

Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Dear shareholders,

During the financial year under review, Aareal Bank AG once again enjoyed commercial success and achieved a good result despite a market environment that is still challenging. As was forecast at the start of the year, the bank generated consolidated operating profit that was down only slightly on the successful previous year.

This means that Aareal Bank AG has generated positive quarterly results on each occasion since the outbreak of the international crisis affecting financial markets and the economy back in 2008. The Supervisory Board considers these results as evidence for the viability and operative strength of the Group's business model.

The European sovereign debt crisis continued to impact upon developments on the international financial and capital markets during 2012. The struggle to find a permanent and viable solution for the debt problems of the countries in question was at the forefront of intensive discussions. The associated high level of market uncertainty generated sharp price fluctuations on the international exchanges. The willingness of the European Central Bank (ECB) in the third quarter of 2012 to buy government bonds on the secondary market under certain conditions drove down the risk premiums (spreads) for government bonds from the euro zone periphery countries.

The macro-economic environment in 2012 was also defined largely by the European sovereign debt crisis. This had negative implications for sentiment

in the real economy and led to a weak or even declining economy in many locations. Economies in North America and Asia developed more favourably. The budget dispute in the US and related unresolved issues were highly significant, and also impaired the business climate there.

Against the background of the developments outlined above, Aareal Bank adhered to its cautious and forward-looking business policy, in the usual manner: at the outset of the year, the bank first secured the funding for its planned volume of new business. As a result, Aareal Bank AG had sufficient liquidity and a sound funding base at all times during the 2012 financial year.

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, of 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 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

Eight plenary meetings of the Supervisory Board were held during the year under review, of which five were scheduled meetings. Some of the extraordinary meetings were convened as telephone conferences. During the meetings, the members of the Supervisory Board received reports and explanations by the members of the Management Board, and discussed these in detail. Proceedings and reports during all scheduled meetings focused on the way the bank dealt with the challenges posed by the European sovereign debt crisis, and the resulting high levels of uncertainty and volatility on the financial and capital markets.

In its discussions, the Supervisory Board also concerned itself with changes to the regulatory

framework, in great detail. During the year under review, these included the decisions taken by the newly-established European Banking Authority (EBA), and the implementation of amended Minimum Requirements for Risk Management (MaRisk).

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 the European sovereign debt crisis, and from other market developments.

During the scheduled 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. Within 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, on the basis of actual figures and projections. 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 various Supervisory Board meetings are presented below:

One meeting in February focused exclusively on Aareal Bank's strategic options, and on the challenges presented in the prevailing market environment.

In the March meeting, the Supervisory Board concerned itself in detail with the financial statements and consolidated financial statements presented for the 2011 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 2012 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 2012. The meeting also discussed the annual reports of Internal Audit and the Compliance Officers; in accordance with the German Ordinance on Remuneration in Financial Institutions, the contracts with the members of the Management Board were submitted to the Supervisory Board and a resolution passed on the content of these contracts.

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 focal aspects of the audit for the 2012 financial year, as specified by the Supervisory Board, were discussed once again.

An extraordinary meeting was convened in June, during which the plenary meeting concerned itself with the proposal of the Nomination Committee to put forward Marija Korsch to the registrar of companies as a judicial appointment to succeed Wolf R. Thiel. Following an in-depth exchange of advice amongst its members and the presentation of the candidate, the Supervisory Board approved the proposal of the candidate. The appointment of Marija Korsch was conducted by the Wiesbaden local court with effect from 11 July 2012.

Another topic of discussion in the aforementioned meeting in June was a potential acquisition of a shareholding by subsidiary Aareon AG. This topic was discussed in more depth and agreed at a further extraordinary meeting held in July.

During the September meeting, topics related to the German Corporate Governance Code were presented and discussed, alongside other regulatory issues. The Supervisory Board also concerned itself with questions about the audit of the financial statements.

Within the scope of a further extraordinary meeting in October, the Supervisory Board discussed the strategic options currently available to Aareal Bank AG.

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: in this context, the Supervisory Board adopted the regular Declaration of Compliance, pursuant to section 161 of the AktG, for the year 2012, which was subsequently published on the bank's website.

In accordance with good corporate governance practice, the Supervisory Board also regularly examines the efficiency of its activities in order to identify any areas requiring improvement. The results of the efficiency examination conducted during the 2012 financial year were acknowledged by the members of the Supervisory Board, and were discussed in detail. No concrete need for action was identified.

Strategy documents were regularly submitted to, and discussed by the Supervisory Board, in accordance with the Minimum Requirements for Risk Management in Banks (MaRisk). In this context, the Supervisory Board received a report on the status and implementation of the latest amendments to the 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, with one exception: namely a resolution on a loan that required the approval of the Supervisory Board. Given the interdependency between the Supervisory Board member and the anchor tenant of the financed property, the member of the Supervisory Board abstained from voting.

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. This meeting provided the opportunity for a more detailed analysis and discussion of key topics, outside the regular work of the Supervisory Board.

Activities of Supervisory Board committees

The Supervisory Board has established five committees in order to perform its supervisory duties in an efficient manner: the Executive Committee, the Risk Committee, the Committee for Urgent Decisions, the Accounts and Audit Committee, and the Nomination Committee.

The Executive Committee of the Supervisory Board convened for three scheduled meetings and one extraordinary meeting. In the scheduled meetings, the Executive Committee prepared the proposed resolutions of the plenary meetings of the Supervisory Board. Matters pertaining to the Management Board were discussed in the extraordinary meetings.

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 environment and the situation of the bank's competitors. 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. Also, detailed reports were given regarding the bank's liquidity status and management, as well as 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 discussed in detail the developments of the debt crisis and their implications for the business environment of Aareal Bank, the consideration of Aareal Bank's risk-bearing capacity and the detailed account of its capital ratios, as well as the implementation of the requirements in accordance with Basel III. It was also reported on the current additional amendments to MaRisk. 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 Accounts and Audit Committee held six meetings during the year under review. During its meeting in March 2012, the Accounts and Audit

Committee received the external auditors' report on the 2011 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 extensive discussions with the external auditors. In accordance with its duties under the Memorandum and Articles of Association, the Accounts and Audit Committee also discussed the selection of external auditors and the focal aspects of the audit for 2012 during the same meeting.

Proceedings at the meetings in August and November included information given to the committee regarding the progress of audit activities for the 2012 financial year. In addition to a further updated 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, 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 2012, the Management Board presented the quarterly results for the financial year, as well as the preliminary full-year results for 2011 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 2012 were discussed at a meeting in February 2013.

In its meeting on 20 March 2013, the Accounts and Audit Committee received the external auditors' detailed report on the audit and audit results for the 2012 financial year, and discussed these results extensively with the auditors and the Management Board.

The Nomination Committee convened twice in 2012. The task of the committee is to coordinate and carry out the search for new shareholder

representatives on the Supervisory Board, if a member representing shareholders retires from the Supervisory Board. Wolf R. Thiel resigned from his office with effect from 31 March 2012 during the financial year under review.

Where members of the Supervisory Board were unable to attend a meeting, they had announced their absence in advance, giving reasons. If material decisions were on the agenda, these Supervisory Board members submitted written instructions for the casting of their votes, or cast their votes afterwards, in writing. 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)
Hans W. Reich	24 of 24
Erwin Flieger	18 of 18
York-Detlef Bülow*	18 of 18
Christian Graf von Bassewitz	18 of 18
Manfred Behrens	5 of 8
Thomas Havel*	8 of 8
Dieter Kirsch*	12 of 12
Marija Korsch**	4 of 4
Dr Herbert Lohneiß	11 of 12
Joachim Neupel	18 of 18
Prof Dr Stephan Schüller	16 of 18
Wolf R. Thiel**	3 of 3
Helmut Wagner*	7 of 8

* employee representative

** member of the Supervisory Board for only part of the financial year

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 2012, 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 state-

ment of independence. Fulfilling their duties as commissioned by the Supervisory Board, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code (HGB) and the consolidated financial statements prepared in accordance with IFRS, 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 and the group management report, prepared in accordance with IFRS and the proposal of the Management Board regarding the appropriation of profit and the audit report were examined in detail. No objections were raised to the audit results. In its meeting on 27 March 2013, the Supervisory Board approved the results of the audit. The Supervisory Board approved the financial statements and the 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

IFRS, 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.

Personnel matters

With effect from 31 March 2012, Wolf R. Thiel resigned from his office as member of the Supervisory Board. The Supervisory Board thanks Mr. Thiel for his long-standing and successful contributions to the bank's Supervisory Board. At the same time, the Supervisory Board welcomes new member Marija Korsch and looks forward to a fruitful and successful cooperation. Marija Korsch has many years of experience in the international banking business. Amongst other things, she held management positions at Vereins- und Westbank AG and in Bankers Trust, both in Germany and in the US. The most recent position she held was partner with responsibility for the corporate finance business at Bankhaus Metzler seel. Sohn & Co. Holding AG. The Supervisory Board is delighted to have acquired a proven expert in her field, who can offer her extensive experience in the international banking business to the work of the Supervisory Board.

In conclusion, the Supervisory Board would like to thank the Management Board and all of the Company's employees for their strong commitment and successful work during the 2012 financial year, which was once again eventful. Throughout the year, it was thanks to the motivation and contribution of Aareal Bank Group staff that enabled the Company to successfully master the challenges of recent months.

Kronberg, March 2013

For the Supervisory Board



Hans W. Reich (Chairman)