Speech by
Dr Wolf Schumacher

Chairman of the Management Board

of Aareal Bank AG

on the occasion of the

Annual General Meeting

held on 18 May 2011

in Wiesbaden

- Manuscript – the spoken word prevails -

I. Welcome and introduction

Dear shareholders,

dear guests,

I would like to take this opportunity, also on behalf of my fellow members of the Management Board, to welcome you here to Aareal Bank AG's Annual General Meeting. I am delighted that you have accepted our invitation again this year, which we see as an expression of your continued interest in Aareal Bank and your strong relationship with our company.

The last few weeks in particular have demonstrated the strength and confidence inherent in this relationship. We also view the successful conclusion of our capital increase announced in April – with a subscription ratio of close to 100 per cent – as a clear vote of confidence and further confirmation of the successful path we have chosen. I would therefore like to extend my sincere thanks to you!

I will discuss the capital increase in more detail later, as well as the latest, very positive developments in relation to our business. However, let me start – as is standard at this point – by taking a look at the current environment as well as at the previous financial year.

II. The market environment during 2010

At this point last year, I stated that the overall economic situation and the markets that are relevant to our operations had improved significantly. I am happy to state today that the economy and the markets both continued their return to normality throughout last year, and the process is continuing.

The speed of economic recovery, particularly in Germany, is likely to have surprised even the most ardent optimists. Several factors had a role to play here. On the one hand, the on-going sharp economic growth in China and other countries in the booming Asian growth region supported the recovery of the major export-oriented economies. On the other hand, the expansive monetary policy pursued by the central banks as a tool to manage the crisis, together with the numerous national economic stimulus programmes, both continued to have a positive effect last year.

Looking back, we can confirm that the global economy has overcome the severe crisis of 2008 and 2009 surprisingly quickly. And from today's perspective, we see no reason to anticipate any slowdown of this recovery in the foreseeable future – with the exception of the known uncertainties, which I will discuss later. The emerging and developing economies in particular will continue to drive growth. However, according to the latest economic forecasts, the positive development will continue here too, albeit to a somewhat lesser extent than in 2010.

As a consequence of the economic recovery, confidence also gradually returned to the international property markets, although –as usual – lagging behind somewhat. Some markets showed signs of bottoming out, with property values even rising slightly in some segments. Not all markets were able to benefit from the positive economic recovery, however, as values in some areas remained low, or even posted further slight declines.

The commercial property markets were considerably more differentiated in 2010 than the year before. Most markets were split into two parts: rents for first-class properties in prime locations were largely stable or even posted a slight increase. Investors focused on such prime properties, and these were in considerably greater demand in 2010 than in 2009. However, prices – even for prime properties – have not yet returned to the high pre-crisis levels. Second-class properties on the other hand, faced difficulties in retaining or finding new users. Hence, rents for these properties tended to remain under pressure. Demand amongst buyers and investors also remained low.

Transaction volumes on the commercial property markets increased markedly over the very low levels of 2009, though they were still lower than the extraordinarily high volumes seen in 2006 and 2007. All in all, the development confirmed our cautiously optimistic market assessment that supported our operations in the 2010 financial year, and that remains unchanged.

The market recovery was accompanied by a pleasing improvement in margins for us as a financing bank. The trend among investors to invest more capital than before the crisis, and their generally more long-term orientation, is beneficial to us as a property bank.

Aareal Bank benefited from the market recovery, also due to the fact that the number of competitors has declined considerably compared with before the crisis. We are one of the few remaining international and fully operational providers in our market. Last year, we consistently exploited the opportunities for attractive high-margin and low-risk new business that presented themselves in this scenario. We will continue to adhere to this in the future. More on this later.

Along with the global economic recovery, the situation on the financial markets eased markedly during 2010, even though it is still a long way off what could be described as normal. Equity markets worldwide posted substantial gains. In general, the ability of financial markets to absorb new issues has improved again significantly since the crisis, also in the area of senior unsecured funding, which is particularly important to us. However, the volatility remains significantly higher than before the crisis, which is evident especially when looking at the maturities of funding.

The various uncertainties and imponderables could still lead to market distortions at any time. The primary example is the simmering euro debt crisis, which held our attention for long periods during last year. Portugal is now the third euro zone country to seek support from the rescue facility. We remain hopeful that the degree of political composure that accompanied this step will also have a permanent impact on the international financial markets.

I want to make it quite clear here that in view of the low volume held on Aareal Bank's books - in absolute and relative terms - relating to countries with a debt crisis issue, we have no cause for concern.

Ladies and Gentlemen,

The issue of regulating the banking sector must also be considered in relation to the uncertainties and imponderables that accompanied our business last year.

Unfortunately, an uncoordinated approach to the various national and international initiatives in this area results in a regulatory patchwork quilt. A year ago, I pointed out that the aggregate impact of the various reform plans concerning banks and the real economy, as well as how the implementation of those plans can be harmonised internationally to prevent competitive disadvantages, are issues that need to be solved. I am not more optimistic today about achieving success on this front, on the contrary. I would like to make it clear that Aareal Bank explicitly supports the goal of achieving more stable financial markets and a resilient banking sector. At the same time, we can understand the pressure on the politicians to act. The – wrong! – public perception is that "nothing has happened" to date and that a hard line must now be taken with the banking community before the "window" for possible regulatory efforts closes again.

Nonetheless, I believe there are considerable grounds for concern that strategic decisions could be taken by the politicians that might permanently damage the viability of the banking sector and especially, the attractiveness of Germany as a banking centre. This calls to mind for example, the bank levy, which is a prime example of a national solo run that will further burden the still-fragile banking sector – and could do more harm than good in the end.

Ultimately, what we need is a reasonable balance between the need for regulation and the desire for competitiveness. At the moment, I see this balance as being clearly threatened.

Each of the individual regulatory measures that are currently prepared could impact significantly on the banks' lending potential and on their various business policies. Taken together, the measures could drive the German banking sector to the brink of its ability to bear such burdens.

We therefore argue that our industry should be given the opportunity to thoroughly examine the effects of the different instruments before they are implemented. The results of such an examination should then be taken into consideration in the calibration of the final rules and regulations. And not least, no measure should impair or even threaten a functioning business model.

Dear shareholders,

Despite all the uncertainties about the future regulatory framework, and in the middle of an improved (although still challenging) market environment, Aareal Bank Group is based on an unchanged sound foundation. With our coherent and viable business model – comprising the two strong pillars of Structured Property Financing and Consulting/Services for the institutional housing industry – we not only mastered the crisis in an excellent manner with our prudent business policy. We also created the prerequisites to hit the ground running again, after overcoming the crisis, as we had predicted. Our success in achieving this is very evident in our performance last year.

III. Review of the 2010 financial year

Ladies and Gentlemen,

2010 – the financial year under review, was the most successful in the bank's history. We once again proved the strength and soundness of our business model in a market environment that continued to be challenging.

Operating profit in the Group rose by 54 per cent to € 134 million. By the end of the third quarter, we had already achieved our full-year target of exceeding the previous year's result of € 87 million. The final quarter of the year was the second-strongest quarter in the last two and half years.

We owe our good performance once again to the extremely committed team effort of our managers and staff. I would like to take this opportunity, also on behalf of my colleagues on the Management Board, to express my sincere thanks to all those who contributed to this great result.

I will now look at our performance during 2010 in more detail. However, I will limit my comments, as usual, to the most important key figures and developments. As always, we have provided you with our detailed annual report containing very comprehensive information.

Simply put, we can justifiably say that we have delivered on our promises in 2010, as we did the year before. We have reached, or even surpassed, our objectives. The latter is not only the case with consolidated operating profit, but also for other important indicators.

- For instance, consolidated net interest income of € 509 million – up 11 per cent year-on-year – was markedly higher than the € 460 million to € 480 million range projected.
- At the same time, allowance for credit losses of € 105 million was below the € 117 million to € 165 million range budgeted for the 2010 financial year.
- At € 6.7 billion, new business in the Structured Property Financing segment exceeded the target corridor of € 4 billion to € 5 billion.
- The target result was also reached in the Consulting/Services segment, where operating profit rose to € 26 million, in spite of an interest rate environment strongly unfavourable for profitability in the deposit-taking business.

Additionally, we also repaid the first tranche of the silent participation provided by the German Financial Markets Stabilisation Fund (SoFFin) in an amount of € 150 million, earlier than was originally projected.

I would like to emphasise in this brief overview of the previous year that the bank continued to command an excellent capital base at all times. We also succeeded in implementing all our funding activities as planned during the financial year under review. This reflects not the least the positive profile we have acquired on the capital markets.

I would now like to come to the most important individual items in the income statement of Aareal Bank Group.

- The increase in net interest income from € 460 million in the previous year to € 509 million is based predominantly on higher average margins achieved in the lending business. Margins from the deposit-taking business with the institutional housing industry declined, due to persistently low interest rate levels, as expected, which naturally impacted on net interest income.
- Allowance for credit losses of € 105 million, which is considerably lower than the figure of € 150 million for the previous year, reflects the high quality of Aareal Bank Group's credit portfolio, and our cautious risk policy.
- Net commission income of € 123 million reflected – amongst other things – € 30 million in running costs for the guarantee facility extended by SoFFin. Adjusted for this item, net commission income exceeded the previous year's figure.
- Net trading income/expenses of € 8 million was largely attributable to the valuation of derivatives used to hedge interest rate and currency risk, and to realised and unrealised changes in value from sold hedging instruments on selected EU sovereign countries.
- Administrative expenses of € 366 million remained virtually stable year-on-year (2009: € 361 million). This reflects the strict cost discipline pursued within the Group. We are constantly enhancing our efficiency. However, as one can see from the earnings development, we are not cutting corners at the expense of our business and future opportunities.

Overall, as we already stated, consolidated operating profit for the 2010 financial year amounted to € 134 million, an increase of more than 50 per cent over the previous year. After taxes of € 40 million and non-controlling interest income, net income attributable to Aareal Bank AG shareholders was € 76 million, an increase of more than 50 per cent over 2009. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income came in at € 46 million, twice that of the previous year.

Ladies and Gentlemen,

Sound performances and positive developments ensured that both segments have contributed to this very good result.

Thanks to a sharp rise in net interest income and a significant reduction of 61 per cent in allowance for credit losses, we increased operating profit generated in the **Structured Property Financing** segment to € 108 million. We continued to pursue our conservative policy with a strict focus on quality in a market environment that had improved overall. Benefiting from economic recovery and leveraging growing transaction volumes on commercial property markets, we increasingly took advantage of the opportunities presented to us, in order to originate attractive new business. We succeeded in increasing the volume of new business to € 6.7 billion – this equates to a rise of around 75 per cent over the previous year. The share of loan renewals on the other hand continued to decline.

The broad geographical diversification of our property financing portfolio paid off again in 2010. We remained active in Europe, North America and Asia within the scope of our successful three-continent strategy. Unlike many of our competitors, who had scaled back their international presence, this allowed us to exploit market opportunities that arose in all the regions of the world that are particularly important to our business. At 79 per cent, Europe accounted for the highest share of new business, with 46 per cent alone generated in Western Europe. North America is a strong performer, accounting for 15 per cent of new business, and Asia accounts for 6 per cent.

Performance of our second strong pillar, the **Consulting/Services** segment for the institutional housing industry, was also stable in the 2010 financial year. Despite an interest rate environment that remained very unfavourable for our deposit-taking business, we succeeded in raising operating profit in this segment from € 20 million to € 26 million, which – adjusted for non-recurring effects – equates exactly to the previous year's level. In light of market circumstances, we can be very satisfied with this result.

The business operations of our IT subsidiary Aareon developed according to schedule. Despite a slight decline in revenue, Aareon generated record results for the second consecutive time. This positive development was largely due to the company's successful multi-product strategy.

Aareon succeeded in acquiring numerous new clients last year as well, especially via the Wodis Sigma product line that was launched in 2009. 115 new users decided in favour of the product during 2010, and by the end of March 2011, the total number of clients using this application was 334.

Aareon's international business was also positive. In the course of focusing on markets with relevant volume and attractive yield opportunities, Aareon acquired a 100% stake in the Dutch company SG|automatisering bv, Emmen, on 1 November 2010. The company acquired is the second-largest supplier of IT solutions for the institutional housing industry in the Netherlands. Aareon therefore expanded its international business to include the important Dutch market, thereby continuing to extend its position on the European market.

In the banking business with the German institutional housing industry, we successfully maintained our position as principal bank to the industry, acquiring more than 80 companies as clients, managing between them more than 150,000 residential units. This means that as of today there are now 2,700 business partners throughout Germany using our banking services and products.

Despite the still-predatory competition for deposits generated from the institutional housing industry during 2010, we succeeded in boosting the volume of deposits generated to € 4.5 billion at the year-end, compared with € 3.8 billion the year before. Deposits from the institutional housing industry represent an additional important refinancing source for us. This is why this business is of strategic importance to us, quite apart from the resulting interest income.

Ladies and Gentlemen,

Besides the operative performance, observers and markets are now paying particular attention to bank liquidity, following the acute financial crisis. We can state with certainty the following for Aareal Bank: we had a sound capital base and were solidly refinanced at all times during the crisis. This remains the case today as well.

Our capitalisation is also respectable by international standards. Following intensive preparation, we received approval by the German Federal Financial Supervisory Authority (BaFin) in February 2011 to start using the Advanced Internal Ratings-Based Approach – referred to by the experts as the “A-IRBA” – instead of the Credit

Risk Standard Approach (CRSA). Compared with the Standard Approach, the A-IRBA allows for a more accurate measurement of credit risks, and hence for a more precise and risk-adequate allocation of capital.

Under the A-IRBA, our core capital ratio, the so-called Tier 1 ratio, stood at 12.9 per cent as at 31 December 2010. Calculated according to the CRSA, the Tier 1 ratio would have amounted to 10.5 per cent on the same reporting date. The Tier 1 ratio in accordance with the A-IRBA, excluding hybrid capital and the remaining silent participation by SoFFin, was 8.1 per cent at year-end. These ratios are based on the assumption of a full retention of profits generated during the 2010 financial year.

The so-called leverage ratio, which compares total assets relative to capital, is also very solid. We are clearly below the limits planned by the future Basel III regime, even when excluding all hybrid capital and the SoFFin silent participation.

The funding situation remained solid during the year under review, too.

We successfully implemented our planned funding activities in a market environment that continued to be difficult, especially for unsecured issues. We placed Pfandbrief issues totalling € 2.4 billion, plus € 1.5 billion in senior unsecured bonds.

Please allow me to make a general remark in this context: the Pfandbrief continued to demonstrate its crisis-proof qualities and remains the undisputed benchmark on the international covered bond markets. Against this background, we cannot understand the thinking behind any regulatory measure which might impair the marketability and quality of this financial instrument in particular, which serves as an example for the German culture of stability. In my view, the future requirements for liquidity management under the new Basel III regime require attention in this context, since the percentages for inclusion of various asset classes into the liquidity reserve will result in a clear disadvantage for German Pfandbriefe, compared with sovereign bond issues.

When calculating the so-called "Liquidity Coverage Ratio", sovereign bonds issued by any country within the European Economic Area will be included as highly liquid assets, without any haircut. In contrast, even top-rated Pfandbriefe will be treated as high-quality corporate bonds, which means that a minimum 15 per cent haircut will be applied. For banks, this is apparently intended as an incentive to invest their liquidity reserves predominantly in EEA sovereign bonds. However, looking at the high budget deficits of some European countries, such an investment decision – taken on a level playing-field – might be difficult to understand. German Pfandbriefe fulfil investor requirements for security and transparency to the highest extent. This is why we urge German politicians to support the German Pfandbrief in the various international decision-making bodies.

In any event, the Pfandbrief was the most important milestone on Aareal Bank's refinancing strategy during 2010. This will also remain the case in the future.

In June 2010, we drew on the remaining € 2 billion available under the guarantee facility provided by the German Financial Markets Stabilisation Fund (SoFFin). We retained the bond issued under this guarantee on our books, rather than placing it on the market – a purely precautionary measure. The guarantee facility was designed to provide us with financial flexibility for our funding activities for the next three years. We have meanwhile redeemed this bond and the associated guarantee. I will come back to this in more detail later.

Ladies and Gentlemen,

All in all, we can conclude that 2010 clearly was a positive year: Aareal Bank performed very well in a financial market environment that remained difficult. At the same time, we took advantage of the opportunities that arose in order to further strengthen our position in a changed market and a competitive environment. Now that the financial and economic crisis has been overcome, we are set for successful, sustainable and profitable growth.

IV. Capital increase in 2011

Against the background of the positive outlook for our bank and for our markets, as well as looking at the successful performance since the start of the new year, the Management Board and the Supervisory Board resolved to carry out a capital increase in the form of a rights issue against cash contributions on 14 April 2011, using the existing Authorised Capital.

17,102,062 new ordinary bearer shares were offered and issued. The holders of the subscription rights exercised 99.73 per cent of the subscription rights during the subscription period, and received 17,055,237 new ordinary bearer shares at a subscription price of € 15.75. The remaining new shares were sold on the stock exchange.

Aareal Bank AG's anchor shareholder, Aareal Holding Verwaltungsgesellschaft mbH, supported the rights issue through a so-called 'opération blanche'. 4,991,355 new shares – corresponding to € 102.3 million or 78.4 per cent of the new shares available for subscription to Aareal Holding – were placed successfully with institutional investors, by conducting a pre-placement operation conducted on 14 April.

New shares procured in the subscription offer were delivered to shareholders on 3 May 2011.

The transaction generated gross issuance proceeds of € 269.6 million. We will use the inflow of funds from the capital increase to support the future growth of the Structured Property Financing segment, consistent with our current credit risk strategy. This means that we want to increasingly exploit opportunities for high-margin new business, strictly observing our strict risk/return requirements. We have therefore raised our new business target for 2011 by € 2 billion, up to between € 7 billion and € 8 billion. The capital increase will make an important contribution towards further enhancing our market position – and our profitability.

At the same time, the capital increase should further strengthen Aareal Bank’s regulatory capital base.

We have also used some of the issuing proceeds for further repayment of SoFFin's silent participation. € 75 million were transferred to SoFFin on 28 April 2011, as announced. Also in April 2011, the SoFFin-guaranteed € 2 billion bond maturing on 5 June 2013 – that the bank held on its own books – was redeemed early, in agreement with SoFFin. This step reflects our assessment of a gradually stabilising market environment, as well as Aareal Bank's sound refinancing situation.

V. SoFFin measures

In this context, I want to look again in more detail at the commitment by SoFFin to Aareal Bank, also against the background of the public discussions that are repeatedly rekindled about the topic.

As you know, in February 2009, in a phase of great uncertainty on the international financial markets, we took the decision, as a proactive and precautionary measure, to enter into an agreement with SoFFin. I already reported in detail about this at the 2009 Annual General Meeting and in 2010. At the time, we acted from a position of strength.

SoFFin provided us with a silent participation in the amount of € 525 million as well as a guarantee facility for unsecured issues totalling up to € 4 billion. This range of instruments has served, and still serves, as protection for a limited period of time – in the interest of investors, clients and staff. In hindsight, the decision to make use of the facility was correct.

In June 2010, we repaid a first tranche in the amount of € 150 million to SoFFin – earlier than announced originally. As I already mentioned, we repaid a further € 75 million at the end of April 2011, as well as returning half of the guarantee facility. The other half is accounted for by a three-year bond issued in March 2009. This means that the guarantee facility will be fully redeemed in less than one year's time.

With regard to the silent participation, we were the only bank – up to a few days ago – that had started to make repayments. And we are the only bank to date to have always repaid the interest on the silent participation in full. We can therefore justifiably say that Aareal Bank has not caused any harm to the German taxpayer. On the contrary: the government has earned well on its commitment to the bank.

From today's perspective, we will be able to repay the remaining € 300 million of the silent participation on the basis of our own strength. We have a number of options at our disposal here on which we will reach a decision in due course. No further capital measures are planned for this purpose. Similarly, we remain under no pressure regarding further repayment of the silent participation. We manage our total capital position flexibly within the framework of the relevant regulations, and on the basis of our strategy. We will therefore strive to always the find the optimum mix comprising various equity and debt instruments. The remaining silent participation by SoFFin must also be considered against this background.

I already referred to this earlier in my presentation: although the freezing of dividends for 2008 and 2009 contained in the agreement entered into with SoFFin has ended, meaning that we would be able to make a distribution in 2010, the Management Board and the Supervisory Board propose to once again retain net income in full. In light of the still-challenging market environment and the opportunities for future growth, for which we require as broad a capital base as possible, we find that the associated further strengthening of the bank makes sense and is necessary.

The many discussions held with investors in recent weeks and months have shown us that they have a thorough understanding of the necessity of this measure. At the same time, I would like to explicitly solicit your understanding and support for this step. It represents another milestone for the sustained strengthening of Aareal Bank Group, and we are convinced that it is in the best interest of the company as well as in your own interests as shareholders.

VI. The Aareal Bank share

Ladies and Gentlemen,

As shareholders, you will look back at 2010 as being another very changeable year on the stock exchange. It was influenced by the euro debt crisis as well as by the positive economic situation.

On balance, the Aareal Bank share performed very well, although it fluctuated sharply in line with market sentiment. Given the concerns surrounding debt levels in Greece and other euro zone countries, our share price fell at the start of February to its annual low of € 11.60. Thankfully, this negative performance was short-lived. Supported by good business figures, our share subsequently rose by almost 40 per cent compared with the start of the year, to reach € 18.32 in April 2010.

The Aareal Bank share price fell again to € 12.77 when the euro debt crisis escalated further in early summer. As you will have noted, the bank's share price was unable at times to escape the downwards spiral that affected many financial issues, despite its very manageable exposure to the problem countries.

Supported by the surprisingly positive economic development in Germany, the equity market diverged somewhat in the second half of the year; while non-financial sector enterprises benefited largely from this process, many financial issues declined. This is evident when looking at the annual performance of the indices: while the Prime Banks Performance Index, which comprises the financial issues, concluded the year at around minus 10%, the DAX and MDAX were very positive at plus 16% and plus 35% respectively.

It is even more remarkable therefore that our share could clearly distance itself from the sector development in the course of the year. The year-end price of € 22.80 not only marked the annual high for our share. With an increase of almost 72% over year-end 2009, it once again outperformed all the relevant indices and was one of the strongest performers in the mid-cap MDAX index.

As we see it, this positive development was driven by factors including the high quality of our property financing portfolio, which became evident in the absence of any major negative surprises, with allowance for credit losses remaining at comparatively moderate levels. Moreover, the capital markets evidently value the bank's open and transparent communications regarding our securities portfolio, in the context of the debt crisis, as well as the early repayment of SoFFin funds. Last but not least, the price increase seen during 2010 also reflects the trust placed by equity investors in Aareal Bank Group, its business model and its management team.

The positive trend continued for our share at the start of the current year, too. The Aareal Bank share reached a relative high of € 26.25 on 8 March before the earthquake disaster in Japan impacted on equity markets worldwide. As a result, our share price fell, too, reaching € 22.63 by the end of the quarter and therefore being on par with the price at year-end. When the financial statements were presented at the end of March, the positive outlook re-established the interrupted upside trend, moving our share above € 25.00 again in the first half of April.

The announcement on 14 April 2011 of the rights issue that was already explained in detail of course triggered exceptional movements in our share. It has been trading 'ex subscription right' since 18 April. With a closing price of € 20.47 at the end of the subscription period on 29 April, our share was slightly higher than the closing quarterly price of € 20.37, adjusted for the price of the subscription right. Taking into consideration the capital increase, yesterday's closing price of € 23.20 represents an increase of 13 per cent since the start of the year.

The capital increase temporarily influenced the share price; but it also initiated some structural effects:

- issuance of 17,102,062 new ordinary bearer shares, each with a notional € 3.00 share in the issued share capital, not only increased the total number of

Aareal Bank shares from 42,755,159 to 59,857,221, but also increased the company's issued share capital by € 51,306,186, from € 128,265,477 to € 179,571,663.

- Although our anchor shareholder, Aareal Holding Verwaltungsgesellschaft mbH, remains the largest shareholder of Aareal Bank AG, the capital increase reduced its share of issued share capital from 37.23 per cent to 28.9 per cent. In turn, this increased the number of shares in free float.
- The transaction significantly increased Aareal Bank's market capitalisation. At yesterday's closing price, it amounted to around € 1.39 billion, compared with around € 975 million as at year-end 2010.

Overall, we are very pleased with the robust share price development since the capital increase, and with the outcome of the measures taken. We see this as confirmation and, at the same time, as motivation to continue working hard for the lasting success of this bank, thus providing you as shareholders with sustainable value.

VII. Agenda

At this point, I would like to discuss briefly the agenda for today's Annual General Meeting. It is considerably shorter than in previous years.

First of all, I would like to draw your attention to the fact that the comprehensive report of the Management Board regarding disclosures required under sections 289 (4) and 315 (4) of the German Commercial Code has been published on our website. You can also obtain a copy today at our information booth.

Agenda item no.1 refers to the presentation of the statutory documents. Under agenda item no.2, we propose to transfer the net retained profit of € 400,000 to other retained earnings. Agenda items nos. 3 and 4 propose a resolution to grant formal approval to the Management Board and the Supervisory Board. Agenda item no. 5 contains the proposal regarding the appointment of an external auditor.

In agenda item no. 6, we propose an amendment to the text of Article 2 of the Memorandum and Articles of Association, where it is proposed to remove the reference to provisions of the German Banking Act which have become obsolete. We propose a second amendment to the Memorandum and Articles of Association in agenda item no. 7, regarding the revision to the remuneration of the Supervisory Board. An exclusively fixed remuneration of the Supervisory Board is proposed, the background to which has already been explained in detail by Mr Reich. The Management Board supports this proposal.

VIII. Current business developments and outlook

Dear shareholders,

I would now like to turn to current developments in the market environment and in relation to our business.

I already stated at the start of my presentation that the global economy has continued to recover thus far in 2011. The economy has been particularly dynamic in the developing Asian economies, especially in China. Japan was hard hit by the tragic earthquake catastrophe in mid-March. At this point in time it is difficult to seriously estimate the exact consequences for the country itself and for the rest of the world. Economies in North America and Europe have clearly entered an upswing, even though the growth momentum was less pronounced than in Asia. Within Europe, growth continues to be driven by Germany, while developments in the euro periphery states remains muted.

The previous year's trend towards easing on financial markets continued in the first quarter. This was reflected in, amongst other things, a large number of bond issues from banks, corporates and governments. The situation remains strained in the euro periphery states – this can be seen from the sometimes high risk premiums that are paid by the relevant sovereign issuers. The decision reached in the meantime by the European Council to further develop the EU rescue facility has not brought about any tangible changes.

All in all, I feel that financial markets have not yet fully returned to normal, even now in mid-May 2011. However, what would we consider to be a normal market environment?

- Specifically, we would expect to see credit markets providing much more liquidity than today
- as well as funding markets enjoying significantly lower volatility.
- In normal markets, we would expect central banks to have exited their 'zero interest rate' policy by now.
- Moreover, the sovereign debt crisis should have been overcome, providing higher transparency and better predictability for all market participants.

However, we are only seeing initial signs of such developments. By comparison, the global property markets have made further progress in returning to normality. This process has continued during the first months of the current year. At the same time, demand for financing has risen markedly in some regions. Investors continue to focus on first-class properties in prime locations. However, for the first time since the crisis, there is evidence of growing interest again in properties that are not in prime locations.

Ladies and Gentlemen,

During the course of the 2011 financial year to date, we have consistently been exploiting what is – all told – a very favourable market environment, as it was in 2010.

We already published our comprehensive interim report for the first quarter of 2011 on 10 May. I therefore want to focus on a few issues here that I deem particularly important.

To start with the good news: Aareal Bank Group started the new year on a very successful note and generated an excellent result in the first quarter. At € 47 million, consolidated operating profit significantly exceeded the corresponding figure of € 30 million for the previous year, as well as the € 40 million generated in the very strong fourth quarter of 2010. In the first three months therefore, Aareal Bank Group reported the best quarterly consolidated operating profit in almost three years.

Net interest income of € 134 million was up € 17 million or 15 per cent year-on-year. Even though the prevailing low interest rate environment continued to burden the profitability of the deposit-taking business with the institutional housing industry, it was clearly more than offset by higher margins in the lending business.

Allowance for credit losses in the first quarter of 2011 was € 18 million, a significant decline over the same period of the previous year, when we recognised € 32 million. It is therefore lower than the pro-rata forecast range of € 110 million to 140 million for the financial year but within the anticipated fluctuation range for a quarter. Hence, no matter how positive it is for us, the figure for the first three months cannot simply be projected for the year as a whole.

Net commission income was unchanged year-on-year, at € 30 million. It reflects the additional costs of € 5 million for the additional SoFFin guarantees that were utilised at the end of June 2010 and repaid again in April 2011. Additionally, net commission income for the first quarter of 2011 includes € 3 million in revenue generated by SG|automatisering bv, the Dutch subsidiary acquired by Aareon that I referred to earlier. Adjusted for these effects, net commission income slightly exceeded last year's level.

Net trading income/expenses of minus € 8 million was largely attributable to the valuation of derivatives used to hedge interest rate and currency risk, and to unrealised changes in value from sold hedging instruments on selected EU sovereign countries. Administrative expenses of € 91 million were unchanged from the previous year and therefore in line with our projections. This reflects the high level of cost discipline we continue to pursue.

With regard to the figure of € 47 million for consolidated operating profit, taking into consideration taxes and non-controlling interests, net income attributable to shareholders of Aareal Bank AG amounted to € 30 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated income in the first quarter stood at € 24 million.

Ladies and Gentlemen,

Performance at our **Structured Property Financing** segment was positive overall at the start of the year. At € 43 million, the segment's operating profit was up significantly on the corresponding figures for the previous year. Business development in the first quarter once again seems to confirm that we are correct in our approach of pursuing a sustainable yet resolutely hands-on business policy.

Our selective approach - oriented strictly on quality, return and risk – together with our medium-sized structure – have once again proved to be major competitive advantages. We were therefore able to react quickly to market developments and to take advantage of opportunities that arose. Compared with the same quarter of the previous year, new business was up slightly, to € 1.4 billion. The share of newly acquired business increased significantly, compared to that of renewals.

This trend is likely to continue over the coming months. On the whole, the increase in the volume of new business should be more significant for the remainder of the year compared with the first quarter. The very positive development of new transactions in April, and a well-stocked new business pipeline confirm this expectation.

The **Consulting/Services** segment performed well in a difficult market environment. The segment's operating profit amounted to € 4 million, after € 6 million in the same period of the previous year. Whilst the relatively low interest rate environment prevails - which is unfavourable for the profitability of the deposit-taking business - we were able to further increase the volume of deposits generated from the institutional housing industry, to average € 4.5 billion.

The business activities of our IT subsidiary Aareon in the first quarter – traditionally the weakest quarter of the year for its markets – were within the planned target corridor. A further 13 new clients were acquired for Wodis Sigma in the first quarter. Aareon's international business also continued to develop favourably and the aforementioned integration of SG|automatisering bv develops successfully.

Let me now touch briefly on the performance of the capitalisation and the refinancing.

Aareal Bank remains extremely solidly financed. We successfully implemented all our planned funding activities in the first quarter of the current financial year. We issued € 0.3 billion in senior unsecured issues during the first three months of the year as well as Pfandbriefe totalling € 0.8 billion. I would also like to draw your attention to the successful issue of a three-year € 500 million senior unsecured benchmark bond that we placed – at attractive terms – in early May.

Our capital situation improved further compared with the end of 2010, not least due to efficient management of the risk-weighted assets. Under the IRB Approach, on 31 March – i.e. before the successful capital increase – Aareal Bank's Tier 1 ratio stood at 14.3 per cent. The Tier 1 ratio, excluding hybrid capital and the remaining silent participation by SoFFin, was 9.0 per cent.

The capital increase further strengthened the bank’s regulatory capital base. This increased the Tier 1 ratio in accordance with A-IRBA – before apportioning funds for additional new business and taking into account a further repayment of € 75 million of the silent participation by SoFFin – to 15.5 per cent on a pro-forma basis. The Tier 1 ratio excluding hybrid capital and the SoFFin silent participation rose to 10.7 per cent on a pro-forma basis.

Ladies and Gentlemen,

I would like to summarise the first quarter as follows: we have started the new year on an excellent note and have once again proven our operative strength. We exercise strict control over our risks, and over our costs. We are in an excellent position to benefit – above the market average – from the improved environment for the property sector and to ensure further sustained expansion of our market position. We have remained on track also in the second quarter to date. All told, we are therefore in the best position to reach our targets for the year 2011 as a whole.

What do we expect for the remainder of the year?

First of all, we have to assume that 2011 is unlikely to be less challenging than in the previous year. I already mentioned the as yet unresolved euro debt crisis as an uncertainty. However, the effects of changes in banking regulations – still largely unclear – could also burden our industry.

By and large, such factors are beyond our control. However, we can influence the quality and passion with which we operate our business. I can assure you that we will not let up here.

The effects of the capital increase and early redemption of a part of the SoFFin guarantee facility allowed us in April to once again readjust our forecasts for the current year (as set out in our annual report) - upwards.

Against the background of moderately higher interest rates and expected earnings from the additional new business that is facilitated by the capital increase, the Management Board expects an increase in net interest income over the previous year. Despite some uncertainties, we believe that the anticipated gradual normalisation of the property markets will see allowance for credit losses for the full year fluctuate in a corridor of € 110 million to € 140 million, as we already stated. As in previous years, the bank cannot rule out additional allowances for unexpected credit losses that may be incurred during 2011.

In the current market environment, it is impossible to seriously forecast net trading income/expenses, which is largely due to measurement effects. However, because of the consistently conservative risk policy pursued during recent years, we do not anticipate any material burden on the results from non-trading assets in the current financial year.

Administrative expenses will continue to be defined by the unchanged cost discipline, and the figure for 2011 is expected to be marginally higher than the previous year, including the burden associated with the special bank levy.

Overall, we expect another significant increase in consolidated operating profit over the previous year. We also assume that we will exceed the previous year's returns on equity before taxes in the current financial year.

What are our projections beyond the current financial year?

Ladies and Gentlemen,

We remain convinced of the promising future for commercial property financing, provided it is operated with a sense of perspective and the required know-how. This positive view is supported on the one hand by the long-term rising demand for property and finance – arising from population growth in many developing regions of the world, or through greater demand for renovation and investment in the developed markets. These macro trends remain intact. This means that after the stable base that should be established in many places in 2010 and the subsequent gradual return to normality, we see very good prospects for a sustained, sharp recovery in investments and in transaction volume on the property markets worldwide.

A soundly-managed bank such as Aareal Bank will utilise its strengths in full again: our lending policy that is focused on solidity and sustainability, our renowned proximity to clients and the market, our flexibility as a medium-sized company, our forward-looking refinancing policy, and our sound balance sheet structure.

We therefore believe that as a result of the additional volume of new business arising from the improved capitalisation and gradually improving markets, that we can further increase net interest income in the year 2012. Relative risk costs are expected to slightly fall next year. As is the case for the current year, it will remain impossible to forecast net trading income / expenses in the future owing to the still volatile market environment. However, we do not expect any material additional burdens to net income from financial investments. Administrative expenses are expected to fall during 2012. We expect operating profit and return on equity to increase again in 2012 over the levels achieved in 2011.

We have raised our target for the return on equity before taxes, on the back of the expected positive effects of the capital increase. We believe we can reach a return of 12 to 13 per cent in normalised markets.

IX. Conclusion

Dear shareholders,

As you can see, we are more confident than ever of our ability to continue growing our business profitably and to further extend our market position. Aareal Bank has emerged from the crisis of recent years – which tested the very existence of many banks – clearly strengthened. We have used the time to enhance our competitive position and develop new market opportunities. We are now in a position to reap the benefits and create sustainable value.

The successfully concluded capital increase has further improved the conditions for achieving this. Our viable strategy will allow us to consistently exploit our competitive advantages in the years to come. The most important message I am conveying to you today is that Aareal Bank – with its two strong pillars – remains firmly on course. This will also benefit our customers, employees and not least you, as our shareholders.

I would like to express my sincere thanks to you for your support and the trust you have placed in the bank: stay with us now, as we move confidently into the future.

Thank you very much for your attention.