LOCAL EXPERTISE
MEETS GLOBAL EXCELLENCE

THE FOUNDATIONS OF CHANGE

Aareal Bank Group – Annual Report 2012

SINCE 1923
TRUSTED 90 YEARS

Aareal Bank Group

KEY GROUP FIGURES

	01 Jan - 31 Dec 2012	01 Jan - 31 Dec 2011	Change	
	€ mn	€ mn	€ mn	
Income Statement				
Operating profit	176	185	-9	
Net income/loss after non-controlling interests	105	114	-9	
Indicators				
Cost/income ratio (%) [1]	40.9	43.9		
Earnings per share (€)	1.75	2.11		
RoE before taxes (%)	7.2	8.3		
RoE after taxes (%)	4.8	5.7		

	31 Dec 2012	31 Dec 2011	Change	Change
	€ mn	€ mn	€ mn	%
Portfolio Data				
Property financing	23,304	23,986	-682	-3
of which: international	19,991	20,425	-434	-2
Property financing under management [2]	23,496	24,239	-743	-3
of which: international	19,991	20,425	-434	-2
Equity	2,352	2,169	183	8
Total assets	45,734	41,814	3,920	9
Regulatory Indicators				
Tier 1 ratio pursuant to AIRBA [3]	16.7 [4]	16.3		
Total capital ratio pursuant to AIRBA [3]	20.6 [4]	19.5		

	31 Dec 2012	31 Dec 2011		
Ratings				
Fitch Ratings, London				
Long-term	A -	A -		
Short-term	F1	F1		

[1] Structured Property Financing segment only
[2] The figures for property financing under management include property loans managed on behalf of Deutsche Pfandbriefbank AG
[3] Advanced Internal Ratings-Based Approach
[4] After confirmation of Aareal Bank AG's financial statements 2012. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2012 is subject to approval by the Annual General Meeting.

OUR BUSINESS MODEL:
TWO STRONG PILLARS

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

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

Key Group Figures

www.aareal-bank-90years.com

SINCE 1923
TRUSTED
90
YEARS

Key Group Figures

10

Since its foundation back in 1923, Aareal Bank has consistently developed innovative product offerings for its clients. In this way, the bank not only built long-term client relationships, but has kept evolving to the leading international property specialist it is today. Mutual trust is an indispensable foundation for such a development.

TRUST BUILDS ON CONTINUITY

18

Commercial property financing not only requires speed but also profound know-how, in order to evaluate the entire framework. Our particular strength lies in the combination of local market expertise and sector-specific know-how. This makes us a strong partner in assessing and valuing the location and quality of a property.

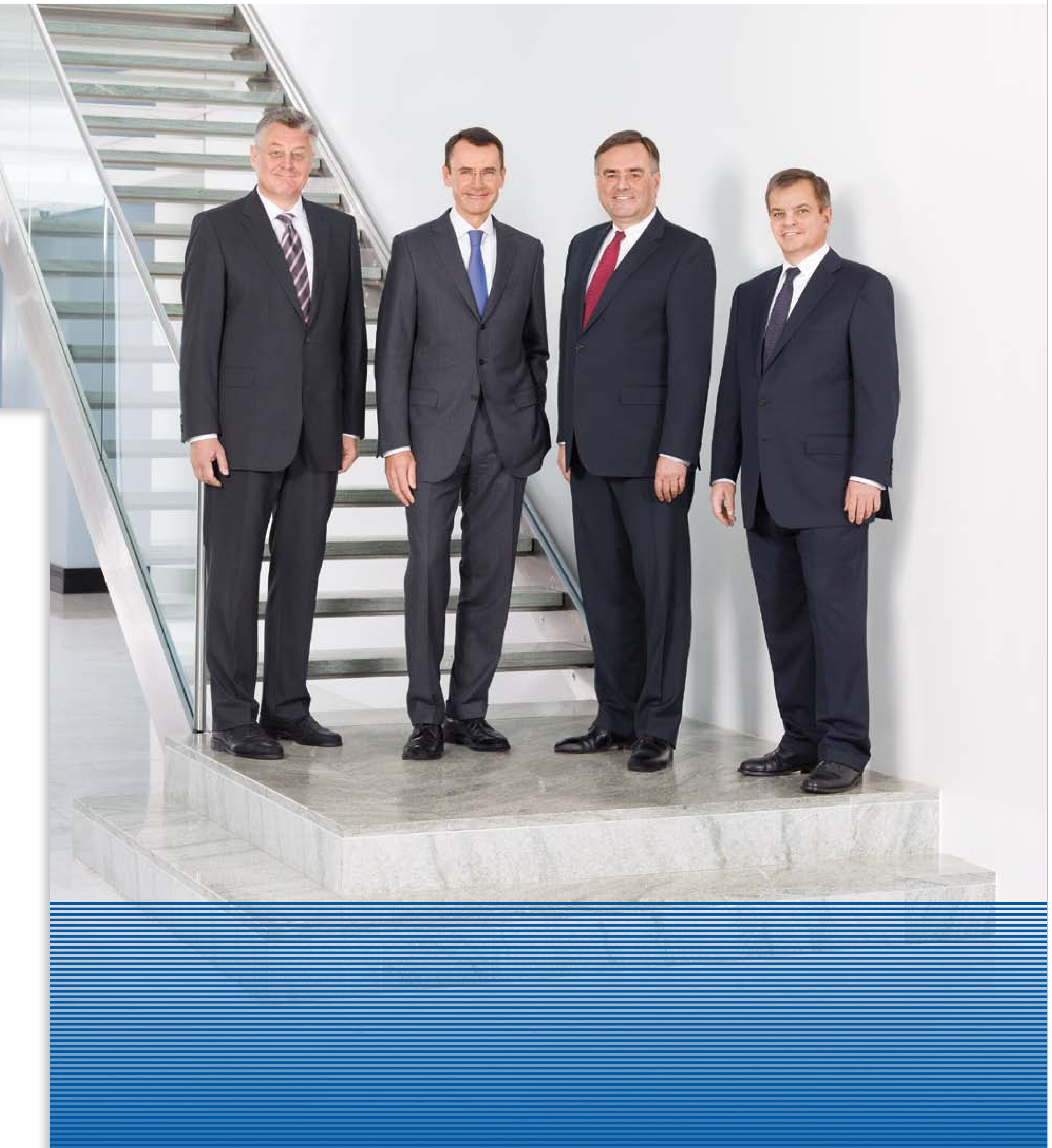
SUCCESS BUILDS ON EXPERTISE

34

Aareal Bank Group takes account of ecological and social considerations in the way it conducts its business – a practice that not only allows the bank to fulfil its corporate responsibility, but has also cemented itself into a sustainable and future-oriented business strategy.

RESPONSIBILITY BUILDS ON CONVICTION

CONTENTS



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

Dear Shareholders,
business associates and Aareal Bank staff,

2012 once again confronted Aareal Bank Group and the entire banking sector with tremendous challenges. Whilst important resolutions were adopted to combat the European sovereign debt crisis indeed led to a noticeable easing on the financial and capital markets, particularly in the second half of the year, in many areas ongoing concerns about the stability of European economies loomed large. The unresolved questions regarding the budget conflict in the USA added to this tension.

The European Central Bank (ECB) played a decisive role in calming the markets. Its key contributions included providing extensive funding options at attractive interest rates for the European commercial banking sector in December 2011 and February 2012, in order to stave off a renewed liquidity shortfall on the interbank market. In the third quarter of 2012, the ECB also announced its intention to purchase government bonds on the secondary market for financially vulnerable euro countries to a limited extent, and subject to certain conditions. As a consequence, risk premiums for the bonds of peripheral euro zone countries decreased and the refinancing situation for banks in the European core countries eased noticeably.

Coordinated European political efforts succeeded in launching two more aid packages for Greece as well as an extensive credit package to shore up Spanish banks. The European Stability Mechanism was funded and came into force in October 2012. Europe demonstrated that it was both willing and capable of acting in 2012. Europeans are well on their way to withstanding the test of the European sovereign debt crisis, even if a final enduring solution to the crisis may not yet be a reality and a repeated escalation cannot be ruled out.

Global economic growth proceeded to lose further momentum over the course of the year. Restrictive fiscal policies and rising unemployment adversely impacted the economies of Southern Europe in particular, where recession persisted in some countries in 2012. The interrelated nature of international trade meant that these developments also had negative economic repercussions in other regions. In North America, the economy showed lacklustre development while China saw the previous year's rapid pace of growth slow significantly.

In addition to the sovereign debt crisis and economic slowdown, the banking sector also had to contend with numerous regulatory initiatives last year. Quite a few measures have already been adopted, while others were still being discussed or prepared. Although the adverse consequences associated with the changes to the regulatory environment are considerable, one positive development to note is that the requirements for individual institutions have gradually become clearer, even though some details relating to technical implementation remaining open. The decision by the United States not to introduce Basel III's new capital requirements for the time being is cause for concern, however, as it lays the groundwork for renewed regulatory arbitrage, bringing about competitive disadvantages for European – and in particular German – banks.

In this largely quite challenging environment, Aareal Bank Group once again remained on track. I am pleased to be able to share with you our annual report testifying to another successful financial year. We delivered on our promises and achieved our key objectives. In a volatile environment, Aareal Bank Group performed well, solidifying its leading market position in both Group segments and strengthening its capital and liquidity situation.

With a consolidated operating profit of € 176 million, we achieved a result just slightly below last year's excellent level as planned, despite the many challenges we confronted. The bank once again demonstrated that even amidst a volatile environment, its sustainable business model, founded on the two segments of Structured Property Financing and Consulting / Services, is capable of delivering sustainably stable results. Our prudent business policy geared toward enduring success once again proved its mettle in 2012.

In commercial property financing, transaction volumes in Europe remained stable in a year-on-year comparison. However, we have placed our particular focus on first-class properties in the markets we serve. Aareal Bank once again seized attractive new business opportunities, particularly during the second half of the year. At € 6.3 billion, we were able to originate considerably more new business in the Structured Property Financing segment than forecast at the beginning of the year.

Nonetheless, net interest income declined slightly, in line with expectations. It was negatively impacted by low interest rate levels and by the cautious investment strategy which we decided to pursue in light of the high level of uncertainty surrounding the European sovereign debt crisis and the unresolved nature of upcoming regulatory changes. Given the market volatility and unclear prospects, one of our top priorities was to safeguard the bank's excellent liquidity situation, even when it meant compromising on returns achievable. Just as we succeeded at preserving our very solid capitalisation, we ensured that Aareal Bank's ability to act remained fully intact. This is one of the many strengths that sets Aareal Bank apart.

Another is our extensive property expertise and our ability to unite sector know-how with local market knowledge. This is also reflected in our allowances for credit losses, which continued to be moderate in a sector-wide comparison and remained below the projected range during the year under review as well. Thanks to our conservative business policy, we have a high-quality loan portfolio.

In the Consulting / Services segment, our subsidiary Aareon AG continued to develop as planned during 2012, further expanding its leading market position with high-performance, innovative products for managing and controlling rental portfolios, including rental management. Aareon's sales revenue increased to € 165 million, whilst operating profit was stable, at € 26 million. In the segment's banking business, low interest rate levels put pressure on the margins of the deposit-taking business and thus weighed on the segment result.

However, the deposit-taking business's significance for Aareal Bank far exceeds the interest rate margin generated by the deposits. Deposits from the institutional housing industry represent a strategically important additional source of funding which is largely independent of developments on the capital markets. Alongside Pfandbrief issues and unsecured bonds, it is an essential pillar of our funding. Particularly in light of upcoming regulatory changes, we view the deposit-taking business as one of Aareal Bank Group's strategic competitive advantages. And that is why we are so pleased that the average volume once again saw a robust increase to € 5.6 billion over the course of the year.

Overall, we enjoyed a positive response from the capital markets in 2012. Aareal Bank's reputation as an issuer remains fully intact – even in volatile times. We were able to carry out our funding activities – including Pfandbrief issues and unsecured bonds – as planned, enabling us to meet all of our funding targets for the entire year before the third quarter came to a close. Thanks to the bank's good liquidity situation, we fully repaid € 1 billion in liquidity, provided by the European Central Bank within the scope of its second three-year Long-Term Refinancing Operation (LTRO), on 28 February 2013 – the earliest possible date.

Aareal Bank remains very solidly financed. As at 31 December 2012 the tier 1 ratio was 16.7 per cent, which is comfortable on an international level. The core tier 1 ratio was 11.6 per cent. The ratios just mentioned take into account a complete retention of Aareal Bank AG's 2012 net retained profit under German commercial law. At the Annual General Meeting, we will propose that the net retained profit under German commercial law be transferred to retained earnings. We regard this as necessary in light of ongoing risks relating to potential disruptions in the market and the financial system.

Over the past several years. we have continued to work very hard at further enhancing and improving our processes and structures. We are still every bit as dedicated to this mission because it is the only way to secure the bank's long-term success – in the midst of a continually changing landscape for the banking sector in general and for commercial property financing in particular.

The beginning to our anniversary year, marking 90 years of company history for Aareal Bank, has on the whole been moderately positive. Whilst some of the familiar challenges will remain unchanged – including the global economy's still tepid development and the uncertainty surrounding how future changes in banking regulation will take shape – we believe that conditions for Aareal Bank will improve modestly overall.

As such we have already begun to make gradual adjustments to what has been a very conservative investment strategy. We will continue doing so in 2013. We anticipate that interest rate levels will remain low, which means that net interest income will only improve slightly. Against the background of sustained moderate allowances for credit losses and only slight cost increases, we are confident however that the bank's consolidated operating profit will match the level of 2012; there is even potential to reach the very good results achieved in 2011.

This reflects our conviction that Aareal Bank is on solid footing. Our structure is sound and we are exceptionally well positioned in our markets as a leading international property specialist. Depending on market conditions, we are therefore planning to resume an active dividend policy in 2014, for the financial year 2013.

On the whole, we are confident about what the future has in store for this year and beyond. It is true that the environment has changed permanently for our business. The landscape in which we operate is shaped predominantly by higher capital requirements, stricter liquidity regulations and, as a result, lower return expectations.

As a consequence we have to embrace this "new normal" fully. In our funding activities, we will be placing greater emphasis on our deposit-taking business and Pfandbrief issuance. In Structured Property Financing we will consistently continue along the course we have begun and concentrate on high-margin exposures which are eligible for inclusion in the cover assets pool with low loan-to-value ratios. We will also devote greater resources to cooperation projects with other providers in the form of club deals and syndications. Aareon's contribution to our results will increase markedly through investments in new and existing products over the medium term. The bank targets a cost / income ratio in the Structured Property Financing segment of around 40 per cent by 2015, thus keeping it at today's levels for the medium term. We will aim to achieve a core tier 1 ratio under Basel III of 11.5 percent by 1 January 2016. In this context, Aareal Bank will continue to focus on optimising its capital base over the years to come.

Overall, our activities are geared towards achieving returns on equity before taxes of 12 per cent, assuming a favourable development of the business environment, by 2015 – but not later than 2016.

Our strategy has proven itself even in this new normality. We will thus also be able to perform well and sustainably enhance the company's value for the long term. The market and the competition already regard us as a premium provider amongst specialist property banks. Our motivated team will devote its utmost to dependably meeting the high-level expectations this entails for clients.

For the Management Board

Yours Sincerely, Wolf Schumacher

Dr Wolf Schumacher
Chairman

TRUST BUILDS ON CONTINUITY – 90 YEARS AAREAL BANK GROUP

The history of Aareal Bank is also the history of the people who have shaped the company since the formation of its predecessor, Deutsche Wohnstätten-Bank AG, back in 1923. The company owes its success to their dedication to building relationships with customers that are based on trust, and to continually developing the business.

Aareal Bank Group head office, Wiesbaden

MILESTONES SINCE 1923

In banking, trust is paramount: customers must have complete faith in the bank's business model and the bank must be confident of its clients' reliability. A walk through the company's history illustrates how, over the course of 90 years, a stable foundation for mutual trust has been created.

The circumstances of the day were not conducive to trust: the economy was dominated by inflation and uncertainty when Deutsche Wohnstätten AG, the predecessor of present-day Aareal Bank AG, was founded in Berlin on 20 July 1923. Its founders were the Prussian housing assistance companies – "homesteads" – and Preußische Landespfandbriefanstalt. The purpose of the new bank was to provide building loans, to finance the construction of housing for returning German soldiers and refugees.

In 1926 the bank was renamed Deutsche Bau- und Bodenbank AG. The young company quickly developed an innovative assessment system for establishing the reliability of prospective borrowers. For the first time, this assessment took account not just of financial aspects, but also housing industry-related and technical aspects. This innovation enabled the bank to successfully operate its "bridging loan business", supporting construction projects by providing loans until long-term financing was in place. Having systematically assessed the borrower, the bank could be confident of getting its money back. At the same time, its bridging loans accelerated the completion of construction projects. By the end of the Second World War in 1945, the Berlin-based bank had part-financed one million homes.

Following the currency reform in 1948, Deutsche Bau- und Bodenbank established a second base in Frankfurt/Main. There was renewed confidence among consumers and businesses. Starting at the end of the 1950s, the economic upturn in the construction sector propelled the bank's success; it stepped in to provide bridging finance for home loan and savings contracts, closing the market gap until the agreed principal was allocated. Today, this instrument is part and parcel of construction financing.

During the 1950s, the bank's managers recognised that the cooperation that had intensified with the housing industry over many years presented new business opportunities. Deutsche Bau- und Bodenbank was regarded as a solid partner to whom important data could be readily entrusted. In 1957, the company opened a new data processing centre in Mainz and became the first German bank to offer centralised, outsourced data processing to housing industry companies. The magnetic drum-based computers in Mainz gave rise to a new line of business. Today, the IT systems of our subsidiary Aareon AG manage data on seven million homes in Germany alone.

In 1979 the German federal government transferred its majority stake in Deutsche Bau- und Bodenbank AG to Deutsche Pfandbriefanstalt. At the end of 1989, the latter was converted to a public limited company and went public in March 1991. In the course of its international expansion, in 1999 DePfa Deutsche Pfandbrief Bank AG transferred all of its property activities to Deutsche Bau- und Bodenbank AG, which now operated on the property market under the name DePfa Bank AG.

So that it could more easily concentrate on core competencies, and to facilitate its internationalisation, the DePfa Group was split into two autonomous, listed specialist banks. At the end of January 2002 – alongside DePfa operating as a provider of public sector finance – Aareal Bank AG was formed as a property specialist, and its stock market launch followed in June 2002. Shortly afterwards, it moved its head office from Frankfurt/Main to Wiesbaden.

Since 2005, Aareal Bank Group has concentrated on its two business segments of "Structured Property Financing" and "Consulting/Services". The business ceased to be confined to Germany long ago: we operate on three continents and our employees come from more than 25 nations. Thanks to our expertise, the flexibility of our mid-size business structure and our solid business model, we are now one of the world's leading property specialists.

1923
On 20 July, Deutsche Wohnstätten-Bank AG is founded in Berlin, to provide construction financing.

1926
The bank's name changes to Deutsche Bau- und Bodenbank AG. The first system for evaluating potential borrowers is developed.

1948
Deutsche Bau- und Bodenbank establishes a second office in Frankfurt/Main. The institution begins supporting the construction sector early on by providing innovative bridging finance for home loan and savings contracts.

1957
The bank's ultra modern data centre commences operations in Mainz. The innovative IT products for the commercial housing industry mark the beginning of a new business area.

1979
The Federal Republic of Germany transfers its majority shareholding in Deutsche Bau- und Bodenbank AG to Deutsche Pfandbriefanstalt, which went public in March 1991.

1999
Deutsche Bau- und Bodenbank becomes known as DePfa Bank AG – encompassing all of Pfandbriefbank AG's property activities.

2002
Concentrating on the core areas of expertise leads to the formation of two specialist banks: besides DEPFA BANK plc as the public sector financing provider, Aareal Bank AG is established and has its initial public offering in June of that year.

2005
Aareal Bank AG's two strong segments emerge: "Structured Property Financing" and "Consulting/Services" are the central pillars of a successful business model that has since found success across three continents.

Further information on the 90-year anniversary of Aareal Bank Group are available under **www.aareal-bank-90years.com**

STRENGTH BUILDS ON STABILITY

STRUCTURED PROPERTY FINANCING SEGMENT

Clients across three continents place their trust in our tailor-made property financing solutions. Whether office buildings, hotels, logistics complexes or shopping centres, our market and industry experts find just the right solution. We finance individual properties as well as entire cross-border portfolios. We retain our edge by offering quality services, client proximity, competitive prices and tailor-made credit structures.

CONSULTING/SERVICES SEGMENT

As a long-standing partner to the institutional housing industry and the commercial property sector we understand our clients' needs down to the smallest detail. Our range of banking and payments services, consulting and software solutions, have all been conceived specifically with their needs in mind. Our leading role in the market can not least be attributed to our fast responses to changing requirements: By engaging in extensive dialogue with our clients, we are amongst the first to know what challenges lie ahead and so are able to develop bespoke solutions right on time.

Employees of Aareal Bank AG, f.l.: Thorsten Pichowicz, Consulting/Services – Institutional Housing Unit and Joanne Zedde, Structured Property Financing – Special Property Finance

TWO SEGMENTS – ONE STRONG FOUNDATION

Our business model rests on two strong pillars, the Structured Property Financing and Consulting/Services segments. They are the bedrock of our business strategy, which is geared towards sustained success.

In the Structured Property Financing segment, we support our clients with individual financing and advisory services in commercial property in Europe, North America and Asia. We are there, for their financing needs, in over 20 countries. Our staff members have first-hand experience of regional market developments, which equips them with the local market expertise that is crucial in commercial property financing. Where necessary, they receive support from industry experts at the head office. For the hotel and logistics sector, as well as retail property, we have established specialist teams who can contribute their know-how to financing solutions.

Broadly diversified financing portfolio

Our three-continent strategy fosters broad regional diversification in the property financing portfolio, opening up business opportunities for us across different countries and regions. At the same time, risk diversification reduces our dependence on individual markets. The variety of different property types helps to maintain a balanced portfolio.

We finance predominantly completed properties. Our experts develop financing solutions for individual properties, for portfolios of multiple buildings, and for the acquisition of property companies. As one of the few property financing specialists, Aareal Bank has the infrastructure and expertise to handle transnational portfolio transactions.

Excellent services are a cornerstone of our success on the market. Another cornerstone is represented by the successful and primarily long-term partnerships connecting us with our clients. We have been working with many clients on an equal footing for many years, and we adapt to our clients' geographical orientation and structure. For centralised, globally active firms, we can designate a central contact person while we transact business with decentralised clients using our national and international locations.

Efficient processes for the institutional housing industry

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

For more than 50 years, we have been the lead bank to the institutional housing industry. We have developed an in-depth understanding of the specific challenges facing the industry and have created tools to enhance business efficiency in the institutional housing industry and commercial property sector. The account management systems of Aareal Bank make it possible for our clients to largely automate many manual processes associated with rental and maintenance cost billing or deposit management. Incoming transfers and other payments streams are automatically allocated using a virtual account number, decoupling it from the payment reference information. This means tremendous time and resource savings for our clients. Aareal Bank is the market leader in payments processing for the industry, and a recognised process optimiser when it comes to executing mass payments. Energy providers and waste management companies have also started using our products and services successfully.

By executing mass payments processing, we also generate stable client deposits. These deposits form a stable source of funding for the bank that is largely independent from capital market developments.

Our subsidiary Aareon AG complements the consulting, software and services spectrum for residential and commercial property management. Aareon is one of the leading consulting and IT systems houses for the European property sector, and an expert contact point for all of the industry's IT questions.

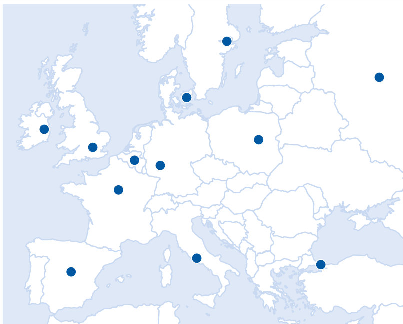
Aareon's product portfolio comprises a broad range of solutions for enterprise resource planning (or "ERP"). In the ERP segment, Aareon offers its proprietary Wodis Sigma industry solution, in addition to SAP® solutions and Blue Eagle software, GES and international systems. Since 2011 Wodis Sigma has also been available to clients as an Aareon Cloud service. This means that our clients do not need to have an extensive IT infrastructure of their own, and therefore have no need to maintain computing and network capacity or data storage.

Between the bank's Institutional Housing Unit and Aareon, there is plenty of cross-selling potential. A considerable portion of our client base in this segment uses both the bank's payments products as well as Aareon's IT systems and services.

Aareal Bank Group locations on three continents

Structured Property Financing

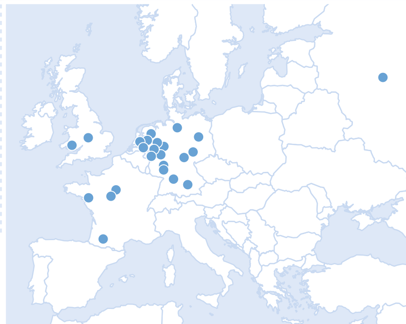
North America


Europe


Asia

Aareal Bank, Real Estate Structured Finance: Brussels, Copenhagen, Dublin, Istanbul, London, Madrid, Moscow, New York, Paris, Rome, Shanghai, Singapore, Stockholm, Warsaw, Wiesbaden | **Aareal Valuation GmbH:** Wiesbaden | **Aareal Estate AG:** Wiesbaden

Consulting/Services


Europe

Aareal Bank, Institutional Housing Unit: Berlin, Essen, Hamburg, Leipzig, Munich, Stuttgart, Wiesbaden | **Aareon AG:** Berlin, Coventry, Dortmund, Emmen, Enschede, Erfurt, Hamburg, Hückelhoven, Leipzig, Leusden, Mainz, Meudon-la-Forêt, Munich, Nantes, Oberhausen, Orléans, Son en Breugel, Stuttgart, Swansea, Toulouse | **Deutsche Bau- und Grundstücks-AG:** Berlin, Bonn, Moscow, Munich | **Aareal First Financial Solutions AG:** Mainz

The Foundations of Change
Aareal Bank Group
Group Management Report
Consolidated Financial Statements
Transparency

SUCCESS BUILDS ON EXPERTISE

Anyone looking to make sound lending decisions needs experience, knowledge, judiciousness and risk awareness. We expect every individual to have these skills and qualities, and we have firmly anchored them in the entire organisational structure of our Structured Property Financing segment.

World Trade Center Dresden

LONG-STANDING EXPERIENCE IN COMMERCIAL PROPERTY FINANCING

Clients expect us to assess their loan requests quickly, and to stand by what we say. In making a decision, process integrity is front and centre to us. Thanks to many years of experience in commercial property financing and the smart organisational structure of our lending process, we are able to reach swift and sound assessments. The combination of speed and quality in our assessments provides us with clear competitive advantages, for both our clients and our loan portfolio.

Our particular strength lies in the success we have in combining local market expertise and sector-specific know-how. This means that we always have clear expertise when it comes to making assessments and valuations about a property's location, quality and third-party usability. In addition to local experts, our team also comprises industry specialists for logistics, shopping centre and hotel financings. Local market expertise is an important if not decisive requirement of professional investors in commercial property financing. Property markets continue to be very regional in nature, which is what makes local expertise so crucial in commercial property financing. An understanding of local cultures and especially the unique characteristics of different jurisdictions is essential for investors.

Quintet Portfolio, Paris

Aareal Bank guarantees this market proximity by managing its business activities via regional hubs on three continents. This enables us to offer our clients local expertise in every market in which we are active. Aareal Bank is one of the few providers with whom clients can finance different types of commercial property in the world's most important economic regions, and they can count on our swift decision-making processes as a medium-sized company. We are generally able to provide them with a single contact to whom they can always turn.

Our Structured Property Financing segment concentrates on financing offices, hotels, shopping centres, logistics centres and, to a limited extent, residential housing portfolios. Each type of property has its own special rules that govern the success of a project. Beyond the familiar aspects including location, quality and the property's connection to infrastructure, an office building for example, benefits from its specific functionality, a hotel – from the right client segment, a logistics system does best with flexible interior facilities, and shopping centres – benefit from the right mixture of tenants, tailored to the needs of their customers. In order to make it in their environments, properties always need things that set them apart and give them an unmistakeable signature. And those are just a few of the criteria that are considered in the loan decision. In addition to price structures and variable or fixed interest rates, it is important to ensure that the loan meets the requirements of the specific transaction in terms of the loan amount, tranche structure, term or extension options and security structure.

Logistics complex Longueil Sainte Marie, north of Paris

Thorough and rapid conclusion

Our medium-sized process structures with level hierarchies and direct contact with the Management Board, mean that we are always able to prepare a loan agreement, ready for signing, shortly after the initial indicative term sheet is signed. In order to ensure this high standard of performance, we have instilled a tremendous sense of responsibility and the drive to constantly grow our expertise into the very heart of our organisation. For example, in selecting and assessing our employees, we place a great deal of importance on the ability to act in a manner that is both risk-aware and decisive.

New business success

Our experts' speedy and excellent work means that our clients can keep to their time lines. This foundation once again served as the groundwork for a series of successful deals in 2012. In the hotel sector we planned and realised, amongst other things, the financing of the Quintet portfolio comprising four buildings in Paris and one in Amsterdam. The financing had a volume of € 250 million. This transaction also testifies to our transnational and multi-jurisdictional strengths. We provided € 43 million in financing for a logistics complex north of France's capital. This project was arranged entirely by Aareal Bank within a short period of time. The 245-249 West 17th Street transaction marked the successful financing of an extremely well-located office building in New York: as the sole lender, Aareal Bank provided USD 120 million.

245-249 West 17th Street, New York

Transparent and dependable working style

For the financing of the landmark "CentrO" retail complex in Oberhausen, our long-standing experience as a lead manager for large-volume and complex transactions – coupled with our market and retail expertise – played a central role. Aareal Bank's final take accounted for € 162.5 million of the total financing of € 650 million.

Our success also lies in the transparent and reliable way we work. Wherever our risk policy permits, we accommodate our clients' needs and requirements. And we remain a partner our clients can count on after the the contract has been concluded. In acquiring new business, we benefit from our presence in all the major investment markets for commercial property. The majority of our clients have a decentralised organisational structure, and they can count on having a competent contact to reach out to – wherever they are. On request we can also designate a central contact person and negotiator.

Lasting customer relationships

The result of all our efforts is long-term, personal customer relationships. We take advantage of the opportunity to leverage our industry and organisational expertise to set the stage for future success in every project we undertake. Most of our clients come back to use our financing services again and again.

CentrO, Oberhausen

PARTNERSHIP BUILDS ON DEPENDABILITY

The financial and legal environment for housing enterprises is changing, again. Which makes it all the more important to have a partner who helps to overcome challenges by providing constantly evolving services and products. Our Institutional Housing Unit has distinguished itself as a dependable partner. Being there for our clients has been the bedrock of our long-standing and close business relationships.

Housing complex Ginsheim-Gustavsburg, Gemeinnützige Baugenossenschaft Ginsheim-Gustavsburg Mainspitze eG

SOUND SOLUTIONS FOR OVER FIFTY YEARS

The reliable services and products of our Institutional Housing Unit have been popular with a wide spectrum of clients for decades. This includes companies with portfolios of several hundred residential units as well as companies with more than 100,000 units under management. More than one third of our clients have been using our applications for more than 20 years.

The history of the BK01 payment services application developed by Aareal Bank dates back to 1963. This application links banking accounts with clients' accounting departments, automating business processes involved with incoming and outgoing payments. From the very beginning, the development of our mass payments processing has been based on electronic housing industry accounting systems. Now, 50 years after its inception, it is still the only product that integrates itself into the industry's workflows by merging with the institutional housing industry's leading software systems. This is safeguarded by exclusive partnerships with software manufacturers – first and foremost with our IT subsidiary Aareon. By working together, the process's system integration is fine-tuned on an ongoing basis. We have since adapted BK01 to accommodate the needs of the energy and waste management sector, which has expanded the circle of potential users considerably.

Personal partnership

Our lasting and trusting business relationships have been and remain founded on the personal contact between our employees and clients. Our touchstone in organising internal workflows is being able to provide every client with service that meets its needs. For example, we leverage the expertise of different partners to meet the needs of large clients and designate a contact partner to whom they can always turn as part of our special Key Account Management. This solution has a proven track record with large clients who have complex organisational and business structures. Regardless of their size, clients find equal partners in our property, finance and process experts.

A close dialogue with our clients is a cornerstone in developing new and improved products. We not only test products in-house, we also run pilots with selected users. The feedback received from these test phases informs the final adjustments we make. Only once all of this has been completed do we make the product available to the public. This systematic and consistent collaborative approach yields sophisticated solutions that are fit for practice.

Keeping new requirements in perspective

One of the most recent examples of Aareal Bank's dependable client-based orientation is how the bank is addressing the upcoming transition to a uniform European payment zone, also known as SEPA (Single Euro Payments Area) – which will take effect starting 1 February 2014. This revamp is comparable, for example, with the changeovers faced at Y2K, or when the euro was introduced. Ultimately, the borders between the different payments systems will vanish under SEPA, and the European standard will replace national frameworks. To some extent, the established processes underpinning mass payments processing will still be used, in particular the direct debit process commonly used in the housing sector. Companies can count on us when it comes to implementing the SEPA updates. We are providing our clients with detailed and industry-specific information, as well as high-performance tools.

Collaborating with clients spearheads market leadership

In the future, the Institutional Housing Unit will continue to take advantage of its interconnected relationship with the industry to develop services and products. This underscores our commitment to shaping and contributing to the development of the housing industry. Fostering a direct dialogue with clients and collaborating with industry associations helps us to identify the changing requirements of individual companies early on, and identify upcoming industry trends.

Users especially do not want to miss out on the market-leading payments system BK01: when clients need to change their IT systems, they often specify the use of our payments solution as a precondition. This testifies to the strength of the loyalty fostered by dependability and individualised service. We will further cement our leading market position with payments products that set the bar in technology, enhance process efficiency, and offer clients the ultimate in resource-saving functions at attractive conditions.

What is BK01?

In the institutional housing industry and the property management sector, as well as in the energy and waste management sectors, the BK01 payments service ensures that standard business processes associated with incoming payments – including downstream processes – run quickly, accurately and automatically. BK01 is integrated exclusively into leading accounting systems: in a nutshell, it connects banking with accounting. The roughly 2,700 companies that use it initiate over 100 million transactions annually to Aareal Bank's accounts system.

What is SEPA?

SEPA is an acronym for Single Euro Payments Area. Within the SEPA zone, a standardised procedure for cashless payments (transfers, direct debits) will be in place across Europe. By 1 February 2014, the differences between national and international payments will disappear for people making and receiving payments. National transfers and direct debits will be phased out by this point, so that all payments procedures will have to have made the transition to SEPA. A total of 32 different countries are participating in SEPA. Membership has also been extended to countries that do not (yet) use the euro as their national currency.

The Foundations of Change
Aareal Bank Group
Group Management Report
Consolidated Financial Statements
Transparency

PROGRESS BUILDS ON INNOVATION

Our Group subsidiary Aareon AG is one of the leading consultancy and IT systems houses for the European property sector. Since it started life as a data centre services provider in the 1950s, Aareon has maintained its sights on the future in developing products and services.

Aareon AG head office, Mainz

CLIENT-CENTRED INNOVATION AND GROWTH STRATEGY

Efficiently managing property portfolios and rental units, as well as providing services that are closely aligned with customers' needs, are key success factors for housing enterprises in Germany and beyond. With its strengthened international orientation, Aareon has harnessed new synergies and laid the foundation for further growth.

Aareon offers its institutional housing industry clients consultation and a broad range of products and services for housing portfolio administration, controlling and rental management. Housing enterprises can streamline and automate their processes using these IT solutions.

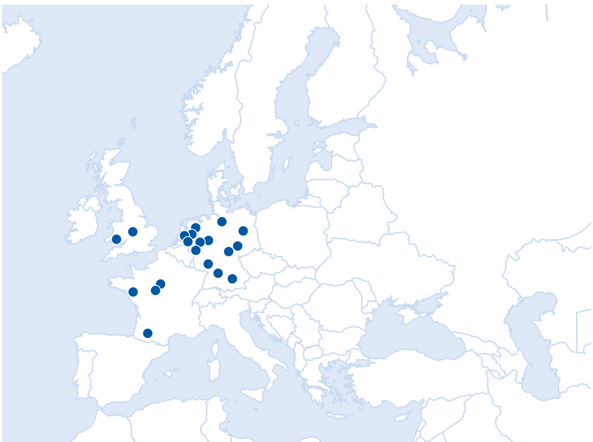
For example, processes relating to heating and operating cost billing, accounting or property management are supported by monitoring defined indicators. The IT solutions also simplify data access, enhance transparency and improve tenant services for housing enterprises.

Aareon pursues a client-oriented innovation and growth strategy to expand its market position in Germany and abroad. Over several years it has grown the product portfolio, strengthened its international presence and invested in products and technology. In 2011, for example, a new IT centre began operations in Mainz, which affords the ultimate in reliability and performance, conforms to high data protection standards and fulfils ecological requirements as well. Through acquisitions, the company strengthened its position in France and the UK, two important countries in the institutional housing industry. Aareon is also present in the key market of the Netherlands.

Different markets with similarities

International expansion has opened up new growth prospects for Aareon. The residential housing markets in Europe each have unique characteristics, yet processes within the institutional housing industry are similar. The long-term success of a property company turns in particular on administrative efficiency and the proximity of services to customers. As an internationally active company, Aareon benefits from pooling knowledge throughout the organisation, particularly when it comes to business models, technologies and partnerships. A dialogue shaped by expertise and experience that transcends national borders makes it possible to systematically identify and realise potential synergies and opportunities to improve.

Aareon Group locations



Innovation on an international scale

Aareon's approach enables it to grow the functional and technological basis of its product portfolio and develop pioneering solutions for its clients. One example is its plan to develop 1st Touch mobile solutions for the German market. 1st Touch Ltd., a leading Southampton-based British manufacturer of mobile software solutions for housing enterprises and municipal authorities, was integrated into Aareon Group in 2012. Its mobile technologies make it possible to realise considerable cost savings and productivity enhancements for flat handovers and valuations, as well as managing prospective tenants and maintenance, amongst other things.

Expanding the product portfolio to include a modern solution for optimised customer relationship management (or "CRM") between housing enterprises and tenants is also on the agenda. Enhancing tenant services with functionality – such as a special extranet that can be accessed on mobile devices – is also a focus. Aareon is developing the new solution as part of an international project based on the successful systems used by Aareon France.

Identifying and implementing technical and industry trends early on is part of Aareon's business philosophy. Back at the end of the 1950s, the Institutional Housing Industry Data Centre Services segment of its predecessor company Deutsche Bau- und Bodenbank AG raised the bar in optimising housing industry processes. The division's successful development led it to become an independent subsidiary in 1997.

Over ten years ago, the company introduced Mareon, which at the time was one of the very first internet-based service portals for the property management sector. Mareon interlinked housing enterprises, heating metering companies and tradesmen, simplifying their processes by digitising and integrating them into internal company software. Today roughly 250 property companies and 8,500 tradesmen work with the service portal. The broad portfolio of solutions for enterprise resource planning (or "ERP") offers scope for further innovation. In the ERP segment, Aareon offers Wodis Sigma, in addition to SAP® solutions and Blue Eagle software, GES and international systems.

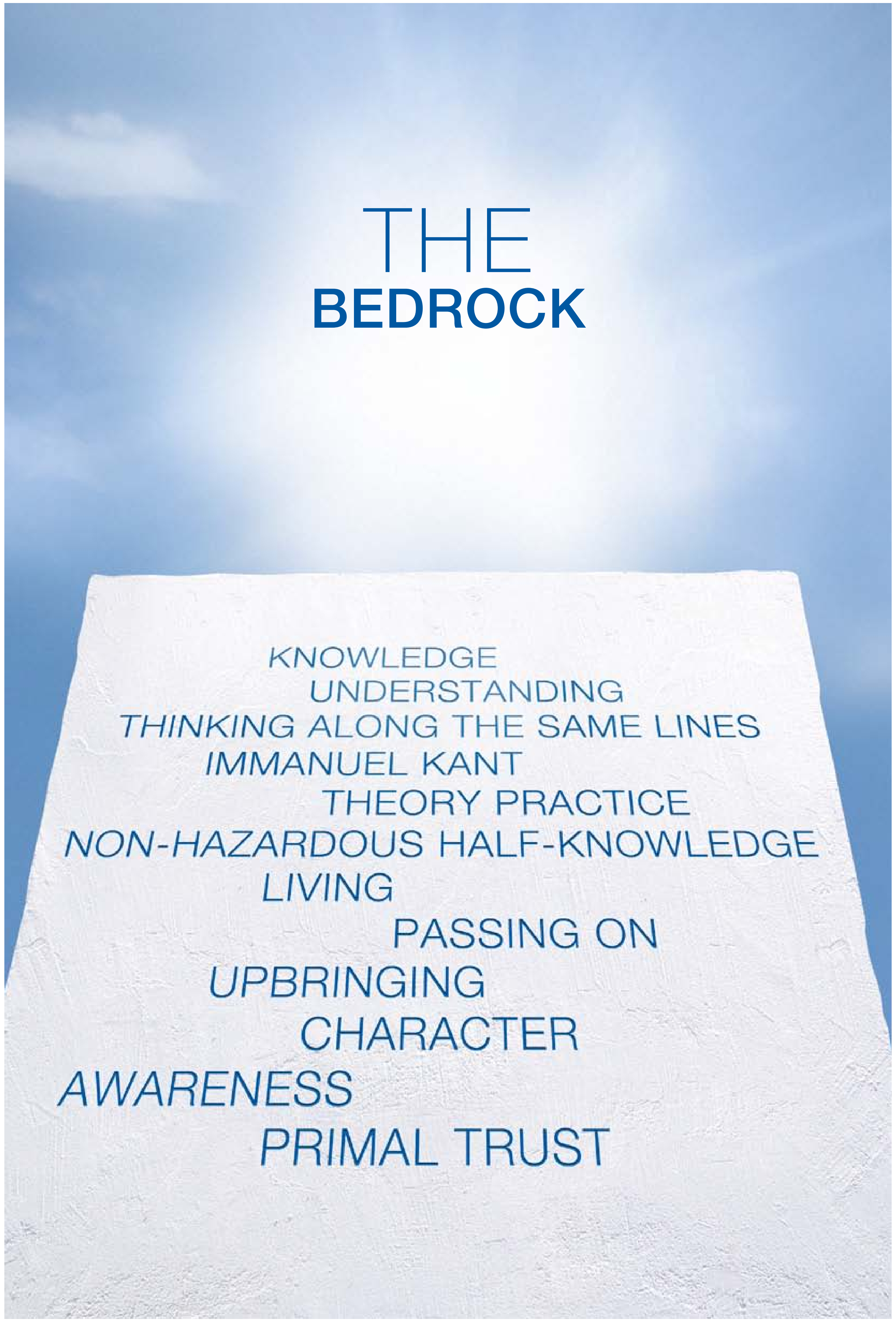
Since 2011 Wodis Sigma has also been available to clients as an Aareon Cloud service. Cloud computing is one of the most important IT trends of our day. Aareon has the ability to benefit sustainably from this trend. It looks back on several decades of experience as a provider of GES, an ASP-based software solution. ASP, or "Application Service Providing", can be seen as the predecessor of today's cloud computing concept.

Growing across borders

Expansion has increased the international share of Aareon AG's total revenues to 28.7 %. Employees in France, the UK and the Netherlands accounted for 34.5 % of the overall workforce in 2012. As a result of its profitable growth strategy, Aareon was able to increase EBIT, and once again posted record results in 2012.

What does the Aareon Cloud offer?

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



Essay by Wolf Lotter
Business journalist and book author

Is there anyone left we can trust nowadays? It is a question that has been weighing on different societies and communities for years. People are asking themselves this question in companies, on the street, on the web – anywhere they encounter other people. Is there anyone left we can trust nowadays? The most popular answer is: No one. Nothing. Nada. Mistrust seems omnipresent.

In a reading at the renowned Aspen Institute, American publicist Eric Weiner once said that trust was declining in the USA, and that the country was representative of other affluent western nations. In the mid 1960s, two thirds of all adult Americans believed that the majority of people could be trusted by and large. Three decades later, less than half as many people agreed. Since then we have not even bothered to ask. And the vacuum ensuing from the lost trust has been filled with discontent, according to Weiner, author of the best seller The Geography of Bliss.

Is there nothing that can be done? Maybe we could slip something into our drinking water, ideally something like oxytocin, a hormone that acts as a neurotransmitter and stimulates a sense of trust. As human beings we produce oxytocin to form social bonds. Evolution uses this miracle substance at birth to make the bond between a mother and her child as profound as possible from the very beginning. Oxytocin also reduces another phenomenon that has become a constant companion to mistrust: stress. What would really be so terrible about officially lacing our coffee, tea, soft drinks and school milk with just a touch of this sublime stuff? The bad news is that it simply won't work. Trust is not something that can be swallowed. Trust must be earned.

And it is not actually as bleak as many surveys make it out to be. Whom do you trust? In order to get a realistic answer, a more detailed question needs to be asked, something akin to: "Whom have you already trusted today?" And it could be asked, for instance, on any normal weekday around 1:00 pm. The vast majority of what shapes our day-to-day lives and underpins the ordinary things we do goes completely unnoticed. By 1:00 pm, a person has trusted the bus driver who conveyed him safely from his home to his workplace, the technicians and managers of the transit system and electricity plants who ensured that the traffic lights, signals and lights functioned properly. We trust that other people will stay in their lanes while driving their cars and that the baker does not cheat us. We also trust that our labour is duly compensated and that our bank does not abscond with our money. And the list could practically write itself – if we are honest about it, by 1:00 pm each of us has already placed trust in hundreds if not thousands of other people, often blind trust. We are not nearly so mistrustful as we might believe. We trust most things.

In a highly developed world, we have to trust in one another. And that has nothing to do with recklessness, but rather sensibilit.

We do not have any other choice – and that is a good thing. A famous and oft-quoted saying by Russian revolutionary Vladimir Ilyich Lenin posits that trust is good, but control is better. That the Soviet state – like any dictatorship – mistrusted its citizens is one thing, but the fact that this sentiment can be repeated without batting an eyelid today and can find resonance is an entirely different, and problematic, issue. Most people literally earn our trust every hour of every day. The number of people who are out to cheat us is, even at the worst of times, is comparatively manageable. On the whole, things go so smoothly that we do not think twice about it. And as complex as our daily lives are, from when we rise to when we sit down to lunch, the rest of the world is too. Do we demand that our bus driver produce his license, a police history report and a character reference before we buy our ticket? And do we believe that the license is genuine and not a counterfeit, as perhaps our change might be? Maybe it is wiser not to buy the ticket before the ride and rather wait till we have arrived at our destination so we can really be sure. What? Control is better? Bus drivers are not the only people who might beg to differ.

Our prosperous world is complex. It is diverse, offers enormous opportunities and more adeptly adapts to people's different needs. However... it relies on trust. Humanists and sociologists have always known that. At the turn of the twentieth century, Georg Simmel wrote that trust was "an intermediate state between knowledge and ignorance". So trust is necessary when we are not absolutely certain about something. And that holds true no matter what the situation is, for bus rides and macroeconomic development alike. Simmel's successor Niklas Luhmann understood trust as a "mechanism for reducing social complexity". In a highly developed world, we have to trust in one another. And that has nothing to do with recklessness, but rather sensibility. The risk that something could go awry is generally minimal compared to the crippling effects of overzealous caution. Control is better than trust? Rules and caution would mean there would be nothing left to control in this "utopian world".

Trust is sensible, and has less to do with morality than many believe. Most people still see the opposite of trust as treachery; as trust deliberately violated. The English sociologist Felix Dunn reminds us that this is erroneous. Ultimately trust is usually not broken deliberately, but falls victim to unforeseeable events. Surprise is the arch-enemy of trust. It throws what we have taken for granted out the window. Control can only help to guard against known entities. Risk always persists.

Trust has long-lasting effects, and is tough stuff.

But that is no reason to mistrust; quite the contrary. Trust has long-lasting effects, and is tough stuff. Only those who can hold fast to trust day after day and show faith and optimism really invest. Mistrust thwarts every investment. Leipzig-based sociologist Georg Vobruba wrote: "In situations where there is little trust, players try to avoid exposing themselves to one another and generate returns as quickly as possible – to feather their own nests." Mistrust always gives rise to a whole host of safety measures, the researcher believes. "People involve third parties (notaries) and take out insurance. It all requires additional resources." Business without trust, Vobruba contends, has cost implications. His conclusion: "For some, such as insurance providers, mistrust may be a source of income, yet collectively mistrust wreaks economic havoc."

Mistrust quite simply does not make any sense. It is bad for business. And trust is anything but some fluffy fashionable value – particularly in challenging times. Trust is not a luxury. It grounds us. Trust is the bedrock, without which everything would be in limbo. It lives and breathes from our experiences, and our future lies where trust is strong.

RESPONSIBILITY BUILDS ON CONVICTION

Aareal Bank Group takes account of ecological and social considerations in the way it conducts its business – a practice that not only allows the bank to fulfil its corporate responsibility, but has also cemented itself into a sustainable and future-oriented business strategy.

Group of children from the "Fit For Family Care" childcare facility, Wiesbaden
f.l.: Johanna Funk, Jakob Graf, Lennart Axel, Nella Langhans, Tiark Schaffelder, Raphael Schmidt, Sophia Schöttmer

SUSTAINABILITY AS A CORPORATE RESPONSIBILITY

Gearing business activities and management structures towards the aims of sustainable business has become a key issue for many companies. It has to do with more than morality or ethics. Rather, this development has predominantly been driven by the fact that conserving resources and providing employees with targeted development measures are competitive advantages. The future belongs to companies that accept responsibility – not only for effectively managing environmental resources, but also for the social environment in which they produce and invest – and this means more than the legally required minimum.

The financial industry has an important role in this respect as an intermediary. When it comes to extending loans or funding facilities, sustainability criteria represent ways that the financial industry can incentivise their clients and investors to take greater account of these aspects when making investment decisions.

Aareal Bank is rising to this responsibility by integrating the issue of sustainability firmly into its business strategy. Striking a healthy balance is at the core of this philosophy: securing the company's long-term success, rooted in ethical principles on the one side and taking account of ecological and social responsibility on the other.

Sustainability strategy

The deep-seated interest of our stakeholders in economic, ecological and social aspects of our business activities has fortified our resolve to formulate and execute a sustainability strategy. In its sustainability programme, the bank's previous measures will be bundled together, strategically advanced and communicated. The strategy serves to set the stage and name the organisational measures to be implemented.

Integrated sustainability management

Sustainability management is assigned directly to the Chairman of the Management Board. By placing it within his remit, Aareal Bank is underscoring sustainability's strategic significance for the company's self-image. The Executive Sustainability Committee, which comprises board members from the bank and from Aareon, is defining the vision and guiding principles of how we conduct business. A Sustainability Officer and the Sustainability Committee composed of divisional representatives are responsible for the practical implementation of the sustainability strategy, and the measures compiled in the sustainability programme.

Sustainability programme

Aareal Bank calls upon a sustainability programme that is updated annually to optimise the effect of its business activities on society. The programme is adjusted in accordance with a materiality assessment. As part of this materiality assessment, Aareal Bank evaluates the relevant expectations of the stakeholders – for themselves and for the Company – and equips them with measures. The individual measures are geared toward the action areas defined in our sustainability strategy. Our sustainability programme has a multi-year orientation and will be underpinned by measurable goals.

Systematic stakeholder dialogue

An important foundation for Aareal Bank AG's sustainable business actions is the intensive dialogue with different stakeholders. Stakeholder dialogue is conducted directly between the different offices within the company and the stakeholder groups relevant to them. In addition to these direct dialogues, there are also other sources which Aareal Bank AG looks to in formulating sustainability standards. These include, for example, the outcome of company sustainability ratings or rankings with which Aareal Bank AG is involved on a regular basis.

Sustainability achievements honoured twice

The sustainability achievements of Aareal Bank were honoured twice in 2012. In May, Aareal Bank was awarded Prime Status by the rating agency oekom research after undergoing an extensive rating process. This status is awarded to leading companies in their industries in oekom's Social and Environmental Performance corporate ratings.

In October, Aareal Bank AG was crowned best German newcomer to the Carbon Disclosure Project (CDP) in 2012. With this award, the international non-governmental organisation honoured the bank's outstanding investor transparency when it comes to communicating information about climate-relevant data.

Yet we have no intention of resting on our laurels. We are constantly expanding our sustainability reporting.

Corporate Responsibility Prime

rated by oekom research

Prime status for Aareal Bank

The latest rating of Aareal Bank's sustainability performance by the oekom research rating agency took place in May 2012 and the bank was awarded the "Prime" status.

This status is conferred on companies which are among the leaders in their industry according to the oekom "Social and Environmental Performance" corporate rating.

CARBON DISCLOSURE PROJECT

Aareal Bank is the best newly rated German company in the 2012 Carbon Disclosure Project

This is the first time that Aareal Bank has been rated by the international non-governmental organisation, which honoured the Bank's outstanding investor transparency when it comes to communicating information about climate-related data.

Aareal Bank's first participation in the CDP resulted in a so-called disclosure score of 67 out of a possible 100 points, thus being well above the average for the rated companies.

EXPERTISE BUILDS ON COMMITMENT

People are the key to the success of our bank. As a modern employer, we provide a framework in which our staff members can develop their commitment, expertise and individual potential, thus supporting their entire personalities. That is why we emphasise the importance of balancing work and family life, as well as ongoing professional development. We are committed to the well-being of our employees.

Employees of Aareal Bank AG, f.l.: Thomas Zwilling, Operations, Fatima Doumbia, Credit Management, Andreas Jagim, Risk Controlling, Michael Saul, Corporate Communications, Delphine Joly-Jeschke, Credit Management, Dr. Kirsten Appel, Corporate Development, Wolfgang Weihrich, Credit Management

OUR CORE QUALIFICATIONS: KNOWLEDGE AND OPEN-MINDEDNESS

Our colleagues constantly work closely with clients, borrowers and service providers from around the globe. To do so, we harness both sector expertise, tremendous commitment and other key qualifications: receptiveness to other cultures, exceptional collaborative skills and the drive towards life-long learning.

Each of us can and should commit to developing our own key qualifications, from trainees to experts and executives. Employees find a wide range of internal and external training offers, to deepen and develop individual competences at the Aareal Academy, our Corporate University.

Committed to sharing knowledge

Knowledge management is a central approach within our professional development. There are more than 100 colleagues sharing their expertise internally and with colleges as lecturers. By doing so, they also gain valuable experience in their own personal development. At the "Aareal Speakers' Day", trainers exchange opinions and ideas regarding the methodological aspects of sharing knowledge. We also promote life-long learning by sharing knowledge within the bank, with a series of seminars called "From Experts for Experts". Across departments and continents, our specialists engage in dialogue directly with one another, learning from each other's experience.

A vision for family life

Our Human Resources policy is decidedly family-friendly. We are committed to enabling our employees to enjoy both their career and their family. We seek to support parents and further increase the number of women in management positions, which is currently higher than 20 %.

We offer parents a range of working hours models, such as flexible working hours, annual or lifetime work accounts, and tailor-made part-time contracts. Where practicable, we make it possible for colleagues to work for us from home or in a specially designed parent-child office.

We support the Fit For Family Care children's daycare centre, to help parents to return to work quickly after their children are born. Together with the City of Wiesbaden, we organise extra school holidays care on behalf of our employees' children for whom school is mandatory. We support colleagues with family members requiring care by offering a special advisory service. They can also work part time in accordance with the Family Care Leave Act. Our commitment does not just resonate with our employees; in the Success Factor Family 2012 competition, for example, our subsidiary Aareon AG was honoured as the most family-friendly company in the SME category by the Federal Ministry for Family Affairs.

Healthy workers, healthy retirees

The German population is ageing, which is also affecting the bank's employee base. As part of our long-term Human Resources policy, we are already investing in the physical and mental well-being of our colleagues. The components of our professional health management include an online portal for our corporate medical service, health-related issues, preventative examinations and advisory services, as well as specific seminars dedicated to a healthy management style and stress management.

Aareal Speaker Day 2012 in Wiesbaden

Over 70 speakers from Aareal Bank participated in the first Aareal Speaker Day on 4 September 2012. These employees have dedicated their time not only as lecturers at Aareal Academy, but also as representatives of Aareal Bank at external colleges to share their special expertise.

Aareon AG: most family-friendly company of 2012

In the competition for the most family-friendly company, Aareon AG was crowned overall victor in the SME segment in May 2012.

From left to right: Dr Kristina Schröder, Federal Minister for Family Affairs, Senior Citizens, Women and Youth, Sylvia Clöer (Aareon AG), German Chancellor Dr Angela Merkel, Dr Manfred Alflen (Chairman of the Management Board of Aareon AG)

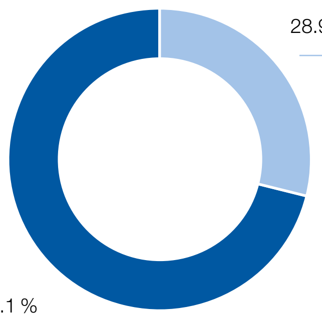
AAREAL BANK GROUP

THE AAREAL BANK SHARE

Aareal Bank's well-balanced business model, incorporating the two pillars of Structured Property Financing and Consulting/Services, once again proved to be particularly viable, especially against the background of the persisting European sovereign debt crisis. Not only did Aareal Bank achieve all main objectives for the 2012 financial year, but it also succeeded in strengthening further its market position in the two group segments. In addition, Aareal Bank further improved its capital and liquidity situation. Following the success of the 2012 financial year, Aareal Bank looks to the future with confidence in the year of celebrating its 90th anniversary. The start into the financial year was cautiously optimistic. This was reflected by a positive share price performance.

Shareholder structure

■ Free float ■ Aareal Holding Verwaltungsgesellschaft mbH



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

Our share has been trading on the Frankfurt Stock Exchange since 17 June 2002. Since 1 January 2003, it has also been included in the Prime Standard segment of the German Stock Exchange and meets the high international standards for transparency that are applicable there. Aareal Bank AG's major shareholder is Aareal Holding Verwaltungsgesellschaft mbH. It continues to hold a 28.9 % stake in Aareal Bank AG.

Equity markets worldwide

In 2012, the European sovereign debt crisis continued to dominate events on the international equity markets. Besides worries over the net indebtedness of Greece and Spain, over the course of the year there were increased investor concerns about the high budget deficits and the economic situation in Italy.

In order to counteract the prolonged market pressures, as well as ease the potential funding bottlenecks in the interbank market, at the end of December 2011, the European Central Bank (ECB) extended three-year loans at an interest rate of 1 % to banks via a transaction known as the Long-Term Refinancing Operation (LTRO). This monetary policy measure calmed the markets, at the start of the year, in two respects. Firstly, and above all, there was a significant tightening in Italian and Spanish bond spreads, so that both countries were able to refinance themselves on considerably more favourable terms than had been the case during the fourth quarter. Secondly, the equity markets responded positively to this ECB move: right at the start of 2012, DAX® and MDAX® each gained around 10 %.

Furthermore, several political decisions had a positive impact on equity market developments in the first quarter. Firstly, there was the decision of the euro zone finance ministers in favour of a second bailout package for Greece; and secondly, the agreement between the EU heads of state and government on stricter budget discipline measures. The launch of the permanent European Stability Mechanism (ESM) also provided the markets with greater certainty. Thus, in the first quarter, DAX® and MDAX® both gained around 20 % in value.

During this period, the Prime Banks Performance Index (CXPB®) even outperformed the two broad indices. For a while, the protracted negotiations on disbursement modalities of the second Greek bailout weighed on the index, as the financing was conditional – among other things – upon the approval by private-sector creditors for a debt haircut. Then again, their approval – thus relieving the Greek state of more than € 100 billion in debt – triggered a widespread rally. In addition, the ECB's considerable liquidity injections within the scope of the second LTRO, in the first quarter of 2012, also served to calm the markets. As a result of this measure, the spreads for government bonds of some of the peripheral euro zone countries narrowed, and positive effects were seen in the equity markets. Banking shares, in particular, rose strongly and the CXPB® reached its high for the year that was up 36 % compared with the 2011 year-end value.

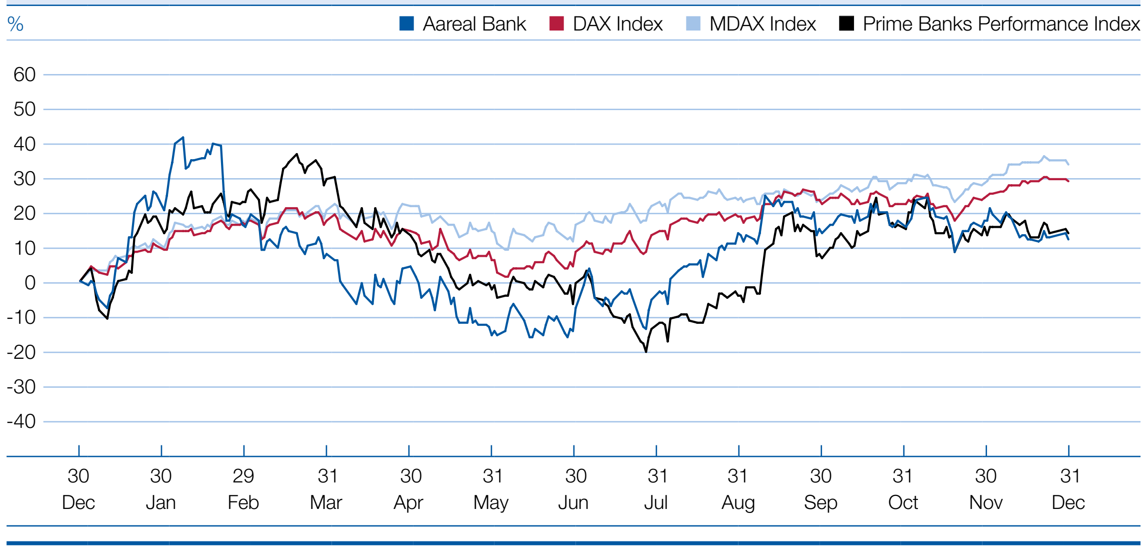
In the second quarter, this was offset by the impact of the highly volatile political situations in some countries: France, for example, was strongly affected by its election campaign and the subsequent change of government. The new government, under François Hollande, announced that, in particular, it wanted to re-negotiate the fiscal pact that had already been agreed by EU leaders. In the Netherlands, the Dutch minority government had to instigate new elections after austerity talks collapsed. The new coalition government was then composed of advocates of the euro rescue measures. A special situation persisted in the Greek elections. After two rounds of voting and many weeks of political and economic gridlock, here, too, the advocates of the euro prevailed.

These developments unsettled equity markets and – to a certain extent – once again called into question the agreements concluded in spring. As a result, the DAX® lost nearly its entire gains for the year, whilst the MDAX® surrendered half of them. Another reason for the return of pessimism on equity markets was the Spanish banking situation: on account of the ongoing economic crisis in Spain, the scope of non-performing loans had been rising sharply over a long period. In April, the Bankia banking group, Spain's fourth largest bank, had to be rescued by the state, through the injection of fresh equity. It also appeared likely that Spain would no longer itself be able to raise the necessary capital of up to € 100 billion for the recapitalisation of other banks, given that spreads on its bonds had recently widened significantly. As a result, EU finance ministers meeting at a special EU summit in Brussels at the end of June held out the possibility (among others), that countries could apply to the ESM, the European rescue facility, for loans to be used solely for the direct recapitalisation of national banks – without this financial aid being subject to any additional requirements for the country concerned. In addition, in June, another country – Cyprus – applied to the EU for assistance, as the banks of this small country had fallen into a precarious situation through their large exposure to Greece.

Besides the political uncertainties described above, during this period it was, above all, the developments related to Spain that weighed on the financial stocks aggregated in the CXPB®. While from the end of the second quarter the DAX® and MDAX® were able to stabilise on account of the robust German economic data, the CXPB® surrendered not only its gains for the year to-date of over 35 %, but hit a low for the year on 25 July, down by approximately 20 % compared to the end of 2011.

In the third quarter, with a dual view on the persistently high interest rates for government bonds of the peripheral euro zone countries and in order to counter speculation about the continued existence of the euro, ECB President Mario Draghi announced that there would be so-called Outright Monetary Transactions (OMT) for the purchase of sovereign bonds. The ECB, accordingly, is willing to buy unlimited amounts of sovereign bonds in secondary markets, insofar as the countries concerned implement a strict austerity programme as agreed with the ESM (European Stability Mechanism). Furthermore, the ESM can purchase the bonds of these countries on the primary market, in order to reduce spreads in this way. A bond purchase by the ESM on the primary market could support the efforts of the countries, rebuild lost trust and restore their capital market viability. Following this announcement, spreads for Italian and Spanish government bonds narrowed dramatically. Consequently, the financial stocks aggregated in the CXPB® were able to stage a significant recovery. The CXPB® thus recovered strongly from the year's lows at the end of July, by mid-October it was up by 24 % compared with the year-end 2011.

Relative performance of the Aareal Bank share price 2012



After further financing gaps emerged in the Greek budget, over the summer, discussions about a third aid package for Greece at the beginning of the fourth quarter put the brakes on positive development of the equity markets. After long negotiations, the Greek parliament approved the necessary austerity measures, prior to the release of further billions in aid for the country by EU finance ministers at the end of November. Additionally, a debt buyback programme was adopted, interest rates on EU loans already paid out were reduced, and the agreed deficit targets stretched out over several years.

In the final weeks of the year, after the re-election of Barack Obama as US President in November, the row over the US budget weighed on international stock market activity. Democrats and Republicans had to find a compromise by 31 December 2012 in order to prevent the United States from falling off the "fiscal cliff" at the turn of the year. Shortly before the expiry of the deadline, the two parties agreed to a minimum consensus, thus preventing automatic tax increases and US$ 600 billion of spending cuts coming into force at the turn of the year. These would have had a negative impact, not only on US growth but also on the global economy.

Development of the Aareal Bank AG share

At the beginning of the year, the financial stocks aggregated in the CXPB® benefited above all from the positive influence of the ECB's LTRO. While the CXPB® during the first weeks of the year gained around 25 % on the 2011 year-end close, the Aareal Bank share price saw even faster growth. On 6 February 2012 it hit € 19.82 – a price increase of over 40 % compared with the year-end 2011 – and the high for the year.

This high share price level was maintained in anticipation of good preliminary 2011 results up to their publication on 21 February 2012. While Aareal Bank's record operating profit was a positive surprise for the market, its outlook, however, was more cautious than expected by the market. The announcement that liquidity holdings would be safely parked with the ECB, and shielded there from volatility despite the concessions to net interest income, reversed the outperformance of the first few weeks.

This trend was exacerbated by the renewed escalation of the European sovereign debt crisis during the second quarter. The equity situation of the Spanish banks in particular and the rescue of the Bankia banking group by the Spanish state – together with the requirement for capital assistance of up to € 100 billion for the necessary re-capitalisation of its banks that Spain was no longer able to raise on account of the widening in spreads on its government bonds, sent all the indices tumbling during the weeks of the second quarter. The losses in the CXPB® to its lows at the end of July illustrates in particular the strong extent to which financial stocks were influenced by developments in anything to do with the European sovereign debt crisis.

Towards the end of April, the Aareal Bank share was able to successfully decouple, for the first time, from the negative performance of the equity markets and, in particular, from the Banks index. Following publication of first quarter results, the share gained 10 % in value within two days. The bank clearly impressed both markets and analysts with its solid Q1 results.

During June, once again, the share price moved in parallel with the CXPB® and was able to maintain the gap established after the quarterly results publication. The share price benefited disproportionally from the decisions taken at the special EU summit in Brussels at the end of June. In the days following the summit decisions, the Banks index rose by almost 10 %, while Aareal Bank gained more than 20 %.

The announcement by ECB President Draghi at the end of July in response to the crisis in Spain and its banking industry that the ECB wanted to do "whatever it takes" to save the euro spurred another minor price rally in bank shares. Aareal Bank further increased the performance gap with the Banks index and closed it up accordingly with the DAX® and MDAX®.

Aareal Bank's six-month results were again in line with the consensus of analysts' expectations. The bank thus stood out positively among other listed banks.

Financial sector shares in particular reacted with a leap in prices to the announcement of the OMT bond purchase programme by ECB President Draghi at the beginning of September. Within a few days the Aareal Bank share price gained more than 10 %.

Aareal Bank's third quarter results were again in line with expectations. The steady business development was seen as positive – as was the confirmation of the outlook for 2012.

The significant drop in the share price, in line with the CXPB® in the final weeks of the year, was the result of, firstly, the long period of uncertainty with regard to the third Greek aid package, and secondly, the protracted negotiations on the US American budget row.

The Aareal Bank share closed the year at € 15.71 – an increase of 12.3 % compared with the year-end price 2011.

Investor Relations activities

As a listed public limited company included in the MDAX®, Aareal Bank is subject to numerous disclosure obligations. However, Aareal Bank does not see these as "obligations" but rather as an opportunity to engage in an open dialogue with analysts, investors and clients – as well as with the media.

Aareal Bank attaches great importance to maintaining this dialogue – even in the midst of the European debt crisis it has been consistent and intense. It is a prerequisite for the success of a listed company over the long term. Providing timely and transparent information on current corporate developments is the only way to enable market participants to assess potential risks arising from the difficult market environment due to the European debt crisis, as well as from the impending changes to the regulatory framework (e.g. Basel III etc.) – and to discuss such risks in a dialogue with Aareal Bank.

To this end, two conferences are held annually for the press and for analysts, where the Management Board gives a detailed presentation of the results for the past financial year as well as a strategic outlook on the future. Aareal Bank also uses the quarterly results conference calls as an opportunity to inform analysts, investors and the media about current Group developments.

Overall, market communications thus remained at a high level throughout 2012. In the course of the financial year under review, the Investor Relations team took part in ten international capital markets conferences and conducted more than 200 one-on-one meetings with more than 300 investors and analysts during 22 roadshows around the globe. Investors greatly appreciate the fact that Management Board members also regularly attend conferences and roadshows in order to be available for personal meetings.

In order to ensure access to timely, open and transparent information of relevance to the capital markets, Aareal Bank provides shareholders and analysts with detailed information on the two segments Structured Property Financing and Consulting / Services on its website at www.aareal-bank.com. Furthermore, published ad-hoc disclosures and press releases, financial reports, as well as current Investor Relations presentations, are available for download from our Investor Relations portal. The financial calendar offers an overview of the most important dates in the company calendar.

We will continue to adopt a proactive approach to capital market communication in the 2013 financial year, with a view to underpinning the sustained success of the business model and the confidence placed in the bank by its shareholders.

Analysts' opinions

Of the 14 brokers and analysts who regularly covered Aareal Bank from the beginning of the financial year under review, three institutions suspended their coverage for staffing reasons during the course of the year. One institution initiated coverage of Aareal Bank; so that, by the end of the period under review, twelve brokers and analysts had published independent research reports and commentaries about the performance of Aareal Bank Group.

Having finished the 2011 financial year on a positive note, in 2012, too, we had to meet the expectations of the market – and of the analysts. Aareal Bank fulfilled these high expectations – there are currently eight "buy" recommendations and three "neutral" recommendations, compared with one "sell" recommendation.

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

	2012	2011	2010
Key data and indicators of the Aareal Bank share			
Share price (€) [1]			
Year-end price	15.71	13.985	(20.52) 22.80
High	19.82	24.47	(20.52) 22.80
Low	11.745	9.48	(10.44) 11.60
Book value per share (€)	30.22	27.18	31.97
Dividend per share in (€) [3]	–	–	–
Earnings per share (€)	1.75	2.11	1.78
Price/earnings ratio [2]	8.98	6.63	11.75
Dividend yield (%) [2]	–	–	–
Market capitalisation (€ mn) [2]	940	837	975

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

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

GROUP MANAGEMENT REPORT

Group Management Report

Aareal Bank Group is a leading international property specialist. It is active in more than 20 countries across three continents – in Europe, North America and Asia.

Business and Operating Environment

Group structure and business activities

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

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

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

Structured Property Financing

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

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

Aareal Bank has a broad and solid refinancing base. It has established itself as an active issuer of Pfandbriefe, 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. Private placements are the focal point of our capital market activities. 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, are the results of a combination of a sustainable business model with a sound understanding of the capital markets, and the quality of the cover assets pool.

Consulting / Services

The Consulting / Services segment offers the institutional housing sector 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 closely together.

We operate the IT systems consultancy and related advisory services for the institutional housing industry through our Aareon AG subsidiary, 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 many European countries with Germany being its core market. The ERP product portfolio for efficient process planning comprises SAP-based solutions such as Blue Eagle and the proprietary software Wodis with the Wodis Sigma product generation, as well as the GES and WohnData solutions that have long been established on the market. This product range is combined with extensive advisory services and integrated services that support networking between property companies and their business partners.

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

Group Management

Aareal Bank Group's management concept is focused on sustained group development. The standard is to create added value for our shareholders, clients and 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, and which are monitored during the lending process.

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. The primary performance indicators in the Institutional Housing Unit are volume of deposits, and the margin on deposits.

Macro-economic environment

The macro-economic environment in 2012 was defined largely by the European sovereign debt crisis. This had negative implications for sentiment in the real economy and led to a weak or even declining economy in many places in Europe. Via the transmission mechanism of international trading, it also burdened the economies in North America and Asia, although economic development there was more positive overall. Overall, the development of the global economy was only slightly positive.

The European sovereign debt crisis also impacted upon developments on the international financial and capital markets. The high level of uncertainty generated sharp price fluctuations on the international stock exchanges. The risk premiums for government bonds from euro zone periphery countries were also extremely volatile. The willingness of the European Central Bank (ECB) in the third quarter of 2012 to buy government bonds on the secondary market under certain conditions drove down the risk premiums for government bonds from the euro zone periphery countries.

The budget dispute in the US and related unresolved issues were highly significant, and also impaired the business climate there.

Economy

Global economic expansion continued to lose momentum in the year under review. Having still posted a growth rate of 2.9 % in 2011, real global economic output in 2012 was 2.3 %.

The weak economic expansion was largely due to the European sovereign debt crisis, which prompted uncertainty amongst companies and private households and therefore dampened overall economic demand. Demand was also tempered in many countries by restrictive fiscal policy, efforts by private households and companies to reduce debt levels and by high unemployment. This also burdened the economy in other regions by virtue of the links in international trade. Another factor that burdened the global economy was the temporarily high price of oil. On the other hand, support was forthcoming for the economy from the expansive monetary policy pursued by many central banks.

The euro zone slid into a slight recession in the year under review, which was due to a slump in demand within the euro zone. However, net exports of the euro member states increased. There were considerable differences between the individual member states. The southern member states, including Italy and Spain, which were particularly affected by the sovereign debt crisis and measures taken to consolidate the budgets, were in a marked recession. The problems in the banking sector also had a negative impact, particularly in Spain. Real gross domestic product was also down sharply in the Netherlands, albeit to a lesser extent than in the southern European countries. On the other hand, real gross domestic product fell only slightly in Belgium. In Finland and France, real gross domestic product in 2012 was almost unchanged from 2011. Germany, Luxembourg and Austria posted slight economic growth. Economic growth rates in 2012 in the euro member states as well as European countries outside the euro zone were either lower than in the previous year, or economic output even declined.

Real gross domestic product in the Czech Republic fell significantly. It declined slightly in Denmark, remained unchanged from the previous year in the UK, and grew slightly in Sweden and Switzerland. As in previous years, Poland saw economic growth which was considerable by European standards. The growth economies of Russia and Turkey showed a similar development, albeit with growth rates considerably lower than the year before.

Economic growth in the US was moderate in 2012. Growth was supported by a sharp rise in corporate investment and a moderate increase in private consumption, while the decline in government-driven demand had a dampening effect. Economic growth in Canada and Mexico was also positive.

China's economy continued to grow strongly by international standards. However, the pace of expansion eased markedly compared with the previous year. This was due to the slow pace of export growth on the back of the muted global economy. The driving force behind the expansion was domestic demand, although growth rates were slightly lower than in the previous year. Japan's economy recovered slowly from the consequences of the previous year's earthquake disaster, and real gross domestic product rose during the period under review. Economic growth was also positive in Singapore.

The economic slowdown in Europe was also reflected on the labour markets of numerous coun-

Annual rate of change in real gross domestic product

%	2012	2011
Europe		
Euro zone	-0.5	1.5
Austria	0.6	2.7
Belgium	-0.2	1.8
Finland	-0.1	2.7
France	0.0	1.7
Germany	0.9	3.1
Italy	-2.1	0.6
Luxembourg	0.5	1.7
The Netherlands	-0.9	1.1
Portugal	-3.1	-1.6
Spain	-1.3	0.4
further european countries		
Czech Republic	-1.1	1.9
Denmark	-0.5	1.1
Poland	2.2	4.3
Russia	3.4	4.4
Sweden	1.2	3.8
Switzerland	0.9	1.9
Turkey	2.6	8.5
United Kingdom	0.0	0.9
North America		
Canada	2.0	2.6
Mexico	3.9	3.9
USA	2.2	1.8
Asia		
China	7.8	9.3
Japan	2.0	-0.5
Singapore	1.4	4.9

tries. Due to the recession in Southern Europe, unemployment there rose particularly strongly. The unemployment rate in Spain was above 26 % at year-end. It also increased markedly in Italy, albeit at a considerably lower level of 11 %. The unemployment rate rose in most other European countries too. Levels increased significantly in France, the Netherlands, Poland and the Czech Republic, although they were less pronounced than in Southern Europe. The increases were moderate, for example, in Finland, Sweden and Austria. Unemployment in Germany, however, fell slightly. Together with Luxembourg and Austria, Germany saw the lowest unemployment rate within the EU. Unemployment rates also fell in the US, where the number of persons employed increased by 2.4 million during 2012. Unemployment was lower in Japan too.

Sovereign debt crisis

The European sovereign debt crisis defined the overall economic environment in the year under review. It not only impacted on the economy but also on the financial and capital markets, and was at the forefront of economic policy discussions.

The euro member states, together with the European Central Bank (ECB), agreed on various measures to counter the sovereign debt crisis. At the start of the year, the finance ministers of the euro zone nations agreed on a second bailout package for Greece. This was accompanied by a haircut for the private bondholders. Since Aareal Bank has no exposure to Greek government bonds, it was not affected by this haircut. A third package of measures was agreed at year-end. At the same time, Greece bought back government bonds.

The focus was also on the Spanish banking sector, which was seriously affected by the considerable drop in value of Spanish residential property, the recession in the country, and write-downs on securities portfolios. Consequently, several Spanish banks had to resort to support. The government in Madrid was no longer able to raise the additional funds required at acceptable terms on the financial and capital markets without help from third parties – also given the high risk premiums on Spanish government bonds. The Eurogroup (the meeting of euro zone finance ministers) therefore offered loans up to € 100 billion to Spain in mid-2012. In response to an application by the Spanish government, the European Stability Mechanism (ESM) in December 2012 provided loans in the amount of € 39.5 billion, which were granted to the Spanish bank restructuring fund (FROB). These loans are designated mainly to recapitalise specific Spanish banks, to a small extent, and the Spanish "bad" bank, Sareb. This settlement bank became operational during the last quarter. It acquires problem property-related assets and loans from various Spanish banks, thus contributing to the restructuring of the Spanish banking sector.

The ESM came into force at the start of October. As a permanent instrument, the ESM is expected to provide loans to euro states with funding problems. It was explained at the Eurogroup summit held at the end of June that the ESM would also be able to support banks directly with loans in the future, provided a standardised regulatory mechanism, incorporating the ECB, is established for the euro zone banks. The EU finance ministers agreed on guidelines in this respect at the end of the year.

The government bond market remained markedly segmented. The risk premiums (spreads) on bonds from the European periphery states were significantly higher than for countries classified by investors as safe, such as Germany. Following the sharp narrowing of spreads on Italian and Spanish government bonds at the start of the year, these widened again sharply. In view of the high rates of interest, the ECB launched a government bond buying programme (called Outright Monetary Transactions) and accepted to buy government bonds on the secondary market, provided these countries took up an ESM or EFSF programme. No limit was set for the ECB's buying programme. The yields on Italian and Spanish government bonds dropped sharply when the programme was announced in August, but were still well above the levels of bonds from countries that investors consider to be safe. Spreads for Portuguese government bonds tightened significantly throughout the entire year, but remained above those for Italy and Spain.

Numerous countries implemented various measures for consolidating their budgets, and most succeeded in lowering the budget deficits relative to gross domestic product compared with the previous year. However, nominal debt levels continued to rise. The budget deficit in the euro zone relative to gross domestic product fell from 4.1 % in 2011 to 3.3 % in 2012. Italy and Spain also achieved a slight reduction in their deficits, to 2.8 % and 8.2 % respectively of gross domestic product. Germany's deficit ratio was lower, at 0.2 % of gross domestic product, due to a sharp increase in revenues. At the start of the year, the EU heads of state – with the exception of the United Kingdom and the Czech Republic – agreed on measures to strengthen budgetary discipline, including the binding incorporation of a debt ceiling in national law. Budget deficits were high in Japan at 9.8 % of gross domestic product, as well as in the UK at 6.5 % and the US at 8.4 %.

Financial and capital markets, monetary policy and inflation

The financial and capital markets eased significantly compared with the heavily strained situation at year-end 2011. Various countries, companies and banks were able to place securities on the market. The spreads for riskier bonds tightened again towards mid-year. Banks' funding situation improved continuously in the core European countries during the year. Aareal Bank successfully placed two Mortgage Pfandbriefe, each with a volume of € 500 million, a bearer bond also sized at € 500 million and numerous private placements.

Pfandbriefe and other European covered bonds were the first asset class to benefit from the ongoing recovery. At the beginning of the year, demand was already strong and spreads tightened sharply until the end of the year. Moreover, the placement of unsecured benchmark bonds became possible in the early part of the year. Spreads tightened continuously and the maturities of the issues placed were increasingly longer. Even large amounts of subordinated bank bonds could be placed in the second half of the year. In the year under review, banks in various southern European countries had no direct access to the capital markets for quite a long period of time, and secured their liquidity through the ECB. Some southern European banks succeeded again in the second half of the year to raise funds via the capital market, and therefore reduced their funding via the ECB slightly.

The issuing volume of German Pfandbriefe has fallen significantly since 2000, most pronounced for Public Sector Pfandbriefe issuance. Mortgage Pfandbriefe benefit from this trend, resulting in a slight increase in the volume of new issues. Their share of total German Pfandbrief issuance has increased continuously in recent years. The declining trend in Pfandbrief issuance was exacerbated this year by the liquidity provided by the ECB. Some Pfandbrief banks took advantage of the ECB's open-market transactions, securing alternative sources of funding through its tender.

Another reason for declining Pfandbrief new issuance, especially of public-sector Pfandbriefe, is the growing reduction of assets and the decision taken by some competitors to suspend business activities entirely. This impacts on public-sector finance in particular, and can be explained in part by regulatory rules.

We are still a long way off normality on the financial and capital markets. The European sovereign debt crisis generated high volatility and uncertainty. The interbank markets remained subject to friction. This was evident in the high volume of deposits banks held with the ECB and the euro zone central banks, which increased further compared to the end of 2011.

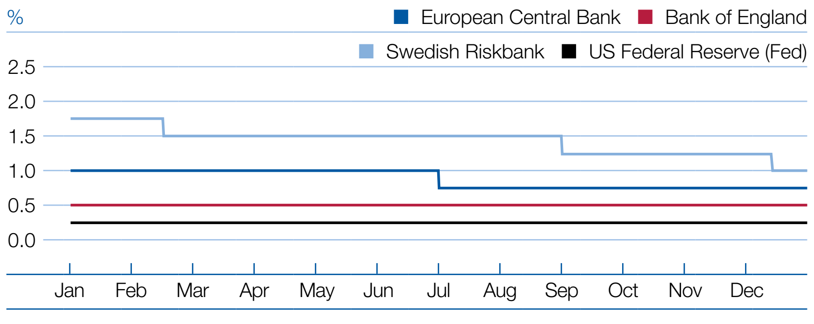
Another trend evident in the year under review was the downgrade of sovereign and bank ratings. This was largely due to stricter approaches adopted by the rating agencies, and deteriorating credit quality. Some issuers returned the ratings on a selective basis. Aareal Bank's Mortgage Pfandbriefe are analysed by rating agency Fitch and carry an

"AAA" rating. This meant that Aareal Bank was able to escape from this negative rating trend. On 11 September 2012, the "AAA" rating for our Mortgage Pfandbriefe was confirmed with a stable outlook.

The external value of the euro was under strong devaluation pressure at times during 2012. However, from the middle of the third quarter onwards, it picked up against some of the most important currencies in which we are active, although at year-end the euro was valued slightly lower against the pound sterling and the Swedish krona than it had been at the end of the previous year. In contrast, it was nearly unchanged against the Canadian dollar, slightly higher against the US dollar compared to year-end 2011 and considerably stronger against the Japanese yen. The euro remained almost constant against the Danish krone and the Swiss franc during the year. It must be taken into account here that Denmark is aiming at a largely stable exchange rate against the euro, and that the Swiss Central Bank does not allow the EUR/CHF exchange rate to fall below 1.20. In fact, the exchange rate remained just above this level in 2012.

The euro zone's financial and capital markets were highly segmented between the different countries. Risk premiums (spreads) were high for the euro zone's periphery countries; these tightened considerably following the announcement of the ECB's government bond buying programme. When analysing interest rate developments, one must take into consideration the segmentation of the financial and capital markets. The long-term interest rates[1] of the most important currencies in which we are active fell in the course of 2012. The only exception was the Canadian dollar, whose long-term interest rates at the end of the year were comparable with those of the end of the previous year. Short-term interest rates[2] were lower in most currencies too, with the euro and the Swedish krona showing the most pronounced declines. However, short-term Japanese yen and Swiss franc interest rates remained almost constant, albeit just above zero.

Key rate developments in 2012*



* The upper level of the corridor for the Fed Funds rate was set at 0.00 % to 0.25 %.

The financial and capital markets eased significantly on the back of the ECB's long-term refinancing operations for commercial banks in December 2011 and February 2012, in which many banks participated. Other central banks also pursued an expansive monetary policy. Various quantitative easing measures continued or were expanded. The UK and Japanese central banks, for example, extended their government bond buying programmes. The US Federal Reserve also persisted with an expansive monetary policy, undertaking in September to purchase US$ 40 billion in mortgage-backed bonds every month until further notice. It had previously extended its programme to buy long-term bonds in exchange for selling short-term bonds, up to the end of 2012.

The central banks continued to keep key rates low. The ECB lowered its main refinancing rate by 0.25 percentage points in July, to 0.75 %. Denmark's and Sweden's central banks lowered their key rates several times, to reach 0.20 % and 1.00 %, respectively. The Bank of England (BoE) and the Fed also kept their key interest rates at very low levels. There were only a few central banks that raised key interest rates: these included the Russian central bank and – temporarily – the Polish central bank, too. The Central Bank of China, which had previously striven to prevent the economy from overheating, switched to easing its monetary policy in 2012 as economic momentum declined. It cut its key rates for the first time in several years, and also lowered the minimum reserve rate.

[1] Calculated on the basis of the 10-year swap rate vs. 6-month Euribor/LIBOR

[2] Calculated on the basis of the 3-month Euribor/LIBOR, or comparable rates (depending on the currency)

Inflation was moderate in many countries in 2012. The average annual inflation rate in the euro zone fell marginally year-on-year to 2.5 %, which was slightly above the ECB's target level. Average annual inflation in the US was 2.4 %. Inflationary pressure eased in the emerging economies. At 2.5 %, Chinese inflation was considerably lower than in the previous year due to a weaker increase in food prices. The price level was virtually stable in Japan.

Regulatory environment and competition

The focus in the banking sector remains on the various regulatory and reform measures. Many measures were adopted during the period under review, while others were still being discussed or prepared. The question as to what the cumulative impact will be for banks and the real economy has yet to be answered. The focus at year-end shifted to the issue of how these regulatory plans can be uniformly implemented internationally, in order to prevent European – and particularly German – banks from being subjected to competitive disadvantages.

The environment in which the banks were operating was defined in recent years by a rapid rise in regulatory requirements. In this context, examples of these are the comprehensive Basel II framework and its implementation in the EU (CRD I), the implementation of the "Sydney Press Release" in the EU and of the regulation on large-volume loans (CRD II), the implementation of the short-term package of measures of the Basel Committee (CRD III), their implementation in national law as well as the various amendments to the Minimum Requirements for Risk Management (MaRisk).

The various regions clearly differed with regard to the competitive environment on the markets for commercial property financing.

As in previous years, many banks in Europe offering commercial property financing concentrated on their domestic market as well as a few core markets. Many international banks withdrew from commercial property financing in Europe during the financial markets crisis. This trend persisted in 2012. Hence, there are only a few banks still active in the market which finance international commercial property to a considerable extent – as does Aareal Bank. There was evidence in Europe of significant reticence among the banks to act as financing partners for specific products, including large-volume projects, cross-border portfolios, properties of less favourable quality or in peripheral locations, financing with high loan-to-value (LTV) ratios and financing in Southern Europe. Financing of construction projects also encountered reluctance amongst lenders. On the other hand, intensive competition surrounded the financing of first-class properties with low LTVs in top locations in the economic centres. This was the case for Germany, in particular, as well as other economic centres in Western and Northern Europe.

As in previous years, a growing number of insurance companies and pension funds stepped up their activities in commercial property financing, in Germany too. This opened up new opportunities for cooperations within the scope of syndicated finance.

The number of players on the syndication market in Europe remains small. Most transactions involving several finance providers were structured as club deals. These are defined by the fact that the different financing partners involved in concluding a loan agreement participate directly in the transactions. With secondary syndications, however, one or several financing partners are not involved until the loan agreement has been concluded.

The market for club deals and secondary syndications in the US, on the other hand, is more liquid. Liquidity was high, too, in the market for commercial property financing in the US, resulting in intensified competition. Alongside banks, this is due in particular to the life insurers, who have been avtive in the commercial property financing segment in the US. The market for securitisations (CMBS, commercial mortgage-backed securities) also recovered.

Besides some large international banks, the domestic banks are highly significant in commercial property financing in Asia. The market environment in Asia was competitive for Aareal Bank.

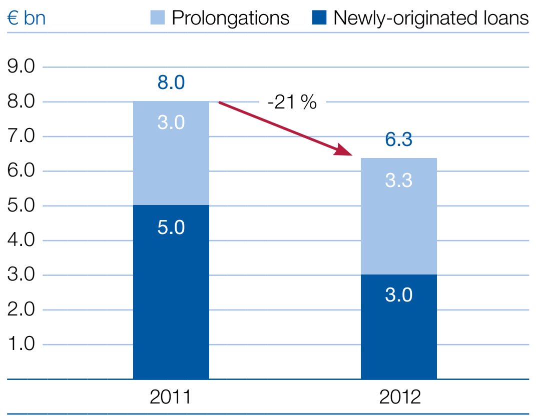
Segments and business development

Structured Property Financing segment

In view of the uncertainty on the financial and capital markets, and in conjunction with the European sovereign debt crisis, we concentrated initially on our issuing activities at the start of 2012. We started to increasingly exploit market opportunities presented in the lending business during the second quarter and continued to do so during the remainder of the year.

The volume of new business amounted to € 6.3 billion in 2012 (2011: € 8.0 billion), thus significantly exceeding the target corridor of € 4.5 to € 5.5 billion. A comparison with the previous year must take into account that last year's new business benefited from the capital increase conducted in the second quarter of 2011. The share of newly-originated loans in total new business exceeded 47.2 % in 2012 (2011: 62.2 %).

Development of new business



In terms of region, the highest share was accounted for by Europe with 75.5 % (2011: 78.8 %), followed by North America with 22 % (2011: 19.7 %) and Asia with 2.5 % (2011: 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 in Wiesbaden.

Our new business in 2012 was also broadly diversified in terms of property type. Office property accounted for the largest share, with 39.8 % (2011: 29.0 %), followed by retail property with 22.1 % (2011: 20.1 %) and hotels with 20.0% (2011: 24.9 %). The share of new business attributable to the financing of logistics properties was 10.1 % (2011: 15.9 %) and 5.2 % (2011: 7.4 %) for residential property. 2.8 % was attributable to other financings (2011: 2.7 %).

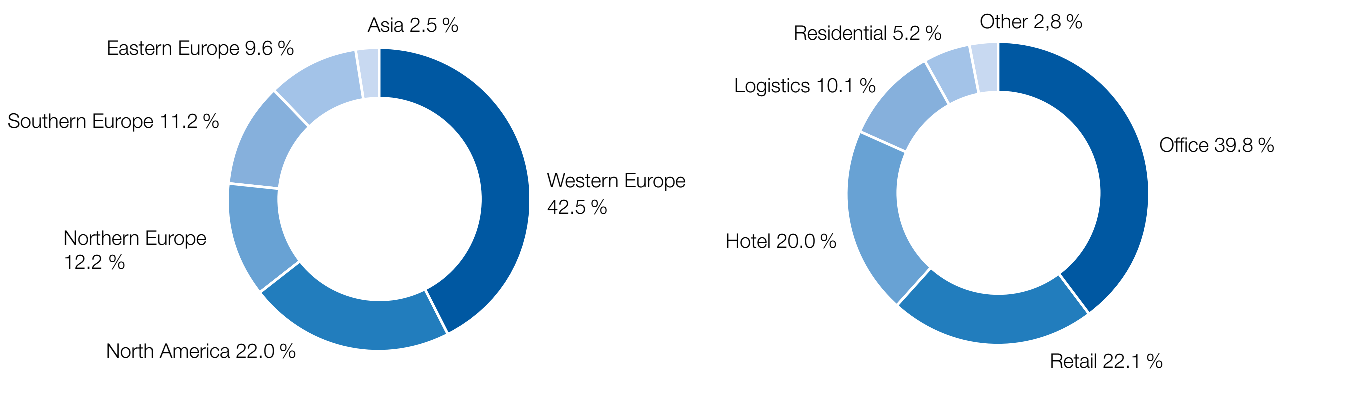
Developments on the commercial property markets are very important for the Structured Property Financing segment, which is why they will be explained in more detail here.

What is characteristic of property markets is that they are not homogeneous. The individual properties differ with regard to the factors that determine their value and rents, such as location, modernity, floor space and energy efficiency, flexibility and property management. Differences may also arise between individual markets and sub-markets, which are influenced by the regional economies, the number of construction projects, or a sub-market's transport infrastructure. As a result, rents and values can vary between individual properties and sub-markets, and must be taken into consideration when market trends are described below.

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

New business 2012

by region | by type of property



In the year under review, differences were evident between Europe, North America and Asia regarding rental development and the trend in the yield requirements of investors as described below. The global volume of commercial property transactions in 2012 increased marginally and was largely stable compared with the previous year. Investors focused on first-class properties in the corresponding locations in the economic centres.

Developments in the individual regions

Europe

Rental development for first-class commercial property in many European economic centres was stable. However, as we can see below, the markets in the premium segment varied with rents rising in some and falling in others. User demand in many markets was burdened by uncertainty and the weak economy.

Rental development of first-class office premises in the European centres was largely stable, for example in Berlin, Brussels, Frankfurt, London, Moscow, Paris, Prague, Stockholm and Warsaw. On the other hand, rental development was negative in the southern European economic centres of Barcelona, Madrid as well as Milan and Rome. There were only a few examples of rents for first-class office properties tending to fall, for example in The Hague, Copenhagen and Zurich. However, some markets also posted rising rents in this segment, such as Dusseldorf, Gothenburg, Hamburg, Helsinki and Munich.

On the market for high-quality retail properties, the number of European economic centres producing rising rents was almost in line with those producing stable rents. Rents increased in the economic centres of various Western European regions, such as Amsterdam, Berlin, Dusseldorf, London, Munich and Paris. In Northern Europe, rents in the first-class retail property segment increased slightly in Helsinki and Copenhagen, in Eastern Europe, Moscow also posted small increases. Rents were stable in the Italian and Spanish economic centres of Milan and Rome, Barcelona and Madrid. Rents were constant in the economic centres of many other countries, such as Brussels, Frankfurt, Hamburg, Prague, Stockholm and Warsaw. Only a few locations saw a general market trend for falling rents among first-class retail properties, such as Birmingham and shopping centres in Istanbul.

First-class logistics properties enjoyed mostly stable development with a broad regional distribution. Examples here were Brussels, Hamburg, London, Paris, Rotterdam, Stockholm and Warsaw, as well as the southern European centres of Madrid and Rome. On the other hand, rents for high-quality logistics properties fell in Barcelona and Milan, as well as in Amsterdam and Copenhagen, while rising in Frankfurt, Helsinki and Munich, to name some examples.

Properties that are not included in the first-class segment in terms of their quality and location lagged behind the overall market with regard to rental development. Rents here tended to come under pressure. This development continues to reflect the high demands on quality placed by tenants.

Developments in the hotel sector were largely positive in Europe's economic hubs, in terms of the important indicator of average revenues per available hotel room. This variable increased across a broad regional base in different economic centres. In Western Europe, these included Berlin, Frankfurt, London, Munich and Paris. In Northern Europe, average revenues rose in Helsinki and Copenhagen, and in Moscow, Prague and Warsaw in Eastern Europe. Average revenues also increased slightly in Barcelona and Rome, compared with Madrid and Milan, where they fell. Average revenues also fell in some other economic centres, including Brussels and Rotterdam as well as Geneva and Zurich, where the hotel trade was burdened by the strong Swiss franc.

Uncertainty in the overall economic environment led to pronounced risk-aversion among investors. They focused their demand accordingly on prime properties deemed to be safe that are defined by first-class quality in the corresponding locations in the economic centres and a solid rental situation. The regional focus was very pronounced here too. Demand was high in the economic centres of the UK, particularly London, followed by Germany, France and Northern Europe. In some cases, demand for prime properties exceeded supply. The volume of transactions in Europe was – largely driven by a strong fourth quarter – roughly unchanged from the previous year.

The yield requirements of investors on the markets for high-quality office property were inconsistent. Yields were stable on several markets such as Copenhagen, London, Prague and Warsaw. At the same time, yield requirements for first-class office properties fell on many markets[1] such as Brussels, Frankfurt, Helsinki, Moscow, Paris and Stockholm. In turn, the yields in this segment increased for many markets too, affecting the economic centres of the UK (excluding London), Italy, the Netherlands and Spain.

Yield requirements for high-quality retail properties were stable or down slightly in the vast majority of European economic centres. Examples of retail property markets with stable yields in the premium segment were Amsterdam, Brussels, Istanbul, London, Prague and Warsaw. Falling yields were recorded in the leading economic centres of Germany, France and Northern Europe, as well as in the big Spanish cities of Barcelona and Madrid. Yields for first-class retail properties rose only on isolated markets, such as some UK economic centres and the Italian cities of Milan and Rome.

The logistics markets in the first-class segment painted a mixed picture. Examples of stable rental development were most of the leading German economic centres, as well as Copenhagen, London, Prague, Stockholm and the Spanish centres of Barcelona and Madrid. On the other hand, rising yields were registered in the British (excluding London) and Italian centres, and in Paris. Yields fell slightly on various markets, particularly in Amsterdam, Brussels, Rotterdam and Warsaw.

One thing that almost all markets with rising or falling yields in the first-class segment have in common is that changes over the previous year were only marginal. It must be taken into account that demand on some markets, especially in Southern Europe, was low and yields were influenced by a small number of transactions only. With investor demand concentrated on the prime segment, the gap between yields for first- and second-class properties widened further, with the latter lagging behind and performance coming under pressure.

[1] Falling yield requirements lead to rising property market values, while rising yield requirements correspondingly produce falling values, all other things remaining equal.

Aareal Bank manages its market activities in the individual regions through sales hubs (totalling six in 2012, plus the sector specialist sales hub in Wiesbaden). The national sales unit in our Wiesbaden head office managed our market activities in Germany. Market activities in Belgium, Luxembourg, France, Switzerland and Spain were managed by our Paris branch. The Stockholm branch was responsible for the management of the northern European countries, while our London branch was responsible for managing market activities in the UK and the Netherlands. The branch in Rome was responsible for market activities in Italy, and our Warsaw branch for Eastern Europe. The business in Turkey was managed by the sector specialist sales unit in Wiesbaden, since in Turkey, international investors are mainly active in shopping centres and hotels, and market activity is greatest in these segments.

The volume of new business we originated in Europe amounted to € 4.8 billion. At € 2.7 billion, Western Europe[1] accounted for the highest share thereof, and also dominated transaction volumes on the European markets. New business was considerably lower in Northern Europe (€ 0.8 billion), Southern Europe (€ 0.7 billion) and Eastern Europe (€ 0.6 billion). We are not active in property financing in Greece, Ireland or Portugal.

North America (NAFTA states)

The commercial property markets in the US were stable to slightly positive, on a national average.

The recovery on the office markets in the US continued slowly in 2012, and rents increased slightly on a national average. However, the various regions continued to differ considerably. Rents rose sharply in San Francisco, for example. Office rents increased in Boston and New York, to a lesser but still considerable extent. They increased slightly on the other hand in Dallas and Los Angeles, while remaining constant in Chicago and Washington D.C. The vacancy ratio for office property fell slightly in the US on national average. The retail sector posted a similar development. Rents in the retail segment fell marginally on national average. Rental development varied greatly by region: slightly higher rents were seen in Boston and New York, but remained virtually constant in Dallas and Los Angeles. Retail rents, on the other hand, were lower in Chicago, San Francisco and Washington D.C. The vacancy ratio for logistics properties also fell, and the average rents for these properties in the US increased slightly on national average. Chicago, Dallas, Los Angeles, San Francisco and Washington D.C. are examples for rising rents in the logistics sector, while the increase in Boston was minimal. Logistics rents fell marginally in New York.

The upside trend that had already started in the hotel sector in the USA persisted, with average revenues per available hotel room increasing over the corresponding period of the previous year. This was driven by increases in the occupancy ratio and in room rates. Average revenues per available hotel room also increased in Canada and Mexico.

In North America, the transaction volume in newly-acquired commercial property was up on the previous year. The final quarter was strong here too, helped – amongst other factors – by tax considerations. Investor interest was focused on high-quality properties in the corresponding locations, although there was also evidence of interest in properties outside the premium segment. Investor yield requirements on the office markets in the US fell slightly on national average in the central locations, but remained constant in the suburbs. Yields were lower on average for retail and logistics properties.

We have an active presence in North America through our subsidiary Aareal Capital Corporation, which has an office in New York and also manages

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

our new business activities locally. In the year under review, we generated new business of € 1.4 billion in North America, which was accounted for mainly by the US.

Asia

Rental development in the big Asian cities varied. Rents for first-class office properties in Beijing and Shanghai increased – in some cases strongly, depending on the sub-market – although the Shanghai Puxi sub-market reported a decline. Rents for high-quality offices in Tokyo remained constant, compared with a considerable drop in Singapore. Rents in high-quality shopping centres in Beijing, Shanghai and Singapore remained stable. This was also the case for premium retail property in Tokyo. The first-class logistics segment in Beijing, Shanghai, and the greater Tokyo region saw an increase in rents – and to a lesser extent, Singapore.

The hotel sector in Beijing, Shanghai, Singapore and Tokyo improved over the previous year, accompanied by an increase in the average revenues per available hotel room. The increase was particularly strong in Tokyo, as a consequence of the recovery from the earthquake catastrophe in March of 2011.

Transaction volumes in Asia were down slightly compared with 2011. Investors' yield requirements varied in the major Asian cities in 2012; they fell slightly in the segment for first-class office property in Beijing and Singapore, while remaining constant in Tokyo and increasing slightly in Shanghai. Yields for first-class retail properties were up slightly in Shanghai too. They remained stable in Beijing and Tokyo, and fell in Singapore. Higher yields for first-class logistics properties were registered in the big Chinese cities of Beijing and Shanghai, with declines in Singapore and Tokyo.

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 € 0.1 billion in the year under review.

Consulting / Services segment

Institutional Housing Unit

The institutional housing industry in Germany proved stable also in 2012. This was evidenced in particular by predominantly constant rental income and long-term financing structures. The sector continued to focus particularly on sustainable property management and development, with a strong emphasis on increasing energy efficiency. The housing and property companies that are organised in the German Federation of German Housing and Real Estate Enterprises (Bundesverband deutscher Wohnungs- und Immobilienunternehmen – "GDW") and its regional federations, invested more than € 10 billion in the future of their portfolios.

The housing market was largely immune to economic fluctuations, since market developments here tend to be determined more by long-term factors such as population and income perspectives. Advertised rents were once again above the previous year's level throughout Germany, whereby the rents in major cities increased to a greater extent than in rural areas. The price increases were largely due to the sustained demand for apartments, because, on the one hand, apartments are becoming increasingly more attractive as an investment and also given the low interest rate levels on the other.

The housing market was still subject to great regional differences. The demand for housing was greater in prosperous urban areas; this was associated with supply bottlenecks, while rural regions suffered from population loss. After the forecasts from June 2012, the vacancy ratio on the housing market for the full year 2012 was unchanged from the previous year at around 3 % in the former West German Federal states and approx. 8 % in the former East Germany.

Considering the high volatility on the financial and capital markets and the low returns offered by alternative investments, investors focused on residential property again in 2012. Residential property portfolios totalling around € 11.4 billion were traded. Transaction volumes therefore increased by around 90 % over the same period of the previous year. This sharp increase in volume is due to a series of large-volume property transactions, especially in the first half of the year.

Looking at the origin of buyer groups, domestic and international institutional investors are active on the housing market. With international investors accounting for around 27 % of investment turnover on 2012, their share on the transactions market was mainly stable compared with the previous year (29 %). Overall, great interest was shown by various investor groups, with listed property companies and equity/property funds dominating the market.

The bank's Institutional Housing Unit further strengthened its market position in 2012 through acquiring new clients as well as intensifying business relationships with existing clients, acquiring business partners managing between them more than 130,000 residential units for payments and deposit-taking. Existing business partners in commercial property management connected more managed units to our payment processes than in the previous year. Additional companies from the utilities and waste disposal industries opted for our payment systems and/or investment products. We meanwhile have an established customer base from this sector, which has created a solid base for further growth.

Against the background of introducing the Single European Payments Area (SEPA) at the start of 2014, we have started to convert our systems ahead of schedule by introducing the relevant SEPA credit transfers and direct debit payment methods. To prepare for the migration projects involved in conjunction with the SEPA conversion, we held workshops with our clients during the financial year under review, where we offered them the opportunity to obtain comprehensive information about the SEPA aspects that are relevant to banking.

In addition, we extended the BK 01 sector solution for the utilities and waste disposal industry to include standardised applications that calculate usage and billing data.

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 increased to € 5.6 billion on average in the 2012 financial year (2011: € 4.7 billion). Deposits averaged € 6.2 billion in the fourth quarter of 2012. This reflects the strong trust placed in Aareal Bank by our clients.

The marked increase was particularly evident in current account balances, which also increased by more than one third compared with the previous year, in line with call money. With an 11 % increase in 2012, we once again succeeded in significantly growing the volume of rent deposits over the previous year.

Aareon AG

Cloud computing – one of the most important current IT trends – is becoming increasingly important in the market for property management software, and demand is steadily growing. Using cloud computing, companies can procure and retrieve IT solutions from service providers through a network. This facilitates efficient investments in IT and helps to keep administrative expenses low. Aareon AG has the ability to benefit sustainably from this new trend. It looks back on several decades of experience, both as an IT centre operator and as provider of GES, an ASP-based software solution. ASP, or "Application Service Providing", can be seen as the predecessor of today's cloud computing concept. Another important trend in the housing industry is the mobile use of software solutions and processes, for example, via smartphones and other mobile devices. The flow of information between housing enterprises and tenants will therefore open up optimisation potential that supports the service for tenants for both sides. Examples are maintenance management, mobile property inspection and acquisition management.

Aareon offers its customers a one-stop shop for advisory, software and other services – tailored to meet the needs of the property management sector. The country-specific ERP solutions that allow for the local market conditions can be extended to include integrated services and additional products. With its service range, Aareon supports housing enterprises in simplifying and automating their processes: quicker data access, greater transparency and efficient management of the rental units support the rental service of the housing enterprises. The ERP solutions also offer a wide range of analytical options, for example, to prepare management decisions and budget management. 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 und PortalImmo in France, QL in Great Britain and SG|tobias and the new product generation SG|tobias^{AX} in the Netherlands. ERP solutions and integrated services, together with additional services, support the efficient cooperation of property companies and their business partners. This range is complemented by sector-specific advisory services for all products and services.

The positive development of the Wodis Sigma product generation that Aareon launched in 2009 remained intact. Wodis Sigma is based on one of the leading international development platforms, Microsoft®. NET™. 477 clients have already opted for Wodis Sigma, 102 alone in the 2012 financial year. 404 clients were working with the system in their day-to-day operations as at the end of 2012. Wodis Sigma is being developed on a permanent basis, and is constantly adjusted to meet clients' requirements. Aareon presented the new Wodis Sigma Release 4.0 – with new functions and the integration of the current legal requirements – at the annual Wodis Sigma Forum client event held in Bochum. Wodis Sigma was introduced as a service from the exclusive Aareon Cloud one year previously, and continues to be well received. 77 clients have already opted for this type of operating mode.

The market for SAP®-related projects remained subdued in 2012, as expected. Demand was concentrated on Aareon's SAP® consultancy services, where Aareon successfully agreed a large number of advisory agreements. Allbau AG, Essen for example, signed a contract for SAP®-application management services to manage Aareon's existing SAP® installation. Aareon has been managing the system at Allbau AG (18,000 units) since 1 February 2012. The production rollout of Blue Eagle Individual at LEG Landesentwicklungsgesellschaft NRW GmbH, Düsseldorf, with more than 90,000 rental units, was on schedule at the start of 2012. The development of the new Blue Eagle Release 6.3 is proceeding as planned.

It was agreed during the period under review to continue the partnership with SAP that has already been in place for ten years. The new cooperation agreement confers the status of SAP PartnerEdge Services Partner on Aareon. In addition to the existing certifications "SAP-Certified Provider of Application Management Services" and "SAP-Certified Provider of Hosting Services", Aareon was also given the SAP status "Partner Center of Expertise", following an extensive audit in October.

The volume of business with the established GES system was stable in 2012. The new GES client contact management and GES contract management module that was introduced in the fourth quarter of 2011 met with a positive response. Key topics of the two GES versions on 2012 were the "E-Bilanz" electronic balance sheet service, and the development of GES contract management and GES customer contact management. The product continues to be characterised by a high level of customer satisfaction, which is supported by the large number of contract renewals.

Integrated Services continued to develop favourably. It simplifies and automates the daily workflows of the property companies, linking these with internal and external business partners through the ERP system and beyond. Demand was particularly strong for the Mareon service portal, the BauSecura insurance solutions and the Aareon invoicing service. In addition, RWE AG, Essen – one of the highest-profile electricity and gas utilities in Germany – is one of the companies to have decided in favour of the Aareon invoicing service. This product facilitates the paper-free exchange of invoices between business partners, and purely digital invoice processing.

The Mareon service portal, which networks housing enterprises, calorimetric systems providers, and tradesmen, is used by some 250 property companies and 8,500 craftsmen to simplify their processes. There are 42 product interfaces to tradesmen's software programmes. Another major client, GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen, managing more than 41,000 rental units, signed a contract to implement Mareon. Demand for the BauSecura insurance solutions was strong throughout Germany and contributed to continuous growth.

Aareon also extended its integrated services with the purchase of immoblue-Plus (now operating as Aareon immoblue+), a web-based solution for managing prospective tenants, from DataConnexx GmbH, Schönebeck, with effect from 1 April 2012. Aareon immoblue+ supports and simplifies the entire rental process from publishing the rental offer through property maintenance to the qualified preparation of the offer for the prospective tenants and conclusion of the contract. This solution is already used by around 50 companies in the institutional housing industry that are now serviced by Aareon. Aareon immoblue+ was integrated in the customer relationship management (CRM) service range and has met with great customer interest. Aareon plans to expand this line of business further in the future.

Together with Aareal Bank, Aareon offers the integrated payments solution that is integrated in the Aareon ERP systems. The BK 01® payments system can be used for the Wodis Sigma and GES systems, and the BK XL® system (which includes integrated digital signature functionality) for SAP®-based Blue Eagle.

Aareon focuses its international business activities on important strategic markets. The company is represented with subsidiaries in France, the UK and the Netherlands, and has expanded its activities further by acquiring the UK company 1st Touch. International business remained positive during the period under review. It's share of Aareon Group's total revenue increased to 28.7 % (2011: 27.4 %). Within the scope of its product and business development, Aareon benefits from the constant exchange of information and experience on an international level. Synergies in the areas of business models, technologies, and cooperation partners are systematically identified and exploited. Topics in this context are the planned development of the mobile solutions in the UK subsidiary 1st Touch, and the development of a modern sector-specific customer relationship management software within the scope of one of Aareon Group's international projects.

Aareon is the leading IT partner in the "I-stay@home" project funded by the European Union. Several European partners in the institutional housing industry have merged under the overall management of the housing enterprise Joseph-Stiftung in Bamberg, and were awarded the tender. These include housing enterprises from Germany, France, Belgium and the Netherlands, as well as research and technology partners. The project aims to allow older people to remain living within their own four walls for as long as possible, and is becoming increasingly important from a social and economic perspective, in view of the demographic development. The project partners are therefore developing an IT-based platform to access domestic support services.

SG|automatisering bv, Emmen, offer the ERP solution SG|tobias with the new product generation SG|tobias^{AX} on the basis of Microsoft® Dynamics® AX. SG|tobias^{AX} continues to be well received by the market. De Key, Amsterdam, managing 35,700 rental units, is a new and important client. The releases of the SG|Treasury and SG|Vastgoed additional products were launched on schedule in the second quarter of 2012. SG|automatisering (Group) has 164 employees at three locations, and has 182 clients.

Aareon France SAS, Meudon-la-Forêt, offer the two ERP systems Prem'Habitat 2.0 and PortalImmo

Habitat 2.0. systems. At the start of the year, and on schedule, Aareon France rolled out the ERP solution PortalImmo Habitat 2.0 for major client Logement Français, Paris (approx. 85,000 rental units), and for housing enterprise Le Foyer Remois from Reims (approx. 18,000 rental units) in June. Aareon France extended its service range during the past financial year with the acquisition of the SIG Habitat solution from D6GEO. SIG Habitat is a geographically-oriented information system. Aareon France has 158 employees at four locations in France, and has around 250 clients.

Aareon UK Ltd., Coventry, offers the ERP solution QL. Aareon UK leveraged its leading position on the highly competitive UK market for property management software, and bid successfully for various tenders. Aareon UK has a staff base of 62 employees at its locations in Coventry and Swansea (Wales). Currently it has 95 clients.

Another step in Aareon's international growth strategy was the full takeover of the UK company 1st Touch Ltd., Southampton, with effect from 1 July 2012. 1st Touch was founded in October 2007 and is the leading and rapidly-growing provider of mobile software solutions for the housing industry in the United Kingdom. The company's clients are based in the social housing market. It not only targets Aareon UK clients but also those of other housing enterprises. 1st Touch is active on the market under the umbrella of Aareon Group at its previous Southampton location, and as an independent operator. Aareon is also developing the 1st Touch mobile solutions with the aim of offering them internationally as well. The company employs 20 staff and has 50 clients.

Aareon Group achieved profit before taxes and interest (EBIT) of € 26 million in the 2012 financial year (2011: € 25 million).

Financial Position and Performance

Financial performance

Group

Consolidated operating profit in the 2012 financial year amounted to € 176 million, compared with € 185 million in the same period of the previous year. This is a good result, against the backdrop of a still-challenging market environment.

Net interest income was € 486 million (2011: € 547 million). It was burdened in particular by the low interest rate environment and our cautious investment strategy: we deposited large sums of liquid funds with Deutsche Bundesbank and the European Central Bank (ECB). Surplus liquid funds were invested in high-quality European public-sector debt instruments. Funds held with the ECB and Deutsche Bundesbank during the year averaged around € 4.0 billion.

Allowance for credit losses amounted to € 106 million in the 2012 financial year (2011: € 112 million), and was therefore below the previous year's level as well as the pro-rata forecast range of € 110 million to € 140 million for the full financial year.

Net commission income of € 169 million was significantly higher than in the previous year (€ 144 million). This increase is mainly due to lower costs for the bonds guaranteed by the Financial Markets Stabilisation Fund (SoFFin) that expired in the previous financial year (€ 3 million; 2011: € 21 million).

Net trading income / expenses and the net result on hedge accounting of € -14 million were primarily attributable to the measurement of derivatives used to hedge interest rate and currency risk, as well as to unrealised changes in value from the sale of hedges for selected EU sovereign countries.

The result from investment properties of € 5 million contains mainly rental income. The decline over the previous year (€ 10 million) was due especially to the loss of rental income in conjunction with the sale of a property in Q2 2012.

Consolidated net income of Aareal Bank Group

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Net interest income	486	547
Allowance for credit losses	106	112
Net interest income after allowance for credit losses	**380**	**435**
Net commission income	169	144
Net result on hedge accounting	-4	6
Net trading income/expenses	-10	14
Results from non-trading assets	1	-29
Results from investments accounted for using the equity method	0	1
Results from investment properties	5	10
Administrative expenses	358	382
Net other operating income/expenses	-7	-14
Impairment of goodwill	–	0
Operating profit	**176**	**185**
Income taxes	52	52
Net income/loss	**124**	**133**
Allocation of results		
Net income/loss attributable to non-controlling interests	19	19
Net income/loss attributable to shareholders of Aareal Bank AG	105	114
Appropriation of profits		
Net income/loss attributable to shareholders of Aareal Bank AG	105	114
Silent participation by SoFFin	20	21
Consolidated profit/loss	**85**	**93**

At € 358 million, administrative expenses were down from last year's level (2011: € 382 million). This is mainly due to the measures to optimise structures and processes that were initiated in the 2011 financial year and implemented in the financial year under review. The previous year's figure included related non-recurring effects of € 12 million recognised in the fourth quarter of 2011.

Net other operating income and expenses amounted to € -7 million (2011: € -14 million). The previous year's figure reflected, in particular, expenses incurred with one individual property.

Overall, consolidated operating profit for the 2012 financial year was € 176 million (2011: € 185 million). Taking into consideration income taxes of € 52 million and non-controlling interest income of € 19 million, net income attributable to shareholders of Aareal Bank AG amounted to € 105 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at € 85 million (2011: € 93 million).

Structured Property Financing segment

At € 170 million, the operating profit achieved in the Structured Property Financing segment was slightly higher than the figure for the previous year (€ 165 million).

Structured Property Financing segment result

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Net interest income	463	508
Allowance for credit losses	106	112
Net interest income after allowance for credit losses	**357**	**396**
Net commission income	21	2
Net result on hedge accounting	-4	6
Net trading income/expenses	-10	14
Results from non-trading assets	1	-29
Results from investments accounted for using the equity method	0	0
Results from investment properties	5	10
Administrative expenses	191	217
Net other operating income/expenses	-9	-17
Impairment of goodwill	–	0
Operating profit	**170**	**165**
Income taxes	51	46
Segment result	**119**	**119**
Allocation of results		
Segment result attributable to non-controlling interests	17	17
Segment result attributable to shareholders of Aareal Bank AG	102	102

Net interest income was € 463 million (2011: € 508 million). It was burdened in particular by the low interest rate environment and our cautious investment strategy: we deposited large sums of liquid funds with Deutsche Bundesbank and the European Central Bank (ECB). Surplus liquid funds were invested in high-quality European public-sector debt instruments. Funds held with the ECB and Deutsche Bundesbank during the year averaged around € 4.0 billion.

Allowance for credit losses in the 2012 financial year was € 106 million (2011: € 112 million) and was therefore below the previous year's level as well as the pro-rata forecast range of € 110 million to € 140 million for the full financial year.

Net commission income of € 21 million was significantly higher than in the previous year (€ 2 million). This increase is mainly due to lower costs for the bonds guaranteed by the Financial Markets Stabilisation Fund (SoFFin) that expired in the previous financial year (€ 3 million; 2011: € 21 million).

The aggregate of net trading income/expenses and the net result on hedge accounting of € -14 million was primarily attributable to the measurement of derivatives used to hedge interest rate and currency risk, as well as to unrealised changes in value from the sale of hedges for selected EU sovereign countries.

The result from investment properties of € 5 million contains mainly rental income. The decline over the previous year (€ 10 million) was due especially to the loss of rental income in conjunction with the sale of a property in Q2 2012.

At € 191 million, administrative expenses were down from last year's level (2011: € 217 million). This is mainly due to the measures to optimise structures and processes that were implemented in 2012. The previous year's figure was also burdened by non-recurring effects.

Net other operating income and expenses amounted to € -9 million (2011: € -17 million). The previous year's figure reflected, in particular, expenses incurred with one individual property.

Operating profit in the Structured Property Financing segment totalled € 170 million. The segment result, after deduction of income taxes of € 51 million and € 17 million in non-controlling interests, was € 102 million (2011: € 102 million).

Segment Consulting/Services

Sales revenue amounted to € 194 million in the 2012 financial year (2011: € 203 million). The decline resulted mainly from the low interest rate environment, which burdened the margins generated from the deposit-taking business that are reported under sales revenues. On the other hand, Aareon's sales revenues increased by € 5 million to € 165 million.

Staff expenses of € 114 million were slightly higher than the previous year's level. This was due to, amongst other things, the expenditure related to 1st Touch Ltd. Southampton, acquired by Aareon as at 1 July 2012 and included in the item for the first time. In addition, higher expenditure was incurred for investments in the advisory business.

Other income earnings variables were roughly unchanged from the previous year.

On balance, the Consulting/Services segment generated operating profit of € 6 million (2011: € 20 million). Aareon Group's operating profit therefore amounted to € 26 million (2011: € 25 million). Adjusted to take into account taxes of € 1 million and € 2 million in non-controlling interests, the segment result stands at € 3 million (2011: € 12 million).

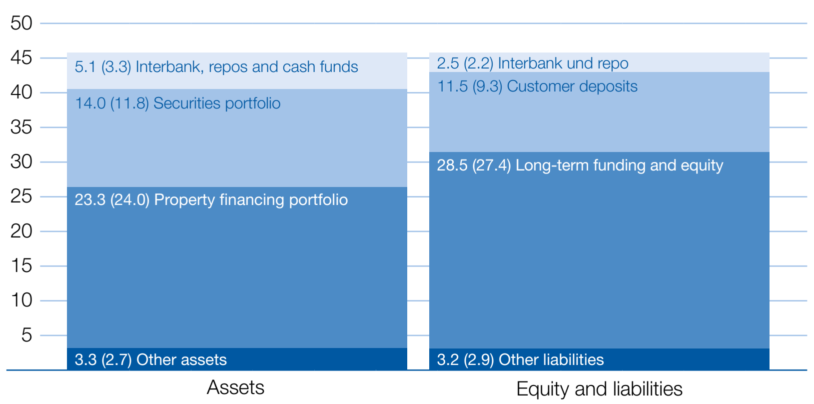
Consulting/Services segment result

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Sales revenues	194	203
Own work capitalised	2	2
Changes in inventory	0	0
Other operating income	7	8
Cost of materials purchased	21	20
Staff expenses	114	112
Depreciation, amortisation and impairment losses	13	13
Results from investments accounted for using the equity method	–	1
Other operating expenses	49	49
Interest and similar income/expenses	0	0
Operating profit	**6**	**20**
Income taxes	1	6
Segment result	**5**	**14**
Allocation of results		
Segment result attributable to non-controlling interests	2	2
Segment result attributable to shareholders of Aareal Bank AG	3	12

Net assets

Consolidated total assets of Aareal Bank Group as at 31 December 2012 amounted to € 45,7 billion, after € 41.8 billion as at 31 December 2011.

Statement of financial position – structure as at 31 Dec 2012 (31 Dec 2011)



Interbank deposits, repos, and cash funds

Interbank deposits, repos, and cash funds comprise short-term investments of surplus liquidity. As at 31 December 2012, this comprised predominantly cash funds and deposits with central banks, term deposits and current account balances with other banks.

Property financing portfolio

Portfolio structure

The volume of Aareal Bank Group's property financings contracted from € 24.0 billion to € 23.3 billion in 2012, which equates to a decline of 2.9 %.

While the portfolio in Western and Southern Europe increased slightly, the performance of the property financing portfolio in the other regions was slightly negative. The marginal increase in the Southern Europe portfolio was largely on account of new business acquired in the 2011 financial year that was disbursed at the start of 2012. The slight fall in the North America portfolio was mainly due to the repayment of large-volume individual transactions.

With regard to the breakdown of the property finance portfolio by property type, office, retail and logistics finance was up slightly, while the volume of loans for residential property was slightly lower. At the end of the period under review, the property finance portfolio was highly diversified, with regard to region and property type.

Portfolio development

Aareal Bank Group continued its successful lending policy in the 2012 financial year, despite the challenging market environment. New business amounted to € 6.3 billion (2011: € 8.0 billion). This figure included € 3.0 billion in newly-originated loans, which was down on the previous year (€ 5.0 billion). The capital increase conducted in 2011 had a positive impact on the previous year's figure.

Repayments on the property financing portfolio include all types of scheduled and unscheduled principal payments by clients. Repayments of € 3.0 billion (2011: € 3.2 billion) in 2012 fell slightly. Based on the portfolio at year-end 2011, this represents a repayment ratio of 12.5 % (2011: 14.1 %).

A portion of the property financing portfolio has been committed in foreign currencies. Exchange rate fluctuations have an impact on the euro equivalent of the portfolio. Despite exchange rate fluctuations during 2012, the exchange rates at year-end were roughly at the same level as at the start of 2012. Currency fluctuations therefore had no material effects on property financing volumes over the year.

The volume of loans included in cover for Mortgage Pfandbriefe increased further during the year under review, to € 10.7 billion as at 31 December 2012 (2011: € 10.2 billion). This corresponds to an increase of 3.5 % over the previous year to around 46 %.

In 2012, our activities on the capital market for property finance focused again on the arrangers of syndicated financing and the management of existing syndications, in particular on granting loan extensions. The volume of syndicated loans amounted to € 224 million in the 2012 financial year (2011: € 404 million).

No securitisations were carried out during the reporting period.

Securities portfolio

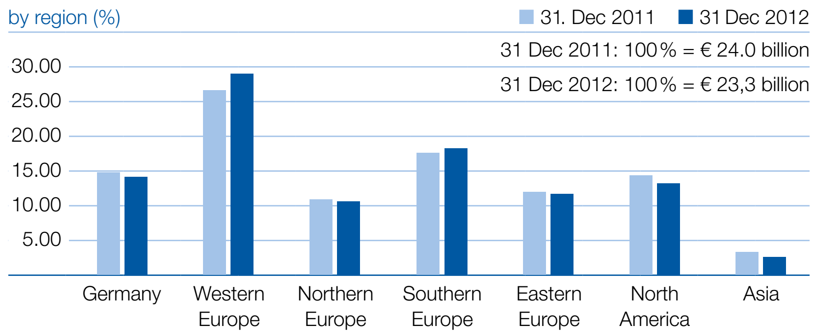
Commensurate with the still-volatile market environment, the liquidity reserves maintained are invested in a high-quality securities portfolio. Aareal Bank can quickly deploy the portion of the securities portfolio serving as a liquidity reserve, for example, through repo transactions on the money market.

As at 31 December 2012, the securities portfolio[1] was worth € 12.1 billion (nominal volume) compared with € 10.5 billion in 2011. It comprises four asset classes: public-sector borrowers, covered bonds and Pfandbriefe, bank bonds, and asset-backed securities (ABS). 97 % of the overall portfolio is denominated in euro. Around 98 % of the portfolio has an investment grade rating.[2]

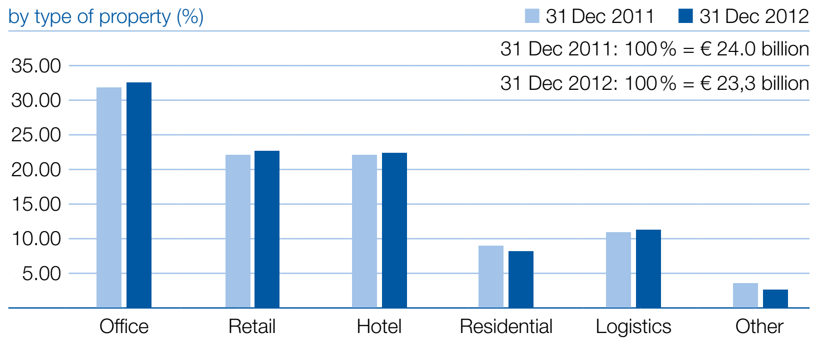
Public-sector borrowers are the largest asset class, accounting for a share of approx. 80 %. These include securities and promissory note loans[3] that qualify as ordinary cover for public-sector Pfandbriefe. 97 % of these issuers are headquartered in the EU. Approximately 77 % are rated "AAA" or "AA" and a further 5 % are rated A. Overall, 98 % have an investment grade rating.

[1] As at 31 December 2012, the securities portfolio was carried at € 14.0 billion (2011: € 11.8 billion).
[2] The rating details are based on the composite ratings.
[3] Promissory note loans carried as assets are reported in the IFRS statement of financial position under "Loans and advances to banks" and "Loans and advances to clients".

Property financing volumes (amounts drawn)



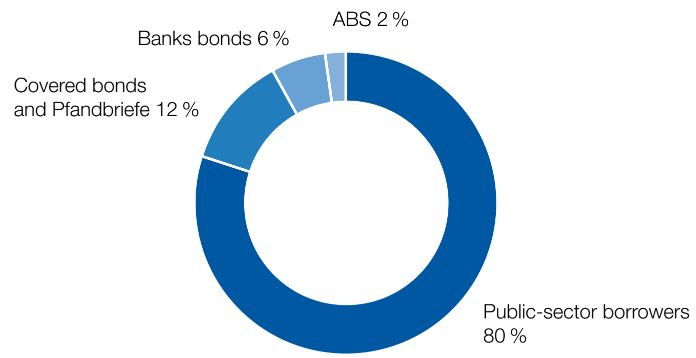
Property financing volumes (amounts drawn)



Securities portfolio as at 31 December 2012

%

Total volume (nominal): € 12.1 billion

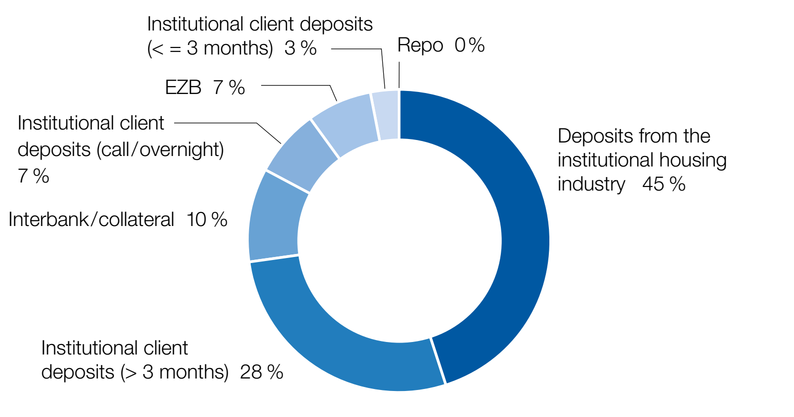


The share of Pfandbriefe and covered bonds at year-end was 12 %. 95 % consists of European covered bonds, with the remainder invested in Canadian covered bonds. Around 48 % have an "AAA" rating and a further 26 % are rated "A". The remainder are rated "BBB".

The bank bond asset class is made up predominantly of European issuers with high credit quality. The share of this asset class was approx. 6 % at year-end. A total of around 94 % were rated at least "A".

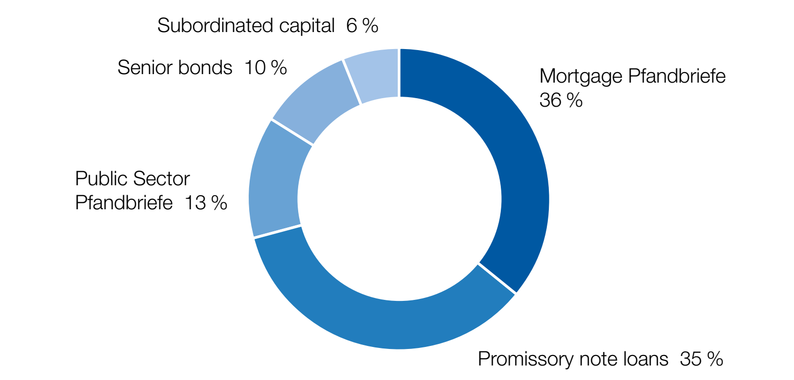
Money market funding mix as at 31 December 2012

% Total volume: € 14.0 billion



Capital market funding mix as at 31 December 2012

% Total volume: € 26.7 billion



The securities portfolio also contains ABS securities that account for a share of approx. 2 %. Of this amount, European mortgage-backed securities account for 89 %. The asset class comprises 64 % RMBS, 25 % CMBS and 11 % asset-based securities on car and student loans.

Financial position

Interbank and repo business

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

Aareal Bank participated in the ECB's LTRO (long-term refinancing operations) in 2012. Repurchase (repo) transactions of € 1 billion were outstanding in this context as at 31 December 2012. No other open-market transactions were concluded with the ECB.

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. As at 31 December 2012, they amounted to € 6,3 billion (2011: € 4,8 billion) Deposits from institutional investors also increased slightly in 2012, amounting to € 5,2 billion as at 31 December 2012 (2011: € 4,5 billion).

Long-term funding and equity

Equity

As at 31 December 2012, Aareal Bank Group's equity as disclosed on the balance sheet amounted to € 1.8 billion, excluding the SoFFin silent participation of € 300 million and trust preferred securities in the amount of € 243 million.

Funding structure

Aareal Bank Group's funding is solid, as evidenced by the high proportion of long-term refinancing. This encompasses registered and bearer Pfandbriefe, promissory note loans, medium-term notes, other bonds and subordinate issues. The latter includes subordinated liabilities, profit-participation certificates, silent participations and trust preferred securities. As at 31 December 2012, the long-term refinancing portfolio amounted to € 26.7 billion. Mortgage Pfandbriefe comprised € 9.7 billion and Public Sector Pfandbriefe € 3.5 billion, whilst € 11.9 billion was made up of unsecured bonds, and € 1.6 billion was in subordinated bonds.

In 2012, Mortgage Pfandbriefe accounted for a total share of 36 % of long-term refinancing.

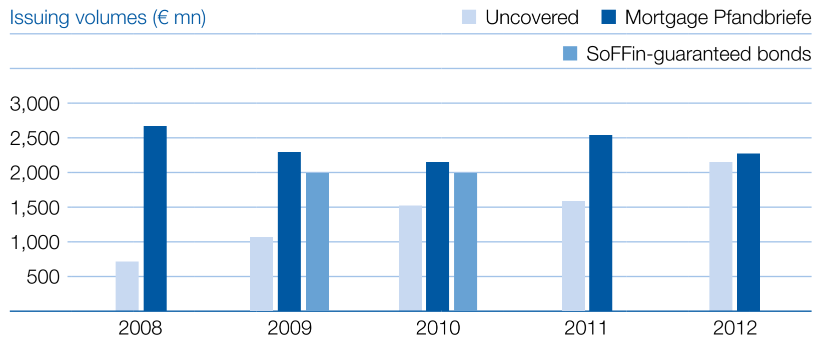
Refinancing activities

During the period under review, Aareal Bank succeeded in raising a total of € 4.5 billion of medium- and long-term funds on the capital market. The issue volume of our unsecured funds amounted to € 2.1 billion, of which € 0.1 billion was accounted for by subordinated debt. Mortgage Pfandbriefe made up € 2.3 billion of the total volume. 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 2012, with terms of four and five years respectively, and an issue volume of € 500 million each. We also successfully placed a three-year € 500 million unsecured benchmark bond on the capital market in February 2012.

Owing to the strong demand for Pfandbriefe and unsecured issues from solid issuers, we were able to implement all the refinancing activities as planned and already achieve the refinancing targets for the full year during the third quarter.

Issuing activities – 2008 to 2012



Regulatory indicators

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

Regulatory indicators pursuant to AIRBA

	31 Dec 2012[1]	31 Dec 2011
€ mn		
Tier 1 capital	2,430	2,501
Total own funds	2,991	2,988
Risk-weighted assets (incl. market risk)	14,513	15,313
%		
Tier 1 ratio	16.7	16.3
Total capital ratio	20.6	19.5

[1] After confirmation of the financial statements 2012 of Aareal Bank AG. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2012 is subject to approval by the Annual General Meeting.

Our Employees

Personnel data as at 31 December 2012

	31 Dec 2012	31 Dec 2011	Change
Number of employees of Aareal Bank Group	2,289	2,353	-2.7 %
Number of employees of Aareal Bank AG	875	942	-7.1 %
of which: outside Germany	92	111	-17.1 %
of which: women	45.0 %	45.0 %	
Share of women in executive positions	26.2 %	23.2 %	
Years of service	13.5 years	13.0 years	0.5 years
Average age	44.5 years	43.9 years	0.6 years
Fluctuation rate	2.7 %	2.8 %	
Share of part-time employees	19.0 %	18.5 %	
Pensioners and their surviving dependants	577	553	4.3 %

Age structure and fluctuation

The fluctuation ratio for 2012 was 2.7 %. The average number of years in service for the company is 13.5. These two figures are a reflection of the strong relationship of the employees with the company. The average age of our employees is 44.5 years.

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 are established in cooperation between Human Resources and the bank's specialist divisions. During the period under review, more than 70 % of the training measures were organised by internal advisors from the bank's specialist divisions. Within the scope of the Aareal "Speakers' Day", Aareal Bank experts have the opportunity to impart knowledge about technologies and methods, thus making their contribution towards further active and sustainable knowledge management in the Group. 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 of the key issues in the 2012 financial year was the review and development of the employee appraisal. Workshops to this effect were held with all members of Aareal Bank's management team in summer 2012. In addition, the development of the bank's managers was also supported through seminars and coaching measures. This applies in particular to those managers that have taken on a new management role in conjunction with the procedure for assessing potential during the period under review.

Aareal Bank views its training and CPD activities as an investment in its own employees, and therefore in the future of the entire Group. The "Structured Appraisal and Target Setting Dialogue", Aareal Bank's employee review, is the starting point for the individual development plans. Once again, more than 900 development measures were agreed between management and employees at the start of 2012. As a result of these plans, 3,050 employees participated in Aareal Bank's training measures during the year under review.

The long-standing cooperation with the Real Estate Management Institute (REMI) and the European Business School (EBS) is a fixed component of the training and professional development concept: it was expanded 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.

Group subsidiary Aareon AG implemented the training measures that were determined by the development centre for executives in the 2012 financial year. New executives also participated in a development centre in 2012. The training also focused on 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. An increasing number of language courses were also offered, in keeping with Aareon's policy of internationalisation.

Supporting 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 concentrated on the Institutional Housing Business during the year under review.

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 College of Advanced Vocational Studies in Leipzig and the technical institute "Duale Hochschule" in Baden-Württemberg. Aareon had 18 young trainees at the start of the new training year as at 1 August 2012. Within the scope of promoting the next generation, Aareal Bank Group also offers 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 in many ways.

Since July 2012, the bank has cooperated with the non-profit organisation "Fit For Family Care", which operates two crèches in Wiesbaden. This cooperation agreement offers childcare places for children aged between ten months and six years to employees. Furthermore, Aareal Bank cooperates with the City of Wiesbaden to offer childcare facilities to its employees during the school holidays. These offers are supplemented by flexible working hours, part-time work or the possibility to incorporate home working into their working hours – provided the respective position allows it. During the year under review, 166 employees (19 %) worked part-time (2011: 174 or 18.5 %), and 26 employees (2.0 %) worked from home during parts of their working hours (2011: 27 or 2.0 %).

Aareal Bank's work-life balance measures focused in particular on health issues during the period under review. The bank introduced an extensive range of advisory and support services for cases where close relatives are ill or in need of care, as well as a health control policy within the company. This comprises the various measures surrounding health protection and preventative healthcare. This includes a Employee Assistant Programme, where each employee may seek professional help – 24 hours a day, 365 days a year – from a well-known external provider on specific matters relating to their professional or private environment. Moreover, Aareal Bank's in-house medical service launched a web-based healthcare portal, which offers employees the opportunity to find out the latest news about health protection and promotion.

Aareon has been certified as a family-friendly company by berufundfamilie gGmbH, a non-profit organisation, since 2008. Aareon's staff policy services include promotion of workplace flexibility through part-time work and home working. At the end of 2012, Aareon had 126 (16.8 %) part-time positions (2011: 127 or 16.8 %) and 82 (10.7 %) home-working places (2011: 76; 10.1 %). Aareon also works together with a family service company. It has established parent/child offices at various locations and offers crèche places in Mainz, in conjunction with another company. Project activities were focused on the issue of care in 2012 too. Under the patronage of Chancellor Angela Merkel and the "Success Factor Family 2012" competition for companies organised by the Federal Ministry for Family Affairs, Aareon was distinguished as Germany's most family-friendly company in the category for "Medium-sized company" due to its comprehensive and innovative range of family-friendly services.

Diversity

Aareal Bank promotes a culture of diversity, as this supports and motivates our employees in different situations and phases in their lives to develop their individual talents, opinions, prospects and ability, and thereby impact positively on the company's success.

Report on Material Events after the Reporting Date

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

Risk Report

Aareal Bank Group Risk Management

The ability to correctly assess risks, and to manage them in a targeted manner, is a core skill in banking. Accordingly, being able to control risks in all their relevant variations is a key factor for a bank's sustainable, commercial success. Besides this purely economic motivation for a highly-developed risk management system, extensive regulatory requirements apply to the risk management as well. We therefore continued to drive the development of our processes for identifying, measuring, limiting and managing risks in the financial year under review too.

Risk management – scope of application and areas of responsibility

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

Uniform methods and procedures are deployed to monitor the risks generally associated with banking business across all entities of Aareal Bank Group. Since the risks the Consulting/Services segment is exposed to differ profoundly from those of the banking business, specific risk monitoring methods have been developed and deployed to suit the relevant risk exposure at the respective subsidiary. This is taken into account as part of the investment risk. In addition, risk monitoring for these subsidiaries at Group level is carried out via the relevant control bodies of the respective entity, and equity investment controlling.

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

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

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

Process-independent monitoring: Audit

Strategies

The business policy set by the Management Board, and approved by the Supervisory Board, provides the conceptual framework for Aareal Bank Group's risk management. Taking this as a basis, and strictly considering the bank's risk-bearing capacity, we have formulated detailed strategies for managing the various types of risk. These strategies are designed to ensure a professional and conscious management of risks. Accordingly, these strategies include general policies, to ensure a uniform understanding of risks across all parts of the bank. They also provide 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 is a core determining factor governing the structure of its risk management system. To ascertain its uninterrupted risk-bearing capacity, Aareal Bank has adopted a dual management approach whereby its risk management is primarily based on the assumption of a going concern. This approach ensures that risk positions are only established to an extent that the institution's continued existence will not be threatened should the risks materialise. A secondary management process ensures that risk positions are only established to an extent that even in the event of liquidation there will still be sufficient potential risk cover in order to service all liabilities (the 'gone concern' approach). The statements below relate to the going-concern approach which the bank has implemented as a primary management process.

In accordance with this approach, potential risk cover is determined using data derived from the income statement and from the statement of financial position; this derivation also forms the basis for determining regulatory capital. This involves setting aside the maximum amount of own funds required as potential risk cover to offset risks without causing a breach of minimum requirements pursuant to the German Solvency Regulation (SolvV). Aareal Bank has decided to considerably exceed this minimum requirement, and to prudently apply a minimum core Tier I ratio (calculated in accordance with Basel III) of 8 %. Only free own funds exceeding this level are applied as potential risk cover, of which a further 18 % is retained 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).

We adopt an equally conservative stance with respect to setting risk limits. The aggregation of individual limits is based on the assumption that no risk-mitigating correlation effects exist amongst different types of risk. Taking into account the prior deduction of a minimum core Tier I ratio of 8 %, the value-at-risk models used to quantify risks are based on a confidence interval of 95 % and a one-year holding period (250 trading days). 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. The table on the left summarises the bank's overall risk exposure as at 31 December 2012.

Risk-bearing capacity of Aareal Bank Group as at 30 Dec 2012 [1)]
– Going-concern approach –

€ mn	30 Dec 2012
Own funds for risk cover potential	2.359
less 8 % minimum tier 1	1.288
Freely available funds	**1.071**
Utilisation of freely available funds	
Credit risks	239
Market risks	281
Operational risks	43
Investment risks	27
Total utilisation	**590**
Utilisation as a percentage of freely available funds	**55 %**

[1)] Due to changes in methodology, no comparative figures are available for the same period of the previous year.

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 risks".

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. We implemented a deterioration of the financial markets and economic crisis as a hypothetical scenario. The stress testing methodology implemented also takes into account the impact of any risk concentrations. We compare the aggregate risk cover available in a stress situation with the result of stress tests, thus assessing Aareal Bank's ability to bear risk in a stressed environment. Regular quarterly reports on the results of such stress analyses are submitted to the Management Board.

Organisational structure and workflows

Lending business

Division of functions and voting

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

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

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

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

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

Process requirements

The credit process comprises the credit approval and further processing phases, each governed by a control process. Credit exposures subject to increased risks involve supplementary processes for intensified handling, the handling of problem loans, and – if necessary – for allowance for credit losses. The corresponding processing principles are laid down in the bank's standardised rules and regulations, which are applicable throughout the Group.

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

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

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

Group Management Report
Consolidated Financial Statements
Transparency

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) regularly 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 restructuring and recovery functions.

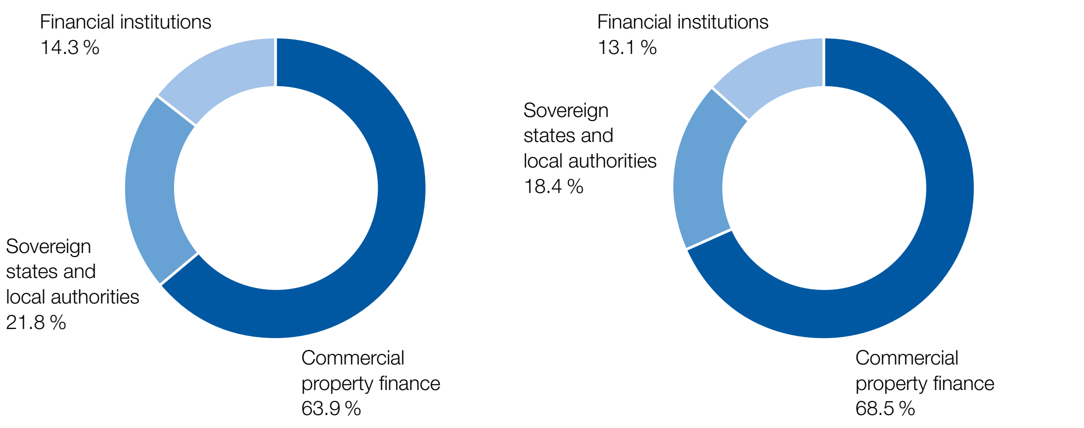
Risk classification procedures

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

Breakdown of exposure by rating procedure

31 Dec 2012 | 31 Dec 2011 — 100 % = € 39.3 billion | 100 % = € 35.8 billion



Note: The rating procedures for financial institutions also apply to institutions with a zero weighting under the SolvV. This includes, for example, public-sector development banks backed by a state guarantee. Such institutions accounted for 36 % of all rated financial institutions as at 31 December 2012

Property financing business

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

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

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

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

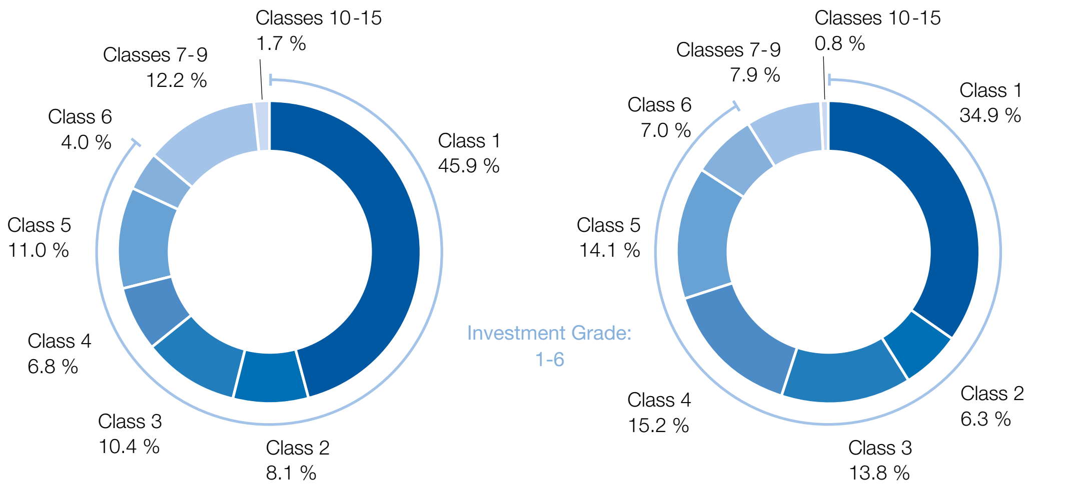
When evaluating collateral, haircuts are applied or recovery rates used, depending on the type of collateral involved and specific realisation factors. For financings of domestic properties, recovery rates are taken from a pool of data used across the bank, whilst recovery rates for international properties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

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

The diagrams below depict the distribution of lending volume by EL classes as at 31 December 2012 and 31 December 2011, based on the maximum current or future drawdown. The distribution excludes exposures for which no rating has been concluded, or which are in default (as defined under Basel II).

Large-sized commercial property finance

by internal Expected Loss classification — as at 31 Dec 2012 | as at 31 Dec 2011

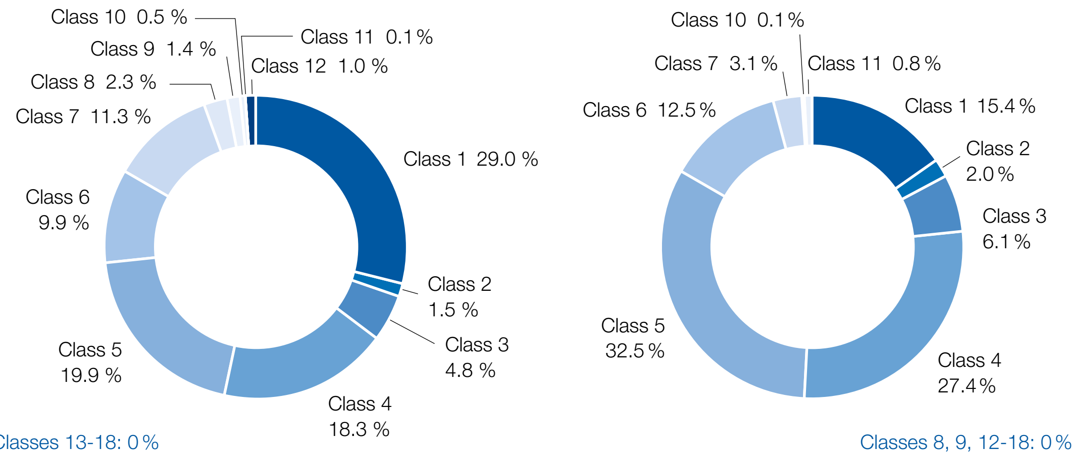


Financial institutions

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

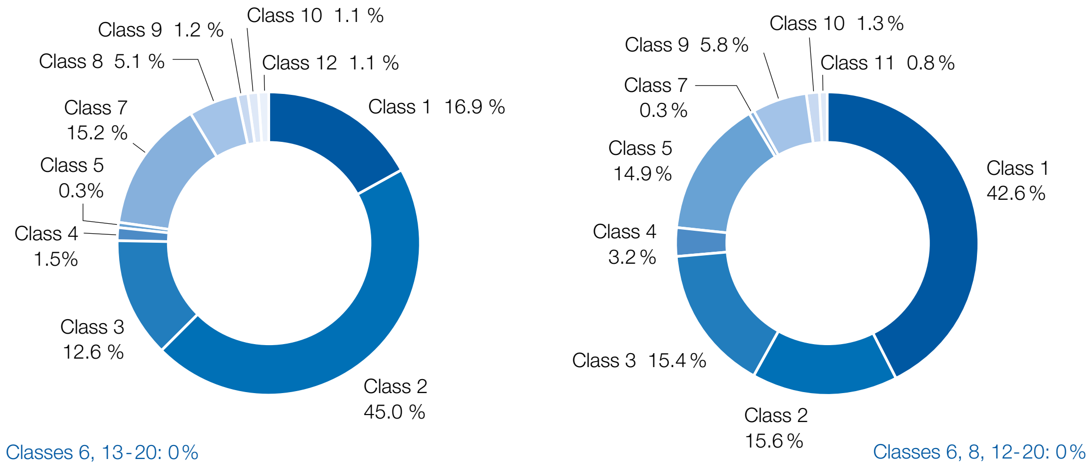
Financial institutions

by rating class | as at 31 Dec 2012 | as at 31 Dec 2011



Sovereign states and local authorities

by rating class | as at 31 Dec 2012 | as at 31 Dec 2011



Sovereign states and local authorities

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

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

Trading activities

Functional separation

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

On the 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 roles and responsibilities along the processing chain; with clearly defined change processes.

The detailed assignment of responsibilities is outlined below.

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

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

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

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

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

Process requirements

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

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

Group Management Report
Consolidated Financial Statements
Transparency

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.

Escalation and decision-making processes have been set out to deal with limit breaches.

Risk exposure by type of risk

Credit risks

Definition

Aareal Bank defines credit risk or counterparty risk as the risk of losses being incurred due to (i) a business partner defaulting on contractual obligations; (ii) collateral being impaired; or (iii) a risk arising upon realisation of collateral. Both credit business and trading activities may be subject to counterparty 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 the 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 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 model-based assessment of the risk concentrations.

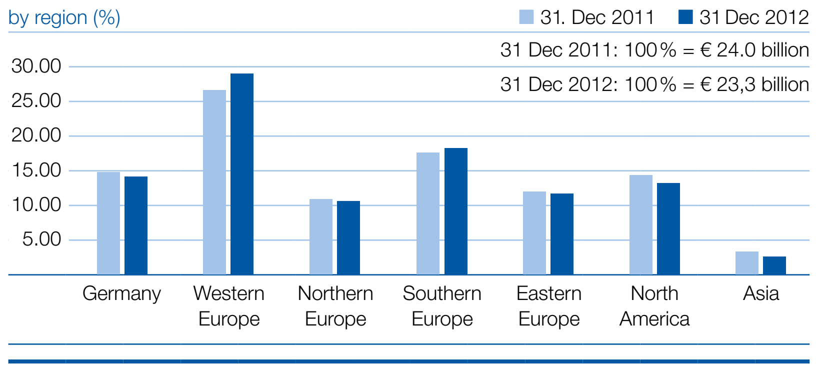
Within the process-oriented monitoring of individual exposures, the bank uses specific tools to monitor exposures on an ongoing basis: besides the tools already described, this includes rating reviews, monitoring of construction phase loans or residential property developers, the monitoring of payment 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.

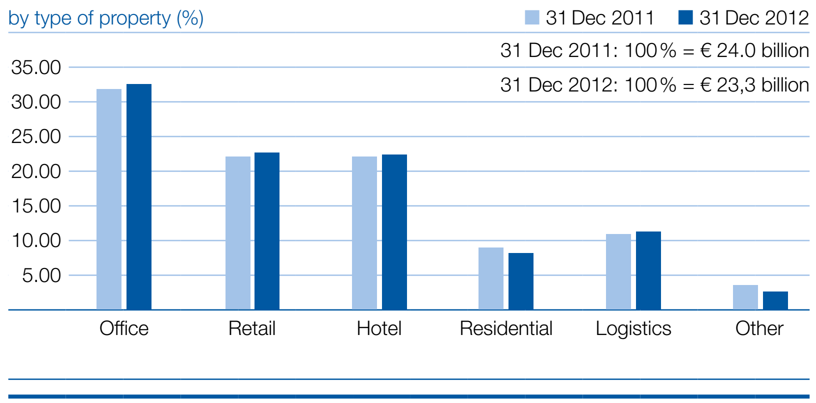
Trading activities are generally restricted to counterparties for whom the requisite limits are in place. Replacement and settlement risks are taken into account when determining counterparty limit usage. Persons holding position responsibility are informed about relevant limits and their current usage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

Property financing volumes (amounts drawn)



Property financing volumes (amounts drawn)



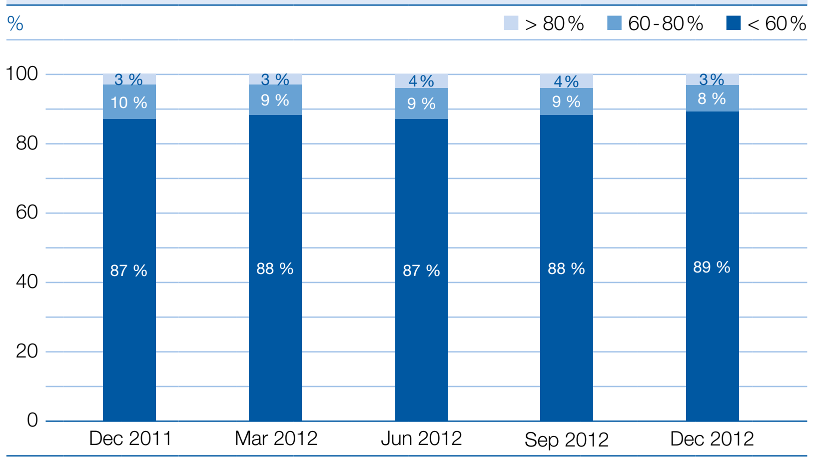
Credit risk mitigation

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

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

Market values and mortgage lending values are set in accordance with the responsibilities for decision-making on lending, and form an integral part of the lending decision. The values to be determined

Property financing portfolio by LtV range (quarterly comparison)



Note that the loan-to-value ratios are calculated on the basis of the market values, including supplementary collateral.

by the bank are generally pegged on the valuation prepared by an independent appraiser; any discrepancies must be substantiated in writing. In any case, the market and mortgage lending values determined by the bank must not exceed the values assessed by independent internal or external appraisers.

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

The bank also accepts guarantees or indemnities as well as financial collateral (such as securities or payment claims) as standard forms of collateral. The collateral value of the indemnity or guarantee is determined by the guarantor's credit quality. For this purpose, the bank differentiates between banks, public-sector banks, and other guarantors. The value of financial collateral is determined according to the type of collateral. Haircuts are generally applied when determining the value of guarantees / indemnities and financial collateral. The credit processes provide for the regular review of collateral value. The risk classification is adjusted in the event of material changes in collateral value, and other measures taken as deemed appropriate. An extraordinary review of collateral is carried out where the bank becomes aware of information indicating a negative change in collateral value. Moreover, the bank ensures that disbursement is only made after the agreed conditions for payment have been met.

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

To reduce counterparty risk in Aareal Bank's trading business, the master agreements for derivatives and securities repurchase transactions (repos) used by the bank provide for various credit risk mitigation techniques, via mutual netting agreements. The derivatives master agreements used by the bank contain netting agreements to reduce pre-payment risk at a single transaction level (payment netting), and arrangements for the termination of individual or all transactions under a master agreement (close-out netting). For repo transactions, depending on the counterparty, payment or delivery netting is agreed upon; contract documentation also generally provides for close-out netting.

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

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

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

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

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

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

Country risk

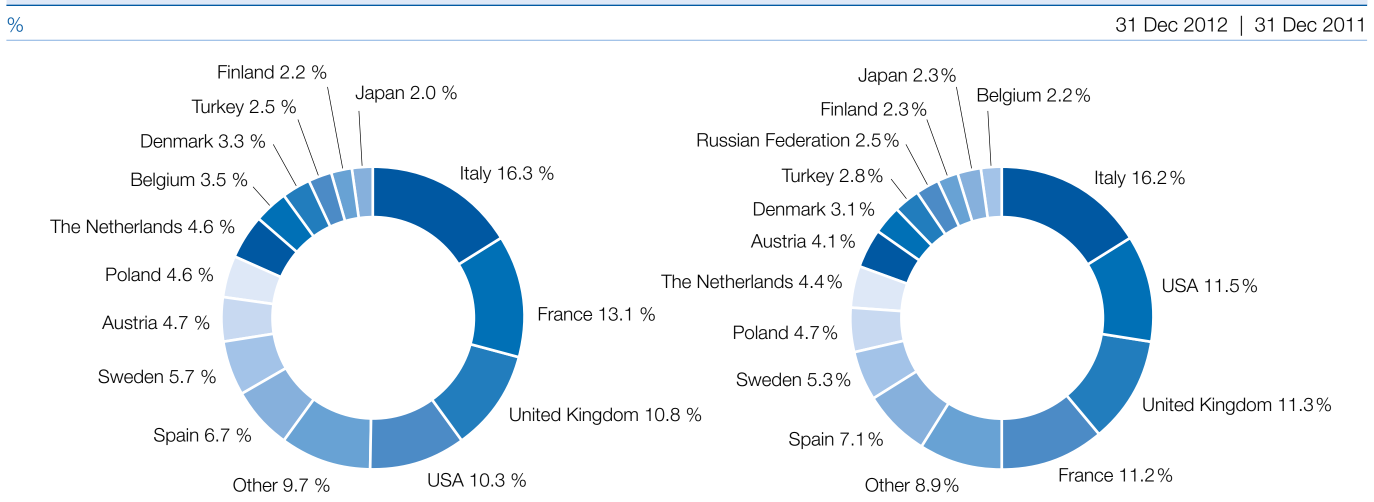
Definition

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

Country risk measurement and monitoring

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 limit utilisation, and for monthly report-

Breakdown of country exposures in the international business



ing. Country limits defined for the purposes of risk management were always observed during the financial year under review.

The diagram on page 89 illustrates the risk exposure by country in the bank's international business, at year-end. In the property financing business, country exposures are allocated by location of the property used as collateral. For exposures not collateralised by property, the allocation is based on the borrower's country of domicile. This reflects the exposure of the property finance business, as well as the activities of Treasury.

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 relevant risk parameters of interest rates, equity prices, exchange rates, and implied volatilities. All relevant parameters are covered by our management and monitoring tools.

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

Risk measurement and monitoring

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

Value-at-risk (VaR) has been broadly accepted as the predominant method for measuring general market price risk. The VaR for market price risk quantifies the exposure as a negative divergence from the current aggregate value of the bank's financial transactions. This absolute amount indicates the potential loss incurred before countermeasures 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 95 % confidence interval and a 250-day holding period.

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

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

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

€ mn	MAX	MIN	Mean	Limit
2012 (2011 year-end values) 95 %, 250-day holding period				
Aareal Bank Group – general market price risk	220.3 (176.3)	154.9 (176.3)	183.4 (176.3)	– (–)
Group VaR (interest rates)	236.6 (189.9)	156.3 (189.9)	191.3 (189.9)	– (–)
Group VaR (FX)	65.6 (64.8)	35.1 (64.8)	54.7 (64.8)	– (–)
VaR (funds)	16.3 (11.5)	5.2 (11.5)	8.1 (11.5)	20.0 (20.0)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	5.0 (5.0)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	260.8 (193.9)	193.2 (193.9)	232.8 (193.9)	– (–)
Aggregate VaR - Aareal Bank Group	338.2 (262.7)	256.4 (262.7)	296.7 (262.7)	400.0 (400.0)

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

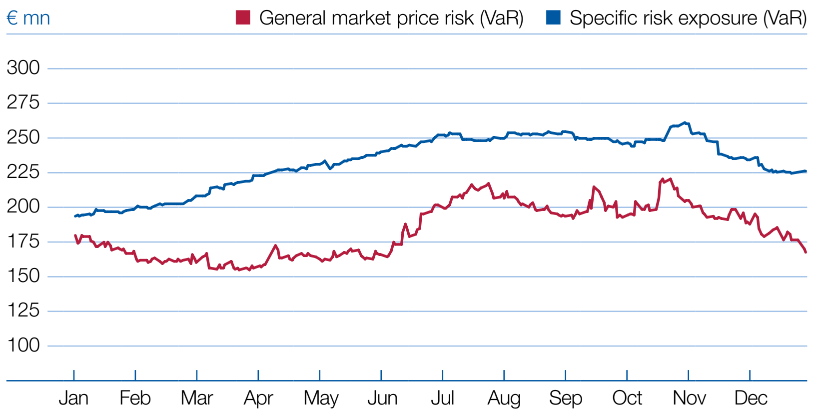
€ mn	MAX	MIN	Mean	Limit
2012 (2011 year-end values) 95 %, 1-day holding period				
Aareal Bank Group – general market price risk	13.9 (11.2)	9.8 (11.2)	11.6 (11.2)	– (–)
Group VaR (interest rates)	15.0 (12.0)	9.9 (12.0)	12.1 (12.0)	– (–)
Group VaR (FX)	4.1 (4.1)	2.2 (4.1)	3.5 (4.1)	– (–)
VaR (funds)	1.0 (0.7)	0.3 (0.7)	0.5 (0.7)	1.3 (1.3)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.3 (0.3)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	16.5 (12.3)	12.2 (12.3)	14.7 (12.3)	– (–)
Aggregate VaR - Aareal Bank Group	21.4 (16.6)	16.2 (16.6)	18.8 (16.6)	25.3 (25.3)

Aggregate VaR – Aareal Bank Group

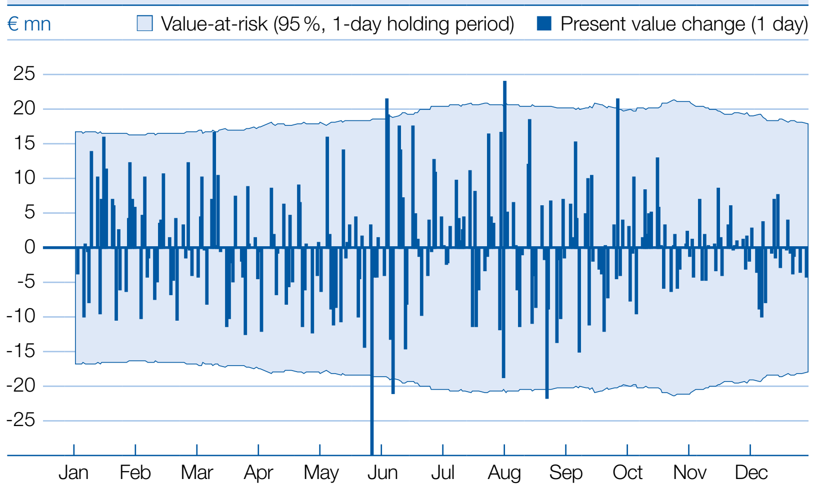
Group-wide limits are being continuously monitored as part of the analysis of the bank's risk-bearing capacity. These limits remained unchanged during the financial year under review; no limit breaches were detected.

Specific risk fell in the last quarter of 2012, owing to a market recovery, with narrowing credit spreads and volatilities, as the solvency problems eased in some European countries.

General market price risk and specific risk during 2012



Present values and 1-day VaR during the course of 2012



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 (≤ 17 for a 250-day period). Three negative outliers at Group level occurred during the last 250 trading days, affirming the high forecasting quality of the VaR model we use.

Stress testing

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

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

The worst-case scenario used in the financial year under review was a hypothetical scenario, where a deteriorating financial markets crisis caused bond and CDS spreads to widen due to rating downgrades, combined with an appreciation of the euro and unchanged interest rate markets. This scenario implied a present value loss of 29 % of the stressed aggregate risk cover limit as at year-end 2012. 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 so-called "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 2012, 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) Cashflow Forecast

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

b) Liquidity run-off profile

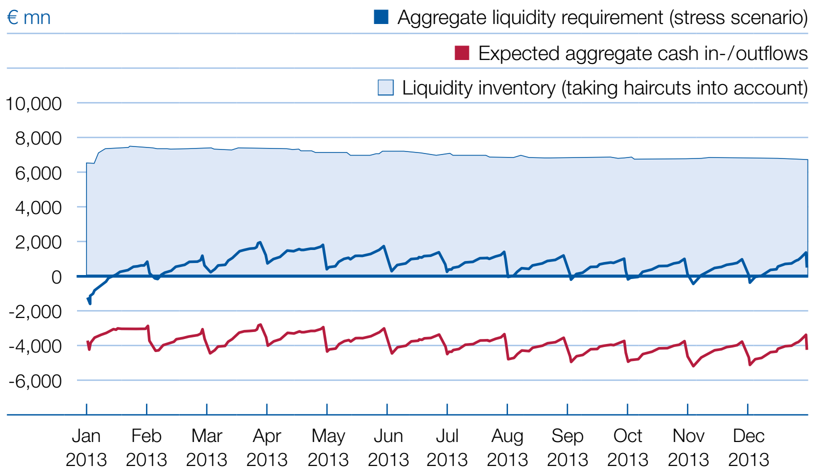
The appropriateness of the bank's liquidity is assessed using a liquidity run-off profile: the aggregate of all potential cash inflows and outflows over a three-month period is compared to the liquidity stock. This liquidity stock comprises all assets that can be liquidated at very short notice. The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

The following chart (page 94) shows the planned development of the liquidity stock, expected aggregate cash inflows and outflows, and the total liquidity requirements (based on stressed assumptions) until the end of 2013. This presentation demonstrates that the liquidity stock will always exceed liquidity requirements, even under unfavourable conditions.

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

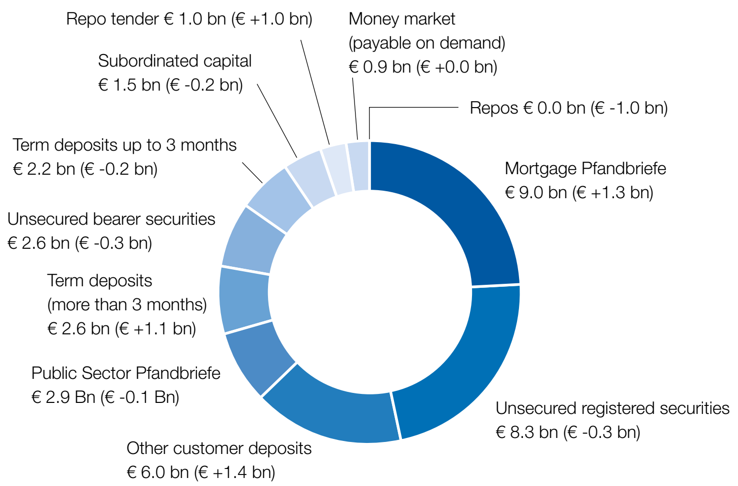
Group Management Report
Consolidated Financial Statements
Transparency

Liquidity



Refinancing portfolio diversification by product

as at 30 Dec 2012 (compared to 31 Dec 2011) Total: € 36.9 billion



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 on our 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 2012, as were the limits set by reference to the liquidity run-off profile.

Operational risks

Definition

The bank defines operational risk as the threat of losses caused by inadequate internal procedures, human resources and systems (or their failure), or through external events. This definition also includes legal risks. In contrast, strategic, reputational and systematic risks are not included.

Risk measurement and monitoring

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

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

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

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

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

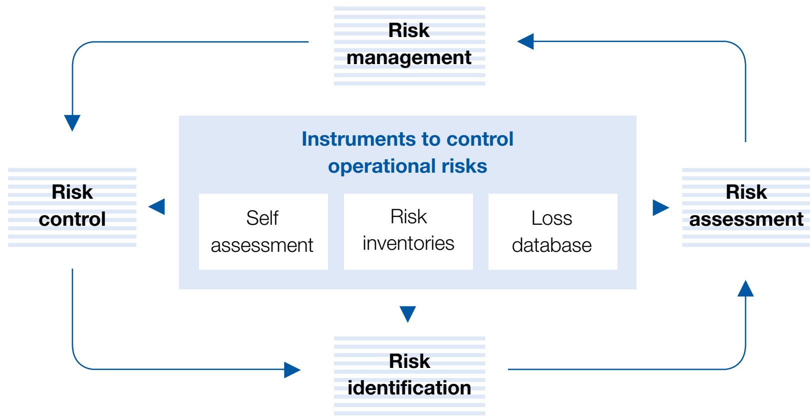
In addition to the reports prepared from the tools stated above, suitable and plausible stress tests are conducted every quarter. These are hypothetical scenarios and sensitivity analyses on the risk inventories. The results of the stress tests are reported regularly to the Management Board and serve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

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

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.

Management of operational risks



Investment risks

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

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

Definition

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

Risk measurement and monitoring

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

The existing procedures used to measure and monitor risk exposure are supplemented by subjecting the equity portfolio to regular stress testing. The Corporate Development, Finance and Risk Controlling divisions are jointly responsible for measuring and monitoring investment risk exposure.

Corporate Development and Finance hold the functional and organisational authority regarding investment controlling.

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

Risk exposure specific to the Structured Property Financing segment

Deutsche Structured Finance GmbH

The corporate purpose of Deutsche Structured Finance GmbH (DSF) and its subsidiaries is the management of closed-end funds and selected assets, with the emphasis on existing business. No new funds were launched during the year under review.

With regard to existing risks, a distinction must be drawn between risks related to income and operational risks. Risks related to income arise in relation to the marketing of the company's own assets and remuneration for the management of the funds. Operational risks arise with regard to the management of the company's own assets and the managed funds. The risks related to income depend for the most part on market developments. The use of suitable specialists is designed to lower the probability of risks related to income incurring in the respective market environment. The occurrence of operational risks is countered through extensive organisational measures, such as reviewing compliance with guidelines and inspecting the assets.

The ratio of management remuneration relative to operating costs is monitored closely within the scope of risk management. Focussing on existing business limits the company's risks to a certain extent and allows for targeted cost management. Future changes to the volume of business are reviewed continuously to address the requirements for adjusting business structures.

Risk exposure specific to the Consulting/Services segment

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

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

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

Aareon AG

Aareon AG has introduced a Group risk management system (which includes early-warning features on the basis of the R2C_risk to chance standard software) in order to monitor and control company risk. This risk management system requires the regular recording and assessment of risks by those individuals holding responsibility for divisions, shareholdings and projects, and provides for the conception of active risk management measures. In this context, risks are assessed separately in terms of their impact and their probability. The risk reports generated in this manner are consolidated by the Group Legal & Risk Management divisions and form the basis for quarterly risk reporting, which is regularly discussed during Management Board meetings. The reports are also incorporated into the quarterly reporting package submitted to Aareon AG's Supervisory Board. Aareon's risk reporting system creates transparency regarding the company's risk situation, providing a basis for decisions regarding any measures to be taken by senior management. The Group Legal & Risk Management divisions documents the measures, proposed by those individuals responsible for risk, regarding the top ten risks perceived. In addition, Aareon's Management Board of resolves on measures to deal with any risks exceeding a defined threshold (calculated as a function of impact and probability of occurrence).

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

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

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

Financial risks

Appropriate measures are taken (if required) to manage and monitor the liquidity of the entire Aareon Group including all of its subsidiaries. A liquidity overview is prepared every week on the basis of the outstanding receivables and liabilities, and scheduled payment dates. The "growIT" strategic growth programme was continued in order to absorb potential revenue risks and secure the company's growth. This involved identifying non-ERP related high-growth areas and improving product development processes (time-to-market process) for new business concepts. In the Consulting sub-project of the growIT project, suitable organisational and procedural measures were implemented to generate more revenue and profit. An international management structure was established in order to expand the international business and support the associated increased internationalisation of Aareon Group. Finally, processes and measures to optimise costs in the company's key business divisions were developed and implemented in the Cost Efficiency sub-project.

Aareon addresses the risk of lower earnings than planned by monitoring costs, deadlines and client project quality within the scope of its project management. It cooperates with the Consulting unit on individual critical projects whose contractual agreements are not yet fulfilled on the agreed milestone dates, taking additional measures designed to achieve the project targets.

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

Market risks
Aareon has responded to the increasingly heterogeneous demands that are being placed on the property management sector by implementing its ERP multi-product strategy in Germany and country-specific ERP products on an international level. The ERP solutions can be linked in the specific countries to additional sector-specific and integrated services. The objective here is to improve Group synergies for the development of additional products.

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

During the year under review, risk assessments from the regional distribution units as well the centralised distributor are recorded individually initially and then aggregated and evaluated. This process allows Aareon to avoid outliers in the risk assessment.

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

The annual, standardised customer survey is a key indicator of customer acceptance of the company's products and its image. The survey was expanded during the period under review, to include the topic "The Aareon brand". This allows Aareon to recognise the market requirements, and to take them into consideration at an early stage in product development.

Management and organisational risks
Aareon addresses management and organisational risks in various areas.

Measures were implemented as part of the first international projects launched during the period under review under the maxim "More knowledge, more innovation, more success" to systematically promote integration within Aareon Group. These measures were also designed to develop international thinking and trading across borders and create synergies from the resulting exchange of expertise. Employees who are regularly exchanging ideas with their international colleagues will be supported with English as well as intercultural training.

Aareon's own International Operating Board (IOB) conducts regular reviews of the international subsidiaries.

The growIT growth programme ended in September 2012. Duties arising from the project were transferred to the business organisation. Aareon intends to strengthen the brandIT strategy project and enhance the brand orientation of the entire Aareon Group. By continuously developing and consistently managing the Aareon brand, we envisage a competitive edge that should contribute, amongst other things, towards achieving profitability at an earlier stage with future market launches of new products and services. The project also focuses on the following goals: boosting client and staff satisfaction, delivering products and services that meet market needs, building brand commitment, ensuring brand-compliant staff behaviour, and increasing the perceived attractiveness of the employer.

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

The Finance – International Transformation (FIT) programme was launched to realign the Finance and Internal Services department. The objective is to support the international growth strategy with an efficient and international financial organisation. This represents the first step towards a semi-integrated Aareon Group.

Environmental / business issues
For Aareon, the environmental / business risk category covers legal risks as well as political and regulatory risks. Any product adjustments which may have an impact on contractual agreements hold the challenge of implementing such adjustments in existing agreements too. The same applies in the event of amendments to legislation and case law. Aareon uses standardised agreement templates, which are continuously refined and adjusted in line with any changes or amendments to products, legislation, or case law. Amendments to existing contractual relationships are carried out in agreement with the counterparties involved. A complaints management system is in place to mitigate any potential claims for damages from software implementation projects. The purpose of this system is to restore the satisfaction of clients having submitted a complaint in a swift and qualified manner. Dealing with customer complaints at an early stage can help to rectify erroneous developments, preventing associated damages.

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

Following the unilateral termination by SAP of the distribution agreement, constructive talks were held in Q2 2012 outlining the potential for continuing the cooperation. New agreements for the future collaboration are being discussed at present.

Aareon's IT centre operations' internal control system was audited and certified in accordance with the standards of the Institute of Public Auditors in Germany (IDW) PS 951 Type B, and the suitability and effectiveness of the service-based internal control system was certified retrospectively, during 2012, for the period from 1 January - 31 December 2011. Essentially, this involves auditing IT security processes and controls, such as physical safety, network, database and system security, data security and job processing.

Data security and data protection are of great importance to Aareon. Hence, voluntary data protection audits in accordance with section 9a of the German Data Protection Act (BDSG) have been conducted regularly since 2010. Aareon was awarded the DQS Data protection seal from DQS GmbH (German association for certifying management systems) for the third time already. This seal applies for three years and must be confirmed annually within the scope of an audit.

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

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

Aareal First Financial Solutions AG

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

The risk arising from developing software with respect to the initial and continued development of BK 01 software solutions largely relates to the potential inability to complete such developments with the required quality, within the planned timeframe, or within budgeted costs. Internally, Aareal First Financial Solutions counters such risks by deploying a uniform development process and regular management reporting. This is complemented by a uniform, high-quality licensing process established vis-à-vis development cooperation partners; this is designed to satisfy our quality requirements on a sustained basis, and to ensure a high degree of transparency.

Development partnerships with ERP providers of institutional housing or utility software that do not comply with these stringent quality requirements will be terminated or not extended.

The further development of the BK@1 accounting system based on the current Release 12.01 which is currently productive (Release 13.01 scheduled from approx. 11/2012) does not represent any material risk. Risk exposure resulting from the operation of the BK@1 software solution is sufficiently covered through the regular operational processes.

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

Company management receives comprehensive monthly reports covering the level of rendered and responsible production, which includes the provision and maintenance of applications and products, the hotline, and the provision of support services for operations.

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

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

Aareal First Financial Solutions regularly reviews the emergency scenarios it considers relevant; contingency plans are verified using BCP testing. The market risk regarding utilisation of BK 01 solutions was mitigated by developing interfaces to third-party systems, such as SAP or platforms developed by other software providers to the commercial housing sector, alongside connectivity to Aareon's systems. These interfaces are refined on an ongoing basis.

Deutsche Bau- und Grundstücks-Aktiengesellschaft

Deutsche Bau- und Grundstücks Aktiengesellschaft ("BauGrund") looks back on a track record – either directly or through its subsidiaries – covering about eight decades in the property management sector. The business focus is on commercial and technical property management, primarily for residential property, but also for commercial and special property. BauGrund also manages properties on behalf of third parties according to the Residential Property Act (Wohnungseigentumsgesetz – WEG). BauGrund manages properties on behalf of the German federal government, institutional investors and companies, and for private investors including home owners' associations.

The company's key risk factors are developments in the German property market, particularly regarding residential property investments, which in turn influence the behaviour of BauGrund's private, institutional and public-sector clients. In light of the low interest rate environment and the greater interest shown in tangible assets as a result of the sovereign debt crisis, we can expect a comparatively stable development on the German residential and commercial property market for the time being. Accordingly, the demand for property management services is likely to be stable or to slightly rise. Given the increasingly systematic workflows employed by the majority of market participants and the ongoing efficiency enhancements of all process steps (in an industrial business environment), service quality demands are set to rise further. However, clients are not expected to accept corresponding price increases.

Going forward however, there is a distinct expectation that property managers who fail to deliver the service standards demanded by clients stand to be replaced in the near future. This offers BauGrund potential for acquisitions. The company was able to secure the majority of existing contracts during 2012. However, the level of fees was lower, due to scheduled sales of portfolio properties.

To counter the risk of the partially scheduled reduction in the managed portfolio, the activities were focused on stabilising and securing these portfolios. In addition, the acquisition of attractive follow-up orders from existing clients is being expedited. What makes such orders attractive is their respective profitability, the mix of services to be rendered, or their particular regional fit with the Company's existing organisational structure. To counter the reduction in the order portfolio, BauGrund is reviewing its distribution concept and is targeting the acquisition of new management mandates. To guarantee performance in the acquisition of new mandates, BauGrund will need to ascertain the required standards in terms of quality and reliability, to gain acceptance as one of a limited number of quality providers with nationwide coverage. For this purpose, further expenses and investments are planned, especially to optimise and enhance the efficiency of process flows and IT, and of administrative costs.

Other risks

Definition

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

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

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

Risk measurement and monitoring

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

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

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

Accounting-related Internal Control and Risk Management System

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

The accounting-related internal control and risk management system includes principles, procedures and measures to ensure the effectiveness and the efficiency of internal and external accounting, in accordance with applicable legal provisions. The tasks of the accounting-related internal control system mainly include ensuring proper conduct of business activities, guaranteeing proper internal and external accounting, as well as ensuring compliance with relevant statutory and legal requirements applicable to the company.

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

Organisation of the accounting-related ICS and RMS

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

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

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

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

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

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

Components of the accounting-related ICS and RMS

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

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

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

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

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

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

In order to increase the level of control quality, all relevant divisions are involved in the reconciliation process. An example of cross-divisional reconciliation is the process for the preparation of annual and interim reports. All divisions involved must ensure and (prior to preparation by the Management Board) confirm the quality of the sections of the reports they are responsible for. This represents an additional control level for the data to be disclosed.

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

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

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

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

Report on Expected Developments

Macro-economic environment

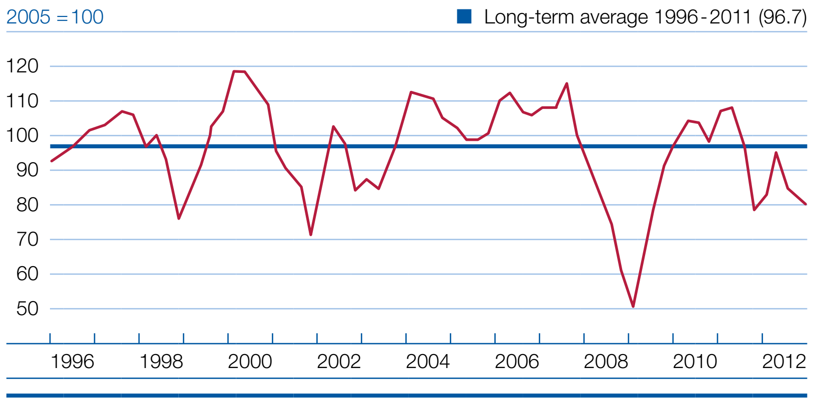
Economy

The global economy finds itself in a difficult situation. The outlook is dampened by considerable pressure and uncertainties. The insecurities and uncertainties in conjunction with the progression of the European sovereign debt crisis are of great significance. Important burdening factors are the desire to reduce debt levels among private households and companies, resulting in cautious consumption and investment behaviour, the consolidation efforts undertaken by several governments, and the high level of unemployment in many countries. Future oil price development also entails additional risks for economic trends. On the other hand, the still-expansive monetary policy pursued by many central banks is likely to provide support.

The uncertainty generated by the European sovereign debt crisis, together with the greater regulatory requirements for banks and the resulting necessary reduction in the risk-weighted assets of many banks may lead to a cautious stance on lending. This would burden companies' investment activities. At the same time, the less positive economic outlook ist also expected to dampen demand for credit.

We therefore assume that global economic growth will be restrained in 2013. It will be roughly on par with 2012 levels, although we are likely to see marked regional differences. What is relevant from Aareal Bank's perspective is that the anticipated weak economy is also expected to have negative implications for the development of rents and asset values on the commercial property markets. We will deal with this in more detail below.

ifo Global Economic Climate*



* Arithmetic mean of the assessment of the current situation and expected developments, Source: ifo World Economic Survey (WES) IV/2012

Our forecast in detail: the economy in the euro zone will be burdened to a large extent by uncertainty in the course of the European sovereign debt crisis, and consolidation efforts in the private and public sectors.

We believe real gross domestic product in the euro zone will again fall – albeit only marginally – in 2013. With regard to individual countries, we assume that the southern member states, including Italy and Spain, will remain in recession. We also anticipate a slight recession for the Netherlands. Economic development is expected to virtually stagnate in many other member states, such as Belgium, Finland and France. We forecast marginal growth in real gross domestic product for Germany, Luxembourg and Austria. Most European countries outside the euro zone are likely to see only a slight increase in real gross domestic product in 2013; this affects Denmark, UK, Poland, Sweden and Switzerland. The momentum in the growth economies of Russia and Turkey will be strong by European standards. On the other hand, we anticipate economic output to decline slightly in the Czech Republic.

The absence of a lasting solution to the US debt issue represents a significant uncertainty for the US economy. The Federal Reserve's expansive monetary policy on the other hand, is expected to lend support. Real gross domestic product in the USA is expected to grow moderately in 2013, with rates comparable to those in 2012. We also assume moderate growth rates for Canada and Mexico, which will be only marginally lower than levels in 2012.

The process of economic recovery in Japan after the earthquake catastrophe is expected to have run its course, with only marginal growth seen for real gross domestic product in 2013. The Chinese economy will continue to post high growth rates by international standards. Supported by domestic demand, growth momentum could increase again compared with 2012. We anticipate a faster pace of economic growth in Singapore year-on-year. Overall, growth in Asia should be relatively moderate.

Given the weak economic outlook in Europe, we expect unemployment rates to further increase in most European countries this year, again with a more pronounced increase in the southern euro zone member states. However, we anticipate a marginal rise in unemployment or almost stable unemployment rates in only a few European countries, for example, Germany, UK and Poland. In view of the comparatively positive economic outlook in the US, we forecast a slow decline in the unemployment rate there.

The global economy should recover slightly in 2014. However, economic momentum in Europe will pick up only gradually. Economic growth rates in numerous European countries will only be slightly positive, but they will be above the expectations for 2013. Italy and Spain might also shake off the recession then, although progress will not be dynamic and growth rates only minimal. However, we could see dynamic economic development in North America and Asia. We anticipate unemployment rates to virtually stagnate in Europe in 2014, and to become lower in the US. The improvement in economic development in 2014, however, assumes that the sovereign debt crisis will ease, and that governments, companies and private households will have found an acceptable way to reduce the level of public-sector debt.

Future economic development, and hence the forecasts, are subject to considerable risks and uncertainty – primarily with respect to further developments concerning the European sovereign debt crisis. The risk of the crisis escalating is still present. The distortions on the financial and capital markets, alongside the banking sector's more pronounced reticence to lend and a deep-rooted uncertainty amongst economic operators, all hold the threat of a deep global recession. Even though we do not consider such a deep global recession to be the most likely outcome, the risk does exist. The absence of a lasting solution to the US debt issue poses another risk. It cannot be ruled out that this will lead to uncertainty and a significant decline in growth rates in the US, which could result in a worldwide collapse in investment.

Financial and capital markets, monetary policy and inflation

The European sovereign debt crisis and its repercussions, as well as the not sustainably resolved US debt issue, will continue to command the attention of the financial and capital markets. From the market participants' perspective, developments on the financial and capital markets in recent months suggest that the worst may be over. In any event, there is nothing at present to imply another round of major market distortions. At the same time, uncertainties and risks on the financial and capital markets in conjunction with the European sovereign debt crisis will remain. The financial and capital markets are still very susceptible to shocks, should the sovereign debt crisis escalate.

The weak economic outlook is exercising low upside pressure on inflation. However, there is significant uncertainty concerning oil price development – which is an important factor for inflation, since the price of oil is influenced considerably by economic as well as political factors and speculation. As we see it, the rate of inflation in Europe for 2013 will be down slightly on the 2012 level. Inflation in North America should remain roughly unchanged from 2012. We are forecasting a similar inflation trend for China. In Japan, even a slightly negative inflation rate is possible. Inflation rates in 2014 will, in our opinion, remain comparable to levels in 2013.

In view of inflationary expectations, the muted economic outlook and the uncertainties arising in the course of the sovereign debt crisis, most central banks will probably continue to pursue an expansive monetary policy. Key interest rates are therefore expected to remain low in 2013. Consequently, under current conditions, short-term interest rates will remain low. We expect a slightly higher interest rate environment for 2014. Looking at long-term interest rates, the risk premiums (spreads) for bonds deemed as unsafe by investors are set to remain high. The risk premiums will be very important for euro zone periphery governments as well as the companies operating there. This assessment would change if there were any significant reduction in market uncertainty. Interest rates in the markets that were affected most by the sovereign debt crisis would then fall, while higher rates would be anticipated in other euro zone countries, such as Germany.

Regulatory environment and competition

The trend towards a tighter regulatory framework in the banking business is set to persist during the coming years. Accordingly, Aareal Bank will also focus on the related measures for implementation and how these will affect the bank's business activities.

In addition to the core elements of the Basel III regime, which include enhancing the quality and quantity of regulatory capital, as well as the introduction of international liquidity standards and a leverage ratio (and which were not adopted on schedule at a European level in 2012), further new regulatory requirements will need to be implemented in parallel. These include implementation of the new financial reporting (FINREP) that was deferred to 1 January 2014, the harmonisation of reporting solvency figures (COREP), and its accelerated conversion to international accounting standards. In addition, the requirements, for example, at national level will be increased continuously through the Minimum Requirements for Restructuring Plans ("MaSan") and the revision of the Minimum Requirements for Risk Management ("MaRisk"), and at European level through the EU directive on determining a framework for the recovery and workout of banks and securities firms.

Regulators have yet to come up with final details for a large portion of these additional requirements, and adopt them. The final draft of the various technical standards that are essential for implementation is still pending. To nevertheless facilitate the timely implementation, we have already started to deal with and pursue the various issues in numerous projects – devoting considerable resources to this task.

Some of the previous year's trends will remain intact on the market for commercial property financing. We believe that insurance companies, pension funds and other non-banks will expand their activities in Europe, thus creating more opportunities for cooperation in relation to property financing. The banks in Europe are likely to continue focusing on their domestic markets and a number of core markets. Various banks are undertaking efforts to scale back their commercial property financing activities. With regard to new loans, the active banks will attempt to concentrate on first-class commercial property in the corresponding locations, with low LTVs. We will continue to see a degree of reticence with regard to lending for specific financings, such as properties not included in the premium segment or those in peripheral locations, financings with high LTVs, and for cross-border portfolios. Particularly in Southern Europe, credit supply is likely to be tight in general. The restraint exercised by the banks in Europe is attributable to the uncertain environment, the need for some banks to reduce risk-weighted assets and tighter regulatory requirements. However, lending activity is likely to pick up if the European sovereign debt crisis clearly eases. On the demand side, the high refinancing requirements of investors from expiring financing agreement must be taken into account, as well as from CMBS securitisations. A credit crunch might be possible in some areas, particularly in Southern Europe.

Although maturing financings will probably lead to higher refinancing requirements in North America, the financing markets there are considerably more liquid at present than in Europe. We assume that this scenario will remain in place. We believe the financing markets in Asia will remain liquid and therefore highly competitive in the future.

The estimates stated above are valid for the current and the next year.

Sector-specific and business developments

Structured Property Financing segment

Developments concerning rents and values on commercial property markets will be influenced to a great extent by the future economic environment.[1)]

The great uncertainty in the overall economic environment, weak economic outlook and high unemployment will burden the commercial property markets in Europe. On the other hand, property values are supported by the low interest rate environment. Bearing these conditions in mind, we anticipate rents and values to remain almost stable on average in 2013 in many European countries, such as Belgium, Germany, the United Kingdom and Poland. Developments in France and Sweden, on the other hand, are expected to be slightly weaker. In view of the recession in Italy, the Netherlands and Spain, property values and rents will probably come under greater pressure there in 2013. On the other hand, market developments in the growth economies of Russia and Turkey should be slightly positive.

The more favourable economic outlook for North America offers potential for slightly higher rents and values. The economy in China continues to grow significantly, albeit with less momentum. We are therefore cautious, and forecast only a slight increase in rents and values in China. A trend towards stability was evident last year on the Japanese markets. This trend could continue, so that – on average – we anticipate virtually stable rents and values for Japan. Rents and values are expected to rise in Singapore during 2013.

Based on the projected slight economic recovery projected for 2014, we anticipate largely stable to slightly increasing property values and rents next year. Development in Italy might then also be stable – provided the economy can find its feet there again. Only for Spain do we anticipate a marked drop in rents and values, in view of the persistent high rate of unemployment. We expect the positive trend in North America to continue, and developments in Asia should be largely stable in 2014.

The trends described above should, in our view, tend to apply to office, retail and logistics property markets. Revenues in 2013 and 2014 for hotel properties in Europe are expected to fluctuate around the previous year's levels. The hotel sector in Southern Europe might deviate from this trend and come under downside pressure. We believe a slightly positive development for hotel properties is possible for North America and Asia in the two years covered by the forecast horizon.

It is fair to expect that the concept of security will no doubt continue to play a major role for investors, so that investor interest will focus on first-class properties with a solid rental situation and sustained marketability. These property types are likely to benefit from this with regard to their performance, compared with properties not included in the premium segment that may come under pressure.

The uncertainties in the overall economic environment generate tangible risks on the commercial property markets. In the event of a deeper recession, more extensive declines in rents as well as in property values are probable; these would occur with a certain time lag. An additional risk factor for the commercial property markets is the high volume of financings which mature this year and the next. Any failure to refinance maturing loans might trigger an increased level of sales to redeem residual debt – which would burden prices.

On the other hand, the low volume of new commercial property on the markets of Europe and North America could support rents and values. Should commercial property become increasingly attractive to investors as a form of investment from a risk/return perspective; this might also provide support. In this case, however, primarily property in the high-quality segment would benefit over those properties of lower quality or in peripheral locations.

Aareal Bank takes property market developments into account for its risk assessment. Aareal Bank considers diverging developments in different countries within the framework of its lending policies. The anticipated development of a country's specific regions is also taken into account in the lending policies.

The new business targets also take into consideration market conditions and expected developments. Our new business target for 2013 is between € 6.0 billion and 7.0 billion. The volume of new business in the following year is expected to remain within the same range.

We want to continue to use syndicated financings allowing us to participate in large-volume financings and to diversify risk. In our opinion, the environment for syndicated financing will remain challenging in 2013 and 2014.

Subject to the performance of the relevant currencies vis-a-vis the euro, we expect the volume of the property finance portfolio for 2013 to increase compared to the year-end 2012. The regional breakdown of the portfolio is driven by our three-continent strategy, whereby the regional focus will be on Western Europe and North America.

The forecasts are based on the assumption that there will be no protracted global recession and

[1)] Assessments of individual sub-markets and properties may deviate from the general assessment of the commercial property markets outlined below.

that recessionary trends should remain restricted to a few European countries. We would otherwise anticipate a much lower volume of new business.

Consulting/Services segment

Institutional Housing Unit

We expect stable development for the German institutional housing industry in the current and the next year. This is supported mainly by largely constant rental income and solid property values. Besides the impact of the demographic shift, climate change and the federal government's energy saving targets will require the housing stock to be adapted in the future. The companies operating in the institutional housing industry will therefore continue to pursue a sustainable development of their portfolios that is largely aimed at improving energy efficiency.

The lack of properties suitable for the elderly is also increasing the necessity in the industry to adapt the housing stock to meet the changing needs of an ageing population. In addition to restoring existing housing stock, investment activities will focus on new construction projects, above all in the conurbations.

We anticipate a stable development on the housing market in 2013 and 2014. The demand for housing is expected to continue growing in the next two years, especially in cities with more than 100,000 inhabitants. This will also lead to higher housing prices. Property prices are likely to increase most in cities with more than 500,000 inhabitants.

This trend will be beneficial to property investors and potential sellers of residential property within the institutional housing industry. The level of rents already reached in conurbations might in itself curb price performance if an economic downturn has a negative effect on households' economic situation, thus reducing the number of buyers that can afford the rising cost of property.

Given the uncertainty resulting from the European sovereign debt crisis, residential property will continue to gain importance in 2013 and 2014, being seen as tangible assets by national and international investors alike. Since the strong appeal of the Germany residential property market remains unchecked, we anticipate the volume of investment to remain high next year. The large share of interested international investors places relatively high demands on our sales activities with regard to our efforts in maintaining our existing client base for the long term.

Nonetheless, we see good opportunities during the course of 2013 and 2014, to acquire new clients and to intensify the business relationships with our existing client base. This also applies to our payments services for utilities and the waste disposal industry.

Looking at the development of deposits taken, we expect the positive trend to continue. Given the ongoing low interest rate environment, we expect margins in the deposit-taking business will continue to remain under pressure in 2013 and 2014. However, the importance of this business goes way beyond the interest margin generated from deposits, which is under pressure in the current market environment. This is because the deposits from the institutional housing industry represent a strategically important additional source of funding for us.

Aareon AG

The IT trend of cloud computing will become even more established on the market for property management software. The use of mobile solutions is also becoming increasingly important.

Aareon anticipates further growth in sales revenues for the Wodis Sigma product line in the two forecast years. Wodis Sigma is well received by our clients as a service from the Aareon Cloud, and supports the growth in the product line's sales revenues. Aareon is prepared for anticipated migrations from other ERP solutions to Wodis Sigma. It had already increased the advisory and support capacity in 2012.

The high degree of client satisfaction with the ERP system GES has an influence on their readiness to migrate to other solutions; as a result, the migration ramp-up of GES clients has been slower than anticipated, and will shift to later years. For 2013, we expect GES revenues to be on a par with the previous year's level, with a moderate decline anticipated from 2014 due to clients' migrating to other software solutions.

We continue to expect a small number of tenders for new implementations on the market for SAP® solutions and Blue Eagle. Aareon therefore anticipates generally stable sales revenues with advisory solutions for the two forecast years. A decline is only expected in licence revenues.

Sales revenues in the Integrated Services segment are expected to increase in the two forecast years, The launch of new products, such as a state-of-the-art sector-specific customer relationship management system (CRM) and mobile solutions, as well as Aareon Archiv kompakt and Mareon FM (facility management) will have a positive effect on sales. The CRM system and mobile solutions are developed in international projects within Aareon Group. This can enhance synergies to increase the benefit of these solutions for the clients. Owing to the market launch of the new products as of 2013, investment costs will burden the contribution margin of the Integrated Services segment in the next two years.

The EBIT of the International Business segment will fall slightly in 2013 before exceeding 2012 levels again in 2014.

The EU-supported I-stay@home project will continue until 2015. The first pilot clients are planned for 2014.

In the Netherlands, structural changes in the social housing sector are being pursued by policy makers. Aareon is adapting to this by adjusting the product portfolio. The market penetration with the product generation SG|tobias^{AX} is progressing, while market penetration of the facility management information system (FMIS) solution of subsidiary SG|Facilitor B.V. is advancing at a much slower pace than expected. Overall, Aareon expects a somewhat lower contribution to sales revenues in 2013 compared with 2012, due to longer terms of the licence agreements of its Dutch subsidiary SG|automatisering. As we see it, sales revenues will pick up again in 2014. Assuming an unchanged cost base, we expect a lower EBIT for 2013 that will increase again in 2014.

In France, the introduction of Release 3.0 of the ERP solution PortalImmo Habitat is planned for 2013: Release 3.0 of the Prem'Habitat ERP solution will meanwhile follow in 2014. Although the SAP® business is lower than anticipated, Aareon France is expected to record a slightly steady increase in sales revenues, which will be generated mainly from consulting. The Flexiciel module will be sold on the market in future as software-as-a-service (SaaS). Seen in the context of Aareon's social responsibility, the I-stay@home project should be regarded initially during the two forecast years as an investment in the development of an innovative platform. The cost effect for the project will prevent Aareon France's EBIT from growing in 2013. Growth can be anticipated again as of 2014.

In the UK, the price war on the market for ERP solutions continues to exercise a considerable influence on new client acquisition. Nonetheless, Aareon UK is expected to increase sales revenues, with costs remaining constant. The ERP solution QL is being developed further in line with the latest technological requirements. Demand remains strong for the document management and mobile solutions offered by Aareon UK. Aareon UK will also increase its EBIT contribution in the next two years.

New client business will significantly increase the sales revenues of 1st Touch Ltd., the specialist for mobile solutions acquired in 2012, given the sharp increase in the demand for such products on the market. The growing number of new projects anticipated in both new and existing client business will lead to greater demand for advisors, which 1st Touch Ltd. will address through investment in new personnel capacity. This will raise staff-related costs significantly. 1st Touch is an important acquisition for Aareon Group and will also have a positive effect on Aareon's EBIT.

All in all, Aareon Group expects a slight increase in sales revenues for the following year. Increased demand, in particular for advisory services for Wodis Sigma, sales growth in integrated services through the new CRM products, Aareon Archiv kompakt and Mareon FM, together with anticipated growth in sales at 1st Touch Ltd., Aareon France SaaS and Aareon UK Ltd. will combine to offset the decline in licence sales at the Dutch subsidiary. Given that higher licence revenues are expected again in 2014, due to contract renewals, Aareon Group forecasts further sales growth as of 2014. Investments in the new integrated services products, investment costs for I-stay@home, and additional sales-related personnel expenses on account of the recruitment drive at 1st Touch will lead to higher costs in the next two years. Aareon Group expects a stable EBIT of around € 27 million for 2013, which should be increased slightly in 2014.

Group targets

We see the start to the current year as moderately positive. Despite the challenges that still exist – especially the recessionary trend in some European countries and ongoing uncertainty surrounding future regulatory measures – we forecast a slight improvement in the business environment for Aareal Bank.

In view of the decisions reached in recent months at EU level as well as in the crisis states, the sovereign debt crisis is expected to ease further. Even though a sustainable solution to the crisis has not yet been found, and a renewed escalation cannot be ruled out, market participants believe the worst is over.

We had therefore already started to adjust our previously very cautious investment strategy in mid-2012. We will continue on this track in 2013, and may further reduce the funds deposited with the ECB and the Bundesbank. However, the low interest rate environment has a negative impact on these investments and on the deposit-taking business. The good margins achieved on the lending side are offset in part by these effects, so that net interest income in 2013 is expected to come in only slightly above the previous year's figure. In our opinion, a growing loan portfolio, a rising volume of deposits, and a slightly higher interest rate environment, should drive up net interest income more significantly in 2014.

Planning in relation to allowance for credit losses reflects the developments on the property markets worldwide. Aareal Bank expects allowance for credit losses to fluctuate in a slightly adjusted range of € 110 million to € 150 million, particularly in view of the recessionary trends in Italy, Spain and the Netherlands, as well as a growing loan portfolio; from today's perspective however, we expect allowance for credit losses to be at the lower end of the range. Given the late-cyclical nature of our business, we expect allowance for credit losses in a similar range for 2014. As in the previous years, the bank cannot rule out additional allowance for unexpected credit losses that may be incurred during 2013 and 2014.

We expect a stable trend for net commission income in 2013, between € 165 million and € 175 million. Particularly, a higher contribution from our Aareon subsidiary should improve net commission income in 2014.

Thanks to the measures implemented in 2012 to optimise our structures and processes, administrative expenses are also expected to rise only slightly compared with 2012, to between € 360 million and € 370 million. We expect administrative expenses in 2014 to increase in line with the general rate of inflation.

Notwithstanding a still-challenging environment, we believe there is a good chance the bank's consolidated operating profit will match the level of 2012. We anticipate an increase in consolidated operating profit for 2014.

Our new business target in the Structured Property Financing segment is € 6 billion to € 7 billion for the year 2013. The volume of new business in the following year is expected to remain within the same range.

In the Consulting / Services segment, we anticipate a stable result before taxes compared with the previous year, of around € 27 million for Aareon Group in 2013. We expect to increase this result slightly in 2014.

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.

Against the background of the German Act on the Appropriateness of Management Board Compensation dated 31 July 2009 (Gesetzes zur Angemessenheit der Vorstandsvergütung – VorstAG), and the German Ordinance Governing Supervisory Requirements for Remuneration Systems of Financial Institutions (Instituts-Vergütungsverordnung – InstitutsVergV), the remuneration system for members of the Management Board of Aareal Bank AG was examined, also using the support of external advisors, and adjusted with effect from 1 January 2012.

Besides their fixed annual salary, Management Board members receive a performance-related bonus (variable remuneration) that is determined using an assessment basis extending over several years. The level of this performance-related bonus is determined by reference to the personal performance of each Management Board member which is measured by the degree to which targets set in advance by the Supervisory Board are achieved, based on contractually agreed initial values. The targets which are relevant for performance-related bonuses include annual targets and three-year targets. The weighting of annual to three-year targets is fixed for each financial year, in line with legal rules; with a 60 % / 40 % weighting taken as a guideline.

In terms of substance, annual and three-year targets are derived from the overall strategy and medium-term planning of Aareal Bank Group, each of which are agreed upon with the Supervisory Board. The targets comprise quantitative components and qualitative components, which are also related to non-financial parameters. In this context, the bank's overall performance, the performance of the relevant section, and the individual performance contributions of the Management Board member concerned are all taken into consideration.

The amount of the initial value of the performance-related bonus increases – depending on the Management Board member's degree of target achievement – up to a maximum of 200 %. If the target achievement exceeds a level of 200 %, the initial value of the performance-related bonus will not increase any further (cap). If target achievement is 0 %, no performance-related bonus will be awarded for the financial year concerned. The initial value is fixed at 100 % for target achievement levels between 90 % and 110 %.

To ensure that the remuneration system provides long-term incentives, performance-related bonuses are awarded at the end of the financial year, according to the following principles:

20 % of the initial value of the performance-related bonus is disbursed as a cash bonus directly after the financial year has concluded. A further 20 % of the performance-related bonus is awarded as a share bonus[1] in the form of phantom shares directly after the end of the financial year and are the subject of the Share Bonus Plan. 30 % of the performance-related bonus is deferred as a cash deferral (Cash Deferral). The remaining 30 % of the performance-related bonus is deferred as a share deferral[1] and is the subject of the Share Deferral Plan.

[1] Please refer to the subsection "Cash-settled share-based remuneration" in the remuneration report, which is part of the Notes to the Consolidated Financial Statements, for details concerning the specifications of the Share Bonus Plan and the Share Deferral Plan.

With regard to the portion of the performance-related bonus that is deferred initially as a cash deferral or a share deferral, the Supervisory Board makes a decision regarding the granting of one third of the amount as well as the associated interest in the three years following the determination of the performance-related bonus (retention period). If the deferred remuneration components for the Management Board members are actually awarded, the cash deferral is paid out in cash and the share deferral is converted into virtual shares, subject to a two-year holding period.

In making its determination about the amount to be awarded, the Supervisory Board particularly takes into account any negative aspects of the Management Board member's performance, his section as well as any weakness in the performance of Aareal Bank AG or the Group as a whole. The final amount may be awarded in full, partially, or not at all. If the full amount of the bonus is not awarded, the remaining sum is forfeited, i.e. it is not carried forward into subsequent years. No bonus may be awarded if BaFin makes an official ruling against the bank pursuant to section 45b (2) of the German Banking Act (KWG) due to shortcomings relating to capital adequacy or liquidity issues. If a case of serious individual misconduct by a member of the Management Board is identified afterwards in the financial year in which the remuneration components were awarded as a cash deferral and share deferral, the retained remuneration components are cancelled in full. Members of the Management Board may not undertake to limit or hedge the risk orientation of the performance-related bonus themselves (hedging ban).

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. In doing so, Aareal Bank AG follows the current status of the discussions related to the proper structure for remuneration systems for supervisory boards according to which supervisory board members should receive a fixed remuneration only.

The remuneration system for the Supervisory Board only comprises a fixed remuneration 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 exclusively an advisory committee, and the Committee for Urgent Decisions, which is part of the Risk Committee).

The fixed remuneration shall be increased by € 30,000 p.a. for the chairmanship of a committee (with the exception of the Nomination Committee and the Committee for Urgent Decisions).

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

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

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

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

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

Restrictions affecting voting rights or the transfer of shares

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

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

Shareholdings exceeding 10 % of voting rights

Details regarding any shareholdings exceeding 10 % of voting rights are provided in Note 97 to the consolidated financial statements.

Shares with special rights granting the holder supervisory powers

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

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

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

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

The appointment and removal of members of the Management Board of Aareal Bank AG is carried out in accordance with sections 84 and 85 of the AktG and Article 7 of the Memorandum and Articles of Association, according to which the

Management Board must have a minimum of two members. The Supervisory Board shall appoint the Members of the Management Board and determine their number. The Supervisory Board may appoint deputy members, and may appoint one member of the Management Board to be the Chairman of the Management Board. The members of the Management Board are appointed for a maximum term of five years. This term of office may be renewed or extended for a maximum of five years in each case.

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

Authorisation of the Management Board to issue or repurchase shares

Authorised capital

The Annual General Meeting held on 23 May 2012 resolved to authorise the Management Board to increase the Company's share capital by up to a maximum total amount of € 89,785,830 (Authorised Capital) by issuance of new shares for contribution in cash or in kind. This authorisation will expire on 22 May 2017. 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 23 May 2012, under convertible bonds and/or bonds cum warrants issued excluding the pre-emptive rights of shareholders.

No use has been made to date of the authorised capital.

Conditional capital

Pursuant to Article 5 (5) of the Memorandum and Articles of Association, the share capital is subject to a conditional capital increase of up to € 30 million by means of issuing up to 10 million new notional no-par value bearer shares. The purpose of the conditional capital increase is the granting of shares to holders or creditors of convertible bonds and/or bonds cum warrants issued in accordance with the authorisation by the General Meeting held on 19 May 2010. Under this authorisation, bonds cum warrants or convertible bonds with an aggregate nominal amount of up to € 600 million may be issued until 18 May 2015. Under the authorisation, subsidiaries of Aareal Bank AG may also issue convertible bonds and/or bonds cum warrants, and subject to approval by the Supervisory Board allows the Company to guarantee such issues as well as to issue shares to fulfil the resulting conversion or option rights. Subject to the approval of the Supervisory Board, the Management Board may exclude shareholders' pre-emptive rights in the certain cases. Notwithstanding the provisions of section 9 (1) of the AktG, in certain circumstances holders of conversion or option rights are entitled to be protected against dilution. The new shares will be issued at the conversion or option price to be set as defined in the resolution passed by the General Meeting on 19 May 2010. The conditional capital increase will be executed only to the extent that holders of conversion or option rights exercise such rights or any conversion obligation from such convertible bonds and/or bonds with warrants is performed, and to the extent that treasury shares are not utilised to service such convertible bonds and/or bonds cum warrants. The new shares will be entitled to a share in the profits from the beginning of the financial year in which they come into existence, by way of exercise or conversion. The Management Board is authorised to determine any further details of the conditional capital increase, subject to approval by the Supervisory Board. The purpose of this authorisation to issue convertible bonds and/or bonds cum warrants (where the issue of shares to honour the obligations under such convertible bonds and/or bonds cum warrants is covered by the conditional capital) is to provide the Management Board with the flexibility to act swiftly when raising finance, in the interests of the Company. The Company 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 is authorised to effect the sale of any treasury shares acquired in accordance with this authorisation, subject to approval by the Supervisory Board, via channels other than the stock exchange or an offer to all shareholders, provided that the sale is carried out at a price that is not significantly lower than the stock exchange price of the company's shares at the time of sale. This authorisation is subject to the proviso that the aggregate value of shares sold under this authorisation and of shares issued to the exclusion of shareholders' subscription rights, in accordance with section 186 (3) sentence 4 of the AktG, shall not exceed 10 % of the issued share capital at the time of said authorisation becoming effective or being exercised. Subject to approval by the Supervisory Board, pre-emptive subscription rights on the sold shares may also be excluded in the event of a sale against contributions in kind, or if the sold shares are given to the holders of conversion or option rights in lieu of new shares from a contingent capital increase. The Management Board is also authorised to exclude the pre-emptive subscription rights to the extent required to grant subscription rights to new shares to owners of convertible bonds or bonds cum warrants which were issued in the meantime in such an amount as would be due to them once they exercised their option rights. The Management Board is authorised to call in any of the shares acquired under this authorisation, without any further resolutions by the General Meeting being necessary. The Company did not exercise this authorisation to purchase or dispose of treasury shares during the year under review.

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

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

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS II

Consolidated Financial Statements
Statement of Comprehensive Income

Income Statement

€ mn	Note	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Interest income		970	1,121
Interest expenses		484	574
Net interest income	26	**486**	**547**
Allowance for credit losses	27	106	112
Net interest income after allowance for credit losses		**380**	**435**
Commission income		196	196
Commission expenses		27	52
Net commission income	28	**169**	**144**
Net result on hedge accounting	29	-4	6
Net trading income/expenses	30	-10	14
Results from non-trading assets	31	1	-29
Results from investments accounted for using the equity method	32	0	1
Results from investment properties	33	5	10
Administrative expenses	34	358	382
Net other operating income/expenses	35	-7	-14
Impairment of goodwill	36	–	0
Operating profit		**176**	**185**
Income taxes	37	52	52
Net income/loss		**124**	**133**
Allocation of results			
Net income/loss attributable to non-controlling interests		19	19
Net income/loss attributable to shareholders of Aareal Bank AG		105	114
Appropriation of profits			
Net income/loss attributable to shareholders of Aareal Bank AG		105	114
Silent participation by SoFFin		20	21
Consolidated profit/loss		**85**	**93**
€			
Earnings per share	38	1.75	2.11
Diluted earnings per share	38	1.75	2.11

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

Statement of Comprehensive Income

Reconciliation from Net Income/Loss to Total Comprehensive Income

€ mn	Note	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Net income/loss		**124**	**133**
Changes in revaluation surplus	39	122	-111
Changes in hedging reserves	39	-27	14
Changes in currency translation reserves	39	1	1
Gains and losses directly recognised in equity (after taxes)		**96**	**-96**
Total comprehensive income		**220**	**37**
Allocation of total comprehensive income			
Total comprehensive income attributable to non-controlling interests		19	19
Total comprehensive income attributable to shareholders of Aareal Bank AG		201	18

Statement of Financial Position

€ mn	Note	31 Dec 2012	31 Dec 2011
Assets			
Cash funds	40	3,667	588
Loans and advances to banks	41	1,552	2,912
Loans and advances to customers	42	24,766	25,422
Allowance for credit losses	43	-302	-318
Positive market value of derivative hedging instruments	44	2,365	1,801
Trading assets	45	576	421
Non-current assets held for sale and discontinued operations	46	9	172
Non-trading assets	47	12,286	10,010
Investments accounted for using the equity method	48	1	2
Investment properties	49	88	88
Intangible assets	50	90	85
Property and equipment	51	103	104
Income tax assets	52	35	20
Deferred tax assets	53	80	89
Other assets	54	418	418
Total		**45,734**	**41,814**
Equity and liabilities			
Liabilities to banks	55	3,284	3,073
Liabilities to customers	56	27,366	24,929
Certificated liabilities	57	8,473	7,540
Negative market value of derivative hedging instruments	58	2,122	1,769
Trading liabilities	59	719	723
Provisions	60	239	251
Income tax liabilities	61	10	29
Deferred tax liabilities	62	28	6
Other liabilities	63	113	127
Subordinated capital	64	1,028	1,198
Equity	65		
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,016	929
Other reserves		-108	-204
Silent participation by SoFFin		300	300
Non-controlling interest		243	243
Total equity		2,352	2,169
Total		**45,734**	**41,814**

Statement of Changes in Equity

€ mn	Subscribed capital	Capital reserves	Retained earnings	Other reserves: Revaluation surplus	Other reserves: Hedging reserves	Other reserves: Currency translation reserves	Silent participation by SoFFin	Total	Non-controlling interest	Equity
Equity as at 1 Jan 2012	**180**	**721**	**929**	**-221**	**14**	**3**	**300**	**1,926**	**243**	**2,169**
Total comprehensive income for the period			105	122	-27	1		**201**	19	**220**
Capital increase										
Payments to non-controlling interests									-19	**-19**
Dividends										
Silent participation by SoFFin										
Costs associated with the silent participation by SoFFin			-20					**-20**		**-20**
Other changes			2					**2**		**2**
Equity as at 31 Dec 2012	**180**	**721**	**1,016**	**-99**	**-13**	**4**	**300**	**2,109**	**243**	**2,352**

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

Statement of Cash Flows

€ mn	Cash flow 1 Jan-31 Dec 2012	Cash flow 1 Jan-31 Dec 2011
Net income/loss for the year	**124**	**133**
Write-downs, valuation allowances and write-ups on loans and advances	106	132
Additions to and reversals of loan loss provisions, net	0	-2
Amortisation, depreciation, impairment and write-ups of non-current assets	23	31
Other non-cash changes	-370	114
Gains/losses on the disposal of non-current assets	-3	3
Other adjustments	59	-249
Subtotal	**-61**	**162**
Changes in loans and advances to banks	1,361	-868
Changes in loans and advances to customers	608	-715
Changes in trading assets	17	19
Changes in other assets from operating activities	30	-120
Changes in liabilities to banks	226	-2,158
Changes in liabilities to customers	1,914	1,487
Changes in certificated liabilities	841	-121
Changes in trading liabilities	-8	-18
Changes in provisions	-84	-70
Changes in other liabilities from operating activities	-173	-181
Income taxes paid/income tax refunds	-80	-45
Interest received	907	1,206
Interest paid	-649	-679
Dividends received	-	-
Cash flow from operating activities	**4,849**	**-2,101**
Proceeds from the disposal of non-trading assets and investments accounted for using the equity method	923	2,136
Payments for the acquisition of non-trading assets and investments accounted for using the equity method	-2,596	-415
Proceeds from the disposal of property and equipment, intangible assets and investment properties	148	7
Payments for the acquisition of property and equipment, intangible assets and investment properties	-27	-44
Effect of changes in reporting entity structure	–	–
Changes due to other investing activities	–	–
Cash flow from investing activities	**-1,552**	**1,684**
Proceeds from capital increases	–	262
Changes in subordinated capital	-170	-44
Changes due to other funding activities	-48	-135
Cash flow from financing activities	**-218**	**83**
Cash and cash equivalents as at 1 January	**588**	**922**
Cash flow from operating activities	4,849	-2,101
Cash flow from investing activities	-1,552	1,684
Cash flow from financing activities	-218	83
Cash and cash equivalents as at 31 December	**3,667**	**588**

Notes
(A) Basis of Accounting

Legal framework and reporting entity structure

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

As a listed public limited company, Aareal Bank AG has prepared its consolidated financial statements for the financial year ended on 31 December 2012 in accordance with International Financial Reporting Standards (IFRSs) applicable within the European Union (EU) as of the reporting date, in connection with the provisions pursuant to section 315a (1) of the German Commercial Code (Handelsgesetzbuch – "HGB"). The reporting currency is the euro (€).

The Management Board approved the consolidated financial statements for publication on 26 February 2013. The consolidated financial statements are expected to be published on 28 March 2013.

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

As at 31 December 2012, the reporting entity structure included Aareal Bank AG as well as 75 (2011: 74) subsidiaries, one special fund (2011: two), one special purpose entity (2011: one), four joint ventures (2011: seven) as well as ten (2011: ten) associates.

Effective 1 July 2012, Aareon acquired 100 % of the shares in 1st Touch Ltd., Southampton, UK. 1st Touch is the leading provider of mobile software solutions for the housing industry in the United Kingdom. The purchase price consists of a fixed price of € 8.1 million and a contingent purchase price. The fair value of the contingent purchase price component was € 2.4 million, measured within the context of initial consolidation in accordance with IFRS 3 in connection with IAS 27. The fair value of assets acquired in the amount of € 9.9 million consists of intangible assets (€ 7.9 million), loans and advances (€ 0.9 million) and other assets (€ 1.1 million). The fair value of liabilities assumed, including deferred taxes, amounts to € 3.2 million. Accordingly, goodwill identified within the framework of initial consolidation amounted to € 3.8 million.

ZAO Toros, Moscow, Russia, was sold on 27 June 2012 and deconsolidated afterwards. ZAO Toros owns and operates the Redwood logistics park close to Moscow.

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

General accounting policies

(1) Accounting standards

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

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

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

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

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

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

The presentation of the financial position and the financial performance in the consolidated financial statements depends on the recognition and measurement methods underlying the preparation of the financial statements as well as on estimates and assumptions as a result of the uncertainty associated with future events. Any assumptions and estimates required for recognition and measurement are in line with the relevant accounting standards. Estimates and assumptions are based on historical experience and other factors such as planning and current expectations and forecasts with respect to the occurrence of future events. The estimates and assessments themselves as well as the underlying assessment factors and estimation techniques are reviewed regularly and compared with actual outcome. In our view, the parameters used are relevant and reasonable.

The most significant forward-looking assumptions and key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year primarily refer to the calculation of pension obligations, provisions and loan loss provisions, the measurement of goodwill, property and tax assets and liabilities as well as the determination of fair values of certain financial instruments. We refer to the section "Specific accounting policies" for information related to the estimates and assumptions actually made within the context of recognition and measurement.

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

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

(2) Currency translation

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

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

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

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

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

(3) Consolidation

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

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

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

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

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

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

(4) Changes in accounting policies

In the reporting period, the amendments to IFRS 7 Financial Instruments: Disclosures issued by the International Accounting Standards Board (IASB) had to be applied for the first time:

This revised standard does not have any material consequences for the consolidated financial statements of Aareal Bank Group.

Until 31 December 2012, the following financial reporting standards (IASs / IFRSs) and interpretations (SICs and IFRICs) had been published by the International Accounting Standards Board (IASB) and adopted by the EU Commission (endorsement):

New International Financial Reporting Standards		Issued	Endorsed	Effective date
IFRS 9	Financial Instruments	November 2009 October 2010 December 2011		Financial years beginning on or after 1 January 2015
IFRS 10	Consolidated Financial Statements	May 2011	December 2012	Financial years beginning on or after 1 January 2014
IFRS 11	Joint Arrangements	May 2011	December 2012	Financial years beginning on or after 1 January 2014
IFRS 12	Disclosures of Interests in Other Entities	May 2011	December 2012	Financial years beginning on or after 1 January 2014
IFRS 13	Fair Value Measurement	May 2011	December 2012	Financial years beginning on or after 1 January 2013
IAS 27	Separate Financial Statements (2011)	May 2011	December 2012	Financial years beginning on or after 1 January 2014
IAS 28	Investments in Associates and Joint Ventures (2011)	May 2011	December 2012	Financial years beginning on or after 1 January 2014

Revised International Financial Reporting Standards		Issued	Endorsed	Effective date
IAS 1	Presentation of Items of Other Comprehensive Income	June 2011	June 2012	Financial years beginning on or after 1 July 2012
IAS 12	Deferred Tax: Recovery of Underlying Assets	December 2010	December 2012	Financial years beginning on or after 1 January 2013
IAS 19	Employee Benefits	June 2011	June 2012	Financial years beginning on or after 1 January 2013
IAS 32	Offsetting Financial Assets and Financial Liabilities	December 2011	December 2012	Financial years beginning on or after 1 January 2014
IFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities	December 2011	December 2012	Financial years beginning on or after 1 January 2013
IFRS 7	Transition Disclosures	December 2011		Financial years beginning on or after 1 January 2015
	Annual Improvements 2009-2011 Cycle	May 2012		Financial years beginning on or after 1 January 2013

- **Amendment to IAS 1 Presentation of Financial Statements**
  The amendment to IAS 1 changes the presentation of the items reported in other comprehensive income (i.e. gains and losses recognised directly in equity, after tax) in the statement of comprehensive income.

- **IAS 12 Deferred tax: Recovery of underlying assets**
  In accordance with IAS 12 Income Taxes, the measurement of deferred taxes depends on whether the carrying amount of an asset is recovered through its use or sale. The amendment introduces the rebuttable presumption according to which the carrying amount is normally recovered through sale. As a consequence of this amendment, SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets no longer applies for investment properties measured at fair value.

- **Amendment to IAS 19 Employee Benefits**
  In accordance with the amended IAS 19, future unexpected fluctuations of pension obligations as well as any existing plan assets, so-called actuarial gains and losses, are recognised directly in other comprehensive income (i.e. gains and losses recognised directly in equity, after tax). The previous election of recognising these gains and losses directly in profit or loss, in other comprehensive income or the deferred recognition under the so-called corridor method is eliminated. Another change refers to the return on plan assets, which is no longer estimated based on return expectations based on asset allocation. Instead, any income from the expected return on plan assets may be recognised only in the amount of the discount rate. The unrealised actuarial gains and losses accrued as at 31 December 2012 amount of € 51 million and are reclassified to retained earnings as at the date of first-time application (1 January 2013), taking into account deferred taxes of € 16 million. In addition, the new rules introduce changed and more extensive disclosure requirements, and it is expected that other comprehensive income will become more volatile.

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

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

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

- **IAS 32 (Disclosures) Offsetting Financial Assets and Financial Liabilities**
  The amendments clarify some details in relation to offsetting financial assets and financial liabilities and require additional disclosures. As a supplementary mandatory disclosure, gross and net amounts resulting from offsetting as well as amounts related to any existing rights of set-off that do not meet the criteria for offsetting in the statement of financial position have to be disclosed.

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

- **IFRS 9 Financial Instruments**
  The part of IFRS 9 Financial Instruments issued so far represents the first step to replace IAS 39 Financial Instruments: Recognition and Measurement. The first step of IFRS 9 fundamentally changes the previous rules for classification and measurement of financial assets. In accordance with IFRS 9 issued by the IASB, there will be only two measurement categories for financial assets in future: financial assets measured at amortised cost and financial assets measured at fair value through profit or loss. The classification is based on the criteria of business model and cash flow characteristics of the financial assets. There are special rules for equity instruments as these may be recognised in the line item "Gains and losses directly recognised in equity (after taxes)". The accounting rules for financial liabilities do not result in any changes for Aareal Bank Group as the Group currently is not applying the fair value option for financial liabilities. The IASB decided to revise once more the rules for the classification of debt securities in the first part of IFRS 9. The amended standard is expected to be issued in the next year. Aareal Bank Group is currently reviewing the effects of the application of IFRS 9 on the consolidated financial statements.

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

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

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

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

Aareal Bank Group did not opt for early application of these standards in 2012, which are required to be applied in future financial years.

Specific accounting policies

(5) Definition and classification of financial instruments

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

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

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

- Liabilities to customers
- Certificated liabilities
- Negative market value of derivative hedging instruments
- Trading liabilities
- Other liabilities
- Subordinated capital

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

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

- Financial assets at fair value through profit or loss
- Held to Maturity (HtM)
- Loans and Receivables (LaR)
- Available for Sale (AfS)

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

- Held for Trading (HfT) and
- Designated as at Fair Value through Profit or Loss (dFVtPL).

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

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

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

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

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

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

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

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

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

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

In the event of impairment, the amount of the impairment loss incurred for a financial asset of the categories "Loans and receivables" or "Held to maturity" is determined as the difference between the carrying amount of the asset and the present value of the expected future cash flows, discounted using the original effective interest rate applicable upon first-time recognition. Assets where contractual modifications have been made due to financial difficulties on the part of the counterparty are tested for impairment and continuously monitored. The counterparty's financial difficulties and the change in the credit quality also affect the level of the probability of default for the contracting party. This is taken into account in the amount of the portfolio-based valuation allowance to the extent that an impairment has not yet been recorded. If the asset is subject to variable interest, the current contractually agreed reference interest rate has to be used as the discount rate. The impairment is recognised in the income statement. Where reasons for impairment lapse subsequently, the necessary reversals of impairments (write-backs) are generally recognised in income. The carrying amount after the reversal of an impairment loss may not exceed the asset's (amortised) cost. If an impairment of a financial asset of the "Available for sale" category has been identified, the amount of the impairment is calculated as the difference between the asset's (amortised) cost and its current fair value. In the event of such impairment, the accumulated losses previously recognised directly in equity in the revaluation surplus are reclassified to the income statement. If the reasons for impairment cease to exist, a write-back (up to amortised cost) to be recognised in income is permitted only for debt securities. Amounts exceeding amortised cost as well as reversals of impairment losses of equity instruments are always recognised directly in equity in the revaluation surplus.

Concessions made to a counterparty due to financial difficulties are actions that may be initiated within the lending business to secure repayment of the receivable. Above all, such concessions comprise temporary suspension of redemption payments, adjustment of contractual interest rates and prolongation of the credit term. Such contractual modifications are not used in the other business units of Aareal Bank.

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

- Financial Liabilities at Fair Value through Profit or Loss
- Liabilities Measured at Amortised Cost (lac)

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

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

If the separation requirement as set out in IAS 39.11 applies for a structured financial instrument, the host contract is accounted for pursuant to the standards applicable for the financial instrument concerned, while the separated derivative is accounted for separately, or the entire contract is accounted for using the fair value option.

(6) Loans and advances

Loans and advances are disclosed under the line items "Loans and advances to customers", "Loans and advances to banks" or "Other assets"; they are classified as "Loans and receivables". Accrued interest is reported under the corresponding receivable.

(7) Allowance for credit losses

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

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

In the context of assets measured at amortised cost and not subject to specific valuation allowances, portfolio-based valuation allowances are recognised for risks which have already materialised, but which cannot be allocated to individual loans and advances due to lack of knowledge. For this purpose, groups of financial assets with comparable default risk profiles are combined in portfolios. 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), probability of default (PD) and the LIP factor. The LIP factor is a correction factor to adjust the one-year probability of default (used in Basel II) to the estimated time period, between the date the loss is incurred and the identification of the actual loss.

Recognition and reversal of allowances for credit losses are directly reflected in income. The balance of allowances for credit losses is shown in a separate allowance account. The increase of the present value over time of an impaired loan or advance (so-called unwinding) leads to a corresponding change of the allowance account, which change is recognised as interest income. Interest income is calculated using the original effective interest rate of the loan / advance concerned.

Uncollectable loans and advances are derecognised against specific valuation allowances previously recognised, or written off directly. Payments on loans and advances previously written off are recognised in income.

(8) Trading assets and trading liabilities

Trading assets and liabilities of Aareal Bank Group comprise positive and negative market values of derivative financial instruments which are not part of recognised hedging relationships. The derivatives are classified under the measurement category "At fair value through profit or loss". Results from measurement and on the sale of the derivatives are reported in net trading income. Interest received or paid in connection with these derivatives is also recorded generally in net trading income. Interest received or paid for derivatives entered into for hedging purposes which, however, do not meet the formal criteria of hedge accounting is reported in net interest income, together with interest from the hedged items. Effects from the measurement of these derivatives are reported in net trading income, together with the effects from the measurement of the hedged risk.

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

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

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

(10) Hedging relationships

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

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

Hedge accounting is based on clean fair values.

A distinction is made for derivatives used as hedging instruments whether these are part of a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation.

The purpose of a fair value hedge is the protection of the market value of an underlying transaction. Measurement gains or losses on the underlying transaction of the hedged exposure are recorded together with the corresponding fair value changes of the hedging instrument, and recognised in income (in net result on hedge accounting). A fully effective hedging relationship results in offsetting measurement gains or losses. Interest on the underlying transaction and the hedge is recognised in net interest income.

The hedging relationship may result in adjustments to be made to the carrying amount of the underlying transaction. Such adjustments will only be recognised in income at the end of the transaction term.

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

Hedges of a net investment in a foreign operation are used to hedge currency risks arising on the translation of the net assets of foreign Group companies. The effective portion of measurement gains or losses from derivative hedging instruments is recognised directly in equity in the currency translation reserve. The ineffective portion of the hedging derivative's fair value changes have to be recognised in the income statement. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised directly in equity shall be recognised in profit or loss on disposal of the foreign operation. Any translation differences resulting from the translation of an entity with a different functional currency into the Group currency also have to be recognised directly in equity in the currency translation reserve; they will be reclassified to the income statement on disposal of the foreign operation.

(11) Non-trading assets

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

All assets included in other non-trading assets are recognised at cost, plus attributable transaction costs.

Premiums and discounts are amortised over their term.

Debt and other fixed-income securities reported in non-trading assets are allocated to the measurement categories "Available for sale", "Loans and receivables" and "Held to maturity". Equities and other non-fixed income securities as well as equity investments are classified as "Available for sale" or "At fair value through profit or loss".

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

(12) Investments accounted for using the equity method

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

(13) Investment properties

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

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

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

(14) Intangible assets

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

Research costs are expensed as incurred. Development costs are capitalised from the time when the software development can be regarded as completed from a technical perspective, and several other conditions are fulfilled. Borrowing costs directly attributable to software development are also part of the cost. They are amortised on a straight-line basis, using an estimated economic life of between five and ten years. Purchased software is also deemed to have a limited useful life. The procedure followed for the determination of amortisation of purchased software is the same as the procedure used for proprietary software. Amortisation is recognised in administrative expenses.

Goodwill is defined as the excess of the cost of acquisition over the fair value of the Group's interest in the net assets of the acquired entity, at the time of acquisition (positive difference). Goodwill is carried at historical cost less accumulated impairments. Any negative goodwill arising upon acquisition is immediately charged against income.

Where there are indications of impairment of intangible assets (as set out in IAS 36) at the reporting date, and the recoverable amount is lower than the carrying amount of the asset concerned, the asset is written down against income, to the estimated recoverable amount.

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

(15) Property and equipment

Property and equipment is measured at cost, less accumulated depreciation and impairment losses. Amortisation is reported in administrative expenses.

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

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

For details on recognising impairments as defined in IAS 36, please refer to the explanations in Note (14) "Intangible assets" in this section.

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

The costs to purchase low-value assets in the amount of up to € 150.00 are expensed as incurred.

Any assets with a cost of more than € 150.00, but not exceeding € 1,000.00, are combined in a collective account for the year, which is then depreciated on a straight-line basis over a period of five years.

(16) Deferred taxes

In accordance with IFRSs, deferred tax assets and liabilities are recognised for all temporary measurement and recognition differences between the carrying amount of an asset or liability and its tax base. In this context, all differences are recognised (irrespective of their origin) if they result in future tax credits or tax charges. In addition, deferred taxes are calculated on tax loss carryforwards. Deferred tax liabilities are recorded for differences which, when reversed at a later date, will result in a higher tax charge; deferred tax assets are recorded for those differences which, when reversed, will result in a tax credit.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences and tax loss carryforwards can be utilised. Deferred taxes are calculated on the basis of country- and company-specific tax rates expected to apply at the time of the realisation of temporary differences and loss carryforwards.

Deferred tax assets and deferred tax liabilities are offset in accordance with IAS 12.74 when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or tax group.

(17) Other assets

Properties reported under other assets are intended for short-term disposal, though the IFRS 5 criteria are not met. They are measured at the lower of cost or net realisable value, in accordance with IAS 2.

(18) Financial liabilities

(Non-derivative) financial liabilities are carried at amortised cost, unless they are hedged transactions within the specifications of hedge accounting. Accrued interest is also recorded, together with the respective liability.

Financial liabilities originated at a discount are initially recognised using the amount of consideration received; the carrying amount is subsequently increased using the original effective interest rate.

(19) Provisions

Apart from provisions for pensions, the provisions recognised within Aareal Bank Group include, among other things, provisions for staff expenses, provisions for risks related to unrecognised items in the lending business as well as other provisions. Other provisions also include provisions for legal risks. Provisions are set aside for commitments to third parties if utilisation is probable and the amount of the commitment can be reasonably estimated. Provisions are measured on the basis of the best estimate of the expenditure required to settle the obligation, in accordance with IAS 37.36. If utilisation in the short term, i.e. within twelve months, from the obligation is not expected, the provision will be recognised at present value.

(20) Pension liabilities

Aareal Bank Group maintains various pension plans as defined in IAS 19. For the purpose of reporting pension obligations, IAS 19 makes a distinction between defined contribution plans and defined benefit plans.

Under defined contribution plans, an enterprise pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions paid to the statutory pension insurance scheme are also classified as defined contribution plans. The contributions paid to a defined contribution plan are recorded as staff expenses.

Defined benefit obligations are all pension obligations that do not meet the criteria of a defined contribution obligation. The amount of obligations usually depends on one or several factors, including age, length of service, and salary.

The Group's obligations under defined benefit plans are recognised as a provision in the statement of financial position. These are based on company agreements on an employee pension scheme, individual agreements with executive staff as well as individual agreements concluded with the members of the Company's senior management.

Provisions for pensions and similar obligations under defined benefit plans are determined in accordance with IAS 19 on the basis of the projected unit credit method. Projected economic and demographic developments, as well as salary and career trends, must be applied to the calculations of the provisions. The discount factor used to determine the present value of the obligation is based on the capital market rate of corporate bonds with impeccable credit ratings at the reporting date. Calculating the amount of provisions in the Group is based on actuarial opinions which are prepared by external actuaries on the basis of Aareal Bank specific and Group-wide standardised parameters.

Accumulated actuarial gains or losses are not recognised, to the extent that they do not exceed 10 % of the present value of the defined benefit plan and the fair value of plan assets (corridor approach). Any amounts in excess of this 10 % threshold are recognised in the financial year following occurrence of the excess, and amortised in income over the average remaining working lives of the employees covered by the defined benefit plans.

(21) Equity and non-controlling interest

Pursuant to IFRSs, equity instruments are such instruments which constitute a residual interest in the assets of a company after deduction of all its liabilities.

Non-controlling interests as well as the silent participation from SoFFin are recorded as a separate item within equity.

(22) Revenue recognition

Interest income is recognised using the effective interest method. It is no longer recorded if the cash inflow from interest payments is no longer deemed likely.

Dividend income is recognised when there is a corresponding legal title.

Commission income is recognised either on the basis of the accounting method used for the related financial instruments, or on the basis of the nature of the activity. Commissions for services provided over a specific time period are deferred over the period in which services are performed.

Revenue received in connection with consulting projects, training, licence and maintenance agreements, and hosting or outsourcing services, are recorded when services have been performed or goods or products have been delivered. The recognition of revenue from implementation services within the framework of projects is based on the percentage-of-completion method. Licence revenue is deemed to be realised when there is an agreement signed by both parties without a right of rescission, the product has been delivered in its entirety, the licence fee is fixed and payment is probable. Revenue from maintenance services is recognised pro rata temporis over the contractually agreed service period.

(23) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when due. A guarantor recognises a financial guarantee contract as a liability at the date of addition, using the fair value of the guarantee obligation. The obligation is subsequently measured at the greater of a provision recorded in accordance with IAS 37 and the original amount, less any accumulated amortisation. Within Aareal Bank Group, financial guarantee contracts are presented based on the present value of the claim resulting from the future premium payments of the holder and offset with the obligation for the guarantee (net basis).

(24) Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment of series of payments the right to use an asset for an agreed period of time. In accordance with IAS 17, leases where a material part of risks and rewards incidental to ownership of the leased assets remains with the lessor are classified as operating leases. Where substantially all risks and rewards are transferred to the lessee, the lease is classified as a finance lease. The provisions of IFRIC 4 were complied with as regards the application of IAS 17. Aareal Bank Group acts both as lessor and lessee. All rental contracts are classified as operating leases.

Properties leased by the Group are reported under other assets.

Payments received or made under operating leases are recognised in income, on a straight-line basis over the term of the lease.

(25) Share-based payment

Aareal Bank Group maintains share-based payment plans subject to cash settlement in accordance with IFRS 2. We refer to the remuneration report as part of the management report, which includes a detailed description of the plans and their scope as well as information on the valuation model applied and the effects of share-based payments on the Group's financial position and performance.

Provisions for obligations arising from share-based remuneration plans have been recognised under administrative expenses, in the amount of the fair value of the relevant obligation at the reporting date.

(B) Notes to the Statement of Comprehensive Income

(26) Net interest income

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Interest income from		
Property loans	677	722
Public-sector loans	27	35
Other lending and money market operations	117	172
Debt and other fixed-income securities	148	191
Current dividend income	1	1
Other interest income	–	–
Total interest income	**970**	**1,121**
Interest expenses for		
Bonds issued	133	145
Registered mortgage Pfandbriefe	68	77
Promissory note loans	127	170
Subordinated capital	29	34
Term deposits	98	112
Payable on demand	28	34
Other banking transactions	1	2
Total interest expenses	**484**	**574**
Total	**486**	**547**

Interest income from property loans includes income from impaired loans (so-called unwinding) in the amount of € 17 million (2011: € 16 million).

(27) Allowance for credit losses

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Additions	107	147
Reversals	16	88
Direct write-offs	20	71
Recoveries on loans and advances previously written off	5	18
Total	**106**	**112**

(28) Net commission income

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Commission income from		
Consulting and other services	162	155
Trustee loans and administered loans	13	6
Securities transactions	–	–
Securitisation transactions	–	–
Other lending and money market transactions	12	25
Other commission income	9	10
Total commission income	**196**	**196**
Commission expenses for		
Consulting and other services	19	20
Securities transactions	3	22
Securitisation transactions	–	0
Other lending and money market transactions	1	5
Other commission expenses	4	5
Total commission expenses	**27**	**52**
Total	**169**	**144**

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

The net amount of commission income and commission expenses from financial assets and financial liabilities not measured at fair value amounts to € 8 million (2011: € -2 million).

Commission expenses from securities transactions include expenses of € 3 million (2011: € 21 million) for the guarantee facility extended by the German Financial Markets Stabilisation Fund (SoFFin), which expired in the first quarter 2012.

(29) Net result on hedge accounting

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Ineffective portion of fair value hedges	1	5
Ineffective portion of cash flow hedges	-4	1
Ineffective portion of net investment hedges	-1	–
Total	**-4**	**6**

This item contains the measurement gains or losses from hedging instruments and the associated hedged items in the context of hedging relationships. The total amount of risk-induced changes to fair value was determined using recognised measurement methods, based on current market parameters.

(30) Net trading income/expenses

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Net income/expenses from positions held for trading	-7	18
Currency translation	-3	-4
Total	**-10**	**14**

(31) Results from non-trading assets

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Result from debt securities and other fixed-income securities	1	-22
of which: Loans and receivables (LaR)	1	-3
Available for sale (AfS)	–	-19
Result from equities and other non-fixed income securities	0	-7
of which: Available for sale (AfS)	0	-8
Designated as at fair value through profit or loss (dFVtPL)	0	1
Results from equity investments (AfS)	0	0
Total	**1**	**-29**

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

In the past financial year, there were no material expenses resulting from investments accounted for using the equity method (2011: € 1 million).

(33) Results from investment properties

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Rental income	7	12
Expenses for the operation of properties rented out	0	2
Results from the measurement of properties	-2	0
Results from the sale of properties	–	0
Total	**5**	**10**

(34) Administrative expenses

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Staff expenses	221	244
Other administrative expenses	117	117
Depreciation, amortisation and impairment of property and equipment and intangible assets	20	21
Total	**358**	**382**

Staff expenses include contributions to defined contribution plans in the amount of € 11 million (2011: € 11 million).

Other administrative expenses include administrative costs for research and development not eligible for capitalisation in the amount of € 4 million (2011: € 2 million).

This item also includes the total fees charged by the auditor of the consolidated financial statements in the financial year 2012, which consists of the following sub-items:

€ 000's	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Auditing fees	3,131	3,107
Other assurance services	181	139
Tax advisory services	92	145
Other services	2,095	1,118
Total	**5,499**	**4,509**

(35) Net other operating income/expenses

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Income from properties	16	6
Income from the reversal of provisions	3	1
Income from goods and services	3	4
Miscellaneous	4	18
Total other operating income	**26**	**29**
Expenses for properties	22	13
Write-downs of trade receivables	0	0
Expenses for other taxes	3	2
Miscellaneous	8	28
Total other operating expenses	**33**	**43**
Total	**-7**	**-14**

(36) Impairment of goodwill

In the financial year 2012, there was no impairment of goodwill (2011: € 0 million).

(37) Income taxes

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Current income taxes	52	62
Deferred taxes	0	-10
Total	**52**	**52**

The differences between calculated and reported income taxes are presented in the following reconciliation:

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Operating profit (before income taxes)	176	185
Expected tax rate	31.2 %	31.2 %
Calculated income taxes	**55**	**58**
Reconciliation to reported income taxes		
Different foreign tax burden	3	5
Tax attributable to tax-exempt income	-2	-7
Tax attributable to non-deductible expenses	2	1
Remeasurement of deferred taxes	8	0
Taxes for previous years	-11	3
Effect of changes in tax rates	–	0
Non-controlling interests	-6	-6
Other tax effects	3	-2
Reported income taxes	**52**	**52**
Effective tax rate	30 %	28 %

The expected tax rate of 31.2 % (2011: 31.2 %), including a trade tax rate of assessment of 440 %, comprises trade taxes (15.4 %), corporation taxes (15 %) and the solidarity surcharge (0.825 %; 5.5 % of corporation taxes).

(38) Earnings per share

	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Net income/loss attributable to shareholders of Aareal Bank AG (€ mn)	105	114
Average number of shares outstanding	59,857,221	54,156,534
Earnings per share (€)	**1.75**	**2.11**

Earnings per share are determined by dividing the earnings attributable to ordinary shareholders by the weighted average of ordinary shares outstanding in the financial year

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

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

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Net income/loss	**124**	**133**
Changes in revaluation surplus (after tax)	**122**	**-111**
Gains and losses on remeasuring available-for-sale financial instruments (before tax)	161	-166
Reclassifications to the income statement (before tax)	–	19
Taxes	-39	36
Changes in hedging reserves (after tax)	**-27**	**14**
Profit/loss from derivatives used to hedge future cash flows (before tax)	-39	21
Reclassifications to the income statement (before tax)	0	0
Taxes	12	-7
Changes in currency translation reserves (after tax)	**1**	**1**
Profit/loss from translating foreign operations' financial statements (before tax)	0	1
Reclassifications to the income statement (before tax)	1	0
Taxes	–	–
Gains and losses directly recognised in equity (after tax)	**96**	**-96**
Total comprehensive income	**220**	**37**

As at 31 December 2012, total gains and losses recognised directly in equity are as follows:

€ mn	31 Dec 2012	31 Dec 2011
Revaluation surplus	-99	-221
Hedging reserves	-13	14
Currency translation reserves	4	3
Total	**-108**	**-204**

(C) Notes to the Statement of Financial Position

(40) Cash funds

€ mn	31 Dec 2012	31 Dec 2011
Cash on hand	0	0
Balances with central banks	3,667	588
Total	**3,667**	**588**

(41) Loans and advances to banks

€ mn	31 Dec 2012	31 Dec 2011
Term deposits and current account balances	1,363	2,698
Public-sector loans	146	159
Securities repurchase agreements	–	–
Other loans and advances	43	55
Total	**1,552**	**2,912**

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

(42) Loans and advances to customers

€ mn	31 Dec 2012	31 Dec 2011
Property loans	22,522	23,365
Public-sector loans	1,633	1,618
Other loans and advances	611	439
Total	**24,766**	**25,422**

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

(43) Allowance for credit losses

31 December 2012

€ mn	Specific valuation allowances	Portfolio impairment allowance	Total allowance for credit losses for recognised items	Provisions in the lending business for unrecognised items	Total allowance for credit losses and provisions in the lending business
Allowance for credit losses as at 1 January	**243**	**75**	**318**	**22**	**340**
Additions	92	9	101	6	107
Write-downs	85	–	85	9	94
Reversals	15	–	15	1	16
Unwinding	17	–	17	–	17
Currency adjustments	0	0	0	0	0
Balance as at 31 December	**218**	**84**	**302**	**18**	**320**

31 December 2011

€ mn	Specific valuation allowances	Portfolio impairment allowance	Total allowance for credit losses for recognised items	Provisions in the lending business for unrecognised items	Total allowance for credit losses and provisions in the lending business
Allowance for credit losses as at 1 January	**244**	**88**	**332**	**29**	**361**
Additions	143	–	143	4	147
Write-downs	62	–	62	5	67
Reversals	69	13	82	6	88
Unwinding	16	–	16	–	16
Currency adjustments	3	0	3	0	3
Balance as at 31 December	**243**	**75**	**318**	**22**	**340**

The allowance for risks associated with unrecognised items relates to loans and advances to customers and loans and advances to banks classified as "Loans and receivables" (LaR). These allowances are reported under allowance for credit losses on the asset side of the statement of financial position. The provisions recognised for risks associated with unrecognised items relate to contingent liabilities and loan commitments. These provisions are reported under provisions on the liability side of the statement of financial position.

(44) Positive market value of derivative hedging instruments

€ mn	31 Dec 2012	31 Dec 2011
Positive market value of fair value hedges	2,025	1,429
Positive market value of cash flow hedges	1	22
Pro rata interest receivable	339	350
Total	**2,365**	**1,801**

(45) Trading assets

€ mn	31 Dec 2012	31 Dec 2011
Positive market value of trading assets	576	421
Total	**576**	**421**

Trading assets are allocated to the measurement category "Held for trading" (HfT). They are mainly used to hedge the economic exposure to market price risk.

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

€ mn	31 Dec 2012	31 Dec 2011
Properties	9	172
Total	**9**	**172**

The decline compared to 31 December 2011 resulted primarily from the sale of shares in ZAO Toros, Moscow. ZAO Toros owns and operates a logistics park close to Moscow.

(47) Non-trading assets

€ mn	31 Dec 2012	31 Dec 2011
Debt and other fixed-income securities	12,262	9,985
of which: Loans and receivables (LaR)	5,668	6,044
Held to maturity (HtM)	151	168
Available for sale (AfS)	6,443	3,773
Equities and other non-fixed-income securities	22	22
of which: Available for sale (AfS)	19	18
Designated as at fair value through profit or loss (dFVtPL)	3	4
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	2	3
Total	**12,286**	**10,010**

The item ”Debt and other fixed-income securities“ mainly consists of public-sector bonds as well as asset-covered bonds (Pfandbriefanleihen) and bank bonds. In addition, the item includes asset-backed securities in a nominal amount of € 263 million (2011: € 361 million).

Carrying amounts of negotiable non-trading assets:

	Listed		Unlisted	
€ mn	2012	2011	2012	2011
Debt and other fixed-income securities	12,190	9,918	72	68
Equities and other non-fixed-income securities	–	–	–	–
Total	**12,190**	**9,918**	**72**	**68**

(48) Investments accounted for using the equity method

As in the previous year, there were no unrecognised pro-rata losses incurred from associates accounted for using the equity method during the financial year. There were no accumulated, unrecognised losses at the 2012 and 2011 reporting dates. The share of Aareal Bank Group in gains and losses of associates taken into account in 2012 totalled € 0 million (2011: € 0 million).

The material associates accounted for using the equity method as at 31 December 2012 had assets of € 2 million (2011: € 7 million) and liabilities of € 1 million (2011: € 0 million) in aggregate.

The equity method applied to the major associates was based on the most recent available financial statements prepared under local GAAP. The relevant reporting date was 30 September 2012.

(49) Investment properties

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

€ mn	2012	2011
Carrying amount as at 1 January	**88**	**220**
Additions		
from the purchase of properties	–	–
from subsequent expenditures	–	13
from business combinations	–	–
Currency translation differences, net	–	4
Reclassification in accordance with IFRS 5	–	-148
Disposals	–	–
Net results from fair value measurement	–	-1
Carrying amount as at 31 December	**88**	**88**

(50) Intangible assets

€ mn	31 Dec 2012	31 Dec 2011
Goodwill	54	50
Proprietary software	15	21
Other intangible assets	21	14
Total	**90**	**85**

The increase in goodwill and in other intangible assets mainly resulted from the first-time consolidation of 1st Touch Ltd., Southampton.

Reported goodwill refers to the Aareon sub-group (Segment Consulting/Services) and can be allocated to the following product groups defined as cash-generating units:

€ mn	31 Dec 2012 Goodwill	31 Dec 2011 Goodwill
Product group		
ERP Products	21	21
Integrated Services	5	4
International Business	28	24
Other products	0	0
Total	**54**	**49**

In the context of the impairment test for goodwill, which is carried out at least annually, the value in use of the relevant cash-generating units is determined. The basis for the valuation is the present value of future cash flows (value in use). The relevant cash flows (after taxes) are determined on the basis of a five-year plan adopted by Aareon AG's Management Board and approved by Aareon AG's Supervisory Board. Cash flows beyond this five-year horizon are determined by way of a perpetual annuity. The present values of future cash flows were determined on the basis of a risk-adequate discount factor of 8.16 % before taxes. There was no need to recognise impairment losses in the year under review. Even an increase of the risk-adequate discount factor by 1 % would not have created a need to recognise impairment losses.

The amount shown for software developed in-house includes € 4 million (2011: € 6 million) for the electronic payments system BK@1; the software is amortised over a remaining term of two years.

The same item also includes € 4 million (2011: € 5 million) for the property management software suite Blue Eagle; the software is amortised over an average remaining term of three years.

Intangible assets developed as follows:

€ mn	2012 Proprietary software	2012 Goodwill	2012 Other intangible assets	2012 Total	2011 Proprietary software	2011 Goodwill	2011 Other intangible assets	2011 Total
Cost								
Balance at 1 January	**70**	**107**	**49**	**226**	**67**	**107**	**55**	**229**
Additions	1	4	11	**16**	3	0	3	**6**
Transfers	0	0	1	**1**	1	–	-2	**-1**
Disposals	3	–	2	**5**	1	0	7	**8**
Changes in basis of consolidation	–	–	–	**–**	–	–	–	**–**
Currency translation differences	–	–	0	**0**	–	0	0	**0**
Balance as at 31 December	**68**	**111**	**59**	**238**	**70**	**107**	**49**	**226**
Amortisation and impairment losses								
Balance at 1 January	**49**	**57**	**35**	**141**	**41**	**57**	**40**	**138**
Amortisation and impairment losses	7	0	4	**11**	8	0	4	**12**
of which: impairment losses	–	–	–	**–**	–	–	–	**–**
Write-ups	–	–	–	**–**	–	–	–	**–**
Transfers	–	–	1	**1**	1	–	-2	**-1**
Disposals	3	–	2	**5**	1	0	7	**8**
Changes in basis of consolidation	–	–	–	**–**	–	–	–	**–**
Currency translation differences	–	–	0	**0**	–	–	0	**0**
Balance as at 31 December	**53**	**57**	**38**	**148**	**49**	**57**	**35**	**141**
Carrying amount as at 1 January	**21**	**50**	**14**	**85**	**26**	**50**	**15**	**91**
Carrying amount as at 31 December	**15**	**54**	**21**	**90**	**21**	**50**	**14**	**85**

(51) Property and equipment

€ mn	31 Dec 2012	31 Dec 2011
Land and buildings and construction in progress	81	83
Office furniture and equipment	22	21
Total	**103**	**104**

Property and equipment changed as follows:

€ mn	2012 Land and buildings	2012 Office furniture and equipment	2012 Construction in progress	2012 Total	2011 Land and buildings	2011 Office furniture and equipment	2011 Construction in progress	2011 Total
Cost								
Balance at 1 January	**101**	**65**	**2**	**168**	**96**	**66**	**1**	**163**
Additions	1	8	2	**11**	7	11	7	**25**
Transfers	3	-3	-3	**-3**	–	2	–	**2**
Disposals	1	7	1	**9**	2	14	6	**22**
Changes in basis of consolidation	–	–	–	**–**	–	–	–	**–**
Currency translation differences	–	0	–	**0**	–	0	–	**0**
Balance as at 31 December	**104**	**63**	**0**	**167**	**101**	**65**	**2**	**168**
Depreciation and impairment losses								
Balance at 1 January	**20**	**45**	**0**	**65**	**18**	**50**	**0**	**68**
Depreciation and impairment losses	3	6	–	**9**	3	6	–	**9**
of which: impairment losses	–	–	–	**–**	–	–	–	**–**
Write-ups	–	–	–	**–**	–	–	–	**–**
Transfers	–	-3	–	**-3**	–	2	–	**2**
Disposals	0	7	–	**7**	1	13	–	**14**
Changes in basis of consolidation	–	–	–	**–**	–	–	–	**–**
Currency translation differences	0	0	–	**0**	–	0	–	**0**
Balance as at 31 December	**23**	**41**	**0**	**64**	**20**	**45**	**0**	**65**
Carrying amount as at 1 January	**81**	**20**	**2**	**103**	**78**	**16**	**1**	**95**
Carrying amount as at 31 December	**81**	**22**	**0**	**103**	**81**	**20**	**2**	**103**

(52) Income tax assets

Income tax assets in a total amount of € 35 million as at 31 December 2012 (2011: € 20 million) include € 7 million (2011: € 10 million) expected to be realised after a period of more than twelve months.

(53) Deferred tax assets

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 817 million (2011: € 568 million).

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

€ mn	31 Dec 2012	31 Dec 2011
Loans and advances to banks/to customers	15	0
Positive and negative market value of derivative hedging instruments	32	28
Trading assets and trading liabilities	135	85
Non-current assets held for sale and discontinued operations	–	–
Non-trading assets	7	6
Investment properties	7	8
Intangible assets	1	1
Property and equipment	1	1
Other assets/liabilities	6	5
Liabilities to banks/to customers, and certificated liabilities	639	447
Provisions	25	31
Subordinated capital	16	14
Tax loss carryforwards	13	31
Deferred tax assets	**897**	**657**

Of the deferred taxes on loss carryforwards, an amount of € 8 million (2011: € 25 million) is attributable to foreign subsidiaries and permanent establishments. Tax loss carryforwards may generally be carried forward for an unlimited period. However, they were recognised only to the extent that they may be realised within the next five years.

Deferred tax assets on loss carryforwards which cannot be realised and were therefore not recognised or on loss carryforwards subjected to valuation adjustments amount to € 36 million (2011: € 29 million).

Deferred tax assets in the amount of € 32 million (2011: € 58 million) were reported under other reserves.

(54) Other assets

€ mn	31 Dec 2012	31 Dec 2011
Properties	324	323
Trade receivables (LaR)	29	30
Miscellaneous	65	65
Total	**418**	**418**

(55) Liabilities to banks

€ mn	31 Dec 2012	31 Dec 2011
Payable on demand	915	727
Term deposits	467	283
Promissory note loans	465	564
Securities repurchase and open-market operations	1,007	967
Registered mortgage Pfandbriefe	261	135
Registered public-sector Pfandbriefe	97	130
Miscellaneous	72	267
Total	**3,284**	**3,073**

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

(56) Liabilities to customers

€ mn	31 Dec 2012	31 Dec 2011
Payable on demand	5,167	3,943
Term deposits	6,333	5,308
Promissory note loans	8,815	8,855
Registered mortgage Pfandbriefe	3,640	3,507
Registered public-sector Pfandbriefe	3,411	3,316
Total	**27,366**	**24,929**

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

(57) Certificated liabilities

	31 Dec 2012	31 Dec 2011
€ mn		
Medium-term notes	2,495	1,558
Bearer mortgage Pfandbriefe	5,787	4,476
Bearer public-sector Pfandbriefe	35	97
Other debt securities	156	1,409
Total	**8,473**	**7,540**

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

(58) Negative market value of derivative hedging instruments

	31 Dec 2012	31 Dec 2011
€ mn		
Negative market value of fair value hedges	1,918	1,610
Negative market value of cash flow hedges	22	–
Negative market value of net investment hedges	9	–
Pro rata interest payable	173	159
Total	**2,122**	**1,769**

(59) Trading liabilities

	31 Dec 2012	31 Dec 2011
€ mn		
Negative market value of trading assets	719	723
Total	**719**	**723**

Trading liabilities are allocated to the measurement category "Held for trading" (HfT). They are mainly used to hedge the economic exposure to market price risk.

(60) Provisions

	31 Dec 2012	31 Dec 2011
€ mn		
Provisions for pensions and similar obligations	93	91
Other provisions	146	160
Total	**239**	**251**

Provisions for pensions and similar obligations

The pension obligations result mainly from retirement benefit plans maintained at Aareal Bank AG and Aareon AG, which are classified as defined benefit plans in accordance with IAS 19.

There are currently five different retirement benefit plans within Aareal Bank AG, of which four plans have been closed (and no longer admit employees). The various types of benefits are backed by insurance cover and securities. Depending on the type of retirement plan, the amount of benefits depends on various factors, including eligible salary, period of employment, benefits from the statutory pension insurance fund as well as on returns generated where external funding is involved.

Aareal Bank contributed parts of the assets held to cover existing pension obligations into a Contractual Trust Arrangement (CTA). This is to ensure an improved insolvency protection of the pension claims as a result of the limited protection provided by the German Pension Guarantee Association (Pensions-sicherungsverein; PSVaG).

There are currently six different retirement benefit plans within Aareon AG. All plans have been closed, and no longer admit employees. Depending on the type of retirement plan, the amount of benefits also depends on various factors, including eligible salary, period of employment, benefits from the statutory pension insurance fund as well as on benefits from direct insurance plans.

Baugrund AG is a member of the Federal and Länder Government-Service Supplementary Pension Agency (Versorgungsanstalt des Bundes und der Länder, VBL) and has indirectly granted pensions to active and former employees within the framework of a multi employer plan in the form of an insurance policy. VBL charges annual contributions as well as a recapitalisation contribution (Sanierungsbeitrag) within the context of a partial reserve pay-as-you-go system (Deckungsabschnittsverfahren). Since VBL is not able to provide reliable information to the assets, obligations or costs attributable to Baugrund AG, the defined benefit plan is accounted for as a defined contribution plan in accordance with IAS 19.32.

The determination of the amount of provisions for pensions is based on the following actuarial assumptions applied consistently throughout the Group:

	31 Dec 2012	31 Dec 2011
Calculation method	Projected unit credit	Projected unit credit
Calculation basis	Actuarial tables issued by K. Heubeck in 2005	Actuarial tables issued by K. Heubeck in 2005
Actuarial assumptions (in %)		
Interest rate used for valuation	3.60	5.40
Development of salaries	2.25	2.25
Career trends	1.00	1.00
Pension increase	2.00	2.00
Rate of inflation	2.00	2.00
Staff turnover rate	3.00	3.00
Expected return on plan assets	4.00	4.00

Development of pension liabilities:

€ mn	2012	2011
Present value of pension liabilities as at 1 January	**147**	**144**
Service cost	5	4
Interest cost	8	7
Unrealised actuarial gains(-)/losses	35	-2
Pension benefits paid	6	6
Present value of pension liabilities as at 31 December	**189**	**147**
of which funded entirely or in part by plan assets	53	39
of which not funded by plan assets	136	108

Reconciliation of pension liabilities to provisions for pensions:

€ mn	2012	2011
Present value of pension liabilities as at 31 December	**189**	**147**
Fair value of plan assets as at 31 December	45	37
Unrealised actuarial gains/losses(-) [1]	-51	-19
Provisions for pensions as at 31 December	**93**	**91**

[1] including actuarial gains/losses on plan assets

Provisions for pensions carried at 31 December 2012 include € 87 million (2011: € 85 million) expected to be realised after a period of more than twelve months.

Pension expense:

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Service cost	5	4
Interest cost	8	7
Expected return on plan assets	-1	-1
Unrealised actuarial gains(-)/losses	0	1
Other	–	–
Pension expense	**12**	**11**

Development of plan assets:

€ mn	2012	2011
Fair value of plan assets as at 1 January	**37**	**31**
Employer's contributions	4	6
Expected return on plan assets	1	1
Unrealised actuarial gains/losses(-)	3	-1
Pension benefits paid	0	0
Fair value of plan assets as at 31 December	**45**	**37**

In the case of securities, the expected return on plan assets is based on the actual nominal interest rate of the underlying securities or on the capital market developments observed in the past, as appropriate. In the case of insurance policies, the calculation of expected return is based on the consensus expectations with regard to participation features. There were no material returns on plan assets during the year under review.

Plan assets can be broken down as follows:

€ mn	31 Dec 2012	31 Dec 2011
Securities	25	19
Insurance policies	20	18
Total	**45**	**37**

Changes in accordance with IAS 19.120A(p):

€ mn	31 Dec 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2008
Present value of pension obligations	**189**	**147**	**144**	**131**	**123**
Fair value of plan assets	45	37	31	–	–
Funded status	**144**	**110**	**113**	**131**	**123**
Experience adjustments of pension obligations	1	-4	1	-4	-1
Experience adjustments of plan assets	3	-1	0	–	–

Contributions in the amount of € 10 million are expected to be paid in the financial year 2013 (2012: € 8 million).

Expenses expected under pension obligations during the reporting period are shown in administrative expenses, taking into account the expected return on plan assets.

Other provisions

Other provisions developed as follows:

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions in the lending business for risks associated with unrecognised items	Miscellaneous other provisions	Total
Carrying amount as at 1 Jan 2012	**76**	**22**	**62**	**160**
Additions	39	6	49	94
Utilisation	38	9	23	70
Reversals	6	1	3	10
Reclassifications	0	0	0	0
Changes in basis of consolidation	–	–	-26	-26
Currency translation differences	0	0	-2	-2
Carrying amount as at 31 Dec 2012	**71**	**18**	**57**	**146**

€ mn	Provisions for staff expenses and non-staff operating costs	Provisions in the lending business for risks associated with unrecognised items	Miscellaneous other provisions	Total
Carrying amount as at 1 Jan 2011	**67**	**29**	**49**	**145**
Additions	52	4	34	90
Utilisation	37	5	14	56
Reversals	6	6	7	19
Reclassifications	–	–	–	–
Changes in basis of consolidation	–	–	–	–
Currency translation differences	–	–	–	–
Carrying amount as at 31 Dec 2011	**76**	**22**	**62**	**160**

The provisions for staff expenses and non-staff operating costs comprise provisions for bonuses, partial retirement and severance pay as well as provisions for existing working hours accounts and professional and legal advice. We expect that the major portion of these provisions will be realised within two years after the balance sheet date.

An amount of € 5 million (2011: € 12 million) in provisions in the lending business for risks associated with unrecognised items relating to the capital guarantees provided for Deutsche Pfandbriefbank AG (formerly DEPFA Deutsche Pfandbriefbank AG) within the context of the separation in 2002 was recognised as at the balance sheet date. We expect that a large portion of these provisions will be realised within two years after the balance sheet date. In addition, provisions for portfolio-based valuation allowances in connection with risks associated with unrecognised items in the amount of € 7 million.

Other provisions include provisions for interest rate guarantees provided in the context of the separation in 2002 relating to the property loan portfolio held by Deutsche Pfandbriefbank AG. In addition, the item includes provisions in connection with tax liabilities and legal risks. We expect that a large portion of these provisions will be realised within two years.

The interest cost on provisions recognised at present values due to an estimated minimum remaining term of one year resulted in expenses in the financial year 2012 in the amount of € 1 million (2011: € 1 million).

(61) Income tax liabilities

Income tax liabilities in a total amount of € 10 million as at 31 December 2012 (2011: € 29 million) include € 0 million (2011: € 14 million) expected to be realised after a period of more than twelve months.

(62) Deferred tax liabilities

When recognising deferred taxes, claims and liabilities arising vis-à-vis the same tax authority, which may be netted and paid in one amount, were offset in the amount of € 817 million (2011: € 568 million).

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

€ mn	31 Dec 2012	31 Dec 2011
Loans and advances to banks/to customers	132	107
Positive and negative market value of derivative hedging instruments	154	87
Trading assets and trading liabilities	144	103
Non-trading assets	371	237
Investment properties	–	–
Intangible assets	6	5
Property and equipment	8	8
Other assets/liabilities	6	6
Liabilities to banks/to customers, and certificated liabilities	–	–
Provisions	22	19
Subordinated capital	2	2
Deferred tax liabilities	**845**	**574**

(63) Other liabilities

€ mn	31 Dec 2012	31 Dec 2011
Liabilities from outstanding invoices	10	10
Deferred income	5	4
Liabilities from other taxes	17	16
Trade payables (LaC)	8	10
Other liabilities (LaC)	73	87
Total	**113**	**127**

Other liabilities include proportionate interest in connection with the silent participation from SoFFin in the amount of € 27 million (2011: € 29 million).

(64) Subordinated capital

€ mn	31 Dec 2012	31 Dec 2011
Subordinated liabilities	574	497
Profit-participation certificates	227	472
Contributions by silent partners[1]	227	229
Total	**1,028**	**1,198**

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

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

Subordinated liabilities

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

As at the balance sheet date, there were no individual items exceeding 10 % of total subordinated liabilities.

Interest expenses for all subordinated liabilities during 2012 totalled € 23 million (2011: € 23 million). Interest was paid on subordinated liabilities at an average rate of 4.00 % (2011: 4.66 %).

Profit-participation certificates

Profit-participation certificates issued comply with the provisions of section 10 (5) of the KWG and include the following profit-participation certificates issued by Aareal Bank AG:

	Nominal amount € mn	Issue currency	Interest rate (% p.a.)	Maturity
Bearer profit-participation certificates				
	60.0	EUR	6.125	2003 - 2013
	60.0			
Registered profit participation certificates				
	5.0	EUR	7.010	2002 - 2012
	10.0	EUR	7.010	2002 - 2012
	5.0	EUR	7.010	2002 - 2012
	10.0	EUR	7.010	2002 - 2012
	5.0	EUR	7.100	2002 - 2012
	10.0	EUR	7.150	2002 - 2012
	5.0	EUR	7.030	2002 - 2012
	5.0	EUR	7.220	2002 - 2016
	5.0	EUR	7.220	2002 - 2016
	5.0	EUR	6.080	2003 - 2013
	20.0	EUR	6.120	2003 - 2013
	5.0	EUR	6.310	2003 - 2017
	10.0	EUR	5.750	2004 - 2014
	2.0	EUR	5.470	2004 - 2014
	5.0	EUR	5.480	2004 - 2014
	5.0	EUR	5.380	2004 - 2016
	20.0	EUR	5.950	2004 - 2016
	6.0	EUR	5.830	2005 - 2017
	138.0			

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

Repayment takes place at the nominal amount (subject to any loss sharing), on the day after the Annual General Meeting passing resolutions regarding the relevant financial year. The profit-participation certificates evidence creditors' rights; they do not grant any share in the liquidation proceeds.

An amount of € 14 million (2011: € 25 million) in interest expenses was incurred with respect to profit-participation certificates issued.

Contributions by silent partners

Contributions by silent partners to Aareal Bank Group totalled € 220 million (2011: € 220 million). Contributions in the amount of € 190 million (2011: € 220 million) comply with the requirements for liable capital pursuant to section 10 (4) of the KWG. The contributions by silent partners are used as core capital for regulatory purposes in the amount of € 190 million (2011: € 220 million).

Total expenditure for silent participations amounted to € 10 million (2011: € 11 million) in the financial year 2012.

(65) Equity

€ mn	31 Dec 2012	31 Dec 2011
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,016	929
Other reserves		
Revaluation surplus	-99	-221
Hedging reserves	-13	14
Currency translation reserves	4	3
Silent participation by SoFFin	300	300
Non-controlling interest	243	243
Total	**2,352**	**2,169**

Subscribed capital

Aareal Bank AG's subscribed capital amounted to € 180 million as at the reporting date (2011: € 180 million). It is divided into 59,857,221 notional no-par value shares ("unit shares") with a notional value of € 3 per share. The shares are bearer shares. Each share carries one vote. There are no pre-emptive rights or constraints with respect to dividend payouts.

Treasury shares

The Management Board was authorised by the Annual General Meeting held on 19 May 2010 pursuant to section 71 (1) no. 7 of the German Stock Corporation Act (AktG) to purchase and sell treasury shares until 18 May 2015 for the purposes of securities trading at prices that may not be higher or lower than 10 % than the average closing price of the shares in Xetra (or a comparable successor system) of the Frankfurt Stock Exchange during the three trading days prior to purchase. The volume of shares acquired for this purpose must not exceed 5 % of the share capital of Aareal Bank AG at the end of any day.

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

The Management 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 authorisation to acquire treasury shares was granted for a period of five years.

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

Authorised capital

Aareal Bank has authorised capital pursuant to the resolution by the Annual General Meeting held on 23 May 2012. The Annual General Meeting authorised 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 € 89,785,830 (Authorised Capital 2012) by issuance of new bearer shares for contribution in cash or in kind, subject to the approval of the Supervisory Board; this authority will expire on 22 May 2017. 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 issued share capital at the time said authorisation comes into effect or – if lower – at the time it is exercised. Any shares that were issued or sold during the term and prior to the exercising of said authorisation, in direct or analogous application of section 186 (3) sentence 4 of the AktG, shall count towards the above threshold of ten per cent (10 %) of the issued capital. Said ten-per-cent threshold shall also include shares the issuance of which is required under the terms of debt securities with embedded conversion or option rights on shares issued pursuant to section 186 (3) sentence 4 of the AktG (excluding shareholders' subscription rights), which were (or may be) issued during the validity of this authorisation;

b) for fractional amounts arising from the determination of the applicable subscription ratio;

c) where this is necessary to grant subscription rights to the holders of bonds with warrants or convertible bonds issued (or to be issued) by the Company or its affiliated companies, which subscription rights are required to entitle these holders to the same extent as they would have been entitled to upon exercising their conversion or option rights or upon performance of a conversion obligation, if any, thus protecting such holders against dilution;

d) for an amount of up to € 4,000,000, to offer employees (of the Company or its affiliated companies) shares for subscription;

In the event of a capital increase against contributions in kind, the Management Board is authorised to exclude shareholders' subscription rights, subject to the approval by the Supervisory Board.

When exercising this authorisation, the Management Board will restrict the exclusion of shareholders' pre-emptive rights to a total of 20 % of the Company's issued share capital. Accordingly, the aggregate exclusion of shareholders' subscription rights upon exercise of this authorisation must not exceed 20 % of the issued 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 23 May 2012 as a result of convertible bonds and/or bonds with warrants issued subject to exclusion of shareholders' pre-emptive rights.

The authorised capital has not been utilised.

Conditional capital

The share capital is subject to a conditional capital increase of up to € 30 million by means of issuing up to 10 million new no-par value bearer shares, with a share in the Company's share capital of € 3.00 each. Such conditional capital increase serves to enable the Company to service convertible bonds and/or bonds with warrants on the basis of the authorisation resolution of the Annual General Meeting held on 19 May 2010. Said resolution authorised the Management Board, subject to the consent of the Supervisory Board, to issue, on one or more occasions until 18 May 2015, convertible bonds and/or bonds cum warrants with a limited or an unlimited term in an aggregate nominal amount of € 600 million and to grant option and/or conversion rights to bearers or holders of bonds with regard to no-par value bearer shares of the Company, equivalent to a share in the share capital of up to € 30 million.

The bonds may be issued in euro as well as in any other currency – with the corresponding equivalent value – which is the legal tender of, for example, an OECD member state. They may also be issued via an indirect or a direct subsidiary of the Company. In this case, the Management Board is authorised, subject to the consent of the Supervisory Board, to issue a guarantee with regard to the bonds on behalf of the Company and to grant to the bondholders conversion or option rights to new no-par value bearer shares of the Company.

The conditional capital increase will be executed only to the extent that holders of conversion or option rights exercise such rights or any conversion obligation from such convertible bonds and/or bonds with warrants are performed, and to the extent that treasury shares are not utilised to service such convertible bonds and/or bonds with warrants. The new shares will be entitled to a share in the profits from the beginning of the financial year in which they come into existence through the exercise of conversion or option rights or the performance of conversion obligations.

No convertible bonds or warrants were in issue as at the balance sheet date.

Capital reserves

The capital reserves contain premiums received upon the issuance of shares. Costs incurred within the framework of a capital increase reduce capital reserves.

Retained earnings

Retained earnings are comprised of legal reserves (pursuant to section 150 of the AktG) of € 5 million (2011: € 5 million) and of other retained earnings of € 1.011 million (2011: € 924 million).

Revaluation surplus

The revaluation surplus comprises effects from fair value measurement of financial instruments of the measurement category "Available for sale (AfS)".

Silent participation by SoFFin

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

On 16 July 2010, Aareal Bank AG repaid a first tranche of € 150 million of the € 525 million silent participation provided by the German Financial Markets Stabilisation Fund (SoFFin).

On 28 April 2011, Aareal Bank AG made the second partial repayment – in an amount of € 75 million – related to the silent participation provided by SoFFin. The amount of the silent participation was reduced to € 300 million.

Non-controlling interest

€ 250 million (2011: € 250 million) in preference shares issued by a subsidiary were outstanding at the end of the 2011 financial year. These shares are repaid at their nominal value and carry an exclusive right to termination for the issuer.

Interest expenses on these preference shares amounted to € 18 million (2011: € 18 million). The tax relief resulting from distributions leads to a reduction of income taxes as reported in the statement of comprehensive income.

Dividends

The Management Board of Aareal Bank AG proposes to the Annual General Meeting that the net retained profit of Aareal Bank AG in the amount of € 5,000,000 for the financial year 2012, as reported under the German Commercial Code (HGB), be transferred to other retained earnings. For reasons of commercial prudence, we believe that this is necessary in view of the weak growth impetus on a macroeconomic level and the persisting risks of further disruptions to the market and to the financial system in order to secure the positioning of Aareal Bank for the near future. Write-downs on our securities portfolio of the liquidity reserve cannot be ruled out, particularly if volatility on the financial and capital markets rises again.

(D) Reporting on Financial Instruments

A detailed description of the system in place at Aareal Bank AG to measure, limit, and manage risks throughout Aareal Bank Group is presented in the risk report as part of the management report. The disclosures on the description and the extent of the risks arising from financial instruments in accordance with IFRS 7 are included in part in the risk report.

(66) Fair value of financial instruments

Definition

The fair value of financial instruments within the meaning of IFRS is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. To that extent, it is equivalent to the amount that will be paid for an asset in a "regular way" transaction between two parties that are independent from one another.

Fair value hierarchy

Aareal Bank Group determines the fair value of financial instruments in accordance with the hierarchy specified in IAS 39.48 et seq.

The existence of observable quoted prices in an active market is the best evidence of fair value, and when they exist they are used to measure the financial asset or financial liability involved. In order to determine the quoted market price of a financial instrument in an active market, a transaction involving the financial instrument concerned on the reporting date or the last trade date must be used as the basis. If no transaction has occurred in the financial instrument on the reporting date, the reporting entity shall rely on transaction prices applicable shortly before the reporting date.

Exchange-traded financial instruments (such as equities, bonds, or other debt securities) as well as exchange-traded derivatives are generally measured on the basis of applicable market prices if there is an active market.

If the market for a financial instrument is not (or no longer) active, the fair values of these products are established by using valuation techniques. In this context, the fair values are derived from market prices of recent transactions in the corresponding financial instrument or currently observable market prices of comparable financial instruments using a particular valuation technique.

If past or comparable market prices are not available for certain products, we use proven valuation models or indicative pricing information for pricing financial instruments. The pricing using proven valuation models is based on parameters observable in the market (such as interest rates, volatilities, credit spreads). Cash flows are determined on the basis of the contractual arrangements until the expected end of the term and discounted using the interest rate curve of the relevant market, taking into account mark-ups based on credit quality and liquidity, if applicable.

Financial instruments are measured within Aareal Bank Group by units which are independent from Trading. These units are responsible for controlling and monitoring the relevant valuation processes. Measurement procedures are reviewed on a regular basis as to their applicability on the various different financial instruments. The pricing data and parameters used in the valuation models are critically reviewed and developed on an ongoing basis. Current market developments are continuously monitored; if necessary valuation adjustments are made.

Determination of the fair value of financial instruments

Financial instruments carried at fair value in the statement of financial position

Non-trading assets available for sale: Fixed-income securities and equity instruments for which stock exchange turnover in a meaningful volume can be observed on or shortly before the reporting date are measured at their quoted market prices. The fair value of securities where no transactions have been carried out recently is determined on the basis of the latest available market prices or on the basis of a comparison with the current fair value of another largely identical instrument. For this purpose, the available market prices are adjusted to take account of all risk-related changes and of new information that has become available in the meantime.

If no similar market prices for securities or equity instruments are available, such securities or equity instruments will be measured using valuation models whose inputs are based on observable market data. These models include the discounted cash flow (DCF) method which is used to determine the present value of contractual cash flows until the expected end of the term and adjusted using the benchmark curve of the relevant market, taking into account mark-ups based on credit quality and liquidity. The valuation model used for options included in the transaction is the commonly used Black-Scholes model or appropriate numerical procedures.

In case the fair value of unlisted equity instruments cannot be determined reliably, the instruments are accounted for using cost.

Non-trading assets designated as at fair value through profit or loss: Indicative prices provided by pricing services are available for the index certificates included in this category.

Positive and negative market value of derivative hedging instruments as well as from derivatives held for trading: Positive and negative market values from derivative hedging instruments as well as from derivatives held for trading The fair value of over-the-counter (OTC) derivatives is determined using standard valuation models commonly accepted in the financial industry, such as the present value technique and option pricing models. These techniques or models use inputs quoted on active markets. The fair value of foreign exchange forwards is generally based on current forward exchange rates.

Financial instruments not carried at fair value in the statement of financial position

Cash on hand and balances with central banks: Cash funds are recognised at the IFRS carrying amount, which is considered an appropriate fair value.

Loans and advances as well as liabilities to customers and banks: The property finance portfolio included in loans and advances to customers of the „Loans and receivables“ category is measured using the discounted cash flow method. Discounting of future cash flows of a transaction is based on transaction-specific risk-adjusted interest rates. These are derived on the basis of a virtually risk-free market interest rate for each currency depending on the relevant term, taking into account add-ons for risks specific to the counterparty as well as credit costs. In the case of loans subject to fixed interest rates, the contractually agreed payments are used as future cash flows. The future cash flows for floating-rate loans are derived using the future forward interest rates, taking into account the relevant spread for customer-specific terms and conditions.

Amortised cost is an adequate estimate of fair value for short-term money market transactions, current account balances and other short-term receivables and liabilities included in these classes. Quoted market prices are normally not available for promissory note loans of the ”Loans and receivables“ category. Therefore, they are measured through discounting the future cash flows using the currency-specific benchmark curve. The liquidity and creditworthiness components are taken into account using issuer-specific spreads.

Registered profit participation certificates of the ”Liabilities measured at amortised cost“ category which are backed through assets (covered issues) are also measured using the discounted cash flow method on the basis of the benchmark curve. In addition, we take into account covered bond spreads as determined by the Association of German Pfandbrief Banks. Future contractual cash flows of uncovered issues are discounted using an interest rate adequate for Aareal Bank.

Non-trading assets of the „Loans and receivables“ and „Held to maturity“ categories: These classes include fixed-income bonds and debt securities whose fair value is determined following the same procedure for available-for-sale non-trading assets, based on prices on active markets or valuation methods such as the discounted cash flow method. The asset-backed securities (mainly CMBS and RMBS) which are also included in these classes are measured using indicative prices, if quoted market prices are not available, as there is no generally accepted valuation model for these securitisation instruments. These indicative prices are initially reviewed and assessed by means of a comparison with other price sources. In addition, Aareal Bank takes into account in its analysis the collateralisation status of the tranches and the collateral structures, analyses of the receivables included in the ABS (look-through principle), in particular with respect to repayment schedules as well as payment arrears and defaults of the receivables securitised with the ABS, trigger events and rating changes.

Certificated liabilities measured at amortised cost: Unless prices on active markets are available, the fair value for bearer securities is determined in accordance with the procedure used for registered securities, with a distinction being made between covered and uncovered issues.

Subordinated equity: Subordinated promissory note loans, subordinated bearer debt securities as well as other hybrid instruments of the ”Liabilities measured at amortised cost“ category are also measured on the basis of the present value method using an interest rate for subordinated issues adequate for Aareal Bank. If quoted prices on active markets are available, such prices are used as the fair value.

Loan commitments and contingent liabilities: The fair values of loan commitments and contingent liabilities and correspond to their carrying amounts.

Disclosures relating to the fair value hierarchy

The disclosure of measurement information for financial instruments carried at fair value in the statement of financial position follows the three-tier fair value hierarchy set out in IFRS 7.27A:

Level 1 – Quoted price in active markets:

Level 1 of the fair value measurement hierarchy includes the fair values of financial instruments determined on the basis of quoted prices (unadjusted) in active markets for identical financial instruments. This level includes bonds and debt securities traded at important exchanges as well as equity instruments and exchange-traded derivatives.

Level 2 – Valuation technique using inputs observable on the market:
Fair values determined using inputs other than quoted prices included within Level 1 that are observable for the financial instrument, either directly or indirectly, are included in Level 2 of this hierarchy. This level includes bonds and debt securities for which no current market price is available as well as OTC derivatives and certain structured products.

Level 3 – Valuation technique using material inputs not observable on the market:
Fair values determined using valuation techniques where one or more material inputs are not based on observable market data are assigned to Level 3 of the fair value hierarchy. At Aareal Bank Group, this measurement level includes individual structured products.

In accordance with this fair value hierarchy, the following table shows the carrying amounts of the financial instruments recognised by Aareal Bank Group and carried in the statement of financial position at fair value, separately per each class of financial assets and financial liabilities:

31 December 2012

€ mn	Total Fair value 31 Dec 2012	Fair value level 1 31 Dec 2012	Fair value level 2 31 Dec 2012	Fair value level 3 31 Dec 2012
Positive market value of derivative hedging instruments	**2,365**	**–**	**2,365**	**–**
Assets held for trading	**576**	**–**	**576**	**–**
Trading derivatives	576	–	576	–
Non-trading assets available for sale	**6,462**	**6,387**	**75**	**0**
Fixed-income securities	6,443	6,384	59	–
Equities/funds	19	3	16	0
Non-trading assets designated as at fair value through profit or loss	**3**	**–**	**3**	**0**
Negative market value of derivative hedging instruments	**2,122**	**–**	**2,122**	**–**
Liabilities held for trading	**719**	**–**	**719**	**–**
Trading derivatives	719	–	719	–

31 December 2011

Mio. €	Total Fair value 31. Dec 2011	Fair value level 1 31 Dec 2011	Fair value level 2 31 Dec 2011	Fair value level 3 31 Dec 2011
Positive market value of derivative hedging instruments	**1,801**	**–**	**1,801**	**–**
Assets held for trading	**421**	**–**	**421**	**–**
Trading derivatives	421	–	421	–
Non-trading assets available for sale	**3,791**	**314**	**3,477**	**0**
Fixed-income securities	3,773	312	3,461	–
Equities/funds	18	2	16	0
Non-trading assets designated as at fair value through profit or loss	**4**	**–**	**4**	**0**
Negative market value of derivative hedging instruments	**1,769**	**–**	**1,769**	**–**
Liabilities held for trading	**723**	**–**	**723**	**–**
Trading derivatives	723	–	723	–

In the financial year 2012, no fixed-income securities of the AfS category were reclassified from Level 1 to Level 2 (2011: € 172 million). Fixed-income securities of the same category were reclassified from Level 2 to Level 1 in an amount of € 3,652 million (2011: € – million).

The reclassifications from Level 2 to Level 1 primarily resulted from an adjustment of the definition of the factors used by Aareal Bank to determine the appropriate level. The criterion for determining active markets was modified in the current financial year. Apart from the existence of quoted market prices, Aareal Bank now also assesses the regularity of price quotations for determining whether an active market exists and whether allocation is made to Level 1. These regular price quotations are available for fixed-income securities to a large degree; thus, a greater number of securities may be allocated to Level 1.

The following table is a comparison of the carrying amounts and the fair values of the financial instruments by measurement categories in accordance with IAS 39:

€ bn	31 Dec 2012 Carrying amount	31 Dec 2012 Fair value	31 Dec 2011 Carrying amount	31 Dec 2011 Fair value
Cash on hand and balances with central banks	**3.7**	**3.7**	**0.6**	**0.6**
Loans and advances to banks (LaR)	1.6	1.6	2.9	2.9
Loans and advances to customers (LaR)	24.5	26.0	25.1	26.4
Non-trading assets (LaR)	5.7	5.2	6.0	5.4
Other assets (LaR)	0.1	0.1	0.1	0.1
Total loans and receivables	**31.9**	**32.9**	**34.1**	**34.8**
Non-trading assets held to maturity	**0.2**	**0.2**	**0.2**	**0.2**
Non-trading assets available for sale	**6.5**	**6.5**	**3.8**	**3.8**
Non-trading assets designated as at fair value through profit or loss	**0.0**	**0.0**	**0.0**	**0.0**
Positive market value of derivative hedging instruments	**2.4**	**2.4**	**1.8**	**1.8**
Assets held for trading	**0.6**	**0.6**	**0.4**	**0.4**
Liabilities to banks (LaC)	3.3	3.3	3.1	3.1
Liabilities to customers (LaC)	27.4	27.0	24.9	23.9
Certificated liabilities (LaC)	8.5	8.6	7.5	7.5
Other liabilities (LaC)	0.1	0.1	0.1	0.1
Subordinated capital (LaC)	1.0	0.9	1.2	0.9
Total liabilities measured at amortised cost	**40.3**	**39.9**	**36.8**	**35.5**
Negative market value of derivative hedging instruments	**2.1**	**2.1**	**1.8**	**1.8**
Liabilities held for trading	**0.7**	**0.7**	**0.7**	**0.7**
Financial guarantee contracts	**0.3**	**0.3**	**0.3**	**0.3**
Loan commitments	**2.0**	**2.0**	**1.5**	**1.5**

(67) Net results of financial instruments by category

The following overview shows the net gains or net losses from financial instruments in accordance with the classification of financial assets and financial liabilities (from which the results are generated) in the measurement categories in accordance with IAS 39:

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Result from loans and receivables	-24	561
Result from held-to-maturity investments	0	–
Result from financial instruments held for trading	23	-5
Result from assets designated as at fair value through profit or loss	0	1
Result from assets available for sale	456	12
of which: directly recognised in equity	139	-193
Result from derivative hedging instruments	227	-185
Result from liabilities measured at amortised cost	-666	-680
Result from financial guarantee contracts	-5	2

In the current reporting period, there were no measurement gains or losses from available-for-sale assets reclassified from equity to the income statement (2011: measurement losses of € 19 million).

The net results include measurement gains and losses, realised gains/losses on disposal, subsequent recoveries on loans and advances previously written off as well as results from currency translation of all financial instruments of the individual category. The result from financial instruments held for trading also includes interest and dividends as well as commissions from held-for-trading financial instruments. The net result from derivatives that are part of hedging relationships is included in the result from derivative hedging instruments, while the result from hedged items is reported under the result from the relevant measurement category.

(68) Impairment losses

The following overview shows the impairment losses recognised for financial instruments by measurement category during the year under review:

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Loans and advances to banks (LaR)	1	–
Loans and advances to customers (LaR)	120	214
Non-trading assets (AfS)	1	8
Other assets (LaR)	1	1
Financial guarantee contracts	6	4
Total	**129**	**227**

(69) Reclassification of financial assets

In 2008 and 2009, Aareal Bank Group made use of the possibility to reclassify financial assets into another measurement category, in accordance with IAS 39.50A et seq.

The following table is a comparison of the carrying amounts and the fair values of the reclassified securities and also shows the measurement effects which would have arisen without reclassification in the current financial year and in the previous year:

€ mn	Reclassified assets, total				Results from fair value measurement without reclassification			
	Carrying amount at reporting date 31 Dec 2012	Fair value at reporting date 31 Dec 2012	Carrying amount previous year 31 Dec 2011	Fair value previous year 31 Dec 2011	Effect on the income statement 1 Jan-31 Dec 2012	Effect on the revaluation surplus 1 Jan-31 Dec 2012	Effect on the income statement 1 Jan-31 Dec 2011	Effect on the revaluation surplus 1 Jan-31 Dec 2011
from AfS to LaR	**5,120**	**4,651**	**5,395**	**4,773**	**–**	**118**	**–**	**-315**
Asset-backed securities	29	28	30	27	–	2	–	-1
Senior unsecured bank bonds	603	617	790	784	–	15	–	-17
Covered bank bonds	633	623	640	600	–	25	–	-7
Public-sector issuer	3,855	3,383	3,935	3,362	–	76	–	-290
from HfT to LaR	**213**	**179**	**304**	**251**	**19**	**–**	**-12**	**–**
Asset-backed securities	213	179	304	251	19	–	-12	–
Public-sector issuer	–	–	–	–	–	–	0	–
Total	**5,333**	**4,830**	**5,699**	**5,024**	**19**	**118**	**-12**	**-315**

As in the previous year, no impairment losses had to be recognised for the reclassified financial assets in 2012. The disposal of reclassified securities resulted in the realisation of capital losses of € 2 million (2011: capital loss of € 3 million). Interest income from reclassified assets amounted to € 151 million (2011: € 190 million) in the year under review. Interest income, including current interest from derivatives used to hedge economic market price risks, amounted to € 76 million (2011: € 81 million).

(70) Bond and property financing portfolio in selected European countries

The following table is a breakdown of the bonds issued by public-sector entities and bank bonds of selected European countries, included in non-trading assets:

Bond portfolio as at 31 December 2012 (total)

€ mn	Carrying amount			Revaluation surplus[1]			Unrealised gains/losses[1]
	LaR + HtM	AfS	Total	LaR + HtM	AfS	Total	
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	1,173	510	1,683	-50	-37	-87	-219
Portugal	64	153	217	-1	-25	-26	-17
Spain	881	132	1,013	-6	-2	-8	-97
Total	**2,118**	**795**	**2,913**	**-57**	**-64**	**-121**	**-333**
Total 31 Dec 2011	2,038	614	2,652	-61	-142	-203	-381

[1] figures given on an after-tax basis

Bond portfolio as at 31 December 2012 (by type of security)

€ mn	Carrying amount			Revaluation surplus[1]			Unrealised gains/losses[1]
	LaR	AfS	Total	LaR	AfS	Total	
Government bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	1,150	424	1,574	-50	-36	-86	-219
Portugal	–	95	95	–	-14	-14	–
Spain	–	–	–	–	–	–	–
Total	**1,150**	**519**	**1,669**	**-50**	**-50**	**-100**	**-219**

€ mn	Carrying amount			Revaluation surplus[1]			Unrealised gains/losses[1]
	LaR	AfS	Total	LaR	AfS	Total	
Sub-sovereign bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	–	–	–	–	–	–	–
Portugal	64	–	64	-1	–	-1	-17
Spain	349	27	376	-1	0	-1	-80
Total	**413**	**27**	**440**	**-2**	**0**	**-2**	**-97**

€ mn	Carrying amount			Revaluation surplus[1]			Unrealised gains/losses[1]
	LaR + HtM	AfS	Total	LaR + HtM	AfS	Total	
Covered bank bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	–	73	73	–	-1	-1	–
Portugal	–	58	58	–	-11	-11	–
Spain	532	105	637	-5	-2	-7	-17
Total	**532**	**236**	**768**	**-5**	**-14**	**-19**	**-17**

€ mn	Carrying amount			Revaluation surplus[1]			Unrealised gains/losses[1]
	LaR	AfS	Total	LaR	AfS	Total	
Senior unsecured bank bonds							
Greece	–	–	–	–	–	–	–
Ireland	–	–	–	–	–	–	–
Italy	23	13	36	0	0	0	0
Portugal	–	–	–	–	–	–	–
Spain	–	–	–	–	–	–	–
Total	**23**	**13**	**36**	**0**	**0**	**0**	**0**

[1] figures given on an after-tax basis

The revaluation surplus for bonds of the "Loans and receivables" (LaR) category is attributable to securities which were reclassified in the years 2008 and 2009 from the measurement category "Available for sale" (AfS) to the measurement category "Loans and receivables" (LaR). Unrealised gains and losses refer to securities accounted for amortised cost (LaR + HtM). The measurement of unrealised gains/losses included the effect from measurement gains/losses attributable to interest rate changes for hedged securities.

The maturities of the bonds set out above are mainly within the long-term range.

The presented AfS securities with a carrying amount of € 782 million (2011: € 312 million) were allocated to Level 1 of the fair value hierarchy pursuant to IFRS 7 and measured based on quoted prices on active markets. Securities with a carrying amount of € 13 million (2011: € 301 million) were allocated to Level 2 of the fair value hierarchy. Quoted market prices as required by hierarchy level 1 were not available for these securities as at the balance sheet date, however, measurement is also directly or indirectly based on observable market prices. Aareal Bank Group does not hold securities measured according to Level 3 of the fair value hierarchy.

The following table is a breakdown of property financing in selected European countries included in loans and advances to customers:

Property financing portfolio as at 31 December 2012

	Carrying amount[1]	Average LTV	Non-performing loans
	€ mn	%	€ mn
Greece	–	–	–
Ireland	–	–	–
Italy	3,215	62.7	255
Portugal	–	–	–
Spain	1,065	85.3	59
Total	**4,280**		**314**
Total 31 Dec 2011	4,167		249

[1] Not including valuation allowances

(71) Transfer of financial assets without derecognition

Aareal Bank Group sells securities subject to a take-back requirement as borrower within the framework of genuine repurchase agreements. Within the scope of such agreements, securities were transferred to lenders without resulting in the securities being derecognised since Aareal Bank Group retains the substantial risks and rewards from the securities. The risks to which Aareal Bank Group is still exposed comprise the default risk, the interest rate risk and other price risks. The equivalent values received as hedges during the transfer of securities are accounted for liabilities to banks or liabilities to customers. Within the context of securities repurchase transactions, the unrestricted title and the unrestricted power of disposition is transferred to the lender upon delivery of the securities. The lender has the right to sell or pledge these securities, however, he is required to retransfer securities of the same type and in the same amount as at the repurchase date.

No securities were part of repurchase agreements as at the balance sheet date. In the previous year, bonds of the LaR measurement category in a carrying amount of € 477 million as well as bonds of the AfS measurement category in a carrying amount of € 592 million were part of repurchase agreements.

In connection with these securities, Aareal Bank had reported obligations resulting from genuine repurchase agreements in an amount of € 956 million under liabilities to banks in the previous year.

(72) Assets provided or accepted as collateral

Assets provided as collateral

Aareal Bank Group has provided financial assets as collateral for its liabilities or contingent liabilities. The following overview shows the carrying amount of the collateral provided and the items of the statement of financial position in which they are reported.

	31 Dec 2012	31 Dec 2011
€ mn		
Loans and advances to banks	1,154	1,110
Non-trading assets	3,154	1,350
Total	**4,308**	**2,460**

The protection buyer has no right to sell or re-pledge any of financial assets pledged as collateral (2011: € 1,069 million). Assets pledged as collateral include bonds in an amount of € 1,000 million pledged in the context of open-market operations to the European Central Bank.

Assets accepted as collateral

Aareal Bank Group accepts financial assets as collateral. These assets may be sold or pledged without the collateral owner being in default. Such collateral accepted as at the balance sheet date amounted to € 3 million (2011: € – million).

Collateral is provided and accepted predominantly on the basis of standardised agreements on securities repurchase transactions and on the collateralisation of forward transactions.

(73) Credit quality of financial assets

The following overview shows the credit quality of Aareal Bank Group's financial assets by separately disclosing assets neither past due nor impaired, past due assets and impaired assets. The presentation is based on carrying amounts:

€ mn	31 Dec 2012	31 Dec 2011
Financial assets neither past due nor impaired		
Loans and advances to banks	1,552	2,912
Loans and advances to customers	23,782	24,409
Positive market value of derivative hedging instruments	2,365	1,801
Trading assets	576	421
Non-trading assets (LaR)	5,668	6,044
Non-trading assets (AfS)	6,464	3,783
Non-trading assets (HtM)	151	168
Non-trading assets (dfvtpl)	3	4
Other assets	61	58
Total	**40,622**	**39,600**

€ mn	31 Dec 2012	31 Dec 2011
Financial assets that are past due but not impaired		
Loans and advances to customers	157	115
Other assets	–	2
Total	**157**	**117**

€ mn	31 Dec 2012	31 Dec 2011
Financial assets subject to specific valuation allowances		
Loans and advances to customers	827	898
Non-trading assets (AfS)	9	8
Other assets	4	5
Total	**840**	**911**

Information about the recoverability of financial assets neither past due nor impaired are provided in the Risk Report in the section on credit risks. An analysis of the financial assets that are past due and impaired is included in the other disclosures in the Notes.

Please refer to the presentation of the items of the statement of financial position in the section "Notes to the statement of financial position" for information on maximum credit risk exposure since the carrying amount corresponds to the maximum credit risk exposure of Aareal Bank as at the balance sheet date. The collateral received is described in the Risk Report.

(74) Financial assets that are past due but not impaired

The following overviews show the amount of property loans past due but not impaired within the category "Loans and advances to customers (LaR)".

Breakdown by region:

31 December 2012

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total 31 Dec 2012
Regions						
Germany	0	7	0	25	9	41
Western Europe	–	0	–	3	14	17
Northern Europe	3	–	–	–	–	3
Southern Europe	0	3	39	4	50	96
North America	–	–	–	–	–	–
Total	**3**	**10**	**39**	**32**	**73**	**157**

31 December 2011

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total 31 Dec 2011
Regions						
Germany	1	2	2	1	19	25
Western Europe	0	–	–	9	–	9
Northern Europe	4	–	–	11	–	15
Southern Europe	0	0	17	1	48	66
North America	–	–	–	–	–	–
Total	**5**	**2**	**19**	**22**	**67**	**115**

[1] The overview shows assets that are past due for a period of at least ten days, but not impaired, with an amount past due of at least € 100 or 2.5 % of the commitment.

Breakdown by borrower group:

31 December 2012

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total 31 Dec 2012
Borrower groups						
Public-sector entities	–	–	–	–	–	**–**
Companies	3	9	39	32	60	**143**
Private individuals	0	1	0	0	13	**14**
Other	–	0	–	0	0	**0**
Total	**3**	**10**	**39**	**32**	**73**	**157**

31 December 2011

€ mn	Past due more than 9 days up to 1 month	Past due more than 1 month up to 3 months	Past due more than 3 months up to 6 months	Past due more than 6 months up to 1 year	Past due more than 1 year	Total 31 Dec 2011
Borrower groups						
Public-sector entities	–	–	–	–	–	**–**
Companies	5	1	18	21	54	**99**
Private individuals	0	1	1	1	13	**16**
Other	–	0	–	0	0	**0**
Total	**5**	**2**	**19**	**22**	**67**	**115**

The past due financial assets were not impaired due to collateral provided.

On the reporting date, the amount of loans and advances of the ”Other assets“ category that were past due but not impaired was € 0 million (2011: € 2 million). There were no other financial assets past due but not impaired on the reporting date.

(75) Impaired financial assets

The following overviews indicate the amount of impaired property loans under management[1], together with the related allowance for credit losses:

Breakdown by region:

31 December 2012

€ mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business
Regions			
Germany	119	22	9
Western Europe	264	33	–
Northern Europe	113	67	0
Southern Europe	313	87	–
Eastern Europe	18	9	–
North America	–	–	–
Total	**827**	**218**	**9**

31 December 2011

€ mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business
Regions			
Germany	125	24	9
Western Europe	293	49	–
Northern Europe	96	38	0
Southern Europe	249	79	–
Eastern Europe	89	42	–
North America	46	11	–
Total	**898**	**243**	**9**

[1] The figure for property financing under management includes property loans managed on behalf of DEPFA Deutsche Pfandbriefbank AG. A reconciliation of property financings from the category "Loans and advances to customers" to the "Property financing under management" category can be found in the section "Key Group Figures" at the beginning of this Annual Report.

Breakdown by borrower group:

31 December 2012

€ mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business	Changes of specific valuation allowances and specific provisions for the lending business	Direct write-downs
Borrower group					
Corporates	807	212	3	61	18
Private individuals	19	6	6	2	2
Other	1	0	0	0	0
Total	**827**	**218**	**9**	**63**	**20**

31 December 2011

€ mn	Drawdowns on impaired property loans before allowance for credit losses	Balance of specific valuation allowances	Balance of provisions for the lending business	Changes of specific valuation allowances and specific provisions for the lending business	Direct write-downs
Borrower group					
Corporates	869	231	4	60	68
Private individuals	27	11	5	0	2
Other	2	1	–	1	1
Total	**898**	**243**	**9**	**61**	**71**

As at the reporting date, the amount of portfolio-based valuation allowances for loans and advances to customers was € 84 million (2011: € 75 million) and for financial guarantees € 9 million (2011: € 13 million). Net additions amounted to € 11 million (2011: net reversal of € 13 million) in the year under review. Payments on loans and advances previously written off amounted to € 5 million in the year under review (2011: € 18 million).

In 2012, impairment allowances for non-trading assets (AfS) in a volume of € 1 million amounted to € 1 million (2011: volume of impaired assets as at 31 December 2011 € 8 million, amount of the impairment: € 8 million). The impairment recognised for non-trading assets (AfS) was mainly in connection with a company in North America. The amount of impaired receivables of the "Other assets" category as at the reporting date was € 4 million (2011: € 5 million). The related impairment allowance amounts to € 3 million (2011: € 3 million). These receivables mainly referred to companies in Germany.

The carrying amount of assets acquired upon realisation of collateral during the 2012 financial year and recognised in the financial statements as at 31 December 2012 was € 9 million (2011: € 8 million). These assets are commercial properties which are subject to restructuring within the framework of the general realisation strategy of Aareal Bank AG and intended for disposal in the near term.

(76) Maturities of financial liabilities

The following two overviews show the future undiscounted cash flows of non-derivative financial liabilities and of loan commitments.

Maturities as at 31 December 2012

€ mn	payable on demand	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Liabilities to banks	942	374	292	1,435	339	**3,382**
Liabilities to customers	5,167	3,757	4,273	5,985	13,500	**32,682**
Certificated liabilities	–	342	1,179	6,618	1,059	**9,198**
Subordinated capital	–	34	113	337	667	**1,151**
Financial guarantee contracts	273	–	–	–	–	**273**
Loan commitments	1,979	–	–	–	–	**1,979**

Maturities as at 31 December 2011

€ mn	payable on demand	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Liabilities to banks	958	1,105	375	450	275	**3,163**
Liabilities to customers	3,932	3,932	2,648	6,107	14,955	**31,574**
Certificated liabilities	–	1,421	1,233	4,646	627	**7,927**
Subordinated capital	–	15	314	417	584	**1,330**
Financial guarantee contracts	343	–	–	–	–	**343**
Loan commitments	1,521	–	–	–	–	**1,521**

The Risk Report includes a detailed description of the liquidity risk associated with financial liabilities.

(77) Derivative financial instruments

Aareal Bank Group enters into derivative financial instruments primarily in order to hedge market risks as well as for refinancing purposes. Derivatives which are designated for hedging purposes and meet the hedge accounting criteria are reported in the statement of financial position as derivative hedging instruments.

Derivatives classified as "Held for trading" are reported as "Assets or liabilities held for trading". They are also mainly used to hedge the economic market risk exposure. Spot and forward foreign exchange transactions are almost exclusively used within the context of refinancing. Credit derivatives are used to assume credit risks for the purpose of portfolio diversification.

Counterparty risks in derivative transactions are monitored by means of counterparty limits, provision of collateral and a uniform lending policy. Limits are set in accordance with the counterparty classification in internally-defined credit classes as well as ratings of Fitch IBCA, Moody's and Standard & Poor's. Collateral is generally provided in the form of cash collateral, which is released to the pledger as soon as the purpose of collateralisation ceases to exist.

Derivative transactions are generally entered into on the basis of the German Master Agreement for Financial Derivatives, or the ISDA Master Agreements only. Such master agreements provide for the netting of claims and liabilities in the event of insolvency or counterparty default, and thus further reduce counterparty risk.

Fair value hedges

Fair value hedges are entered into by Aareal Bank Group in order to hedge interest rate and currency risks inherent in securities, mortgage loans, promissory note loans, money market instruments, registered covered bonds (Namenspfandbriefe), certificated liabilities, and subordinated equity. Instruments used for fair value hedges comprise interest rate swaps as well as cross-currency swaps.

The following gains and losses result from fair value hedges in the year under review:

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Result from hedging instruments	174	34
Result from hedged items	-173	-29
Total	**1**	**5**

Cash flow hedges

Cash flow hedges are used within Aareal Bank Group exclusively to hedge future cash flows from variable-rate financial assets and liabilities.

The hedged portion of the cash flows from hedged items which are part of cash flow hedges will impact earnings of Aareal Bank Group in future as follows:

Cash flows from hedged items – Cash flow hedges as at 31 December 2012

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Cash flows from hedged assets	-2	-7	13	25	**29**

Cash flows from hedged items – Cash flow hedges as at 31 December 2011

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total
Cash flows from hedged assets	7	26	59	8	**100**

In 2012, losses determined as the effective portion of the hedge from derivatives included in cash flow hedges were recognised directly in equity at an amount of € 39 million (2011: gains of € 21 million).

The amount from cash flow hedges transferred from hedging reserves to the income statement in the year under review can be allocated to the following income statement items:

€ mn	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Net interest income	0	0
Total	**0**	**0**

In the year under review, a loss of € 4 million (2011: gain of € 1 million) was recognised directly in the income statement due to inefficiencies of cash flow hedges.

In addition, derivatives were entered into within Aareal Bank Group to hedge net investments in foreign operations. These derivatives are used to hedge the currency risk arising on translating the net assets of foreign Group companies to the Group's reporting currency (euro).

A loss of € 1 million (2011: –) was recorded directly in the income statement as the ineffective portion of hedges of net investments in foreign operations.

Overview of market values of derivatives

The following table shows positive and negative market values (including pro-rata interest) of derivative financial instruments:

	Fair value as at 31 Dec 2012		Fair value as at 31 Dec 2011	
	positive	negative	positive	negative
€ mn				
Trading derivatives				
Interest rate instruments				
OTC products				
Interest rate swaps	528	525	365	346
Swaptions	–	–	0	0
Caps, floors	17	17	17	17
Total interest rate instruments	**545**	**542**	**382**	**363**
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	11	1	2	81
Cross-currency swaps	20	160	37	236
Total currency-related instruments	**31**	**161**	**39**	**317**
Other transactions				
OTC products				
Credit default swaps [1]	0	16	–	43
Total other transactions	**–**	**16**	**–**	**43**
Total trading derivatives	**576**	**719**	**421**	**723**
Derivatives from fair value hedges				
Interest rate instruments				
OTC products				
Interest rate swaps	2,322	1,847	1,772	1,502
Swaptions	–	0	–	0
Total interest rate instruments	**2,322**	**1,847**	**1,772**	**1,502**
Currency-related instruments				
OTC products				
Spot and forward foreign exchange transactions	2	–	–	8
Cross-currency swaps	40	244	7	259
Total currency-related instruments	**42**	**244**	**7**	**267**
Total derivatives from fair value hedges	**2,364**	**2,091**	**1,779**	**1,769**

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

>

	Fair value as at 31 Dec 2012		Fair value as at 31 Dec 2011	
	positive	negative	positive	negative
€ mn				
Derivatives from cash flow hedges				
Currency-related instruments				
OTC products				
Cross-currency swaps	1	22	22	–
Total currency-related instruments	**1**	**22**	**22**	**–**
Total derivatives from cash flow hedges	**1**	**22**	**22**	**–**
Derivatives used as net investment hedges				
Currency-related instruments				
OTC products				
Cross-currency swaps	–	9	–	–
Total currency-related instruments	**–**	**9**	**–**	**–**
Total derivatives used as net investment hedges	**–**	**9**	**–**	**–**
Total	**2,941**	**2,841**	**2,222**	**2,492**

Derivatives have been entered into with the following counterparties:

	Fair value as at 31 Dec 2012		Fair value as at 31 Dec 2011	
	positive	negative	positive	negative
€ mn				
OECD banks	2,543	2,815	1,964	2,485
Companies and private individuals	398	26	258	7
Total	**2,941**	**2,841**	**2,222**	**2,492**

Consolidated Financial Statements

Transparency

The following overview shows the cash flows of derivative financial instruments, based on the contractual maturity. The amounts shown in the table represent the contractually agreed future undiscounted cash flows. The procedure for measuring and monitoring liquidity risk is described in the Risk Report.

31 December 2012

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total 31 Dec 2012
Interest rate instruments					
Interest rate swaps					
Cash inflows	245	715	2,138	863	3,961
Cash outflows	234	453	1,779	884	3,350
Swaptions					
Cash inflows	–	–	–	–	–
Cash outflows	–	–	0	–	0
Caps, floors					
Cash inflows	1	5	11	1	18
Cash outflows	1	5	11	1	18
Currency-related instruments					
Spot and forward foreign exchange contracts					
Cash inflows	1,539	–	–	–	1,539
Cash outflows	1,528	–	–	–	1,528
Cross-currency swaps					
Cash inflows	571	1,875	5,291	404	8,141
Cash outflows	624	1,980	5,547	401	8,552
Other transactions					
Credit default swaps					
Cash inflows	0	1	3	0	4
Cash outflows	–	–	–	–	–
Total cash inflows	**2,356**	**2,596**	**7,443**	**1,268**	**13,663**
Total cash outflows	**2,387**	**2,438**	**7,337**	**1,286**	**13,448**

31 December 2011

€ mn	up to 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Total 31 Dec 2011
Interest rate instruments					
Interest rate swaps					
Cash inflows	335	951	2,827	943	5,056
Cash outflows	339	748	2,415	968	4,470
Swaptions					
Cash inflows	–	0	–	–	–
Cash outflows	–	0	0	–	0
Caps, floors					
Cash inflows	1	4	13	1	19
Cash outflows	1	4	13	1	19
Currency-related instruments					
Spot and forward foreign exchange contracts					
Cash inflows	2,318	163	–	–	2,481
Cash outflows	2,402	166	–	–	2,568
Cross-currency swaps					
Cash inflows	785	1,887	5,304	313	8,289
Cash outflows	809	1,956	5,663	305	8,733
Other transactions					
Credit default swaps					
Cash inflows	0	1	3	0	4
Cash outflows	–	–	–	–	–
Total cash inflows	**3,439**	**3,006**	**8,147**	**1,257**	**15,849**
Total cash outflows	**3,551**	**2,874**	**8,091**	**1,274**	**15,790**

(E) Segment Reporting

(78) Operating segments of Aareal Bank

In the financial year 2012, segment reporting by Aareal Bank was prepared in accordance with IFRS 8 Operating Segments.

In accordance with the "management approach" set out in IFRS 8, the segment report discloses, on a segment-specific basis, financial information which is relevant for internal control of an entity and which is also used by such entity's management to make decisions on the allocation of resources as well as to measure the financial performance of segments.

Two operating segments are defined within Aareal Bank in line with internal management reporting, based on the organisational structure established according to the various products and services offered.

The **Structured Property Financing segment** comprises the property financing and refinancing activities. In this segment, we facilitate property projects for our domestic and international clients. Aareal Bank is active in more than 20 countries across Europe, North America and Asia. Its particular strength lies in its success in combining local market expertise and sector-specific know-how. In addition to local experts, the bank also has industry specialists at its disposal, to create financing packages for logistics properties, shopping centres and hotels. This enables us to structure tailor-made financing concepts to meet the special requirements of our domestic and international clients. What makes Aareal Bank special are its direct client relationships, which – in very many cases – it has maintained for many years.

Aareal Bank has a broad 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 "AAA" rating of the Pfandbriefe additionally confirms the quality of the cover assets pool. To cater for a broad investor base, Aareal Bank covers a wide range of other refinancing tools, such as promissory notes and debt securities. Our capital market activities are focused on private placements. Larger public transactions are additionally carried out, depending on prevailing market conditions. The bank also generates deposits from long-term business relationships with companies of the institutional housing industry and with institutional money market investors.

The successful activities on the capital and monetary markets as well as the business with the institutional housing industry are based on the combination of the bank's sustainable business model, its deep understanding of the capital markets, and the quality of its cover assets pool.

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

We operate our IT system consultancy and related advisory services for the institutional housing sector through Aareon AG, which can boast more than 50 years experience. Aareon pursues a multi-product strategy that covers the requirements of every client group. The Company is active in several European countries, with Germany being its core market. The ERP product portfolio for efficient process structure comprises SAP-based solutions such as Blue Eagle and the proprietary software Wodis with the Wodis Sigma product generation, as well as the established GES and WohnData solutions. This product range is combined with extensive advisory and integrated services, which support the networking of property companies and their business partners.

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

Management reporting of Aareal Bank is based on IFRS accounting policies. These reports are used to define the segment information to be disclosed in the segment report.

Income and expenses within Aareal Bank Group are predominantly attributable to transactions with third parties, and are directly allocated to the responsible operating segment. The transactions between operating segments are always executed in line with prevailing market conditions, allocated to the relevant segment and consolidated. Revenue from transactions between Aareal Bank's segments were not generated in a significant amount. Therefore, we elected not to distinguish between internal and external revenue in the following disclosures. Administrative expenses not directly attributable to any of the operating segments are segmented in line with the internal cost allocation, based on the principle of causation.

The segment information disclosed is fully reconciled with the figures in the consolidated financial statements. Apart from the reclassification of income from deposits taken in connection institutional housing, the column "Consolidation/Reconciliation" only includes consolidation items.

The results of the operating segments are determined by the operating profit as well as by the return on equity (RoE) and the cost/income ratio (CIR). RoE, which indicates a segment's profitability, is calculated as the ratio of the segment's operating result (after non-controlling interest) and the portion of shareholders' equity allocated to that segment on average. The cost/income ratio – determined as the ratio of input to output of resources – is used as an indicator for the cost efficiency of operating segments.

Allocated equity is calculated in segment reporting for the first time on the basis of the advanced IRB Approach (AIRBA).

Aareal Bank generates its revenue mainly through interest income. As management reporting is based on the measure "net interest income", interest income and interest expenses are not reported separately in the segment report.

In addition to the disclosure requirements set out in IFRS 8, Aareal Bank discloses a full income statement by geographical areas. The segmentation uses a regional breakdown into "Germany" and "International", based on the registered office of the respective Group company or branch office. Organisational units centralised at head office are classified according to their regional responsibility.

(79) Segment results

€ mn	Structured Property Financing 2012	Structured Property Financing 2011	Consulting/ Services 2012	Consulting/ Services 2011	Consolidation/ Reconciliation 2012	Consolidation/ Reconciliation 2011	Aareal Bank Group 2012	Aareal Bank Group 2011
Net interest income	463	508	0	0	23	39	486	547
Allowance for credit losses	106	112					106	112
Net interest income after allowance for credit losses	**357**	**396**	**0**	**0**	**23**	**39**	**380**	**435**
Net commission income	21	2	173	183	-25	-41	169	144
Net result on hedge accounting	-4	6					-4	6
Net trading income/expenses	-10	14					-10	14
Results from non-trading assets	1	-29					1	-29
Results from investments accounted for using the equity method	0	0		1			0	1
Results from investment properties	5	10					5	10
Administrative expenses	191	217	169	167	-2	-2	358	382
Net other operating income/expenses	-9	-17	2	3	0	0	-7	-14
Impairment of goodwill		0						0
Operating profit	**170**	**165**	**6**	**20**	**0**	**0**	**176**	**185**
Income taxes	51	46	1	6			52	52
Net income/loss	**119**	**119**	**5**	**14**	**0**	**0**	**124**	**133**
Allocation of results								
Net income/loss attributable to non-controlling interests	17	17	2	2			19	19
Net income/loss attributable to shareholders of Aareal Bank AG	102	102	3	12	0	0	105	114
Allocated equity	1,252	1,358	84	88	837	544	2,173	1,990
Cost/income ratio (%)	40.9	43.9	96.8	89.4			56.0	56.3
RoE before taxes (%)	12.2	10.9	4.2	19.7			7.2	8.3
Employees (average)	**780**	**876**	**1,515**	**1,510**			**2,295**	**2,386**
Segment assets	**39,192**	**36,803**	**6,542**	**5,011**			**45,734**	**41,814**
Investments accounted for using the equity method	1	2	0	0			1	2
Segment investments	7	19	20	12			27	31
Segment depreciation/amortisation	8	8	12	13			20	21

(80) Results by geographical region

€ mn	Germany 2012	Germany 2011	International 2012	International 2011	Consolidation/ Reconciliation 2012	Consolidation/ Reconciliation 2011	Aareal Bank Group 2012	Aareal Bank Group 2011
Net interest income	138	166	348	381			486	547
Allowance for credit losses	8	1	98	111			106	112
Net interest income after allowance for credit losses	**130**	**165**	**250**	**270**			**380**	**435**
Net commission income	118	106	51	38			169	144
Net result on hedge accounting	0	4	-4	2			-4	6
Net trading income/expenses	4	18	-14	-4			-10	14
Results from non-trading assets	0	1	1	-30			1	-29
Results from investments accounted for using the equity method	0	1					0	1
Results from investment properties			5	10			5	10
Administrative expenses	210	229	148	153			358	382
Net other operating income/expenses	-1	-7	-6	-7			-7	-14
Impairment of goodwill		0						0
Operating profit	**41**	**59**	**135**	**126**			**176**	**185**
Allocated equity	301	350	1,035	1,096	837	544	2,173	1,990
Cost/income ratio (%)	81.2	79.2	38.8	39.3			56.0	56.3
RoE before taxes (%)	11.9	15.2	11.7	10.2			7.2	8.3
Employees (average)	**1,451**	**1,524**	**844**	**862**			**2,295**	**2,386**

(81) Consulting/Services Segment – Reconciliation of the Income Statement

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

€ mn			Income statement classification – bank									
			Net interest income	Net commission income	Results from non-trading assets	Results from investments accounted for using the equity method	Administrative expenses	Net other operating income/expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	2012		0	173			169	2		**6**	1	**5**
	2011		0	183		1	167	3		**20**	6	**14**
Income statement classification – industrial enterprise												
Sales revenue	2012	194		194								
	2011	203		203								
Own work capitalised	2012	2					2					
	2011	2					2					
Changes in inventory	2012	0						0				
	2011	0						0				
Other operating income	2012	7						7				
	2011	8					1	7				
Cost of materials purchased	2012	21		21								
	2011	20		20								
Staff expenses	2012	114					114					
	2011	112					112					
Depreciation, amortisation and impairment losses	2012	13					13					
	2011	13					13					
Result from investments accounted for using the equity method	2012											
	2011	1				1						
Other operating expenses	2012	49					44	5				
	2011	49					45	4				
Interest and similar income/expenses	2012	0	0									
	2011	0	0									
Operating profit	**2012**	**6**	**0**	**173**			**169**	**2**				
	2011	**20**	**0**	**183**		**1**	**167**	**3**				
Income taxes	2012	1									1	
	2011	6									6	
Segment result	**2012**	**5**										
	2011	**14**										

(F) Remuneration Report

(82) 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.

Against the background of the German Act on the Appropriateness of Management Board Compensation (Gesetz zur Angemessenheit der Vorstandsvergütung – "VorstAG") of 31 July 2009 and the German Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions (Instituts-Vergütungsverordnung – "InstitutsVergV") of 6 October 2010, the remuneration system for members of the Management Board of Aareal Bank AG was reviewed, including using the support of external advisors, and was adjusted with effect from 1 January 2012, regardless of the existing contract terms.

In addition to fixed salary components, Management Board members receive a performance-related bonus (variable remuneration) that is determined using an assessment basis extending over several years. The level of this performance-related bonus is determined by reference to the personal performance of each Management Board member which is measured by the degree to which targets set in advance by the Supervisory Board are achieved, based on contractually agreed initial values. The targets which are relevant for performance-related bonuses include annual targets and three-year targets. The weighting of annual targets and three-year targets is determined for each financial year, with a 60/40 weighting taken as a guideline.

The annual and three-year targets are derived from the bank's overall strategy and the annual and medium-term planning of Aareal Bank Group, each of which are agreed upon with the Supervisory Board. The targets comprise quantitative components and qualitative components, with latter being also related to non-financial parameters. In this context, the bank's overall performance, the performance of the relevant section, and the individual performance contributions of the Management Board member concerned are all taken into consideration.

The amount of the initial value of the performance-related bonus increases - depending on the Management Board member's degree of target achievement – up to a maximum of 200 %. If the target achievement exceeds a level of 200 %, the initial value of the performance-related bonus will not increase any further (cap). If target achievement is 0 %, no performance-related bonus will be awarded for the financial year concerned. The initial value is fixed at 100 % for target achievement levels between 90 % and 110 %.

To ensure that the remuneration system provides long-term incentive effects, performance-related bonuses are awarded at the end of the financial year, according to the following principles:

20 % of the performance-related bonus is paid as a cash bonus directly after the end of the financial year. A further 20 % of the performance-related bonus is awarded as a share bonus[1] in the form of phantom shares directly after the end of the financial year and are the subject of the Share Bonus Plan. 30 % of the performance-related bonus is deferred as a cash deferral (Cash Deferral). The remaining 30 % of the performance-related bonus is deferred as a share deferral[1] and are the subject of the Share Deferral Plan.

[1] Please refer to the subsection "Cash-settled share-based payment" in this Remuneration Report for further explanations related to the structure of the Share Bonus Plan and the Share Deferral Plan.

With regard to the portion of the performance-related bonus that is deferred initially as a cash deferral or a share deferral, the Supervisory Board makes a decision regarding the granting of one third of the amount as well as the associated interest in the three years following the determination of the performance-related bonus (retention period). If the deferred remuneration components for the Management Board members are actually awarded, the cash deferral is paid out in cash and the share deferral is converted into virtual shares, subject to a two-year holding period.

In making its determination about the amount to be awarded, the Supervisory Board primarily takes into account any negative aspects of the Management Board member's performance, his section as well as any negative overall performance of Aareal Bank AG or Aareal Bank Group. The final amount to be granted may be awarded in full, partially or not at all. If the award is not made in its full amount, the remainder is forfeited, i.e. it is not carried forward to future years. No bonus may be awarded if BaFin makes an official ruling against the bank pursuant to section 45b (2) of the German Banking Act (Kreditwesengesetz – "KWG") due to shortcomings relating to capital adequacy or liquidity issues. Furthermore, the remuneration components deferred for the financial year which is the basis for the granting of the cash deferral and the share deferral are fully forfeited when a serious personal failure on the part of the Management Board member is discovered at a later date. Members of the Management Board may not undertake to limit or override the risk orientation of the performance-related bonus by initiating personal protection or counter-measures (hedging ban).

Remuneration

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

€	Year	Fixed remuneration	Variable remuneration – Cash component: Cash bonus	Cash component: Cash deferral	Share-based component: Share bonus	Share-based component: Share deferral	Other[1]	Total remuneration
Dr Wolf Schumacher	2012	1,100,000.00	330,000.00	495,000.00	330,000.00	495,000.00	26,026.59	2,776,026.59
	2011	800,000.00	2,012,500.00	–	562,500.00	–	26,632.46	3,401,632.46
Dirk Große Wördemann [2]	2012	650,000.00	158,800.00	238,200.00	158,800.00	238,200.00	31,189.76	1,475,189.76
	2011	650,000.00	178,875.00	267,750.00	178,875.00	267,750.00	27,060.92	1,570,310.92
Hermann J. Merkens	2012	700,000.00	195,600.00	293,400.00	195,600.00	293,400.00	53,909.48	1,731,909.48
	2011	650,000.00	1,137,500.00	–	562,500.00	–	55,309.91	2,405,309.91
Thomas Ortmanns	2012	700,000.00	195,600.00	293,400.00	195,600.00	293,400.00	26,695.09	1,704,695.09
	2011	650,000.00	937,500.00	–	562,500.00	–	38,042.53	2,188,042.53
Total	**2012**	**3,150,000.00**	**880,000.00**	**1,320,000.00**	**880,000.00**	**1,320,000.00**	**137,820.92**	**7,687,820.92**
	2011	**2,750,000.00**	**4,266,375.00**	**267,750.00**	**1,866,375.00**	**267,750.00**	**147,045.82**	**9,565,295.82**

[1] Other remuneration includes payments (in particular for company cars) in the amount of € 85,521.76 in 2012 (2011: € 78,817.13) as well as benefits related to social security contributions totalling € 45,231.36 for 2012 (2011: € 44,974.08).

[2] The cash deferral and share deferral components relate to the financial year reported. Based on a Supervisory Board resolution, Mr Große Wördemann receives a payout in the amount of € 91,766.85 relating to the cash deferral retained in the past financial year as well as a payout amounting to € 91,766.85 which is converted to virtual shares pursuant to the Share Deferral Plan, with the shares being subject to a holding period of two years.

The following initial values for the performance-related bonus at an overall target achievement level of 100 % were agreed upon in the service contracts of the Management Board members:

€	Reference values for variable remuneration 2012	Reference values for variable remuneration 2011
Dr Wolf Schumacher	1,650,000.00	1,400,000.00
Dirk Große Wördemann	794,000.00	794,000.00
Hermann J. Merkens	978,000.00	800,000.00
Thomas Ortmanns	978,000.00	800,000.00
Total	**4,400,000.00**	**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 variable component attributable to share-based payment arrangements as well as the corresponding number of virtual shares granted:

	Year	Share-based remuneration – Value (€)	Share-based remuneration – Quantity (number)[1]
Dr Wolf Schumacher	2012	825.000,00	52.514,32
	2011	562.500,00	40.221,67
Dirk Große Wördemann	2012	397.000,00	25.270,53
	2011	446.625,00	31.936,00
Hermann J. Merkens	2012	489.000,00	31.126,67
	2011	562.500,00	40.221,67
Thomas Ortmanns	2012	489.000,00	31.126,67
	2011	562.500,00	40.221,67

[1] The stated number of virtual shares granted for 2012 is a preliminary figure, based on the price of Aareal Bank AG's share on 31 December 2012 (€ 15.71). The final conversion rate may only be determined after publication of the 2012 annual report.

Pensions, retirement benefits and severance pay

The benefit regulations as agreed in the employment contract apply to the members of the Management Board of Aareal Bank. Accordingly, they are entitled to receive pension payments after completing their 60th year of age, or earlier in case of a permanent disability of service. For members of the Management Board appointed on or after 1 November 2010, this rule applies only from the beginning of the second term of office.

The following overview shows the vested pension claims of the members of the Management Board and the changes of the corresponding pension obligations (DBO) during the period under review:

	2012			2011		
	Pension claims p.a.[1]	Balance of pension obligations (DBO) as at 31 Dec 2012	Increase of pension obligations (DBO) in 2012	Pension claims p.a.[1]	Balance of pension obligations (DBO) as at 31 Dec 2012	Increase of pension obligations (DBO) in 2011
€ 000's						
Dr Wolf Schumacher	364	4,068	1,788	350	2,280	254
Dirk Große Wördemann[2]	–	495	283	–	212	182
Hermann J. Merkens	209	2,057	1,011	200	1,046	3
Thomas Ortmanns	210	1,989	970	200	1,019	116
Total	**783**	**8,609**	**4,052**	**750**	**4,557**	**555**

[1] The pension claims were calculated for pension benefits paid after completing the 60th year of age.
[2] Mr Große Wördemann currently does not meet the contractually agreed vesting criteria for the pension claims.

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, to the extent that these are based on defined benefit plans. If the payments refer to defined contribution plans, the guaranteed amount is adjusted by 1 % p.a. The pension paid to widows amounts to 60% of the pension of the member of the Management Board, while pensions to half-orphans and orphans amount to 10 % and not more than 25 %, respectively. Service cost incurred in financial year 2012 in connection with the pension claims of members of the Management Board totalled € 1.4 million (2011: € 0.8 million). The pension obligations for current members of the Management Board as well as for former members of the Management Board and their surviving dependants increased by € 7.9 million in the year under review (2011: € 0.3 million). The total amount of pension obligations was € 26.6 million (2011: € 18.7 million). Of that amount, € 18.0 million related to former members of the Management Board and their surviving dependants (2011: € 14.1 million). Payments to former Management Board members of Aareal Bank AG and their surviving dependants totalled € 0.8 million (2011: € 0.6 million).

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
€ per month of remaining contract term[1]		
Dr Wolf Schumacher	141,667.00	70,833.00
Dirk Große Wördemann	120,833.00	54,167.00
Hermann J. Merkens	120,833.00	54,167.00
Thomas Ortmanns	120,833.00	54,167.00

[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.

The claims resulting from the early termination of the Board activities due to a change of control are capped to an equivalent of three years' remuneration.

During the term of a SoFFin stabilisation measure, Management Board members are not entitled to any severance pay in the event of an early termination or a change of control. The fulfilment of a Management Board member's contractual remuneration claims arising from the employment contract are not limited by the framework agreement entered into with SoFFin.

(83) 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. In doing so, Aareal Bank AG follows the current status of the discussions related to the proper structure for remuneration systems for supervisory boards according to which supervisory board members should receive a fixed remuneration only.

The remuneration system for the Supervisory Board only comprises a fixed remuneration, supplemented by 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,	2012	178,500.00	26,180.00	204,680.00
Chairman	2011	151,130.00	14,280.00	165,410.00
Erwin Flieger,	2012	89,250.00	19,040.00	108,290.00
Deputy Chairman	2011	77,845.84	10,710.00	88,555.84
York-Detlef Bülow,	2012	89,250.00	21,420.00	110,670.00
Deputy Chairman	2011	77,845.84	10,710.00	88,555.84
Christian Graf von Bassewitz	2012	71,400.00	21,420.00	92,820.00
	2011	62,276.66	9,520.00	71,796.66
Manfred Behrens	2012	35,700.00	5,950.00	41,650.00
	2011	31,138.34	2,380.00	33,518.34
Thomas Hawel	2012	35,700.00	9,520.00	45,220.00
	2011	31,138.34	3,570.00	34,708.34
Dieter Kirsch	2012	53,550.00	14,280.00	67,830.00
	2011	46,707.50	5,950.00	52,657.50
Marija Korsch	2012	16,759.16	4,760.00	21,519.16
	2011	–	–	–
Dr Herbert Lohneiß	2012	53,550.00	13,090.00	66,640.00
	2011	46,707.50	7,140.00	53,847.50
Joachim Neupel	2012	89,250.00	21,420.00	110,670.00
	2011	77,845.84	10,710.00	88,555.84
Prof Dr Stephan Schüller	2012	71,400.00	19,040.00	90,440.00
	2011	62,276.66	9,520.00	71,796.66
Wolf R. Thiel	2012	13,387.50	3,570.00	16,957.50
	2011	46,707.50	7,140.00	53,847.50
Helmut Wagner	2012	35,700.00	8,330.00	44,030.00
	2011	31,138.34	3,570.00	34,708.34
Total	**2012**	**833,396.66**	**188,020.00**	**1,021,416.66**
	2011	**742,758.36**	**95,200.00**	**837,958.36**

The members of the Supervisory Board did not provide any consulting or agency services, or other personal services in 2012. Therefore, no additional remuneration was paid.

(84) Cash-settled share-based payment

a) Description of cash-settled share-based payment

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

Management Board

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 and credited to the beneficiary. The calculation of the number of virtual shares is based on the weighted average price on the basis of five trading days (Xetra) after publication (ad hoc release) of the annual financial statements adopted by the Supervisory Board (subscription price). The date of publication of the respective financial statements is used as the reference date. Not earlier than three years after the reference date, the beneficiary may exercise the virtual shares granted either in whole or in part within five business days after the publication of the quarterly report (holding period). Any virtual shares not exercised may be exercised either in whole or in part at a later date, in each case within five business days after the publication of a quarterly report. Upon exercise, the relevant proportion of virtual shares is converted at the weighted average price as reported by Bloomberg on the exercise date. If dividends are paid on the Company's shares during the time period between the reference date and the exercise date, a payout is made as a salary component in an amount equivalent to the dividends and the proportion of the virtual shares.

Share Deferral Plan

Under the Share Deferral Plan, a portion of the variable remuneration is converted into an equivalent number of virtual shares and credited to the beneficiary. This credit, however, does not convey an entitlement or a claim regarding a later payout or grant of virtual shares. Interest accrues on the amount credited in the form of a share deferral to the beneficiary. The reference rate is the interest rate of the European Central Bank for deposits from private households with a term of up to one year. As above, the credit of interest does not convey an entitlement or a claim regarding the interest amount. In the three years following the credit (retention period), the Supervisory Board decides whether each a third of the share deferral, including interest, should be converted. The question, whether a third of the phantom shares is converted and, if yes, in which amount, is based on the following principles:

Negative performance contributions of the beneficiary or of the organisational units for which he is responsible for or a negative overall performance of Aareal Bank Group lead to a reduction of the payout, in some cases even to zero. No bonus may be awarded if BaFin makes an official ruling against the bank pursuant to section 45b (2) of the KWG.

If less than 100 % of the third of the share deferral eligible for conversion (including interest) is converted into virtual shares, the amount not converted is forfeited and is not carried forward to future years. The rules for the calculation of the number of virtual, their exercise and the other rights and obligations associated with the granting of virtual shares correspond to those applicable for share bonuses, with the exception that (instead of three-year holding period) a holding period of two years applies.

Phantom Share Plan

The Phantom Share Plan applied to virtual shares granted until (and including) the financial year 2011.

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 as notified by Bloomberg, 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.

Further share-based payment models

Virtual shares are granted to senior executives and the so-called "risk takers" of Aareal Bank AG, as defined by the German Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions (Instituts-Vergütungsverordnung – "InstitutsVergV"), as well as to managing directors and management board members of Aareal Bank AG's subsidiaries on the basis of the following share-based payment models

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 not less than three years, from the end of the calendar quarter of the earliest payout date. The option right may only be exercised as at 31 March, 30 June or 30 September of a calendar year; exercise of the option has to be notified to the bank not later than at the tenth day after publication of the quarterly financial results. The conversion of the virtual shares for the purpose of determining the payout amount is made at the weighted average price on XETRA according to Bloomberg, for the five trading days following the publication of the latest quarterly financial results for the selected option date.

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

Restricted Virtual Share Award Plan

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 is expired, the beneficiary has an option right to postpone the RVSA payout by not more than three years. The payout may only be made as at 31 March, 30 June or 30 September of a calendar year; exercise of the option has to be notified to the bank not later than at the tenth day after publication of the quarterly financial results.

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

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

In addition, the amount of the RVSA for which no entitlement has arisen may be reduced when the so-called success factor for determining the bonus pool for variable remuneration for the employees of Aareal Bank AG is below zero. The success factor is determined based on the target planned and agreed by Aareal Bank AG's Management Board and Supervisory Board for the operating result before taxes of Aareal Bank Group, 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 full dividend rights, i.e. the beneficiaries receive for each virtual share not yet exercised a cash payment equivalent to the amount of the approved dividend. The maximum term of the plan – in relation to the grant date – is five years (eight years in case of an option for late payout).

Virtual share plan

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

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

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

b) Valuation model and valuation assumptions

The 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:

Quantity (number)	2012	2011
Balance (outstanding) at 1 January	**458,965**	**621,852**
Granted	370,292	78,768
of which: vested	249,737	78,768
of which: awarded on a provisional basis	120,555	–
Expired	–	–
Exercised	91,592	241,655
Balance (outstanding) at 31 December	**737,665**	**458,965**
of which: exercisable	290,478	208,978

The fair value of the virtual shares granted during the reporting period amounts to € 5,817,287 (2011: € 1,271,472) as at the balance sheet date.

The virtual shares exercised in the reporting period were converted at a weighted average price of the Aareal Bank AG share in the amount of € 14.50 (2011: € 23.15).

The virtual shares outstanding at 31 December 2012 have a limited contract term. The weighted average remaining contract term of these virtual shares amounts to 655.94 days (2011: 695.81 days).

d) Effects on financial position and performance

The total amount expensed for share-based payment transactions was € 7.1 million during the financial year 2012 (2011: € 6.3 million). The portion of the total amount expensed attributable to members of the Management Board amounts to € 2.2 million (2011: € 2.0 million) and can be broken down to the individual members of the Management Board as follows.

€	2012	2011
Dr Wolf Schumacher	825,000	443,525
Dirk Große Wördemann	397,000	446,625
Hermann J. Merkens	489,000	484,831
Thomas Ortmanns	489,000	665,188

The intrinsic value of the virtual shares exercisable at the reporting date amounted to € 4.6 million (2011: € 7.4 million). The obligation from share-based payment transactions as at 31 December 2012 amounts to € 13.6 million (2011: € 5.8 million). It is reported in the statement of financial position in the line item "Provisions".

(85) Remuneration for key executives

The definition of executives in key positions within Aareal Bank Group includes members of management or supervisory bodies of Aareal Bank AG and its subsidiaries, plus first-level managers and experts of Aareal Bank AG (other related parties in accordance with IAS).

Total remuneration of executives in key positions is analysed below:

€ 000's	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Short-term employee benefits	18,941	23,270
Post-employment benefits	4,094	2,145
Other long-term benefits	2,896	–
Termination benefits	580	1,742
Share-based payment	5,049	1,528
Total	**31,560**	**28,685**

(G) Other Notes

(86) Assets and liabilities in foreign currency

Foreign currency assets

€ mn	31 Dec 2012	31 Dec 2011
USD	4,432	4,908
GBP	2,489	2,600
SEK	1,335	1,487
CHF	414	471
DKK	451	480
JPY	486	553
Other	448	732
Total	**10,055**	**11,231**

Foreign currency liabilities

€ mn	31 Dec 2012	31 Dec 2011
USD	4,395	5,030
GBP	2,502	2,563
SEK	1,323	1,456
CHF	409	468
DKK	429	478
JPY	486	553
Other	440	725
Total	**9,984**	**11,273**

The basis for presenting assets and liabilities denominated in foreign currency is the regulatory overall currency position pursuant to section 294 of the German Solvency Regulation (Solvabilitätsverordnung, SolvV).

(87) Subordinated assets

In the event of insolvency or liquidation of the issuer, subordinated assets are those subordinate to the claims of all other creditors.

The following table gives an overview of subordinated assets of Aareal Bank Group:

€ mn	31 Dec 2012	31 Dec 2011
Loans and advances to customers	1	1
Total	**1**	**1**

(88) Leases

Aareal Bank Group acts both as lessor and lessee. The rental contracts are primarily classified as operating leases. They mainly refer to rented or let property.

Maturity of minimum lease payments under operating leases

€ mn	31 Dec 2012	31 Dec 2011
Aareal Bank Group as lessee		
up to 1 year	15	15
longer than 1 year, and up to 5 years	41	45
longer than 5 years	33	78
Total minimum lease payments	**89**	**138**
Aareal Bank Group as lessor		
up to 1 year	8	29
longer than 1 year, and up to 5 years	29	104
longer than 5 years	–	24
Total minimum lease payments	**37**	**157**

In the financial year, lease payments of € 14 million (2011: € 17 million) were recognised as expenses in the financial year.

(89) Trust business

Aareal Bank Group's trust business at the balance sheet date is analysed below:

€ mn	31 Dec 2012	31 Dec 2011
Trust assets		
Loans and advances to customers	329	412
Non-trading assets	2	2
Total trust assets	**331**	**414**
Trust liabilities		
Liabilities to banks	49	55
Liabilities to customers	282	359
Total trust liabilities	**331**	**414**

(90) Contingent liabilities and loan commitments

€ mn	31 Dec 2012	31 Dec 2011
Contingent liabilities on guarantees and indemnity agreements	273	343
Loan commitments	1,979	1,521
of which: irrevocable	1,521	1,025

The values given represent the maximum default risk resulting from contingent liabilities and irrevocable loan commitments to which Aareal Bank Group is exposed at the end of the reporting period.

Contingent liabilities on guarantees include € 41 million (2011: € 54 million) in capital guarantees extended by Aareal Bank to DEPFA Deutsche Pfandbriefbank AG (within the scope of splitting the former DEPFA Group), for the purpose of providing cover against risks of default with respect to the property loan portfolio held by DEPFA Deutsche Pfandbriefbank AG. € 5 million (2011: € 12 million) in provisions related to these capital guarantees was recognised as at 31 December 2012.

Disclosures in accordance with IAS 37.86 and IAS 37.89 are waived for reasons of practicability in accordance with IAS 37.91.

(91) Statement of cash flows

Aareal Bank Group's statement of cash flows records cash flows pertaining to the areas of operating activities, investing activities and financing activities for the period under review. The starting point of the consolidated statement of cash flows is the amount of cash and cash equivalents, consisting of cash on hand, balances with central banks as well as public-sector debt instruments and bills of exchange eligible for refinancing at central banks.

The definition of the term "operating activities" is consistent with the composition of the operating profit in the statement of comprehensive income. Cash flows from investing activities include proceeds from and payments in relation to property and equipment, non-trading assets and investment properties. Cash flows from financing activities include cash flows from transactions with providers of equity capital.

The shares in ZAO Toros, Moscow, were sold on 27 June 2012. ZAO Toros owns and operates the Redwood logistics park close to Moscow. The sale was made in cash at a sales price of € 34 million. The sale led to a disposal of assets in the amount of € 219 million and liabilities of € 183 million. The assets sold primarily were a logistics property held by the Company.

Effective 1 July 2012, Aareon acquired 100 % of the shares in 1st Touch Ltd., Southampton, UK. 1st Touch is the leading provider of mobile software solutions for the housing industry in the United Kingdom. The purchase price consists of a fixed price of € 8.1 million and a contingent purchase price. The fair value of the contingent purchase price component was € 2.4 million, measured within the context of initial consolidation in accordance with IFRS 3 in connection with IAS 27. The fair value of assets acquired in the amount of € 9.9 million consists of intangible assets (€ 7.9 million), loans and advances (€ 0.9 million) and other assets (€ 1.1 million). The fair value of liabilities assumed, including deferred taxes, amounts to € 3.2 million. Accordingly, goodwill identified within the framework of initial consolidation amounted to € 3.8 million.

(92) Capital disclosures in accordance with IAS 1.134

Qualitative disclosures

The consolidated equity capital in accordance with the German Banking Act (KWG) represents the basis of capital management. This calculation basis is used to prepare a monthly projection including the changes of equity components and the risk-weighted assets as well as the resulting equity ratios which are subject to monthly reporting within the framework of management reporting.

As at the end of the reporting period, Aareal Bank Group's equity capital consisted of core (tier I) capital and supplementary (tier II) capital (so-called liable capital); there was no tier III capital. The amounts planned to be transferred to reserves are determined within the scope of new business and earnings projections. Significant components of supplementary capital that are also part of capital management are liabilities from profit participation certificates as well as subordinated liabilities.

Aareal Bank Group is subject to the capital adequacy requirements of the KWG. Accordingly, the Group has to have capital in an adequate volume, and risk-weighted assets must be backed in an amount of at least 8 % by liable capital. The compliance with the capital requirements has to be reported to the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin – German Financial Supervisory Authority) on a quarterly basis. Capital requirements were complied with at any time during the reporting period.

Since 31 December 2010, the regulatory measurement of risk-weighted assets has been based on the so-called Advanced Internal Ratings Based Approach (AIRBA).

The objective of capital management is to meet the targeted equity ratios, which are significantly above the regulatory minimum requirements. Capital management is an integral part of overall Group planning.

Quantitative disclosures

€ mn	31 Dec 2012[1]	31 Dec 2011
Core capital (Tier 1)	**2,430**	**2,501**
Paid-in capital	1,617	1,643
Other eligible reserves	678	676
Special item for general banking risks	168	168
Other components of Tier 1 capital	26	33
Amounts to be deducted from Tier 1 capital	-59	-19
Supplementary capital (Tier 2)	**561**	**487**
Class 1 Tier 2 capital	192	146
Class 2 Tier 2 capital	431	355
Amounts to be deducted from Tier 2 capital	-62	-14
Liable equity capital pursuant to section 10a of the KWG	**2,991**	**2,988**
Tier 3 capital	–	–
Regulatory capital	**2,991**	**2,988**
Risk-weighted assets pursuant to AIRBA	**14,513**	**15,313**
of which: assets exposed to market risks	100	88
%		
Regulatory indicators pursuant to KWG		
Core capital ratio pursuant to AIRBA	16.7	16.3
Total capital ratio pursuant to AIRBA	20.6	19.5

[1] After confirmation of the financial statements 2012 of Aareal Bank AG. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2012 is subject to approval by the Annual General Meeting.

(93) Disclosures on related party transactions in accordance with IAS 24

Throughout the financial year 2012, 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 group of related parties of Aareal Bank Group comprises the persons mentioned in Note (85) and close members of that person's family. The group of related companies of Aareal Bank Group consists of the companies set out in Section "(H) List of Shareholdings" as well as the companies attributable to the related persons within the meaning of IAS 24.9 (b)(vi).

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

€ mn	31 Dec 2012	31 Dec 2011
Management Board	–	–
Supervisory Board	0.6	0.9
Other related parties	1.6	1.7
Total	**2.2**	**2.6**

Loans extended to members of the Supervisory Board generally have a term between ten and 18 years, and bear interest at (nominal) rates between 4.71 % 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.

As at 31 December 2012, there was one liability to another related party, in the amount of € 10 million; specifically, this involved a ten-year promissory note loan with an interest rate of 4.11 %.

In addition, there were no further significant transactions within the meaning of IAS 24.

(94) Events after the reporting date

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

(95) List of offices held – corporate governance report

The List of Offices Held, which has been deposited with the Commercial Register at the Wiesbaden District Court, includes all offices held in German and foreign companies. Like the Corporate Governance Report, the list is available, free of charge, from Aareal Bank AG in Wiesbaden, or in the internet on www.aareal-bank.com.

(96) 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.

(97) Notice pursuant to section 21 (1) of the WpHG

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

During the year, we received several notifications on voting rights from Fidelity Group, Boston, Massachusetts, USA, since the share of voting rights held exceeded or fell below the 3% threshold. The last notification from this group of companies as at 11 May 2012 and 8 May 2012 was issued since the share of voting rights had fallen below the 3 % threshold. The notification referred to the following entities:

- Fidelity Investment Trust, Boston, Massachusetts, USA, 2.97 % (1,774,969 voting rights) as at 8 May 2012
- Fidelity Management & Research Company, Boston, Massachusetts, USA, 2.99 % (1,795,347 voting rights) as at 8 May 2012, attribution of all voting rights pursuant to section 22 (1) sentence 1 No. 6 of the WpHG.
- FMR LLC, Boston, Massachusetts, USA, 2.90 % (1,734,810 voting rights) as at 11 May 2012, attribution of all voting rights pursuant to section 22 (1) sentence 1 No. 6 in conjunction with sentence 2 of the WpHG.

Deutsche Bank London, United Kingdom, sent us a notification for its subsidiary DWS Investment GmbH, Frankfurt, as at 27 February 2012 since the share of voting rights has fallen below the 3 % threshold to 2.889 % (1,729,068 voting rights).

Dimensional Group, Austin, Texas, USA, notified us on 29 May 2012 that its share of voting rights had exceeded the 3 % threshold. The following entities were affected:

- Dimensional Fund Advisors LP, Austin, Texas, USA, 3.04 % (1,820,026 voting rights) as at 29 May 2012, attribution of all voting rights pursuant to section 22 (1) sentence 1 No. 6 of the WpHG.
- Dimensional Holdings Inc., Austin, Texas, USA, 3.04 % (1,820,026 voting rights) as at 29 May 2012, attribution of all voting rights pursuant to section 22 (1) sentence 1 No. 6 in conjunction with section 22 (1) sentence 2 of the WpHG.

The company most recently named Allianz Global Investors Europe GmbH, Frankfurt issued several notifications of voting rights during 2012. The last notification, which was issued on 10 December 2012, reported a share of voting rights of 5.06 % (3,028,655 voting rights). Of this share of voting rights, 1.07 % of the total number of voting rights (corresponding to 640,082 of a total of 59,857,221 voting rights) are attributable pursuant to section 22 (1) sentence 1 No. 6 of the WpHG. Allianz Global Investors Europe GmbH, Frankfurt, also notified us that the share of voting rights as at 14 January 2013 fell to 4.84 % (2,894,403 voting rights). Of this share of voting rights, 0.95 % of the total number of voting rights (corresponding to 567,031 of a total of 59,857,221 voting rights) are attributable pursuant to section 22 (1) sentence 1 No. 6 of the WpHG.

BlackRock Group, USA, notified us on 21 November 2012 that the 3 % threshold had been exceeded. The following entities were affected:

- BlackRock Financial Management, Inc., New York, USA, 3.09 % (1,846,966 voting rights) as at 21 November 2012, attribution of all voting rights pursuant to section 22 (1) sentence 1 No. 6 in conjunction with section 22 (1) sentence 2 of the WpHG.
- BlackRock HoldCo 2, Inc., Wilmington, Delaware, USA, 3.09 % (1,846,966 voting rights) as at 21 November 2012, attribution of all voting rights pursuant to section 22 (1) sentence 1 No. 6 in conjunction with section 22 (1) sentence 2 of the WpHG.
- BlackRock, Inc., New York, USA, 3.09 % (1,846,966 voting rights) as at 21 November 2012, attribution of all voting rights pursuant to section 22 (1) sentence 1 No. 6 in conjunction with section 22 (1) sentence 2 of the WpHG.

Universal-Investment-Gesellschaft mbH, Frankfurt, notified us on 17 December 2012 that its share of voting rights had fallen below the 3.0 % threshold down to 1.98 % (1,184,258 voting rights) at that date. 1.72 % (corresponding to 1,032,230 voting rights) thereof are attributable to Universal-Investment-Gesellschaft mbH pursuant to section 22 (1) sentence 1 No. 6 of the WpHG.

(98) Declaration of compliance in accordance with Section 161 of the AktG

The Management Board and the Supervisory Board issued the Declaration of Compliance as stipulated in section 161 of the AktG, and made this Declaration available to shareholders. It is available to the public on the Company's website on http://www.aareal-bank.com/investor-relations/corporate-governance/.

(99) Employees

The number of Aareal Bank Group employees at 31 December 2012 is shown below:

	31 Dec 2012	31 Dec 2011
End-of-year numbers		
Salaried employees	2,167	2,229
Executives	122	124
Total	**2,289**	**2,353**
of which: Part-time employees	455	425

The average number of Aareal Bank Group employees in 2012 is shown below:

	1 Jan-31 Dec 2012	1 Jan-31 Dec 2011
Yearly average		
Salaried employees	2,171	2,264
Executives	124	122
Total	**2,295**	**2,386**
of which: Part-time employees	424	432

(H) List of Shareholdings

pursuant to section 313 (2) of the HGB as at 31 December 2012

No.	Company name	Registered office	Share in capital %	Equity € mn	Results € mn
1	Aareal Bank AG	Wiesbaden			
	I. Fully-consolidated subsidiaries				
2	1st Touch Ltd.	Southampton	100.0	1.3	0.2
3	Aareal Bank Asia Ltd.	Singapore	100.0	18.4 mn S $	2.3 mn S $ [1]
4	Aareal Bank Capital Funding LLC	Wilmington	100.0	250.0	0.0
5	Aareal Bank Capital Funding Trust	Wilmington	100.0	0.0	0.0
6	Aareal Capital Corporation	Wilmington	100.0	196.2 mn USD	15.1 mn USD [1]
7	Aareal Estate AG	Wiesbaden	100.0	2.8	0.0 [3]
8	Aareal First Financial Solutions AG	Mainz	100.0	3.2	0.0 [3]
9	Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG	Wiesbaden	94.9	2.1	0.1 [1]
10	Aareal IT Beteiligungen GmbH	Wiesbaden	100.0	145.5	0.0 [3]
11	Aareal Partecipazioni S.p.A.	Rome	100.0	6.8	0.0 [1]
12	Aareal Property Services B.V.	Amsterdam	100.0	29.8	0.6 [1]
13	Aareal Valuation GmbH	Wiesbaden	100.0	0.5	0.0 [3]
14	Aareal Financial Service, spol. s r.o., i.L.	Prague	100.0	30.9 mn CZK	3.4 mn CZK [2]
15	Aareon AG	Mainz	100.0	61.4	8.3
16	Aareon Deutschland GmbH	Mainz	100.0	32.2	0.0 [3]
17	Aareon France S.A.S.	Meudon-la Forêt	100.0	4.9	1.5
18	Aareon Immobilien Projekt GmbH	Essen	51.0	0.5	0.8
19	Aareon Software Handelsgesellschaft mbH	Mainz	100.0	-0.3	0.0
20	Aareon UK Ltd.	Coventry	100.0	3.8	0.9
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	Wiesbaden	100.0	0.1	0.0 [1]
24	BauBo Bau- und Bodenverwertungs- und -verwaltungsgesellschaft mbH	Wiesbaden	100.0	10.4	0.0 [3]
25	BauContact Immobilien GmbH	Wiesbaden	100.0	27.9	1.0
26	BauGrund Immobilien-Management GmbH	Bonn	100.0	0.5	0.0 [3]
27	BauGrund TVG GmbH	Munich	100.0	0.1	-0.1 [1]
28	BauSecura Versicherungsmakler GmbH	Hamburg	51.0	2.8	2.7
29	berlinbiotechpark Management GmbH	Berlin	100.0	0.1	0.1 [1]
30	berlinbiotechpark Verwaltung GmbH	Berlin	89.6	0.2	0.0 [1]
31	Deutsche Bau- und Grundstücks-Aktiengesellschaft	Berlin	100.0	2.2	0.7 [1]
32	Deutsche Structured Finance GmbH	Frankfurt	100.0	1.8	0.9 [1]
33	Deutsche Structured Finance GmbH & Co. Alphard KG	Frankfurt	100.0	1.0	0.1 [1]
34	Deutsche Structured Finance GmbH & Co. Deneb KG	Frankfurt	100.0	0.8	-2.5 [1]
35	Deutsche Structured Finance GmbH & Co. Titan KG	Frankfurt	100.0	0.0	0.0
36	DSF Anteils GmbH	Frankfurt	100.0	0.1	0.0 [1]
37	DSF berlinbiotechpark Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.1	0.0 [1]
38	DSF Beteiligungsgesellschaft mbH	Frankfurt	100.0	0.1	0.0 [1]
39	DSF Dritte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0

[1] Preliminary figures as at 31 December 2012; [2] Equity and results as at 31 December 2011; [3] Profit transfer agreement/control and profit transfer agreement
[4] Different financial year; n/a no data

No.	Company name	Registered office	Share in capital %	Equity € mn	Results € mn
40	DSF Elfte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [1]
41	DSF Energia Naturale S.r.l.	Rome	100.0	0.0	0.0 [1]
42	DSF Flugzeugportfolio GmbH	Frankfurt	100.0	0.0	0.6 [3]
43	DSF Fünfzehnte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.1	0.0 [1]
44	DSF German Office Fund GmbH & Co. KG	Frankfurt	94.0	1.8	-3.3 [1]
45	DSF Immobilienverwaltung GmbH	Frankfurt	100.0	0.0	0.0 [1]
46	DSF LUX INTERNATIONAL S.à.r.l	Luxembourg	100.0	0.1	0.0 [1]
47	DSF Neunte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [1]
48	DSF Solar Italien GmbH & Co. KG	Frankfurt	100.0	0.0	0.0 [4]
49	DSF Treuhand GmbH	Frankfurt	100.0	0.1	0.0
50	DSF Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [1]
51	DSF Vierte Verwaltungsgesellschaft mbH	Wiesbaden	100.0	1.7	-3.5 [1]
52	DSF Zwölfte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.3	0.0 [1]
53	GEV GmbH	Wiesbaden	100.0	52.9	0.0 [3]
54	IMMO Consulting S.p.A.	Rome	95.0	0.3	-0.2 [1]
55	IV Beteiligungsgesellschaft für Immobilieninvestitionen mbH	Wiesbaden	100.0	2.0	0.0
56	Izalco Spain S.L.	Madrid	100.0	9.5	0.0 [3]
57	Jomo S.p.r.l.	Brussels	100.0	-2.8	-2.8 [2]
58	La Sessola Holding GmbH	Wiesbaden	100.0	0.0	0.0
59	La Sessola S.r.l.	Rome	100.0	49.3	-9.0 [1]
60	Main Triangel GmbH	Frankfurt	75.0	72.9	-2.6 [1]
61	Main Triangel Gastronomie GmbH	Wiesbaden	100.0	0.5	-0.1 [1]
62	Mercadea S.r.l.	Rome	100.0	4.2	0.1 [1]
63	Mirante S.r.l.	Rome	100.0	4.4	-1.5 [1]
64	PLP Holding GmbH	Wiesbaden	100.0	14.8	-0.8 [1]
65	Real Verwaltungsgesellschaft mbH	Idstein	100.0	28.0	0.9
66	Rehabilitationsklinik Barby Besitzgesellschaft mbH	Wiesbaden	100.0	-5.6	0.9 [1]
67	Rehabilitationsklinik Templin Besitzgesellschaft mbH	Wiesbaden	100.0	-3.7	0.0
68	SG Automatisering B.V.	Emmen	100.0	13.6	4.0
69	SG | Facilitor B.V.	Enschede	51.0	0.8	0.5
70	SG | stravis B.V.	Emmen	70.0	0.1	0.0
71	Sole Giano S.r.l. & Co. S.a.s.	Rome	100.0	-0.2	-0.1 [1]
72	Sustainable Solar Future – Hellas Limited Liability Company	Athen	99.0	0.0	0.0 [1]
73	Sustainable Solar Future Northern – Hellas Limited Liability Company	Athen	99.0	0.0	0.0 [1]
74	Sustainable Solar Thermal Future East – Crete Limited Liability Company	Heraklion	99.0	0.5	0.0 [1]
75	Terrain-Aktiengesellschaft Herzogpark	Wiesbaden	99.9	4.7	0.0 [3]
76	ZMP Zentral Messepalast Entwicklungsgesellschaft mbH	Wiesbaden	100.0	129.3	0.0 [3]
	II. Fully-consolidated special purpose entities (inclusion in accordance with IAS 27/SIC 12)				
77	Myrtleville AB	Stockholm	0.0	n/a	n/a

[1] Preliminary figures as at 31 December 2012; [2] Equity and results as at 31 December 2011; [3] Profit transfer agreement/control and profit transfer agreement
[4] Different financial year; n/a no data

No.	Company name	Registered office	Share in capital %	Equity € mn	Results € mn
	III. Fully-consolidated special funds (inclusion in accordance with IAS 27/SIC 12)				
78	DBB Inka	Dusseldorf	100.0	101.5	8.6
	IV. Joint ventures accounted for using the equity method				
79	B & P / DSF Windpark GbR	Frankfurt	50.0	0.4	0.4
80	DSF Vierzehnte Verwaltungsgesellschaft mbH	Frankfurt	50.0	0.2	0.0
81	DSF Zehnte Verwaltungsgesellschaft mbH	Frankfurt	50.0	0.1	0.0 [1]
82	SG2ALL B.V.	Huizen	50.0	0.4	0.2
	V. Associated companies accounted for using the equity method				
83	Bavaria Solar I Verwaltungsgesellschaft mbH	Frankfurt	24.0	0.0	0.0 [1]
84	Deutsche Operating Leasing AG	Frankfurt	19.2	1.0	-0.8 [4]
85	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Frankfurt	48.4	0.5	0.0 [1]
86	Fachklinik Lenggries GmbH	Lenggries	49.0	0.0	0.0 [2]
87	Rehabilitationsklinik Uckermark GmbH i.L.	Templin	49.0	n/a	n/a
88	Westhafen Haus GmbH & Co. Projektentwicklungs KG	Frankfurt	25.0	-0.2	0.0 [2]
89	Westhafen-Gelände Frankfurt am Main GbR	Frankfurt	33.3	0.1	0.0 [2]
90	Windpark Ahlerstedt Verwaltungsgesellschaft mbH	Frankfurt	20.0	0.0	0.0 [1]
91	Windpark Borsum Verwaltungsgesellschaft mbH	Rhede	20.0	0.0	0.0 [1]
92	Windpark Portfolio Verwaltungs GmbH	Freiburg	20.0	0.0	0.0 [1]

[1] Preliminary figures as at 31 December 2012; [2] Equity and results as at 31 December 2011; [3] Profit transfer agreement/control and profit transfer agreement
[4] Different financial year; n/a no data

(J) Executive bodies of Aareal Bank AG

Offices held in accordance with section 285 no. 10 of the German Commercial Code (HGB) in conjunction with section 125 (1) sentence 3 of the German Public Limited Companies Act (AktG)

Supervisory Board

Hans W. Reich, Chairman of the Supervisory Board		
Chairman of the Supervisory Board of Citigroup Global Markets Deutschland AG		
Aareal Bank AG	Chairman of the Supervisory Board	
Citigroup Global Markets Deutschland AG	Chairman of the Supervisory Board	
Erwin Flieger, Deputy Chairman of the Supervisory Board		
Chairman of the Supervisory Boards of Bayerische Beamten Versicherungsgruppe		
Aareal Bank AG	Deputy Chairman of the Supervisory Board	
Bayerische Beamten Lebensversicherung a.G.	Chairman of the Supervisory Board	
Bayerische Beamten Versicherung AG	Chairman of the Supervisory Board	
BBV Holding AG	Chairman of the Supervisory Board	
DePfa Holding Verwaltungsgesellschaft mbH	Chairman of the Supervisory Board	
MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH	Member of the Supervisory Board	
Neue Bayerische Beamten Lebensversicherung AG	Chairman of the Supervisory Board	
York-Detlef Bülow*, Deputy Chairman of the Supervisory Board		
Aareal Bank AG		
Aareal Bank AG	Deputy Chairman of the Supervisory Board	
Christian Graf von Bassewitz		
Banker (ret'd.); former Spokesman of the General Partners of Bankhaus Lampe KG		
Aareal Bank AG	Member of the Supervisory Board	
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	until 5 June 2012
OVB Holding AG	Deputy Chairman of the Supervisory Board	since 5 June 2012
OVB Vermögensberatung AG	Member of the Supervisory Board	
SIGNAL IDUNA Allgemeine Versicherung AG	Member of the Supervisory Board	
SIGNAL IDUNA Holding AG	Member of the Supervisory Board	
Societaet CHORVS AG	Member of the Supervisory Board	
Manfred Behrens		
Chairman of the Management Board of AWD Holding AG		
Aareal Bank AG	Member of the Supervisory Board	
AWD Allgemeiner Wirtschaftsdienst AG	President of the Board of Directors	
tecis Finanzdienstleistungen AG	Chairman of the Supervisory Board	
Thomas Hawel*		
Aareon Deutschland GmbH		
Aareal Bank AG	Member of the Supervisory Board	
Aareon Deutschland GmbH	Deputy Chairman of the Supervisory Board	

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

Consolidated Financial Statements

Transparency

Dieter Kirsch*		
Aareal Bank AG		
Aareal Bank AG	Member of the Supervisory Board	
Marija G. Korsch		
Former executive at Bankhaus Metzler seel. Sohn & Co. Holding AG		
Aareal Bank AG	Member of the Supervisory Board	since 11 July 2012
Just Software AG	Member of the Supervisory Board	
Dr Herbert Lohneiß		
Former Chief Executive Officer of Siemens Financial Services GmbH		
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	Deputy Chairman of the Supervisory Board	
Universal-Investment-Gesellschaft mbH	Member of the Supervisory Board	
Wolf R. Thiel		
Former President and Chairman of the Management Board (ret'd.) of the Versorgungsanstalt des Bundes und der Länder (until 31 March 2012)		
Aareal Bank AG	Member of the Supervisory Board	until 31 March 2012
DePfa Holding Verwaltungsgesellschaft mbH	Member of the Supervisory Board	until 31 March 2012
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		
Corporate Communications, Investor Relations, Corporate Development, Human Resources, Legal, Tax, Compliance, Audit and Operations		
Aareon AG	Member of the Supervisory Board	
EBS European Business School gGmbH	Member of the Supervisory Board	since 1 January 2012
Dirk Große Wördemann, Member of the Management Board		
Structured Property Financing, International Sales Units		
Aareal Bank Asia Limited	Member of the Board of Directors	
Aareal Bank Asia Limited	CEO (Chairman)	
Aareal Capital Corporation	Chairman of the Board of Directors	
Aareal Financial Service spol. s r.o. i.L.	Member of the Supervisory Board	
Aareon AG	Member of the Supervisory Board	
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Deputy Chairman of the Supervisory Board	
Hermann Josef Merkens, Member of the Management Board		
Finance, Risk Controlling, Credit Management and Workout		
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	
CredaRate Solutions GmbH (vormals RMS Risk Management Solutions GmbH)	Member of the Supervisory Board	until 13 February 2012
CredaRate Solutions GmbH (vormals RMS Risk Management Solutions GmbH)	Deputy Chairman of the Supervisory Board	since 13 February 2012
Thomas Ortmanns, Member of the Management Board		
Institutional Housing Unit, Treasury, Organisation, Information Technology		
Aareal First Financial Solutions AG	Chairman of the Supervisory Board	
Aareon AG	Chairman of the Supervisory Board	
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Chairman of the Supervisory Board	
HypZert GmbH	Member of the Supervisory Board	

(K) Offices held by employees of Aareal Bank AG

pursuant to section 340a (4) no. 1 of the HGB

Ulf Ekelius, Bank Director		
Aareal Financial Service spol. s r.o. i.L.	Member of the Supervisory Board	
Dunya Heß		
Aareal Property Services B.V.	Member of the Supervisory Board	since 1 March 2012
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	Deputy Chairman of the Supervisory Board	
Dr Stefan Lange, Bank Director		
Aareal Estate AG	Member of the Supervisory Board	
Aareal First Financial Solutions AG	Member of the Supervisory Board	
Terrain-Aktiengesellschaft Herzogpark	Chairman of the Supervisory Board	
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 spol. s r.o. i.L.	Member of the Supervisory Board	

Composition of the Supervisory Board's committees

Executive Committee	
Hans W. Reich	Chairman
Erwin Flieger	Deputy Chairman
York-Detlef Bülow	Deputy Chairman
Prof Dr Stephan Schüller	

Accounts and Audit Committee	
Joachim Neupel	Chairman
Prof Dr Stephan Schüller	Deputy Chairman
Christian Graf von Bassewitz	
York-Detlef Bülow	
Hans W. Reich	

Risk Committee	
Hans W. Reich	Chairman
Dr Herbert Lohneiß	Deputy Chairman
Christian Graf von Bassewitz	
Erwin Flieger	
Dieter Kirsch	
Joachim Neupel	

Committee for Urgent Decisions	
Hans W. Reich	Chairman
Christian Graf von Bassewitz	
Erwin Flieger	
Dr Herbert Lohneiß	
Joachim Neupel	

Nomination Committee
Hans W. Reich
Erwin Flieger

(L) Responsibility Statement

Statement pursuant to section 37y of the German Securities Trading Act (WpHG) in conjunction with section 37v (2) no. 3 of the WpHG

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Wiesbaden, 26 February 2013

The Management Board

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

Auditors' Report

Independent Auditors' Report

To Aareal Bank AG, Wiesbaden

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Aareal Bank AG, Wiesbaden and its subsidiaries, which comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the notes to the consolidated financial statements for the business year from 1 January to 31 December, 2012.

Board of Managing Directors' responsibility for the Consolidated Financial Statements

The Board of Managing Directors of Aareal Bank AG, Wiesbaden is responsible for the preparation of these consolidated financial statements. This responsibility includes that these consolidated financial statements are prepared in accordance with International Financial Reporting Standards, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) and that these consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The Board of Managing Directors is also responsible for the internal controls as the Board of Managing Directors determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW) and additionally observed the International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the internal control system relevant to the entity's preparation of consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Managing Directors as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

According to § 322 Abs. 3 Satz (sentence) 1 HGB, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion based on the findings of our audit, the consolidated financial statements comply, in all material respects, with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Group as at 31 December 2012 as well as the results of operations for the business year then ended, in accordance with these requirements.

Report on the Group Management Report

We have audited the accompanying group management report of Aareal Bank AG, Wiesbaden for the business year from 1 January to 31 December, 2012. The Board of Managing Directors is responsible for the preparation of the group management report in accordance with the requirements of German commercial law applicable pursuant to § 315a Abs. 1 HGB. We conducted our audit in accordance with § 317 Abs. 2 HGB and German generally accepted standards for the audit of the group management report promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Accordingly, we are required to plan and perform the audit of the group management report to obtain reasonable assurance about whether the group management report is consistent with the consolidated financial statements and the audit findings, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

According to § 322 Abs. 3 Satz 1 HGB we state, that our audit of the group management report has not led to any reservations.

In our opinion based on the findings of our audit of the consolidated financial statements and group management report, the group management report is consistent with the consolidated financial statements, as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, 4 March 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Roland Rausch	**ppa. Kay Böhm**
Wirtschaftsprüfer	**Wirtschaftsprüfer**
(German Public Auditor)	**(German Public Auditor)**

TRANSPARENCY

Corporate Governance Statement pursuant to Section 289a of the HGB

Declaration of compliance in accordance with Section 161 of the AktG

The Management Board and Supervisory Board of Aareal Bank AG declare, in accordance with section 161 of the AktG, that:

Aareal Bank AG has complied with the recommendations of the Government Commission "German Corporate Governance Code" (as amended on 26 May 2010 – the "Code") since the last Declaration of Compliance was issued in April 2012 – in each case, except for the recommendations stated below.

Section 5.4.6 (2) of the Code provides for performance-related compensation of Supervisory Board members. Considering the potential conflicts of interest which are inherent in this recommendation, the Management Board and Supervisory Board do not believe such a regulation to be desirable; for this reason, the members of the Supervisory Board receive fixed remuneration only.

Aareal Bank will also comply with the recommendations of the Code (as amended on 15 May 2012) throughout the financial year 2013, with the exceptions stated below.

The recommendations stipulated in section 5.4.1 (2) in conjunction with section 5.4.2 (1) of the Code set out requirements regarding the composition of the Supervisory Board, and particularly the independence of Supervisory Board members. The requirements set out in section 5.4.2 are legally indeterminate; therefore, they do not provide an adequate basis for assessing the independence of Supervisory Board members, or for defining targets for the composition of the Supervisory Board. The Supervisory Board of Aareal Bank AG believes that it is sufficiently independent. Within the framework of actual decisions concerning potential members, the Supervisory Board of Aareal Bank AG assesses the independence of the respective candidate, duly taking it into account.

Section 5.4.1 (4) of the Code contains a recommendation that, when making election recommendations to the General Meeting, the Supervisory Board shall disclose the personal and business relations of each individual candidate. Aareal Bank AG believes that this requirement would expose the bank to material legal uncertainty, due to the lack of a legal definition of the extent or scope of any such disclosure. Accordingly, any relevant information concerning candidates for election to the Supervisory Board (as part of election proposals to the General Meeting) will be disclosed exclusively pursuant to the provisions of the AktG.

Wiesbaden, December 2012

The Management Board

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

For the Supervisory Board

Hans W. Reich (Chairman)

Corporate Governance Report

Responsible and transparent corporate governance is of great importance to Aareal Bank AG, and considered the essence of prudent commercial conduct by both the Management Board and the Supervisory Board. Accordingly, Aareal Bank welcomes and supports the objectives and purposes of the German Corporate Governance Code, and regularly observes the amendments and extensions of the guidelines adopted by the German Government Commission on Corporate Governance.

The Supervisory Board discusses these amendments; together with the Management Board, the Supervisory Board determines to what extent Aareal Bank AG complies with – or diverges from – the recommendations of the German Corporate Governance Code. Accordingly, the bank's Memorandum and Articles of Association, as well as the internal rules of procedure for the Management Board and the Supervisory Board, are reviewed regarding compliance, and are amended as necessary. Our annual Declaration of Compliance gives information on the extent to which the bank complies with recommendations. The Declaration of Compliance is adopted by the Management Board and the Supervisory Board, and then published on the bank's website, where Declarations issued in past years are also archived.

Code of Conduct

We believe that the principles of integrity and responsible conduct must be observed by all our employees across the enterprise, regardless of their functions and duties. Our internal Code of Conduct is an integral part of responsible corporate governance. The Code of Conduct contains binding rules governing the legal and ethical conduct of employees vis-à-vis clients, business partners, and colleagues. Aareal Bank's efforts in this context are also motivated by the desire to affirm and further strengthen the confidence placed by stakeholders – our clients, investors, and staff.

Recommendations of the German Corporate Governance Code

During 2012, the German Corporate Governance Code (the "Code") was valid as amended on 26 May 2010; the Code was updated as amended on 15 May 2012 by way of publication in the German Federal Gazette (Bundesanzeiger) on 15 June 2012. Aareal Bank's Management Board and Supervisory Board issued and signed their most recent Declaration of Compliance pursuant to section 161 of the German Public Limited Companies Act (AktG) on 6 December 2012. The Declaration was published on the bank's website, and is included in this annual report as part of the Corporate Governance Statement.

Aareal Bank AG complies with the German Corporate Governance Code, as last amended, to a large extent, and only diverges from the recommendations in a few aspects, as outlined below. The recommendations stipulated in section 5.4.1 (2) in conjunction with section 5.4.2 (1) of the Code set out requirements regarding the composition of the Supervisory Board, and particularly the independence of Supervisory Board members. The requirements set out in section 5.4.2 are legally indeterminate; therefore, they do not provide an adequate basis for assessing the independence of Supervisory Board members, or for defining targets for the composition of the Supervisory Board. The Supervisory Board of Aareal Bank AG believes that it is sufficiently independent. Within the framework of actual decisions concerning potential members, the Supervisory Board of Aareal Bank AG assesses the independence of the respective candidate, duly taking it into account.

Section 5.4.1 (4) of the Code contains a recommendation that, when making election recommendations to the General Meeting, the Supervisory Board shall disclose the personal and business relations of each individual candidate. Aareal Bank AG believes that this requirement would expose the bank to material legal uncertainty, due to the lack of a legal definition of the extent or scope of any such disclosure. Accordingly, any relevant information concerning candidates for election to the Supervisory Board (as part of election proposals to the General Meeting) will be disclosed exclusively pursuant to the provisions of the AktG.

The Management Board

The Management Board is responsible for managing the Company. In doing so, it is obliged to act in the best interest of the Company and undertakes to increase its sustainable enterprise value. The Management Board ensures that all provisions of law are complied with, and endeavours to achieve their compliance throughout Group companies. The Management Board develops company strategy, coordinates it with the Supervisory Board, and ensures its implementation. The Management Board ensures appropriate and sustainable risk management and risk control throughout the Company. The Management Board cooperates on the basis of trust with Aareal Bank AG's other executive bodies, and with employee representatives.

There were no conflicts of interest affecting members of the Management Board within the meaning of the Corporate Governance Code in the 2012 financial year.

Diversity: Promoting diversity

Aareal Bank AG promotes an appropriate level of diversity in the company, as recommended in section 4.1.5 of the Code.

For Aareal Bank, diversity means appreciating each individual and respecting his or her distinctiveness, equal opportunities on all levels as well as avoiding any form of discrimination. We believe that diversity adds to our corporate culture and that it is also a success factor for achieving the strategic objectives of Aareal Bank Group.

International profile

Thanks to its active business presence across three continents, the bank is dedicated to its motto "Local Expertise meets Global Excellence". Against this background, taking the various nationalities of its staff into consideration when planning for executive positions comes naturally, particularly with respect to the bank's international entities.

Career and family

To ensure that Aareal Bank's employees can strike an appropriate balance between work and family life, the bank has taken various measures designed to permit employees to successfully perform their professional duties and develop on their career path – as regards both expert knowledge and leadership qualities – without sacrificing responsibility for their families. Measures taken include:

- cooperation with third-party providers, to improve the availability of childcare facilities;
- cooperation with the city of Wiesbaden and other third-party providers regarding childcare facilities during school holidays;
- establishing parent-child office rooms at Aareal Bank AG and Aareon AG to bridge short-term and temporary bottlenecks regarding childcare facilities;
- consultancy and support for employees in the event of close relatives falling ill or requiring care;
- offering part-time positions, flexible working hours, and long-term working time accounts, to permit flexible working schedules; and
- establishing home workplaces.

One of the objectives of the measures taken is to further increase the share of women in executive positions.

Supervisory Board

The task of the Supervisory Board is to regularly advise and supervise the Management Board in the management of the Company. It is involved in decision-making that is of fundamental importance to the Company, and cooperates closely and on the basis of trust with the Management Board.

The Supervisory Board has created committees for its work. Responsibility for individual duties has been delegated to these committees. The members of the Supervisory Board and their functions in the Supervisory Board's committees are outlined in the "Description of Management Board and Supervisory Board work processes", and in the List of Offices Held, both of which form part of this annual report. The Supervisory Board reports on its duties and the events of the 2012 financial year in its report.

The option of preparing meetings separately with shareholder representatives and employee representatives is used by the Supervisory Board in exceptional cases only. No such separate preparations took place during 2012, nor were there any Supervisory Board meetings without the members of the Management Board in attendance.

In line with section 5.2 of the Code, the Chairman of the Supervisory Board does not chair the Accounts and Audit Committee: this position is held by Joachim Neupel, an experienced public auditor and tax advisor.

The members of the Supervisory Board have declared in writing that no conflicts of interest pursuant to section 5.5.2 of the Corporate Governance Code arose during the financial year under review, with one exception, namely a vote on a loan that required the approval of the Supervisory Board. Given the interdependency between the Supervisory Board member and the anchor tenant of the financed property, the member of the Supervisory Board abstained from voting.

The Supervisory Board regularly reviews the efficiency of its own activities, using a proprietary questionnaire. The results of this review serve to further improve the work carried out by the Supervisory Board as well as enhancing the cooperation between the Supervisory Board and Management Board. The Chairman of the Supervisory Board presented the results of the examination of efficiency for the year 2012 in the meeting on 6 December 2012, and discussed these with the members in detail. No measures to enhance efficiency were required.

The Supervisory Board has the required knowledge, skills, and professional expertise to properly perform its duties. In accordance with section 5.4.5 of the Code, the Supervisory Board members regularly attend continuous professional development measures, and are supported to this effect by the Company.

The Report of the Supervisory Board provides a detailed review of the activities of the Supervisory Board and its Committees.

Guidelines regarding the composition of the Supervisory Board (shareholder representatives)

Key factors taken into account for nomination to the Supervisory Board are the professional aptitude and the experience of candidates – also in relation to the Group's international activities. The Supervisory Board of Aareal Bank AG believes that it is sufficiently independent. Within the framework of actual decisions concerning potential members, the Supervisory Board of Aareal Bank AG assesses the independence of the respective candidate, duly taking it into account.

Any individual whose circumstances may give rise to conflicts of interest cannot be considered as candidates. At the time of election to the Supervisory Board, candidates should generally be less than 70 years old.

The Supervisory Board endeavours to increase the share of women amongst its members to at least 30 %. Given that the last regular Supervisory Board elections took place in 2010, the earliest time that this objective may be taken into account, in principle, will be the next regular Supervisory Board elections, to be held in the year 2015. After Mr Wolf R. Thiel offered to resign from his office as a member of the Supervisory Board of Aareal Bank AG, the Supervisory Board successfully attracted Ms Marija G. Korsch as a new member, taking into account the requirements for Supervisory Board members as well as the objectives for the composition of the Supervisory Board. Aareal Bank's Supervisory Board has thus achieved a 12.5 % share of female members amongst shareholder representatives.

Purchase or sale of the company's shares

No transactions involving the Company's shares were carried out in 2012 by members of the Company's executive bodies. At the end of the financial year, aggregate shareholdings of members of executive bodies in the Company's shares were less than 1 % of the issued share capital of Aareal Bank AG.

Transactions with related parties

Related party transactions are detailed in the notes to the financial statements.

Accounting policies

Aareal Bank AG prepares the Group's accounts in accordance with International Financial Reporting Standards (IFRSs). The single-entity financial statements of Aareal Bank AG are prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB). The Management Board prepares the financial statements of Aareal Bank AG and the consolidated financial statements. The external auditors submit their report on the audit of the financial statements and consolidated financial statements to the Supervisory Board. The Annual General Meeting on 23 May 2012 appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, as the auditors for the 2012 financial year. Having ascertained the independence of the external auditors, the Supervisory Board appointed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft in this capacity, and defined the Supervisory Board's focal points of the audit. The external auditors conducted the audit in line with instructions given. The fees paid to the external auditors are shown in the notes to the financial statements.

The Supervisory Board approves the financial statements and the consolidated financial statements, and thus confirms the financial statements. Details regarding the examinations carried out by the Supervisory Board, and the results of such examinations, are provided in the Supervisory Board Report.

Relationship to shareholders

Aareal Bank holds a General Meeting of shareholders once a year. Shareholders are thus given the opportunity to actively participate in the development of the Company.

At the Annual General Meeting, the shareholders decide, in particular, on the formal approval for the members of the Supervisory Board and Management Board for the financial year under review, on the appropriation of any net retained profit, amendments to the Memorandum and Articles of Association, and authorisations on capital adjustments. The Annual General Meeting also elects the auditor for the Company.

The company's shareholders may submit statements or proposals in writing, by fax or e-mail, to the company or may request to speak at the Annual General Meeting. The shareholders may also submit counter or supplemental motions to the agenda items at the Annual General Meeting so that they participate in structuring and influencing the meeting. The Management Board and the Supervisory Board refer to shareholders' comments made during the general debate, or to motions submitted by shareholders in advance, to respond to questions, or to comment on other contributions.

Communications

Aareal Bank assigns great importance to extensive communications with all of the bank's stakeholders. We have set ourselves the targets of actively and openly communicating with all stakeholders, taking into account the interests of all stakeholders. In this context, we make extensive use of our website to inform about current developments affecting the Group, and to provide information to all target groups at the same time. All press releases, ad-hoc disclosures, corporate presentations, as well as annual and quarterly reports published by Aareal Bank are available on the bank's website to any interested person, and may be downloaded from there. In addition, the financial calendar is regularly updated, providing information about relevant corporate events.

Aareal Bank publishes details on the financial position and performance five times annually. On these occasions, the Management Board gives a personal account of results, within the scope of press conferences and analysts' events.

We are not currently broadcasting parts of the Annual General Meeting on the internet, nor is it currently possible to give instructions or cast votes online. This is because the low level of acceptance of such a service amongst our shareholders would render the related efforts and costs excessive. Aareal Bank will continue to review demand for such a service on a regular basis.

Disclosures regarding Corporate Governance standards

Aareal Bank AG is a public limited company under German law (Aktiengesellschaft – "AG") whose shares are included in the mid-cap MDAX index. Aareal Bank AG's corporate governance practices are governed, inter alia, by legal rules applicable to public limited companies and credit institutions, and by the Company's Memorandum and Articles of Association, which are published on its website and in its Commercial Register entry (under company number HRB 13184). Based on the Memorandum and Articles of Association, the Supervisory Board has adopted internal rules of procedure for itself, and for the Management Board. Aareal Bank AG has also adopted an internal Code of Conduct, providing guidelines for correct, ethical and responsible conduct of employees and executive bodies. Moreover, Aareal Bank's corporate governance is guided by a comprehensive set of internal rules and regulations, which provide concrete guidance on the conduct and processing of the bank's business, in line with legal and regulatory rules. All members of staff have access to these documents, via common internal communications channels such as the bank's intranet.

Description of Management Board and Supervisory Board work processes

The Supervisory Board

In accordance with Aareal Bank AG's Memorandum and Articles of Association, the Supervisory Board consists of twelve members. Once elected by the Annual General Meeting, the members of the Supervisory Board elect a Chairman and two Deputy Chairmen from amongst them, for the duration of their term of office. At present, Hans W. Reich serves as Chairman of the Supervisory Board. His deputies are Erwin Flieger (as shareholder representative) and York-Detlef Bülow (as employee representative). The members of the Supervisory Board were re-elected for a further term of office by the Annual General Meeting held on 19 May 2010. In the financial year 2010, employee representatives were elected by the special negotiating body, a body representing employees following the merger of Aareal Bank France S.A. into its parent company Aareal Bank AG. Since then, the composition of the Supervisory Board has changed as a result of the resignation of Mr Wolf R. Thiel and the appointment of Ms Marija G. Korsch as Mr Thiel's successor.

During the financial year under review, the Company's Supervisory Board comprised:

Hans W. Reich, Chairman of the Supervisory Board of Aareal Bank AG
Chairman of the Supervisory Board of Citigroup Global Markets Deutschland AG
Supervisory Board offices: Citigroup Global Markets Deutschland AG

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

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

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

Manfred Behrens
Chairman of the Management Board of AWD Holding AG
Supervisory Board offices: AWD Allgemeiner Wirtschaftsdienst AG, tecis Finanzdienstleistungen AG

Thomas Hawel*
Employee of Aareon Deutschland GmbH
Supervisory Board offices: Aareon Deutschland GmbH

Dieter Kirsch*
Employee of Aareal Bank AG

Marija G. Korsch (since 11 July 2012)
Former executive at Bankhaus Metzler seel. Sohn & Co. Holding AG
Supervisory Board offices: Just Software AG

Dr Herbert Lohneiß
Former Chief Executive Officer of Siemens Financial Services GmbH (ret'd.)
Supervisory Board offices: UBS Global Asset Management (Deutschland) GmbH

Joachim Neupel, Chairman of the Accounts and Audit Committee of the Supervisory Board
German Public Auditor and tax advisor

Prof Dr Stephan Schüller
Spokesman of the General Partners of Bankhaus Lampe KG
Supervisory Board offices: DePfa Holding Verwaltungsgesellschaft mbH, Universal-Investment-Gesellschaft mbH

Wolf R. Thiel (until 31 March 2012)
former President and Chairman of the Management Board of Versorgungsanstalt des Bundes und der Länder (until 31 March 2012)
Supervisory Board offices: DePfa Holding Verwaltungsgesellschaft mbH (until 31 March 2012)

Helmut Wagner*
Employee of Aareon Deutschland GmbH
Supervisory Board offices: Aareon Deutschland GmbH

* Employee representative to the Supervisory Board of Aareal Bank AG

Reference is made to the Corporate Governance Report concerning the independence of Supervisory Board members, for the purposes of the Corporate Governance Code. The shareholder representatives have sufficient professional knowledge to competently perform their duties. They have held – or still hold – executive positions in banks or insurance companies.

As a German Public Auditor and tax advisor – and hence, an independent financial expert – Joachim Neupel chairs the Accounts and Audit Committee of Aareal Bank AG's Supervisory Board.

The Supervisory Board conducts its business in the best interests of the Company and its Group entities, in accordance with the law, the Memorandum and Articles of Association, the internal rules of procedure, the German Corporate Governance Code (as amended from time to time), and Aareal Bank AG's Code of Conduct. The Supervisory Board determines which transactions have fundamental importance, and hence require the approval of the Supervisory Board.

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

Executive Committee

The Executive Committee advises the Management Board and prepares the resolutions of the Supervisory Board. The Executive Committee consists of the Chairman of the Supervisory Board, and up to four additional Supervisory Board members.

The committee has the following members:

Hans W. Reich	Chairman
York-Detlef Bülow	Deputy Chairman
Erwin Flieger	Deputy Chairman
Prof Dr Stephan Schüller	
Wolf R. Thiel (until 31 March 2012)	

The Executive Committee prepares the plenary meetings of the Supervisory Board, together with proposed resolutions. The committee's area of responsibility also includes assessing the internal condition of the Group, and issues concerning personnel planning for the Management Board (also regarding the contracts with individual Management Board members, based on the remuneration system adopted by the plenary meeting of the Supervisory Board). Where required, the Executive Committee prepares proposals for possible or necessary adjustments to the remuneration system for the Management Board. Furthermore, the Executive Committee discusses decision proposals regarding connected-party loans as well as other transactions between members of administrative, management and supervisory bodies and the Company or its subsidiaries.

Risk Committee

The Risk Committee consists of the Chairman of the Supervisory Board and up to five additional members. The committee has the following members:

Hans W. Reich	Chairman
Dr Herbert Lohneiß	Deputy Chairman
Christian Graf von Bassewitz	
Erwin Flieger	
Dieter Kirsch	
Joachim Neupel	

The Risk Committee deals with all types of risk Aareal Bank is exposed to in its business activities. Besides credit risks, this also encompasses market risks, liquidity risks, and operational risks, taking into account the bank's risk-bearing capacity as defined in the Minimum Requirements for Risk Management in Banks (MaRisk). The monitoring of credit risks also includes approving loans which, pursuant to the internal rules of procedure for the Management Board, require the approval of the Supervisory Board. This also includes decisions on connected-party loans pursuant to section 15 (1) nos. 6-12 of the German Banking Act (KWG), unless such loans are dealt with by the Executive Committee.

The committee is also responsible for reviewing the contents of the risk strategies, in accordance with the MaRisk. The submission of the risk strategies to the plenary meeting of the Supervisory Board remains unaffected by this function, as is intended by the MaRisk.

Committee for Urgent Decisions

The Committee for Urgent Decisions is a subcommittee of the Risk Committee. Its members are elected from amongst the members of the parent committee. The committee members are:

Hans W. Reich	Chairman
Christian Graf von Bassewitz	
Erwin Flieger	
Dr Herbert Lohneiß	
Joachim Neupel	

The Committee for Urgent Decisions takes lending decisions which, pursuant to the internal rules of procedure for the Management Board, require

Supervisory Board approval, and which are particularly urgent. Since the committee passes its resolutions by way of circulation, it does not hold any meetings. Any decisions which were taken between meetings of the Risk Committee were discussed at the subsequent meeting.

Accounts and Audit Committee

The Accounts and Audit Committee is concerned with all accounting issues, as well as regarding the audit of Aareal Bank AG and Aareal Bank Group. The committee is chaired by an independent financial expert as defined in section 100 (5) of the German Public Limited Companies Act (Aktiengesetz – "AktG").

During the financial year under review, the Accounts and Audit Committee had the following members:

Joachim Neupel	Chairman
Prof Dr Stephan Schüller	Deputy Chairman
Christian Graf von Bassewitz	
York-Delef Bülow	
Hans W. Reich	

The committee is responsible for the preparation and conduct of the audit of the financial statements and the consolidated financial statements; it prepares the decisions to be taken by the Supervisory Board on the basis of the committee's analysis of the external auditors' reports. For this purpose, the committee reports to the plenary meeting of the Supervisory Board on the results of its analysis and the assessments derived. Preparing the audit of the financial statements also comprises the preparations for instructing the external auditors (by virtue of the corresponding resolution passed by the Annual General Meeting), verifying the independence of the external auditors, negotiating the auditors' fees, and determining focal points of the audit. The Accounts and Audit Committee also discusses quarterly and half-yearly financial reports with the Management Board, and obtains the external auditors' report on their review of the half-yearly report. Furthermore, the Accounts and Audit Committee is responsible for examining the projections submitted by the Management Board; the reports by the Group Compliance Officer and Internal Audit are addressed to the committee. The Accounts and Audit Committee is also responsible for monitoring the effectiveness of the internal control system.

Nomination Committee

The members of the Nomination Committee are the Chairman of the Supervisory Board and Mr Erwin Flieger, Deputy Chairman; in accordance with the Code, the committee only comprises shareholder representatives. The committee is responsible for coordinating and carrying out the search for new shareholder representatives on the Supervisory Board, if a member representing shareholders retires from the Supervisory Board. When preparing the nomination of candidates for Supervisory Board membership, the Nomination Committee takes into account the prerequisites set out in the Code.

The Management Board

The Management Board manages Aareal Bank AG's business in accordance with the law, the German Corporate Governance Code, the internal rules of procedure for the Management Board adopted by the Supervisory Board, and the Code of Conduct of Aareal Bank AG. The Management Board develops the overall company strategy, discusses it with the Supervisory Board, and ensures its implementation. The Management Board distributes responsibilities amongst its members.

The members of the Management Board are:

Dr Wolf Schumacher, Chairman of the Management Board
Corporate Communications, Investor Relations, Corporate Development, Human Resources, Legal, Tax, Compliance, Audit and Operations
Dirk Große Wördemann, Member of the Management Board
Structured Property Financing, International Sales Units
Hermann Josef Merkens, Member of the Management Board
Finance, Risk Controlling, Credit Management and Workout
Thomas Ortmanns, Member of the Management Board
Institutional Housing Unit, Treasury, Organisation, Information Technology

The Management Board informs the Supervisory Board regularly, without delay and comprehensively, orally and in writing, on all issues in respect of which the Supervisory Board requires information to fully perform its duties and obligations.

Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Dear shareholders,

During the financial year under review, Aareal Bank AG once again enjoyed commercial success and achieved a good result despite a market environment that is still challenging. As was forecast at the start of the year, the bank generated consolidated operating profit that was down only slightly on the successful previous year.

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 as evidence for the viability and operative strength of the Group's business model.

The European sovereign debt crisis continued to impact upon developments on the international financial and capital markets during 2012. The struggle to find a permanent and viable solution for the debt problems of the countries in question was at the forefront of intensive discussions. The associated high level of market uncertainty generated sharp price fluctuations on the international exchanges. The willingness of the European Central Bank (ECB) in the third quarter of 2012 to buy government bonds on the secondary market under certain conditions drove down the risk premiums (spreads) for government bonds from the euro zone periphery countries.

The macro-economic environment in 2012 was also defined largely by the European sovereign debt crisis. This had negative implications for sentiment in the real economy and led to a weak or even declining economy in many locations. Economies in North America and Asia developed more favourably. The budget dispute in the US and related unresolved issues were highly significant, and also impaired the business climate there.

Against the background of the developments outlined above, Aareal Bank adhered to its cautious and forward-looking business policy, in the usual manner: at the outset of the year, the bank first secured the funding for its planned volume of new business. As a result, Aareal Bank AG had sufficient liquidity and a sound funding base at all times during the 2012 financial year.

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

Eight plenary meetings of the Supervisory Board were held during the year under review, of which five were scheduled meetings. Some of the extraordinary meetings were convened as telephone conferences. 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 the resulting high levels of uncertainty and volatility on the financial and capital markets.

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 decisions taken by 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 meeting in February focused exclusively on Aareal Bank's strategic options, and on the challenges presented in the prevailing market environment.

In the March meeting, the Supervisory Board concerned itself in detail with the financial statements and consolidated financial statements presented for the 2011 financial year, and with the auditors' report. The relevant facts were presented in the Supervisory Board report for the previous year. In addition, the proposal regarding the selection and subsequent appointment of the external auditor for the Annual General Meeting was discussed. This also included the scope and focal points of the audit for the 2012 financial year, as defined by the Supervisory Board. Other issues covered in the meeting in March included the preparations for the Annual General Meeting in May 2012. The meeting also discussed the annual reports of Internal Audit and the Compliance Officers; in accordance with the German Ordinance on Remuneration in Financial Institutions, the contracts with the members of the Management Board were submitted to the Supervisory Board and a resolution passed on the content of these contracts.

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 focal aspects of the audit for the 2012 financial year, as specified by the Supervisory Board, were discussed once again.

An extraordinary meeting was convened in June, during which the plenary meeting concerned itself with the proposal of the Nomination Committee to put forward Marija Korsch to the registrar of companies as a judicial appointment to succeed Wolf R. Thiel. Following an in-depth exchange of advice amongst its members and the presentation of the candidate, the Supervisory Board approved the proposal of the candidate. The appointment of Marija Korsch was conducted by the Wiesbaden local court with effect from 11 July 2012.

Another topic of discussion in the aforementioned meeting in June was a potential acquisition of a shareholding by subsidiary Aareon AG. This topic was discussed in more depth and agreed at a further extraordinary meeting held in July.

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 questions about the audit of the financial statements.

Within the scope of a further extraordinary meeting in October, the Supervisory Board discussed the strategic options currently available to Aareal Bank AG.

In the December meeting, the Management Board reported on the Group's corporate planning. The Management Board submitted and explained the corporate planning in detail to the Supervisory Board. 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 2012, 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 2012 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 regularly submitted to, and discussed by the Supervisory Board, in accordance with the Minimum Requirements for Risk Management in Banks (MaRisk). In this context, the Supervisory Board received a report on the status and 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. The members of the Supervisory Board have declared in writing that no conflicts of interest pursuant to section 5.5.2 of the Corporate Governance Code arose during the financial year under review, with one exception: namely a resolution on a loan that required the approval of the Supervisory Board. Given the interdependency between the Supervisory Board member and the anchor tenant of the financed property, the member of the Supervisory Board abstained from voting.

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

Activities of Supervisory Board committees

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

The Executive Committee of the Supervisory Board convened for three scheduled meetings and one extraordinary meeting. In the scheduled meetings, the Executive Committee prepared the proposed resolutions of the plenary meetings of the Supervisory Board. Matters pertaining to the Management Board were discussed in the extraordinary meetings.

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 finance 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 management, as well as 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 in detail the developments of the debt crisis and their implications for the business environment of Aareal Bank, the consideration of Aareal Bank's risk-bearing capacity and the detailed account of its capital ratios, as well as the implementation of the requirements in accordance with Basel III. It was also reported on the current additional amendments to MaRisk. 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 internal rules of procedure.

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

The Accounts and Audit Committee held six meetings during the year under review. During its meeting in March 2012, the Accounts and Audit

Committee received the external auditors' report on the 2011 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 2012 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 2012 financial year. In addition to a further updated 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, receiving detailed explanations. It discussed and duly noted the review of the internal control system, which was carried out in accordance with applicable law.

Furthermore, during the committee meetings in February, May, August and November 2012, the Management Board presented the quarterly results for the financial year, as well as the preliminary full-year results for 2011 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 2012 were discussed at a meeting in February 2013.

In its meeting on 20 March 2013, the Accounts and Audit Committee received the external auditors' detailed report on the audit and audit results for the 2012 financial year, and discussed these results extensively with the auditors and the Management Board.

The Nomination Committee convened twice in 2012. 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. Wolf R. Thiel resigned from his office with effect from 31 March 2012 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	24	of	24
Erwin Flieger	18	of	18
York-Detlef Bülow*	18	of	18
Christian Graf von Bassewitz	18	of	18
Manfred Behrens	5	of	8
Thomas Havel*	8	of	8
Dieter Kirsch*	12	of	12
Marija Korsch**	4	of	4
Dr Herbert Lohneiß	11	of	12
Joachim Neupel	18	of	18
Prof Dr Stephan Schüller	16	of	18
Wolf R. Thiel**	3	of	3
Helmut Wagner*	7	of	8

* employee representativet
** member of the Supervisory Board for only part of the financial year

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 2012, 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 auditor participated in the meeting of the Supervisory Board, during which the financial statements were discussed, and gave a detailed account of the results of their audit. The representatives of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft were available to the Supervisory Board to answer further questions, and to provide additional information. All questions were answered to the full satisfaction of the Supervisory Board.

The financial statements and management report of Aareal Bank AG, prepared in accordance with the HGB; and the consolidated financial statements and the group management report, prepared in accordance with IFRS and the proposal of the Management Board regarding the appropriation of profit and the audit report were examined in detail. No objections were raised to the audit results. In its meeting on 27 March 2013, the Supervisory Board approved the results of the audit. The Supervisory Board approved the financial statements and the 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, and thus confirmed the financial statements of Aareal Bank AG. The Supervisory Board examined and discussed with the Management Board its proposal regarding the appropriation of profit. On the basis of the discussion, the Supervisory Board endorsed the proposal for the appropriation of profit submitted by the Management Board.

Personnel matters

With effect from 31 March 2012, Wolf R. Thiel resigned from his office as member of the Supervisory Board. The Supervisory Board thanks Mr. Thiel for his long-standing and successful contributions to the bank's Supervisory Board. At the same time, the Supervisory Board welcomes new member Marija Korsch and looks forward to a fruitful and successful cooperation. Marija Korsch has many years of experience in the international banking business. Amongst other things, she held management positions at Vereins- und Westbank AG and in Bankers Trust, both in Germany and in the US. The most recent position she held was partner with responsibility for the corporate finance business at Bankhaus Metzler seel. Sohn & Co. Holding AG. The Supervisory Board is delighted to have acquired a proven expert in her field, who can offer her extensive experience in the international banking business to the work of the Supervisory 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 2012 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 2013

For the Supervisory Board

Hans W. Reich (Chairman)

Offices

Wiesbaden Head Office

Aareal Bank AG
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3480
Fax: +49 611 3482549

Structured Property Financing

Brussels
7, rue Guimard
1040 Brussels, Belgium
Phone: +32 2 5144090
Fax: +32 2 5144092

Copenhagen
St. Kirkestræde 1, 3
1073 Kopenhagen K, Denmark
Phone: +45 3369 1818
Fax: +45 70 109091

Istanbul
Ebulula Mardin Caddesi
Maya Meridyen Iş Merkezi
D:2 Blok · Kat. 11
34335 Akatlar-Istanbul, Turkey
Phone: +90 212 3490200
Fax: +90 212 3490299

London
38 Lombard Street
London EC3V 9BS, United Kingdom
Phone: +44 20 74569200
Fax: +44 20 79295055

Madrid
Paseo de la Castellana, 60 - 4D
28046 Madrid, Spain
Phone: +34 915 902420
Fax: +34 915 902436

Moscow
Business Centre "Mokhovaya"
4/7 Vozdvizhenka Street
Building 2
125009 Moscow, Russia
Phone: +7 499 2729002
Fax: +7 499 2729016

New York
Aareal Capital Corporation
250 Park Avenue
Suite 820
New York NY 10177, USA
Phone: +1 212 5084080
Fax: +1 917 3220285

Paris
29 bis, rue d'Astorg
75008 Paris, France
Phone: +33 1 44516630
Fax: +33 1 42662498

Rome
Via Mercadante, 12/14
00198 Rome, Italy
Phone: +39 06 83004200
Fax: +39 06 83004250

Shanghai
Suite 2902
Tower 2 Plaza 66
No. 1266 Nanjing West Road
Jing An District
Shanghai 200040, P.R. of China
Phone: +86 21 62889908
Fax: +86 21 62889903

Singapore
Aareal Bank Asia Limited
3 Church Street
17-03 Samsung Hub
Singapore 049483, Singapore
Phone: +65 6372 9750
Fax: +65 6536 8162

Stockholm
Hamngatan 11
11147 Stockholm, Sweden
Phone: +46 8 54642000
Fax: +46 8 54642001

Warsaw
RONDO 1
Rondo ONZ 1
00-124 Warsaw, Poland
Phone: +48 22 5449060
Fax: +48 22 5449069

Wiesbaden
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482950
Fax: +49 611 3482020

Aareal Estate AG
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482446
Fax: +49 611 3483587

Aareal Valuation GmbH
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482059
Fax: +49 611 3482640

Deutsche Structured Finance GmbH
Westendstrasse 24
60325 Frankfurt/Main, Germany
Phone: +49 69 9714970
Fax: +49 69 971497510

Consulting / Services

Aareal Bank AG
Institutional Housing Unit
Paulinenstrasse 15
65189 Wiesbaden, Germany
Phone: +49 611 3482967
Fax: +49 611 3482499

Institutional Housing Unit
Berlin Branch
Wallstrasse 9-13
10179 Berlin, Germany
Phone: +49 30 88099444
Fax: +49 30 88099470

Institutional Housing Unit
Essen Branch
Alfredstrasse 220
45131 Essen, Germany
Phone: +49 201 81008100
Fax: +49 201 81008200

Institutional Housing Unit
Hamburg Branch
Pelzerstrasse 7
20095 Hamburg, Germany
Phone: +49 40 33316850
Fax: +49 40 33316399

Institutional Housing Unit
Leipzig Branch
Neumarkt 2-4
04109 Leipzig, Germany
Phone: +49 341 2272150
Fax: +49 341 2272101

Institutional Housing Unit
Munich Branch
Prinzregentenstrasse 22
80538 Munich, Germany
Phone: +49 89 5127265
Fax: +49 89 51271264

Institutional Housing Unit
Rhine-Main Branch
Paulinenstrasse 15
65189 Wiesbaden, Germany
Hotline: +49 611 3482000
Fax: +49 611 3483002

Institutional Housing Unit
Stuttgart Branch
Büchsenstrasse 26
70174 Stuttgart, Germany
Phone: +49 711 2236116
Fax: +49 711 2236160

Aareon AG
Isaac-Fulda-Allee 6
55124 Mainz, Germany
Phone: +49 6131 3010
Fax: +49 6131 301419

Aareal First Financial Solutions AG
Isaak-Fulda-Allee 6
55124 Mainz, Germany
Phone: +49 6131 4864500
Fax: +49 6131 486471500

Deutsche Bau- und Grundstücks-Aktiengesellschaft
Chlodwigplatz 1
53119 Bonn, Germany
Phone: +49 228 5180
Fax: +49 228 518298

Deposit-taking

Dublin
4 Custom House Plaza · IFSC
Dublin 1, Ireland
Phone: +353 1 6369220
Fax: +353 1 6702785

Glossary

Accrued interest
Interest on debt securities (such as bonds, notes or Pfandbriefe) which has accrued since the last coupon payment date. When buying such a security, the buyer must pay accrued interest to the seller.

Ad-hoc disclosure
Pursuant to section 15 of the German Securities Trading Act (WpHG), issuers of securities are obliged to publish any information that may have an impact on the price of these securities without delay. This obligation is discharged using so-called "ad-hoc" disclosures which may relate to the issuer's financial position and performance, or to its general business operations. The ad-hoc disclosure obligation applies in Germany as well as in other major financial centres; it is designed to prevent insider trading.

Advanced Approach
Under the "Advanced Approach", a bank having sufficiently developed procedures for internal capital allocation (subject to strict requirements concerning methodology and disclosure) is allowed to use its internal credit quality ratings for a given borrower to assess the credit risk exposure of its portfolios.

AfS (available for sale)
This IFRS measurement category denotes financial assets which are available for sale by an enterprise, and which are not receivables, financial instruments held for trading (HfT) or held-to-maturity (HtM) financial instruments. AfS financial instruments are predominantly fixed-income securities which the enterprise cannot (or does not intend to) hold until maturity. They can also be equity instruments without a final maturity date.

Amortised cost
The amount at which a financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation of any premium or discount, and minus any reduction for impairment or non-collectibility.

Asset-backed securities
A special form of securitising payment claims in tradable securities that are structured by aggregating certain financial assets.

Associated enterprise (associate)
Enterprise which is accounted for in the consolidated financial statements using the equity method (as opposed to full or partial consolidation), over whose business or financial policies an entity included in the consolidated financial statements exercises significant influence.

Basel II
"Basel II" is used to refer to the Capital Accord adopted by the Basel Committee on Banking Supervision in mid-2004. The Basel Committee consists of representatives of central banks and banking supervisory authorities of the major industrial nations and other countries; it convenes regularly at the Bank for International Settlements (BIS) in Basle. The Basel Committee issues general strategic recommendations concerning the banking supervisory framework and standards. The Basel II regime sets out a framework for measuring risk-weighted assets, and defines minimum capital requirements for banks.

Bonds
Generic term for fixed-income securities or debt securities.

Capital markets
The markets for any kind of medium to long-term funds – in a narrower sense, generic term for supply and demand in securities.

Cash flow hedge
Using a swap transaction to hedge the risk of future variable-rate interest payments from an underlying on-balance sheet transaction.

Collateral
Rights granted to the bank by the borrower to facilitate enforcing the bank's claims in case of default. Collateral may be provided in the form of personal collateral (e.g. a guarantee) and impersonal collateral (e.g. a land charge). In principle, collateral reduces expected losses sustained by the bank in the event of default.

Consolidated statement of cash flows
Statement showing the cash flows an enterprise has generated and used during a financial year, from its operating, investment and financing activities, also showing cash and cash equivalents at the beginning and end of the financial year.

Corporate Governance
Corporate Governance denotes the legal and factual framework for the management and governance of enterprises. The recommendations of the German Corporate Governance Code provide transparency and are designed to strengthen confidence in good and trusting corporate governance. They predominantly serve shareholders' interests.

Cost/income ratio
Financial indicator expressing the ratio of expenses to income within a given reporting period.

Counterparty credit risk
Counterparty credit risk can be further distinguished into credit risk, counterparty risk, issuer risk and country risk; it denotes the potential loss in value which may be incurred as a result of the default (or deterioration of credit quality) of borrowing clients, issuers of promissory note loans or securities, or of counterparties to money market, securities or derivatives transactions.

Covered bonds
"Covered" bonds is a generic term for debt securities covered by collateral. In Germany, covered bonds are mainly issued in the form of "Pfandbriefe" pursuant to the German Pfandbrief Act (PfandBG), which provides a legal framework for collateralisation (assets eligible for Pfandbrief cover include mortgages and public-sector loans, as well as ship and aircraft financings).

Credit default swap (CDS)
Financial contract where the risk of a credit event specified in advance (such as insolvency, failure to pay, or deterioration of credit quality) is transferred from a protection buyer to a protection seller. The protection seller receives regular premium payments from the protection buyer in exchange for the assumption of credit risk, regardless of whether a credit event has actually occurred.

DAX®
German blue-chip index tracking the performance of the 30 largest German companies listed in Deutsche Börse's Prime Standard segment, measured in terms of order book turnover and market capitalisation. The index is calculated on the basis of price data from Xetra®, the electronic trading system of the Frankfurt Stock Exchange.

Debt security
Certificate whose issuer undertakes to repay the amount borrowed (plus current interest, or other form of performance) to the bearer.

Deferred taxes
Income taxes payable or receivable in the future, due to temporary differences between the carrying amounts of assets and liabilities in the IFRS balance sheet and the tax accounts. At the time of recognition, deferred tax assets or liabilities do not yet constitute any actual claims on, or liabilities to the tax authorities.

Derivatives
Derivatives – which include all types of forwards, futures, options and swaps – are financial instruments whose value is primarily derived from the price (and/or the price fluctuations) of an underlying instrument, such as equities, bonds or currencies.

Discount
The mark-down of cost from an asset's (or an instrument's) nominal value.

Earnings per share
Financial indicator expressing the ratio of net income after non-controlling interest income to the average number of common shares outstanding.

Effective interest method
Method for amortising the mark-up/mark-down between cost and the nominal value (premium/discount), using the effective yield of a financial asset or liability.

Effective return (effective yield)
Investment yield, expressed as the actual return on invested capital.

Equity method
Method for measuring shareholdings in enterprises on whose business policy the reporting entity has significant influence ("associates"). When applying the equity method, the associate's pro-rata net income/loss is recognised in the carrying amount of the shareholding; any distributions are recognised via a corresponding pro-rata reduction in the carrying amount.

Euribor
European Interbank Offered Rate – the interest rate at which prime European banks offer euro deposits (with fixed terms of one week, and between one and twelve months) to one another.

Fair value
The fair value is the amount for which an asset can be exchanged (or a liability settled) between knowledgeable, willing parties in an arm's length transaction; this is often identical to the market price.

Fair value hedge
Using a swap to hedge the market risk of a balance sheet item with a fixed interest rate (e.g. a receivable or a security); this is measured at fair value.

Financial instruments
Generic term for loans extended and other receivables, fixed-income securities, equities, shareholdings, liabilities, and derivatives.

German Accounting Standards
Recommendations for the application of (German) standards for consolidated financial statements, issued by the German Accounting Standards Board (GASB), a committee of the Accounting Standards Committee of Germany.

Goodwill
An asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

Hedge accounting
Concept describing the recognition (or other form of accounting) or two or more agreements (including financial instruments) which together form a hedging relationship. In this context, the relationship between two or more contracts is based in the equal and opposite specification of contractual elements giving rise to risks (usually financial risks). Due to these specifications, such agreements can be used to partially or fully offset and neutralise risks. In the context of hedge accounting, one of the contracts involved (specifically, the contract establishing the risk(s) concerned) is referred to as the "underlying transaction", and the other contract (the one entered into to hedge the risk(s) of the underlying transaction) as the "hedge transaction" or just "hedge".

Hedging
A strategy where a hedge is entered into in order to protect a position against the risk of unfavourable movements of prices or (interest) rates.

HtM (Held to Maturity)
Financial assets with a fixed term as well as fixed or determinable payments acquired from a third party, where the reporting entity has the intention and the ability to hold such financial assets to maturity.

International Accounting Standards (IAS)
Accounting standards issued by the International Accounting Standards Board (IASB), an international standard-setting body established by professional accountants' associations. The IASB's objective is to establish a single set of transparent, uniform international financial reporting standards.

International Financial Reporting Standards (IFRSs)
IFRSs comprise existing International Accounting Standards (IASs) and interpretations issued by the Standing Interpretations Committee, as well as future standards and interpretations published by the International Accounting Standards Board (IASB).

Investment property
Property (land or buildings) held to earn rental income or for capital appreciation, or both, rather than for use in the business operations.

LIBOR
London Interbank Offered Rate; the interest rate at which prime London banks offer deposits to one another.

MDAX®
The MDAX® mid-cap index comprises the shares of 50 companies from traditional sectors listed in Deutsche Börse's Prime Standard segment that, in terms of exchange turnover and market capitalisation, rank immediately below the companies included in the DAX®

blue-chip index. The index is calculated on the basis of price data from Xetra®, the electronic trading system of the Frankfurt Stock Exchange.

Medium-Term Notes (MTNs)
Debt issuance programme used to issue unsecured debt securities at different points in time; the volume, currency and term (1 to 10 years) of each issue can be customised to the issuer's prevailing funding needs.

Minimum Requirements for Risk Management (MaRisk)
The Minimum Requirements for Risk Management in Banks (MaRisk) are binding requirements for the structure of risk management in German banks, as promulgated by the German Federal Financial Supervisory Authority (BaFin) Setting out the specifics of section 25a of the German Banking Act (KWG), BaFin has consolidated the previously-applicable Minimum Requirements for the Trading Activities of Credit Institutions (MaH), Minimum Requirements for the Internal Audit Function of Credit Institutions (MaIR) and Minimum Requirements for the Credit Business of Credit Institutions (MaK), updating and supplementing them in the process.

Nominal interest rate
Return of a security defined by reference to its nominal amount.

Premium
The mark-up of cost over an asset's (or an instrument's) nominal value.

Present value
The present value of a future cash flow, determined by discounting all future cash flows (inflows and outflows) to today's date.

Profit-participation certificate
Securitised profit-participation rights which may be issued by enterprises (regardless of their legal form) and listed in official (exchange) trading. Subject to certain conditions, profit-participation certificates may be eligible for inclusion in liable capital.

Public Sector Pfandbriefe
Debt securities issued by Pfandbrief issuers (Pfandbrief banks), which are collateralised by claims against the public sector.

Rating
Risk assessment regarding a borrower (internal rating) or credit quality assessment regarding an issuer and its debt securities by a specialist rating agency (external rating).

Real property lien
A property lien is a legal claim on a real property granting the holder a specified amount of money upon the sale of the property. In Germany, the establishment and realisation of real property liens are subject to extensive legal regulations. In practice, banks use a land charge (Sicherungsgrundschuld) which secures the claim of the land charge owner (the bank) against the owner of a property, by way of a collateralisation agreement.

Repurchase transaction (repo transaction)
Short-term money-market transaction collateralised by securities.

Return on equity (RoE)
Financial indicator expressing the ratio of net income (or pre-tax profit, for example) to average equity over the period. RoE expresses the return on the capital employed by the company (and its owners/shareholders).

Revaluation surplus
The revaluation surplus is used to recognise changes in the market value of securities and available-for-sale assets (AfS – measurement category in accordance with IAS 39) directly in equity. Deferred taxes are taken into account for the amounts recognised.

Segment reporting
Breakdown of aggregate consolidated figures across individual segments, by type of activity (business segment) or by geographical location (region). The segment reporting permits conclusions regarding developments in the various segments, and their individual contribution to consolidated net income.

Swap
Generic term for contracts to exchange cash flows: common types are the exchange of fixed-rate and variable-rate cash flows in the same currency (interest rate swap), or the exchange of cash flows and/or nominal amounts in different currencies (cross-currency swap).

Unwinding
Change in the present value of allowance for credit losses (determined using present values) which is solely attributable to the unwinding of cash flows (i.e. of the recoverable amount) on the reporting date.

Value at risk
Method to quantify risks: it measures the maximum

Financial Calendar

7 May 2013	Presentation of interim report as at 31 March 2013
22 May 2013	Annual General Meeting – Kurhaus, Wiesbaden
August 2013	Presentation of interim report as at 30 June 2013
November 2013	Presentation of interim report as at 30 September 2013

Imprint
Contents:
Aareal Bank AG, Corporate Communications
Photographs:
Christian Lord Otto Fotodesign, Dusseldorf, Germany:
p. 6, 10/11, 14/15, 22/23, 34/35, 38/39
Other sources:
Eibe Sönnecken, Darmstadt, Germany: p. 18/19
Dimitri Vervitsiotis, Getty Images: Titelbild
Jorg Greuel, Getty Images: p. 14/15
Layout/Design:
S/COMPANY · Die Markenagentur GmbH, Fulda
Conception/Design (Fundament des Wandels):
Scholz & Friends Düsseldorf GmbH, Germany
Production:
ABT Print und Medien GmbH, Weinheim, Germany

Corporate Responsibility Prime rated by oekom research

Print CO2 verified

MIX Label from responsible sources FSC® C018996

Aareal Bank AG
Investor Relations
Paulinenstrasse 15
65189 Wiesbaden, Germany

Phone: +49 611 348 3009
Fax: +49 611 348 2637
E-mail: aareal@aareal-bank.com
www.aareal-bank.com

03/2013

Aareal Bank Group