

Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Ladies and gentlemen, dear shareholders,

During the significant market turbulences in the course of the crisis affecting financial markets, Aareal Bank AG always reacted in a forward-looking manner, making use of the opportunities that arose to further safeguard the bank against negative market developments. Aareal Bank had sufficient cash and cash equivalents, and a solid refinancing base at all times throughout the 2009 financial year.

Aareal Bank's utilisation of the opportunities presented by the Financial Markets Stabilisation Act reflects its forward-looking approach. This Act was originally designed to strengthen fundamentally sound banks against further turbulences on financial markets, thus preventing them from being affected by the general developments. On this basis, Aareal Bank AG sought SoFFin support.

The Supervisory Board continuously advised, controlled and monitored Aareal Bank AG's senior management throughout the challenging financial year under review. The Management Board informed the Supervisory Board regularly, and in a timely and detailed manner, without delay and comprehensively, both orally and in writing, of all issues important to the Group with regard to its situation, business development, and key financial indicators and market developments. Additionally, the Supervisory Board was informed in detail about the current liquidity status and measures for liquidity management, as well as about the risk situation, the risk controlling measures and the risk management system of the Group. The Supervisory Board was also comprehensively informed about the situation in relation to the business segments and

the operative and strategic planning. It was involved in, and informed about, all key resolutions. All important events were subject to in-depth discussions and reviews. If a resolution by the Supervisory Board was necessary, the proposals for resolution were presented to the Supervisory Board and a decision was taken.

Furthermore, the Chairman of the Management Board provided the Chairman of the Supervisory Board with a continuous and regular update between the individual meetings, both in written form and orally, about all material developments within the company. The Chairman of the Management Board maintains regular close contact with the Chairman of the Supervisory Board, in order to discuss important issues and decisions within the scope of personal discussions.

Aareal Bank Group generated a profit in all quarters since the outbreak of the crisis affecting financial markets. The Supervisory Board sees this as an impressive confirmation of the sustainability of the Group's business model.

Activities of the Supervisory Board

Four ordinary plenary meetings and one extraordinary plenary meeting of the Supervisory Board were convened during the financial year under review. Within the scope of the meetings, the members of the Supervisory Board received the reports and explanations from the members of the Management Board, which they discussed intensively. One important issue of the activities and reporting in all meetings was the manner in which the challenges posed by the financial markets crisis and the changes to the bank's business environment, as a consequence of the ensuing global economic crisis were dealt with. The process for making use of the opportunities presented by the Financial Markets Stabilisation Act is also associated with this. The entire process of applying for and negotiating the support from SoFFin was fully supported by the Supervisory Board.

The changes to the regulatory environment this year were also discussed intensively within the scope of the Supervisory Board's discussions; these include the amendments to the Minimum Requirements for Risk Management (MaRisk), the implementation of the German Accounting Law Reform Act (Bilanzrechtsmodernisierungsgesetz, "BilMoG"), the far-reaching changes to the corporate governance regulations and the adjustments to the generally accepted accounting principles under German commercial law.

The Management Board informed the Supervisory Board about the potential effects of economic developments, in a timely, extensive and comprehensive manner throughout the financial year as a whole, within the scope of all meetings and otherwise. It outlined in full the measures that were taken, in order to react appropriately to the challenges and the effects of the economic development on Aareal Bank AG.

In all ordinary plenary meetings of the Supervisory Board, the Management Board regularly provided the Supervisory Board with extensive reports about, including other things, the performance of the Structured Property Financing and Consulting/

Services segments, especially taking into account current economic developments. The Supervisory Board was regularly informed about the liquidity situation and the corresponding measures taken by the bank's Treasury. Current figures and projections were also used to explain to the Supervisory Board the business development of Aareal Bank Group as a whole. Furthermore, the quality of the property financing portfolio was regularly reported against the background of the crisis affecting financial markets and the associated situation on the various property markets. The following key issues outlined below were also dealt with in individual meetings.

The planned utilisation of the SoFFin support measures, in the form of a silent participation in the amount of € 525 million and guarantees for issuing unsecured bonds up to a maximum of € 4 billion, was presented to the Supervisory Board and discussed conclusively at an extraordinary meeting held on 15 February 2009. The Supervisory Board approved the proposed procedure and the related agreements at this meeting.

In its meeting in March of last year, the Supervisory Board concerned itself intensively with the financial statements and consolidated financial statements presented for the 2008 financial year, as well as the external auditor's report. The relevant facts were reported in the Supervisory Board report of the previous year. Additionally, the proposal for selecting the external auditor for the Annual General Meeting was discussed and the subsequent appointment to be conducted. This also included the scope and focal points of the audit for the 2009 financial year, as defined by the Supervisory Board.

Other issues covered in the March meeting included the preparations for the Annual General Meeting in May 2009, the annual reports of the Internal Audit and of the compliance officer.

The purpose of the Supervisory Board meeting in May was especially to debrief on the previous Annual General Meeting of Aareal Bank AG.

The fundamental aspects of the business plan for the years ahead was discussed in the meeting held in September. Corporate governance issues were also dealt with. These included the update of the German Corporate Governance Code, as well as the measures and procedures for implementing the BilMoG and other regulatory changes.

In the December meeting, the Management Board reported on projections for the Group from 2010 to 2012. The Management Board submitted and explained the projections in detail to the Supervisory Board. Corporate governance issues were discussed as well: within this context, the Supervisory Board adopted the Declaration of Compliance, pursuant to section 161 of the German Public Limited Companies Act (Aktiengesetz, "AktG"), for the year 2009, which was subsequently published on the bank's website. Another important issue in relation to the changes to the Corporate Governance regulation was the adjustment of Aareal Bank AG's existing rules and regulations in line with the updated status.

The Supervisory Board regularly examines the efficiency of its own working processes in order to identify any areas requiring improvement. The efficiency review conducted in the 2009 financial year confirmed the previous year's good results. The results were acknowledged by the members of the Supervisory Board, and were discussed in detail. No organisational changes to enhance efficiency were required this year either.

The Management Board regularly informed the Supervisory Board about the implementation of new or amended regulations, for example the amendments to the Minimum Requirements for Risk Management (MaRisk) and the current status of the capital adequacy requirements in accordance with Basel II. The Management Board outlined the impact of such regulations on the bank, and discussed any changes to the regulatory framework with the Supervisory Board. In this context,

the business strategy in accordance with the Minimum Requirements for Risk Management in Banks (MaRisk) was submitted and discussed, as scheduled.

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

Supervisory Board decisions that were met by way of circulation, were reported in the subsequent meeting. Thus, the implementation of the decisions taken was confirmed.

No conflicts of interest of members of the Supervisory Board, as defined in no. 5.5.3 of the German Corporate Governance Code, were reported by the members of the Supervisory Board during the financial year 2009.

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 Credit and Market Risk Committee, the Committee for Urgent Decisions, the Accounts and Audit Committee, and the Nomination Committee.

The Executive Committee of the Supervisory Board convened four times. The Executive Committee prepared the plenary meetings of the Supervisory Board, together with proposed resolutions. In its meeting in March, it discussed issues concerning the remuneration of the Management Board that arose as a consequence of the utilisation of the SoFFin funds and the associated regulations on the remuneration of members of the Management Board.

The Credit and Market Risk Committee convened three times. The Management Board submitted detailed reports to the Committee, covering all markets in which the bank operates in the property finance business, as well as supplementary reports on property markets that are particularly affected by the financial markets crisis. The reports and market assessments were discussed in detail by the members of the Committee. The Committee also dealt with the granting of loans requiring approval and transactions subject to reporting requirements. The Management Board presented individual significant exposures to the Committee, and discussed these with it.

Decisions were also reached on all other issues 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 received regular reports on the bank's risk situation, which were submitted and explained by the Management Board. Having discussed the contents with the Management Board in detail, these were duly noted and approved by the members of the Committee. The Committee dealt with market risk, liquidity risk and operational risk, in addition to credit and country risks.

The Committee for Urgent Decisions is a sub-committee of the Credit and Market Risk Committee. Since the Committee for Urgent Decisions approves loans subject to approval requirements by way of circulation, it did not convene any meetings. Decisions taken between the meetings convened by the Credit and Market Risk Committee were dealt with in each of the subsequent meetings of the Credit and Market Risk Committee.

The Accounts and Audit Committee convened for six meetings. In its meeting in March 2009, the Committee received the external auditors' report on the 2008 financial year and discussed the results in detail with the auditors. The members examined the audit reports intensively and formed an opinion on the results of the audit on this basis, as well as within the scope of in-depth discussions held with the external auditors. Similarly,

in accordance with the duties incumbent upon it pursuant to the Memorandum and Articles of Association, the Accounts and Audit Committee discussed the appointment of the external auditor in its meeting, and the focal points of the audit for 2009. The meetings held in August and November served to submit initial information on the progress of the audit activities for the 2009 financial year and to discuss issues that arose in the course of preparing the financial statements. In its December meeting, the Committee was presented with another report on the progress of the audit, as well as with the updated Group planning, which was also explained. The Committee also received reports submitted by Internal Audit, and the Compliance Report, which were explained in detail.

Within the scope of the meetings convened in February, May, August and November, the Committee received by the Management Board the quarterly results for the financial year and the preliminary results for the year 2008 to be published as a whole, in accordance with the provisions of the German Corporate Governance Code and the explanations thereof.

In its meeting on 29 March 2010, the Accounts and Audit Committee received a comprehensive report from the external auditors on the audit and audit results for the 2009 financial year; the results were extensively discussed with the auditors and the Management Board.

The Nomination Committee, which was established in 2008, did not convene in 2009. The Committee is charged with coordinating and conducting the search for new shareholder representatives in the Supervisory Board, when a shareholder representative resigns from office. In view of potential changes to the composition of the Supervisory Board in the 2010 financial year, preparatory consultations were entered into in the financial year under review.

Where members of the Supervisory Board were unable to attend a meeting, their absence was announced and the reasons therefore were stated in advance. In relation to material decisions, these members of the Supervisory Board were represented by proxy or submitted their decision retrospectively in writing to the minutes. Two members of the Supervisory Board were unable to participate at fewer than half of the Supervisory Board meetings, due to external circumstances beyond their control.

Transactions of particular importance during 2009

On 15 February 2009, the Supervisory Board agreed to draw down funds made available within the scope of the Financial Markets Stabilisation Act. The Supervisory Board supported the preceding process and agreed to utilise a silent participation in the amount of € 525 million and a framework guarantee totalling up to € 4 billion for new unsecured issues with a maximum term of 36 months. The Supervisory Board is convinced that Aareal Bank has a viable business model and a sound funding structure: for this reason, the bank should be prepared for unpredictable developments on the financial markets, which are outside the bank's control. In deciding to make use of the opportunities presented by the Financial Markets Stabilisation Act, the Supervisory Board believes Aareal Bank AG is well-positioned to deal with challenges that may arise within the course of the economic crisis.

Financial statements and consolidated financial statements

The Supervisory Board instructed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, who were elected as external auditors by the Annual General Meeting 2009, to conduct the audit of the financial statements. The external auditors appointed submitted a statement regarding their independence to the Supervisory Board, which was duly noted. The

Supervisory Board has no reason to doubt the accuracy of this statement of independence. Fulfilling their duties, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code (Handelsgesetzbuch, "HGB") and the Management Report, the consolidated financial statements prepared in accordance with IFRS, and the Group Management Report of Aareal Bank AG, and certified the financial statements without qualification.

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 prior to the meeting during which the audit results were discussed. They informed themselves about the audit results on the basis of the documents received. The representatives of the external auditor participated in the meeting and presented the results of their audit in detail. The representatives of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft were available to the Supervisory Board to answer further questions afterwards, 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, the consolidated financial statements prepared in accordance with IFRS and the Group Management Report, the proposal of the Management Board regarding the appropriation of profit and the audit report were all examined in detail. No objections were raised to the audit results. At its meeting on 30 March 2010, the Supervisory Board approved the results of the audit. The Supervisory Board therefore approved the financial statements and Management Report of Aareal Bank AG, prepared in accordance with the HGB, together with the consolidated financial statements prepared in accordance with IFRS and the Group Management Report, thus confirming 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.

In conclusion, the Supervisory Board would like to thank the Management Board and all of the Group's employees for their commitment and successful work during the challenging 2009 financial year. The employees' commitment and motivation during the recent months characterised by the general economic crisis, have undoubtedly contributed to the success enjoyed by Aareal Bank in this challenging situation.

Kronberg, March 2010

For the Supervisory Board



Hans W. Reich (Chairman)