

## Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Dear shareholders,

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

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

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

Global economic growth lost momentum, particularly during the second half of 2011. Growth forecasts for important regions in the world and for the global economy as a whole have been downgraded frequently. The environment in the property sector was stable to slightly better than in the previous year. The capital increase which Aareal Bank AG executed successfully in April 2011 was

a highlight for the bank during the financial year under review. Gross issuing proceeds were used to generate new business in the Structured Property Financing segment, as well as to strengthen the bank's capitalisation; a portion of the proceeds was applied to a further repayment of the SoFFin silent participation. Moreover, in April 2011 Aareal Bank AG carried out an early redemption of the SoFFin-guaranteed € 2 billion bond maturing in June 2013, which the bank held on its own books. With the partial repurchase of the remaining SoFFin-guaranteed notes maturing in March 2012, Aareal Bank further reduced its obligations to SoFFin.

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

During the financial year under review, the Supervisory Board continually advised, monitored, and supervised the management of Aareal Bank AG. The Management Board informed the Supervisory Board regularly, without delay and comprehensively, both orally and in writing, of all issues important

to the Group with regard to its situation, business development, key financial indicators, and market developments. In addition, detailed reports and explanations were given to the Supervisory Board regarding the current liquidity status and liquidity management measures taken, the prevailing risk situation, and the risk control and risk management measures taken within the Group. The Supervisory Board also received comprehensive reports on the development of business segments, and on operative and strategic planning. The Supervisory Board was informed about, and involved in all important decisions. All material events were discussed and examined in detail; where a Supervisory Board resolution was required, the decision proposals were submitted to the Supervisory Board and a decision taken. In cases where resolutions needed to be passed in between scheduled Supervisory Board meetings, such resolutions were passed by way of circulation or via conference calls.

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

### Activities of the plenary meeting of the Supervisory Board

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

with the impact of continued high levels of financial market uncertainty and volatility.

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

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

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

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

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

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

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

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

The purpose of the May meeting of the Supervisory Board was to follow up on the Annual General Meeting of Aareal Bank AG, which preceded the meeting. The realignment of the remuneration system for the Supervisory Board, as resolved by the General Meeting, necessitated adjustments of the Declaration of Compliance to be published

in accordance with the German Corporate Governance Code; these adjustments were discussed and adopted. Additional topics included a further discussion concerning the focal points of the audit, as specified by the Supervisory Board, and a final report submitted by the Management Board on the capital increase carried out.

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

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

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

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

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

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

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

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

### Activities of Supervisory Board committees

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

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

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

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

The Risk Committee held four meetings during the year under review. The Management Board submitted detailed reports to the committee, covering all markets in which the bank is active in the property financing business, as well as supplementary reports regarding the bank's investments in securities portfolios. The committee members discussed these reports and market views in detail.

The committee discussed the banking environment and the situation of the bank's competitors. The committee also regularly dealt with loans requiring approval and transactions subject to reporting requirements. The committee discussed individual exposures of material importance to the bank, which were presented and explained by the Management Board. Also, detailed reports were given regarding the bank's liquidity status and funding.

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

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

The Accounts and Audit Committee held six meetings during the year under review. During its meeting in March 2011, the Accounts and Audit

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

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

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

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

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

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

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

\* Employee representative

### Transactions of particular importance during 2011

During its meeting on 13 April 2011, the Supervisory Board approved the proposal submitted by the Management Board to carry out a capital increase against cash contributions in the form of a rights issue, and also approved the key para-

meters defined. With the placement, Aareal Bank raised gross issuing proceeds of approximately € 270 million. In this context, the Supervisory Board also approved the Management Board's proposal for the appropriation of these proceeds.

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

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

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

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

### Financial statements and consolidated financial statements

The Supervisory Board instructed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, who were elected as auditors by the Annual General Meeting 2011, with the audit of the financial statements. The

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

All members of the Supervisory Board received the audit reports regarding the financial statements and the consolidated financial statements, including all annexes thereto, in good time before the meeting during which the audit results were discussed. Having examined the documents provided, the Supervisory Board members formed their own judgement of audit results. The representatives of the external auditors, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, attended the Supervisory Board meeting during which the financial statements were discussed, giving a detailed account of the results of their audit and were available to answer further questions, and to provide additional information. All questions were answered to the full satisfaction of the Supervisory Board.

No objections were raised following the detailed examination of the financial statements and Management Report of Aareal Bank AG, prepared in accordance with the HGB; the consolidated financial statements and the Group Management Report prepared in accordance with IFRS; the proposal of the Management Board regarding the appropriation of profit; and the audit report. In its meeting on 28 March 2012, the Supervisory Board approved the results of the audit. The Supervisory Board approved the financial statements and Management Report of Aareal Bank AG, prepared

in accordance with the HGB, together with the consolidated financial statements and the Group Management Report prepared in accordance with IFRS. The financial statements and Management Report of Aareal Bank AG are thus confirmed. Having examined and discussed it with the Management Board, the Supervisory Board has endorsed the proposal for the appropriation of profit submitted by the Management Board.

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

**Kronberg, March 2012**

**For the Supervisory Board**



**Hans W. Reich (Chairman)**