23 May 2006

10:30 a.m.

Manuscript – the spoken word prevails.

Report by the Chairman of the Management Board of Aareal Bank AG

Dr Wolf Schumacher

given at the Annual General Meeting on 23 May 2006

Dear shareholders of Aareal Bank AG,

Dear guests,

I would like to extend a warm welcome – also in the name of my fellow members of the Management Board – to the 83rd Annual General Meeting of Aareal Bank AG. Having served as the Chairman of the Management Board of Aareal Bank AG for just over one year now, I would like to present to you today the measures taken – and the results achieved – by a new Management Board during the 2005 financial year. At the same time, I would like to present an outlook on the current financial year. But first, with your kind permission, I would like to recall the bank's situation in 2005.

One year ago, I had outlined the tasks we were facing, presenting you my vision for the realignment of Aareal Bank. Harnessing all our strengths, we embarked on our strategic review and realignment (where appropriate) of the Structured Property Financing, Consulting / Services and Property Asset Management divisions. Indeed, 2005 was a year characterised by strategic decisions with long-term impact.

The key task was to further develop the Group's strengths, whilst remedying weaknesses – weaknesses which, without doubt, did exist. Having completed a swift and unbiased analysis of Aareal Bank's structural organisation and workflows, its credit portfolio, and of its subsidiaries and investments, the Management Board prepared and resolved upon a six-point realignment programme – which has provided the framework for numerous measures initiated. Quite a few of these measures have already been implemented.

All our efforts have been – and still are – focused on one key objective: to further enhance the position of Aareal Bank Group as a leading international property specialist, and to explore new market opportunities.

1.) Sustained growth in new business

I would now like to look at the individual items of our six-point programme. I would like to start with the first item of our six-point programme: to achieve sustained growth in new business.

We increased new business during the 2005 financial year by 25%, to € 7.1 billion, clearly exceeding the previous year's level of € 5.6 billion. The results achieved during the first four months of the current financial year also underline our strong market position: during this period, we have generated new business to the tune of € 3 billion – up by around € 1.3 billion – or around 80 per cent – on the first four months of 2005. In this context, I would like to stress that our new business is not volume driven at all – the exposures originated satisfy our requirements regarding a balanced relationship of margins and opportunities.

New commitments in our international business were up by as much as 31.4 per cent during 2005 – from € 4.6 billion in 2004, to € 6.1 billion. Aareal Bank's international business thus accounted for an 85 per cent share of total new commitments. The bank's strategic German business gathered significant momentum during the last financial year, and is set for further expansion in the future. With new commitments in Germany of around € 1 billion, we were fully in line with our budget for 2005.
It is important to note that our new business is broadly diversified, both by region and product. Employing local property experts is of great importance to us. We also have industry specialists at our disposal, to create financing packages for logistics properties, shopping centres, and hotels. This combination of local market expertise and specific industry know-how allows us to offer the best possible financing concepts, designed to meet the specific requirements of our international clientele, in more than 20 countries. This combination of local market expertise and sector-specific know-how represents a key competitive edge, which is the envy of many of our competitors.

Last year we started to explore new growth markets, in Turkey, Russia, and in Asia. We were the first German property bank to open a representative office in Turkey, as we consider the Turkish property market to hold very promising potential. Our lending volume there amounts to € 228 million already.

We also committed to initial financings in Moscow, where we focus exclusively on supporting international investors who are known to us.

With the launch and integration of our Singapore-based unit, we took initial steps into the Asian markets. Our goal in the Asian region is to identify attractive local markets, and to define appropriate strategies to explore them.

2.) Reducing the non-performing loan portfolio

Ladies and Gentlemen,

I would now like to turn to the second item of our six-point-programme: the reduction of our non-performing loan (or "NPL") portfolio.

We carried out a comprehensive audit of our loan portfolios during the 2005 financial year. In addition to higher-risk exposures, all of which were scrutinised in detail, an extensive review of the bank's remaining lending business was carried out.

This involved reviewing more than 6,000 individual commercial property loans overall, plus an additional approximately 3,300 retail exposures, with a scoring process being used for the latter.

This exercise resulted in additional write-downs on claims and provisions for impairments totalling € 273 million. These had a significant impact on the results for the last financial year. We are confident that the extent of additional provisioning provides sufficient scope for the further reduction of our NPL portfolios.

We expect risk costs to return to a normal level of between € 80 to 90 million p.a. as of the current financial year. This is confirmed by the results for the first quarter: net loan loss provisions of € 22 million for the first quarter are in line with the range projected and communicated for the year 2006 as a whole.

The sale of two NPL portfolios – combined with additional individual disposals – enabled us to substantially reduce our NPL inventory during the year under review, by an aggregate € 1 billion, to € 2.085 billion as at 31 December 2005.
This means that we reduced the NPL portfolio by 27 per cent in 2005. I would like to stress at this point that the NPL portfolio comprises exclusively non-performing loans from the German legacy portfolio; and we have been able to further reduce this portfolio during the current year.

Allow me to review the transactions in detail.

We have disposed of several sub-portfolios, as part of our exit strategy for Aareal Bank's non-performing loan inventory. In June 2005, we sold a portfolio comprising around € 690 million in loans (including € 107 million in interest and fees) to the US financial investor Lone Star. Within the framework of this transaction, Lone Star acquired a total of 578 loans for 261 properties in Germany. The sold portfolio comprises commercial properties and commercial housing properties in equal proportions; two thirds of the exposures relate to properties in West Germany, and one third to East Germany.

In December, we sold a second portfolio of non-performing loans with a total volume of € 388 million, including interest and fees of € 63 million. The buyer was Japan's Shinsei Bank Limited, which purchased 142 loans for 157 properties in Germany within the scope of the transaction. Likewise, this portfolio comprised commercial property and residential property finance for institutional customers, in equal proportions.

In the first quarter of 2006, we have sold a third portfolio of non-performing loans, with an aggregate volume of approx. € 345 million (including € 80 million in interest and fees) – once again to Shinsei Bank Limited. This portfolio, comprising around 1,800 individual exposures related to approx. 1,000 properties, distributed in equal proportions between West and East Germany, consisted exclusively of non-performing loans to private customers. Additionally, we reduced individual exposures via our Workout unit, as well as via our Aareal Estate AG subsidiary.

These transactions reduced the residual volume of our NPL portfolio, to approximately € 1.8 billion as at 31 March 2006 – a total reduction by approximately 37 per cent. We plan to reduce the bank's NPL exposure to approx. € 1 billion within the next twelve months.

Many non-performing loans which remain in the bank's portfolio cannot be terminated; for others, restructuring arrangements have been agreed upon, which prevent a disposal. For this reason, we need to establish the scope for alternative measures to further reduce the NPL portfolio.

At this point, I would therefore like to provide more details on a resolution proposed to this Annual General Meeting. In agenda item no. 10, we propose to the Annual General Meeting to pass a resolution approving a spin-off and acquisition agreement governing the divestment of a loan portfolio to Aartemis Credit Management, a wholly-owned subsidiary of Aareal Bank AG.

The Management Board of Aareal Bank AG and the Management of Aartemis Credit Management GmbH have jointly submitted a detailed written report, which is available for inspection at this General Meeting, and which was also made available at our premises and on our website, prior to the Meeting. The report provides detailed information and explanations on the proposed spin-off. I would nevertheless like to take this opportunity to give you a detailed account of the commercial and legal background relating to the spin-off.

The purpose of the proposed spin-off is to transfer a portfolio of non-performing loans, which are also no longer in line with the bank's strategy, to Aartemis Credit Management, by way of partial universal succession. This spin-off is planned in preparation for the intended disposal of the transferred portfolio, to one or more investors who are active in the German NPL market. The objective of spinning off – and subsequently marketing – this loan portfolio, is to release the capital tied up by these loans to date, thus making it available for investment in new business.

It is fair to say that to date, we have been very successful in disposing of non-performing loan portfolios – bearing in mind, of course, that we benefited from the still- flourishing NPL market.

To be very clear: Aareal Bank has carefully assessed all its options for disposing of its residual NPL portfolio, and will continue to do so.

By spinning off a loan portfolio to enhance the marketing potential, we want to expand our room for manoeuvre. This is due to the fact that the spin-off will open up additional marketing channels: besides selling sub-portfolios through true sales – which will remain an option – it will be possible, for example, to dispose of loan portfolio tranches, quickly and with reasonable efforts, through placements by Aartemis Credit Management GmbH, again via universal succession. Alternatively, it will be possible to sell the spun-off portfolio as a whole, by selling shares in Aartemis Credit Management GmbH.

It is intended to commence the marketing efforts for the portfolio as quickly as possible. The main advantage offered by the enhanced marketing options available through the spin-off is to ensure that Aareal Bank retains the necessary flexibility.

I would now like to briefly touch upon the main legal aspects of the spin-off. As already pointed out, one of the benefits of the spin-off is a partial universal succession: this means that as a result of the spin-off, Aartemis Credit Management GmbH will fully assume the legal position previously held by Aareal Bank regarding the portfolio concerned. This permits the transfer of loan relationships in their entirety, including ancillary agreements such as collateral arrangements. In particular, and in contrast to a true sale, such a transfer does not require a termination right with respect to a loan.

However, the spin-off agreement takes into account the interests of our partners in syndication or refinancing agreements, by requiring such partners' agreement for the spin-off of individual loans concerned.

The spin-off agreement mainly consists of a specific identification and individual breakdown of loan agreements included in the transfer – including related collateral and other agreements – plus provisions regarding the management of the portfolio until the spin-off takes effect. Additional provisions relate to the transfer of assets by way of universal succession, and on the consideration consisting of a new shareholding in Aartemis Credit Management GmbH.

In addition to the spin-off and acquisition agreement, a domination and profit transfer agreement – which will be submitted for approval by today's Annual General Meeting, as agenda item no. 11 - has been entered into with Aartemis Credit Management GmbH. The purpose of this domination and profit transfer agreement is to ensure that the portfolio spin-off will not alter Aareal Bank's financial position. In accordance with the German Law Regulating the Transformation of Companies (*Umwandlungsgesetz*), Aareal Bank will retain a liability (albeit limited in time) for any of its obligations transferred to Aartemis Credit Management GmbH within the scope of the spin-off. The spin-off agreement contains provisions obliging Aartemis Credit

Management GmbH to apply provisions, within the scope of marketing the portfolio, to ensure that Aareal Bank's liabilities are not adversely affected as a result.

The date for the spin-off has been set for 1 January 2007 – in particular, to give sufficient time for the preparation of the portfolio, as well as to establish the technical framework. Specifically, this will involve a separate accounting group for Aartemis Credit Management GmbH.

The spin-off will not constitute a transfer of business. Aartemis Credit Management GmbH will not have any permanent staff, except its existing management. Aareal Bank's Workout department will continue to administer the non-performing loans to be aggregated in Aartemis Credit Management GmbH at the outset; in accordance with an agency agreement.

The Workout department will continue to exist once the NPL portfolio spun off into Aartemis Credit Management GmbH has been marketed. To the extent that the reduction of the bank's NPL portfolio will result in changed staff requirements in the Workout department, Aareal Bank will work with staff members involved, to offer them solutions and perspectives – including related discussions with prospective investors, which the bank will actively pursue. In this context, the Management Board will closely cooperate with employee representatives, keeping the process transparent for our staff. We are very aware of our responsibilities regarding this issue.

Concluding my comments on agenda item no. 10, I would like to reiterate that the spin-off is set to provide the basis for a further reduction in the bank's non-performing loan portfolio – and hence, will ultimately create resources for generating new business. That is why we request your approval regarding the spin-off agreement with Aartemis Credit Management GmbH.

3.) Leveraging our mid-sized corporate structure

I would like to continue with item number three of our six-point programme: leveraging our mid-sized corporate structure. We want to position Aareal Bank like a speedboat – not like a supertanker. For us, this means being able to flexibly and swiftly offer high-quality, tailored financing solutions and services to domestic and international clients alike.

During 2005 we started to review all of Aareal Bank's investments with regard to the bank's core business activities. The purpose of this has been to reduce the complexity of the Aareal Bank Group, and thus to leverage our mid-sized corporate structure – one of our consistent objectives. We have already implemented important milestones in reducing Aareal Bank Group investments.

Ladies and Gentlemen,

As you are aware, Aareal Bank has focused its financing business exclusively on commercial property. Divesting ourselves of the services we provided for retail business has been a logical consequence.

By disposing of our Aareal Hypotheken Vermittlungs GmbH and Aareal Hypotheken-Management GmbH subsidiaries at the end of 2005 and the beginning of 2006 respectively, we have ceased all services for private customers.

We suspended the operations of the Via Capital Ltd. property investment banking subsidiary during the period under review. The decision to close the London-based consultancy reflected a changed market environment, and our determination to focus on our core Structured Property Financing business. Related expenses recognised in the 2005 consolidated financial statements amounted to € 4.1 million.

Recognising the unsatisfactory financial performance in our business with the institutional housing industry, we initiated a realignment process in the second half of 2005, with the purpose of more closely coordinating Aareon AG, Aareal First Financial Solutions AG and the bank's institutional housing sector business, and strengthening the bank's market position at the same time.

Bundling the forces of all entities in this business segment represents a key factor boosting efficiency. An initial step in this direction was the establishment of a dedicated Management Committee responsible for the harmonisation of policies regarding products and target clients, and for ascertaining a uniform market presence for the first time. In addition to those measures designed to boost efficiency, we are also stepping up our market activities.

The housing industry business is an integral part of the Aareal Bank Group.

The restructuring of our Property Asset Management segment continued on schedule during the financial year under review. The bank's property asset management activities were united in a wholly-owned subsidiary, Aareal Asset Management GmbH, located in Wiesbaden.
Towards the end of 2005, and early in 2006, all staff employed in the bank's Asset Management department were transferred to Aareal Asset Management GmbH including those working at Aareal Property Services B.V., Amsterdam. Thus all property asset management services to institutional investors have now been united under one roof. The relevant structural organisation and workflows were adjusted to reflect the new organisational environment.

Following the introduction of the new German *Pfandbrief* Act, it was no longer necessary to maintain a mortgage bank as a separate legal entity within the Group. We thus decided to merge Aareal Hyp AG into Aareal Bank AG. The merger proceeded according to schedule: it was entered in the Commercial Register on 3 March 2006, with retrospective effect from 1 January 2006. As a result of the merger, Aareal Bank AG has also acquired a license to issue Pfandbriefe (asset-covered bonds). This will allow us to continuously improve our refinancing structure, and to better utilise the opportunities presented by the new German Pfandbrief Act.

Following the merger, Fitch Ratings confirmed its ratings for all outstanding Aareal Bank Group long-term bond issues (including Pfandbriefe): Aareal Bank's mortgage bonds and public-sector covered securities have a triple-A rating, with stable outlook.

At the beginning of January 2006, Aareal Bank AG also hived off its property valuation activities into a wholly-owned subsidiary, in order to exploit its potential for offering services to a broader range of customers outside the Group. We have been observing significant demand for property surveying and valuation services, predominantly with respect to inheritances, and where businesses divest themselves of property holdings to restructure their balance sheets. The newly-established Aareal Valuation GmbH, with around 28 staff, has the required infrastructure to offer such services throughout Germany. In addition to its Wiesbaden head office, the company has offices in Essen, Berlin, Leipzig and Munich.

4.) Upgrading our organisational structure

I would like to proceed with item number four of our six-point programme: upgrading our organisational structure.

The entire organisational structure of Aareal Bank AG, the Group parent company, has been realigned. In an initial step, a first management level – with stronger operational responsibilities – was established, with effect from 1 July 2005. This level now comprises only 27 managers, as opposed to 51 previously. In addition, staff numbers at the parent company are set to be reduced by a total of 253, or more than 20%, to 1,249 by the end of 2008.

A considerable reduction in the number of interfaces will lay the groundwork for more efficient processes. Cost reductions alone would, of course, would not be enough to give the bank sufficient strength for the future – but at the same time, we cannot ignore necessary savings. The grouping of our German locations, combined with a strict cost management regime, will also decrease administrative expenditure. The obvious goal is to bring Aareal Bank AG’s cost/income ratio into line with its competitors.

A reconciliation of interests was agreed upon between the Management Board and the Works Council in February 2006. It includes – amongst other things – the measures that will be employed to reduce staff numbers in 2006. I would like to emphasise that we are implementing this change process in cooperation with employee representatives, and would like to take this opportunity to express my thanks for the constructive cooperation.

5.) Emphasising a modern corporate culture

I would now like to turn to the fifth item of our programme: emphasising a modern corporate culture.
To ensure that we exploit market opportunities more swiftly and flexibly, we support our staff in making decisions within the scope of decentralised and entrepreneurial structures – and to enable them to assume a more active role in decision-making processes.

I am proud to say that our team comprises staff members from 30 nationalities, who provide an outstanding service to our clients, thanks to their strong determination and commitment. In my view, there is no better reflection of our bank's international profile.
We place particular emphasis on the training and continued professional development of our staff – this is the only way to ensure that we provide first-class financing solutions to our clients in Germany and abroad. This includes promoting and securing new recruits: the variety of development programmes includes a new trainee concept, designed to secure the hands-on training of future key professionals from day one, will be rolled out in the current year.

To strengthen the service and profit orientation of our staff, to improve their identification with Aareal Bank, and to enhance employee participation in the bank’s success, we implemented a state-of-the-art system for agreeing performance targets with the bank's executive staff, and for assessing their performance, in 2005.

Furthermore, a modified version of the bonus system – that had previously applied only in certain parts of the bank – was extended throughout the entire structure, within the scope of a transitional company agreement. Remuneration for first-level managers continues to comprise a cash component and a share-based component. In parallel, we developed a new, modern assessment system during the period under review, as well as a new target agreement system for our non-tariff employees.

6.) More transparency in managing our business

As the last item of our six-point programme, I will look at how we enhance transparency in managing our business.

Our main focus in 2005 was to reinforce the trust of both investors and staff, and to manage our public profile in an even more professional manner. In particular, we concentrated on providing regular and transparent information to the specialist press, to analysts, and to investors, regarding progress in our six-point programme. Key measures designed to achieve these objectives were the appointment of a new Group Press Officer, and the strengthening of capital market-oriented communication through a dedicated Investor Relations unit. We are committed to transparency in communications. This is also evident in our current annual report, which contains even more detailed information in many areas than before. We will continue to enhance the report on an ongoing basis.

As an example, for the first time, the financial statements will include the individual remuneration of the Management and Supervisory Boards for the period under review. We have thus fulfilled the legal requirements one year early.

All subsidiaries and joint ventures of Aareal Bank AG have been included in the consolidated financial statements as at 31 Dec 2005 for the first time. This concerned all companies over which Aareal Bank AG exercises a significant influence. The main purpose of the resulting extension of the scope of consolidation was to enhance the transparency of the Aareal Bank Group.

Ladies and Gentlemen,

Following this detailed review of the progress made regarding our six-point programme, I would like to add a few comments regarding other items on the agenda of today's Meeting.

The resolutions proposed under agenda items 6 through 9 especially serve the purpose of improving the Company's financing options, together with the required flexibility in accessing funds. Regarding agenda items 6, 7 and 9, I would like to refer to the reports submitted by the Management Board, which were also distributed together with the agenda.

In agenda item no. 11, we request the approval of the Annual General Meeting with regard to four domination and profit transfer agreements entered into with various wholly-owned subsidiaries of Aareal Bank. I already discussed Aartemis Credit Management GmbH earlier. Whilst Aareal Valuation GmbH focuses on property surveying and valuation, Aareal IT Beteiligungen GmbH is a holding company for the Consulting / Services segment. Real Neunzehnte Verwaltungsgesellschaft mbH is a holding company through which Aareal Bank co-invests in closed-end property funds, or special property funds initiated by the bank.

In each case, the purpose of the domination and profit transfer agreement is to achieve and maintain fiscal unity (*steuerliche Organschaft*) of the contracting parties, within the meaning and for the purposes of German value-added, corporation and trade tax laws. The content of each agreement is in line with the wording commonly used for intra-group domination and profit transfer agreements. Under each agreement, the controlled company delegates its corporate management to Aareal Bank, and undertakes to transfer any profits to Aareal Bank. In turn, Aareal Bank undertakes to compensate for any net losses that are incurred by a controlled company during the term of the agreement. These agreements have been entered into for a five-year term.

This concludes my comments on the agenda items.

<u>Performance of the Aareal Bank share price</u>

Ladies and Gentlemen,

With your kind permission, I would like to add some comments on the performance of our share price.

The Aareal Bank share price has gone up by 31.8 per cent, compared with the day after the last Annual General Meeting – a very strong performance, which confirms the extensive trust which shareholders have placed in our realignment.

In the period between 30 Dec 2004 and year-end 2005 the Aareal Bank share price rose by 31.5% to € 32.07. Compared with the share price of €17.95 at the time of listing (16 June 2002), this equates to a 78.7% performance at the end of the 2005 financial year (excluding dividends).

In 2005 the Aareal Bank share price outperformed the overall market, as reflected by the HDAX®, by 3.9 percent. The HDAX® is one of Deutsche Börse's extended selection indices; it comprises the 110 constituents of the DAX®, MDAX®, and TecDAX® indices.

Current equity market movements are generally driven by investor concern regarding inflation and rising interest rates. The MDAX® has not, of course, been immune to this environment – which has led to a spate of profit-taking, in particular by investors able to realise exchange rate gains.

Clearly, the capital markets tend to favour banks with a focused business model – this is a trend which benefits Aareal Bank in particular. The strict focusing of our business model, together with the consistent implementation of our six-point programme, have been key drivers of the share price performance over the last ten months. We are committed to maintaining this throughout the current financial year.

Ladies and Gentlemen,

I would now like to give you a brief summary of the income statement for 2005, and the balance sheet as at 30 December 2005.

Income statement and balance sheet – summary overview

The results for 2005 were dominated by the strategic realignment process, and by the impact of the audit of the bank's credit portfolios, which I commented on before. Net interest income of € 419 million fell short of the previous year's level of € 441 million. This was due to lower risk-weighted assets, as a result of the accelerated reduction of exposures no longer in line with our strategy. Net commission income was up 7.6% on the previous year, from € 157 million to € 169 million. This increase was largely due to higher income in the Consulting / Services division, which however implied higher administrative expenses.

A net trading loss of € 25 million (after a loss of € 18 million in 2004) was attributable mainly to expenses for credit derivatives used for portfolio hedging, and to the measurement of standalone derivatives.

Results from non-trading assets grew from € 30 million to € 46 million, largely attributable to the realisation of securities from the available-for-sale portfolio. The net result from investments accounted for at equity – a loss of € 10 million; against a loss of € 16 million in 2004 – comprises the measurement and results of minority interests held.

The € 8 million negative result from investment property (which in 2004 showed a negative result of € 15 million) contains property measurement effects, amounting to a negative figure of € 16 million.

Administrative expenses rose by 10.7% at a Group level, from € 363 million to € 402 million. Higher staff costs, due to salary increases under wage agreements, and an increase in staff numbers at our Aareon subsidiary and at Aareal Hypotheken Management (which, as I mentioned earlier, has in the meantime been sold), were significant factors contributing to this increase. Ongoing realignment expenditure (mainly related to IT) was another factor.

Furthermore, to ensure comprehensive transparency of our business activities in the financial statements presented, we consolidated a number of entities for the first time. This resulted in an increase in administrative expenses by approx. € 6 million, with higher income recognised in net other operating income/expenses. Besides a negative € 34 million figure in property measurement results, this item includes approx. € 8 million in income upon the disposal of a property, as well as restructuring charges incurred within the scope of the realignment. Net other operating income and expenses amounted to a negative figure of € 6 million after a € 15 million profit in 2004). For 2005 overall therefore, we are reporting a loss before taxes of € 80 million, after 2004's loss of € 195 million.

Taking into account a net tax refund claim of € 52 million (comprising € 25 million in current taxes payable, and a net deferred tax assets figure of € 77 million), the Group net loss excluding minority interest amounted to € 55 million.

At this point, I would like to express my regret that the results for the past financial year, which was characterised by numerous special effects, do not justify the distribution of a dividend. Given the required strengthening of the bank's future profitability, I consider this step appropriate. On the basis of the measures initiated, and the positive results achieved in the first quarter of the current financial year, we are, in fact, optimistic regarding a dividend distribution this time next year.

Ladies and Gentlemen,

I would now like to review the <u>results of the first quarter of 2006</u>.

Overall, we had a positive start to the new year – with results indicating a return to normality!

Aareal Bank Group's net income after minority interests was € 25 million for the first three months of 2006, up 25 per cent from the same period of the previous year. This result is clear evidence that the steps taken during the previous year have now set the bank on the right course. We will be able to realise further growth potential as additional measures within the scope of our realignment are implemented in our operations.

Net interest income was € 98 million during the period under review, compared to € 110 million in the first quarter of 2005. The decline was due to the disposal of non-target business, in line with the bank's strategy, which took place predominantly during the second half of 2005. Net interest income was virtually unchanged from the fourth quarter of 2005.

Net loan loss provisions of € 22 million for the first quarter are in line with the € 80 to 90 million p.a. range projected and communicated for the year 2006 as a whole. Overall, net interest income after net loan loss provisions was up 4.1% on the previous quarter, to € 76 million. Net commission income of € 36 million was in line with the same period of the previous year. In this context, it is worth noting that the previous year's figure included roughly € 5 million commission income generated by the Aareal Hypotheken-Management GmbH and Aareal Hypotheken Vermittlung GmbH subsidiaries; following their disposal, this was compensated by higher income from the bank's core business.

Results from hedging relationships were unchanged from the previous year, at a net minus of € 1 million. Net trading income of € 5 million was largely attributable to changes in the market value of standalone derivatives, and expenditure for credit derivatives related to the bank's synthetic securitisation transactions.

Ladies and Gentlemen,

At this point I would like to add a few details on our <u>refinancing strategy</u>. Aareal Bank Group successfully expanded its presence on the capital markets during 2005. Aareal Bank AG and its mortgage bank subsidiary Aareal Hyp AG together raised over € 3.3 billion in long-term funds during the period under review. The majority of these funds (more than € 2.9 billion) was issued in the form of registered securities, including promissory note loans and registered mortgage bonds. We expanded our investor base through an issuance strategy geared to investor demand, combined with state-of-the-art interest rate products. To further reduce funding costs in 2006, Aareal Bank plans to increase the share of mortgage bonds in its total issue volume to 50%. Continuing our diversification strategy, we successfully launched our first Jumbo Pfandbrief covered bond issue – with an issue size of approx. € 1 billion – at the beginning of the current financial year.

Thanks to its *Pfandbrief* know-how and well-established market profile, Aareal Bank intends to rank among the major issuers of asset-covered bonds. This will enable the bank to exploit the possibilities of the new German *Pfandbrief* Act to significantly boost the structural portion of mortgage bonds in its funding mix, from currently 10% to between 40% and 60%.

In November 2005, Aareal Bank AG strengthened its capital base by means of a 10% capital increase. The capital increase (which was carried out excluding shareholders' pre-emptive subscription rights) was fully subscribed to by Aareal Holding Verwaltungsgesellschaft mbH, thus demonstrating its confidence in our business model and strategic realignment.

Our core capital ratio improved to 7.2% as at 31 Dec 2005, from 6.9% at the end of 2004. Given our target range of between 7.0 and 7.5 per cent for this ratio, we have made significant progress in this respect.

Ladies and Gentlemen,

In concluding my remarks, I would like to outline our objectives for 2006, and give you an outlook on the current year.

After the strategic realignment in 2005, our focus in the new financial year is now on the operative implementation. We will concentrate on the continuous and systematic expansion of our client base, both in Germany and abroad, and on exploring new international markets.

Our vision for the next three years is to grow our new business to cover three continents: Europe, North America, and Asia.

Our market presence in Germany will generate between € 750 million and € 1 billion in new business, originated through our offices in Munich, Wiesbaden, Berlin and Hamburg. Our target for aggregate new business in 2006 is around € 7 billion.

We plan to continue reducing the NPL portfolio, to approx. € 1 billion.

Given our projection of risk provisioning at a normalised level of between € 80 and 90 million p.a., we anticipate operating profit before taxes to range between € 130 and € 150 million.

Accordingly, we envisage the bank's 2006 return on equity after taxes to be between 7.5 and 8.0 per cent. Achieving these targets will restore Aareal Bank's ability to distribute dividends.

Continuing with the consistent implementation of the measures provided for by our six-point programme throughout the current financial year will be crucial. I am highly confident that the new Management Board will succeed in doing so, thanks to its team-oriented approach. Personally, I feel very comfortable with pursuing the projected path for realignment alongside this team. We count on your support along this path. The Aareal Bank share is an attractive investment, and will remain attractive.

Thank you very much for your attention.