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2008

Regulatory Disclosure Report for the 2008 financial year of Aareal Bank Group

Aareal Bank Group

Key Financial Indicators

	Annual Report [1]	Regulatory Report [2]
Euro mn		
Regulatory capital	**2,778**	**2,687**
Tier 1 capital	1,863	1,772
Tier 2 capital	915	915
Tier 3 capital	0	0
Regulatory capital requirements	**1,859**	**1,859**
Counterparty risk	1,778	1,778
Market risk	4	4
Operational risk	77	77
Surplus	**919**	**828**
%		
Tier 1 ratio	8.0	7.63
Total capital ratio	12.0	11.56

[1] Amounts after confirmation of Aareal Bank AG's financial statements in accordance with the HGB.
The inclusion of retained earnings transferred as part of Aareal Bank AG's liable capital as at 31 December 2008 is subject to approval by the Annual General Meeting.
[2] Figures reported to the supervisory authorities as at the reporting date of 31 December 2008.

Contents

Regulatory Disclosure Report for the 2008 financial year

Introduction

Aareal Bank Group has published its first Regulatory Disclosure Report for the 2008 financial year pursuant to section 26a of the German Banking Act (Kreditwesengesetz – "KWG"). This report covers the strategy the bank has adopted for the purpose of managing risks arising from the ordinary business activities of domestic and international companies operating in the financial sector.

In addition to the details contained in the Aareal Bank Group Annual Report, this report explains the business policy standards and facts that are relevant for assessing our situation from a regulatory perspective. Besides providing a qualified description of the manner in which our risks are identified, evaluated, weighted and reviewed, the report also contains detailed quantitative statements about the sizes of the individual areas.

Summary

Aareal Bank Group is subject to disclosure pursuant to sections 10 and 10a of the KWG in the 2008 financial year. This is due to the fact that Aareal Bank Group has elected to use the waiver option provided by section 2a (6) of the KWG, whereby the reports for financial holding companies or banking groups may be prepared on a consolidated basis. Aareal Bank AG, whose registered office is in Wiesbaden, Germany, is the parent institution of the Group.

We applied the transitional regulation in accordance with section 339 (9) of the German Solvency Regulation (Solvabilitätsverordnung – "SolvV") during 2007, so that a report in accordance with the SolvV for Aareal Bank Group was submitted to Deutsche Bundesbank for the first time on 31 March 2008.

The conversion of the report from the former legal situation to the new reporting guidelines had little effect on the total capital ratios. Our business model is hardly affected by the planned changes in the inclusion rates for specific risk groups compared with the previous wording of the SolvV.

The details we have published in this disclosure report are based on the Credit Risk Standard Approach (CRSA). The disclosures on the IRB approach, as required in sections 329 and 335 of the SolvV, are therefore not applicable. This is also relevant to details concerning operational risks when applying an advanced approach, as set out in section 337 of the SolvV.

In accordance with section 320 (1) sentence 2 of the SolvV, we only reported those facts that were not already disclosed in other Group publications. In these cases, we refer specifically to the information included in the corresponding source references.

Regulatory Capital

The legislator stipulated in sections 10 and 10a of the KWG that institutions and companies operating in the financial sector must calculate existing regulatory capital on a regular basis, and present these detailed results to the supervisory authority on specific dates.

Strict regulatory criteria are applied to the availability and sustainability of the qualifying capital when calculating regulatory capital. These provisions are not consistent with the recognition rules pursuant to the German Commercial Code (HGB) or IFRS.

Regulatory capital is determined on the basis of balance sheet items recognised in accordance with the HGB. On the other hand, the amounts shown in the "Equity" line item in the Aareal Bank Group Annual Report are calculated in accordance with IFRS.

For this reason, the details stated regarding equity correspond to the equity amounts recognised in the balance sheet (as shown in the Annual Report) with respect to certain items only. Furthermore, a comparison is hampered – on the one hand, with respect to the regulatory and accounting treatment of the various entities within the scope of consolidation, and on the other hand,

Euro mn	Annual Report	Regulatory Report
Total Tier 1 capital in accordance with section 10 (2a) of the KWG	**1,863**	**1,772**
Paid-in capital	1,048	1,038
Other eligible reserves	655	651
Special item for general banking risks	132	60
Other components of Tier 1 capital	53	53
Amounts to be deducted from Tier 1 capital	-25	-30
Tier 2 capital pursuant to section 10 (2) of the KWG	**915**	**915**
Class 1 Tier 2 capital (profit-participation certificates)	418	418
Class 2 Tier 2 capital (subordinated equity)	507	507
Amounts to be deducted from Tier 2 capital	-10	-10
Tier 3 capital pursuant to section 10 (2c) of the KWG	**0**	**0**
Amounts to be deducted from tier 3 capital in accordance with sections 10 (6) and (6a) of the KWG	**0**	**0**
Regulatory capital	**2,778**	**2,687**

due to the different carrying amounts applied at times for individual Group entities.

Overview

The regulatory capital stated as at the reporting date 31 December 2008 was based on the previous year's balance sheet. We took into account changes to balance sheet items that occurred before the end of the year only to the extent permissible , and where necessary.

The overview includes the regulatory capital stated in the report as at 31 December 2008 pursuant to sections 10 and 10a of the KWG, as well as the amounts stated after confirmation of the 2008 consolidated financial statements of Aareal Bank Group. The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2008 is subject to approval by the Annual General Meeting.

After confirmation of the financial statements as at the reporting date of 31 December 2007, Aareal Bank Group had total assets in the amount of € 40.2 billion. Regulatory capital as defined by the KWG totalled approx. € 2,702 million.

Compared with 2007, our regulatory capital as at the reporting date of 31 December 2008 increased to € 2,778 million. The operating and methodical reasons for this change are explained in detail in the Group Management Report.[1)]

The composition of equity is explained in our Annual Report, also in relation to the regulatory assessment.[2)] For this reason, we have only described factors that go beyond the above.

Tier 1 capital

Tier 1 capital, which amounted to approx. € 1,760 million as at 31 December 2007, increased to € 1,863 million one year later. The total comprises 91 % paid-up capital and reserves.

Aareal Bank Capital Funding LLC and Aareal Bank AG contributed € 250 million and € 128 million respectively to the Group's aggregate of issued share capital and recognised capital (€ 413 million).

[1)] Aareal Bank Group Annual Report 2008: chapter "Assets and Financial Position" in the Group Management Report and chapter "Other Notes" (Note 82) in the notes to the consolidated financial statements.
[2)] Aareal Bank Group 2008 Annual Report: chapter "Notes to the Consolidated Balance Sheet", notes (63) and (64).

Preferential participation certificates issued by Aareal Bank Capital Funding LLC are included as equity component. The total equivalent of these certificates is recognised as Tier I capital (so-called ”innovative Tier I model“) for regulatory purposes.

The voting rights are held by Aareal Bank AG alone. The issue that was rated ”A“ by Fitch Ratings at issuance has an indefinite term but can be called by the bank on the annual coupon payment date. Interest payments are dependant on Aareal Bank AG’s net retained profit; omitted interest payments are not paid retrospectively.

Aareal Bank AG’s capital comprises no-par value bearer shares (”unit shares“). Each share carries one vote.

Contributions by silent partners to Aareal Bank AG in the amount of € 220 million qualify for inclusions as liable equity pursuant to section 10 (4) of the KWG, and are thus fully included as regulatory Tier I capital.

Capital reserves shown as paid-up capital are generated mainly from Aareal Bank AG’s business activities. Including consolidation effects, capital reserves eligible for inclusion amount to € 405 million.

Other reserves eligible for inclusion show a similar effect: Aareal Bank AG’s retained earnings account for the largest individual share by far of this amount.

Other Tier I capital components result from goodwill in accordance with section 10a (6) sentences 8 and 9 of the KWG.

Tier 2 capital

Tier 2 capital is split into two classes for regulatory purposes. At Aareal Bank, Class I comprises only profit-participation certificates and Class 2 longer-term subordinated liabilities.

Profit-participation certificates issued comply with the provisions of section 10 (5) of the KWG; they comprise roughly two-thirds of bearer profit-participation certificates issued by Aareal Bank AG, and one-third of registered profit-participation certificates.

The profit-participation certificates feature different lifetimes, whereby only € 418 out of a total of € 423 million issued is eligible for inclusion in regulatory capital.

Pursuant to the terms and conditions of issue, holders of profit-participation certificates have a claim on interest payments that takes preference over the profit entitlements of shareholders. Where a distribution during the term of the profit-participation certificates would cause a net loss, said interest claim would be reduced, creating a claim for 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 following 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.

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.

Amounts to be deducted

Deductions of € 30 million for intangible assets are recognised in core capital, in accordance with section 10 (2a) sentence 2 of the KWG. Tier 2 capital is reduced by € 10 million from goodwill, pursuant to section 10a (6) sentences 9 and 10 of the KWG.

There are no circumstances that would lead to a deduction from Tier 1 and Tier 2 capital, or a deduction from modified available equity, in accordance with section 10 (6a) of the KWG. Similarly, there are no infringements of large-volume exposures or other deductions.

Group Structure

Aareal Bank AG, whose registered office is in Wiesbaden, Germany, and is the parent institution of the Group, prepares this disclosure report in accordance with section 10a (1 to 3) of the KWG.

Aareal Bank Group is one of the leading international specialist property banks. It also provides advisory and other services to the commercial property and the institutional housing sectors. It supports German and international clients, as a financing partner and related service provider.

Consolidated companies

The Group comprises various controlled entities, some of which hold participating interests in each other. These entities are consolidated for accounting and regulatory monitoring purposes. Applicable accounting and regulatory rules differ in some areas in relation to their legal objectives.

Hence, the scope of consolidation created on the basis of the legal requirements differs, in terms of the number of consolidated entities, as well as regarding the method of consolidation.

We have listed below all of the Group entities that are consolidated on the basis of regulatory aspects or were included within the framework of Group accounting [3] with minimum equity of € 1 million as at the reporting date. We deem it irrelevant to list the smaller or bare-shell companies.

The Group's business model comprises two segments:

1. Structured Property Financing

Structured Property Financing, which brings together all of Aareal Bank Group's commercial property finance and refinancing activities, is at the core of our Group.

We have many years of experience in domestic and international commercial property finance, and service clients in more than 25 countries. We are active in Europe, North America and Asia within the scope of our "three-continent strategy".

Consolidated entities in accordance with regulatory and accounting rules

In this segment, the following companies are fully consolidated under both regulatory and accounting rules:

- Aareal Bank Asia Ltd., Singapore
- Aareal Bank France S.A., Paris
- Aareal Capital Corporation, New York
- Aareal Bank Capital Funding LLC, Wilmington
- Aareal Estate AG, Wiesbaden
- Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG, Wiesbaden
- Aareal Gesellschaft für Beteiligungen und Grundbesitz Dritte mbH & Co. KG, Wiesbaden
- Aareal Partecipazioni S.p.A., Rome
- Aareal Valuation GmbH, Wiesbaden
- Ankaret Invest S.A., Brussels
- arsago Alternative Investments SPC, Grand Cayman
- BauBo Bau- und Bodenverwertungs- und -verwaltungsgesellschaft mbH, Wiesbaden
- Deutsche Structured Finance GmbH, Frankfurt
- Deutsche Structured Finance GmbH & Co. Titan KG, Frankfurt
- DSF Anteils GmbH, Frankfurt
- DSF LUX INTERNATIONAL S.à.r.l, Luxembourg
- GEV GmbH, Wiesbaden
- IV Beteiligungsgesellschaft für Immobilien-investitionen mbH, Wiesbaden

[3] Shareholdings shown in accordance with Section 313 (2) of the HGB. Aareal Bank Group prepares its financial statements in accordance with IFRS.

- La Sessola S.r.l., Rome
- Mercadea S.r.l., Rome
- Rehabilitationsklinik Barby Besitzgesellschaft mbH, Barby / Elbe
- Terrain-Aktiengesellschaft Herzogpark, Wiesbaden
- ZMP Zentral Messepalast Entwicklungsgesellschaft mbH, Wiesbaden

Rehabilitationsklinik Elbe-Saale GmbH, Barby, which is a provider of ancillary services, is accounted for using the equity method under accounting rules, and included at 49 % from a regulatory perspective.

Entities consolidated in the financial statements which are subject to a deduction of regulatory capital

The subordinated companies, B&P / DSF Windpark GbR, Frankfurt, and DSF Verwaltungsgesellschaft mbH, Frankfurt, are exempted by the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – "BaFin") from regulatory consolidation in accordance with section 31 (3) of the KWG. These companies are therefore deducted from equity. The first company is accounted for in the financial statements using the equity method, whilst the second company is fully consolidated.

Companies that are consolidated in the financial statements, but not included for the purposes of regulatory capital

We treat companies that are consolidated in accordance with IFRS (but which are not consolidated or deducted from equity under the KWG) as risk-weighted investments from a regulatory perspective. The following other entities are only consolidated in full in the financial statements:

- Aareal Financial Service Polska Sp.z o.o., Warsaw
- Aareal-Financial Service, spol. s r.o., Prague
- Aareal Participations France S.à.r.l., Paris
- Aareal Property Services B.V., Amsterdam
- BauContact Immobilien GmbH, Wiesbaden
- Grundstücksgesellschaft Berliner Allee Freiburg mbH, Wiesbaden
- Rehabilitationsklinik Templin Besitzgesellschaft mbH, Templin

Additionally, some companies are accounted for using the equity method, and are deemed to be risk-weighted investments from a regulatory perspective:

- Deutsche Interhotel Holding GmbH & Co. KG, Berlin
- Deutsche Operating Leasing AG, Frankfurt
- Fachklinik Lenggries GmbH, Lenggries
- Rehabilitationsklinik Uckermark GmbH, Templin
- Westhafen-Gelände Frankfurt am Main GbR, Frankfurt

2. 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, Aareal Bank AG's Institutional Housing Business cooperates closely with the subsidiary Aareon AG.

Aareon AG provides IT systems consultancy and other services to the institutional housing sector. Aareal First Financial Solutions AG is responsible for IT development.

Consolidated entities in accordance with regulatory and accounting rules

The following entities in this segment, with total assets in excess of € 1 million, are fully consolidated from both a regulatory and accounting perspective:

- Aareal First Financial Solutions AG, Wiesbaden
- Aareal IT Beteiligungen GmbH, Wiesbaden
- Aareon AG, Mainz

Companies that are consolidated in the financial statements, but not included for the purposes of regulatory capital

The following entities in this segment are consolidated only for accounting purposes, and are deemed to be risk-weighted investments from a regulatory perspective:

- Aareon Deutschland GmbH, Mainz
- Aareon UK Ltd., Coventry

- Aareon Wodis GmbH, Dortmund
- BauSecura Versicherungsmakler GmbH, Hamburg
- Deutsche Bau- und Grundstücks-Aktiengesellschaft, Berlin

Innovative Banking Solutions AG, Wiesbaden, is accounted for using the equity method, and deemed to be a risk-weighted investment from a regulatory perspective.

Undercapitalised entities

At present, none of the banks or financial services providers within Aareal Bank Group are undercapitalised, which would require a deduction of the holding from the parent company's liable equity.

Utilisation of the "waiver" regulation

The "waiver" regulation pursuant to Section 2a (6) of the KWG allows banking groups to calculate regulatory capital on a consolidated basis only. The Group has opted for the simplified reporting scheme in accordance with sections 10 and 13a of the KWG since 30 September 2007.

Aareal Bank AG's participatory interests in its subsidiaries allows it to transfer capital from subordinated subsidiaries to Aareal Bank AG, if necessary. This can be achieved, for example, through distributions to Aareal Bank AG or by capital decreases at the subsidiaries. The bank can also request its subsidiaries to repay the liabilities.

Accordingly, there are no burdens (neither legal, nor materially factual) as per section 2a (6) sentence 1 no. 1 of the KWG to the immediate transfer of capital or repayment of liabilities by the subsidiaries to Aareal Bank AG.

As the parent institution of the Group, Aareal Bank AG operates a central risk management system for the banking group which it is also a part of. This means that the prerequisites stated in Section 2a (6), sentence 1 no. 2 of the KWG regarding the combined supervision of risk assessment, risk measurement and risk control procedures are fulfilled.

Aareal Bank AG carries out event-driven reviews to ensure it continues to fulfil the prerequisites of Section 2a (6) of the KWG.

Capital Adequacy

Besides calculating existing regulatory capital on a regular basis, companies operating in the financial sector are also obliged to define the ratio between regulatory capital and specific risks defined for regulatory purposes.

The purpose of this calculation is to examine to what extent a bank or banking group can appropriately cushion potential defaults through existing regulatory capital.

Calculating relevant indicators

Capital adequacy is determined by comparing regulatory capital with the total capital requirements for counterparty risk exposures, operational risks and market risk.

Overall, the ratio of existing regulatory capital and capital requirements through counterparty, market and operational risks may not fall below eight percent. This ratio is reflected by the so-called total capital ratio.

Unlike the total capital ratio, the Tier 1 ratio is determined by comparing only Tier 1 capital with the capital requirements due to counterparty, market and operational risks.

Total capital ratio and Tier 1 ratio

Despite the difficult market situation overall in 2008, our total capital ratio is well above the minimum threshold and remained largely unchanged during the year. On the one hand, this is due to Aareal Bank Group's stable, comfortable capitalisation. On the other hand, the bank's risk management is designed in such a way that risks are examined closely before accepting or granting loans. The risk exposure is constantly reviewed in relation to its sustainability.

The following table provides an overview of the disclosed regulatory capital and capital requirements as at 31 December 2008.

Euro mn	
Regulatory capital	**2,687**
Tier 1 capital	1,772
Tier 2 capital	915
Tier 3 capital	0
Regulatory capital requirements	**1,859**
Counterparty risk	1,778
Market risk	4
Operational risk	77
Surplus	**828**
%	
Tier 1 ratio	7.63
Total capital ratio	11.56

Additional information pertaining to the individual items of the regulatory capital requirements can be found in the following chapters.

Internal capital management

The commercial assumptions underlying the risk-bearing capacity approach, plus the concrete procedure for creating and monitoring the aggregate risk cover, plus the general management of internal capital, are all described in the Annual Report [4].

Risk Management

The Annual Report [5] contains a comprehensive description of our risk management approach, including the corresponding organisational structure and workflows in the lending and trading businesses, as well as the methods and procedures used for measuring and monitoring risk exposure.

The fundamental assumptions and approaches for managing risk, and the strategies applied for dealing with the individual risks identified (counterparty risk, market price risk, liquidity risk, operational risk, and investment risk), together with the established processes, procedures and methods, are all explained within the scope of risk reporting.

This also includes risks that arise in relation to the business activities of individual group entities, and for which there is no obligation to provide a detailed report for the purposes of meeting the regulatory disclosure requirements. Our Group management considers these to the same extent as those risks that are stated explicitly in the German Banking Act and in the Solvency Ordinance.

Counterparty Risk

Several types of risk are aggregated under the regulatory concept of ”counterparty default”. This includes 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. The concept also includes extended guarantees, and any deterioration in the value of assets.

The capital requirements for a transaction's counterparty risk are essentially based on the following:

1. the regulatory classification (balance sheet, off-balance sheet, or derivatives business);
2. the residual amount / liability; and
3. the probability of default.

The borrower's credit quality is relevant for measuring the default probability of a loan. Borrowers are divided into asset classes and then weighted according to their credit rating.

The type and quality of the collateral contractually pledged by the borrower can reduce regulatory capital requirements to a certain extent.

[4] Aareal Bank Group 2008 Annual Report: chapter ”Risk-bearing capacity and risk limits” in the Risk Report of the Group Management Report.
[5] Aareal Bank Group 2008 Annual Report: Risk Report of the Group Management Report.

Calculation approach

Section 8 of the SolvV allows different approaches to be taken when calculating total risk in relation to counterparty default.

We calculate counterparty risk by means of the so-called Credit Risk Standard Approach (CRSA). This approach uses the parameters defined by the regulatory framework for calculating risk and specific standardised collateral required to mitigate credit risk exposure.

Regulatory capital requirements

Aareal Bank Group continued to focus consistently on its core business during 2008. Overall regulatory capital requirements arising from counterparty risk were largely unchanged during the course of the year. Although the Bank continued to expand its total exposure, this apparent variance is explained by the fact that we significantly enhanced the quality of our portfolios and collateral ratio.

As well as expanding our business operations, we also changed the allocation to asset classes over the year, making use of our call option for several securitised transactions during the second half of 2008. Aareal Bank AG also concluded an agreement in the second quarter on the disposal of a portfolio of residential property loans totalling € 1.47 billion to Deutsche Postbank AG. The portfolio consisted of Aareal Bank exposures in the amount of around € 1,040 million, plus roughly € 430 million from DEPFA Deutsche Pfandbriefbank AG's residual property finance portfolio, which Aareal Bank managed since 1999.

We have therefore continued to consistently reduce our exposure to the retail business, which is classified under the "retail credit lines" asset class.

As at 31 December 2008, no settlement or risks associated with outstanding delivery had to be taken into account when determining counterparty usage limits.

Based on the CRSA calculation approach, the following regulatory capital requirements from counterparty risk exposures were determined as at 31 December 2008, by asset class:

Euro mn	
CRSA asset classes	**1,778**
Sovereign governments	0
Regional governments and similar entities	1
Other public-sector entities	1
Multilateral development banks	0
International organisations	0
Institutions	55
Covered bonds	8
Corporates	1,320
Retail lending business	5
Items secured by property	288
Investment fund units	25
Investments	21
Securitisations	16
Other items	13
Past due exposures	25

Volume of loans and advances

The figures presented below contain all receivables pursuant to section 19 of the KWG that are subject to counterparty risk as defined in the German Solvency Ordinance. Loans and advances to borrowers therefore represent only part of the total volume. Investments and purchased, securitised receivables are not included; these are presented in separate chapters.

The amounts are based on the carrying amounts calculated in accordance with section 49 (2) of the SolvV, or the credit equivalent amounts for derivative transactions pursuant to sections 17 et seq. of the SolvV. Securities are taken into account in line with their amounts carried on the balance sheet.

Essentially, the volume of receivables is therefore calculated on the basis of the economic rather than the regulatory assessment. In view of the restrictions and different scope of consolidation stated above, a reconciliation with the items reported in the Annual Report (especially regarding disclosures in accordance with IFRS 7) is only possible to a limited extent.

In terms of value, the volume of receivables does not take into account either the collateral provided, or CRSA risk weightings or conversion factors pursuant to section 50 of the SolvV.

Therefore, the sum of the economic receivables cannot therefore be compared with the regulatory volume, particularly in relation to loan commitments.

86 % of our receivables have a remaining term to maturity of more than one year.

We monitor the borrower groups by assigning borrowers into five groups using the industry code defined by Deutsche Bundesbank. Commercial borrowers ("Corporates"), which account for a 63 % share, are our most important group. Public-sector entities and institutions account for roughly 35 % of borrowers or issuers relative to the total volume of receivables.

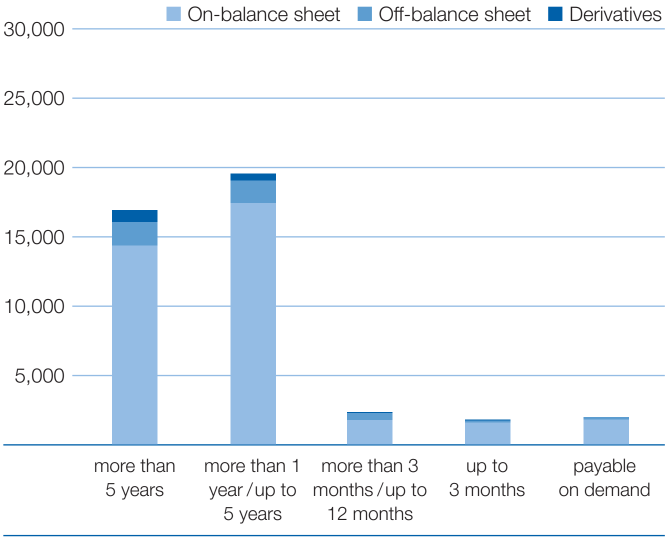
Almost 30 % of our borrowers – classified according to the regions that are relevant to us – are located in Germany. Overall, some 84 % of borrowers originate from Europe, 10 % from the Americas, and 4 % from Asia.

As can be seen from the following charts, aggregate drawdowns and loan commitments represent more than 60 % of the total volume of receivables.

The total volume of derivatives receivables amounts to € 1,390 million.

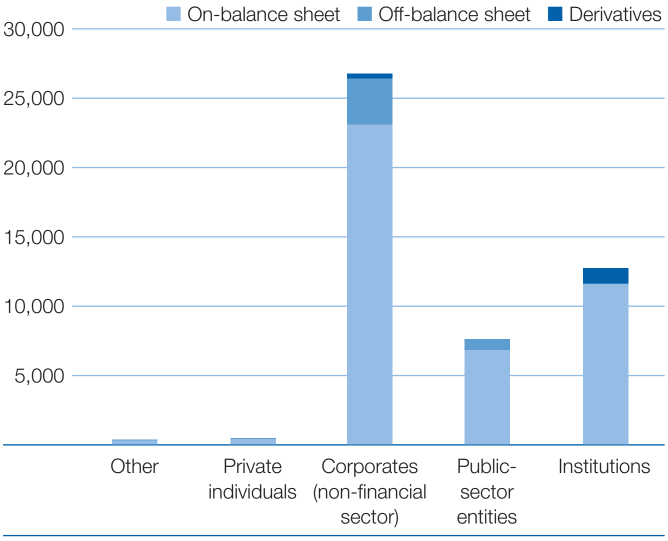
Breakdown of loans and advances

by remaining term to maturity (Euro million) totalling Euro 42,255 million



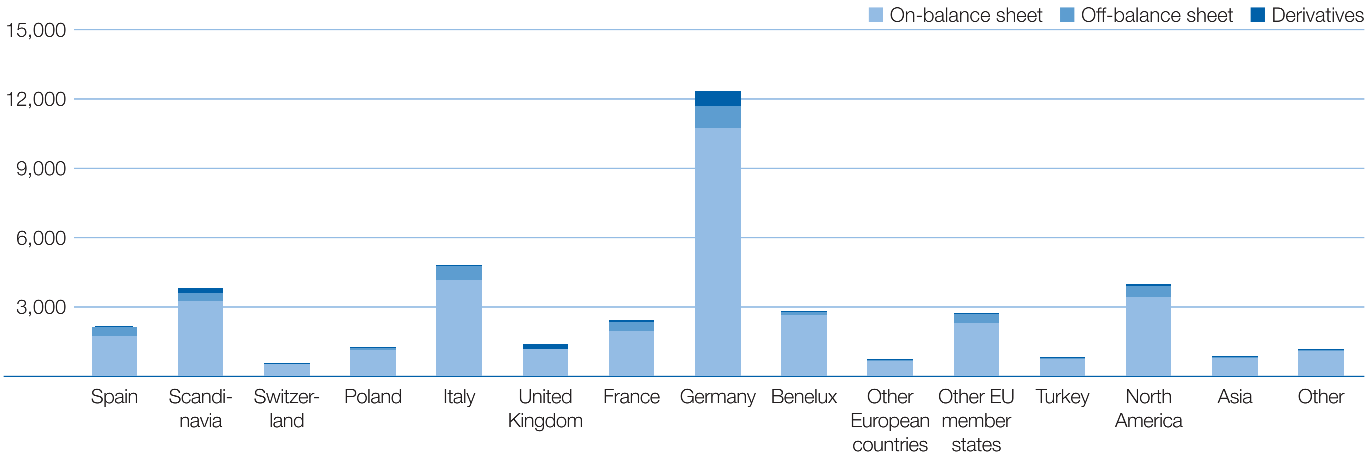
Breakdown of loans and advances

by borrower group (Euro million) totalling Euro 42,255 million



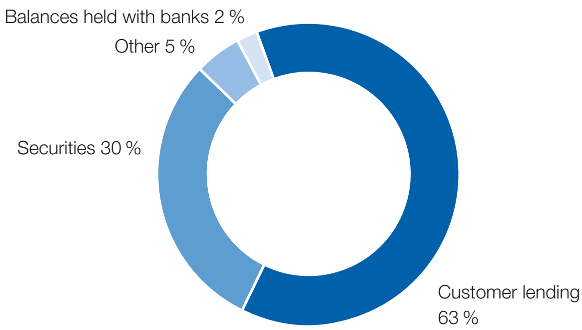
Breakdown of loans and advances

by region (Euro million) totalling Euro 42,255 million



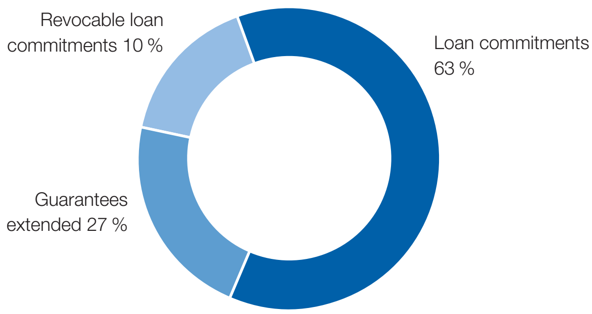
Breakdown of on-balance sheet business

% totalling Euro 36,689 million



Breakdown of off-balance sheet business

% totalling Euro 4,176 million



Allowance for credit losses and impairment

The best provisioning is achieved whereby risk exposures and the collateral provided are carefully reviewed before granting a loan. We embrace this fundamental principle by adopting a multi-level review process, and through our well-trained, experienced employees in the credit departments.

As a property finance specialist, we do not only focus on the borrower's credit rating but also carry out an in-depth analysis of the value and profitability of the property pledged as collateral.

Despite all the due care taken, events occur occasionally that can lead to impairment or even default. Our loan management teams are obliged to follow certain rules for these receivables when the first signs emerge that a loan might become impaired.

Our specialised and high-volume business requires us to maintain close contact with our clients. Apart from events that can be determined objectively, such as when a loan is in arrears, or when a borrower fails to meet disclosure duties, the first signs of potential problems comprise a series of soft factors.

The responsible loan manager is informed of such soft factors, for example, by analysing performance reports. If there is evidence of events that could hamper the continuity of payments, the exposure is placed on the internal watchlist.

The intensity of the attendant measures to be taken depends on the extent of the potential default, the internal assessment of the borrower, plus time-related and legal issues. All events are examined on a case-by-case basis.

Definition

The concept of "impaired" loans is commonly used in accounting practice, albeit not in our credit organisation. We have therefore translated the requirements of section 327 (1) no. 1 of the SolvV to our internal processes. From an accounting perspective, all loans that are more than nine days in arrears are declared to be in default.

Specific allowances for credit losses are recognised where expected future cash flows fall below the carrying amount of a loan receivable. This is the case when (based on observable criteria) interest and principal payments are unlikely to be met in full, in line with the contractual agreement. 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 pledged collateral).

Loans for which allowances have been recognised are referred to internally as non-performing loans. The loans remain in this category until problems have been fully remedied, or the loan has been settled. Uncollectible (residual) receivables are written off against specific allowances for credit losses recognised previously, or written off directly.

The amounts stated relate to the consolidated financial statements in accordance with IFRS.

These details cannot be compared with the volume of receivables reported in the CRSA "items past due" asset class, in accordance with section 25 (16) of the SolvV. Irrespective of their internal classification, loans are listed as non-performing if they are at least 90 days in arrears, regardless of whether any allowance has been recognised.

Specific allowances for impaired financial assets

The individual receivables of loans classified as non-performing are written down partially or in full. As at 31 December 2008, exposures totalling € 452 million were affected. The figures for impaired property loans under management shown here include property loans managed on behalf of DEPFA Deutsche Pfandbriefbank AG in addition to the Aareal Bank portfolio.

Europe accounts for 96 % of the volume of receivables written down. 72 % of this volume is attributable to loans and advances to domestic borrowers. 72 % of the borrowers are assigned to the Corporates asset class, and 26 % to Retail clients. However, the retail business is no longer part of Aareal Bank Group's core business. Since Aareal Bank's lending business is focused on commercial real estate finance, we do not believe, that a further breakdown of the "Corporates" borrower group would provide any additional information.

As at 31 December 2008, € 176 million in allowances for credit losses for overdue financial assets were recognised.

No allowance for credit losses was recognised for derivatives, since these are recognised in income at fair value pursuant to IFRS.

Portfolio impairment allowance

In addition to allowances recognised for individual receivables, a portfolio impairment allowance is created for receivables that are not written down specifically. The risk parameters used for calculation are primarily based on the average loan-to-value ratio of the Group's property financing portfolio, that is determined in regular intervals.

As at 31 December 2008, a portfolio impairment allowance of € 85 million was recognised for the portfolio not adjusted via specific allowances. This figure also includes an additional portfolio impairment allowance of € 34 million, which was recognised on account of the negative economic development during the 2008 financial year.

No allowance for credit losses was recognised for country risks on the balance sheet date.

Depreciation, amortisation and impairment losses

€ 11 million was written off directly during the year. This was offset by € 10 million in payments received on loans and receivables previously written off.

Provisions in the lending business

Provisions are set aside for commitments to third parties if utilisation is probable and the amount of the commitment can be reasonably estimated. In accordance with IAS 37.36, provisions are measured on the basis of the best possible estimate of the amount required to settle the commitment. As at year-end, provisions of € 38 million were recognised. This figure also includes € 18 million in provisions recognised for the capital guarantees extended to DEPFA Deutsche Pfandbriefbank AG.

At € 30 million, the major part of provisions in the lending business is accounted for by contingent liabilities to borrowers in Germany. € 23 million in provisions was recognised for potential obligations to companies.

Development of the allowance for credit losses

The allowance for credit losses in accordance with IFRS developed as follows during the course of the year:

Euro mn	Specific allowances for credit losses	Portfolio impairment allowance	Provisions in the lending business
1 January 2008	**150**	**40**	**46**
Additions	75	45	15
Charge-offs	18	–	18
Amounts released	60	–	5
31 December 2008	**147**	**85**	**38**

Changes resulting from exchange rate fluctuations are not shown, due to the small share of allowances for credit losses recognised in a foreign currency.

Rating

A key element of the economic and regulatory assessment is the borrower's credit rating. This rating is determined by rating agencies that are recognised by the regulatory authorities. These agencies' assessments and valuations facilitate a uniform classification of borrowers across all banks. The ratings of governments, banks and exchange-listed companies, as well as investment fund units and securitisations are generally assessed externally.

We have retained the three agencies Fitch Ratings, Moody's Investors Service, and Standard & Poor's to classify borrowers and guarantors in accordance with section 42 (1) of the SolvV. The ratings determined by these three agencies apply for all the aforementioned rating-related asset categories in relation to the Credit Risk Standard Approach. Assessments by export credit insurance agencies are not used.

Receivables rated by at least one rating agency are deemed as ”assessed” CRSA exposures pursuant to section 44 of the SolvV. All other items are considered to be ”unassessed” exposures in accordance with section 45. In line with our business model as a leading international property specialist, most of our exposures are in the ”Corporates” and ”Collateralised by property” asset classes, which are reported as unassessed CRSA exposures with the prescribed standard risk weighting.

This is due to the fact that, in line with our business orientation, many receivables from property project finance and property management companies (plus other special purpose property entities) do not have any external rating.

At present, we have no transactions in our portfolio for which an issue rating has been migrated to receivables or such, for which a comparable rating is determined pursuant to section 45 (2) of the SolvV.

Derivatives

Derivatives are defined for regulatory purposes as unconditional forward transactions or option contracts that involve the purchase or exchange of (or other reference to) an underlying instrument, and which are settled in the future (section 19 (1a) of the KWG).

The bulk of Aareal Group's derivatives positions have been entered into in order to hedge interest rate and currency risk exposure, and for refinancing purposes.

Internal risk management

The processes, methods and procedures used for internal capital allocation and acceptance of collateral, as well as the determination and handling of correlations between market and counterparty risk, and the precautions taken for a potential rating downgrade, are all described in the Group Annual Report [6)].

Valuation approach

The equivalent value of derivatives and the related counterparty risk are determined using the mark-to-market method (sections 18 et seq. of the SolvV) for the purpose of regulatory reporting.

Regulatory capital requirements

The aggregate positive replacement value for our derivatives contracts subject to reporting requirements stood at € 1,950 million at year-end 2008. This amount is reduced to € 647 million through netting agreements and collateral provided.

A netting arrangement can be established by mutual consent through a netting agreement, provided that an institution has both monetary claims on, and monetary liabilities to the same counterparty. The relief resulting from netting amounts to € 955 million. Additional relief is provided through collateral covering derivatives transactions in the amount of € 348 million.

The following overview shows the effects of netting and collateral eligible for inclusion on positive replacement values, broken down by type of contract.

The contracts included in the "Other" heading comprise mainly transactions with different underlying instruments incorporated in the netting agreements, plus complex derivatives.

Euro mn	Before netting	Reduction through netting	Reduction through collateral	after netting
Positive replacement value	**1,950**	**955**	**348**	**647**
Interest rate	398	–	–	398
Currency	119	–	–	119
Other / mixed	1,433	955	348	130

6) Aareal Bank Group 2008 Annual Report: chapters "Risk-bearing capacity and risk limits" and "Credit risk mitigation" in the Risk Report of the Group Management Report.

We held no individual contracts based on equities, credit derivatives or commodities as at 31 December 2008.

The last column shows the CRSA assessment basis (pursuant to section 18 of the SolvV) after deduction of netting possibilities. This amount forms the basis for calculating the regulatory capital requirements for derivatives. The assessment basis contains a mark-up that is calculated on the basis of the term or lifetime. The purpose of this so-called add-on is to cover the anticipated future increase in the current replacement cost.

The counterparty risk for all contracts remaining after netting and collateral amounted to € 1,042 million as at 31 December 2008. Bearing in mind that the bulk of our counterparties in the derivatives business can be assigned to the CRSA Institutional asset class, the resulting regulatory capital requirement amounted to € 36 million.

At present, we do not use any credit derivatives for hedging purposes, nor do we act as a broker or a buyer of derivatives. We sold around € 775 million in credit default swaps in the market.

Credit risk mitigation

The procedures for accepting collateral within the scope of the lending decisions, and their regular review from an economic perspective, are explained in the Annual Report [7].

The regulatory inclusion of the collateral reflects our conservative hedging strategy. The collateral employed fulfils not only the extensive impairment checks and enforcement reviews that are part of the credit process, but also all direct and indirect standards – such as the German Securities Trading Act or the German Mortgage Bank Act – that are required within the scope of solvency reporting.

[7] Aareal Bank Group 2008 Annual Report: chapter "Credit risk mitigation" in the Risk Report of the Group Management Report.

Not all economically viable collateral is eligible for regulatory purposes: only certain types of impersonal collateral, indemnities and guarantees can be used in order to reduce the capital requirements. The eligible collateral must also meet a series of qualitative requirements.

Forms of collateral that are economically viable in our business, such as the pledging of investments held by a borrower, do not qualify as collateral from a regulatory perspective. Commercial property collateral is eligible for inclusion in accordance with the Credit Risk Standard Approach of the Solvency Ordinance, albeit not for mitigating credit risk. Loans secured by a real property lien are included instead in a separate asset class.

Calculation approach

We use the so-called "comprehensive" method of the Credit Risk Standard Approach to take into account financial collateral.

Collateral classified as guarantees for regulatory purposes includes indemnities (including similar) obligations and guarantees, as well as credit balances held with third parties and assigned to us. Collateralising loans through balances saved under home loan and savings contracts, life insurances and fund units, is insignificant in our business model and not used within the scope of the regulatory framework.

Qualitative standards

All collateral we use to mitigate credit risk within the scope of solvency reporting is guaranteed or issued by public-sector authorities or banks. Securities and bonds from other issuers are not taken into consideration, even though they would qualify on a case-by-case basis from a regulatory perspective.

All the qualitative requirements for including collateral are reviewed in advance by Risk Management and documented in the credit file. This is relevant to general requirements such as the legal enforceability, as well as minimum requirements specific to collateral.

In a few instances, we apply the transitional regulation in accordance with section 339 (17) of the SolvV for the inclusion of guarantees. If the prerequisites for the treatment of letters of indemnity no longer apply, the collateral is no longer eligible for inclusion.

Collateral value

Collateral values are updated automatically on a daily basis. The procedure takes into account the current account balances and securities prices, as well as the translation of securities held in a foreign currency at the official foreign currency rates. Regulatory haircuts based on criteria related to quality, term / lifetime or currency are applied prior to netting.

Collateral eligible for inclusion

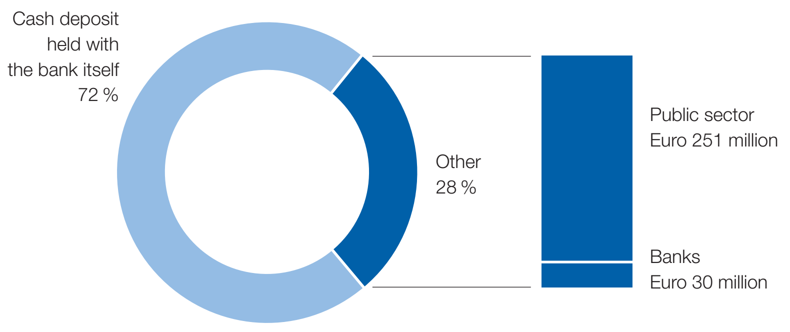
Collateral in the amount € 1,010 million was applied within the scope of credit risk mitigation. This figure includes € 348 million of collateral included for derivatives transactions.

At over 70 %, financial collateral (especially pledged cash amounts) accounts for the bulk of collateral types eligible for inclusion.

Eligible guarantees and indemnities comprise guarantees provided by various guarantors and cash deposits with third parties.

Overview of collateral

% I Euro mn



The overview shows the guarantor structure of the collateral eligible for inclusion as at 31 December 2008.

The effect of such collateral on the assessment basis pursuant to section 49 of the SolvV is shown below, broken down by CRSA asset class:

Euro mn	Financial assets	Guarantees and indemnities
CRSA asset class	**721**	**281**
Institutions	596	75
Corporates	125	191
Past due exposures	–	15

As an international property specialist, the financial collateral and guarantees used to mitigate credit risk represent only a marginal share of our aggregate collateral. By comparison, the loans secured by charges on residential and commercial property included for solvency reporting amounts to around € 7.8 billion.

As set out above, this also only represents a part of the full picture. The economic value of all collateral to which we are contractually entitled remains at a much higher level.

Impact of collateral eligible for inclusion

Identical types of collateral react differently depending on what transactions they can be offset against.

This is due to the composition of the CRSA exposure as defined by section 48 of the SolvV. This takes into consideration the CRSA assessment basis pursuant to section 49, and the CRSA conversion factor in accordance with section 50 of the SolvV.

The CRSA conversion factor ensures that lower regulatory capital requirements are calculated for loan commitments and other off-balance sheet transactions than for on-balance sheet receivables.

Euro mn	CRSA assessment basis before CRM	CRSA assessment basis including guarantees	CRSA assessment basis including financial collateral	CRSA exposure including CCF
Risk weighting	**41,932**	**41,932**	**41,212**	**39,420**
0 %	9,417	9,669	9,669	9,664
10 %	1,042	1,042	1,042	1,042
20 %	4,023	3,977	3,381	3,359
35 %	1,771	1,771	1,771	1,695
50 %	6,137	6,137	6,137	6,037
75 %	88	88	88	87
100 %	19,324	19,131	19,007	17,419
150 %	130	117	117	117
> 150 %	0	0	0	0

Owing to the low share of collateralised off-balance sheet CRSA exposures, the CRSA assessment basis is largely equal to the aggregate value of the CRSA exposures.

The table above shows total receivables for regulatory purposes, and the collateral values eligible for inclusion used to mitigate credit risk, grouped according to risk weighting.

Cash deposits and guarantees differ in relation to their mathematical mode of operation.

- Cash deposits reduce the assessment basis to which the risk weighting and conversion factor are applied.

- Guarantees do not impact on the assessment basis, but on the risk weighting. A guaranteed loan is taken into consideration in the guarantor's asset class, with the assessment basis and risk weighting of the guarantor.

For the purposes of clarity, the collateralised portion of receivables is no longer reported in the borrower's asset class but in that of the guarantor. The relevant amounts are included with the guarantor's risk weighting when calculating the regulatory capital requirements.

Investments

Our business model comprises the two segments, Structured Property Financing and Consulting / Services. Investments in the banking book reflect the medium to long-term strategic objectives of our business model.

Structured Property Financing

- We enter into strategic investments to support our property financing activities, particularly abroad.
- Special-purpose entities within the scope of foreclosed assets are used to secure real property liens.

Consulting / Services

- Strategic investments allow us to offer the institutional housing sector in Germany – as well as selected European countries – services and products for managing residential property portfolios and processing payment flows.
- Investments in companies that provide the Group and third parties with other property or IT services.

Measurement and accounting policies

According to section 340e (1) of the HGB, investments must be valued in accordance with the principles applicable to tangible fixed assets (section 253 (1 and 2) of the HGB), provided they do not serve business operations on a permanent basis, in which case they must be valued according to the rules prescribed for current assets (section 253 (1 and 3) of the HGB).

Subsidiaries established for the purposes of shelf companies, bare-shell companies or as a limited company serving as a general partner, are carried at cost at the time of purchase or production. This is due to the fact that there is no active market for holdings in these companies; moreover, they generally do not act in an operative capacity, so that it is impossible to determine projected figures or carry out a company valuation based on this data.

We do not draw up plausibility considerations or derive a market value for investments (predominantly in accordance with the book value in line with the HGB) where the costs to obtain or derive information relevant to valuation (for example, target income statement, target balance sheets) would be inappropriate given the benefit provided by the information.

Alternatively, a valuation is carried out using the DCF method, provided the necessary projected figures are available.

Investments that are not consolidated under IFRS or accounted for at equity are recognised at fair value in the IFRS consolidated financial statements. Changes in the valuation are recognised directly in equity, in the revaluation surplus.

All factors that are included in the company valuation are documented and disclosed to the external auditors.

From a regulatory perspective, the investment vehicles are generally recognised on the basis of their carrying amounts with a 100 % risk weighting, in line with the Credit Risk Standardised Approach pursuant to section 37 of the SolvV.

Valuations

The following table shows aggregate investments in our banking book in relation to their strategic objective, excluding investments consolidated for regulatory purposes. These are companies that are included as risk-weighted assets in the report in accordance with section 10 of the KWG.

The following overview compares the book values calculated in accordance with the HGB with fair values, excluding goodwill which is treated as an investment in an entity outside the Group.

Euro mn	Carrying amount	Fair value
Structured Property Financing	36	36
Consulting / Services	90	90

Fair values are calculated using the methods described above. As we have no investments in exchange-listed companies, these details do not need to be disclosed.

Result from equity instruments

The following disclosures relate to the Group as a whole.

During the year under review, we bought two and sold four companies within the Group. On aggregate, these transactions had no effect on income.

Other investments we continue to hold comprise undisclosed revaluation gains of around € 2 million calculated in accordance with the HGB. These do not impact on Tier 1 capital or Tier 2 capital. German commercial law does not require to determine unrealised revaluation gains or losses.

Securitisation

An institution can act as originator, sponsor or investor of a securitised transaction. The relevant role in the securitised transaction can have different consequences for regulatory purposes.

Acting as originator, an institution securitises a limited portion of its assets, which it places on the capital market as tranches that are structured by (credit) quality.

As investor, an institution buys securitised assets from other banks. Given that the issuer can default, and interest and principal payments are therefore not guaranteed, this risk requires a regulatory calculation and must be backed by equity.

Roles in the securitisation process

We terminated all material securitisation exposures in which we had acted as originator, that existed at the start of the year, during the course of 2008. Synthetic securitisation transactions with an aggregate volume of around € 2.4 billion were thus liquidated.

Three tranches of credit-linked notes remained from our previous originator activities. Given their insignificance, we did not opt for regulatory weighting relief in this respect. We reported securitised exposures originated for the last time at the end of September.

Hence, Aareal Bank Group is currently no longer acting as an originator of securitised transaction, but is involved solely as an investor on the market.

Investment principles

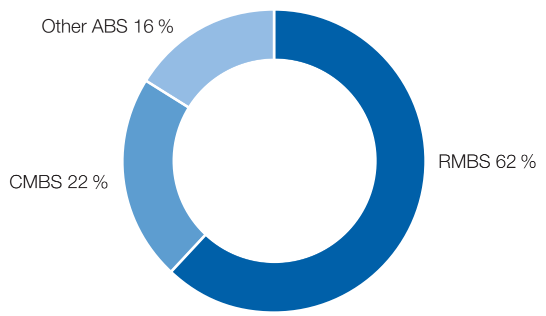
We invested exclusively in mortgage backed securities (MBS) and asset-backed securities (ABS) within the scope of traditional securitisations that have an excellent external rating. These securities are held as medium- to long-term investments within the framework of our liquidity strategy. We do not buy securities from synthetic transactions, subordinated tranches, or those with no external rating.

As in previous years, we did not invest directly or indirectly in the US sub-prime market. We also have no precarious financial instruments such as collateralised debt obligations (CDOs) or US Residential Mortgage-Backed Securities (RMBS) on our books; it is these securities in particular that have resulted in significant write-downs for other banks. Furthermore, we hold no securities which are backed by US monoline insurers.

At the moment, our portfolio of purchased securitised exposures comprises:

Securitised positions purchased

%



All of the securities are carried on the balance sheet, and are allocated to the "Loans and Receivables" measurement category. Please refer to the Annual Report for information on the valuation method used.[8] Every ABS security currently carried on the balance sheet and reported for regulatory purposes has an external rating from one of the retained rating agencies (Fitch Ratings, Moody's Investors Service, or Standard & Poor's). More than 90 % have a triple-A or equivalent rating.

[8] Aareal Bank Group 2008 Annual Report: chapter "Reporting on Financial Instruments" in the Notes to the consolidated financial statements (note 65).

Regulatory capital requirements

For the reasons stated above, risk-weighted position values are only calculated for purchased securitised exposures. These are treated as default risk exposures on the balance sheet, in line with the Credit Risk Standard Approach, and the risk weighting determined on the basis of the external rating.

The total value of the exposures pursuant to section 239 of the SolvV amounted to € 592 million as at 31 December 2008. Given that these solely comprise securities rated by an rating agency approved by the regulatory authorities, the risk weightings for assessed CRSA securitisation exposures are calculated according to section 242 of the SolvV.

Total exposure is broken down by risk assessment as follows:

Euro mn	
Investor exposure	**592**
20 % risk weighting	544
50 % risk weighting	11
100 % risk weighting	19
350 % risk weighting	18
Deduction or 1,250 % risk weighting	0

Investor positions had a risk-weighted exposure value of € 196 million as at 31 December 2008.

Market Risk

Besides counterparty risks, market risk must also be taken into account when reviewing capital adequacy. Positions exposed to market risk comprise the currency and commodities risk of the overall portfolio, plus the interest-rate and equity-related financial instruments in the trading book.

Principles

Our exposure to the capital market is based on a responsible and sustained strategy. Identified risks are offset, for example, through hedging agreements.

We do not invest in precious metals, other commodities and raw materials. Similarly, there are currently no amounts to be included for net equity or equity index positions.

Our international focus means that we deal with clients all around the world. Our activities are supported by a global network of subsidiaries that operate locally. We calculate the regulatory capital requirements for foreign currency risk based on the rights and obligations as well as investments in foreign currencies (including gold).

In line with our strategy, we ensure to maintain a largely neutral position in each currency. The aggregate foreign currency position is therefore well below the threshold of 2 % of regulatory capital stipulated in section 294 (3) of the SolvV on a regular basis. The reporting requirements must be met, since the aggregate of asset and liability items in all foreign currencies exceed capital when translated into euros.

Aareal Bank is authorised to maintain a trading book in accordance with section 2 (11) of the KWG. General and specific price risks must be calculated for net interest rate positions held in the trading book.

Calculation

We do not use an internal model for the regulatory assessment of market risk, but employ standard regulatory procedures instead.

The option according to section 300 (2) of the SolvV, and the duration method pursuant to section 302 of the SolvV, are used to calculate the general price risk.

We do not apply any lump-sum weighting amounts for investment fund units in accordance with section 307 (1) sentences 1 and 2 of the SolvV.

The following overview shows the regulatory capital requirements from market risks for the different segments:

Euro mn	
Market risk positions	**4**
Currency	3
Net interest position	1
Other	0

Interest rate risk in the banking book

Whilst the net interest position is calculated to determine regulatory capital requirements for market risk, the calculation of interest rate risk does not impact on the capital representation for regulatory purposes.

Interest rate risk is broadly defined as the threat of losses due to changes in market parameters. From an economic perspective, interest rate risk represents a key variable for observing market price risk. The assumptions made in relation to interest rate risk, and the related measurement and management methods, are outlined in detail in our Annual Report [9].

The underlying interest rate shock scenarios stipulated by the banking regulators for external reporting purposes (including parallel shifts of +130 / -190 basis points for euro zone interest rates, and +185 / -108 for US Dollar interest rates) resulted in a present-value change of -€ 115 million and +€ 128 million, respectively, for all currencies as at 31 December 2008. [10] Of the sixteen currencies reviewed, the euro is the most important individual currency for us, with a -€ 108 / +€ 122 million change in present value.

The ratio of the sum of all currencies relative to Aareal Bank AG's liable capital (in accordance with section 10a of the KWG) for these interest rate shock scenarios is 5.4 % as at the reporting date. This figure is down on previous years, and well below the maximum limit of 20 %.

Operational Risk

Operational risk is defined for regulatory purposes as the risk of losses resulting from inadequate or failed internal processes or systems, from human error, or from external events. This definition also includes legal risks. In contrast, strategic, reputational and systematic risks are not included.

We employ our management tools to avoid a concentration of operational risk exposure. In line with our business strategy, we concentrate on specialised and individualised businesses.

Operational risk is therefore characterised to a greater extent by human beings and processes, rather than being categorised by systems or technology. On this basis, we pursue a deliberate and consistent risk strategy, which we have explained in detail in our Annual Report [11].

Calculation approach

As a rule, we calculate the Group's operational risks according to the so-called "standard approach" pursuant to sections 272 et seq. of the SolvV.

We make use of the transitional provision according to section 277 of the SolvV only for Aareal Bank France S.A. We have agreed with the regulatory authority to apply the so-called Basic Indicator Approach in accordance with section 270 of the SolvV for this subsidiary.

[9] Aareal Bank Group 2008 Annual Report: chapter "Market price risks" in the Risk Report of the Group Management Report.
[10] The calculation was carried out only for Aareal Bank AG and for its subsidiaries Aareal Bank France S.A. and Aareal Capital Corporation.
[11] Aareal Bank Group 2008 Annual Report: chapter "Operational risks" in the Risk Report of the Group Management Report.

As an international property specialist, we limit our operations to trading, corporate clients, retail clients, plus payments and settlement businesses provided within the scope of the standard approach.

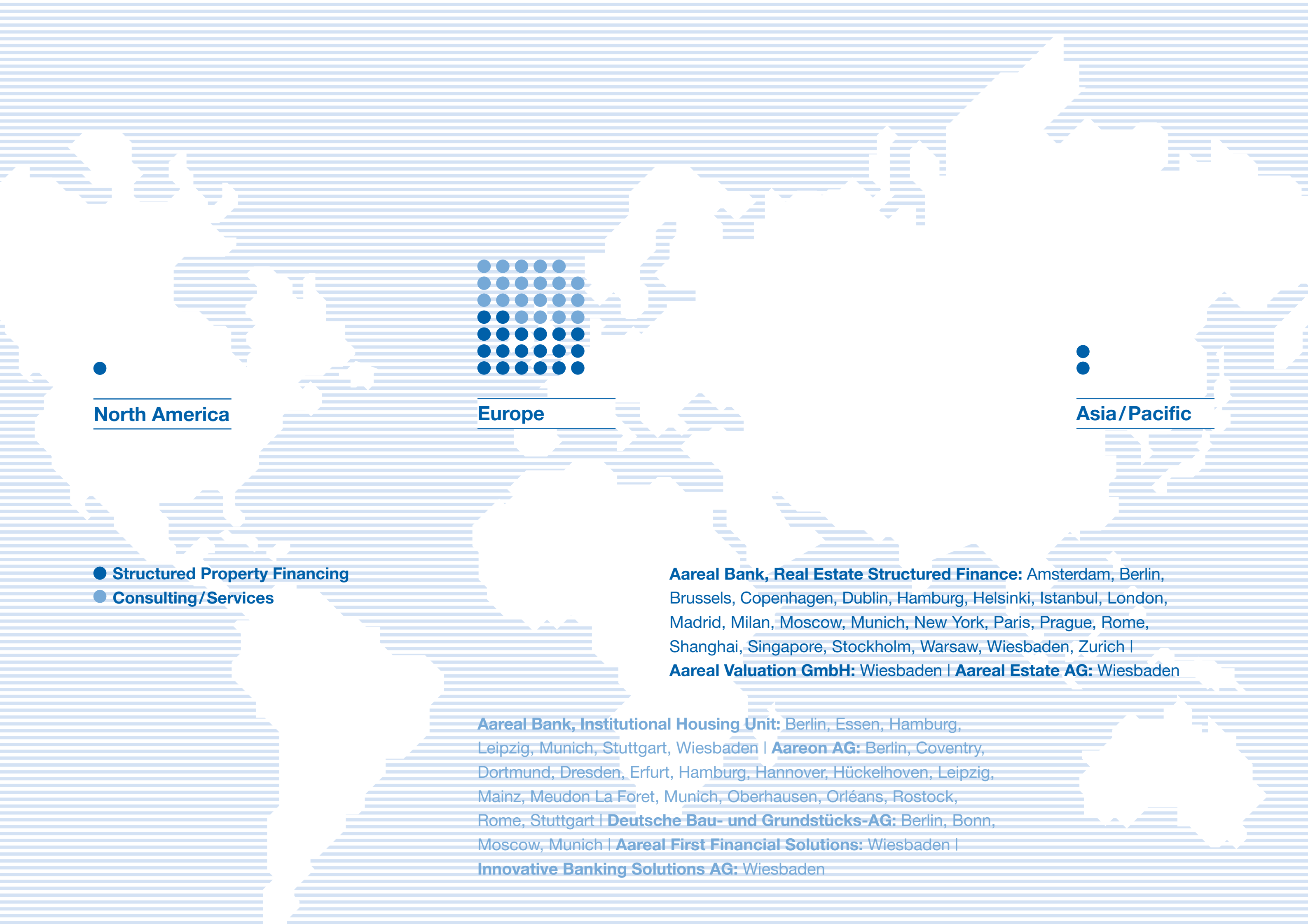
The results that are taken into consideration are based on the balance sheet at the end of the financial year and the quarterly results in accordance with the HGB. The details as at 31 December 2008 are therefore based on Q3/2006 up to and including Q3/2008.

Section 273 (4) of the SolvV defines regulatory risk weights (so-called ”beta factors”) for the individual business lines. We use these defined weightings rather than exercising the option to apply proprietary beta factors.

Scope of business

The ”Corporates” business segment accounts for more than 70 % of gross income.

On average, the grouped and quantified positions of the last three years that are weighted by the respective beta factor, result in regulatory capital requirements totalling € 77 million for operational risks.



Imprint
Contents:
Aareal Bank AG, Corporate Communications,
Finance – Regulatory Reporting
Design / Layout:
s/company GmbH, Fulda, Germany
Kuhn, Kammann & Kuhn AG, Cologne, Germany
Production:
Druckerei Chmielorz GmbH, Wiesbaden-Nordenstadt, Germany

This report is also available in German language.

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07/2009

Aareal Bank Group