

(F) Remuneration Report

Principles of the remuneration of the Management Board

The Supervisory Board determines the structure and amount of remuneration for members of the Management Board.

In view of the conclusion of the agreement entered into with the Financial Markets Stabilisation Fund (SoFFin), the members of the Management Board waived the portion of the contractually fixed remuneration exceeding € 500,000 as well as the variable remuneration component for the financial years 2009 and 2010, respectively.

Aareal Bank AG has entered into fixed-term service contracts with the members of its Management Board. In addition to fixed salary components, which are paid in twelve identical monthly instalments, the members of the Management Board receive a cash bonus in form of a variable remuneration and are granted phantom shares as a long-term remuneration. The basis for this variable remuneration component is a target system, largely based on net income (of the Group) as reported under International Financial Reporting Standards (IFRSs), as well as qualitative and quantitative targets, which are re-defined annually. The remuneration for Mr Große Wördemann, who joined the Management Board effective 1 November 2010, is based on the German Regulation Governing Supervisory Requirements for Remuneration Systems of Institutions (Instituts-Vergütungsverordnung). Further specifications for variable remuneration will be defined in the context of the further implementation of the above-mentioned regulation.

Remuneration

Remuneration of the members of the Management Board can be broken down as follows:

	Year	Fixed remuneration	Cash bonus	Other ¹⁾	Total
Euro					
Dr Wolf Schumacher	2010	500,000.00	–	25,260.61	525,260.61
	2009	500,000.00	–	25,269.47	525,269.47
Dirk Große Wördemann ²⁾	2010	83,333.30	–	3,063.62	86,396.92
	2009	–	–	–	–
Norbert Kickum ³⁾	2010	416,666.70	–	2,581,107.19	2,997,773.89
	2009	500,000.00	–	29,161.42	529,161.42
Hermann J. Merkens	2010	500,000.00	–	48,965.16	548,965.16
	2009	500,000.00	–	48,901.86	548,901.86
Thomas Ortmanns	2010	500,000.00	–	27,187.71	527,187.71
	2009	500,000.00	–	23,323.02	523,323.02
Total	2010	2,000,000.00	–	2,685,584.29	4,685,584.29
	2009	2,000,000.00	–	126,655.77	2,126,655.77

¹⁾ Other remuneration for 2010 includes payments for company cars in the amount of € 86,234.36 (2009: € 73,146.71) as well as benefits related to social security contributions totalling € 44,318.88 (2009: € 43,922.16).

²⁾ Appointed with effect from 1 November 2010

³⁾ Retired with effect from 31 October 2010. Other remuneration includes an amount of € 2,545,833.00 as compensation for the fixed and variable remuneration claims for the remaining term of the employment contract until 31 March 2013. Moreover, Norbert Kickum was granted no further benefits. The settlement of the phantom shares, to which Norbert Kickum is entitled, was made in accordance with the contractual regulations of the employment contract.

No benefits were granted or committed to any member of the Management by third parties with respect to his Management Board activities during the year under review.

Long-term component

In 2010, the members of the Management Board did not receive payments from long-term components pursuant the terms and conditions of the share-based payment transactions, based on the agreement entered into with SoFFin.

	Year	Long-term component	
		Value at award date	Quantity
Euro			
Dr Wolf Schumacher	2010	0.00	0.00
	2009	0.00	0.00
Dirk Große Wördemann ¹⁾	2010	0.00	0.00
	2009	–	–
Norbert Kickum ²⁾	2010	0.00	0.00
	2009	0.00	0.00
Hermann J. Merkens	2010	0.00	0.00
	2009	0.00	0.00
Thomas Ortmanns	2010	0.00	0.00
	2009	0.00	0.00

¹⁾ Appointed with effect from 1 November 2010; ²⁾ Retired with effect from 31 October 2010

Pensions, retirement benefits and severance pay

The benefit regulations as agreed in the employment contract apply to the members of the Management Board of Aareal Bank. Accordingly, they are entitled to receive pension payments after completing their 60th year of age, or earlier in case of a permanent disability of service. Pension claims of the Management Board members who joined before 1 November 2010, are vested.

Members of the Management Board who joined the Company before 1 January 2005 are entitled to receive contractual pension payments in the amount of € 72,000, based on older contractual stipulations, before they reach the age of 60 when they have served for a period of five years, in case the bank rejects extension of their service contracts.

The following overview shows the pension claims of the members of the Management Board as at the balance sheet date, as well as the related present values and the amounts recognised as provisions¹⁾:

	2010			2009		
	Pension claims p.a.	Balance of pension provisions ¹⁾ as at 31 Dec 2010	Increase of pension provisions ¹⁾ in 2010	Pension claims p.a.	Balance of pension provisions ¹⁾ as at 31 Dec 2009	Increase of pension provisions ¹⁾ in 2009
Euro 000's						
Dr Wolf Schumacher	350	1,961	1,108	350	853	284
Dirk Große Wördemann ²⁾	200	28	28	–	–	–
Norbert Kickum ³⁾	200	3,065	2,455	200	610	336
Hermann J. Merkens	200	997	558	200	439	109
Thomas Ortmanns	200	871	493	200	378	200
Total	1,150	6,922	4,642	950	2,280	929

²⁾ Appointed with effect from 1 November 2010

³⁾ Retired with effect from 31 October 2010. As a result of the retirement of Mr Kickum, the pension claims – which previously had been reported on a pro-rata basis until reaching pensionable age – had to be reported immediately in one single amount.

The pension claims are adjusted to take account of the development of standard wages within the private banking sector as from the beginning of actual payments of pensions.

The pension paid to widows amounts to 60 % of the pension of the member of the Management Board, while pensions to orphans and half-orphans amount to 20 % and 10 %, respectively.

Service cost incurred in financial year 2010 in connection with the pension claims of members of the Management Board totalled € 2,465 thousand (2009: € 698 thousand).

The pension provisions for active and former members of the Management Board and their surviving dependants were increased by a total of € 7,371 thousand¹⁾ (2009: € 1,093 thousand¹⁾) in the year under review. The total amount of pension provisions now comes to € 18,004 thousand¹⁾ (2009: € 10,633 thousand¹⁾). Of that amount, € 14,147 thousand¹⁾ related to former members of the Management Board and their surviving dependants (2009: € 8,354 thousand¹⁾). Payments to former Management Board members of Areal Bank AG and their surviving dependants totalled € 579 thousand (2009: € 523 thousand).

As announced in the previous year, we implemented the Contractual Trust Arrangement (CTA) in 2010. For this purpose, we established Areal Pensionsverein e.V. as trustee. The existing assets for the pension commitments towards members of the Management Board were transferred to Areal Pensionsverein e.V. (by analogy with the current pension scheme for employees). Areal Pensionsverein e.V. also protects the pension commitments previously not covered by the German Pension Guarantee Association (Pensionsversicherungsverein; PSVaG).

¹⁾ The figures reported for the balance and changes of provisions represent the provisions determined pursuant to the rules set out in the German Commercial Code (HGB). The provisions as determined under IFRSs cannot be allocated to individual groups of persons due to the application of the corridor approach.

The agreements concluded with members of the Management Board do not include any obligation to make severance payments in case of an early termination of employment relationships. However, severance payments may be included in individual termination agreements.

In the case of a change of control, the members affected receive, in settlement of their total remuneration, their fixed remuneration, as agreed in their employment contracts as well as a contractually agreed fixed one-off payment. Depending on the type of the change of control – termination by the company or termination by the respective Board member –, the agreed benefits for the members of the Management Board are as follows:

		Terminated by the company	Terminated by the Board member
Euro			
Dr Wolf Schumacher	per month of remaining contract term ¹⁾	141,667	70,833
	One-off payment	350,000	225,000
Dirk Große Wördemann ²⁾	per month of remaining contract term ¹⁾	120,833	54,167
	One-off payment	225,000	162,500
Norbert Kickum ³⁾	per month of remaining contract term ¹⁾	120,833	54,167
	One-off payment	225,000	162,500
Hermann J. Merkens	per month of remaining contract term ¹⁾	120,833	54,167
	One-off payment	225,000	162,500
Thomas Ortmanns	per month of remaining contract term ¹⁾	120,833	54,167
	One-off payment	225,000	162,500

¹⁾ Upon request of the member of the Management Board, the benefits may be paid in form of a one-off payment. In this case, the amount is discounted using the interest rate of the ECB for one-year deposits of private households in the month of payment.

²⁾ Appointed with effect from 1 November 2010; the regulations for the change of control applicable to Mr Große Wördemann are suspended for the term of the silent participation by SoFFin, pursuant to the employment contract.

³⁾ Retired with effect from 31 October 2010

Principles of the remuneration of the Supervisory Board

The remuneration of the Supervisory Board is specified in Section 9 of the Memorandum and Articles of Association of Aareal Bank AG. The resolution adopted by the Annual General Meeting on 23 May 2006, which resulted in a change of the remuneration system of the Supervisory Board, currently applies.

The total remuneration of the Supervisory Board comprises a fixed and a variable remuneration component, comparable to the remuneration package of the Management Board. The variable remuneration is performance-related and comprises a short-term and a long-term component.

The fixed remuneration is € 20,000 p.a. for each Supervisory Board member. The Chairman of the Supervisory Board shall receive twice the amount, while the deputy shall receive one and a half times as much as a normal member. The fixed remuneration shall be increased by € 10,000 p.a. for each membership in a Supervisory Board committee (with the exception of the Committee for Urgent Decisions, which is a part of the Risk Committee, as well as the Nomination Committee, which exclusively acts as an advisory committee). The fixed remuneration shall be increased instead by € 20,000 p.a. for Chairmanship of a Supervisory Board committee (also with the exception of the Committee for Urgent Decisions, which is a part of the Risk Committee, as well as the Nomination Committee, which exclusively

acts as an advisory committee). The fixed remuneration component of a Supervisory Board member, including the remuneration for the Chairmanship of a Supervisory Board committee, forms a basis for assessing the performance-related remuneration.

The performance-related remuneration only comes into effect if a dividend of not less than € 0.20 per share is paid for the financial year in question.

The short-term performance-related remuneration currently amounts to 12.5 % of the individual assessment basis for each full € 50 million of the consolidated net income attributable to shareholders of Aareal Bank AG as reported in the Group income statement. However, it may not exceed 50 % of the individual assessment basis.

The long-term performance-related remuneration of a Supervisory Board member amounts to 12.5 % of the individual assessment basis for each 10 % increase in the consolidated net income attributable to shareholders of Aareal Bank AG (as reported in the consolidated income statement) over the unweighted average of the consolidated net income attributable to shareholders of Aareal Bank AG for the previous three full financial years. The long-term profit-oriented remuneration is not paid if the average value is negative.

The maximum long-term performance-related remuneration is capped at 50 % of the individual assessment basis, so that the aggregate variable remuneration may amount to a maximum of 100 % of the fixed remuneration component.

The fixed remuneration is due at the end of each financial year. The variable remuneration component is due after the Annual General Meeting in which a resolution is passed on the appropriation of net income for the relevant financial year. The bank reimburses the VAT amounts to be paid on the remuneration.

In accordance with the methodology presented, the members of the Supervisory Board receive a fixed remuneration for the 2010 financial year in the amount of € 559,300.00, which is the same amount paid in 2009. The Management Board proposes to the Annual General Meeting that the net retained profit of Aareal Bank AG in the amount of € 400,000.00 for the financial year 2010, as reported under the German Commercial Code (HGB), be transferred to other retained earnings and that no dividends be paid. Therefore, as in the previous year, no variable remuneration will be paid to the members of the Supervisory Board.

The individual amount of the remuneration for the Supervisory Board is shown in the following table. The figures in the table include the reimbursement for VAT (19 %).

	Year	Fixed remuneration	Variable remuneration	Total
Euro				
Hans W. Reich, Chairman	2010	107,100.00	–	107,100.00
	2009	107,100.00	–	107,100.00
Erwin Flieger, Deputy Chairman	2010	59,500.00	–	59,500.00
	2009	59,500.00	–	59,500.00
York-Detlef Bülow, Deputy Chairman	2010	59,500.00	–	59,500.00
	2009	59,500.00	–	59,500.00
Tamara Birke ¹⁾	2010	13,784.17	–	13,784.17
	2009	35,700.00	–	35,700.00
Dieter Kirsch ²⁾	2010	21,915.83	–	21,915.83
	2009	–	–	–
Thomas Hawel	2010	23,800.00	–	23,800.00
	2009	23,800.00	–	23,800.00
Helmut Wagner	2010	23,800.00	–	23,800.00
	2009	23,800.00	–	23,800.00
Christian Graf von Bassewitz	2010	47,600.00	–	47,600.00
	2009	47,600.00	–	47,600.00
Manfred Behrens	2010	23,800.00	–	23,800.00
	2009	23,800.00	–	23,800.00
Joachim Neupel	2010	59,500.00	–	59,500.00
	2009	59,500.00	–	59,500.00
Dr Herbert Lohneiß	2010	35,700.00	–	35,700.00
	2009	35,700.00	–	35,700.00
Prof Dr Stephan Schüller	2010	47,600.00	–	47,600.00
	2009	47,600.00	–	47,600.00
Wolf R. Thiel	2010	35,700.00	–	35,700.00
	2009	35,700.00	–	35,700.00
Total	2010	559,300.00	–	559,300.00
	2009	559,300.00	–	559,300.00

¹⁾ Member until 19 May 2010; ²⁾ Member since 19 May 2010

The members of the Supervisory Board did not provide any consulting or agency services, or other personal services, in 2010. Therefore, no additional remuneration was paid.

Remuneration for key executives

The definition of executives in key positions within Aareal Bank Group includes members of management or supervisory bodies of Aareal Bank AG and its subsidiaries, plus first-level managers (heads of divisions) of Aareal Bank AG.

Total remuneration of executives in key positions is analysed below:

	1 Jan-31 Dec 2010	1 Jan-31 Dec 2009
Euro 000's		
Short-term employee benefits	17,848	16,821
Post-employment benefits	3,775	1,553
Other long-term benefits	–	45
Termination benefits	2,546	–
Share-based remuneration	1,084	1,004
Total	25,253	19,423

Cash-settled share-based payment

a) Description of the cash-settled share-based payment transactions

Key executive staff members were granted cash-settled share-based remuneration (so-called phantom shares or virtual shares) as a variable remuneration component. The relevant share plans are subject to slightly different regulations with respect to term and exercise criteria.

Phantom share plan for members of the Management Board of Aareal Bank AG/ Long-term Component

The following regulations apply in relation to the granting of phantom shares for the members of the Management Board appointed before 1 November 2010:

- The beneficiaries receive a remuneration denominated in euro which will be converted into an equivalent number of phantom shares. The conversion is based on the weighted average price during the five (Xetra) trading days after the publication of the annual financial statements adopted by the Supervisory Board.
- One fourth of the awarded phantom shares become exercisable each year. This also applies to the year in which they are awarded. Phantom shares not exercised in a particular year are accumulated.
- The phantom shares may be exercised within five business days after the publication of a quarterly report.
- There are no exercise hurdles in form of a minimum stock appreciation target or other market or performance-related criteria.
- Phantom shares that have not been exercised carry full dividend rights, i.e. the beneficiaries receive for each phantom share not yet exercised a cash payment equivalent to the amount of the approved dividend.

Virtual share plan for the key executive staff (excluding members of the Management Board of Aareal Bank AG)

Key executive staff members, excluding members of the Management Board of Aareal Bank AG, are granted virtual shares in accordance with the following rules:

- The beneficiaries receive a remuneration denominated in euro which will be converted into an equivalent number of virtual shares. The basis for conversion is the average price of the Aareal Bank AG share on the date of publication of the annual report and the four subsequent trading days (subscription price).

- The shares resulting from such a grant are automatically exercised in the three years following the year of grant, with one third being exercised in each year.
- The basis for exercise is the average price of the Aareal Bank AG share on the date of publication of the annual report and the four subsequent trading days.
- There are no exercise hurdles in form of a minimum stock appreciation target or other market or performance-related criteria.
- With respect to virtual shares that have not been exercised, beneficiaries receive for each virtual share not yet exercised a cash payment equivalent to the amount of the approved dividend.

b) Valuation model and valuation assumptions

Valuation model

The cash-settled share-based payment transactions have the following structure: an option may be exercised at pre-determined dates, subject to a holding period, if applicable. The exercise period varies according to the relevant payment transaction.

According to the terms and conditions of the equity-settled share-based payment transactions, a dividend will be paid for each phantom or virtual share, irrespective of whether the option has been exercised or not. This means that an earlier exercise does not result in a separate claim for cash settlement in the amount of the dividend. Therefore, there is no reason for an earlier exercise of an option due to cash settlement. The obligations from the cash-settled share-based payment transactions are measured using the Black-Scholes valuation model.

Valuation assumptions

The following probabilities for elementary events are used for the calculation of the probabilities of the occurrence of the exercise events:

- Death or invalidity: 0.2 % p.a. (members of the Management Board) and 0.175 % p.a. (executive staff)
- Termination of contract by employee: 0 % p.a. (members of the Management Board) and 2 % p.a. (executive staff)
- Termination of contract by employer (due to operational requirements or change of ownership): 0 % p.a. (members of the Management Board) and 2 % p.a. (executive staff)

The vesting of the rights is based on the individual cash-settled share-based payment transactions. It has been assumed, in the event of death or invalidity, that the outstanding option rights may be exercised immediately and in the full amount, irrespective of the extent of the rights earned until that date.

Options are valued using the Black-Scholes model. The relevant indicators for the valuation are (+: value of the option increases when the relevant indicator increases)

- the price of the Aareal Bank share on the valuation date (+)
- the exercise price of the phantom or virtual share on the exercise date (-)
- the term to exercise date (+)
- the volatility of the change (in percent) of the price of the Aareal Bank share (+)
- the risk-free interest rate for a safe investment until the exercise date (+)

The Xetra closing price of the Aareal Bank AG share is determined on the valuation date. The exercise price for each cash-settled share-based payment transaction is nil, since the beneficiary receives the full equivalent of a share upon exercise. There is no cash settlement in the amount of the dividend payment with respect to the phantom or virtual shares upon exercise since cash settlements for dividend payments are made irrespective of any exercise. The term of an option in the event tree is always the maximum time as contractually agreed until the exercise event. The exercise events "death/invalidity" or "termination" are always assumed to occur in the middle of future periods. The expected volatility (standard deviation) of the percentage change of the price of the Aareal Bank AG share (return) is calculated using the standard deviation of the daily historical returns over a rolling reference period. The length of this period corresponds to the term of the option. The yield curve for risk-free German zero-coupon government bonds, as published daily by the Deutsche Bundesbank applicable at the valuation date, will be used to discount future payments.

c) Volume of cash-settled share-based payment transactions of key executive staff:

The number of phantom or virtual shares outstanding for key executive staff has changed as follows:

	2010	2009
Quantity (number)		
Balance at 1 January	880,832	616,876
Granted	52,356	396,057
Expired	–	–
Exercised	311,336	137,086
Other	–	4,985
Balance at 31 December	621,852	880,832
of which: exercisable	265,404	46,346

Between the date of launching the above-mentioned share plans and until 31 December 2010, a total of 1,262,410.50 shares have been granted.

The phantom or virtual shares exercisable in the year under review have a weighted average fair value of € 5,828,334 (2009: € 3,438,758) as at the balance sheet date.

The weighted average share price of the phantom or virtual shares exercised in the year under review amounted to € 17.38 (2009: € 7.46).

The intrinsic value of the phantom or virtual shares exercisable at the reporting date amounted to € 14,204,144 (2009: € 11,012,023).

The share price used for the phantom shares exercised during the financial year 2010 was € 16.42 respectively € 16.12 (2009: € 7.71). This corresponds to the weighted Xetra average price published by Bloomberg on the exercise date, as defined in the regulations for share-based remuneration for the members of the Management Board.

The share price used for the virtual shares exercised during the financial year 2010 was € 17.38 (2009: € 6.15). In accordance with the regulations for allocation and exercise of virtual shares, this share price is determined on the basis of the weighted Xetra average price as published by Bloomberg on the day the Annual Report is published and the four following trading days.

The phantom or virtual shares exercisable at 31 December 2010 have a limited contract term. The weighted average remaining contract term of these phantom or virtual shares amounts to 907.88 days (2009: 1,228.22 days).

d) Effects on financial position and performance

The total amount expensed for share-based payments was € 11.6 million during the financial year 2010 (2009: € 5.4 million). The portion of the total amount expensed attributable to members of the Management Board amounts to € 7.2 million (2009: € 3.6 million) and can be broken down to the individual members of the Management Board as follows.

	2010	2009
Euro		
Dr Wolf Schumacher	1,786,199	907,956
Dirk Große Wördemann ¹⁾	–	–
Norbert Kickum ²⁾	2,096,497	871,748
Hermann J. Merkens	1,854,944	885,895
Thomas Ortmanns	1,495,867	907,865

¹⁾ Appointed with effect from 1 November 2010; ²⁾ Retired with effect from 31 October 2010

The liability from share-based payments amounts to € 13.8 million (2009: € 5.2 million) as at 31 December 2010.