

Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Dear shareholders,

In a highly volatile market environment, as well as an increasingly demanding competitive and regulatory environment, Aareal Bank succeeded in further expanding its market position and generated a set of very good results during the financial year under review. In the view of the Supervisory Board, the positive business performance in 2015 underscores the fundamental strength of Aareal Bank Group, and the strong position the Group holds for continuing this success story.

During the financial year under review, the Supervisory Board continually advised, monitored, and supervised the management of the Company. The Management Board informed the Supervisory Board regularly, without delay and comprehensively, both orally and in writing, upon all the issues important to the Bank. The Management Board reported on the Group's situation, business development, key financial indicators and market developments. In addition, detailed reports and explanations were given to the Supervisory Board regarding the current liquidity status and liquidity management measures taken, the prevailing risk situation, and on risk control and risk management measures taken within the Group. The Supervisory Board also received comprehensive reports on the development of the 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

Seven plenary meetings of the Supervisory Board were held during the year under review. During the meetings, the members of the Supervisory Board received reports and explanations from the members of the Management Board, and discussed these in detail. One of the focal working and reporting aspects during all scheduled meetings was the

approach to be taken by the Bank concerning the market environment, as well as the acquisition and integration of the subsidiaries taken over.

In its discussions, the Supervisory Board also concerned itself with changes to the regulatory framework, in great detail. This also included the new regulatory environment: since November 2014, Aareal Bank AG has been directly supervised by the European Central Bank.

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 general market developments, in particular the prevailing low interest rate environment.

During the 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. At 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. 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 individual meetings are outlined below.

During the February meeting, the Supervisory Board discussed candidates for election to the Supervisory Board.

In the March meeting, the Supervisory Board concerned itself in detail with the financial statements and consolidated financial statements presented for the 2014 financial year, and with the auditors' report. The relevant facts were presented in the Supervisory Board report for the previous year. In addition, the proposal regarding the selection and subsequent appointment of the external auditor for the Annual General Meeting was discussed. This also included the scope and focal points of the audit for the 2015 financial year, as defined by the Supervisory Board. Other issues covered in the meeting in March included the preparations for the Annual General Meeting in May 2015. This meeting also discussed the annual reports submitted by Internal Audit and by the Compliance Officer.

Besides being the constituting meeting, 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 focus of the July meeting was on the strategic options available to Aareal Bank Group, and on potential future challenges the Group might be faced with.

At the September meeting, the resignation of Dr Schumacher from his offices as Chairman and member of the Management Board was discussed in detail.

During the same meeting, the Supervisory Board discussed and resolved the appointment of Mr Merkens as Chairman of the Management Board, who had held the function of Deputy Chairman since December 2014.

In the December meeting, the Management Board reported on the Group's corporate planning. The Management Board submitted and explained the corporate planning in detail to the Supervisory Board. Corporate governance issues were discussed as well. The requisite resolutions were passed and implemented. Furthermore, the Supervisory Board adopted the regular Declaration of Compliance, pursuant to section 161 of the German Public Limited Companies Act (Aktiengesetz – "AktG"), which

was subsequently published on the Bank's website.

In accordance with section 25c and d of the German Banking Act (Kreditwesengesetz – "KWG"), the Supervisory Board carried out the required evaluations, for the second time. The results of the evaluation, conducted in January 2016 for the 2015 financial year, were discussed in detail by the members of the Supervisory Board in March 2016. The Supervisory Board will incorporate these findings into its work. Given the election of new Supervisory Board members at the Annual General Meeting 2015, the evaluation was postponed in order to give the new members sufficient time to sufficiently familiarise themselves with the work of the Supervisory Board – especially in connection with the 2015 financial statements.

Strategy documents were regularly submitted to, and discussed by the Supervisory Board, in accordance with the Minimum Requirements for Risk Management in Banks (MaRisk). The results of the regular review of the Company's remuneration system were reported to the Supervisory Board. The Supervisory Board determined that the Company's remuneration system is appropriate.

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

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

As part of preparing Supervisory Board decisions, a routine examination is carried out as to whether there are any conflicts of interest. No potential conflicts of interest that would need to be considered in the context of decision-making processes were identified during the financial year under review. The members of the Supervisory Board have declared in writing that no conflicts of interest pursuant to section 5.5.2 of the Corporate

Governance Code arose during the financial year under review.

In addition to its regular meetings, the Supervisory Board convened for a separate meeting during which auditors PricewaterhouseCoopers provided information on current changes and deliberations in the regulatory and legal framework.

Activities of Supervisory Board Committees

The Supervisory Board has established six committees in order to perform its supervisory duties in an efficient manner: in addition to the existing committees – the Executive and Nomination Committee, the Risk Committee, the Committee for Urgent Decisions, the Audit Committee, and the Remuneration Control Committee, the Technology and Innovation Committee was established.

The Executive and Nomination Committee of the Supervisory Board convened for seven scheduled meetings and two extraordinary meetings. In the scheduled meetings, the Executive and Nomination Committee prepared the proposed resolutions of the plenary meetings of the Supervisory Board. Topics discussed at extraordinary meetings included the acquisition of Westdeutsche ImmobilienBank AG. Two meetings were held without the participation of the employee representative, since these meetings were concerned with the nomination process of shareholder representatives on the Supervisory Board to be elected at the 2015 Annual General Meeting.

The Risk Committee held four meetings during the year under review. The Management Board submitted detailed reports to the committee, covering all markets in which the Bank is active in the property finance business, as well as supplementary reports regarding the Bank's investments in securities portfolios. The committee members discussed these reports and market views in detail. The committee discussed the banking and regulatory environment of the Bank. 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. In addition, reports on current political developments and related market responses were provided to the committee. Also, detailed reports were given regarding the Bank's liquidity status and management as well as its 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 concerned itself with the risk-bearing capacity and the capital ratios of Aareal Bank, as well as with the Bank's cooperation with regulators, within the scope of the Single Supervisory Mechanism (SSM) under the auspices of the ECB. The committee also decided on any other transactions requiring the Supervisory Board's approval pursuant to the Company's Memorandum and Articles of Association or the internal rules of procedure.

The Committee for Urgent Decisions is a 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 Audit Committee held six meetings during the year under review. During its meeting in February 2015, the Audit Committee received and discussed the preliminary results for the 2014 financial year. During its March meeting, the committee received the external auditors' report on the 2014 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 meetings held with

the external auditors. In accordance with its duties under the Memorandum and Articles of Association, the Audit Committee also discussed the selection of external auditors and the focal aspects of the audit for 2015 during the same meeting.

Proceedings at the meetings in August and November included information given to the committee on supplementary topics, such as measures to implement changed regulatory requirements. In addition to a 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 2015, the Management Board presented the quarterly results for the financial year, as well as the preliminary full-year results for 2014 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 2015 were discussed at a meeting in February 2016.

In its meeting on 14 March 2016, the Audit Committee received the external auditors' detailed report on the audit and audit results for the 2015 financial year, and discussed these results extensively with the auditors and the Management Board.

During its five meetings, the Remuneration Control Committee discussed issues related to remuneration, fulfilling its original assignment.

The newly-established Technology and Innovation Committee convened for two meetings. The first meeting in September was the committee's constituting meeting. Both meetings were characterised by detailed reports provided on the technological

basis and products, especially for the clients of the Consulting/Services segment.

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)
Marija Korsch	33 of 33
Erwin Flieger**	12 of 12
Prof Dr Stephan Schüller	25 of 27
York-Detlef Bülow*	25 of 25
Christian Graf von Bassewitz**	7 of 7
Manfred Behrens**	3 of 3
Thomas Hawel*	9 of 9
Dieter Kirsch*	16 of 16
Dr Herbert Lohneiß**	4 of 4
Joachim Neupel**	7 of 7
Richard Peters	15 of 15
Dr Hans-Werner Rhein**	10 of 10
Sylvia Seignette**	7 of 7
Elisabeth T. Stheeman**	9 of 9
Hans-Dietrich Voigtländer**	12 of 12
Helmut Wagner* **	3 of 3
Prof Dr Hermann Wagner**	10 of 10
Beate Wollmann*	4 of 4

* Employee representative

** Term of office for only a part of the year; the number of meetings was adjusted accordingly.

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 2015, 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, Price-

waterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code (HGB) and the consolidated financial statements prepared in accordance with IFRSs, as well as the Management Report and the Group Management Report. Based on the results of their audit, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft issued an unqualified audit opinion for the financial statements and consolidated financial statements.

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

The financial statements and management report of Aareal Bank AG, prepared in accordance with the HGB, and the consolidated financial statements prepared in accordance with IFRSs, and 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. In its meeting on 23 March 2016, 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 IFRSs, and thus confirmed the financial statements of Aareal Bank AG. The Supervisory Board examined and discussed with the

Management Board its proposal regarding the appropriation of profit. On the basis of the discussion, the Supervisory Board endorsed the proposal for the appropriation of profit submitted by the Management Board.

Special Transactions

The banking operations of former Corealcredit Bank AG were transferred to Aareal Bank AG during the second quarter of 2015. From a legal perspective, integration was carried out through a split-off of Corealcredit's operative banking business, and merging it into Aareal Bank, at which point Corealcredit's office in Frankfurt/Main turned into Aareal Bank AG's new Frankfurt branch.

On 22 February 2015, Aareal Bank Group announced the acquisition of all of the shares of Westdeutsche ImmobilienBank AG ("WestImmo"), which specialises in commercial property financing. Following the acquisition of Corealcredit Bank AG in the spring of 2014, Aareal Bank has once again effected a targeted investment in its core Structured Property Financing business by acquiring WestImmo, expanding its strong position on key target markets. The Supervisory Board is convinced that the Bank exploited another promising opportunity with this acquisition.

Personnel matters

In July, the Supervisory Board of Aareal Bank AG resolved to extend the contract with Ms Dagmar Knopek, ahead of its expiry, and to re-appoint her as a member of the Management Board of Aareal Bank AG, with effect from 1 June 2016 and for a term until 31 May 2021. Ms Knopek has been a member of the Management Board since 1 June 2013, with responsibility for the Sales units within the Structured Property Financing segment. With this step, the Supervisory Board has committed a female executive, from the Bank's own ranks, and with decades of experience in international commercial property finance, to Aareal Bank for the long term. The Supervisory Board is convinced

that Ms Knopek will continue to make an important contribution to successfully strengthening the position of Aareal Bank Group on the major global property markets, as part of its successful three-continent strategy.

During its regular meeting on 17 September 2015, the Supervisory Board of Aareal Bank AG resolved to effect a change at the top of the Management Board. After ten years of office, Dr Wolf Schumacher retired as Chairman of the Management Board of Aareal Bank AG. The Supervisory Board thanks Dr Schumacher for his outstanding services to the development of Aareal Bank Group, in which he played a decisive role throughout the last decade. Dr Schumacher had headed Aareal Bank Group since April 2005. Under his stewardship, the Bank first undertook a successful realignment and was afterwards steered safely through the financial crisis. The Supervisory Board is convinced that this point in time was appropriate for a change at the top of the Company, given that Aareal Bank is well-positioned to master the challenges of the future.

During the same meeting, and with immediate effect, the Supervisory Board appointed the former Deputy Chairman of the Management Board and Chief Financial Officer of Aareal Bank AG, Mr Hermann J. Merkens, as successor to Dr Schumacher as Chairman of the Management Board. Mr Merkens has been a member of Aareal Bank AG's Management Board since 2001; to date, he was responsible for Finance, Risk Control, and Credit Management. In December 2014, Mr Merkens also became Deputy Chairman of the Management Board. In his role as Chief Financial Officer, he held particular responsibility for taking successful measures to strengthen the capital base over the last few years, and contributed significantly to the success of Aareal Bank's most recent acquisitions. The Supervisory Board is convinced that, under his guidance, Aareal Bank will continue writing its success story in the future.

At its meeting on 19 February 2016, the Supervisory Board discussed the appointment of Ms Christiane Kunisch-Wolff as a member of the Management Board of Aareal Bank, effective 15 March 2016.

To date, Ms Kunisch-Wolff was a member of the Management Board of Westdeutsche Immobilien-Bank AG, where her responsibilities included accounting and financial reporting as well as anti-money laundering and Compliance. The Supervisory Board is delighted to have won another Management Board member from within the Group, and wishes Ms Kunisch-Wolff every success for her mandate.

During the financial year under review, Christian Graf von Bassewitz, Manfred Behrens, Erwin Flieger, Dr Herbert Lohneiß, Joachim Neupel and Helmut Wagner retired from the Supervisory Board, having served as members for many years. The Supervisory Board thanks all retired members for their commitment and constructive contributions to Aareal Bank AG's Supervisory Board.

The Annual General Meeting 2015 has elected Dr Hans-Werner Rhein, Sylvia Seignette, Elisabeth Stheeman, Dietrich Voigtländer and Prof Dr Hermann Wagner as shareholder representatives to the Supervisory Board. Since the day of the Annual General Meeting, Beate Wollmann has represented employees on Aareal Bank's Supervisory Board. Prof Dr Stephan Schüller was re-elected as a member. The Supervisory Board welcomes its new members, and wishes them every success in their work.

In conclusion, the Supervisory Board would like to thank the Management Board and all of the Group's employees for their strong commitment during the eventful 2015 financial year. That commitment – and strong motivation – from all employees of Aareal Bank Group made the Company's success possible.

Frankfurt, March 2016

For the Supervisory Board



Marija Korsch (Chairman)