien-Management GmbH	Bonn	100,0	0,5	0,0 [3]
27	BauGrund TVG GmbH	Munich	100,0	0,2	0,0
28	BauSecura Versicherungsmakler GmbH	Hamburg	100,0	2,5	2,4
29	Capital Funding GmbH & Co. KG	Frankfurt	100,0	0,0	0,0 [5]
30	Deutsche Bau- und Grundstücks-Aktiengesellschaft	Berlin	100,0	1,5	-0,2
31	Deutsche Structured Finance GmbH	Frankfurt	100,0	0,8	0,8
32	Deutsche Structured Finance GmbH & Co. Alphard KG	Frankfurt	100,0	1,2	0,2
33	Deutsche Structured Finance GmbH & Co. Deneb KG	Frankfurt	100,0	3,0	0,4
34	Deutsche Structured Finance GmbH & Co. Titan KG	Frankfurt	100,0	0,0	0,2 [2]
35	DSF Aircraft Leasing (Ireland) Limited i.L.	Dublin	100,0	0,0	0,0 [1]
36	DSF Anteils GmbH	Frankfurt	100,0	0,1	-0,5 [2]
37	DSF Beteiligungsgesellschaft mbH	Frankfurt	100,0	0,1	0,1

[1] Preliminary figures as at 31 December 2011; [2] Equity and results as at 31 December 2010;
[3] Profit transfer agreement / control and profit transfer agreement;
[4] Different financial year; [5] 10 % of voting rights, diverging from the equity interest held; n/a No data available

No.	Company name	Registered office	Share in capital (%)	Equity € mn	Results € mn
38	DSF Dritte Verwaltungsgesellschaft mbH	Frankfurt	100,0	0,0	0,0 2)
39	DSF Elfte Verwaltungsgesellschaft mbH	Frankfurt	100,0	0,0	0,0 2)
40	DSF Energia Naturale S.r.l.	Rome	100,0	0,0	0,0 1)
41	DSF Fünfzehnte Verwaltungsgesellschaft mbH	Frankfurt	100,0	0,0	0,0 2)
42	DSF Flugzeugportfolio GmbH	Frankfurt	100,0	-0,6	-0,2
43	DSF German Office Fund GmbH & Co. KG	Frankfurt	94,0	4,2	0,5
44	DSF Immobilienverwaltung GmbH	Frankfurt	100,0	0,0	0,0 2)
45	DSF LUX INTERNATIONAL S.à.r.l	Luxembourg	100,0	0,2	0,4 2)
46	DSF Neunte Verwaltungsgesellschaft mbH	Frankfurt	100,0	0,0	0,0 2)
47	DSF Sechzehnte Verwaltungsgesellschaft mbH i.L.	Frankfurt	100,0	0,0	0,0 2)
48	DSF Solar Italien GmbH & Co. KG	Frankfurt	100,0	0,0	0,0 4)
49	DSF Treuhand GmbH	Frankfurt	100,0	0,0	0,0
50	DSF Verwaltungsgesellschaft mbH	Frankfurt	100,0	0,0	0,0 2)
51	DSF Vierte Verwaltungsgesellschaft mbH	Frankfurt	100,0	5,2	0,3
52	DSF Zwölfte Verwaltungsgesellschaft mbH	Frankfurt	100,0	0,3	0,0 2)
53	GEV GmbH	Wiesbaden	100,0	52,9	0,0 3)
54	IMMO Consulting S.p.A.	Rome	95,0	0,6	-0,1 2)
55	IV Beteiligungsgesellschaft für Immobilieninvestitionen mbH	Wiesbaden	100,0	0,2	0,1
56	Jomo S.p.r.l.	Brussels	100,0	-4,4	-2,8 4)
57	La Sessola S.r.l.	Rome	100,0	52,7	-2,3 2)
58	Main Triangel GmbH	Frankfurt	75,0	72,8	-5,9 1)
59	Main Triangel Gastronomie GmbH	Wiesbaden	100,0	0,6	0,0 1)
60	Mercadea S.r.l.	Rome	100,0	4,1	0,1 2)
61	PLP Holding GmbH	Wiesbaden	100,0	4,3	0,0
62	Real Verwaltungsgesellschaft mbH	Idstein	100,0	28,1	1,0 1)
63	Rehabilitationsklinik Barby Besitzgesellschaft mbH	Wiesbaden	100,0	-6,5	1,0 1)
64	Rehabilitationsklinik Templin Besitzgesellschaft mbH	Wiesbaden	100,0	-3,7	0,0
65	SG Automatisering B.V.	Emmen	100,0	9,6	2,6
66	SG | Facilitor B.V.	Enschede	100,0	0,6	0,3
67	SG | Professional Services B.V.	Emmen	100,0	0,1	0,0
68	SG | stravis B.V.	Emmen	100,0	0,0	0,0
69	Sole Giano S.r.l. & Co. S.a.s.	Rome	100,0	0,0	-0,1 1)
70	Sustainable Solar Future - Hellas Limited Liability Company	Athens	99,0	0,0	0,0 2)
71	Sustainable Solar Future Northern - Hellas Limited Liability Company	Athens	99,0	0,0	0,0 2)
72	Sustainable Solar Thermal Future East - Crete Limited Liability Company	Heraklion	99,0	0,5	0,0 1)
73	Teramo Alta S.r.l.	Rome	100,0	3,9	-0,1 1)
74	Terrain-Aktiengesellschaft Herzogpark	Wiesbaden	99,9	4,7	0,0 3)
75	ZAO Toros	Moscow	100,0	RUR 17.4 mn	RUR 18.4 mn 2)
76	ZMP Zentral Messepalast Entwicklungsgesellschaft mbH	Wiesbaden	100,0	82,4	0,0 3)

1) Preliminary figures as at 31 December 2011; 2) Equity and results as at 31 December 2010;
3) Profit transfer agreement / control and profit transfer agreement;
4) Different financial year; 5) 10 % of voting rights, diverging from the equity interest held; n/a No data available

No.	Company name	Registered office	Share in capital (%)	Equity € mn	Results € mn
77	B & P / DSF Windpark GbR	Frankfurt	50.0	0.6	0.5
78	Bavaria Solar I Verwaltungsgesellschaft mbH	Frankfurt	24.0	0.0	0.0 [2)]
79	berlinbiotechpark Management GmbH	Berlin	50.0	0.1	0.0 [2)]
80	berlinbiotechpark Verwaltung GmbH	Berlin	50.0	0.1	0.0 [2)]
81	Deutsche Operating Leasing AG	Frankfurt	19.2	6.6	1.5 [4)]
82	DSF berlinbiotechpark Verwaltungsgesellschaft mbH	Frankfurt	50.0	0.0	-0.1 [2)]
83	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Frankfurt	48.4	0.5	0.0 [2)]
84	DSF Vierzehnte Verwaltungsgesellschaft mbH	Frankfurt	50.0	0.1	0.0
85	DSF Zehnte Verwaltungsgesellschaft mbH	Frankfurt	50.0	0.0	0.0 [2)]
86	Fachklinik Lenggries GmbH	Lenggries	49.0	0.0	0.0 [2)]
87	Rehabilitationsklinik Uckermark GmbH (in liquidation)	Templin	49.0	n/a	n/a
88	SG2ALL B.V.	Huizen	50.0	0.4	0.2
89	Westhafen Haus GmbH & Co. Projektentwicklungs KG	Frankfurt	25.0	-0.3	0.0 [2)]
90	Westhafen-Gelände Frankfurt am Main GbR	Frankfurt	33.3	0.1	1.2 [2)]
91	Windpark Ahlerstedt Verwaltungsgesellschaft mbH	Frankfurt	20.0	0.0	0.0 [2)]
92	Windpark Borsum Verwaltungsgesellschaft mbH	Frankfurt	20.0	0.0	0.0 [2)]
93	Windpark Portfolio Verwaltungs GmbH	Freiburg	20.0	0.1	0.0 [2)]

1) Preliminary figures as at 31 December 2011; 2) Equity and results as at 31 December 2010;
3) Profit transfer agreement / control and profit transfer agreement;
4) Different financial year; 5) 10 % of voting rights, diverging from the equity interest held; n/a No data available

Assets pledged as collateral

Assets in the amount stated were pledged for the following liabilities:

€ mn	31 Dec 2011	31 Dec 2010
Liabilities to banks	3,051.6	4,515.2
Liabilities to customers	0.0	0.0
Total	**3,051.6**	**4,515.2**

Repurchase agreements

The book value of bonds pledged under repo agreements totalled € 876.3 million (2010: € 2,642.1 million) as at 31 December 2011.

Assets and liabilities in foreign currencies

The aggregate equivalent amount of assets denominated in foreign currencies, calculated pursuant to the German Solvency Regulation (Solvabilitätsverordnung), was € 11,845.3 million (2010: € 11,342.3 million) at the balance sheet date, while liabilities totalled € 11,849.4 million (2010: € 11,356.3 million).

Forward transactions

The following forward transactions had been entered into as at 31 December 2011:

- Transactions based on interest rates

  Caps, floors, swaptions, interest rate swaps

- Transactions based on exchange rates

  Spot and forward foreign exchange transactions, cross-currency interest rate swaps

- Other transactions

  Credit default swaps, other forward transactions

Interest-rate based transactions and cross-currency interest rate swaps are primarily used to hedge against interest rate and exchange rate fluctuations. Spot and forward foreign exchange transactions are almost exclusively used for refinancing purposes. Credit derivatives are primarily used to assume credit risks for the purpose of portfolio diversification.

Derivatives used to hedge interest or exchange rate risks are valued together with the underlying transaction; no individual valuation of underlying transaction and derivative is carried out.

Remaining terms and future cash flows of derivatives are broken down in the following table:

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total 31 Dec 2011
31.12.2011					
Interest rate instruments					
Interest rate swaps					
Cash inflows	337.0	955.9	2,851.0	943.0	5,086.9
Cash outflows	339.7	749.3	2,428.4	967.9	4,485.3
Forward rate agreements					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Swaptions					
Cash inflows	-	0.1	-	-	0.1
Cash outflows	-	-	0.0	-	0.0
Caps, floors					
Cash inflows	1.0	3.8	12.7	0.8	18.3
Cash outflows	1.0	3.9	12.7	0.8	18.4
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	2,317.6	162.5	-	-	2,480.1
Cash outflows	2,401.7	166.4	-	-	2,568.1
Cross-currency swaps					
Cash inflows	784.7	1,886.7	5,304.0	313.1	8,288.5
Cash outflows	809.2	1,955.6	5,662.7	304.8	8,732.3
Other transactions					
Credit Default Swaps					
Cash inflows	0.3	0.7	3.2	0.3	4.5
Cash outflows	-	-	-	-	-
Options, futures					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Other derivative transactions					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Total cash inflows	**3,440.6**	**3,009.7**	**8,170.9**	**1,257.2**	**15,878.4**
Total cash outflows	**3,551.6**	**2,875.2**	**8,103.8**	**1,273.5**	**15,804.1**

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total 31 Dec 2010
31.12.2010					
Interest rate instruments					
Interest rate swaps					
Cash inflows	356.6	872.2	3,433.6	1,291.6	5,954.0
Cash outflows	318.7	720.8	3,096.7	1,314.7	5,450.9
Forward rate agreements					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Swaptions					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	0.2	-	0.2
Caps, floors					
Cash inflows	1.3	5.0	14.8	0.7	21.8
Cash outflows	1.5	5.0	14.8	0.7	22.0
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	2,479.4	11.2	-	-	2,490.6
Cash outflows	2,491.8	11.1	-	-	2,502.9
Cross-currency swaps					
Cash inflows	531.3	2,904.3	4,567.3	280.1	8,283.0
Cash outflows	571.8	3,000.2	4,713.6	270.6	8,556.2
Other transactions					
Credit Default Swaps					
Cash inflows	0.3	0.7	3.4	1.1	5.5
Cash outflows	-	3	5	-	8.1
Options, futures					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Other derivative transactions					
Cash inflows	-	-	-	-	-
Cash outflows	1.8	-	1.1	-	2.9
Total cash inflows	**3,368.9**	**3,793.4**	**8,019.1**	**1,573.5**	**16,754.9**
Total cash outflows	**3,385.6**	**3,740.0**	**7,831.6**	**1,586.0**	**16,543.2**

The following table shows positive and negative market values, aggregated by product level (without taking into account collateral or netting agreements):

Unless a quoted market price is available, derivatives are measured using generally accepted methods on the basis of current market parameters (yield curves, volatility factors, etc.). Methods used include standard methods and models such as discounted cash flow analyses and option pricing models. Structured products are measured after they have been split into their individual components. Fair values including accrued interest are given for derivative financial instruments not recognised at fair value as at 31 December 2011.

	Market value as at 31		Market value as at 31	
€ mn	positive	negative	positive	negative
Interest rate instruments				
OTC products				
Interest rate swaps	2,183.2	1,848.0	1,583.9	1,351.9
Swaptions	-	-	-	0.2
Caps, floors	16.8	16.8	18.5	18.7
Forward rate agreements	-	-	-	-
Total interest rate instruments	**2,200.0**	**1,864.8**	**1,602.4**	**1,370.8**
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	1.9	88.3	20.6	32.5
Cross-currency swaps	43.9	495.1	136.9	426.8
Total currency-related instruments	**45.8**	**583.4**	**157.5**	**459.3**
Other transactions				
OTC products				
Credit Default Swaps [1)]	-	43.2	-	25.3
Credit-linked notes	-	-	-	-
Other derivative transactions	-	-	1.1	1.1
Exchange-listed contracts	-	-	-	-
Futures	-	-	-	-
Total other transactions	**-**	**43.2**	**1.1**	**26.4**
Total	**2,245.8**	**2,491.4**	**1,761.0**	**1,856.5**

[1)] This includes a derivative subject to the country risk of Hungary and embedded in an Austrian bank bond.

Derivatives have been entered into with the following counterparties:

	Market value as at 31 Dec 2011		Market value as at 31 Dec 2010	
€ mn	positive	negative	positive	negative
OECD public-sector authorities				
OECD banks	1,988.0	2,484.5	1,536.3	1,842.1
Non-OECD banks				
Companies and private individuals	257.8	6.9	224.7	14.4
Total	**2,245.8**	**2,491.4**	**1,761.0**	**1,856.5**

Remuneration Report

Remuneration for members of the Management Board

Principles of remuneration

The Supervisory Board determines the structure and amount of remuneration for members of the Management Board. Aareal Bank AG has entered into fixed-term service contracts with the members of its Management Board.

The remuneration of the Management Board members consists of a fixed and a variable remuneration. The limitation of the remuneration of the members of the Management Board for the financial years 2009 and 2010 to an amount of € 500.000 as a result of the members of the Management Board waiving any remuneration exceeding this amount in the context of the bank's agreement entered into with German Financial Markets Stabilisation Fund (SoFFin) has expired at the end of 2010. Since 1 January 2011, the remuneration rules set out in the employment contracts apply.

Management Board members Dr Wolf Schumacher, Hermann J. Merkens and Thomas Ortmanns, who joined the bank prior to 1 November 2010, receive a variable remuneration in the form of a cash component and a long-term component in the form of a cash-settled share-based payment (phantom share plan).[6)]

Dirk Große Wördemann, who joined the Management Board with effect from 1 November 2010, receives a variable remuneration in the form of a cash component and phantom shares, each at a weight of 50 %. 40 % of these components is paid out immediately, and the remaining 60% after a retention period. In order to ensure that the variable remuneration complies with the requirements of the German Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions (Instituts-Vergütungsverordnung, InstitutsVergV), the precise details of the variable remuneration will be subject to a supplementary agreement between the Company and Dirk Große Wördemann, which has yet to be concluded. According to this agreement, 20 % of the variable remuneration is paid out to Dirk Große Wördemann immediately as a cash bonus. A further 20 % are granted immediately in form of a phantom share bonus subject to a holding period of three years. 30 % as a cash deferral and another 30 % as a phantom share deferral are credited to a virtual account maintained for Dirk Große Wördemann. This credit, however, does not convey an entitlement or claim with respect to the corresponding amount. In the three years following the respective credit (retention period), the Supervisory Board decides in its reasonable discretion whether each a third of the cash deferral and of the phantom share deferral should be paid out. Due to a penalty rule, the respective third may only be paid out partially or not at all. The portion not paid out is forfeit. The phantom shares granted under the phantom deferral are subject to a two-year holding period.

The basis for the variable remuneration component for Management Board members is a target system, based on the bank's medium-term planning. The targets are, amongst others, net income (of the Group) for the first plan year as reported under International Financial Reporting Standards (IFRSs), as well as qualitative and quantitative targets, which are re-defined annually.

[6)] For further details related to the phantom share plan, please see subsection "Cash-settled share-based payment" in this remuneration report.

Remuneration

Remuneration of the members of the Management Board can be broken down as follows:

€	Year	Fixed remuneration	Variable remuneration: Cash-component [1]	Variable remuneration: Share-based component	Other [2]	Total remuneration
Dr Wolf Schumacher	2011	800,000.00	2,012,500.00	562,500.00	26,632.46	3,401,632.46
	2010	500,000.00	-	-	25,260.61	525,260.61
Dirk Große Wördemann	2011	650,000.00	446,625.00	446,625.00	27,060.92	1,570,310.92
	2010	83,333.30	-	-	3,063.62	86,396.92
Hermann J. Merkens	2011	650,000.00	1,137,500.00	562,500.00	55,309.91	2,405,309.91
	2010	500,000.00	-	-	48,965.16	548,965.16
Thomas Ortmanns	2011	650,000.00	937,500.00	562,500.00	38,042.53	2,188,042.53
	2010	500,000.00	-	-	27,187.71	527,187.71
Total	**2011**	2,750,000.00	4,534,125.00	2,134,125.00	147,045.82	**9,565,295.82**
	2010	1,583,333.30	-	-	104,477.10	**1,687,810.40**

[1] Upon payment of the cash component, phantom shares which were granted to Messrs Dr Schumacher, Merkens and Ortmanns in previous years and which were freely available to them, are subjected again to a two-year holding period. These phantom shares have the following notional amounts: Dr Schumacher € 300,000; Mr Merkens € 240,000; and Mr Ortmanns € 180,000.

[2] Other remuneration includes payments (in particular for company cars) in the amount of € 78,817.13 in 2011 (2010: € 61,229.76) as well as benefits related to social security contributions totalling € 44,974.08 (2010: € 33,239.16).

The employment contracts of the members of the Management Board define the following reference values for variable remuneration in case of a full achievement of the targets agreed upon with the Supervisory Board:

€	Reference values for variable remuneration 2011	Reference values for variable remuneration 2010
Dr Wolf Schumacher	1,400,000.00	1,400,000.00
Dirk Große Wördemann	794,000.00	794,000.00
Hermann J. Merkens	800,000.00	800,000.00
Thomas Ortmanns	800,000.00	800,000.00
Total	**3,794,000.00**	**3,794,000.00**

No benefits were granted to any member of the Management by third parties with respect to his Management Board activities during the year under review.

The following table shows the portion of the long-term component attributable to share-based payment arrangements as well as the corresponding number of virtual shares granted:

		Share-based remuneration	
	Year	Value (€)	Quantity[1)]
Dr Wolf Schumacher	2011	562.500,00	40.221,67
	2010	-	-
Dirk Große Wördemann	2011	446.625,00	31.936,00
	2010	-	-
Hermann J. Merkens	2011	562.500,00	40.221,67
	2010	-	-
Thomas Ortmanns	2011	562.500,00	40.221,67
	2010	-	-

1) The stated number of virtual shares granted is a preliminary figure, based on the price of Aareal Bank AG's share on 31 December 2011 (€ 13.985). The final conversion rate may only be determined after publication of the 2011 annual report.

Pensions, retirement benefits and severance pay

The benefit regulations as agreed in the employment contract apply to the members of the Management Board of Aareal Bank AG. Accordingly, they are entitled to receive pension payments after completing their 60th year of age, or earlier in case of a permanent disability of service.

Pension claims of the Management Board members who joined before 1 November 2011, are vested. Members of the Management Board who joined the Company before 1 January 2005 are entitled to receive contractual pension payments in the amount of € 72,000, based on contractual stipulations, before they reach the age of 60 when they have served for a period of five years, in case the bank rejects to extend their service contracts.

The following overview shows the pension claims of the members of the Management Board and the changes of the corresponding pension provisions during the period under review:

	2011			2010		
€ 000's	Pension claims p.a.	Balance of pension provisions as at 31 Dec 2011	Increase of pension provisions in 2011	Pension claims p.a.	Balance of pension provisions as at 31 Dec 2010	Increase of pension provisions in 2010
Dr Wolf Schumacher	350	2,404	443	350	1,961	1,108
Dirk Große Wördemann	200	226	198	200	28	28
Hermann J. Merkens	200	1,126	129	200	997	558
Thomas Ortmanns	200	1,081	210	200	871	493
Total	**950**	**4,837**	**980**	**950**	**3,857**	**2,187**

The pension claims are adjusted to take account of the development of standard wages within the private banking sector as from the beginning of actual payments of pensions.

The pension paid to widows amounts to 60 % of the pension of the member of the Management Board, while pensions to orphans and half-orphans amount to 20 % and 10 %, respectively.

Service cost incurred in financial year 2011 in connection with the pension claims of members of the Management Board totalled € 0.8 thousand (2010: € 2.5 thousand).

The pension provisions for current members of the Management Board as well as for former members of the Management Board and their surviving dependants increased by € 0.3 million in the year under review (2010: € 4.1 million). The total amount of pension obligations was € 18.7 million (2010: € 18.4 million). Of that amount, € 14.1 million related to former members of the Management Board and their surviving dependants (2010: € 14.4 million). Payments to former Management Board members of Aareal Bank AG and their surviving dependants totalled € 0.6 million (2010: € 0.6 million).

In addition to the existing employment contracts, additional pension benefits and benefits for surviving dependants as well as benefits in case of permanent disability were agreed upon with the Management Board members Messrs. Dr Schumacher, Merkens and Ortmanns with effect from 1 January 2012. In this context, the bank provides, on an annual basis, contributions for post-employment benefits for the period of service, however, no longer than until completing the 60th year of age for Messrs Dr Schumacher and Mr Ortmanns and no longer than until July 2020 (including) for Mr Merkens. The sum of the contributions and any deferred compensation components (Entgeltumwandlung) represent the plan assets for the additional pension benefits and benefits for surviving dependants as well as benefits in case of permanent disability in the form of a monthly annuity or a one-off payment. The entitlement to receive pension payments becomes effective at the age of 60; in case of a permanent disability, the entitlement may arise even before reaching the age of 60. Annuitisation is based on biometric calculation bases and an interest of 4 % p.a. The amount of the actual benefit payment depends on the length of service at the bank as well as the actual date on which the insured event occurs. The current benefit payments are adjusted as at 1 January each year by 1.0 %. The pension paid to widows amounts to 60 % of the pension of the member of the Management Board, while pensions to orphans and half-orphans amount to 25 % and 10 %, respectively. The entitlements earned immediately vest.

The agreements concluded with members of the Management Board do not include any obligation to make severance payments in case of an early termination of employment relationships. However, severance payments may be included in individual termination agreements.

In the case of a retirement due to a change of control, the members affected receive, in settlement of their total remuneration, a monthly payment, as agreed in their employment contracts, as well as a contractually agreed fixed one-off payment. Depending on the type of the change of control – termination by the company or termination by the respective Board member –, the agreed benefits are as follows:

€		Terminated by the Company	Terminated by the Board member
Dr Wolf Schumacher	per month of remaining contract term [1]	141,667.00	70,833.00
	One-off payment	350,000.00	225,000.00
Dirk Große Wördemann [2]	per month of remaining contract term [1]	0.00	
	One-off payment	0.00	
Hermann J. Merkens	per month of remaining contract term [1]	120,833.00	54,167.00
	One-off payment	225,000.00	162,500.00
Thomas Ortmanns	per month of remaining contract term [1]	120,833.00	54,167.00
	One-off payment	225,000.00	162,500.00

[1] Upon request of the Board member, the benefits may be paid in form of a one-off payment. In this case, the amount is discounted using the interest rate of the ECB for one-year deposits of private households in the month of payment.
[2] The regulations for the change of control applicable to Mr Große Wördemann are suspended for the term of the silent participation by SoFFin, pursuant to the employment contract.

Remuneration of the Supervisory Board

Remuneration for the services of the Supervisory Board members is specified in Article 9 of the Memorandum and Articles of Association of Aareal Bank AG. The Annual General Meeting held on 18 May 2011 resolved to adjust the system for Supervisory Board's remuneration in order to reflect the ongoing discussions related to a remuneration system that is appropriate in view of corporate governance aspects. Although Aareal Bank AG deviates from the recommendations of the German Corporate Governance Code, it follows the current status of the discussions related to the proper structure for remuneration systems for Supervisory Boards. In these discussions, it is currently preferred to grant only fixed remuneration for the members of the Supervisory Board.

The change in the remuneration system for its Supervisory Board went into force upon the passing of the resolution by the Annual General Meeting. Therefore, the remuneration of the Supervisory Board until the date of the Annual General Meeting was granted based on the old methodology.

The remuneration system applicable until 18 May 2011 provided for the following components:

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

The fixed remuneration is € 20,000 p.a. for each Supervisory Board member. The Chairman of the Supervisory Board shall receive twice this amount, while the deputy shall receive one and a half times as much as a normal member. The fixed remuneration shall be increased by € 10,000 p.a. for each membership in a Supervisory Board committee (with the exception of the Committee for Urgent Decisions, which is a part of the Risk Committee, as well as the Nomination Committee, which exclusively acts as an advisory committee). The fixed remuneration shall be increased instead by € 20,000 p.a. for Chairmanship of a Supervisory Board committee (also with the exception of the Emergency Committee, which is a part of the Risk Committee, as well as the Nomination Committee, which exclusively acts as an advisory committee). The fixed remuneration component of a Supervisory Board member, including the remuneration for the Chairmanship of a Supervisory Board committee, forms the basis for assessing the performance-related remuneration.

The performance-related remuneration only comes into effect if a dividend of not less than € 0.20 per share is paid for the financial year in question.

The short-term performance-related remuneration amounts to 12.5 % of the individual assessment basis for each full € 50 million of the consolidated net income attributable to shareholders of Aareal Bank AG as reported in the Group income statement. However, it may not exceed 50% of the individual assessment basis.

The long-term performance-related remuneration of a Supervisory Board member amounts to 12.5 % of the individual assessment basis for each 10 % increase in the consolidated net income attributable to shareholders of Aareal Bank AG (as reported in the consolidated income statement) over the unweighted average of the consolidated net income attributable to shareholders of Aareal Bank AG for the three previous full financial years. The long-term performance-related remuneration is not paid if the average value is negative.

The maximum long-term performance-related remuneration is capped at 50 % of the individual assessment basis, so that the aggregate variable remuneration may amount to a maximum of 100 % of the fixed remuneration component.

The fixed remuneration is due at the end of each financial year. The variable remuneration component is due after the Annual General Meeting in which a resolution is passed on the appropriation of net income for the relevant financial year. The bank reimburses the VAT amounts to be paid on the remuneration.

The new remuneration system for the Supervisory Board only comprises a fixed remuneration system as well as a compensation for attending meetings. In addition, the Supervisory Board members will be reimbursed for their expenses. Where membership in the Supervisory Board falls short of an entire financial year, said remuneration shall be paid on a pro-rata temporis basis. Any value-added tax invoiced will also be deemed to be a refundable expense.

The fixed remuneration is € 30,000 p.a. for each Supervisory Board member. The Chairman of the Supervisory Board shall receive two and a half times this amount, while the deputy shall receive one and a half times as much as a normal member. The fixed remuneration shall be increased by € 15,000 p.a. for each membership in a committee (with the exception of the Nomination Committee, which is an exclusively advisory committee, and the Committee for Urgent Decisions, which is part of the Risk Committee). The fixed remuneration shall be increased by € 30,000 p.a. for the chairmanship of a committee (with the exception of the Nomination Committee and the Committee for Urgent Decisions).

The meeting attendance compensation amounts to € 1,000.00 for each meeting attended (except for meetings of the Nomination Committee and the Committee for Urgent Decisions).

The remuneration for any financial year shall be due and payable one month after the end of the respective financial year.

The individual amount of the remuneration for the Supervisory Board is shown in the following table. The figures in the table include the reimbursement for VAT (19%).

€	Year	Fixed remuneration	Attendance fees	Total remuneration
Hans W. Reich, Chairman	2011	151,130.00	14,280.00	165,410.00
	2010	107,100.00	-	107,100.00
Erwin Flieger, Deputy Chairman	2011	77,845.84	10,710.00	88,555.84
	2010	59,500.00	-	59,500.00
York-Detlef Bülow, Deputy Chairman	2011	77,845.84	10,710.00	88,555.84
	2010	59,500.00	-	59,500.00
Dieter Kirsch	2011	46,707.50	5,950.00	52,657.50
	2010	21,915.83	-	21,915.83
Thomas Hawel	2011	31,138.34	3,570.00	34,708.34
	2010	23,800.00	-	23,800.00
Helmut Wagner	2011	31,138.34	3,570.00	34,708.34
	2010	23,800.00	-	23,800.00
Christian Graf von Bassewitz	2011	62,276.66	9,520.00	71,796.66
	2010	47,600.00	-	47,600.00
Manfred Behrens	2011	31,138.34	2,380.00	33,518.34
	2010	23,800.00	-	23,800.00
Joachim Neupel	2011	77,845.84	10,710.00	88,555.84
	2010	59,500.00	-	59,500.00
Dr Herbert Lohneiß	2011	46,707.50	7,140.00	53,847.50
	2010	35,700.00	-	35,700.00
Prof Dr Stephan Schüller	2011	62,276.66	9,520.00	71,796.66
	2010	47,600.00	-	47,600.00
Wolf R. Thiel	2011	46,707.50	7,140.00	53,847.50
	2010	35,700.00	-	35,700.00
Total	**2011**	**742,758.36**	**95,200.00**	**837,958.36**
	2010	**545,515.83**	**-**	**545,515.83**

The members of the Supervisory Board did not provide any consulting or agency services, or other personal services in 2011. Therefore, no additional remuneration was paid.

Cash-settled share-based payment

a) Description of cash-settled share-based payment

Within Aareal Bank AG, there are various forms of share-based payment arrangements. Among other things, differences can be found as regards their term and the vesting conditions as well as regarding the group of beneficiaries.

Phantom share plan[7)]

According to the rules for the phantom share plan, a portion of the variable remuneration will be converted into an equivalent number of virtual shares. The conversion is based on the weighted average price (XETRA) of Aareal Bank AG's share, on the five trading days following the publication (ad-hoc release) of the financial statements as approved by the Supervisory Board. The entitlement to the remuneration, i.e. the award, arises after the Supervisory Board has used its discretion with regard to the amount of variable remuneration within the applicable range. One fourth of the awarded virtual shares become exercisable each year. This also applies for the year in which they are awarded. Virtual shares not exercised in a particular year are accumulated. The phantom shares may be exercised either in whole or in part within five business days after the publication of a quarterly report. The relevant price for exercising these phantom shares is the weighted average price according to Bloomberg on the exercise date.

There are no exercise hurdles in form of a minimum stock price appreciation target or other market or performance-related criteria. Virtual shares that have not been exercised carry full dividend rights, i.e. the beneficiaries receive for each virtual share not yet exercised a cash payment equivalent to the amount of the approved dividend. The term of the plan is not limited.

Share bonus plan

According to the rules for the share bonus plan, a portion of the variable remuneration will be converted into an equivalent number of virtual shares. The conversion is based on the weighted average price (XETRA) of Aareal Bank AG's share according to Bloomberg, on the five trading days following the publication of the annual report for the reference period. The entitlement to the remuneration occurs at the end of the reference period. The share bonus is paid out after a minimum holding period of two years, beginning on the date on which entitlement arose. The payout amount is calculated by multiplying the number of virtual shares allocated with the share price upon payout. The share price upon payout corresponds to the weighted average price on XETRA of Aareal Bank AG's share according to Bloomberg, on the five trading days following the publication of the annual report for the financial year preceding the payout date. The actual payout date for the share bonus may be determined individually, based on an option right. For this purpose, the beneficiary must inform the bank whether he will use the option right by notifying the bank accordingly not later than until the tenth day after the publication of the annual report for the financial year preceding the planned payout date. The option right expires after a maximum of three years, from the end of the calendar quarter of the earliest payout date. The option right may only be exercised as at 31 March, 30 June or 30 September of a calendar year; exercise of the option has to be notified to the bank not later than at the tenth day after publication of the quarterly financial results. The conversion of the virtual shares for the purpose of determining the payout amount is made at the weighted average price on XETRA according to Bloomberg, for the five trading days following the publication of the latest quarterly financial results for the selected option date.

There are no exercise hurdles in form of a minimum stock price appreciation target or other market or performance-related criteria. Virtual shares carry fully dividend rights, i.e. the beneficiaries receive for each virtual share not yet exercised a cash payment equivalent to the amount of the approved dividend. The maximum term of the plan - in relation to the grant date - is three years (six years in case of an option for late payout).

Restricted Virtual Share Award

According to the rules for the Restricted Virtual Share Award (RVSA), a portion of the variable remuneration will be converted into an equivalent number of virtual shares. The conversion is based on the weighted average price (XETRA) of Aareal Bank AG's share according to Bloomberg, on the five trading days following the publication of the annual report for the reference period. The amount granted within the scope of the RVSA is only awarded on a provisional basis. The entitlement to the RVSA vests over a period of three years at one third of the original award each year, starting one year after the end of the reference period, provided that certain conditions (penalty rules) are met. The RVSA is paid out after a holding period of one year starting on the date on which entitlement arose. When the holding period has expired, the beneficiary has an option right to postpone the RVSA payout by not more than three years. The payout may only be made as at 31 March,

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[7)] The title of the plan was changed (formerly: "Phantom share plan for members of the Management Board of Aareal Bank AG/ Long-term Component"). Moreover, the term "phantom shares" was replaced by the term "virtual shares" in the description of the plan, compared to the previous year. These changes were only of an editorial nature. There were no content-related changes in connection with the plan's structure.

30 June or 30 September of a calendar year; exercise of the option has to be notified to the bank not later than at the tenth day after publication of the quarterly financial results.

The payout amount is calculated by multiplying the number of the exercised virtual shares with the weighted average price on XETRA of Aareal Bank AG's share according to Bloomberg, on the five trading days following the publication of the quarterly financial results.

According to the penalty rules, the bank is entitled to reduce the amount of the portion of the RVSA for which no entitlement has been earned in an appropriate manner, possibly down to zero. The reasons for a reduction of the RVSA are described in section 45 of the German Banking Act (Kreditwesengesetz, KWG): when, until the relevant payout date, Aareal Bank's regulatory capital does not meet the requirements of section 10 (1) and (1b) or of section 45b (1) of the KWG or the investment of its funds does not comply with the requirements of section 11 (1) of the KWG or the development of Aareal Bank AG's financial position and financial performance justifies the assumption that it will not be able to meet these requirements permanently. The reasons for a reduction of the RVSA also exist when cases of serious individual misconduct prior to the entitlement of the RVSA, or parts of it, are identified afterwards. Examples are cases of misconduct which give rise to extraordinary termination of employment relationships, a breach of the prohibition of hedge transactions, even after the termination of the employment relationships, as well as a material breach of internal guidelines (e.g. Code of Conduct or compliance rules).

In addition, the amount of the RVSA for which no entitlement has arisen may be reduced when the so-called success factor for determining the bonus pool for variable remuneration for the employees of Aareal Bank AG is below zero. The success factor is determined based on the target planned and agreed by the Management Board and the Supervisory Board of Aareal Bank AG for the (consolidated) net income/loss attributable to shareholders of Aareal Bank AG, net of non-recurring effects. The basis for the determination of the target is the bank's medium-term planning, taking into account capital employed. The success factor may range from -0.7 and +2.0.

There are no further exercise hurdles, other than the penalty rules, in form of a minimum stock price appreciation target or other market or performance-related criteria. Virtual shares carry fully dividend rights, i.e. the beneficiaries receive for each virtual share not yet exercised a cash payment equivalent to the amount of the approved dividend. The maximum term of the plan - in relation to the grant date - is five years (eight years in case of an option for late payout).

Virtual share plan[8)]

According to the rules for the virtual share plan, a portion of the variable remuneration will be converted into an equivalent number of virtual shares. The conversion rate corresponds to the weighted average price (XETRA) of Aareal Bank AG's share according to Bloomberg, on the five trading days following the publication of the annual report for the reference period.

The virtual shares are automatically exercised in the three years following the reference year, with one third being exercised in each year. The exercise is based on the weighted average price on XETRA of Aareal Bank AG's share according to Bloomberg, on the publication date of the annual report for the financial year preceding the exercise and the four following trading days. For virtual shares granted from 1 January 2011, the beneficiary has an option right to postpone the payout of the virtual shares by not more than three years. The payout may only be made as at 31 March, 30 June or 30 September of a calendar year; exercise of the option has to be notified to the bank not later than at the tenth day after publication of the quarterly financial results.

There are no exercise hurdles in form of a minimum stock price appreciation target or other market or performance-related criteria. With respect to virtual shares that have not been exercised, the beneficiaries receive for each virtual share a cash payment equivalent to the amount of the approved dividend. The maximum term of the plan – in relation to the grant date – is four years (seven years in case of an option for late payout).

8) The title of the plan was changed (formerly: "Virtual share plan for key executive staff"). These changes were only of an editorial nature. For information on content-related changes in relation to the structure of the plan, please refer to the comments in subsection "Valuation model and valuation assumptions" in this remuneration report.

b) Valuation model and valuation assumptions

The entitlements from the virtual share plan had been earned almost entirely as at the end of the reporting period. Therefore, the plans were adjusted so that the existing entitlements as well as any entitlements resulting from the plan in future are earned entirely in the period in which they are granted.

The obligations resulting from all of the described share-based payment arrangements as of the balance sheet date correspond to the remuneration granted, discounted to the balance sheet date. The discount period corresponds to the period from the balance sheet date to the earliest exercise or payout date per plan and per tranche. The discount is based on the Euribor swap rate applicable as at the relevant balance sheet date, depending on the term.

c) Amount of cash-settled share-based payment transactions

The total amount of outstanding virtual shares in relation to the above mentioned share-based payment arrangements changed as follows:

	2011	2010
Quantity (number of shares)		
Balance at 1 January	**572,352**	**831,404**
Granted	61,535	41,693
of which: vested	61,535	41,693
of which: awarded on a provisional basis	-	-
Expired	-	-
Exercised	227,456	300,745
Balance at 31 December	**406,431**	**572,352**
of which: exercisable	208,978	265,404

d) Effects on financial position and performance

The total amount expensed for share-based payment transactions was € 6. million during the financial year 2011 (2010: € 11.6 million). The portion of the total amount expensed attributable to members of the Management Board amounts to € 2.0 million (2010: € 7.2 million, including the expense for Board members retired in 2010) and can be broken down to the individual members of the Management Board as follows.

	2011	2010
€		
Dr Wolf Schumacher	443,525	1,786,199
Dirk Große Wördemann	446,625	-
Hermann J. Merkens	484,831	1,854,944
Thomas Ortmanns	665,188	1,495,867

The obligation from share-based payment transactions as at 31 December 2011 amounts to € 5.8 million (2010: € 13.8 million). It is reported in the balance sheet in the line item "Provisions".

Other Disclosures

Disclosures in accordance with the German Pfandbrief Act (section 28)

Total amount and related cover assets pool of outstanding mortgage Pfandbriefe and public-sector covered Pfandbriefe

€ mn	Cover assets pool	Covered bonds outstanding	Excess cover
31 Dec 2011			
Mortgage Pfandbriefe			
Nominal value	10,716.1	8,872.0	1,844.1
Present value	11,415.8	9,248.2	2,167.6
Public-Sector Pfandbriefe			
Nominal value	3,336.9	3,006.2	330.7
Present value	3,820.7	3,541.5	279.2

€ mn	Cover assets pool	Covered bonds outstanding	Excess cover
31 Dec 2010			
Mortgage Pfandbriefe			
Nominal value	9,503.9	8,237.4	1,266.5
Present value	10,090.1	8,370.7	1,719.4
Public-Sector Pfandbriefe			
Nominal value	3,374.7	3,009.7	365.0
Present value	3,672.2	3,356.3	315.9

€ mn	Share of derivatives in cover assets pool 2011	Share of derivatives in cover assets pool 2010	Share of derivatives in covered bonds 2011	Share of derivatives in covered bonds 2010
Nominal value				
Mortgage Pfandbriefe	13.1	42.1	176.8	145.9
Public-Sector Pfandbriefe	0.0	0.0	0.0	0.0
Present value				
Mortgage Pfandbriefe	46.2	12.7	0.0	0.0
Public-Sector Pfandbriefe	104.6	80.1	0.0	0.0

€ mn	Share of further cover assets 2011	Share of further cover assets 2010
Mortgage Pfandbriefe	497.9	972.9
Public-Sector Pfandbriefe	0.0	0.0

€ mn	Cover assets pool	Pfandbriefe outstanding	Excess cover
31 Dec 2011			
Risk-adjusted net present value			
Mortgage Pfandbriefe	11,481.5	9,661.4	1,820.1
Public-Sector Pfandbriefe	4,183.5	3,925.1	258.4

€ mn	Cover assets pool	Pfandbriefe outstanding	Excess cover
31 Dec 2010			
Risk-adjusted net present value			
Mortgage Pfandbriefe	10,175.0	8,670.5	1,504.5
Public-Sector Pfandbriefe	4,034.8	3,772.3	262.5

Maturity structure as well as fixed-interest periods of the corresponding cover assets pool

€ mn	Cover assets pool	Pfandbriefe outstanding
31 Dec 2011		
Mortgage Pfandbriefe		
Up to 1 year	1.781,5	1.473,6
Between 1 year and 2 years	1.750,2	1.843,7
Between 2 years and 3 years	2.178,4	1.490,5
Between 3 years and 4 years	1.358,0	972,8
Between 4 years and 5 years	1.693,9	636,9
Between 5 years and 10 years	1.900,6	1.995,5
More than 10 years	53,5	459,0
Total	**10.716,1**	**8.872,0**
Public-Sector Pfandbriefe		
Up to 1 year	188,0	156,6
Between 1 year and 2 years	597,6	635,3
Between 2 years and 3 years	244,6	210,6
Between 3 years and 4 years	148,7	72,1
Between 4 years and 5 years	162,4	97,2
Between 5 years and 10 years	806,0	841,8
More than 10 years	1.189,6	992,6
Total	**3.336,9**	**3.006,2**

€ mn	Cover assets pool	Pfandbriefe outstanding
31 Dec 2010		
Mortgage Pfandbriefe		
Up to 1 year	1.911,7	1.721,8
Between 1 year and 2 years	1.314,1	1.344,7
Between 2 years and 3 years	1.886,1	1.475,4
Between 3 years and 4 years	1.523,1	813,7
Between 4 years and 5 years	1.063,8	889,5
Between 5 years and 10 years	1.516,9	1.586,2
More than 10 years	288,2	406,1
Total	**9.503,9**	**8.237,4**
Public-Sector Pfandbriefe		
Up to 1 year	137,9	80,7
Between 1 year and 2 years	169,9	105,5
Between 2 years and 3 years	494,1	662,3
Between 3 years and 4 years	219,3	209,0
Between 4 years and 5 years	91,6	70,4
Between 5 years and 10 years	778,1	875,7
More than 10 years	1.483,8	1.006,1
Total	**3.374,7**	**3.009,7**

Loans and advances used to cover mortgage Pfandbriefe

€ mn	Cover assets pool 2011	Cover assets pool 2010
Distribution of the amounts measured at nominal value by volume		
Up to € 300,000	15.7	14.7
Between € 300,000 and € 5 million	742.5	756.1
More than € 5 million	9,446.9	7,718.0
Total	**10,205.1**	**8,488.8**

As at the balance sheet date, the loans and advances used for lending against mortgage Pfandbriefe included payment arrears of 90 days or more in the amount of € 1.8 million (2010: € 0.9 million), of which € 0.3 million refer to Belgium, € 0.0 million to Germany, € 0.5 million to Denmark, 0.5 to France, and € 0.5 million to Italy. In the comparable period of the previous year, payment arrears of 90 days or more referred to Denmark (€ 0.2 million), France (€ 0.4 million), Italy (€ 0.1 million), and Spain (€ 0.2 million).

Distribution of the amounts measured at nominal value by countries in which the real property collateral is located:

	Commercial property							Residential property						
€ mn	Building plots only	New buildings not yet yielding returns	Office buildings	Retail property	Industrial	Other	Total	Building plots only	New buildings not yet yielding returns	Single family homes	Multi family homes	Flats/apartments	Total	Total cover assets pool
31.12.2011														
Belgium		3.4	187.6	56.8	9.0	35.8	292.6							292.6
Denmark	3.7	11.4	82.3	22.3	7.3	67.6	194.6	10.4	15.4	0.6		4.2	30.6	225.2
Germany			313.7	58.2	435.7	242.5	1,050.1	0.8		4.7	669.6	0.9	676.0	1,726.1
Estonia			2.3	26.8			29.1							29.1
Finland			33.3	220.8	5.4	20.5	280.0							280.0
France	10.0		544.8	74.7	209.4	317.4	1,156.3				10.1		10.1	1,166.4
UK			234.9	203.5	145.7	225.5	809.6							809.6
Italy	74.5	9.0	758.4	353.8	53.9	92.8	1,342.4				84.2		84.2	1,426.6
Japan			-			64.1	64.1							64.1
Canada			80.2			117.0	197.2							197.2
Luxembourg			4.5				4.5							4.5
Netherlands			210.1	41.2	168.0	169.9	589.2				100.0		100.0	689.2
Norway			-	11.4	6.9	-	18.3							18.3
Poland			208.2	246.3	82.0		536.5							536.5
Sweden			368.9	130.5	238.2	35.3	772.9				57.8		57.8	830.7
Switzerland			40.5	41.6	3.6	183.9	269.6							269.6
Slovakia					6.6		6.6							6.6
Spain		20.6	40.0	417.6	21.1	49.8	549.1							549.1
Czech Republic	3.8		99.7	10.0	15.7	62.3	191.5							191.5
USA		178.6	221.5	284.2	21.8	64.8	770.9				121.3		121.3	892.2
Total	**92.0**	**223.0**	**3,430.9**	**2,199.7**	**1,430.3**	**1,749.2**	**9,125.1**	**11.2**	**15.4**	**5.3**	**1,043.0**	**5.1**	**1,080.0**	**10,205.1**

	Commercial property							Residential property						
€ mn	Building plots only	New buildings not yet yielding returns	Office buildings	Retail property	Industrial	Other	Total	Building plots only	New buildings not yet yielding returns	Single family homes	Multi family homes	Flats/apartments	Total	Total cover assets pool
31.12.2010														
Belgium		3.4	182.0	26.7	9.0	36.2	257.3							257.3
Denmark	5.3	11.4	77.2	27.3	13.4	70.0	204.6					2.7	2.7	207.3
Germany		10.8	184.4	84.0	225.1	188.9	693.2			5.3	0.9	738.3	744.5	1,437.7
Estonia			2.3	27.3			29.6							29.6
Finland			33.7	222.2	5.4	20.5	281.8							281.8
France	0.9		438.3	37.7	193.6	102.2	772.7							772.7
UK			104.7	199.4	87.8	225.5	617.4							617.4
Italy	71.0		592.4	354.1	57.5	89.9	1,164.9		11.8			83.3	95.1	1,260.0
Canada			80.2			126.8	207.0							207.0
Luxembourg			4.5				4.5							4.5
Netherlands			196.4	41.2	160.6	125.3	523.5					16.4	16.4	539.9
Norway				14.8	6.8		21.6							21.6
Poland			166.1	243.3	41.7		451.1							451.1
Sweden			312.2	74.1	244.7	27.2	658.2					82.5	82.5	740.7
Switzerland		56.5	100.2	40.5	3.7	70.1	271.0							271.0
Slovakia					6.6		6.6							6.6
Spain		103.3		295.8	5.5	55.4	460.0							460.0
Czech Republic	3.8		124.4	10.3	15.7	18.2	172.4							172.4
USA		188.7	104.4	252.1	31.6	111.1	687.9					62.3	62.3	750.2
Total	**81.0**	**374.1**	**2,703.4**	**1,950.8**	**1,108.7**	**1,267.3**	**7,485.3**	**0.0**	**11.8**	**5.3**	**0.9**	**985.5**	**1,003.5**	**8,488.8**

In the financial year 2011, the bank did not acquire any properties for the purpose of loss prevention (2010: none).

As at 31 December 2011, interest payments were overdue in the amount of € 6.4 million (2010: € 4.3 million) for commercial property and in the amount of € 0.1 million (2010: € 0.2 million) for residential property.

As at 31 December 2011, there were no foreclosures or forced administration procedures pending.

Distribution of the loans and advances measured at nominal value and used to cover public-sector Pfandbriefe by countries in which the debtor or the guaranteeing body is located:

€ mn	Sovereigns	Public-sector entities regional	Public-sector entities municipal	Other	Total
31.12.2011					
Germany	12.2	1,774.0	28.9	668.7	2,483.8
EU institutions	-	-	-	118.9	118.9
France	-	-	-	100.0	100.0
Italy	114.0	-	-	-	114.0
Japan	-	-	20.0	50.0	70.0
Austria	125.2	25.0	-	80.0	230.2
Poland	50.0	-	-	-	50.0
Portugal	-	30.0	-	25.0	55.0
Spain	-	115.0	-	-	115.0
Total	**301.4**	**1,944.0**	**48.9**	**1,042.6**	**3,336.9**

€ mn	Sovereigns	Public-sector entities regional	Public-sector entities municipal	Other	Total
31.12.2010					
Germany	23.0	1,867.5	29.5	571.6	2,491.6
France	25.0			75.0	100.0
UK				7.5	7.5
Italy	134.0				134.0
Japan			20.0	50.0	70.0
Lithuania	25.0				25.0
Luxembourg				31.4	31.4
Netherlands	25.0				25.0
Austria	125.2	25.0		70.0	220.2
Poland	50.0				50.0
Portugal		30.0		25.0	55.0
Spain		140.0			140.0
Hungary				25.0	25.0
Total	**407.2**	**2,062.5**	**49.5**	**855.5**	**3,374.7**

Neither at balance sheet date nor in the comparable period of the previous year did loans and advances used for lending against public-sector covered securities include any items with payment arrears of 90 days or more.

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.

Consolidated financial statements

As the parent company of Aareal Bank Group, Aareal Bank AG, Wiesbaden, prepares consolidated financial statements. The consolidated financial statements will be deposited with the Register of Companies at the Wiesbaden District Court (Amtsgericht, HRB 13 184) and will also be available from Aareal Bank AG in Wiesbaden, Germany.

Loans to executive bodies of Aareal Bank

Throughout the financial year 2011, the bank has reported purchases and sales subject to reporting requirements under No. 6.6 of the German Corporate Governance Code, as well as under section 15a of the German Securities Trading Act (WpHG) to BaFin, the German financial services regulatory agency, without delay, and also published such details on its website. Furthermore, Aareal Bank AG has undertaken in its Code to disclose on its website, without delay, each reported purchase or sale by members of the Management Board or the Supervisory Board.

The following list provides an overview of existing loans to related parties:

€ mn	31 Dec 2011	31 Dec 2010
Management Board	-	-
Supervisory Board	0.9	1.2
Other related parties	1.7	1.7
Total	2.6	2.9

Loans extended to members of the Supervisory Board generally have a term between ten and 18 years, and bear interest at (nominal) rates between 5.12 % and 5.66 %. Collateral was provided in line with usual market practice. In the year under review, repayments amounted to € 0.3 million.

Loans extended to other related parties generally have a term between 14 and 16 years, and bear interest at (nominal) rates between 2.65 % and 3.65 %. Collateral was also provided in line with usual market practice. In the year under review, repayments amounted to € 0.1 million.

Employees

The average staffing level is shown below:

Yearly average	1 Jan-31 Dec 2011	1 Jan-31 Dec 2010
Salaried employees	932	959
Executives	32	32
Total	**964**	**991**
of which: Part-time employees	174	164

Auditors' fees

The total fees charged by the auditor are as follows:

€ 000's	
Category	
Audit services	2,380.5
Other assurance services	33.7
Tax advisory services	90.8
Other services	1,081.6
Total	**3,586.6**

Notice pursuant to sections 21 et seq. of the WpHG

Pursuant to the German Securities Trading Act (WpHG), any investor whose shareholding in a listed company reaches, exceeds or falls short of certain threshold values in terms of voting rights (whether by purchase, sale or by any other means) must notify the company and the German Federal Financial Supervisory Authority. The lowest threshold for this notification requirement is 3 %. 71.1 % of Aareal Bank AG shares are held in free float. The largest shareholder of the Company is Aareal Holding Verwaltungsgesellschaft mbH with an interest of 28.9 %.

On 16 November 2011, FIL Limited, Hamilton HMCX, Bermuda, notified us of the following pursuant to section § 21 (1) WpHG:

In the name of and on behalf of FIL Investments International, Hildenborough, Kent, England, UK, we hereby notify you pursuant to section 21(1) WpHG of the following:

On 16 November 2011 FIL Investments International fell below the threshold of 3 % of the voting rights in Aareal Bank AG, Wiesbaden, Germany. On that date, FIL Investments International held 2.91 % of the voting rights In Aareal Bank AG arising from 1,743,179 voting rights. All voting rights in Aareal Bank AG were attributed to FIL Investments International pursuant to section 22(1) sent 1 no.6 WpHG.

In the name of and on behalf of FIL Holdings Limited, Hildenborough, Kent, England, UK, we hereby notify you pursuant to section 21(1) WpHG of the following:

On 16 November 2011 FIL Holdings Limited fell below the threshold of 3 % of the voting rights in Aareal Bank AG, Wiesbaden, Germany. On that dale, FIL Holdings Limited held 2.91 % of the voting rights in Aareal Bank AG arising from 1,743,179 voting rights. All voting rights n Aareal Bank AG were attributed to FIL Holdings Limited pursuant to sec. 22 para 1 sent 1 no. 6 WpHG in connection with sent. 2 WpHG.

In the name of and on behalf of FIL Limited, Hamilton HMCX, Bermuda, we hereby notify you pursuant to section 21 (1) WpHG of the following:

On 16 November 2011 FIL Limited fell below the threshold of 3 % of the voting rights in Aareal Bank AG, Wiesbaden, Germany. On that date, FIL Limited held 2.91 % of the voting rights in Aareal Bank AG arising from 1,743,179 voting rights. All voting rights in Aareal Bank AG were attributed to FIL Limited pursuant to sec. 22 para. 1 sent 1 no. 6 WpHG.

On 3 November 2011, Universal-Investment-Gesellschaft mbH, Frankfurt/Main, Germany, notified us of the following pursuant to sections 21 (1) and 22 (1) sentence 1 No. 6 of the WpHG:

Pursuant to sections 21 (1) and 22 (1) sentence 1 No. 6 of the WpHG, we herewith notify you that our share of voting rights in Aareal Bank AG, Wiesbaden, Germany, exceeded the threshold of 3% on 2 November 2011 and has amounted to 4.12 % (2,463,675 voting rights) since that date.

0.48 % of the shares are held directly, and, pursuant to section 22 (1) sentence 1 No. 6 of the WpHG (special funds), 3.64 % (2,179,060 voting rights) are attributed to us.

On 4 October 2011, Allianz Global Investors Kapitalanlagegesellschaft mbH, Frankfurt/Main, Germany, notified us of the following pursuant to section 21 (1) sentence 1 of the WpHG:

Pursuant to section 21 (1) sentence 1 of the WpHG, we herewith notify you that, on 29 September 2011 our share of voting rights in Aareal Bank AG, Wiesbaden, Germany, exceeded the threshold of 3% and amounted to 3.01% of the total number of voting rights of the Company mentioned at that date (corresponding to 1,802,441 of a total of 59,857,221 voting rights).

Of our share of voting rights, 0.60 % of the total number of voting rights (corresponding to 357,102 of a total of 59,857,221 voting rights) are attributable to us pursuant to section 22 (1) sentence 1 No. 6 of the WpHG.

No voting rights were acquired within the meaning of section 17 (1) no. 7 of the German Securities Trading Reporting and Insider List Regulation (WpAIV).

On 30 September 2011, Allianz Global Investors Kapitalanlagegesellschaft mbH, Frankfurt/Main, Germany, notified us of the following pursuant to section 21 (1) sentence 1 of the WpHG:

Pursuant to section 21 (1) sentence 1 of the WpHG, we herewith notify you that, on 27 September 2011, our share of voting rights in Aareal Bank AG, Wiesbaden, Germany, fell below the threshold of 3% and amounted to 2.96% of the total number of voting rights of the Company mentioned at that date (corresponding to 1,772,441 of a total of 59,857,221 voting rights).

Of our share of voting rights, 0.60% of the total number of voting rights (corresponding to 357,102 of a total of 59,857,221 voting rights) are attributable to us pursuant to section 22 (1) sentence 1 No. 6 of the WpHG.

No voting rights were acquired within the meaning of section 17 (1) no. 7 of the German Securities Trading Reporting and Insider List Regulation (WpAIV).

On 27 September 2011, FIL Limited, Hamilton HMCX, Bermuda, notified us of the following:

In the name of and on behalf of FIL Investments International, Hildenborough, Kent England, UK, we hereby notify you pursuant to section 21(1) WpHG of the following:

On 26 September 2011 FIL Investments International crossed above the threshold of 3 % of the voting rights in Aareal Bank AG, Wiesbaden, Germany. On that date, FIL Investments International held 3.10 % of the voting rights in Aareal Bank AG arising from 1,853,331 voting rights. All voting rights in Aareal Bank AG were attributed to FIL Investments International pursuant to section 22 (1) sent. 1 no. 6 WpHG.

In the name of and on behalf of FIL Holdings Limited, Hildenborough, Kent, England, UK, we hereby notify you pursuant to section 21(1) WpHG of the following:

On 26 September 2011 FIL Holdings Limited crossed above the threshold of 3 % of the voting rights in Aareal Bank AG, Wiesbaden, Germany. On that dale, FIL Holdings Limited held 3.10 % of the voting rights in Aareal Bank AG arising from 1,853,331 voting rights. All voting rights in Aareal Bank AG were attributed to FIL Holdings Limited pursuant to sec. 22 para 1 sent 1 no. 6 WpHG in connection with sent. 2 WpHG.

In the name of and on behalf of FIL Limited, Hamilton HMCX, Bermuda, we hereby notify you pursuant to section 21 (1) WpHG of the following:

On 26 September 2011 FIL Limited crossed above the threshold of 3 % of the voting rights in Aareal Bank AG, Wiesbaden, Germany. On that date, FIL Limited held 3.10 % of the voting rights in Aareal Bank AG arising from 1,853,331 voting rights. All voting rights in Aareal Bank AG were attributed to FIL Limited pursuant to sec. 22 para. 1 sent 1 no. 6 WpHG.

On 22 September 2011, FIL Limited, Hamilton HMCX, Bermuda, notified us of the following:

In the name of and on behalf of FIL Investments International, Hildenborough, Kent, England, UK, we hereby notify you pursuant to section 21(1) WpHG of the following:

On 21 September 2011 FIL Investments International fell below the threshold of 3 % of the voting rights in Aareal Bank AG, Wiesbaden, Germany. On that date, FIL Investments International held 2.98 % of the voting rights In Aareal Bank AG arising from 1,785,915 voting rights. All voting rights in Aareal Bank AG were attributed to FIL Investments International pursuant to section 22(1) sent 1 no.6 WpHG.

In the name of and on behalf of FIL Holdings Limited, Hildenborough, Kent, England, UK, we hereby notify you pursuant to section 21(1) WpHG of the following:

On 21 September 2011 FIL Holdings Limited fell below the threshold of 3 % of the voting rights in Aareal Bank AG, Wiesbaden, Germany. On that dale, FIL Holdings Limited held 2.98 % of the voting rights in Aareal Bank AG arising from 1,785,915 voting rights. All voting rights n Aareal Bank AG were attributed to FIL Holdings Limited pursuant to sec. 22 para 1 sent 1 no. 6 WpHG in connection with sent. 2 WpHG.

In the name of and on behalf of FIL Limited, Hamilton HMCX, Bermuda, we hereby notify you pursuant to section 21 (1) WpHG of the following:

On 21 September 2011 FIL Limited fell below the threshold of 3 % of the voting rights in Aareal Bank AG, Wiesbaden, Germany. On that date, FIL Limited held 2.98 % of the voting rights in Aareal Bank AG arising from 1,785,915 voting rights. All voting rights in Aareal Bank AG were attributed to FIL Limited pursuant to sec. 22 para. 1 sent 1 no. 6 WpHG.

On 21 September 2011, FIL Limited, Hamilton HMCX, Bermuda, notified us of the following:

In the name of and on behalf of FIL Investments International, Hildenborough, Kent England, UK, we hereby notify you pursuant to section 21(1) WpHG of the following:

On 20 September 2011 FIL Investments International crossed above the threshold of 3 % of the voting rights in Aareal Bank AG, Wiesbaden, Germany. On that date, FIL Investments International held 3.02 % of the voting rights in Aareal Bank AG arising from 1,807,372 voting rights. All young rights in Aareal Bank AG were attributed to FIL Investments International pursuant to section 22 (1) sent. 1 no. 6 WpHG.

In the name of and on behalf of FIL Holdings Limited, Hildenborough, Kent, England, UK, we hereby notify you pursuant to section 21(1) WpHG of the following:

On 20 September 2011 FIL Holdings Limited crossed above the threshold of 3 % of the voting rights in Aareal Bank AG, Wiesbaden, Germany. On that dale, FIL Holdings Limited held 3.02 % of the voting rights in Aareal Bank AG arising from 1,807,372 voting rights. All voting rights n Aareal Bank AG were attributed to FIL Holdings Limited pursuant to sec. 22 para 1 sent 1 no. 6 WpHG in connection with sent. 2 WpHG.

In the name of and on behalf of FIL Limited, Hamilton HMCX, Bermuda, we hereby notify you pursuant to section 21 (1) WpHG of the following:

On 20 September 2011 FIL Limited crossed above the threshold of 3 % of the voting rights in Aareal Bank AG, Wiesbaden, Germany. On that date, FIL Limited held 3.02 % of the voting rights in Aareal Bank AG arising from 1,807,372 voting rights. All voting rights in Aareal Bank AG were attributed to FIL Limited pursuant to sec. 22 para. 1 sent 1 no. 6 WpHG.

On 31 August 2011, Deutsche Bank AG, London, United Kingdom, notified us of the following pursuant to section § 21 (1) WpHG:

Pursuant to sections 21 (1), 24 WpHG ('German Securities Trading Act') in conjunction with section 32 (2) InvG ('German Investment Act'), we hereby notify that the percentage of voting rights of our subsidiary DWS Investment GmbH, Frankfurt, Germany, in Aareal Bank AG, Wiesbaden, Germany, crossed above the threshold of 3 % on 29 August 2011 and amounts to 3.436 % (2,056,484 voting rights) as per this date

On 10 August 2011, Deutsche Bank AG, London, United Kingdom, notified us of the following pursuant to section § 21 (1) WpHG:

Pursuant to sections 21 (1), 24 WpHG ('German Securities Trading Act') in conjunction with section 32 (2) InvG ('German Investment Act'), we hereby notify that the percentage of voting rights of our subsidiary DWS Investment GmbH, Frankfurt, Germany, in Aareal Bank AG, Wiesbaden, Germany, crossed below the threshold of 3 % on 09 August 2011 and amounts to 2.772 % (1,659,484 voting rights) as per this date.

On 04 May 2011, Allianz Global Investors Kapitalanlagegesellschaft mbH, Frankfurt/Main, Germany, notified us of the following pursuant to section 21 (1) sentence 1 of the WpHG:

Pursuant to section 21 (1) sentence 1 of the WpHG, we herewith notify you that, on 29/04/2011 our share of voting rights in Aareal Bank AG, Wiesbaden, Germany, exceeded the threshold of 3% and amounted to 3.29 % of the total number of voting rights of the Company mentioned at that date (corresponding to 1,968,863 of a total of 59,857,221 voting rights).

Of our share of voting rights, 0.30 % of the total number of voting rights (corresponding to 177,851 of a total of 59,857,221 voting rights) are attributable to us pursuant to section 22 (1) sentence 1 No. 6 of the WpHG.

No voting rights were acquired within the meaning of section 17 (1) no. 7 of the German Securities Trading Reporting and Insider List Regulation (WpAIV).

On 4 May 2011, Deutsche Bank AG, Frankfurt/Main, Germany, notified us of the following pursuant to section 21 (1) of the WpHG:

Pursuant to section 21 (1) sentence 1 of the WpHG, we herewith notify you that, on 3 May 2011 our share of voting rights in Aareal Bank AG, Wiesbaden, Germany, fell below the thresholds of 10 %, 5 % and 3 % and amounted to 0.00 % at that date (corresponding to zero voting rights).

The notification obligation pursuant to section 21 (1) of the WpHG is based on our capacity as co-lead underwriter within the framework of capital increase of Aareal Bank AG which was registered with the Commercial Register on 18 April 2011.

On 4 May 2011, HSBC Holdings plc., London, United Kingdom, notified us of the following pursuant to section 21 (1) of the WpHG:

Pursuant to sections 21 (1) and 24 of the WpHG and in the name of and on behalf of HSBC Trinkaus & Burkhardt AG, Düsseldorf, Germany, we herewith notify you that, on 3 May 2011 their share of voting rights in Aareal Bank AG, Wiesbaden, Germany, fell below the thresholds of 10 %, 5 % and 3 % and amounted to 0.00 % at that date (corresponding to zero voting rights).

Pursuant to sections 21 (1), 22 and 24 of the WpHG and in the name of and on behalf of HSBC Germany Holdings GmbH, Düsseldorf, Germany, we also herewith notify you that, on 3 May 2011 their share of voting rights in Aareal Bank AG, Wiesbaden, Germany, fell below the thresholds of 10 %, 5 % and 3 % and amounted to 0.00 % at that date (corresponding to zero voting rights). The aforementioned voting rights are held by HSBC Trinkaus & Burkhardt AG, Düsseldorf, and are attributable to HSBC Germany Holdings GmbH, Düsseldorf, pursuant to section 22 (1) sentence 1 No. 1 of the WpHG.

In addition, pursuant to sections 21 (1), 22 and 24 of the WpHG and in the name of and on behalf of our subsidiary HSBC Bank plc, London, United Kingdom, we herewith notify you that, on 3 May 2011 their share of voting rights in Aareal Bank AG, Wiesbaden, Germany, fell below the thresholds of 10 %, 5 % and 3 % and amounted to 0.00 % at that date (corresponding to zero voting rights). The aforementioned voting rights are held by HSBC Trinkaus & Burkhardt AG, Düsseldorf, and are attributable to HSBC Bank plc, London, via HSBC Germany Holdings GmbH, Düsseldorf, pursuant to section 22 (1) sentence 1 No. 1 of the WpHG.

Finally, pursuant to sections 21 (1) and 22 (1) sentence 1 No. 1 of the WpHG, we herewith notify you that, on 3 May 2011 the share of voting rights held by HSBC Holdings plc, London, United Kingdom, in Aareal Bank AG, Wiesbaden, Germany, fell below the thresholds of 10 %, 5 % and 3 % and amounted to 0.00 % at that date (corresponding to zero voting rights). The aforementioned voting rights are held by HSBC Trinkaus & Burkhardt AG, Düsseldorf, and are attributable to HSBC Holdings plc, London, via HSBC Germany Holdings GmbH, Düsseldorf, and HSBC Bank plc, London pursuant to section 22 (1) sentence 1 No. 1 of the WpHG.

The notification obligation pursuant to section 21 (1) of the WpHG is based on the capacity of HSBC Trinkaus & Burkhardt AG as co-lead underwriter within the framework of capital increase of Aareal Bank AG which was registered with the Commercial Register on 18 April 2011.

Publication pursuant to section 26a of the WpHG regarding the total number of voting rights as at the end of April 2011

Aareal Bank AG herewith announces that the total number of voting rights at the end of April 2011 amounts to 59,857,221.

The change in the total number of voting rights has been effective since 18 April 2011.

On 27 April 2011, Deutsche Bank AG, London, UK, notified us of the following:

Pursuant to sections 21 (1), 24 WpHG ('German Securities Trading Act') in conjunction with section 32 (2) InvG ('German Investment Act'), we hereby notify that the percentage of voting rights of our subsidiary DWS Investment GmbH, Frankfurt, Germany, in Aareal Bank AG, Wiesbaden, Germany, crossed above the threshold of 3 % on 20 April 2011 and amounts to 3.285 % (1,966,271 voting rights) as per this date.

HSBC Bank plc, London, United Kingdom, correction of notification pursuant to section 21 of the WpHG dated 21 April 2011

Correction of notification pursuant to section 21 of the WpHG dated 21 April 2011 regarding HSBC Bank plc, London, United Kingdom

On 21 April 2011, HSBC Holdings plc., London, United Kingdom, notified us of the following pursuant to section 21 (1) of the WpHG:

Notification pursuant to section 21 (1) of the WpHG

Pursuant to sections 21 (1) and 24 of the WpHG and in the name of and on behalf of HSBC Trinkaus & Burkhardt AG, Düsseldorf, Germany, we herewith notify you that, on 18 April 2011 their share of voting rights in Aareal Bank AG, Wiesbaden, Germany, exceeded the thresholds of 3 %, 5 % and 10 % and amounted to 14.33 % at that date (corresponding to 8,579,968 voting rights).

DEPFA Holding Verwaltungsgesellschaft mbH, Düsseldorf, Germany, correction of notification pursuant to sections 21 and 22 of the WpHG dated 21 April 2011

On 26 April 2011, DEPFA Holding Verwaltungsgesellschaft mbH, Düsseldorf, Germany, notified us of the following pursuant to section 22 (1) sentence 1 No. 1 of the WpHG:

Correction of notification pursuant to section 21 (1) of the WpHG in conjunction with section 22 (1) sentence 1 No. 1 of the WpHG dated 21 April 2011

Pursuant to section 21 (1) sentence 1 of the WpHG, DEPFA Holding Verwaltungsgesellschaft mbH, Düsseldorf, Germany, herewith notifies you that, on 18 April 2011 its share of voting rights in Aareal Bank AG (ISIN DE0005408116), Wiesbaden, Germany, fell below the threshold of 30 % and amounted to 26.59 % at that date, corresponding to 15,916,881 voting rights of Aareal Bank AG.

This share of voting rights of 26.59 %, which corresponds to 15,916,881 voting rights of Aareal Bank AG, is attributable to DEPFA Holding Verwaltungsgesellschaft mbH, Düsseldorf, Germany, via Aareal Holding Verwaltungsgesellschaft mbH pursuant to section 22 (1) sentence 1 No. 1 of the WpHG.

The share of voting rights fell below the 30 % threshold due to the capital increase of Aareal Bank AG being registered on 18 April 2011, leading to a change in the total number of voting rights.

On 21 April 2011, Deutsche Bank AG, Frankfurt/Main, Germany, notified us of the following pursuant to section 21 (1) of the WpHG:

Pursuant to section 21 (1) sentence 1 of the WpHG, we herewith notify you that, on 18 April 2011 our share of voting rights in Aareal Bank AG, Wiesbaden, Germany, exceeded the thresholds of 3 %, 5 % and 15 % and amounted to 15.24 % at that date. This corresponded to 9,122,419 no-par value ordinary bearer shares. The notification obligation pursuant to section 21 (1) of the WpHG is based on our capacity as co-lead underwriter within the framework of capital increase of Aareal Bank AG which was registered with the Commercial Register on 18 April 2011. At the same time, we also notify you pursuant to section 21 (1) of the WpHG that, on 20 April 2011 our share of voting rights in Aareal Bank AG fell below the threshold of 15 % and currently amounts to 11.31 %. This corresponds to 6,771,387 no-par value ordinary bearer shares.

On 21 April 2011, Deutsche Bank AG, Frankfurt/Main, Germany, notified us of the following pursuant to section 27a of the WpHG:

In a letter dated 21 April 2011, Deutsche Bank AG notified you pursuant to section 21 of the WpHG that its share of voting rights in Aareal Bank AG exceeded the threshold of 10 % as a result of the recently implemented capital increase. Further to this notification, Deutsche Bank AG, Frankfurt, Germany, ("Deutsche Bank"), herewith notifies you pursuant to section 27a of the WpHG that:

the purchase of voting rights in Aareal Bank AG which led to the 10 % threshold being exceeded, is not intended to implement strategic objectives and to achieve gains from trading transactions. It is merely the result of the technical implementation of Aareal Bank AG's capital increase,

it does not intend to acquire further voting rights of Aareal Bank AG within the next twelve months through purchase or otherwise, except in the case of trading activities within the normal course of business,

it does not seek to exercise influence on the composition of the Management Board, Supervisory Board or any other administrative, governing or supervisory body of Aareal Bank AG and

it does not seek to significantly change Aareal Bank AG's capital structure, in particular as regards the ratio of equity capital to borrowings or the dividend policy.

The voting rights were purchased through the use of own funds.

On 21 April 2011, HSBC Holdings plc., London, United Kingdom, notified us of the following pursuant to section 21 (1) of the WpHG:

Pursuant to sections 21 (1) and 24 of the WpHG and in the name of and on behalf of HSBC Trinkaus & Burkhardt AG, Düsseldorf, Germany, we herewith notify you that, on 18 April 2011 their share of voting rights in Aareal Bank AG, Wiesbaden, Germany, exceeded the thresholds of 3 %, 5 % and 10 % and amounted to 14.33 % at that date (corresponding to 8,579,966 voting rights).

Pursuant to sections 21 (1), 22 and 24 of the WpHG and in the name of and on behalf of HSBC Germany Holdings GmbH, Düsseldorf, Germany, we also herewith notify you that, on 18/04/2011 their share of voting rights in Aareal Bank AG, Wiesbaden, Germany, exceeded the thresholds of 3 %, 5 % and 10 % and amounted to 14.33 % at that date (corresponding to 8,579.968 voting rights). The aforementioned voting rights are held by HSBC Trinkaus & Burkhardt AG, Düsseldorf, Germany, and are attributable to HSBC Germany Holdings GmbH, Düsseldorf, Germany, pursuant to section 22 (1) sentence 1 No. 1 of the WpHG.

In addition, pursuant to sections 21 (1), 22 and 24 of the WpHG and in the name of and on behalf of our subsidiary HSBC Bank plc, London, United Kingdom, we herewith notify you that, on 18 April 2011 their share of voting rights in Aareal Bank AG, Wiesbaden, Germany, exceeded the thresholds of 3 %, 5 % and 10 % and amounted to 14.33 % at that date (corresponding to 8,579,968 voting rights). The aforementioned voting rights are held by HSBC Trinkaus & Burkhardt AG, Düsseldorf, Germany, and are attributable to HSBC Bank plc, London, United Kingdom, via HSBC Germany Holdings GmbH, Düsseldorf, Germany, pursuant to section 22 (1) sentence 1 No. 1 of the WpHG.

Finally, pursuant to sections 21 (1) and 22 (1) sentence 1 No. 1 of the WpHG, we herewith notify you that, on 18 April 2011 the share of voting rights held by HSBC Holdings plc, London, United Kingdom, in Aareal Bank AG, Wiesbaden, Germany, exceeded the thresholds of 3 %, 5 % and 10 % and amounted to 14.33 % at that date (corresponding to 8,579,968 voting rights). The aforementioned voting rights are held by HSBC Trinkaus & Burkhardt AG, Düsseldorf, Germany, and are attributable to HSBC Holdings plc, London, United Kingdom, via HSBC Germany Holdings GmbH, Düsseldorf, Germany, and HSBC Bank plc, London, United Kingdom, pursuant to section 22 (1) sentence 1 No. 1 of the WpHG. The notification obligation pursuant to section 21 (1) of the WpHG is based on the capacity of HSBC Trinkaus & Burkhardt AG as co-lead underwriter within the framework of capital increase of Aareal Bank AG which was registered with the Commercial Register on 18 April 2011.

On 21 April 2011, HSBC Holdings plc., London, United Kingdom, notified us of the following pursuant to section 27a of the WpHG:

In a letter dated 21 April 2011, HSBC Holdings plc notified you in the name and on behalf of HSBC Trinkaus & Burkhardt AG pursuant to sections 21 (1) and 24 of the WpHG that its share of voting rights in Aareal Bank AG exceeded the threshold of 10 % as a result of the recently implemented capital increase. Further to this notification, HSBC Holdings plc, London, United Kingdom, herewith notifies you pursuant to section 27a of the WpHG that:

the purchase of voting rights in Aareal Bank AG which led to the 10 % threshold being exceeded, is not intended to implement strategic objectives and to achieve gains from trading transactions. It is merely the result of the technical implementation of Aareal Bank AG's capital increase,

it does not intend to acquire further voting rights of Aareal Bank AG within the next twelve months through purchase or otherwise, except in the case of trading activities within the normal course of business,

it does not seek to exercise influence on the composition of the Management Board, Supervisory Board or any other administrative, governing or supervisory body of Aareal Bank AG and

it does not seek to significantly change Aareal Bank AG's capital structure, in particular as regards the ratio of equity capital to borrowings or the dividend policy.

The voting rights were purchased through the use of own funds.

On 21 April 2011, Aareal Holding Verwaltungsgesellschaft mbH, Düsseldorf, Germany, notified us of the following pursuant to section 21 (1) sentence 1 of the WpHG:

Pursuant to section 21 (1) sentence 1 of the WpHG, we herewith notify you that, on 18 April 2011 the share of voting rights held by Aareal Holding Verwaltungsgesellschaft mbH, Düsseldorf, Germany, in Aareal Bank AG (ISIN DE0005408116), Wiesbaden, Germany, fell below the threshold of 30 % and amounted to 26.59 % at that date. This corresponds to 15,916,881 voting rights of Aareal Bank AG.
The share of voting rights fell below the 30 % threshold due to the capital increase of Aareal Bank AG being registered on 18 April 2011, leading to a change in the total number of voting rights.

On 21 April 2011, DEPFA Holding Verwaltungsgesellschaft mbH, Düsseldorf, Germany, notified us of the following pursuant to section 22 (1) sentence 1 No. 1 of the WpHG:

Pursuant to section 21 (1) sentence 1 of the WpHG, Aareal Holding Verwaltungsgesellschaft mbH, Düsseldorf, Germany, today notified you that, on 18 April 2011 its share of voting rights in Aareal Bank AG (ISIN DE0005408116), Wiesbaden, Germany, fell below the threshold of 30 % and amounted to 26.59 % at that date, corresponding to 15,916,881 voting rights of Aareal Bank AG.

Pursuant to section 22 (1) sentence 1 No. 1 of the WpHG, we herewith notify you that this share of voting rights in the amount of 26.59 % corresponds to 15,916,881 voting rights in Aareal Bank AG and is attributable to DEPFA Holding Verwaltungsgesellschaft mbH, Düsseldorf, Germany, via Aareal Holding Verwaltungsgesellschaft mbH.

The share of voting rights fell below the 30 % threshold due to the capital increase of Aareal Bank AG being registered on 18 April 2011, leading to a change in the total number of voting rights.

On 21 April 2011, the German Financial Markets Stabilisation Fund, represented by Bundesanstalt für Finanzmarktstabilisierung, Frankfurt/Main, Germany, notified us of the following pursuant to sections 21 (1) and 22 (2) of the WpHG:

Persons subject to a notification obligation:

Federal Republic of Germany, acting through the Financial Markets Stabilisation Fund,

Frankfurt/Main, Germany, the latter represented by Bundesanstalt für Finanzmarktstabilisierung, Frankfurt/Main, Germany,

Issuer:

Aareal Bank AG, Wiesbaden, Germany

We herewith notify you that the share of voting rights held by the Federal Republic of Germany fell below the threshold of 30 % on 18 April 2011, amounting to 26.59 % (equivalent to 15,916,881 voting rights) on that day.

All of the voting rights are attributable to the Federal Republic of Germany pursuant to section 22 (2) of the WpHG due to an agreement on voting rights concluded with Aareal Holding Verwaltungsgesellschaft mbH, Düsseldorf. The Federal Republic of Germany does not directly hold any shares or voting rights in Aareal Bank AG.

On 16 March 2011, Deutsche Bank AG, London, UK, notified us of the following:

Pursuant to sections 21 (1), 24 WpHG ("German Securities Trading Act") in conjunction with section 32 (2) InvG ("German Investment Act"), we hereby notify that the percentage of voting rights of our subsidiary DWS Investment GmbH, Frankfurt, Germany, in Aareal Bank AG, Wiesbaden, Germany, fell below the threshold of 3 % on 10 march 2011 and amounts to 2.952 % (1,262,000 voting rights) as per this date.

Corporate Governance Code

The declaration regarding the German Corporate Governance Code, pursuant to section 161 of the AktG, has been submitted and has been published on our website: http://www.aareal-bank.com/investor-relations/corporate-governance/entsprechenserklaerung-gemaess-161-aktg/.

Proposal on the appropriation of profits

The Management Board proposes to the Annual General Meeting that the net retained profit of € 10,000,000.00 for the financial year 2011 be transferred to retained earnings. For reasons of commercial prudence, we believe that this is necessary, above all against the backdrop of securing the positioning of Aareal Bank relative to other companies for the near future in light of increasing risks on a macroeconomic level, weak growth impetus and the risk of further disruptions to the market.

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 5 of the German Stock Corporation Act (AktG)

Supervisory Board

Hans W. Reich,		
Chairman Public Sector Group, Citigroup Inc.		
Aareal Bank AG	Chairman of the Supervisory Board	
Citigroup Global Markets Deutschland AG	Chairman of the Supervisory Board	
HUK-COBURG Haftpflicht Unterstützungskasse kraftfahrender Beamter Deutschlands a. G. in Coburg	Member of the Supervisory Board	until 2 July 2011
HUK-COBURG-Holding AG	Member of the Supervisory Board	until 2 July 2011

Erwin Flieger, Deputy Chairman of the Supervisory Board		
Chairman of the Supervisory Boards of Bayerische Beamten Versicherungsgruppe		
Aareal Bank AG	Deputy Chairman of the Supervisory Board	
Bayerische Beamten Lebensversicherung a.G.	Chairman of the Supervisory Board	
Bayerische Beamten Versicherung AG	Chairman of the Supervisory Board	
BBV Holding AG	Chairman of the Supervisory Board	
DePfa Holding Verwaltungsgesellschaft mbH	Chairman of the Supervisory Board	
MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH	Member of the Supervisory Board	
Neue Bayerische Beamten Lebensversicherung AG	Chairman of the Supervisory Board	

York-Detlef Bülow*, Deputy Chairman of the Supervisory Board		
Aareal Bank AG		
Aareal Bank AG	Deputy Chairman of the Supervisory Board	

Christian Graf von Bassewitz		
Banker (ret'd.); former Spokesman of the General Partners of Bankhaus Lampe KG		
Aareal Bank AG	Member of the Supervisory Board	
Bank für Sozialwirtschaft Aktiengesellschaft	Member of the Supervisory Board	
Deutscher Ring Krankenversicherungsverein a.G.	Deputy Chairman of the Supervisory Board	
OVB Holding AG	Member of the Supervisory Board	
OVB Vermögensberatung AG	Member of the Supervisory Board	
SIGNAL IDUNA Allgemeine Versicherung AG	Member of the Supervisory Board	
SIGNAL IDUNA Holding AG	Member of the Supervisory Board	
Societaet CHORVS AG	Member of the Supervisory Board	

* Employee representative member of the Supervisory Board of Aareal Bank AG

Manfred Behrens		
Chairman of the Management Board of AWD Holding AG		
Aareal Bank AG	Member of the Supervisory Board	
AWD Allgemeiner Wirtschaftsdienst AG	President of the Board of Directors	
tecis Finanzdienstleistungen AG	Chairman of the Supervisory Board	
Thomas Hawel *		
Aareon Deutschland GmbH		
Aareal Bank AG	Member of the Supervisory Board	
Aareon Deutschland GmbH	Deputy Chairman of the Supervisory Board	
Dieter Kirsch *		
Aareal Bank AG		
Aareal Bank AG	Member of the Supervisory Board	
Dr Herbert Lohneiß		
Former Chief Executive Officer of Siemens Financial Services GmbH (ret'd)		
Aareal Bank AG	Member of the Supervisory Board	
UBS Global Asset Management (Deutschland) GmbH	Member of the Supervisory Board	
Joachim Neupel, Chairman of the Accounts and Audit Committee		
German Chartered Accountant, tax consultant		
Aareal Bank AG	Member of the Supervisory Board	
Prof Dr Stephan Schüller		
Spokesman of the General Partners of Bankhaus Lampe KG		
Aareal Bank AG	Member of the Supervisory Board	
DePfa Holding Verwaltungsgesellschaft mbH	Member of the Supervisory Board	until 15 September 2011
DePfa Holding Verwaltungsgesellschaft mbH	Deputy Chairman of the Supervisory Board	since 15 September 2011
hanse chemie AG	Chairman of the Supervisory Board	until 30 March 2011
NANORESINS AG	Chairman of the Supervisory Board	until 30 March 2011
Universal-Investment-Gesellschaft mbH	Member of the Supervisory Board	
Wolf R. Thiel		
President and Chairman of the Management Board of Versorgungsanstalt des Bundes und der Länder		
Aareal Bank AG	Member of the Supervisory Board	
DePfa Holding Verwaltungsgesellschaft mbH	Member of the Supervisory Board	
Helmut Wagner *		
Aareon Deutschland GmbH		
Aareal Bank AG	Member of the Supervisory Board	
Aareon Deutschland GmbH	Member of the Supervisory Board	

* Employee representative member of the Supervisory Board of Aareal Bank AG

Management Board

Dr Wolf Schumacher, Chairman of the Management Board		
Aareon AG	Member of the Supervisory Board	
Dirk Große Wördemann, Member of the Management Board		
Aareal Bank Asia Limited	Member of the Board of Directors	since 11 February 2011
Aareal Bank Asia Limited	CEO (Chairman)	since 11 February 2011
Aareal Capital Corporation	Chairman of the Board of Directors	
Aareal Financial Service spol. s r.o.	Member of the Supervisory Board	
Aareon AG	Member of the Supervisory Board	since 03 February 2011
Pacific Star Europe GmbH	Managing Director	until 28 February 2011
Deutsche Structured Finance GmbH	Member of the Advisory Board	since 07 March 2011
Deutsche Structured Finance GmbH	Member of the Advisory Board	until 01 December 2011
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Member of the Supervisory Board	since 11 November 2011
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Deputy Chairman of the Supervisory Board	since 07 December 2011
Hermann Josef Merkens, Member of the Management Board		
Aareal Estate AG	Chairman of the Supervisory Board	
Aareal Bank Asia Limited	Member of the Board of Directors	
Aareal Capital Corporation	Member of the Board of Directors	
Aareal First Financial Solutions AG	Member of the Supervisory Board	
Aareon AG	Member of the Supervisory Board	
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Chairman of the Supervisory Board	until 11 November 2011
Deutsche Structured Finance GmbH	Member of the Advisory Board	until 01 December 2011
RMS Risk Management Solutions GmbH	Member of the Supervisory Board	
Thomas Ortmanns, Member of the Management Board		
Aareal First Financial Solutions AG	Chairman of the Supervisory Board	
Aareon AG	Chairman of the Supervisory Board	
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Member of the Supervisory Board	since 11 November 2011
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Chairman of the Supervisory Board	since 07 December 2011
HypZert GmbH	Member of the Supervisory Board	
Innovative Banking Solutions AG	Member of the Supervisory Board	until 18 July 2011

Offices held by employees of Aareal Bank AG pursuant to 340a (4) No. 1 of the HGB

Dr Michael Beckers, Bank Director		
Aareal Financial Service Polska Sp.z o.o.	Member of the Supervisory Board	until 22 November 2011
Ulf Ekelius, Bank Director		
Aareal Financial Service spol. s r.o.	Member of the Supervisory Board	
Dr Christian Fahrner, Bank Director		
Innovative Banking Solutions AG	Deputy Chairman of the Supervisory Board	until 18 July 2011
Ralf Gandenberger, Bank Director		
Terrain-Aktiengesellschaft Herzogpark	Deputy Chairman of the Supervisory Board	until 22 September 2011
Uli Gilbert		
Terrain-Aktiengesellschaft Herzogpark	Member of the Supervisory Board	
Hans-Ulrich Kron, Bank Director		
Aareal Estate AG	Deputy Chairman of the Supervisory Board	
Terrain-Aktiengesellschaft Herzogpark	Member of the Supervisory Board	since 27 September 2011
Terrain-Aktiengesellschaft Herzogpark	Deputy Chairman of the Supervisory Board	since 12 December 2011
Dr Stefan Lange, Bank Director		
Aareal Estate AG	Member of the Supervisory Board	
Aareal First Financial Solutions AG	Member of the Supervisory Board	
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Deputy Chairman of the Supervisory Board	until 11 November 2011
Terrain-Aktiengesellschaft Herzogpark	Chairman of the Supervisory Board	
Peter Mehta, Bank Director		
Innovative Banking Solutions AG	Member of the Supervisory Board	until 18 July 2011
Dirk Pasewald		
Aareal Property Services B.V.	Member of the Supervisory Board	
Markus Schmidt		
Aareal Property Services B.V.	Member of the Supervisory Board	
Christine Schulze Forsthövel, Bank Director		
Aareal Financial Service Polska Sp.z o.o.	Member of the Supervisory Board	until 22 November 2011
Aareal Financial Service spol. s r.o.	Member of the Supervisory Board	

Composition of 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	

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 for financial reporting, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Wiesbaden, 28 February 2012

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

Auditors’ Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system and the management report of the Aareal Bank AG, Wiesbaden, for the business year from 1 January to 31 December 2011. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary articles of incorporation are the responsibility of the Company’s Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). 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 annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company 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 books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company’s Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and 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 annual financial statements comply with the legal requirements and supplementary articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 5 March 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Roland Rausch	**ppa. Andreas Hülsen**
Wirtschaftsprüfer	**Wirtschaftsprüfer**
(German Public Auditor)	**(German Public Auditor)**

Report of the Supervisory Board

Dear shareholders,

Aareal Bank AG once again achieved very good results, considering the challenging environment, during the financial year 2011 under review. The bank continued its successful business development, already exceeding the previous year's consolidated operating profit by the end of 2011's third quarter.

This means that Aareal Bank AG has generated positive quarterly results on each occasion since the outbreak of the international crisis affecting financial markets and the economy back in 2008. The Supervisory Board considers these results generated by Aareal Bank AG as evidence for the viability and operative strength of the Group's business model.

Developments on the financial and capital markets during 2011 were characterised by the European debt crisis in particular. Discussions focused on a permanent and viable solution for the debt problems of the affected countries, and the resulting consequences this would have for the European currency as well as for the European banking system.

Global economic growth lost momentum, particularly during the second half of 2011. Growth forecasts for important regions in the world and for the global economy as a whole have been downgraded frequently. The environment in the property sector was stable to slightly better than in the previous year. The capital increase which Aareal Bank AG executed successfully in April 2011 was a highlight for the bank during the financial year under review. Gross issuing proceeds were used to generate new business in the Structured Property Financing segment, as well as to strengthen the bank's capitalisation; a portion of the proceeds was applied to a further repayment of the SoFFin silent participation. Moreover, in April 2011 Aareal Bank AG carried out an early redemption of the SoFFin-guaranteed € 2 billion bond maturing in June 2013, which the bank held on its own books. With the partial repurchase of the remaining SoFFin-guaranteed notes maturing in March 2012, Aareal Bank further reduced its obligations to SoFFin.

Thanks to careful and forward-looking management, Aareal Bank AG continued to have sufficient liquidity at all times during the 2011 financial year, together with a sound funding base.

During the financial year under review, the Supervisory Board continually advised, monitored, and supervised the management of Aareal Bank AG. The Management Board informed the Supervisory Board regularly, without delay and comprehensively, both orally and in writing, of all issues important to the Group with regard to its situation, business development, key financial indicators, and market developments. In addition, detailed reports and explanations were given to the Supervisory Board regarding the current liquidity status and liquidity management measures taken, the prevailing risk situation, and the risk control and risk management measures taken within the Group. The Supervisory Board also received comprehensive reports on the development of business segments, and on operative and strategic planning. The Supervisory Board was informed about, and involved in all important decisions. All material events were discussed and examined in detail; where a Supervisory Board resolution was required, the decision proposals were submitted to the Supervisory Board and a decision taken. In cases where resolutions needed to be passed in between scheduled Supervisory Board meetings, such resolutions were passed by way of circulation or via conference calls.

Furthermore, between the meetings of the Supervisory Board, the Chairman of the Management Board kept the Chairman of the Supervisory Board informed, on a continuous and regular basis, both orally and in writing, on all material developments of the Company. The Chairman of the Management Board maintained close contact with the Chairman of the Supervisory Board, in order to discuss key issues and important decisions personally.

Activities of the plenary meeting of the Supervisory Board

Six plenary meetings of the Supervisory Board were held during the financial year under review, of which five were scheduled meetings; the extraordinary meeting was held in the form of a con-ference call. During the meetings, the members of the Supervisory Board received reports and explanations by the members of the Management Board, and discussed these in detail. Proceedings and reports during all scheduled meetings focused on the way the bank dealt with the challenges posed by the European sovereign debt crisis, and with the impact of continued high levels of financial market uncertainty and volatility.

The plenary meetings of the Supervisory Board also discussed the execution of Aareal Bank AG's capital increase, the further partial repayment of SoFFin's silent participation, and the redemption of the guarantee facility drawn upon. The Supervisory Board was involved in the related processes and discussions, and approved the measures taken.

In its discussions, the Supervisory Board also concerned itself with changes to the regulatory framework, in great detail. During the year under review, these included the newly-established European Banking Authority (EBA), and the implementation of amended Minimum Requirements for Risk Management (MaRisk).

Throughout the financial year, in the course of all meetings as well as during the periods between meetings, the Management Board informed the Supervisory Board about economic and market developments and their potential impact on Aareal Bank Group, in a timely, complete and comprehensible manner. This included detailed explanations of the appropriate measures taken in response to the challenges arising from the European sovereign debt crisis, and from other market developments.

During the scheduled plenary meetings of the Supervisory Board, the Management Board reported to the Supervisory Board regularly and comprehensively; these reports also covered the development of the Structured Property Financing and Consulting/Services segments, focusing on current economic developments. Within regular intervals, the Supervisory Board was informed of the bank's liquidity status and the related steps taken by the bank's Treasury. In addition, the Supervisory Board was informed about the business development of the entire Aareal Bank Group, on the basis of actual figures and projections. The Management Board also reported regularly on the quality of the property financing portfolio, against the background of general market trends and expected changes on the various property markets.

The focal points of the various Supervisory Board meetings are presented below:

One of the March meetings focused exclusively on Aareal Bank's strategic options, and on the challenges presented in the prevailing market environment. This also included considerations regarding the capital increase executed in April. During a further meeting in March, the Supervisory Board discussed various issues related to the implementation of the German Ordinance governing supervisory requirements for remuneration systems of financial institutions (Institutsvergütungsverordnung – "InstVergV") and other regulatory issues. During this meeting, the Supervisory Board also concerned itself in detail with the financial statements and consolidated financial statements presented for the 2010 financial year, and with the auditors' report. The relevant facts were presented in the Supervisory Board report for the previous year. The meeting also discussed the proposal for the appointment of external auditors to be submitted to the Annual General Meeting, as well as the details of the subsequent instructions to be given to them, including the contents and focal points for the audit during the 2011 financial year, as specified by the Supervisory Board.

Further topics discussed during the March meeting included preparing the Annual General Meeting held in May 2011 (in the context of which the realignment of Supervisory Board remuneration was discussed and adopted), as well as the annual reports submitted by Internal Audit and the Compliance Officer.

An extraordinary Supervisory Board meeting was held in April, in the form of a conference call, to discuss the execution of the capital increase previously resolved.

The purpose of the May meeting of the Supervisory Board was to follow up on the Annual General Meeting of Aareal Bank AG, which preceded the meeting. The realignment of the remuneration system for the Supervisory Board, as resolved by the General Meeting, necessitated adjustments of the Declaration of Compliance to be published in accordance with the German Corporate Governance Code; these adjustments were discussed and adopted. Additional topics included a further discussion concerning the focal points of the audit, as specified by the Supervisory Board, and a final report submitted by the Management Board on the capital increase carried out.

During the September meeting, topics related to the German Corporate Governance Code were presented and discussed, alongside other regulatory issues. The Supervisory Board also concerned itself with the audit of the financial statements, and with the stress test imposed by the EU for banks, together with its results.

During the December meeting, the Management Board reported on the Group's business plan, which it submitted to the Supervisory Board and gave detailed explanations. Corporate governance issues were discussed as well: in this context, the Supervisory Board adopted the regular Declaration of Compliance, pursuant to section 161 of the AktG, for the year 2010, which was subsequently published on the bank's website.

In accordance with good corporate governance practice, the Supervisory Board also regularly examines the efficiency of its activities in order to identify any areas requiring improvement. The results of the efficiency examination conducted during the 2011 financial year were acknowledged by the members of the Supervisory Board, and were discussed in detail. No concrete need for action was identified.

Strategy documents were submitted to, and discussed by the Supervisory Board according to schedule, in accordance with the Minimum Requirements for Risk Management (MaRisk). The Supervisory Board received a report on the implementation of the latest amendments to the MaRisk. The results of the regular review of the Company's remuneration system were reported to the Supervisory Board. The Supervisory Board determined that the Company's remuneration system is appropriate.

The Chairmen of Supervisory Board committees regularly gave account of the work in the committees to the plenary meeting, answering all related questions submitted by the plenary meeting in detail.

Any Supervisory Board decisions which were taken by way of circulation were discussed at the subsequent meeting, to ensure that the members were able to reconcile the implementation of such decisions.

As part of preparing Supervisory Board decisions, a routine examination is carried out as to whether there are any conflicts of interest. No potential conflicts of interest that would need to be considered in the context of decision-making processes were identified during the financial year under review. Beyond this, the members of the Supervisory Board did not give notice of any conflicts of interest (pursuant to section 5.5.3 of the German Corporate Governance Code) during 2011.

In addition to its regular meetings, the Supervisory Board convened for a separate meeting during which the auditors of PricewaterhouseCoopers provided information on current changes and deliberations in the regulatory and legal framework. This meeting provided the opportunity for a more detailed analysis and discussion of key topics, outside the regular work of the Supervisory Board.

Activities of Supervisory Board committees

The Supervisory Board has established five committees in order to perform its supervisory duties in an efficient manner: the Executive Committee, the Risk Committee, the Committee for Urgent Decisions, the Accounts and Audit Committee, and the Nomination Committee.

The Executive Committee held six meetings, including three extraordinary meetings, two of which were convened as a conference call. The Executive Committee has prepared the plenary meetings of the Supervisory Board, together with proposed resolutions.

During its two meetings in April, the committee discussed Aareal Bank AG's capital increase, adopted corresponding resolutions and/or prepared proposals for resolutions to be passed by the plenary meeting. The members of the Management Board did not take part in the October meeting, since discussions during that meeting concerned the implementation of the InstVergV in the contracts of Management Board members; proposals for resolutions to be passed by the plenary meeting were drawn up. Concerning the implementation of the InstVergV, the Chairman of the Supervisory Board and the Chairman of the Management Board maintained close contact throughout the financial year, in order to coordinate and execute the implementation. Given a lack of precedents for the implementation of this regulation and the necessity to review whether remuneration is in line with prevailing market terms, the Supervisory Board used the option of retaining external advisors for this purpose.

In its October and December meetings, the Executive Committee concerned itself in detail with the variable remuneration of Management Board members for the year 2011; it also resorted to external advice for this purpose. Specifically, the related discussions focused on the degree to which the Management Board reached its targets, also considering the very successful execution of Aareal Bank AG's capital increase in 2011. In its December meeting, the Executive Committee then submitted a proposal to the plenary meeting regarding 2011's variable remuneration for Management Board members, which the plenary meeting approved unanimously. Please refer to the 2011 Remuneration Report regarding details in this context, and for more detailed information concerning the remuneration of the Management Board.

The Risk Committee held four meetings during the year under review. The Management Board submitted detailed reports to the committee, covering all markets in which the bank is active in the property financing business, as well as supplementary reports regarding the bank's investments in securities portfolios. The committee members discussed these reports and market views in detail. The committee discussed the banking environment and the situation of the bank's competitors. The committee also regularly dealt with loans requiring approval and transactions subject to reporting requirements. The committee discussed individual exposures of material importance to the bank, which were presented and explained by the Management Board. Also, detailed reports were given regarding the bank's liquidity status and funding.

The committee regularly discussed reports on the bank's risk situation, which were submitted and explained by the Management Board. Having discussed the contents with the Management Board, these were duly noted and approved by the members of the committee. Besides credit and country risks, the committee concerned itself with market risks, liquidity risks, and operational risks. The committee discussed developments in the wake of the debt crisis affecting individual European countries in great detail, together with the implications of these developments for Aareal Bank's business environment. In this context, the committee was also informed about the stress tests for banks conducted by the European Banking Authority (EBA), together with an assessment of Aareal Bank's risk-bearing capacity, as well as a detailed presentation of Aareal Bank's capital ratios and the implementation of Basel III requirements. A report was also given regarding the implementation of MaRisk amendments, which were adopted in December 2010. The committee also decided on any other transactions requiring the Supervisory Board's approval pursuant to the Company's Memorandum and Articles of Association, or the Management Board's internal rules of procedure.

The Committee for Urgent Decisions is a sub-committee of the Risk Committee. It approves loans subject to approval requirements by way of circulation; for this reason, it did not hold any meetings. Any decisions which were taken between meetings of the Risk Committee were discussed at the subsequent meeting.

The Accounts and Audit Committee held six meetings during the year under review. During its meeting in March 2011, the Accounts and Audit Committee received the external auditors' report on the 2010 financial year and discussed the results with the auditors in detail. The committee members read the audit reports provided; they formed their own judgement of the audit results on the basis of these reports, and by way of extensive discussions with the external auditors. In accordance with its duties under the Memorandum and Articles of Association, the Accounts and Audit Committee also discussed the selection of external auditors and the focal aspects of the audit for 2011 during the same meeting.

Proceedings at the meetings in August and November included information given to the committee regarding the progress of audit activities for the 2011 financial year. In addition to a further report on the audit progress, the Management Board presented and explained the updated Group planning to the committee during its December meeting. The committee also received reports submitted by Internal Audit and by the Compliance Officer, requesting and receiving detailed explan-ations. It discussed and duly noted the review of the internal control system, which was carried out in accordance with applicable law.

Furthermore, during the committee meetings in February, May, August and November 2011, the Management Board presented the quarterly results for the financial year, as well as the preliminary full-year results for 2010 prior to publication, in accordance with the German Corporate Governance Code; the committee members discussed the reports with the Management Board. As in the financial year under review, the preliminary results for 2011 were discussed at a meeting in February 2012.

In its meeting on 21 March 2012, the Accounts and Audit Committee received the external auditors' detailed report on the audit and audit results for the 2011 financial year, and discussed these results extensively with the auditors and the Management Board.

The Nomination Committee did not convene any meetings in 2011. The task of the committee is to coordinate and carry out the search for new shareholder representatives on the Supervisory Board, if a member representing shareholders retires from the Supervisory Board. All members of the Supervisory Board were still within their regular terms of office during the financial year under review.

Where members of the Supervisory Board were unable to attend a meeting, they had announced their absence in advance, giving reasons. If material decisions were on the agenda, these Supervisory Board members submitted written instructions for the casting of their votes, or cast their votes afterwards, in writing. Attendance of Supervisory Board members at meetings is shown in the table below:

Member of the Supervisory Board	Number of meetings attended / number of meetings (plenary and committee meetings)
Hans W. Reich	22 of 22
Erwin Flieger	16 of 16
York-Detlef Bülow *	18 of 18
Christian Graf von Bassewitz	14 of 16
Manfred Behrens	4 of 6
Thomas Hawel *	6 of 6
Dieter Kirsch *	9 of 10
Dr Herbert Lohneiß	10 of 10
Joachim Neupel	16 of 16
Prof Dr Stephan Schüller	16 of 16
Wolf R. Thiel	12 of 12
Helmut Wagner *	6 of 6

* Employee representative

Transactions of particular importance during 2011

During its meeting on 13 April 2011, the Supervisory Board approved the proposal submitted by the Management Board to carry out a capital increase against cash contributions in the form of a rights issue, and also approved the key parameters defined. With the placement, Aareal Bank raised gross issuing proceeds of approximately € 270 million. In this context, the Supervisory Board also approved the Management Board's proposal for the appropriation of these proceeds.

Besides strengthening new business in the Structured Property Financing segment, that proposal provided for € 75 million of the issue proceeds to be applied for a further repayment of the SoFFin silent participation. The first partial repayment of € 150 million was made on 16 July 2010.

In parallel with the capital increase, on 19 April 2011 the bank carried out the early redemption of the SoFFin-guaranteed € 2 billion bond maturing on 5 June 2013, which the bank held on its own books, and returned the related guarantee to SoFFin. Aareal Bank had issued this three-year bond in June 2010 as a precautionary measure to enhance the flexibility in the refinancing business; however, due to the gradual stabilisation of the market environment, the issue was not placed on the market.

In July 2011, Aareal Bank offered holders of its remaining SoFFin-guaranteed bond the early repurchase of the outstanding notes maturing on 26 March 2012. By the end of the repurchase period, Aareal Bank had been offered notes in the volume of just under € 0.8 billion; the bank called in notes and returned the related SoFFin guarantee to this extent. The notes were redeemed in full at their final maturity, at which point the remaining SoFFin guarantee lapsed.

Through these measures, Aareal Bank was able to achieve a key step in redeeming SoFFin support.

Financial statements and consolidated financial statements

The Supervisory Board instructed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, who were elected as auditors by the Annual General Meeting 2011, with the audit of the financial statements. The external auditors appointed submitted a statement regarding their independence to the Supervisory Board, who duly noted it. The Supervisory Board has no reason to doubt the accuracy of this statement of independence. Fulfilling their duties as commissioned by the Supervisory Board, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code (HGB) and the consolidated financial statements prepared in accordance with IFRS, as well as the Management Report and the Group Management Report. Based on the results of their audit, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft issued an unqualified audit opinion for the financial statements and consolidated financial statements.

All members of the Supervisory Board received the audit reports regarding the financial statements and the consolidated financial statements, including all annexes thereto, in good time before the meeting during which the audit results were discussed. Having examined the documents provided, the Supervisory Board members formed their own judgement of audit results. The representatives of the external auditors, PricewaterhouseCoopers 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 IFRS; the proposal of the Management Board regarding the appropriation of profit; and the audit report. In its meeting on 28 March 2012, the Supervisory Board approved the results of the audit. The Supervisory Board approved the financial statements and Management Report of Aareal Bank AG, prepared in accordance with the HGB, together with the consolidated financial statements and the Group Management Report prepared in accordance with IFRS. The financial statements and Management Report of Aareal Bank AG are thus confirmed. Having examined and discussed it with the Management Board, the Supervisory Board has endorsed the proposal for the appropriation of profit submitted by the Management Board.

In conclusion, the Supervisory Board would like to thank the Management Board and all of the Company's employees for their strong commitment and successful work during the 2011 financial year, which was once again eventful. Throughout the year, it was thanks to the motivation and contribution of Aareal Bank Group staff that enabled the Company to successfully master the challenges of recent months..

Kronberg, March 2012

For the Supervisory Board

Hans W. Reich (Chairmman)

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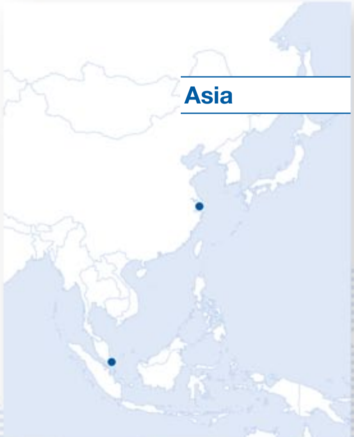
Financial Calendar

10 May 2012	Presentation of interim report as at 31 March 2012
23 May 2012	Annual General Meeting – Kurhaus Wiesbaden
August 2012	Presentation of interim report as at 30 June 2012
November 2012	Presentation of interim report as at 30 September 2012

Structured Property Financing

Structured Property Financing

Consulting / Services



Structured Property Financing

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