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Capital Funding GmbH

Norderfriedrichskoog, Federal Republic of Germany

Offering Circular / Listing Prospectus for

€ 180,000,000 Perpetual Floating Rate Notes

with the payment of interest and principal

conditional upon receipt of

profit participations in and repayment under

a Silent Participation in the commercial enterprise of

Aareal Bank AG

Wiesbaden

- German Securities Code 707 008 -

of Capital Funding GmbH

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Capital Funding GmbH (formerly Real Fünfte Grundstücksgesellschaft mbH), a company incorporated in accordance with German law with registered office in Norderfriedrichskoog (formerly Wiesbaden) (the "Issuer"), shall use the proceeds from the issue of the Capital Notes to participate in the commercial enterprise of Aareal Bank AG, Wiesbaden, Federal Republic of Germany, as a typical silent partner by making a capital contribution with a nominal value of € 180,000,000.

The admission of the Capital Notes for trading on the offical market (amtlicher Markt) of the Frankfurt Stock Exchange has been applied for.

The Capital Notes will be represented at all times by a global certificate in bearer form without interest coupons which will be deposited at all times with Clearstream Banking AG, Frankfurt am Main. The Capital Notes may be transferred in the form of co-ownership shares according to the applicable rules of Clearstream Banking AG.

Issue Price: 100 %

The Capital Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "Securities Act"). Accordingly, the Capital Notes may not be offered or sold in the United States or to US Persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from registration requirements of the Securities Act.

Deutsche Bank

BCP Investimento, SA
HVB Corporates & Markets

BNP Paribas
Legg Mason Ltd. Spain

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General Information

Responsibility for Content of Prospectus

Capital Funding GmbH (formerly Real Fünfte Grundstücksgesellschaft mbH) (the "Issuer") and Deutsche Bank Aktiengesellschaft, Frankfurt/Main ("Deutsche Bank") are responsible under German law in accordance with Sec. 13 of the German Securities Sales Prospectus Act *(Wertpapier-Verkaufsprospektgesetz)* in conjunction with Sec. 44 et seq. of the German Stock Exchange Act *(Börsengesetz)* and hereby confirm that, to the best of their knowledge, the information contained in this offering circular/listing prospectus ("Prospectus") dated 8 October 2002 is correct and that no material information has been omitted.

The Issuer has not permitted any person to make any disclosures or representations that are not contained in this Prospectus, or in other documents agreed upon in connection with the bond issue or in other disclosures made by the Issuer or in publicly available information, and that do not correspond to the content of any such documents, disclosures or information. Where any such disclosures or representations were made, the Issuer does not accept any responsibility.

The delivery of the Prospectus or the offer, sale or delivery of the bonds does not mean, under any circumstances, that the information contained in the Prospectus will continue to apply after the publication date of the Prospectus or that the financial condition of the Issuer or of Aareal Bank has not deteriorated since the Prospectus date.

Subject Matter of Prospectus

The subject matter of the Prospectus is a total issue of € 180,000,000 comprising 1,800,000 Perpetual Floating Rate Notes 2002 of € 100 each, vesting claims to interest payment and redemption subject to certain conditions. For the purpose of this Prospectus, the individual bonds will hereinafter be referred to as "Capital Notes" and the entirety of all Capital Notes as "Capital Notes Issue".

Inspection of Documents

The documents mentioned in this Prospectus, that refer to the Issuer and Aareal Bank AG, may be inspected during normal office hours at the offices of the Issuer, Koogstraat 4, 25870 Norderfriedrichskoog, Germany, as well as the offices of Deutsche Bank Aktiengesellschaft, Große Gallusstraße 10–14, 60272 Frankfurt/Main.

Description of Aareal Bank AG and Aareal Group

Any references in this Prospectus to the "Issuer" are references to Capital Funding GmbH (formerly Real Fünfte Grundstücksgesellschaft mbH). Any references to "Aareal" or "Aareal Bank" are references to Aareal Bank AG. Any references to the "Property Bank" or the "Aareal Group" are references to Aareal Bank AG and its consolidated subsidiaries unless the context requires otherwise. For a detailed discussion of the company's history, see "General Information on Aareal Bank AG". Any references to "Aareon AG" (formerly DePfa IT Services AG) and "Aareal Immobilien Management AG" also include their respective subsidiaries. Any references to the "DePfa Group" are references to DePfa Deutsche Pfandbriefbank AG as the former parent company and its subsidiaries, including Aareal Bank (formerly carrying on business under the firm of "DePfa Bank AG"), within the Group structure existing prior to the split of public finance and property activities. Capitalised terms used and not defined herein shall have the meaning given to them in the Terms and Conditions of the Issue, the Silent Partnership Agreement and the Fiduciary Agreement reproduced under „Description of Offering Structure" in this Prospectus.

Disclosure Regarding Forward-looking Statements

The statements included herein regarding future financial performance and results and other statements that are not historical facts are forward-looking statements. The words “believes”, “expects”, “predicts”, “estimates” and similar expressions are also intended to identify forward-looking statements. Such statements are made on the basis of assumptions which, although reasonable at this time, may prove to be erroneous. The risks and uncertainties which the Issuer and Aareal Bank face with respect to their future development and the factors that might influence the correctness of such forward-looking statements are considered, as a general rule, throughout this Prospectus. Such factors include, *inter alia,* the factors discussed in “Risk Factors”, “Financial Information of Aareal Bank AG” and “Recent Developments and Outlook”. Actual results could differ significantly from those contemplated in the forward-looking statements contained herein if one or more of any such risks and uncertainties materialise or the facts, upon which these forward-looking statements have been based, prove to be incorrect.

Currency Presentations

In this Prospectus, references to “euro”, “EUR” and “€” are references to the common currency of the member states of the European Economic and Monetary Union, which as of 1 January 1999 replaced the respective national currencies of the relevant countries. References to “Deutsche Mark”, “DEM” or “DM” are references to the former national currency of the Federal Republic of Germany prior to the introduction of the euro. References to “US$”, “USD” and “US dollars” are references to the dollar of the United States of America. Aareal Bank publishes its financial statements in euro.

Summary of the Offer

This summary of the transaction will, in its entirety, be qualified and supplemented by reference to the detailed information as set out elsewhere in this Prospectus, in particular in the following Terms and Conditions of Issue and the Silent Partnership Agreement. In case of any deviations between this summary and the detailed information as set out elsewhere in this Prospectus, the latter shall prevail.

Issuer:	Capital Funding GmbH, (formerly Real Fünfte Grundstücksgesellschaft mbH) with registered seat in Norderfriedrichskoog, Germany (formerly Wiesbaden). The Issuer is a limited liability company (GmbH), incorporated in accordance with German law, which is neither affiliated nor consolidated with Aareal Bank and participates in the commercial enterprise of Aareal Bank as a typical silent partner (see “Description of Offering Structure” – “Silent Partnership Agreement”). The Silent Partner must not create any liabilities other than the Capital Notes issued by the Silent Partner to refinance the Capital Contribution (see “Description of Offering Structure” – “Silent Partnership Agreement”), except for liabilities, however, which are absolutely necessary to keep its business in operation. See "General Information about the Issuer".
Aareal Bank:	Aareal Bank AG, Wiesbaden, Germany. See “General Information about Aareal Bank AG”.
Arranger and Lead Manager:	Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Germany, acting through its London Branch, Deutsche Bank AG London.
Paying Agent:	Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Germany.
Capital Notes:	€ 180,000,000 Perpetual Floating Rate Capital Notes with no maturity and conditional obligation to pay principal and interest conditional upon Profit Participations and repayment amounts received under a Silent Partnership (see “Description of Offering Structure” – “Silent Partnership Agreement”) in the commercial enterprise of Aareal Bank in the nominal amount of € 100 per Capital Note.
Use of Proceeds:	The Issuer will use the proceeds from the issue of the Capital Notes to make the capital contribution for the purposes of the Silent Partnership.
Silent Partnership:	The Issuer participates in the commercial enterprise of Aareal Bank as a typical silent partner by making a capital contribution in the nominal amount of € 180,000,000. The contribution is to serve as regulatory capital within the meaning of the German Banking Act and the capital adequacy recommendations established by the Basle Committee on Banking Supervision. The nominal amount of the Silent Participation (see “Description of Offering Structure” – “Silent Partnership Agreement”) is equal to the nominal amount of the Capital Notes. The Silent Partnership is established for an indefinite period of time and is subject to German law.
Ranking of the Silent Partner's Claims	Claims of the Silent Partner under the Silent Partnership are subordinated to claims of all existing and future creditors of Aareal Bank (including the claims under profit-participation rights or subordinated debt within the meaning of § 10 (5), (5a) and (7) German Banking Act ("KWG")).

Participation of the Issuer in Profits of Aareal Bank:	For each Profit Period, the Issuer is entitled to a Profit Participation at a rate equal to 12-month EURIBOR plus a margin of 2.1014 % calculated by reference to the Nominal Contribution Amount for a Payment Period starting on a Distribution Date and ending on the next Distribution Date, calculated on the basis of the actual number of days in this Period divided by 360. “Payment Period” shall mean the period commencing upon payment of the contribution and ending on the first Distribution Date or commencing on a Distribution Date and ending on the next Distribution Date. For the First Profit Period, an interpolated EURIBOR rate will be applied which is calculated for the Payment Period starting on the date of payment of the contribution and ending on the first Distribution Date. “Profit Period” shall mean the Fiscal Year of Aareal Bank or any shorter period within a Fiscal Year in which the Silent Partnership exists. No Profit Participation is payable if and to the extent that such payment would cause or increase an annual net loss of Aareal Bank. Furthermore, payment of a Profit Participation requires replenishment in full of the Book Value of the Capital Contribution in case the Book Value has been decreased below the Nominal Contribution Amount as a result of any loss participation. If Aareal Bank pays a dividend for the relevant Fiscal Year or makes payments in respect of Other Tier 1 Capital Instruments, and if Aareal Bank’s solvency ratio is at least 9 % on an individual as well as on a consolidated basis, Aareal Bank may pay a distribution on the Silent Partnership despite any annual net loss by withdrawing amounts from any existing reserves within the meaning of § 301 sentence 2 German Stock Corporation Act (“AktG”). If, due to the fact that the annual accounts have not yet been determined, Aareal Bank pays the Profit Participation only after the Due Date, interest shall be payable on the Profit Participation at a rate of 5 % above the then applicable base rate. The Silent Partner may request that the Profit Participation be increased if and to the extent that, as a result of any tax-related changes, the Silent Partner incurs higher refinancing costs or any additional liability. There is no obligation to subsequently pay any skipped Profit Participations.
Participation of the Issuer in any Losses of Aareal Bank:	In the event of an annual net loss, the Capital Contribution of the Silent Partner will be reduced on a pro rata basis with other loss-participating components of Aareal Bank's regulatory capital. Future annual net income shall be used to replenish the Capital Contribution up to the Nominal Contribution Amount. If Aareal Bank pays a dividend for the relevant Fiscal Year or makes payments on any Other Tier 1 Capital Instruments, and if Aareal Bank’s solvency ratio is at least 9 % on an individual as well as on a consolidated basis, Aareal Bank may, despite any annual net loss, withdraw the required amounts from any existing revenue reserves within the meaning of § 301 sentence 2 AktG in order to avoid any Reduction of the Book Value of the Capital Contribution or to replenish the Capital Contribution up to the Nominal Contribution Amount.

Termination of the Silent Partnership:	Termination by the Silent Partner is excluded. Pursuant to the Silent Partnership Agreement, Aareal Bank may terminate the Silent Partnership by giving two years' prior notice with effect as of the end of a Fiscal Year, and, in case of certain tax or regulatory changes, with effect as of the end of a calendar month, but in no event earlier than with effect as of 31 Decemer 2007. However, Aareal Bank has waived the right to terminate with effect as of any date earlier than 31 December 2013. In addition, Aareal Bank has entered into an angreement with the Silent Partner amending the Silent Partnership Agreement pursuant to which Aareal Bank may terminate the Silent Partnership Agreement no earlier than with effect as of 31 December 2013 (see "Risk Factors" – "No Fixed Termination Date" and "Description of Offering Structure" – "Overview" – "Silent Partnership Agreement"). Termination requires the prior consent of the German Financial Services Supervisory Agency (BAFin). Should the Silent Participation no longer qualify as Tier 1 Capital within the meaning of the KWG, Aareal Bank may terminate the Silent Partnership at any time by giving two months' notice with effect as of the end of a Fiscal Year. If the Book Value of the Capital Contribution is decreased below the Nominal Contribution Amount, the Silent Partnership Agreement will be deemed not terminated until the Capital Contribution has been fully replenished to the Nominal Contribution Amount. In the event the Silent Partnership is terminated during a Fiscal Year, interest shall be payable on the Silent Partnership at the then applicable rate of the Profit Participation from the Termination Date until the end of the Fiscal Year in which the Silent Partnership is terminated. Except for the obligation to pay interest in the event of a termination of the Silent Partnership during a Fiscal Year, no interest shall be payable on the Repayment Amount which is due upon termination of the Silent Partnership for the period between the Termination Date and the Repayment Date.
Receivables Purchase Agreement:	Payments of Profit Participations are subject to investment income tax *(Kapitalertragsteuer)* to be withheld and transferred to the tax authorities by Aareal Bank. The Issuer has Tax Refund Claims against the tax authorities in respect of the amounts withheld. Pursuant to a Receivables Purchase Agreement, Aareal Bank has undertaken with the Issuer to purchase such Tax Refund Claims from the Issuer upon withholding of such amounts. The Profit Participation, after deduction of investment income tax, plus the Purchase Price paid for the Tax Refund Claims equals the gross amount of the Profit Participation.
Fiduciary Agreement:	Pursuant to a Fiduciary Agreement entered into between the Issuer, Aareal Bank and the Fiduciary for the benefit of the Noteholders, the Issuer has assigned to the Fiduciary all present and future Profit Participation Claims, Delayed Payment Interest Claims, Payment Claims and Termination Claims against Aareal Bank as security for the claims of the Noteholders.
Fiduciary:	Deutsche Bank Luxembourg S. A., Luxembourg.
Status of the Capital Notes:	The Capital Notes represent unsecured and unsubordinated liabilities of the Issuer ranking pari passu among themselves and with all other unsecured and unsubordinated liabilities of the Issuer, except for liabilities which rank senior as a matter of law.

Other Tier 1 Capital Instruments:	Aareal Bank reserves the right to enter into agreements on Other Tier 1 Capital Instruments (see "Description of Offering Structure" – "Silent Partnership Agreement") on identical or different terms. Claims of any future silent partners (or of holders of security provided for Tier 1 Capital instruments of subsidiaries) may not rank prior to the claims of the Issuer under the Silent Partnership Agreement.
Repayment of the Capital Notes:	The Capital Notes have no fixed maturity. The Issuer may terminate the Capital Notes for early redemption for the first time with effect at 30 April 2014 or at any time for tax reasons, provided that the financing of the repayment of the principal under the Capital Notes plus any interest accrued is secured by the issue of similar debt securities or in any other way. In the event of a breach by the Issuer of any obligations under the Terms and Conditions of Issue, the Noteholders are entitled to early termination of the Capital Notes. In all other circumstances, the Capital Notes will be redeemed upon repayment of the Capital Contribution in the amount of the Capital Contribution repaid by Aareal Bank.
Payment of Interest:	Annually, at a rate equal to 12-month EURIBOR (or a EURIBOR rate calculated by linear interpolation in relation to the interest payment to be made on the first Due Date following the issue of the Capital Notes) plus 2.10 % p.a. of the Nominal Contribution Amount, if and to the extent that the Fiduciary has effectively received the necessary amounts for the account of the Issuer. The interest rate corresponds to the Profit Participation of the Issuer less a margin of 0,0014 % p.a. of the Nominal Contribution Amount, which margin will be retained by the Issuer as own profit, if and to the extent that the Annual Profit Participation together with the Purchase Price paid for the Tax Refund Claims exceeds the amount of interest payable to the Investors. Aareal Bank has undertaken with the Issuer to reimburse to the Issuer the current expenses relating to and required in respect of the business operations of the Issuer.
Interest Payment Days:	30 April following the relevant Fiscal Year of Aareal Bank; if such day is not a Business Day, immediately interest shall be paid on the Business Day following 30 April; no additional interest shall be payable in case of such postponement. In the event that the annual accounts of the relevant Fiscal Year of Aareal Bank have not yet been determined on the relevant Due Date, payment will be postponed until the first Business Day following the day on which the annual accounts of Aareal Bank are determined. The Issuer will pay any amounts of Delayed Payment Interest received from Aareal Bank as additional interest on the Capital Notes.
Profit Period:	The First Profit Period (see "Description of Offering Structure" – "Silent Partnership Agreement") is the period commencing on (and including) the Start Date and ending on (and including) 31 December 2002. Each following Profit Period corresponds with the Fiscal Year of Aareal Bank commencing on (and including) 1 January and ending on (and including) 31 December of each year, unless the Profit Period shall end early due to effective termination of the Silent Partnership Agreement.

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Payment Period:	The First Payment Period (see "Description of Offering Structure" – "Silent Partnership Agreement") commences on (and includes) the Start Date and ends on (and excludes) the first Distribution Date. Each following Payment Period commences on (and includes) a Distribution Date and ends on (and excludes) the next following Distribution Date. The relevant Profit Participation will be calculated in respect of each Payment Period on the basis of the effective number of days in that Payment Period divided by 360.
Gross Interest Clause:	The Issuer is obliged to pay Additional Amounts in the event that payments on the Capital Notes become subject to any withholding tax or deductions. In such case, or if the tax liability of the Issuer increases due to a change in trade income taxation or the introduc-tion of an other income or property tax, Aareal Bank shall increase the Profit Participation accordingly.
Applicable Law:	The laws of the Federal Republic of Germany.
Envisaged Listing of the Capital Notes:	Frankfurt am Main (Official Market)

Appropriation of Issue Proceeds

The Issuer will use the issue proceeds from the Capital Notes to participate in the commercial business of Aareal Bank as a typical silent partner by making a capital contribution of € 180,000,000 in accordance with the Silent Partnership Agreement included in this Prospectus.

Risk Factors

Potential Investors should thoroughly read the following summary of certain risk factors prior to any investment in the Capital Notes. The discussion of risk factors set out below does not comprise all potential risks. Interested investors should consider all information in this Prospectus and, where appropriate, should contact their professional advisers for further advice.

Risk Factors associated with the Structure of the Issue

Liability

The Capital Notes represent obligations of the Issuer only and will not in any case be deemed to constitute claims or obligations of the Lead Manager, the Fiduciary, Aareal Bank or affiliated companies of the Issuer or other individuals or legal entities. None of these persons or entities assumes any liability in respect of the Capital Notes in the event the Issuer fails to comply with its payment obligations thereunder.

Conditional Payment Obligation under the Capital Notes

The ability of the Issuer to comply with its payment obligations under the Capital Notes depends on the receipt in full of the necessary amounts payable by Aareal Bank under the Profit Participation and the Receivables Purchase Agreement.

Profit Participation

The Issuer will make interest payments on the Capital Notes from the Annual Profit Participation (see "Structure of the Issue" – "Terms and Conditions of Issue") and the Amount of the Purchase Price effectively received by the Fiduciary for the account of the Issuer. In the event the amounts paid by Aareal Bank are not sufficient, the amount of interest payments will be reduced accordingly (see "Risk Factors" – "Fluctuation of Operating Results"). No interest will be payable if and for so long as the Profit Participation following any Reduction of the Book Value of the Capital Contribution due to a loss participation of the Silent Partner has not been fully replenished. In addition, no interest will be payable in whole or in part if payment of the Profit Participation for the relevant Profit Period would result in, or increase, any annual net loss of Aareal Bank. If in such case dividends are paid to the shareholders of Aareal Bank or if any other payments on Other Tier 1 Capital Instruments are made, and provided the solvency ratio of Aareal Bank is at least 9 % on an institutional as well as on a consolidated basis, Aareal Bank may, in compliance with § 301 sentence 2 AktG, withdraw amounts from existing revenue reserves in order to avoid any Reduction or fully replenish any reduced Book Value, as the case may be, and, by payment of a Profit Participation, provide for a payment of interest on the Capital Notes by the Issuer. Neither the Issuer nor the Investors may require Aareal Bank to employ revenue reserves. However, in the event Aareal Bank shall not withdraw revenue reserves, Aareal Bank has undertaken not to make any payments on any Other Tier 1 Capital Instruments unless it is under an obligation to do so. Missed interest payments will not be made subsequently.

Full Power of Attorney of the Managing Director (*Geschäftsführer*) of the Issuer

The purpose of the business of the Issuer as specified in its Articles of Association is limited to the participation in the commercial enterprise of Aareal Bank as typical silent partner, the issue of the Capital Notes, and the conclusion of the contracts and agreements related thereto and described in this Prospectus. Under German law, however, the unrestricted power of the managing director of the Issuer to enter into transactions which are out of the scope of the statutory purpose remains unaffected. As a consequence, should the managing director, in violation of his duties and in breach of the Articles of Association, disregard the above restrictions and limitations, any obligations of the Issuer assumed as a result thereof would in normal circumstances be legally effective. If and to the extent such obligations are not borne by Aareal Bank under the Agreement on the Reimbursement of Expenses between Aareal Bank and the Issuer, such obligations could adversely affect the ability of the Issuer to make payments on the Capital Notes in accordance with the Terms and Conditions of Issue.

Ranking of the Capital Notes and the Silent Participation

The Capital Notes represent unsecured and unsubordinated liabilities of the Issuer ranking *pari passu* among themselves and with all other unsecured and unsubordinated liabilities of the Issuer, except for liabilities which rank senior as a matter of law.

However, the claims of the Issuer against Aareal Bank under the Silent Partnership Agreement represent unsecured liabilities of Aareal Bank and are *subordinated* to claims of all existing and future creditors of Aareal Bank (including claims under profit participation rights and, where applicable, Tier 2 Capital Instruments as well as all other subordinated liabilities pursuant to §10 (5), (5a) and (7) KWG), rank *pari passu* with all claims under existing and future silent partnerships and with all Other Tier 1 Capital Instruments which, in accordance with their terms and conditions, rank *pari passu* with profit participation rights in the form of silent partnerships, and rank *senior* to all claims under shares of Aareal Bank. The replenishment of the Capital Contribution following a Reduction takes priority over the replenishment of the share capital, payment of dividends or allocation to reserves (except for statutory reserves). The obligation to replenish the Capital Contribution ranks *pari passu* with Other Tier 1 Capital Instruments and is subordinated to similar obligations under profit participation rights unless the terms and conditions of such rights provide for *pari passu* ranking.

The subordinated claims under the Silent Partnership Agreement represent substantially all assets of the Issuer. Accordingly, the ability of the Issuer to make any payments on the Capital Notes depends on the receipt of payments under such subordinated claims.

No Direct Claims of Investors against Aareal Bank

The Investors have no direct rights or claims for any Profit Participation or any other claims under the Silent Partnership Agreement against Aareal Bank. This applies even if the Capital Notes are not repaid at full nominal value on the Repayment Date due to a reduced Book Value of the Capital Contribution.

No Fixed Repayment Date

There is no fixed date for the repayment of the Capital Notes.

The Capital Notes may be terminated early (i.e. prior to repayment of the Silent Participation) in whole, but not in part, and redeemed at nominal value, including any interest accrued on the Capital Notes, for the first time with effect at 30 April 2014, and for certain tax reasons with effect at the end of each month, by giving no less than 30 and no more than 60 days' notice. The Investors are entitled only to such amounts of interest, which have accrued until the day on which the Capital Notes are effectively terminated. The Issuer may terminate the Capital Notes early only if the financing of the redemption of the Capital Notes at the nominal value plus any accrued interest is secured by the issue of similar debt securities or in any other way.

In all other cases, redemption of the Capital Notes depends on the repayment of the Silent Participation. The Silent Participation is to be repaid, in particular, in the event of a termination of the Silent Partnership Agreement. Pursuant to the Silent Partnership Agreement, such termination may be declared by Aareal Bank no earlier than with effect as of 31 December 2007. However, Aareal Bank has waived vis-à-vis Deutsche Bank the right to terminate with effect as of any date earlier than 31 Decembeer 2013. In addition, Aareal Bank has entered into an agreement with the Silent Partner amending the Silent Partnership Agreement pursuant to which Aareal Bank may terminate the Silent Partnership Agreement no earlier than with effect at 31 December 2013 in order to adapt the Silent Partnership Agreement insofar to the declaration of waiver. The amendment agreement requires the approval of the general meeting of Aareal Bank (see "Description of Offering Structure" – "Overview" – "Silent Partnership Agreement"). It cannot be ruled out that the general meeting refuses to approve the amdendment agreement. The obligation assumed by Aareal Bank with respect to the waiver of the right of termination with effect as of any earlier date would remain unaffected in the event the general meeting refused its approval.

Whether Aareal Bank will exercise its right of termination with effect as of 31 December 2013 or with effect as of a later date will depend on a number of bank internal and external factors which will be taken into account by Aareal Bank in its decision on the exercise of its right of termination. Such factors include for example the regulatory capital and the refinancing options of Aareal Bank, the assessment of the Capital Contribution under bank regulatory aspects, the required prior consent of the German Financial Services Supervisory Agency (BAFin), as well as the general interest environment and capital markets conditions at the time of the relevant termination.

In any case, repayment of the Capital Contribution is excluded to the extent the Capital Contribution has been reduced by reason of a previous loss participation and has not been fully restored.

Limited Secondary Market

There is no established secondary market for the Capital Notes and it is not possible to predict whether a secondary market for the Capital Notes will develop or continue. The ability of Investors to sell the Capital Notes as well as the expected price will depend, among other factors, primarily on the development of any such secondary market.

Risk Related to the Business of Aareal Bank

Insofar as these risks may impact on Aareal Bank's financial condition and results of operations, the risks associated with the business activities of Aareal Bank are described below. As the Issuer's ability to pay interest and, if applicable, effect redemption will depend on Aareal Bank's financial condition, investors should take these risks into account when investing in the Capital Notes.

Property

Aareal Bank assumes property-related risks both by property lending and by acquiring real estate or stakes in property companies and other legal forms. To avoid the realisation of any credit collateral at unfavourable market prices, Aareal Bank sometimes purchases properties (financed by itself) from the borrower (such as office buildings, hotels or residential real estate, so-called foreclosed assets).

Over the course of time, the market value of real estate is subject to considerable fluctuations, primarily as a result of the general economic development. While Aareal Bank believes that it has broadly diversified its loan portfolio and other property exposure (with regard to the type of property, borrower and countries in which the property is located) and continuously monitors the development of its property financing portfolio and the associated risk exposure, particularly during longer phases of economic weakness or economic downturns, loans granted as well as properties owned by Aareal Bank itself may be affected by diminutions in value which will have a negative effect on Aareal's financial condition and results of operations.

With regard to foreclosed assets, Aareal Bank assumes the risk of reselling such properties and other risks inherent in the properties such as environmental damages.

Aareal Bank is currently undergoing the restructuring of its German property lending business. Due to the level of utilisation of the staff involved, it cannot be ruled out that errors will occur in the processing of existing business, that acquisition of new business will, to a certain degree, be restricted or that there will be an increased fluctuation among key employees.

Aareal Bank has invited international tenders for the sale of a large real estate portfolio. Due to the current negotiations and the fact that parts of the portfolio have already been sold off, Aareal Bank expects that the marketing efforts will be – to the largest extent – successfully completed during the second half of 2002. However, there is no guarantee that the sale will not be delayed or carried out in full, before the agreements for sale and purchase have been executed.

Credit risks

Like other banks, Aareal Bank is exposed to the risk that loans and advances will be written-off (in part or in full) as a result of a deterioration in the financial standing of third parties owing money, securities or other assets to Aareal Bank (counterparty risk). This risk is present in both the traditional on-balance sheet lending business and off-balance sheet business, e.g. when extending credit by way of bank guarantee. The reason for the default may be the lack of economic viability on part of the counterparty (lack of liquidity, insolvency, etc.) as well as reasons which are independent of the individual financial standing of the counterparty (country risk). Such country risks concern the risk that cross-border receivables may not be satisfied due to overriding political or economic developments. While Aareal Bank uses an internal rating system for large parts of its business, imposes country limits, demands collateralisation and continuously monitors its own risk position, incorrect assessments of credit worthiness or country risks may have an effect on Aareal Bank's revenue.

Liability for statements made in Offering Circulars; trading positions and underwriting risks

In a variety of areas, Aareal Group companies are subject to risks from liability claims for statements made in prospectuses. On the one hand, such risks arise in relation to Deutsche Structured Finance GmbH, an Aareal Bank subsidiary, which plays an active role primarily in the area of launching and managing aircraft leasing funds. On the other hand, these risks also exist in relation to real estate funds. For example, the Aareal Group launched the funds *DePfa Europa Fonds Nr. 1* and *Nr. 2* via its subsidiary Aareal Property Services B.V. and, *inter alia*, preservation funds in Berlin via Aareal Immobilien Management AG, a project developer and adviser as well as manager of closed-end property funds in Germany. As the issuer of prospectuses distributed to investors in connection with the sale of the relevant funds, Aareal Bank is charged with the risk that it will be liable for any inaccuracy, misrepresentation or omission in the prospectuses. It is part of Aareal Bank's strategy to continue expanding the area of "Asset Management" which will result in an increase in such risks in the future. Finally, risks associated with liability claims for statements made in a prospectus also arise with regard to refinancing, for example in connection with the Debt Issuance and Commercial Paper programmes of Aareal Bank.

Initiator-related risks with regard to Deutsche Structured Finance GmbH funds

Deutsche Structured Finance GmbH is a specialist institution focused on arranging structured finance packages and real property investments in enterprises operating in selected sectors, particularly in aviation, regenerative energy and specialised properties. The company's business comprises the acquisition of investment objects or projects, and their subsequent refinancing by way of syndicating loans to third-party banks, and by placing equity capital with private investors. The sale of equity capital is carried out via banks and selected independent financial services providers.

As the initiator, Deutsche Structured Finance GmbH is responsible for the correctness and completeness of the sales prospectuses it prepares. In addition, with respect to all projects initiated by Deutsche Structured Finance GmbH to date (including aircraft funds, Deutsche Operating Leasing AG and funds for wind generator plants), the company is responsible for the management of the fund, or the project or object involved, and is consequently obliged to fulfil its duties under agency agreements entered into. These duties include: accounting and preparation of tax returns of the investment company, settlement with business partners, liquidity management, reporting and the submission of additional information to update investors on the progress of their investments, as well as ensuring that the project/object involved is in the contractually agreed condition. In addition, Deutsche Structured Finance GmbH is usually entrusted with the procurement of follow-up leases, the sale of assets and/or shareholdings and, to a certain extent, the acquisition of new business.

For selected transactions, Deutsche Structured Finance retains an exposure (residual risks) following the completion of loan syndication and equity placement; this includes, *inter alia*, guarantees of residual values or leasing instalments, as well as liquidity facilities for aircraft funds and performance bonds for wind generator plant funds in favour of the investment company involved. At present, Deutsche Structured Finance GmbH considers that there is little probability that any of the residual risks assumed up until now by Deutsche Structured Finance GmbH will materialise, due to the cautious approach chosen by the company and its backing by business partners (e.g. manufacturers). Nevertheless, claims could arise against Deutsche Structured Finance GmbH under guarantees and indemnities entered into in the event of a prolonged disruption of relevant markets and the resulting shortfall of forecast values (such as leasing instalments or residual values) below the level of cautious previous projections (which might then prevail for a unusually long period of time) or the default of guarantors.

To date, Deutsche Structured Finance GmbH has largely passed on the risks involved in the acquisition of projects or objects, by way of syndication to third-party banks or placement with private investors. However, incorrect assumptions or market fluctuations affecting the amounts achievable through the necessary syndicated borrowing or placement of equity capital, as well as the related terms and conditions, may lead to a situation where projects remain on the balance sheet of Deutsche Structured Finance GmbH, in whole or in part, beyond the scheduled timeframe.

Particularly in view of the turmoil triggered within the international aviation industry by the events of 11 September 2001, Deutsche Structured Finance GmbH places great importance on active fund management as a prerequisite of successful fund performance. This approach contributed to the fact that all aircraft within the portfolio managed by Deutsche Structured Finance GmbH continue to operate despite the current problems experienced throughout the aviation industry. The leasing instalments are being paid on time. As planned, five Boeing 737-700 are to placed with new tenants in this year. With regard to the two Boeing 767 aircraft managed by Deutsche Structured Finance GmbH, the future situation of the current lessee, who experienced a change of control after the group had become insolvent in June of this year and whose future business strategy is not yet transparent. Given the current extremely difficult market conditions for long-haul aircraft, it would be almost impossible to lease an aircraft of this size to other operators at short notice and at reasonable terms and conditions.

Refinancing of property activities

Since the split of DePfa Group's public finance and property activities, both banks have been independently responsible for the financing of their own activities. As Aareal Bank was previously operating as a DePfa Group subsidiary on the capital market, the Bank will be subject to new requirements. Firstly, it was necessary for the bank to attain its own rating on a stand-alone basis, i.e. independent of its previous Group affiliation. The rating agency FitchRatings has awarded Aareal Bank a long-term rating of A+ (and *stable outlook*). In addition, Aareal Bank intends to apply for further ratings. However, it must be assumed that these ratings will be slightly below those ratings awarded prior to the split of DePfa Group's business activities (Fitch Ratings: AA-; Moody's: Aa3).

Secondly, due to the transfer of the property financing portfolio, new requirements are imposed on the extent of the necessary refinancing. To ensure refinancing in the amount required, Aareal Bank must expand its standing on the international capital markets. As Aareal Bank AG is a specialised property financing house and will not be subject to the provisions of the German Mortgage Banking Act *(Hypothekenbankgesetz,* "HBG"), it does not have the capability to issue asset-covered bonds *(Pfandbriefe)* for refinancing purposes. The Management Board of Aareal Bank has decided to establish its own mortgage bank subsidiary based in Germany; however, the ability of the Property Bank to raise long-term refinancing funds will be limited for the time being.

While Aareal Bank's business does not depend to the same degree on a good rating as the activities of the Public Finance Bank, a more than slight deterioration of the rating could nevertheless have a negative impact on refinancing. There is no guarantee that Aareal Bank will be able to achieve all the refinancing goals and objectives outlined above, which may negatively affect business and financial condition.

Software and IT services for the real estate management sector

Aareon AG, a subsidiary of Aareal Bank, renders data processing services for third parties. While Aareal Bank has taken precautionary measures with regard to the provision of these services to ensure full back-up operation within 48 hours in the event of system failure in its data-processing centre or failure of the data communication network, there is no guarantee that Aareal Bank will, in fact, be able to establish full back-up operation within this space of time in the case of system failure. Any such system failure could therefore have a detrimental effect on the business reputation of Aareal Bank or lead to the assertion of liability claims by clients.

Co-operation of Aareon AG with SAP AG

In order to reduce software development costs and risks, in early 2002 Aareon AG entered into several agreements with SAP AG for a long-term co-operation with regard to development and sales, based on partnership. Aareon AG will take over the distribution of the standard software for the real estate sector to be developed by SAP AG. At the same time, Aareon AG will develop supplementary software components, so-called add-ons.

Aareon AG is subject to a minimum purchase obligation vis-à-vis SAP AG, tiered into different annual brackets and involving a total amount of € 105 million. However, it is not ensured that Aareon AG will succeed in selling the quantities to be bought from SAP AG in the relevant years to end-user customers and recoup the means expended on the purchase of these products.

Moreover, it cannot be guaranteed that the software to be developed by SAP AG will be completed in good time, i.e. by the dates contractually agreed upon and within the timeframe communicated to the customers, and that it will meet the latest technological developments and standards, as well as the ever-increasing demands of the clients, at the time of its introduction. Where the new software does not meet these requirements or SAP AG otherwise violates its contractual obligations, Aareon AG may be required to develop the standard software at its own cost, which would necessitate significant expenditure (in particular with regard to human resources) that have not been budgeted for by Aareon AG.

The same risk exists in the event that the co-operation is terminated by SAP AG, either with or without giving notice (for good cause), or if SAP AG does not continue to develop the relevant software in accordance with the state of the art. This would significantly impede product maintenance for clients who have already purchased the new standard software. Furthermore, without the SAP AG standard software, any add-ons developed by Aareon AG at its own cost cannot be distributed successfully. It is not assured that Aareon AG will always be able to produce add-ons to be developed as part of the co-operation with SAP AG on time and in accordance with market requirements.

In addition, the non-exclusive distribution rights of Aareon AG are limited to the Federal Republic of Germany. There is no obligation on the part of SAP companies based in other countries to enter into distribution agreements with Aareon AG. It cannot be excluded that this will hinder the planned international expansion of Aareon AG.

Warranty claims or product liability claims by end-user customers against Aareon AG may arise, for example, if any defects can be traced back to the supplementary components developed by Aareon AG.

Internal execution of the split of DePfa Group's Public Finance and Property activities

The split of the public finance and property activities of the former DePfa Group, which was finalised in terms of company law by the allocation of Aareal Bank shares to the shareholders of DEPFA BANK plc on 6 June 2002, involves a large number of companies, employees and facilities in various countries. The DePfa Group has never undertaken a restructuring project as complex as the split of its business activities. The internal execution of the split primarily involves five areas: internal organisation, agency, assignment of contracts, transfer of assets and separation of IT systems. In order to facilitate the division into two separate banks also from an operative point of view, it was necessary to adjust the internal organisation particularly with regard to administration and service and support units, to analyse and, if applicable, redefine operating procedures, to re-allocate human resources and re-assign responsibilities, and also to employ new staff (in particular for central Group functions and the Treasury unit). With regard to certain areas – such as the administration of any property financing portfolio remaining with DePfa Deutsche Pfandbrief Bank AG and the archiving of documents by Aareal Bank – it is necessary that agency agreements are concluded between both banks to ensure that specific functions, which cannot be split due to legal restrictions or because this would not be commercially sensible, can be carried out by one bank on behalf of the other.

As part of the split it became necessary to transfer assets, such as the property financing portfolio, participations and properties, between Aareal Group companies and DEPFA BANK plc and its subsidiaries. These transfer transactions are yet to be completed. With regard to the major transactions, valuation opinions were prepared by independent experts. On balance, the Management Board believes that, insofar as these transactions have been finalised, the split of public finance and property activities has been completed at reasonable conditions (in accordance with the at-arm's-length principle) However, it cannot be ruled out that third parties would have been prepared to pay another price for individual assets or operations transferred, than the price determined by the valuation or used as the basis of the transfer.

Furthermore, the split also requires that all existing contracts within the DePfa Group (e.g. software and licence agreements, leases) are allocated to one of the two banks and, to the extent necessary, are assigned to the other bank. The same applies to the allocation and transfer of assets, particularly fixed assets. Since the split, the Property Bank has been mainly using the existing IT systems. Aareal Bank must ensure that its internal organisation is of such a standard as to allow it to continue carrying out its business operations without any disruptions or interruptions. Although no extraordinary problems have arisen to date in connection with the relevant projects, there is no guarantee that Aareal Bank will succeed, and there is no assurance that there will not be any delays which would permanently or temporarily negate the benefits that were expected to arise for Aareal Bank from the separation of public finance and property activities.

Transfer of the property financing portfolio

As part of splitting the business activities, the risks associated with DePfa Deutsche Pfandbriefbank AG's property financing portfolio are to be spun off and partially transferred to Aareal Bank. The transfer of all rights and obligations under the existing loan agreements to Aareal Bank usually requires the counterparty's (i.e. the customer's) as well as the guarantor's consent, if applicable. Moreover, legally effective transfers often require that any collateral recorded in the land register (*Grundbuch*) is also transferred, which may incur considerable costs. It is not assured that Aareal Bank will be able to handle the considerable administrative effort at all, in its entirety and on time. Where loans cannot be legally transferred, or where such transfer would result in expenditure that is not economically justifiable, these loans will remain on the balance sheet of DePfa Deutsche Pfandbriefbank AG. However, it is planned that – to the extent that this is possible, particularly from a regulatory point of view – Aareal Bank (and/or a third party outside the Group) assumes the property lending exposure through credit derivatives; or that Aareal Bank grants individual maximum amount guarantees in the full amount of such exposure or part thereof, and that the administration of the relevant loans by Aareal Bank be provided for by way of an agency agreement. To the extent that the transfer and/or the spin-off of the risks associated with the property financing portfolio is/are carried out only partially or not at all, this may result in additional costs to Aareal Bank.

It cannot be ruled out that, due to the assumption of the risks associated with the property financing portfolio, the Aareal Group's potential for the acquisition of new business will be restricted or that lower capital ratios will negatively affect the rating.

Altered large exposure credit lines

Following the split between public finance and property activities, the upper limits for the granting of large-scale loans, which are determined, *inter alia*, by the German Banking Act (*Kreditwesengesetz*, "KWG"), are lower than they have previously been for the entire DePfa Group, as these limits depend on the liable capital on both the consolidated and unconsolidated level. Although the DePfa Group intended to distribute the equity capital in such a way during the course of the split that the business of neither future bank is disrupted or impaired, and Aareal Bank raised additional regulatory capital during the first half of 2002 and is planning to raise further core capital by way of this offer, it cannot be assured that Aareal Bank will be able to conduct its business, or even expand it, as would have been possible before the split.

Costs of the split

The DePfa Group expects that the total restructuring charges and transaction expenses for the implementation of the split (approximately € 20 million), of which Aareal Bank is expected to pay 50 %, will be met by the provisions set aside over the last few years and have already been recognised as an expense in the individual financial statements, in accordance with the German Commercial Code (Handelsgesetzbuch, "HGB"), as at 31 December 2001. To date, Aareal Bank has drawn on approximately 70 % of the provisions set aside. The total restructuring costs may in fact be higher due to delays or unforeseen events. Unanticipated challenges and cost increases, combined with the difficulty of continuing day-to-day operations while managing such major restructuring, may delay or reduce the business effects and economic benefits expected from the split.

Tax implications

The finalisation of the split of the public finance and property activities involved, and still involves, the sale and/or transfer of various business shares and assets within the former DePfa Group. All of these transactions have tax implications which can rarely be predicted due to their complexity, the fact that they concern different jurisdictions and possible amendments to the general framework of taxation. While the DePfa Group sought tax advice with regard to the planning and structuring of the split, it cannot be assured that this split will not have any tax implications that Aareal Bank did not anticipate and that will sustainably increase the costs of splitting.

Trade mark rights and rights to names

The name change of DePfa Group companies associated with the split of the DePfa Group resulted in the new company name "Aareal Bank AG" for Aareal Bank. This name has been entered in the Commercial Register. An application for the registration of the name "Aareal Bank" has been filed with the Trademark Office. Given the fact that both Aareal Bank AG and Aareon AG have only recently changed their company names, it cannot be ruled out that market participants will claim injunctive relief before the courts with regard to the use of the new company name or the new trademark and that Aareal Bank, in the event it loses the case, will be compelled to change its name again.

Competition with major international banks and national banks

Aareal Bank competes with major international banks and international investment banks on one hand, and with domestic banks on Aareal Bank's relevant national markets on the other.

Aareal Bank competes, both on a national and an international level, with a number of competitors that are larger in terms of equity capital and credit volume and also have primary placement capacities. Moreover, since 2001, a consolidation of the German mortgage bank market has been taking place and three of the major competitors of Aareal Bank coordinated their activities by merging their German mortgage bank subsidiaries. It should also be noted that it is part of DePfa Group's strategy that the individual banks will concentrate their activities on a smaller business segment following the split. Besides the advantage of demerging two contrasting business activities, this is also associated with the risk that Aareal Bank may face greater difficulties when it comes to compensating for competitive pressures and the possible loss of market shares in its own area by the successful public finance business.

Competition with regard to real estate management software

Aareon AG, a subsidiary of Aareal Bank, is a major supplier in the German market for real estate management standard software and IT services to the housing sector, a highly specialised market segment. To date, large national and international software corporations have been of only secondary importance within the German market. Due to its co-operation with SAP AG, Aareon AG's function has changed from being a software developer to the role of a company providing advisory and implementation services for SAP products. There are also a small number of predominantly medium-size competitors in the small and retail customer segment. It cannot be assured that Aareon AG will not lose a significant market share due to increasing competitive pressures.

Effects of changes in interest rates

The revenues of the Property activities are determined in the most part by the amount of net interest income. Such net interest income largely depends on interest margins (i.e. the difference between the interest earned on interest-earning assets and the interest paid on interest-bearing liabilities) and on the refinancing structure. Unexpected fluctuations in interest rates across all maturities (changes in the yield curve) on both the international money and capital markets – also affected by extraordinary events such as catastrophes – may have positive as well as negative effects on Aareal Bank's net interest income, even though Aareal Bank applies interest rate hedging instruments, constantly monitors the short-term, medium-term and long-term development of interest rates, manages interest rate risk through its Treasury units and constantly monitors the interest rate risks in its risk controlling units.

Dependency on information technologies and communication media

The business of Aareal Bank is, to a large extent, performed with the support of computers and the use of email, the Internet, telephone and fax communications and other technological devices. Firstly, IT systems enable, for example, the constant monitoring of Aareal Bank's risk positions and the management and administration of the high number of property lending facilities. Secondly, Aareal Bank depends on the permanent availability of its communication links to the international money and financial markets via fax, telephone, email and on-line communication. This form of business is to a large degree dependent on the operability and reliability of computer and telecommunications systems as well as the electronic systems supporting them. In the event of electrical failure, Aareal Bank has provided for emergency power generators that are able to operate independently for up to one week. A back-up data processing centre close to the main building is available in the case of a main systems failure. The most vital system components are available in a set of at least two components. In addition, the data stock of the trading systems is replicated and

forwarded to several locations. While the failure of local IT systems is covered by these safety measures, partial or full failure of IT or telecommunication systems could result in a significant disruption of business operations, a (temporary) suspension of operations (e.g. on request of the regulatory authorities) or even compensatory damage claims and loss of customers.

Data security

The secure transmission of confidential information via the Internet and public telecommunication networks is a significant aspect of Aareal Bank's business. The data collected in the course of Aareal Bank's regular business operations is highly sensitive and subject to data protection since it is part of the confidential relationship between banks and their customers. Aareal Bank has taken a variety of measures in order to protect the data that is processed and managed during its business operations. However, it cannot be assured that Aareal Bank's IT systems will not be manipulated, i.e. by third parties who gain unauthorised access to Aareal Bank's systems, thereby violating the confidentiality of data.

Internal monitoring systems

In connection with trading on the international money and financial markets, lending and managing its own risk positions, etc, Aareal Bank relies on the adequacy of and full compliance with its internal processes for the control and monitoring of risks. While no material defects have occurred in the past, there is no guarantee that internal monitoring systems will not fail in the future, be it due to accidental or intentional misconduct of staff, criminal acts or conceptual shortcomings.

Banking business licence

A licence to conduct banking business, or at least registration with the competent regulatory authorities, is required in all countries where the Aareal Group pursues any such activities. It cannot be ruled out that any such licence held by Aareal Bank or any of its subsidiaries will not be restricted or revoked due to repeated violation of the rules that are applicable, in the relevant country, to the operation of a banking business or for any other reason, such as political reasons. The non-approval of a licence, in particular for the future operation of Aareal Bank's new mortgage bank, or the revocation or restriction of existing licences could have serious negative effects for Aareal Bank due to the termination or restriction of its business operation in the relevant country or countries.

Special audits by regulatory authorities

In accordance with the applicable rules in the countries where Aareal Group companies hold banking licences, the competent regulatory authorities may conduct periodic special audits, provided that certain requirements are met. Such special audits may relate to organisational processes or the assessment of the intrinsic value of assets, for example. Such special audits may result in requirements being imposed on the Aareal Group, such as a change in organisational processes, which could hamper business during the adjustment phase and lead to considerable costs, thus burdening the result of operations.

Possibility of stricter capital adequacy requirements pursuant to Basel II

The Basel Banking Supervisory Committee is currently drafting a revision of the Basel capital adequacy agreement (Basel II) which, according to current planning, is expected to be implemented into national law by the end of 2006. Basel II is intended to realise the move from a regulatory risk management approach, based primarily on quantitative criteria, to a supervisory approach that focuses stronger on quality aspects. This concept is based on three cornerstones: the minimum capital requirements, the supervisory monitoring process and the reinforcement of market discipline via increased disclosure requirements of the banks. Accordingly, equity capital will be required as backing for three types of risk: credit risks, operational risks and market risks.

With regard to credit risks, banks will be required to back any loans extended to customers with equity capital in an amount that is dependent on the credit standing of the respective customer. To determine customers' credit standing, among other things external credit ratings by independent rating agencies or internal bank processes may be used. Empirical studies carried out by the banking supervisory authorities showed that some of the banks included in the studies (to which Aareal Bank does not belong) would be required to increase their regulatory capital or to reduce their risk-carrying business if the new rules were implemented as currently discussed.

At present, Aareal Bank is not in a position to identify which impact the implementation of any future Basel II rules would have on any regulatory capital adequacy requirements the company is subject to. However, it cannot be excluded that these requirements will result in a need for additional equity to back the "then" current or planned future business, than is now the case. In this case, Aareal Bank may be required to raise additional equity. Moreover, in such a case there is also no guarantee that additional equity would be made available to Aareal Bank and, if so, that it would be made available on acceptable terms. Where this is not the case, Aareal Bank may be required to reduce existing risk assets or to expand at a slower rate than planned.

International business

Aareal Bank conducts its business to a significant extent on an international level. The international business outside Euroland is associated with various risks for Aareal Bank, such as currency fluctuations (with the resulting currency risks hedged by Aareal Bank to a large extent by the use of derivatives), currency controls and the political and economic conditions in the countries in which Aareal Bank operates. In addition, there are the difficulties associated with the coordination of management and operation of banking services over various countries (in particular with regard to the differing regulatory conditions), while at the same time complying with the diverse tax laws and regulations within those various countries. Aareal Bank's strategy aims at increasing its share of international business in the future.

Acquisitions

Aareal Bank constantly examines opportunities to enhance its strategic position both in Germany and abroad by acquisitions and co-operation with partners. It is uncertain whether Aareal Bank will be able to complete acquisitions, successfully integrate acquired companies into its existing business or ensure their profitable operation.

Dependency on key employees

Aareal Bank's future success depends largely on the current and future Members of the Management Board and other executives of Aareal Bank and its subsidiaries. Some of these Management Board Members and executives have many years of experience and comprehensive knowledge of Aareal Group's business. If some of these persons left Aareal Bank, their departure could have a negative impact on the business.

Business taxes

Tax audits have been carried out and completed within Aareal Bank regarding financial years up until 1997. No follow-up tax audit has yet been decreed for the years as from 1998. Tax audits typically may result in tax back payments which cannot be quantified. Tax provisions are subject to constant amendments by the legislator and tax authorities.

Change in accounting standards

In the past, DePfa Group's consolidated financial statements have been prepared in accordance with the United States Generally Accepted Accounting Principles (US GAAP).

Given that, as of the year 2005, consolidated financial statements of German capital-market oriented companies must be prepared in accordance with International Accounting Standards (IAS), the Management Board will prepare consolidated financial statements of the Aareal Group pursuant to IAS rules as early as from the 2002 financial year. The unaudited Consolidated Interim Financial Statements as at 30 June 2002 will therefore be the first consolidated financial statements of Aareal Bank to be prepared in accordance with IAS.

The change of accounting principles to IAS hinders comparability with any consolidated financial statements previously prepared and with the unaudited pro-forma consolidated financial information contained in this prospectus. It can be assumed that the change in accounting standards will result in changes in the presentation of Aareal Bank's financial condition and results of operations due to different rules on recognition, measurement and presentation.

Fluctuations of operating results

Aareal Bank's operating results may vary significantly from quarter to quarter or from year to year because of a number of factors, including factors unrelated to its operating performance or the operating performance of its competitors. These factors include:

- changes in the general economic environment and, more specifically, in the global property markets in which Aareal Bank or its customers operate;
- the development of interest rates on the international markets;
- Aareal Bank's ability to fund its capital requirements; and
- exchange rate fluctuations

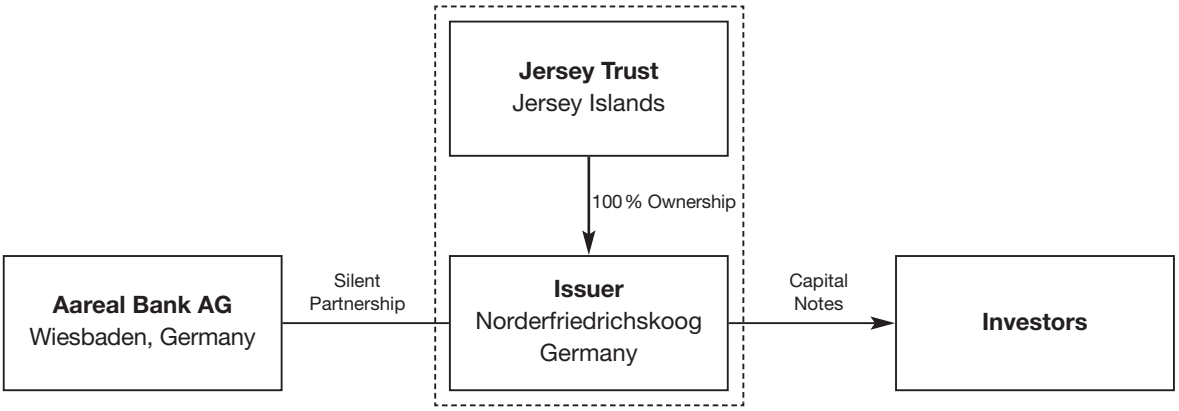
It is difficult, if not impossible, to forecast these factors as well as the general economic, political and market conditions, and any of these factors could have a negative effect on the results of operations, financial condition and prospects of Aareal Bank and thus a detrimental impact on the Issuer's ability to make payments on the Bonds.

Control of Aareal Bank

After allocation of Aareal Bank's shares, DePfa Holding Verwaltungsgesellschaft mbH held 40.76% of all Aareal Bank's shares outstanding. As a result, DePfa Holding Verwaltungsgesellschaft mbH is able to exert a significant degree of influence over Aareal Bank's management and affairs and over matters requiring shareholder approval, such as certain capital adjustments and approval of significant corporate transactions.

Description of Offering Structure

Overview



Silent Partnership Agreement

The Issuer will use the proceeds from the issue of the Capital Notes for the purpose of participating in the commercial enterprise of Aareal Bank as typical silent partner by means of a capital contribution in the nominal amount of € 180,000,000. The Capital Contribution will be used by Aareal Bank as regulatory capital within the meaning of the German Banking Act *(KWG)*. Under the Silent Partnership Agreement, which was signed on 24/25 September 2002 and registered with the commercial register on 4 October 2002, the Issuer is entitled to an Annual Profit Participation in a rate equal to 12-month EURIBOR (or a EURIBOR rate determined by linear interpolation applicable to the interest payment on the first Due Date following the issue of the Capital Notes) plus 2.1014 % p.a. in respect of the relevant Payment Period.

Payments of the Profit Participation are not made if and to the extent any such payment would result in an annual net loss of Aareal Bank. Skipped Profit Participation will not be paid subsequently. In case of an annual net loss, the contribution of the Silent Partner will be reduced on a pro rata basis together with other components of the regulatory capital participating in the losses. Replenishment of the Capital Contribution will be made out of future annual net profits.

Termination by the Silent Partner is excluded. Pursuant to the Silent Partnership Agreement, Aareal Bank may terminate the Silent Partnership Agreement by giving two years' notice for the first time with effect at 31 December 2007. However, Aareal Bank has undertaken with Deutsche Bank to exercise its right of termination no earlier than with effect as of 31 December 2013. In addition, Aareal Bank has entered into an agreement with the Silent Partner on 13 August 2002 amending the Silent Partnership Agreement pursuant to which Aareal Bank may terminate the Silent Partnership Agreement no earlier than with effect as of 31 December 2013, in order to ensure a more favourable treatment of the Capital Contribution within the regulatory capital of Aareal Bank. The amendment agreement requires the approval of the general meeting of Aareal Bank and subsequent registration with the commercial register of Aareal Bank. The obligation assumed by Aareal Bank with respect to the waiver of the right of termination with effect as of any earlier date would remain unaffected in the event the general meeting refused its approval.The termination is subject to prior consent of the German Financial Services Supervisory Agency (BAFin).

Receivables Purchase Agreement

Any payment of Profit Participation is subject to investment income tax *(Kapitalertragsteuer)* to be withheld by Aareal Bank and forwarded to the tax authorities. The Issuer may claim refund of the amount withheld from the tax authorities. Under the Receivables Purchase Agreement, Aareal Bank has undertaken with the Issuer to purchase from the Issuer the Refund Claims at the time the withholding is made. The Profit Participation following the withholding of investment income tax, plus the Purchase Price paid for the Tax Refund Claims, equals the gross amount of the Profit Participation.

Capital Notes

On each Due Date, the Issuer will make interest payments on the Capital Notes to the Investors from the Annual Profit Participation (see "Description of Offering Structure" – "Terms and Conditions of the Issue") and the Amount of the Purchase Price received by the Fiduciary for the account of the Issuer, at the 12-month EURIBOR rate (or at the EURIBOR rate determined on the basis of linear interpolation in relation to the inter-

est payments on the first Due Date following the issue of the Capital Notes) plus 2.10 % p.a. of the Nominal Contribution Amount, provided that the interest payment is not reduced due to a lower amount of Profit Participation. The interest rate corresponds to the Profit Participation of the Issuer reduced by a margin of 0.0014 % p.a. of the Nominal Contribution Amount received by the Issuer as own profit. The Issuer realises profit only if and to the extent that the Annual Profit Participation together with the Amount of the Purchase Price paid for the Tax Refund Claims exceeds the amount of interest payable to the Investors. The Issuer shall not be under the obligation to subsequently make any missed interest payments.

No date has been fixed for redemption of the Capital Notes. Redemption of the Capital Notes will be effected upon repayment of the Capital Contribution if and to the extent the Capital Contribution is repaid by Aareal Bank (see "Description of Offering Structure" – "Silent Partnership Agreement"). Any redemption of the Capital Notes is excluded for so long as the Capital Contribution is reduced by a previous loss participation and has not been fully replenished.

Fiduciary Agreement

In accordance with the Fiduciary Agreement between the Issuer, Aareal Bank and the Fiduciary for the benefit of the Investors, the Issuer has assigned to the Fiduciary any and all present and future claims for Profit Participation, Delayed Payment Interest as well as Payment and Termination Claims against Aareal Bank as securities for the claims of the Investors under the Capital Notes. If, on the relevant Due Date, payments to be made on the Assigned Claims (see "Description of Offering Structure" – "Fiduciary Agreement") are not made, the Fiduciary will assert the claims promptly against Aareal Bank. The Fiduciary is entitled to take judicial and extra-judicial action in the interest of the Investors.

Agreement on the Reimbursement of Expenses

Aareal Bank has undertaken to reimburse to the Issuer the current expenses related to and necessary in respect of the business operations of the Issuer.

Terms and Conditions of the Issue

The German text of the Terms and Conditions of Issue is legally binding. The English translation is for Convenience only.

Emissionsbedingungen

§ 1 Stückelung, Verbriefung, Clearing

(1) *Stückelung.* Die Emission der Capital Funding GmbH (vormals firmierend unter Real Fünfte Grundstücksgesellschaft mbH) (die „Emittentin") im Gesamtnennbetrag von € 180.000.000 (in Worten: Euro einhundertachtzig Millionen) (der „Nennbetrag") ist eingeteilt in 1.800.000 untereinander gleichrangige Teilschuldverschreibungen mit einem Nennbetrag von jeweils € 100 (die „Teilschuldverschreibungen").

(2) *Verbriefung.* Die Teilschuldverschreibungen werden durch eine auf den Inhaber lautende Globalurkunde (die „Globalurkunde") ohne Zinsscheine verbrieft. Effektive Urkunden über einzelne Teilschuldverschreibungen und Zinsscheine werden nicht ausgegeben. Eine Kopie der Globalurkunde ist für die Inhaber der Teilschuldverschreibungen (jeweils ein „Investor") bei den Geschäftsstellen der Zahlstelle (§ 12) kostenlos erhältlich.

Terms and Conditions of the Issue

Section 1 Denomination, Securitization, Clearing

(1) *Denomination.* The issue by Capital Funding GmbH, formerly named Real Fünfte Grundstücksgesellschaft mbH, (the **"Issuer"**) in the aggregate nominal amount of € 180,000,000 (in words: Euro one hundred eighty million) (the **"Nominal Amount"**) is divided into 1,800,000 capital notes, ranking *pari passu* among themselves, in the nominal amount of € 100 each (the **"Capital Notes"**).

(2) *Securitization.* The Capital Notes will be represented by a global bearer certificate (the **"Global Certificate"**) without interest coupons. Definitive certificates and interest coupons representing individual Capital Notes will not be issued. A copy of the Global Certificate will be available to the holders of the Capital Notes (each an **"Investor"**) at the offices of the Paying Agent (Section 12) without charge.

(3) *Clearing System.* Die Globalurkunde wird bis zur vollständigen Erfüllung sämtlicher Verpflichtungen der Emittentin aus den Teilschuldverschreibungen von der Clearstream Banking AG, Frankfurt am Main (das „Clearing System"), verwahrt. Die Teilschuldverschreibungen sind durch entsprechende Depotbuchungen gemäß den jeweiligen Bestimmungen des Clearing Systems und, außerhalb der Bundesrepublik Deutschland, Clearstream Banking S.A., Luxemburg, und Euroclear Bank S.A./N.V., Brüssel, übertragbar.

§ 2 Stille Beteiligung, Treuhand, Forderungskauf

(1) *Beteiligungsvertrag.* Den Erlös aus der Ausgabe der Teilschuldverschreibungen wird die Emittentin ausschließlich zu dem Zweck verwenden, nach Maßgabe des Vertrags über die Errichtung einer Stillen Gesellschaft vom 24./25. September 2002 (der „Beteiligungsvertrag") zwischen der Emittentin und der Aareal Bank AG, Wiesbaden (die „Bank"), eine stille Beteiligung (die „Stille Beteiligung") in Höhe von € 180.000.000 (Euro einhundertachtzig Millionen) (der „Einlagenennbetrag") an der Bank zu begründen, die bei dieser als haftendes Eigenkapital dienen soll. Nach Maßgabe des Beteiligungsvertrags steht der Emittentin während der Dauer des Beteiligungsvertrags als Gegenleistung für ihre Einlage eine Gewinnbeteiligung in jedem Gewinnzeitraum (die „Gewinnbeteiligung") zu. Die Gewinnbeteiligungen werden jeweils jährlich nach Maßgabe des Beteiligungsvertrags ermittelt und ausgeschüttet (nach Abzug des Einbehalts gemäß § 2(3) jeweils eine „Jährliche Gewinnbeteiligung"). Die Ausschüttung der Jährlichen Gewinnbeteiligung erfolgt am jeweiligen Fälligkeitstag gemäß § 3(1) des Beteiligungsvertrags (jeweils der „Fälligkeitstag"). Erfolgt die Ausschüttung nach dem jeweiligen Fälligkeitstag wegen verspäteter Feststellung des für die Ermittlung der jeweiligen Jährlichen Gewinnbeteiligung maßgeblichen Jahresabschlusses, wird die Jährliche Gewinnbeteiligung nach Maßgabe des Beteiligungsvertrags verzinst (die „Verspätungszinsen")[1]. Die Bestimmungen des Beteiligungsvertrags werden diesen Emissionsbedingungen sowie der Globalurkunde als Anlage beigefügt und bilden mit diesen jeweils eine Einheit. Eine Kopie des Beteiligungsvertrags in seiner jeweils gültigen Fassung liegt zur Einsichtnahme in den Geschäftsstellen der Zahlstelle (§ 12) aus. Soweit nicht anders bestimmt, haben Begriffe in diesen Emissionsbedingungen dieselbe Bedeutung wie im Beteiligungsvertrag.

[1] Siehe in diesem Prospekt „Beschreibung der Emissionsstruktur" – „Vertrag über eine Stille Beteiligung".

(3) *Clearing System.* The Global Certificate will be held in custody by Clearstream Banking AG, Frankfurt am Main, (the **"Clearing System"**), until all obligations and duties of the Issuer under the Capital Notes have been fully satisfied. The Capital Notes will be transferable by book entry in accordance with the applicable rules of the Clearing System and, outside the Federal Republic of Germany, the rules of Clearstream Banking S.A., Luxembourg, and Euroclear Bank S.A./N.V., Brussels.

Section 2 Capital Contribution, Fiduciary Contract, Purchase of Receivables

(1) *Silent Partnership Agreement.* The proceeds from the issue of the Capital Notes will be used by the Issuer solely for the purpose of making a capital contribution (the **"Capital Contribution"**) in the amount of € 180,000,000 (Euro one hundred eighty million) (the **"Nominal Contribution Amount"**) to Aareal Bank AG, Wiesbaden, (the **"Bank"**) in accordance with the Agreement on the Establishment of a Silent Partnership of 24/25 September 2002, (the **"Silent Partnership Agreement"**), entered into between the Issuer and the Bank. The Capital Contribution is to serve the Bank permanently as regulatory capital (Tier 1 Capital). Pursuant to the Silent Partnership Agreement and as consideration for its contribution, the Issuer is entitled to a profit participation in each Profit Period (the **"Profit Participation"**) for the term of the Silent Partnership Agreement. The Profit Participations accruing in each Profit Period will be calculated and distributed on an annual basis in accordance with the Silent Partnership Agreement (after deduction of the withholding as per Section 2(3) below, each an **"Annual Profit Participation"**). The Annual Profit Participation shall be distributed on the relevant due date pursuant to Section 3(1) of the Silent Partnership Agreement (each such date a **"Due Date"**). In the event the distribution is made after the relevant Due Date due to a delayed determination of the annual accounts relevant to the calculation of the respective Annual Profit Participation, the Annual Profit Participation shall bear interest in accordance with the terms of the Silent Partnership Agreement (the **"Delayed Payment Interest"**)[1]. The terms of the Silent Partnership Agreement are attached to, and shall be deemed to constitute on document together with these Terms and Conditions of Issue and the Global Certificate, respectively. A copy of the Silent Partnership Agreement, as amended from time to time, is available for inspection at the offices of the Paying Agent (Section 12). Unless stated otherwise, terms used in these Terms

[1] See in the Prospectus "Description of Offering Structure" – "Silent Partnership Agreement"

(2) *Rechtsverhältnis.* Durch den Beteiligungsvertrag werden keine Rechte der Investoren gegenüber der Bank begründet. Die Bank übernimmt gegenüber den Investoren keine Haftung für die Weiterleitung von gegenüber der Emittentin geschuldeten Zahlungen.

(3) *Forderungskaufvertrag.* Bei der Ausschüttung der Gewinnbeteiligung an die Emittentin oder einer Auffüllung der Stillen Beteiligung nach Herabsetzung ihres Buchwerts behält die Bank gemäß § 43 Abs. 1 Nr. 3 EStG Kapitalertragsteuer auf die ausgeschütteten Beträge bzw. den Betrag der Wiederauffüllung ein, falls die Finanzverwaltung für Zahlungen an die Emittentin keine Befreiung erteilt hat. Dieser Einbehalt (der „Einbehalt") wird als Vorauszahlung auf die von der Emittentin geschuldete Körperschaftsteuer angerechnet. In der Höhe, in der diese Vorauszahlung die tatsächliche Körperschaftsteuerschuld der Emittentin übersteigt, steht der Emittentin jeweils ein Rückerstattungsanspruch gegen die Finanzbehörden zu (der „Steuererstattungsanspruch"). Die Emittentin und die Bank haben am 24./25. September 2002 einen Vertrag über den Erwerb der Steuererstattungsansprüche der Emittentin durch die Bank abgeschlossen (der „Forderungskaufvertrag")[2], durch den die Emittentin ihre Steuererstattungsansprüche gegen die Finanzbehörden an die Bank verkauft und abtritt. Als Gegenleistung stehen der Emittentin Zahlungsansprüche gegen die Bank zu, die jeweils zum Zeitpunkt der Ausschüttung der Jährlichen Gewinnbeteiligung und in Höhe des jeweiligen Einbehalts zur Zahlung fällig werden (jeweils ein „Kaufpreisbetrag"). Bei einem Einbehalt, der aufgrund einer Auffüllung der Stillen Beteiligung nach Herabsetzung ihres Buchwerts erfolgt, ist der Kaufpreisbetrag für die Auffüllung der Stillen Beteiligung zu verwenden, indem er nicht ausgezahlt, sondern der Stillen Beteiligung gutgeschrieben wird. Die Bestimmungen des Forderungskaufvertrags werden diesen Emissionsbedingungen sowie der Globalurkunde als Anlage beigefügt und bilden mit diesen jeweils eine Einheit. Eine Kopie des Forderungskaufvertrags liegt zur Einsichtnahme in den Geschäftsstellen der Zahlstelle (§ 12) aus.

(4) *Treuhandvertrag.* Die Emittentin, die Bank und die Deutsche Bank Luxembourg S.A. (die „Treuhänderin") haben am 1. Oktober 2002 einen Treuhandvertrag abgeschlossen (der „Treuhandvertrag")[3].

[2] Siehe in diesem Prospekt „Beschreibung der Emissionsstruktur" – „Wesentliche Bestimmungen des Forderungskaufvertrags". Von einem Abdruck des gesamten Vertrages wurde abgesehen.

[3] Siehe in diesem Prospekt „Beschreibung der Emissionsstruktur" – „Treuhandvertrag".

and Conditions of Issue shall have the same meaning as in the Silent Partnership Agreement.

(2) *Legal Relationship.* The Silent Partnership Agreement does not establish any rights of the Investors vis-à-vis the Bank. The Bank does not assume any liability vis-à-vis the Investors with respect to forwarding payments made to the Issuer.

(3) *Receivables Purchase Agreement*. Upon distribution of the Profit Participation to the Issuer or the replenishment of the Capital Contribution following reduction of its Book Value, the Bank has to withhold capital income tax on the distributed amounts and/or on the amount of replenishment, pursuant to § 43 (1) No. 3 of the German Income Tax Act *(EStG),* unless the tax authorities have granted a tax exemption for payments to the Issuer. This Withholding (the **"Withholding"**) is deducted as a prepayment from the corporate income tax liability of the Issuer. To the extent any such prepayment exceeds the actual amount of corporate income tax liability of the Issuer, the Issuer will have a refund claim vis-à-vis the tax authorities (the **"Tax Refund Claim"**). On 24/25 September 2002, the Issuer and the Bank have entered into an agreement on the purchase by the Bank of the Tax Refund Claims of the Issuer (the **"Receivables Purchase Agreement"**)[2], by which the Issuer sells and assigns its Tax Refund Claims against the tax authorities to the Bank. As consideration therefor, the Issuer shall receive payments from the Bank, which payments become due at the time of distribution of the Annual Profit Participation and are payable in the amount of the respective Withholding (each an **"Amount of the Purchase Price"**). In case of a Withholding applied due to replenishment of the Capital Contribution after reduction of its Book Value, the Amount of the Purchase Price is to be used towards replenishment of the Capital Contribution, by credit to the Capital Contribution instead of payment to the Issuer. The terms of the Receivables Purchase Agreement are attached hereto and to the Global Certificate and shall be deemed to constitute one document. A copy of the Receivables Purchase Agreement is available for inspection at the offices of the Paying Agent (Section 12).

(4) *Fiduciary Agreement.* On 1 October 2002, the Issuer, the Bank, and Deutsche Bank Luxembourg S.A. (the **"Fiduciary"**) have entered into a fiduciary contract (the **"Fiduciary Agreement"**)[3]. Pursuant

[2] See in this Prospectus "Description of Offering Structure" – "Material Provisions of the Receivables Purchase Agreement". The Agreement has not been included in its entirety in this Prospectus.

[3] See in this Prospectus "Description of Offering Structure" – "Fiduciary Agreement"

Nach dem Treuhandvertrag hat die Emittentin alle ihre derzeitigen und künftigen Ansprüche auf die Jährlichen Gewinnbeteiligungen und eventuelle Verspätungszinsen und die ihr bei Beendigung der Stillen Beteiligung zustehenden Ansprüche auf Rückzahlung des Einlagenennbetrags und auf Zahlung der eventuell angefallenen Gewinnbeteiligung bzw. Zinsen unter dem Beteiligungsvertrag sowie ihre Ansprüche auf Zahlung der Kaufpreisbeträge unter dem Forderungskaufvertrag zur Sicherung der Zahlungen von Kapital und Zinsen unter diesen Emissionsbedingungen abgetreten. Die Treuhänderin wird die abgetretenen Ansprüche nach Maßgabe des Treuhandvertrags treuhänderisch für die Investoren halten. Die Bestimmungen des Treuhandvertrags werden diesen Emissionsbedingungen sowie der Globalurkunde als Anlage beigefügt und bilden mit diesen jeweils eine Einheit. Eine Kopie des Treuhandvertrags liegt zur Einsichtnahme in den Geschäftsstellen der Zahlstelle (§ 12) aus.

(5) *Aufwendungsersatzvereinbarung.* Nach Maßgabe einer zwischen der Emittentin und der Bank am 24./25. September 2002 abgeschlossenen Aufwendungsersatzvereinbarung hat die Bank sich gegenüber der Emittentin verpflichtet, der Emittentin eine jährliche Aufwandsentschädigung für bestimmte laufende und zur Aufrechterhaltung ihres Geschäftsbetriebs notwendige Aufwendungen zu zahlen.

§ 3 Status, Bindung

(1) *Status.* Die Teilschuldverschreibungen begründen nicht besicherte und nicht nachrangige Verbindlichkeiten der Emittentin, die untereinander und mit allen anderen nicht besicherten und nicht nachrangigen Verbindlichkeiten der Emittentin gleichrangig sind, mit Ausnahme von Verbindlichkeiten, die nach geltenden Rechtsvorschriften vorrangig sind.

(2) *Bindung.* Die Teilschuldverschreibungen verbriefen die Verpflichtung der Emittentin, den Erlös aus der Ausgabe der Teilschuldverschreibungen zur Begründung der Stillen Beteiligung zu verwenden und die Jährlichen Gewinnbeteiligungen oder die Rückzahlung des Einlagenennbetrags sowie darauf eventuell aufgelaufene Zinsen, welche der Emittentin nach Maßgabe des Beteiligungsvertrags zustehen, sowie die Kaufpreisbeträge, welche der Emittentin nach Maßgabe des Forderungskaufvertrags zustehen, nach Abzug der von ihr zu tragenden Steuern zu verwenden, um ihre Zahlungsverpflichtungen gegenüber den Investoren nach Maßgabe dieser Emissionsbedingungen zu erfüllen. Die Emittentin ist unter keinen Umständen verpflichtet, Zahlungen an die Investoren zu leisten, wenn nicht die Treuhänderin die entsprechenden, der Emittentin nach Maßgabe des Beteiligungsvertrags oder des Forderungskaufvertrags zustehenden Beträge zuvor tatsächlich erhalten hat.

to the Fiduciary Agreement, the Issuer has assigned all of its present and future claims for Annual Profit Participations and any Delayed Payment In-terest as well as its claims for repayment of the Nominal Contribution Amount upon termination of the Silent Partnership Agreement, including any claims for Profit Participation payable and/or interest accrued under the Silent Partnership Agreement, as well as its claims for payment of the Amounts of the Purchase Price under the Receivables Purchase Agreement, in order to secure payment of capital and interest hereunder. The Fiduciary will hold the assigned claims in trust in accordance with the Fiduciary Agreement on behalf of the Investors. The terms of the Fiduciary Agreement are attached hereto and to the Global Certificate and shall be deemed to constitute one document. A copy of the Fiduciary Agreement will be available for inspection at the offices of the Paying Agent (Section 12).

(5) *Agreement on the Reimbursement of Expenses.* Pursuant to an Agreement on the Reimbursement of Expenses entered into between the Issuer and the Bank on 24/25 September 2002, the Bank has assumed the obligation vis-à-vis the Issuer to pay to the Issuer an Annual Reimbursement in coverage of certain recurring expenses required for the continuance of its Business Operations.

Section 3 Status, Commitment

(1) *Status.* The Capital Notes represent unsecured and unsubordinated liabilities of the Issuer which rank *pari passu* among themselves and with all other unsecured and unsubordinated liabilities of the Issuer, except for liabilities which rank senior as a matter of law.

(2) *Commitment.* The Capital Notes represent the undertaking of the Issuer to use the proceeds from the issue for the purpose of making the Capital Contribution, and to use the Annual Profit Participations or the amounts from the repayment of the Nominal Contribution Amount, including any interest accrued thereon to which the Issuer may be entitled under the Silent Partnership Agreement, as well as the Amounts of the Purchase Price payable to the Issuer under the Receivables Purchase Agreement, after deduction of any applicable tax payable by the Issuer, to satisfy its payment obligations towards the Investors under these Terms and Conditions of Issue. In no event will the Issuer be under any obligation to make payments to the Investors without effective receipt by the Fiduciary of the relevant amounts due to the Issuer under the Silent Partnership Agreement or the Receivables Purchase Agreement.

(3) *Vertragsänderungen.* Die Emittentin darf Änderungen des Beteiligungsvertrags und des Forderungskaufvertrags nur zustimmen, wenn dadurch die Rechte der Investoren nicht beeinträchtigt werden und die Treuhänderin der Änderung vorher schriftlich zugestimmt hat.

§ 4 Zinsen

(1) *Fälligkeit.* An jedem Fälligkeitstag wird die Emittentin aus der Jährlichen Gewinnbeteiligung und dem Kaufpreisbetrag, die die Treuhänderin für Rechnung der Emittentin jeweils tatsächlich erhalten hat, Zinsen auf die Teilschuldverschreibungen an die Investoren zahlen. Reichen die von der Bank gezahlten Beträge nicht aus, um nach Abzug der von der Emittentin zahlbaren Steuern Zinsen in Höhe von 12-Monats-EURIBOR (bzw. in Höhe eines linear interpolierten EURIBOR-Satzes in Bezug auf die Zinszahlung am ersten, auf die Emission der Teilschuldverschreibungen folgenden Fälligkeitstag) zuzüglich einer Marge von 2,10 % p.a. des Einlagenennbetrags zu zahlen, vermindert sich die Zinszahlung entsprechend. Erfolgt die Zahlung der zahlbaren Beträge an die Investoren nach dem jeweiligen Fälligkeitstag, weil am Fälligkeitstag der Jahresabschluss der Bank für das für die Ermittlung der Jährlichen Gewinnbeteiligung maßgebliche Geschäftsjahr noch nicht festgestellt war, wird die Emittentin an die Investoren den Betrag aus den Verspätungszinsen, den die Treuhänderin tatsächlich erhalten hat, als Zinsen auf die Teilschuldverschreibungen zahlen. Auf die einzelnen Teilschuldverschreibungen entfällt ein jeweils verhältnismäßiger Anteil aller vorstehend genannten zahlbaren Beträge (auf den nächsten vollen Cent abgerundet). Die Emittentin ist nicht verpflichtet, entfallene Zinszahlungen nachzuholen.

(2) *Anpassung des Gewinnbeteiligungssatzes.* Die Emittentin wird form- und fristgerecht von jeder Möglichkeit Gebrauch machen, den für die Berechnung der Gewinnbeteiligung unter dem Beteiligungsvertrag herangezogenen Gewinnbeteiligungssatz nach Maßgabe des Beteiligungsvertrags zu ihren Gunsten (der „Gewinnbeteiligungssatz“) anpassen zu lassen. Der Gewinnbeteiligungssatz kann nach Maßgabe des Beteiligungsvertrags insbesondere dann angepasst werden, falls die Emittentin zusätzliche Beträge (wie in § 8 definiert) zu zahlen hat.

(3) *Bekanntmachung der Anpassung des Gewinnbeteiligungssatzes.* Die Emittentin wird Anpassungen des Gewinnbeteiligungssatzes unverzüglich gegenüber den Investoren gemäß § 11 bekannt machen.

(3) *Amendments.* The Issuer may only consent to such amendments to the Silent Partnership Agreement and the Receivables Purchase Agreement, as will not adversely affect the rights of the Investors, subject to the prior written consent of the Fiduciary.

Section 4 Interest

(1) *Payment.* The Issuer shall pay on each Due Date interest on the Capital Notes to the Investors from the Annual Profit Participations and the Amount of the Purchase Price effectively received by the Fiduciary for the account of the Issuer from time to time. In the event that, after deduction of the tax payable, the amounts paid by the Bank are not sufficient to pay interest equal to the 12-month EURIBOR rate (or at a EURIBOR rate calculated by linear interpolation in relation to the interest payment to be made on the first Due Date following the issue of the Capital Notes) plus a margin rate of 2.10 % per annum of the Nominal Contribution Amount, the interest payment shall be reduced accordingly. If payment of the amounts due to the Investors is made after the respective Due Date due to the fact that, on the Due Date, the annual accounts of the Bank for the fiscal year relevant to the calculation of the Annual Profit Participation were not yet determined, the Issuer shall pay to the Investors the amount of Delayed Payment Interest effectively received by the Fiduciary as interest on the Capital Notes. A pro rata share of the above amounts payable (rounded down to the next full cent) shall be allocated to each Capital Note. The Issuer shall not be under the obligation to subsequently make up for missed interest payments.

(2) *Adjustment of the Profit Participation Rate.* The Issuer shall exercise each right, in due time and form and in accordance with the Silent Partnership Agreement, to have the Profit Participation Rate used for the calculation of the Profit Participation under the Silent Partnership Agreement (the **“Profit Participation Rate”**) adjusted for its benefit. Pursuant to the Silent Partnership Agreement, the Profit Participation Rate may be adjusted, in particular, in the event the Issuer has to pay Additional Amounts (as defined in Section 8).

(3) *Publication of the Adjustment of the Profit Participation Rate.* The Issuer shall give notice of any adjustments of the Profit Participation Rate by publication in accordance with Section 11.

§ 5 Rückzahlung

(1) *Rückzahlung.* Am Rückzahlungstag der Stillen Beteiligung (wie im Beteiligungsvertrag definiert) wird die Emittentin die zum Einlagenennbetrag erfolgende Rückzahlung der Stillen Beteiligung sowie die darauf eventuell angefallene Gewinnbeteiligung bzw. eventuell aufgelaufene Zinsen auf die Stille Beteiligung, die ihr nach Maßgabe des Beteiligungsvertrags zustehen und die die Treuhänderin für Rechnung der Emittentin jeweils tatsächlich erhalten hat, zur Rückzahlung der Teilschuldverschreibungen bzw. zur Zahlung aufgelaufener Zinsen auf die Teilschuldverschreibungen an die Investoren verwenden. Durch die Zahlung eines Betrags in Höhe der Rückzahlung der Stillen Beteiligung sowie der darauf eventuell angefallenen Gewinnbeteiligung bzw. eventuell aufgelaufener Zinsen auf die Stille Beteiligung an die Investoren gelten das Kapital der Teilschuldverschreibungen als vollständig zurückgezahlt und alle Ansprüche der Investoren als erloschen. Erfolgt die Rückzahlung der Stillen Beteiligung sowie die Zahlung der darauf eventuell angefallenen Gewinnbeteiligung bzw. eventuell aufgelaufener Zinsen an die Emittentin nach dem Rückzahlungstag, weil am Rückzahlungstag der Jahresabschluss der Bank für das zur Ermittlung der Höhe der Rückzahlung maßgebliche Geschäftsjahr noch nicht festgestellt war, werden die vorstehend genannten Beträge nach Maßgabe des Beteiligungsvertrags verzinst. Die Emittentin wird an die Investoren den Betrag aus dieser Verzinsung, den die Treuhänderin tatsächlich erhalten hat, zahlen. Auf die einzelnen Teilschuldverschreibungen entfällt ein jeweils verhältnismäßiger Anteil aller vorstehend genannten zahlbaren Beträge (auf den nächsten vollen Cent abgerundet).

(2) *Bekanntmachung.* Die Emittentin wird die Beendigung der Stillen Beteiligung und den Rückzahlungstag gegenüber den Investoren durch Mitteilung gemäß § 11 mit einer Frist von nicht weniger als 30 und nicht mehr als 60 Tagen bekannt machen.

§ 6 Zahlungen

(1) *Zahlungen auf Kapital und Zinsen.* Zahlungen auf Kapital und Zinsen auf die Teilschuldverschreibungen erfolgen am jeweiligen Fälligkeitstag auf Anweisung der Treuhänderin durch die Bank an die Zahlstelle (§ 12) zur Weiterleitung an das Clearing System oder dessen Order in Euro zur Gutschrift auf den Konten der jeweiligen Kontoinhaber bei dem Clearing System.

(2) *Erfüllung.* Die Emittentin wird durch Leistung der Zahlung an das Clearing System oder dessen Order in Höhe der geleisteten Zahlungen von ihren Zahlungsverpflichtungen aus den Teilschuldverschreibungen befreit.

Section 5 Repayment

(1) *Repayment.* On the Repayment Date of the Capital Contribution (as defined in the Silent Partnership Agreement), the Issuer will use the repayment of the Capital Contribution at the Nominal Contribution Amount, as well as any Profit Participation and/or any interest accrued on the Capital Contribution to which the Issuer may be entitled pursuant to the Silent Partnership Agreement and which have been effectively received by the Fiduciary for the account of the Issuer, for the repayment of the Capital Notes and/or the payment of interest accrued on the Capital Notes to the Investors. Upon payment to the Investors of an amount equal to the amount of repayment of the Capital Contribution as well as any Profit Participation and/or any interest accrued on the Capital Contribution, the principal of the Capital Notes shall be deemed fully repaid and all claims of the Investors shall have expired. If repayment of the Capital Contribution as well as the payment of any Profit Participation and/or any interest accrued on the Capital Contribution is made to the Issuer later than on the Repayment Date due to the fact that, on the Repayment Date, the annual accounts of the Bank for the fiscal year relevant to the calculation of the amount to be repaid had not yet been determined, the above amounts payable shall bear interest in accordance with the provisions under the Silent Partnership Agreement. The Issuer shall pay to the Investors the amount of interest effectively re-ceived by the Fiduciary. A pro rata share of the above amounts payable (rounded down to the next full cent) shall be allocated to each Capital Note.

(2) *Publication.* The Issuer shall give notice to Investors of the termination of the Silent Partnership Agreement and the Repayment Date by publication in accordance with Section 11 not later than 30 and not earlier than 60 days prior to termination.

Section 6 Payments

(1) *Payments of Principal and Interest.* Payments of principal and interest on the Capital Notes shall be made by the Bank to the Paying Agent (Section 12) on the relevant Due Date upon instruction by the Fiduciary; the necessary amounts shall be forwarded to the Clearing System or to its order in Euro for credit to the accounts of the respective account holders at the Clearing System.

(2) *Fulfilment.* Upon effective payment to the Clearing System or to its order, the Issuer shall be released from its payment obligations under the Capital Notes in the amount paid.

(3) *Bezugnahmen auf Kapital und Zinsen.* Bezugnahmen in diesen Emissionsbedingungen auf das Kapital der Teilschuldverschreibung bezeichnen die folgenden Beträge: den Einlagenennbetrag bzw. den gegebenenfalls geringeren Buchwert sowie darauf nach Maßgabe des Beteiligungsvertrags eventuell aufgelaufene Zinsen. Bezugnahmen in diesen Emissionsbedingungen auf Zinsen auf die Teilschuldverschreibung bezeichnen die folgenden Beträge: die der Emittentin nach Maßgabe des Beteiligungsvertrags zustehenden Beträge aus den Jährlichen Gewinnbeteiligungen in der den Investoren nach § 4 (1) zustehenden Höhe und den eventuell entstandenen Verspätungszinsen sowie die der Emittentin nach Maßgabe des Forderungskaufvertrags zustehenden Kaufpreisbeträge.

(4) *Hinterlegung von Kapital und Zinsen.* Die Emittentin ist berechtigt, beim Amtsgericht Frankfurt am Main Zins- oder Kapitalbeträge zu hinterlegen, auf die von einem Investor nicht innerhalb von zwölf Monaten nach dem vorgesehenen Fälligkeitstag Anspruch erhoben worden ist. Soweit die Emittentin auf das Recht zur Rücknahme der hinterlegten Beträge verzichtet hat, erlöschen die jeweiligen Ansprüche der Investoren gegen die Emittentin.

§ 7 Vorzeitige Kündigung und Rückzahlung

(1) *Vorzeitige Kündigung und Rückzahlung.* Die Teilschuldverschreibungen können insgesamt, jedoch nicht teilweise, gegenüber den Investoren durch Mitteilung gemäß § 11 mit einer Frist von nicht weniger als 30 und nicht mehr als 60 Tagen zum 30. April eines jeden Jahres, erstmalig zum 30. April 2014, vorzeitig gekündigt und zum Nennbetrag zuzüglich aufgelaufener Zinsen auf die Teilschuldverschreibungen zurückgezahlt werden.

(2) *Vorzeitige Kündigung und Rückzahlung aus Steuergründen.* Die Teilschuldverschreibungen können ferner insgesamt, jedoch nicht teilweise, gegenüber den Investoren durch Mitteilung gemäß § 11 mit einer Frist von nicht weniger als 30 und nicht mehr als 60 Tagen zum Monatsende vorzeitig gekündigt und zum Nennbetrag zuzüglich aufgelaufener Zinsen auf die Teilschuldverschreibungen zurückgezahlt werden, falls die Emittentin als Folge einer Änderung oder Ergänzung der Steuer- oder Abgabengesetze und -vorschriften der Bundesrepublik Deutschland oder deren politischen Untergliederungen oder Steuerbehörden oder als Folge einer Änderung oder Ergänzung der Anwendung oder der offiziellen Auslegung dieser Gesetze und Vorschriften (vorausgesetzt, diese Änderung oder Ergänzung wird am oder nach dem Tag, an dem diese Teilschuldverschreibungen begeben werden, wirksam) am nächstfolgenden Fälligkeitstag zur Zahlung von zusätzlichen Beträ-

(3) *References to Principal and Interest.* All references in this Terms and Conditions of Issue to the principal of the Capital Notes shall be deemed references to the following amounts: the Nominal Contribution Amount or the Book Value (if less) as well as any interest accrued thereon in accordance with the Silent Partnership Agreement. All references made herein to interest payments on the Capital Notes shall refer to the following amounts: the amounts out of the Annual Profit Participations in the amount payable to the Investors pursuant to Section 4 (1) and any Delayed Payment Interest due to the Issuer under the Silent Partnership Agreement and the Amounts of the Purchase Price due to the Issuer pursuant to the Receivables Purchase Agreement.

(4) *Deposit of Principal and Interest.* The Issuer may deposit with the Local Court *(Amtsgericht)* Frankfurt am Main amounts of principal or interest not claimed by the Investors within twelve months from the deter-mined Due Date. If and to the extent the Issuer has waived its right to reclaim the deposited amounts, the respective claims of the Investors shall expire.

Section 7 Early Termination and Repayment

(1) *Early Termination and Repayment.* The Issuer may terminate the Capital Notes, in whole and not in part, with effect on 30 April of each year (however, no earlier than with effect on 30 April 2014) and redeem the Capital Notes at their Nominal Amount plus any interest accrued, by giving no less than 30 and no more than 60 days' notice pursuant to Section 11.

(2) *Early Termination and Repayment for Tax Reasons.* In addition, the Issuer may terminate the Capital Notes, in whole and not in part, with effect at the end of each month and redeem the Capital Notes at their Nominal Amount plus any interest accrued, by giving no less than 30 and no more than 60 days' notice pursuant to Section 11, in the event that, on the next Due Date, the Issuer will be liable to payment of Additional Amounts (as defined in Section 8) due to a change in or an amendment to tax law or other tax-related laws and regulations of the Federal Republic of Germany or its political subdivisions or tax authorities, or as a result of a change in or an amendment to the application or official interpretation of such laws and regulations (provided such change or amendment becomes effective on or after the issue day of the Capital Notes), and provided that such liability cannot be avoided by the Issuer by taking reasonable measures available to it.

gen (wie in § 8 definiert) verpflichtet sein wird und diese Verpflichtung nicht durch das Ergreifen vernünftiger, der Emittentin zur Verfügung stehender Maßnahmen vermieden werden kann.

(3) *Zulässigkeit der vorzeitigen Kündigung.* Die vorzeitige Kündigung gemäß § 7(1) oder (2) durch die Emittentin ist nur zulässig, sofern die Finanzierung der Rückzahlung der Teilschuldverschreibungen zum Nennbetrag zuzüglich der aufgelaufenen Zinsen auf die Teilschuldverschreibungen durch Ausgabe vergleichbarer Schuldverschreibungen oder auf andere Weise gesichert ist.

(4) *Kündigungserklärung.* Im Falle des § 7(2) darf eine Kündigung (i) nicht früher als 90 Tage vor dem frühestmöglichen Termin erfolgen, an dem die Emittentin verpflichtet wäre, zusätzliche Beträge im Sinne des § 8 zu zahlen, falls eine Zahlung auf die Teilschuldverschreibungen dann fällig sein würde, oder (ii) nicht mehr erfolgen, wenn zu dem Zeitpunkt, zu dem die Kündigung erfolgt, die Verpflichtung zur Zahlung von zusätzlichen Beträgen nicht mehr wirksam ist. Die Kündigung ist unwiderruflich und muss eine zusammenfassende Erklärung enthalten, welche die das Rückzahlungsrecht der Emittentin begründenden Umstände darlegt. Die vorzeitige Kündigung wird unwirksam, wenn am bekanntgemachten Rückzahlungstag der Nennbetrag der Teilschuldverschreibungen zuzüglich der aufgelaufenen Zinsen auf die Teilschuldverschreibungen nicht vollständig zurückgezahlt wird.

(5) *Zinszahlung.* Für den Anspruch auf Zinsen auf die Teilschuldverschreibungen gilt § 4 mit der Maßgabe, dass den Investoren Zinsen nur bis zu dem Zeitpunkt zustehen, zu dem die Teilschuldverschreibungen wirksam gekündigt werden.

§ 8 Steuern

Sämtliche auf die Teilschuldverschreibungen zu zahlenden Beträge sind ohne Einbehalt oder Abzug von oder aufgrund von gegenwärtigen oder zukünftigen Steuern oder sonstigen Abgaben gleich welcher Art zu leisten, die von oder in der Bundesrepublik Deutschland oder für deren Rechnung oder von oder für Rechnung einer politischen Untergliederung oder Steuerbehörde der oder in der Bundesrepublik Deutschland auferlegt oder erhoben werden, es sei denn, ein solcher Einbehalt oder Abzug ist gesetzlich vorgeschrieben. In diesem Fall wird die Emittentin diejenigen zusätzlichen Beträge (die „zusätzlichen Beträge“) zahlen, die erforderlich sind, damit die den Investoren zufließenden Nettobeträge nach einem solchen Einbehalt oder Abzug jeweils den Beträgen von Kapital und Zinsen auf die Teilschuldverschreibungen entsprechen, die ohne einen solchen Einbehalt oder Abzug von den Investoren empfangen worden wären; die Verpflichtung zur Zahlung solcher zusätzlichen Beträge besteht jedoch nicht für solche Steuern und Abgaben, die:

(3) *Permissibility of Early Termination.* The Issuer may terminate the Capital Notes pursuant to Section 7(1) or (2) only if it has secured financing of the redemption of the Capital Notes at their Nominal Amount plus any interest accrued by the issue of similar debt securities or in any other way.

(4) *Termination Notice.* In case of Section 7(2), termination (i) may not be effected earlier than 90 days prior to the earliest possible date on which the Issuer would be liable to the payment of Additional Amounts within the meaning of Section 8 if a payment on the Capital Notes were then due, and (ii) may no longer be effected if, at the time of termination, the obligation to pay Additional Amounts is no longer effective. Notice of termination is irrevocable and must include a summary statement describing the circum-stances causing the right of the Issuer to redeem the Capital Notes. Any early termination becomes void if, on the announced Repayment Date, the Nominal Amount of the Capital Notes, plus any interest accrued, is not repaid in full.

(5) *Interest Payment.* Section 4 shall apply to any claims for payment of interest on the Capital Notes provided that interest shall accrue to the Investors only for the period until the Capital Notes are effectively terminated.

Section 8 Taxation

Any payments to be made in respect of the Capital Notes shall be made without withholding or deducting on account of any present or future taxes or other duties of whatever nature, levied or imposed by or in or for the account of the Federal Republic of Germany, or by or for the account of any political subdivisions or tax authority of or in the Federal Republic of Germany, unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts (the **“Additional Amounts”**) as are necessary in order that the net amounts received by the Investors after such deduction or withholding shall equal the respective amounts which they would have received as payment of principal and interest on the Capital Notes if no such withholding or deduction had been required, except that no Additional Amounts will be payable in respect of any Capital Notes on account of any taxes or duties which:

(a) von einer als Depotbank oder Inkassobeauftragter des Investors handelnden Person zu entrichten sind oder die auf sonstige andere Weise als durch einen Einbehalt oder Abzug der Emittentin auf die von ihr zu leistenden Zahlungen auf die Teilschuldverschreibungen zu entrichten sind; oder

(b) wegen einer gegenwärtigen oder früheren persönlichen oder geschäftlichen Beziehung des Investors zur Bundesrepublik Deutschland zu zahlen sind, und nicht allein deshalb, weil Zahlungen auf die Teilschuldverschreibungen aus Quellen in der Bundesrepublik Deutschland stammen (oder für Zwecke der Besteuerung so behandelt werden) oder dort besichert sind; oder

(c) aufgrund (i) einer Richtlinie oder Verordnung der Europäischen Union betreffend die Besteuerung von Zinserträgen oder (ii) einer zwischenstaatlichen Vereinbarung über deren Besteuerung, an der die Bundesrepublik Deutschland oder die Europäische Union beteiligt ist, oder (iii) einer gesetzlichen Vorschrift, die diese Richtlinie, Verordnung oder Vereinbarung umsetzt oder befolgt, einzubehalten oder abzuziehen sind; oder

(d) wegen einer Rechtsänderung zu zahlen sind, welche später als 30 Tage nach Fälligkeit der betreffenden Zahlung wirksam wird und die Zahlstelle die notwendigen Geldmittel erhalten hat.

(a) are payable by a person acting as custodian or collection agent on behalf of the Investor, or are payable otherwise than by the Issuer's withholding or deducting such amounts from its payments on the Capital Notes; or the Capitel Notes; or

(b) are payable by reason of the Investor's having, or having had, a personal or business relationship with the Federal Republic of Germany, and not only due to the fact that the payments on the Capital Notes originate from sources within the Federal Republic of Germany (or are treated as such for tax purposes) or are secured in the Federal Republic of Germany; or

(c) are withheld or deducted pursuant to (i) a Directive or Regulation of the European Union relating to the taxation of interest income, or (ii) an international agreement on the taxation of such income to which the Federal Republic of Germany or the European Union is a party, or (iii) a legal provision implementing or complying with such Directive, Regulation or agreement; or

(d) are payable by reason of a change in legislation that becomes effective more than 30 days after the relevant payment becomes due and the necessary funds have been received by the Paying Agent.

§ 9 Kündigung

(1) *Kündigungsgründe.* Jeder Investor ist berechtigt, seine Teilschuldverschreibungen zu kündigen und deren Rückzahlung zum Nennbetrag zuzüglich aufgelaufener Zinsen auf seine Teilschuldverschreibungen zu verlangen, falls:

(a) Kapital oder Zinsen, die nach §§ 4 und 5 an die Investoren weiterzuleiten sind, nicht innerhalb von 30 Tagen nach dem betreffenden Fälligkeitstag gemäß § 6(1) weitergeleitet wurden; oder

(b) die Emittentin die ordnungsgemäße Erfüllung irgendeiner anderen Verpflichtung aus den Teilschuldverschreibungen unterlässt und diese Unterlassung länger als 60 Tage fortdauert, nachdem die Emittentin hierüber eine Benachrichtigung von einem Investor erhalten hat; oder

(c) die Emittentin aufgelöst oder liquidiert wird, unabhängig davon, ob dies aufgrund eines Beschlusses ihrer Gesellschafter oder auf sonstige Weise erfolgt, es sei denn, die Auf-

Section 9 Termination

(1) *Events.* Each Investor may terminate his/her Capital Note and request repayment thereof at its nominal amount plus any accrued interest on his/her Capital Note in the event that:

(a) the amounts of principal and interest to be paid to the Investors pursuant to Sections 4 and 5 are not paid in accordance with Section 6(1) within 30 days following the relevant Due Date; or

(b) the Issuer fails to duly comply with any other of its obligations under the Capital Notes and such failure continues for a period of more than 60 days following receipt of a respective notice by an Investor; or

(c) the Issuer is liquidated or dissolved, whether upon a shareholders' resolution or otherwise, unless the dissolution or liquidation is effected in connection with a merger or any other

lösung oder Liquidation erfolgt im Zusammenhang mit einer Verschmelzung oder einer anderen Form des Zusammenschlusses, die zum Ergebnis hat, dass alle Vermögenswerte und Verbindlichkeiten auf die verbleibende Gesellschaft im Wege der Universalsukzession übergehen; oder

form of consolidation as a result of which all assets and liabilities are transferred to the surviving company by universal succession; or

(d) die Emittentin ihre Zahlungen einstellt und dies länger als 60 Tage fortdauert oder ihre Zahlungsunfähigkeit bekanntgibt; oder

(d) the Issuer generally ceases to make payments for a period of more than 60 days, or announces insolvency; or

(e) ein Insolvenzverfahren gegen die Emittentin eröffnet wird, sofern dieses Verfahren nicht binnen 60 Tagen nach der Eröffnung endgültig oder vorläufig eingestellt wird, oder die Emittentin einen Antrag auf Eröffnung eines solchen Verfahrens stellt oder eine Umstrukturierung ihrer Verbindlichkeiten anbietet oder durchführt.

(e) insolvency proceedings are initiated against the Issuer and are not temporarily or permanently dismissed within sixty days from initiation, or the Issuer files an insolvency petition or offers or implements a restructuring in respect of its liabilities.

Das Recht zur Kündigung der Teilschuldverschreibungen erlischt, falls der Kündigungsgrund vor Ausübung des Rechts geheilt wurde.

The right to terminate the Capital Notes ceases if the cause for the termination is remedied prior to exercise of the right.

(2) *Benachrichtigung.* Eine Benachrichtigung, einschließlich einer Kündigung der Teilschuldverschreibungen gemäß § 9(1), ist schriftlich in deutscher Sprache gegenüber der Emittentin zu erklären und persönlich oder per Einschreiben zu übermitteln. Der Benachrichtigung ist ein Nachweis beizufügen, aus dem sich ergibt, dass der betreffende Investor zum Zeitpunkt der Abgabe der Benachrichtigung Inhaber der Teilschuldverschreibungen ist. Der Nachweis kann durch eine Bescheinigung der Depotbank (§ 13(4)) oder auf andere geeignete Weise erbracht werden.

(2) *Notification.* Any notice, including a notice of termination of the Capital Notes pursuant to Section 9(1), shall be made in writing in the German language to the Issuer and shall be submitted personally or via registered mail. The notice must include evidence of the ownership by the Investor of his/her Capital Note at the time of submission. The required evidence may be in the form of a confirmation issued by the Custodian (Section 13(4)) or in any other appropriate form.

(3) *Wirksamkeit.* In den Fällen des § 9(1)(b) wird eine Benachrichtigung, durch welche die Teilschuldverschreibungen gekündigt werden, erst wirksam, wenn bei der Emittentin Kündigungserklärungen von Investoren eingegangen sind, die insgesamt ein Zehntel des Gesamtnennbetrags der zu diesem Zeitpunkt ausstehenden Teilschuldverschreibungen darstellen, sofern nicht bei deren Eingang zugleich einer der in § 9(1)(a), (c), (d) oder (e) bezeichneten Fälle, der die Investoren zur Kündigung ihrer Teilschuldverschreibungen berechtigt, vorliegt und fortdauert.

(3) *Effectiveness.* In the event specified in Section 9(1)(b), a notice terminating the Capital Notes shall become effective only upon receipt of notices of termination of an aggregate number of Investors representing one tenth of the aggregate nominal amount of the Capital Notes then outstanding, provided that, at the time of receipt of such notices, neither of the events specified in Section 9(1)(a), (c), (d) or (e), which entitles the Investors to terminate the Capital Notes, has occurred and is continuing.

(4) *Zinszahlung.* Für den Anspruch auf Zinsen auf die Teilschuldverschreibungen gilt § 4 mit der Maßgabe, dass den Investoren Zinsen nur bis zu dem Zeitpunkt zustehen, zu dem die Teilschuldverschreibungen wirksam gekündigt werden.

(4) *Interest Payments.* With respect to the entitlement to interest payments on the Capital Notes, Section 4 shall apply provided that the Investors shall only be entitled to interest until the date the Capital Notes are validly terminated.

§ 10 Ersetzung

(1) *Ersetzung.* Die Emittentin ist jederzeit berechtigt, sofern sie sich nicht mit einer Zahlung auf Kapital oder Zinsen auf die Teilschuldverschreibung in Verzug befindet, ohne Zustimmung der Investoren eine andere Gesellschaft an ihrer Stelle als Hauptschuldnerin und Hauptgläubigerin (die „Nachfolgerin") für alle Verpflichtungen und Rechte aus und im Zusammenhang mit den Teilschuldverschreibungen, dem Beteiligungsvertrag, dem Forderungskaufvertrag und dem Treuhandvertrag sowie sonstigen, mit diesen Verträgen zusammenhängenden Verträge einzusetzen, vorausgesetzt, dass:

(a) die Nachfolgerin alle Rechte und Verpflichtungen der Emittentin in Bezug auf die Teilschuldverschreibungen übernimmt;

(b) die Emittentin und die Nachfolgerin alle erforderlichen Genehmigungen erlangt haben und berechtigt sind, die zur Erfüllung der Zahlungsverpflichtungen aus den Teilschuldverschreibungen zahlbaren Beträge in Euro zu zahlen, ohne verpflichtet zu sein, jeweils in dem Land, in dem die Nachfolgerin oder die Emittentin ihren Sitz oder Steuersitz haben, erhobene Steuern oder andere Abgaben jeder Art abzuziehen oder einzubehalten;

(c) die Nachfolgerin sich verpflichtet hat, die Investoren hinsichtlich solcher Steuern, Abgaben oder behördlichen Lasten freizustellen, die den Investoren bezüglich der Ersetzung auferlegt werden;

(d) die Treuhänderin der Ersetzung vorher schriftlich zugestimmt hat;

(e) die Ersetzung nicht zu einer erhöhten Belastung der Nachfolgerin mit Kapitalertrag- oder sonstiger Abzugssteuer, etwaiger Vermögensteuer oder der Gewerbeertrag- oder sonstiger Ertragsteuer führt.

(2) *Bekanntmachung.* Jede Ersetzung ist unverzüglich gegenüber den Investoren gemäß § 11 bekannt zu machen.

(3) *Änderung von Bezugnahmen.* Im Fall einer Ersetzung gilt jede Bezugnahme in diesen Bedingungen auf die Emittentin ab dem Zeitpunkt der Ersetzung als Bezugnahme auf die Nachfolgerin und jede Bezugnahme auf das Land, in dem die Emittentin ihren Sitz oder Steuersitz hat, gilt ab diesem Zeitpunkt als Bezugnahme auf das Land, in dem die Nachfolgerin ihren Sitz oder Steuersitz hat. Im Fall einer Ersetzung gilt eine alternative Bezugnahme in § 8 und in § 7(2) auf die Bundesrepublik Deutschland als aufgenommen (zusätzlich

Section 10 Substitution

(1) *Substitution.* The Issuer may, at any time and without the consent of the Investors, substitute another company for the Issuer as principal debtor and creditor (the **"Successor"**) in respect of all obligations and rights under and in connection with the Capital Notes, the Silent Partnership Agreement, the Receivables Purchase Agreement and the Fiduciary Agreement as well as any other Agreements related thereto, provided the Issuer is not in default of payment of principal and interest on the Capital Notes, and further provided that:

(a) the Successor assumes all rights and obligations of the Issuer under the Capital Notes;

(b) the Issuer and the Successor have obtained all necessary permits and are authorised to comply with the payment obligations under the Capital Notes by paying the amounts due in Euro without being obliged to withhold or deduct applicable tax or other duties of any kind in the respective country in which the Successor or the Issuer is domiciled or resident for tax purposes;

(c) the Successor has agreed to indemnify the Investors against such taxes, duties or other governmental charges as may be imposed on the Investors in connection with the substitution;

(d) the Fiduciary has given its prior written consent to the substitution;

(e) the Substitution does not result in an increase in investment income or any other withholding tax, in property tax, if applicable, trade income or any other income tax payable by the Successor.

(2) *Announcement.* Notice of substitution shall be given to Investors promptly in accordance with Section 11 hereof.

(3) *Change in Reference.* Upon substitution, all references in this Terms and Conditions of Issue to the Issuer shall be deemed references to the Successor, and any references to the country of domicile or tax residence of the Issuer shall be deemed references to the country of domicile or tax residence of the Successor, in each case with effect from the substitution date. Upon substitution, an alternative reference to the Federal Republic of Germany shall be deemed included in Sections 8 and 7(2) (in addition to the reference to the country

zu der Bezugnahme nach Maßgabe des vorstehenden Satzes auf das Land, in dem die Nachfolgerin ihren Sitz oder Steuersitz hat).

§ 11 Mitteilungen

(1) *Veröffentlichungen.* Alle die Teilschuldverschreibung betreffenden Mitteilungen werden in einem überregional erscheinenden Pflichtblatt der Frankfurter Wertpapierbörse, voraussichtlich der *Börsen-Zeitung*, veröffentlicht. Jede derartige Mitteilung gilt mit dem Tag der Veröffentlichung (oder bei mehreren Veröffentlichungen mit dem Tag der ersten solchen Veröffentlichung) als wirksam erfolgt.

(2) *Mitteilungen an das Clearing System.* Die Emittentin ist berechtigt, eine Zeitungsveröffentlichung nach § 11(1) durch eine Mitteilung an das Clearing System zur Weiterleitung an die Investoren zu ersetzen, vorausgesetzt, dass in Fällen, in denen die Teilschuldverschreibungen an einer Börse notiert sind, die Regeln dieser Börse diese Form der Mitteilung zulassen. Jede derartige Mitteilung gilt am siebten Tag nach dem Tag der Mitteilung an das Clearing System als den Investoren mitgeteilt.

(3) *Bekanntmachungen.* Die Emittentin wird einen vom Einlagenennbetrag abweichenden Buchwert und dessen jeweilige Veränderung jeweils unverzüglich gemäß diesem § 11 bekanntmachen, sobald sie davon Kenntnis erlangt. Die Emittentin wird alle ihr unter dem Beteiligungsvertrag zustehenden Rechte zur Erlangung einer solchen Kenntnis form- und fristgerecht ausüben. Die Emittentin wird Finanzinformationen der Bank, die sie im Zusammenhang mit der Stillen Beteiligung erhält, unverzüglich an die Zahlstelle (§ 12) weiterleiten, in deren Geschäftsstellen diese Finanzunterlagen zur Einsichtnahme ausgelegt werden.

§ 12 Zahlstelle

(1) *Zahlstelle.* Die Deutsche Bank Aktiengesellschaft, Frankfurt am Main, handelt als anfänglich bestellte Zahlstelle.

(2) *Änderung der Bestellung oder Abberufung.* Die Emittentin behält sich das Recht vor, jederzeit die Bestellung der Zahlstelle zu ändern oder zu beenden und eine andere Zahlstelle zu bestellen. Die Emittentin wird zu jedem Zeitpunkt eine Zahlstelle unterhalten. Eine Änderung, Abberufung, Bestellung oder ein sonstiger Wechsel wird nur wirksam (außer im Insolvenzfall, in dem eine solche Änderung sofort wirksam wird), sofern die Investoren hierüber gemäß § 11 vorab unter Einhaltung einer Frist von mindestens 30 und nicht mehr als 45 Tagen informiert wurden.

of domicile or tax residence of the Successor pursuant to the foregoing sentence).

Section 11 Notices

(1) *Notices.* All notices relating to the Capital Notes shall be published in a newspaper with national distri-bution designated by the Frankfurt Stock Exchange, expected to be the *Börsen-Zeitung.* Any such notice shall be deemed duly effected on the day of publication (or, in case of more than one publication, on the day of the first publication).

(2) *Notices to the Clearing System.* The Issuer may, in lieu of a publication pursuant to Section 11(1), send a notice to the Clearing System to be forwarded to the Investors, provided that in cases where the Capital Notes are listed on a stock exchange this procedure of notification does not conflict with the regulations of such stock exchange. Any such notice to the Investors shall be deemed duly effected on the seventh day following the day of notice to the Clearing System.

(3) *Announcements.* The Issuer shall publish, without delay, in accordance with this Section 11, any deviations of the Book Value from the Nominal Contribution Amount as well as any fluctuations of the Book Value, as soon as the Issuer has received notice of such deviation and/or fluctuations. The Issuer shall exercise all rights under the Silent Partnership Agreement in order to obtain such information in due time and form. The Issuer shall promptly deliver to the Paying Agent (Section 12) any financial information relating to the Capital Contribution provided to it by the Bank; such financial documents to be made available for inspection at the offices of the Paying Agent.

Section 12 Paying Agent

(1) *Paying Agent.* Deutsche Bank Aktiengesellschaft, Frankfurt am Main shall act as initial Paying Agent.

(2) *Change or Termination of the Appointment.* The Issuer reserves the right to change or terminate the appointment of the Paying Agent and to appoint another Paying Agent. The Issuer shall have a Paying Agent at any time. Any modification, termination, appointment or other change shall only become effective (except in case of insolvency where such change enters into effect immediately) provided that the Investors have been given no less than 30 and no more than 45 days' prior notice thereof by publication in accordance with Section 11.

(3) *Beauftragte der Emittentin.* Die Zahlstelle handelt ausschließlich als Beauftragte der Emittentin und übernimmt keinerlei Verpflichtungen gegenüber den Investoren und es wird kein Auftrags- oder Treuhandverhältnis zwischen ihr und den Investoren begründet.

§ 13 Verschiedenes

(1) *Anwendbares Recht.* Form und Inhalt der Teilschuldverschreibungen sowie die Rechte und Pflichten der Investoren und der Emittentin bestimmen sich in jeder Hinsicht nach deutschem Recht.

(2) *Gerichtsstand.* Ausschließlicher Gerichtsstand für alle Rechtsstreitigkeiten aus den in diesen Emissionsbedingungen geregelten Angelegenheiten ist, soweit gesetzlich zulässig, Frankfurt am Main.

(3) *Erfüllungsort.* Erfüllungsort ist Frankfurt am Main.

(4) *Gerichtliche Geltendmachung.* Jeder Investor kann in Rechtsstreitigkeiten gegen die Emittentin oder in Rechtsstreitigkeiten, an denen ein Investor oder die Emittentin beteiligt ist, im eigenen Namen seine Rechte aus den von ihm gehaltenen Teilschuldverschreibungen geltend machen und durchsetzen auf der Grundlage (a) einer Bescheinigung seiner Depotbank (wie nachstehend definiert), die (i) den vollen Namen und die volle Anschrift des Investors enthält, (ii) den Gesamtnennbetrag der Teilschuldverschreibungen, die am Ausstellungstag dieser Bescheinigung dem bei dieser Depotbank unterhaltenen Depot des Investors gutgeschrieben sind, angibt, und (iii) bestätigt, dass die Depotbank dem Clearing System und der Zahlstelle (§ 12) eine schriftliche Mitteilung gemacht hat, welche die Angaben gemäß (i) und (ii) enthält und Bestätigungsvermerke des Clearing Systems und des betreffenden Kontoinhabers trägt, und (b) einer Kopie der Globalurkunde, deren Übereinstimmung mit dem Original der Globalurkunde von einem Vertretungsberechtigten des Clearing Systems bestätigt wird. Im Sinne der vorstehenden Bestimmungen bedeutet „Depotbank“ eine Bank oder ein anderes Finanzinstitut mit einer Genehmigung für das Wertpapier-Depotgeschäft, bei dem der Investor ein Wertpapierdepot unterhält, auf dem Teilschuldverschreibungen verbucht sind; dieser Begriff schließt das Clearing System, Clearstream Banking S.A., Luxemburg, und Euroclear Bank S.A./N.V., Brüssel, ein.

(5) *Teilunwirksamkeit.* Sollte eine der Bestimmungen dieser Emissionsbedingungen ganz oder teilweise unwirksam oder undurchführbar sein oder werden, so bleibt die Wirksamkeit oder Durchführbarkeit der übrigen Bestimmungen hiervon unbe-

(3) *Agents of the Issuer.* The Paying Agent shall act exclusively as agent of the Issuer and shall not have any obligations to the Investors. There will be no agency or fiduciary relationship between the Paying Agent and the Investors.

Section 13 Miscellaneous

(1) *Applicable Law.* Form and content of the Capital Notes as well as the rights and duties of the Investors and the Issuer shall in all respects be governed by German law.

(2) *Place of Jurisdiction.* Exclusive place of jurisdiction for all disputes arising in connection with these Terms and Conditions of Issue shall be, to the extent legally permissible, Frankfurt am Main, Federal Republic of Germany.

(3) *Place of Performance.* Place of performance shall be Frankfurt am Main, Federal Republic of Germany.

(4) *Legal enforcement.* Each Investor may, in any legal dispute with the Issuer or in any legal dispute to which an Investor or the Issuer is a party, in his/her own name assert and enforce his/her rights under the Capital Notes held by such Investor on the basis of (a) a confirmation of his/her Custodian (as defined below) which (i) includes the full name and address of the Investor, (ii) states the aggregate nominal amount of the Capital Notes held in the Investor's securities account with such Custodian as per the date of the confirmation, and (iii) confirms that the Custodian has given written notice to the Clearing System and the Paying Agent (Section 12) including the information pursuant to (i) and (ii) above and written confirmation notes of the Clearing System and the respective account holder, and on the basis of (b) a copy of the Global Certificate, the conformity of which with the original Global Certificate is confirmed by an authorised representative of the Clearing System. For the purpose of the aforementioned provisions, the term **“Custodian”** shall refer to a bank or any other financial institution licensed to engage in the business of securities custody, with which the Investor keeps a securities account in which Capital Notes are held; the term shall include the Clearing System, Clearstream Banking S.A., Luxembourg, and Euroclear Bank S.A./N.V., Brussels.

(5) *Severability.* Should any of the provisions hereof be or become ineffective or impracticable in whole or in part, this shall not affect effectiveness or practicability of the remaining provisions. In this case, the ineffective provision shall be replaced

rührt. In diesem Fall soll anstelle der unwirksamen Bestimmung, soweit rechtlich möglich, eine dem Sinn und wirtschaftlichen Zweck dieser Emissionsbedingungen zum Zeitpunkt der Begebung der Teilschuldverschreibungen entsprechende Bestimmung treten. Sollten diese Emissionsbedingungen eine Lücke enthalten, ist eine ergänzende Auslegung, die dem Sinn und Zweck dieser Emissionsbedingungen entspricht, unter angemessener Berücksichtigung der berechtigten Interessen der beteiligten Parteien vorzunehmen.

by a provision which comes as close as legally permissible to the economic purpose of these Terms and Conditions of Issue at the time of issue of the Capital Notes. In the event these Terms and Conditions of Issue lack any provision, they shall be interpreted in accordance with their purpose taking reasonably into account the legitimate interests of the parties involved.

(6) *Sprache.* Allein der deutsche Wortlaut dieser Emissionsbedingungen ist rechtsverbindlich. Übersetzungen in die englische Sprache dienen lediglich der Information.

(6) *Language.* Only the German version of these Terms and Conditions of Issue shall be legally binding. Any translations into English, including this translation, is for convenience only.

Silent Partnership Agreement

The German text of the Silent Partnership Agreement is legally binding. The English translation is for convenience only.

The provisions of the following agreement will be attached to, and shall be deemed to constitute one document together with, the Terms and Conditions of Issue and the Global Certificate, respectively.

Die Bestimmungen des folgenden Vertrags werden den Emissionsbedingungen sowie der Globalurkunde als Anlage beigefügt und bilden mit dieser jeweils eine Einheit.

Silent Partnership Agreement ("Silent Partnership") (Partial Profit Transfer Agreement *(Teilgewinnabführungsvertrag)* within the meaning of § 292 (1) No. 2 German Stock Corporation Act *(AktG)*) entered into between **Real Fünfte Grundstücksgesellschaft mbH**[1] (the **"Silent Partner"**) and **Aareal Bank AG** (the **"Bank"**).

Präambel:

Die Parteien dieses Vertrages beabsichtigen den Abschluss eines Stillen Gesellschaftsvertrages, mit dem sich der Stille Gesellschafter am Handelsgewerbe der Bank durch Leistung einer Stillen Einlage beteiligt. Die Stille Einlage soll bei der Bank auf Dauer als haftendes Eigenkapital (Kernkapital) im Sinne des deutschen Kreditwesengesetzes (KWG) und der Eigenmittelempfehlungen des Basler Ausschusses für Bankenaufsicht dienen. Der Stille Gesellschafter wird die Stille Einlage durch die Emission von Teilschuldverschreibungen (die **„Teilschuldverschreibungen"**), die beim Anlegerpublikum breit platziert werden sollen, refinanzieren.

Die Parteien haben sich sowohl über die Höhe der Stillen Einlage als auch über die von dem Stillen Gesellschafter zu beanspruchende Gewinnbeteiligung innerhalb nachfolgend definierter Ober- bzw. Untergrenzen verständigt. Die endgültigen Beträge sind jedoch von den Kapitalmarktverhältnissen im Zeitpunkt der Platzierung der Teilschuldverschreibungen abhängig und werden von den Parteien gemeinsam vor Leistung der Stillen Einlage festgelegt.

[1] Firma nach Umfirmierung: Capital Funding GmbH

Recitals:

It is the intention of the parties hereto to conclude an agreement on a silent partnership under which the Silent Partner participates in the commercial enterprise *(Handelsgewerbe)* of the Bank by making a capital contribution *(Stille Einlage)*. The capital contribution is to serve the Bank permanently as regulatory capital (Tier 1 Capital – *(Kernkapital)*) within the meaning of the German Banking Act (**"KWG"**) and the capital adequacy recommendations established by the Basle Committee for Banking Supervision. The Silent Partner will refinance the capital contribution by issuing capital notes (the **"Capital Notes"**) which will be broadly placed with investors.

The parties have agreed both on the amount of the capital contribution and the profit participation payable to the Silent Partner within the upper and lower limits hereinafter defined. The definite amounts, however, depend on the condition of the capital markets at the time the Capital Notes are placed and will be deter-mined jointly by the parties prior to making the capital contribution.

[1] After name change: Capital Funding GmbH

Dies vorausgeschickt, schließen die Parteien nachfolgenden

Vertrag über eine Stille Beteiligung:

§ 1 Vertragsgegenstand

1. Der Stille Gesellschafter ist berechtigt, sich am Handelsgewerbe der Bank als typischer Stiller Gesellschafter mit einer Vermögenseinlage (die **„Stille Einlage“**) in Höhe von mindestens € 100.000.000 (Euro einhundert Millionen) und höchstens € 250.000.000 (Euro zweihundertfünfzig Millionen) zu beteiligen. Die Stille Beteiligung beginnt mit Leistung der Stillen Einlage (das **„Anfangsdatum“**). Der **„Einlagenennbetrag“** bezeichnet die Stille Einlage in der tatsächlich geleisteten Höhe. Die Feststellung des Einlagenennbetrags bedarf der schriftlichen Genehmigung der Vertragsparteien. Die schriftliche Genehmigung ist diesem Beteiligungsvertrag als Anlage beizufügen und wird der Anmeldung dieses Beteiligungsvertrags als Teilgewinnabführungsvertrag zur Eintragung in das Handelsregister der Bank beigefügt.

2. Die Stille Einlage wird in bar erbracht. Die Stille Einlage geht in das Vermögen der Bank über. Sie soll bei der Bank auf Dauer als haftendes Eigenkapital (Kernkapital) im Sinne des KWG und der Eigenmittelempfehlungen des Basler Ausschusses für Bankenaufsicht dienen.

3. Die Bank wird dem Stillen Gesellschafter fernmündlich mit anschließender schriftlicher Bestätigung die Eintragung dieses Beteiligungsvertrags als Teilgewinnabführungsvertrag in das Handelsregister der Bank mitteilen. Sie wird die vorstehende Mitteilung unverzüglich nach Erhalt der Eintragungsnachricht des Handelsregisters vornehmen.

§ 2 Gewinnbeteiligung

1. Als Gegenleistung für die Stille Einlage stehen dem Stillen Gesellschafter vom Anfangsdatum bis zu dem Tag (einschließlich), an dem die Beteiligung des Stillen Gesellschafters am Handelsgewerbe der Bank endet bzw. nach § 6(5) Satz 2 als beendet gilt (der **„Beendigungstag“**), Gewinnbeteiligungen zu, die nach Maßgabe des § 2(2) bzw. des § 2(3) berechnet werden. **„Gewinnzeitraum“** bezeichnet den Zeitraum, für den eine Gewinnbeteiligung ermittelt wird. Der erste Gewinnzeitraum beginnt am Anfangsdatum

Now therefor, the parties enter into the following

Agreement on a Silent Partnership.

Section 1 Subject of the Agreement

1. The Silent Partner shall be entitled to participate in the commercial enterprise *(Handelsgewerbe)* of the Bank as an ordinary silent partner with an asset contribution (the **“Capital Contribution”**) in the amount of no less than € 100,000,000 (one hundred million Euro) and no more than € 250,000,000 (two hundred and fifty million Euro). The Silent Partnership commences as from the date payment of the Capital Contribution is made (the **“Start Date”**). **“Nominal Contribution Amount”** means the Capital Contribution in the amount actually paid. The determination of the Nominal Contribution Amount shall require the written approval of the parties hereto. Such written approval is to be annexed to this Silent Partnership Agreement and will be attached to the application for the entry of this Silent Partnership Agreement as Partial Profit Transfer Agreement into the Commercial Register of the Bank.

2. The Capital Contribution will be made in cash. The Capital Contribution becomes the property of the Bank. It is to serve the Bank permanently as regulatory capital (Tier 1 Capital *(Kernkapital)*) within the meaning of the KWG (Banking Act) and the capital adequacy recommendations established by the Basle Committee for Banking Supervision.

3. The Bank will notify the Silent Partner by telephone – followed by a written confirmation – of the entry of this Silent Partnership Agreement as Partial Profit Transfer Agreement into the Commercial Register. The Bank will make such notification immediately after receipt of the entry notice given by the Commercial Register of the Bank.

Section 2 Profit Participation

1. In consideration for the Capital Contribution, the Silent Partner shall be entitled to profit participations calculated in compliance with Section 2(2) or Section 2(3) hereof from the Start Date up to (and including) the date the participation of the Silent Partner in the commercial enterprise of the Bank terminates or is deemed terminated pursuant to Section 6(5) sentence 2 hereof (the **“Termination Date”**). **“Profit Period”** means the period for which a profit participation is determined. The first Profit Period commences on (and

und dauert bis zum 31. Dezember 2002 (jeweils einschließlich) (der **„Erste Gewinnzeitraum“**). Danach dauert ein Gewinnzeitraum jeweils vom 1. Januar bis zum 31. Dezember eines Jahres (jeweils einschließlich) (dieser Zeitraum wird als das **„Geschäftsjahr“** bezeichnet), sofern er nicht infolge wirksamer Beendigung dieses Beteiligungsvertrags vorher endet.

2. Vorbehaltlich § 3 und nachfolgend Abs. 3 ist für einen Gewinnzeitraum eine Vergütung in Höhe eines variablen annualisierten Prozentsatzes des Einlagenennbetrags zu zahlen (die **„Gewinnbeteiligung“**). Die Gewinnbeteiligung ist in Form einer jährlichen Ausschüttung zu einem Zinssatz in Höhe des Angewandten EURIBOR-Satzes (wie nachfolgend definiert) zuzüglich einer Marge, bezogen auf den Einlagenennbetrag, zu zahlen. Die Marge wird durch die mit der Emission der Teilschuldverschreibungen beauftragte Bank nach den im Zeitpunkt der Emission aktuellen Kapitalmarktverhältnissen festgestellt und darf 3 % p. a.[2] nicht überschreiten. Die Feststellung der Marge bedarf der schriftlichen Genehmigung der Vertragsparteien. Die schriftliche Genehmigung ist diesem Beteiligungsvertrag als Anlage beizufügen und wird der Anmeldung dieses Beteiligungsvertrags als Teilgewinnabführungsvertrag zur Eintragung in das Handelsregister der Bank beigefügt.

   Die Gewinnbeteiligung für ein Geschäftsjahr wird jeweils für einen Zahlungszeitraum (der **„Zahlungszeitraum“**) berechnet, der dem Zeitraum vom Anfangsdatum (einschließlich) bis zum ersten Ausschüttungstag (ausschließlich) (der **„Erste Zahlungszeitraum“**) bzw. einem Ausschüttungstag (einschließlich) bis zum nächstfolgenden Ausschüttungstag (ausschließlich) (jeweils ein **„Nachfolgender Zahlungszeitraum“**) entspricht. Die Berechnung der jeweils zahlbaren Gewinnbeteiligung erfolgt, auch im Falle der Nachfolgenden Zahlungszeiträume, auf Grundlage der tatsächlichen Anzahl der Tage in diesem Zahlungszeitraum, geteilt durch 360.

   Der Angewandte EURIBOR-Satz wird bezüglich der Gewinnbeteiligung für ein Geschäftsjahr durch die Bank als Berechnungsstelle (die **„Berechnungsstelle“**) am zweiten Geschäftstag (wie nachfolgend in § 3(1) Satz 4 definiert) vor dem Beginn des Zahlungszeitraums für diese Gewinnbeteiligung festgelegt (jeweils ein **„Festsetzungstag“**).

[2] Siehe hierzu „Zusammenfassung des Angebots“ – „Beteiligung der Emittentin am Gewinn der Aareal Bank“

includes) the Start Date and lasts until (and includes) 31 December 2002 (the **“First Profit Period”**). Thereafter, a Profit Period starts (and includes) 1 January and ends (and includes) 31 December of each year (this period is referred to as the **“Fiscal Year”**), unless terminated before that date by way of effective termination of this Silent Partnership Agreement.

2. Subject to Section 3 and subsection (3) below, a profit participation shall be payable for a Profit Period at a variable annualised percentage of the Nominal Contribution Amount (the **“Profit Participation”**). The Profit Participation shall be payable as an annual distribution at a rate of the Applied EURIBOR (as hereinafter defined) plus a margin calculated by reference to the Nominal Contribution Amount. The margin shall be determined by the Bank underwriting the Capital Notes in line with the conditions on the capital markets prevailing at the time of issue. Such margin must not exceed 3 %[2] p.a. Determination of the margin requires the written consent of the parties hereto. Such written consent is to be annexed to this Silent Partnership Agreement and will be attached to the application for the entry into the Commercial Register of this Silent Partnership Agreement as Partial Profit Transfer Agreement.

   The Profit Participation for a Fiscal Year will be calculated from time to time for a payment period (the **“Payment Period”**) corresponding to the period from (and including) the Start Date up to (and excluding) the first Distribution Date (the **“First Payment Period”**) or, as the case may be, the period from (and including) a Distribution Date up to (and excluding) the next Distribution Date (each a **“Subsequent Payment Period”**). Calculation of the Profit Participation payable from time to time shall be made on the basis of the actual number of days in that Payment Period divided by 360; this calculation method shall also apply to any Subsequent Payment Periods.

   The Applied EURIBOR with respect to the Profit Participation for a Fiscal Year will be determined by the Bank in its capacity as calculation agent (the **“Calculation Agent”**) on the second Business Day (as hereinafter defined in Section 3(1) sentence 4) prior to commencement of the Payment Period for such Profit Participation (each a **“Determination Date”**).

[2] See “Summary of the Offer”-“Participation of the Issuer in the Profits of Aareal Bank”

An jedem Festsetzungstag ist der **„Angewandte EURIBOR-Satz“** der Satz, der von der Berechnungsstelle ermittelt wird in Bezug auf den Zahlungszeitraum, der dem Festsetzungstag unmittelbar folgt, unter Bezugnahme auf jene Sätze für Einlagen in Euro mit den unten genannten Laufzeiten, die gegen 11.00 Uhr (Brüsseler Ortszeit) auf der Telerate Seite 248 (oder einer anderen Bildschirmseite von Telerate oder einem anderen Informationsanbieter als Nachfolger, welcher als Ersatz für die Telerate Seite 248 zur Anzeige solcher Sätze bestimmt wird) (die **„Bildschirmseite“**) angezeigt werden. Werden die entsprechenden Sätze nicht zu der angegebenen Zeit auf der Bildschirmseite angezeigt, wird die Berechnungsstelle die Hauptniederlassungen von fünf von der Berechnungsstelle ausgewählten, führenden Banken am Interbankenmarkt in der Eurozone (dazu zählt die Region der Mitgliedstaaten der Europäischen Union, die den Euro gemäß dem Vertrag zur Gründung der Europäischen Gemeinschaft in der durch den Vertrag über die Europäische Union (unterzeichnet in Maastricht am 7. Februar 1992) undden Vertrag von Amsterdam (unterzeichnet in Amsterdam am 2. Oktober 1997) geänderten Fassung eingeführt haben) (die **„Referenzbanken“**) bitten, ihr ihre jeweiligen Sätze zu nennen, zu denen sie Einlagen in Euro mit den genannten Laufzeiten in einer für eine einzelne Transaktion an diesem Markt zu dieser Zeit repräsentativen Höhe gegenüber führenden Banken am Interbankenmarkt in der Eurozone um ca. 11.00 Uhr (Brüsseler Ortszeit) anbieten. Falls - mindestens zwei solche Angebotssätze genannt werden, ist der Satz für diesen Zahlungszeitraum das arithmetische Mittel (falls erforderlich, auf- oder abgerundet auf ein Tausendstel Prozent, wobei 0,0005 aufgerundet wird) dieser Angebotssätze. Falls weniger als zwei Angebotssätze genannt werden, ist der für diesen Zahlungszeitraum festgesetzte Satz der von der Berechnungsstelle ermittelte Angebotssatz für Einlagen in Euro für diesen Zahlungszeitraum oder das arithmetische Mittel (falls erforderlich, auf- oder abgerundet auf ein Tausendstel Prozent, wobei 0,0005 aufgerundet wird) der Angebotssätze für Einlagen in Euro für diesen Zahlungszeitraum, den bzw. die eine oder mehrere Banken (die nach Ansicht der Berechnungsstelle und der Bank für diese Zwecke geeignet sind) der Berechnungsstelle als Sätze bekannt geben, die sie an diesem Festsetzungstag gegenüber führenden Banken in der Eurozone nennen (bzw. den diese Banken gegenüber der Berechnungsstelle nennen). Falls der Ange-

On each Determination Date, the **“Applied EURIBOR”** shall be the rate determined by the Calculation Agent in respect of the Payment Period immediately following such Determination Date by reference to the rates for deposits in Euro with maturities as set out below and which appear on the Telerate Page 248 at or about 11:00 a.m. (Brussels time) (or such other screen page of Telerate or such other information provider which has been designated as the successor to Telerate Page 248 for the purpose of displaying such rates) (the **“Screen Page”**). If such rates do not appear on the Screen Page at the specified time, the Calculation Agent will request the principal offices of five major banks in the Euro-Zone interbank market (which comprises the region of the member states of the European Union that have adopted the Euro in accordance with the Treaty establishing the European Community as amended by the Treaty on the European Union (signed in Maastricht on February 7, 1992) and by the Treaty of Amsterdam (signed in Amsterdam on October 2, 1997)) as selected by the Calculation Agent (the **“Reference Banks”**) to provide the Calculation Agent with the rates at which they offer deposits in Euro with the specified maturities at approximately 11:00 a.m. (Brussels time) to prime banks in the Euro-Zone interbank market in an amount that is representative for a single transaction in such market at such time. If at least two quotations are provided, the rate for such Payment Period will be the arithmetic mean (rounded, if necessary, to the nearest one thousandth of a percent with 0.0005 being rounded upwards) of the quotations. If fewer than two quotations are provided, the rate for such Pay-ment Period will be the quotation for deposits in Euro as calculated by the Calculation Agent for such Payment Period or the arithmetic mean (rounded, if necessary, to the nearest one thousandth of a percent with 0.0005 being rounded upwards) of the quotations for deposits in Euro for such Payment Period which are quoted to the Calculation Agent by one or more banks (considered appropriate for such purposes by the Calculation Agent and the Bank) as the rates that they offer to prime banks in the Euro-Zone (or which the latter offer to the Calculation Agent, respectively) on such Determination Date. If the Applied EURIBOR cannot be determined in accordance with the foregoing provisions, the Applied EURIBOR will be the offered quotation, or the arithmetic mean of the offered quotations, on the Screen Page, as described above, on the last day preceding the Determination Date on which such quotations were offered.

wandte EURIBOR-Satz nicht gemäß den vorstehenden Bestimmungen ermittelt werden kann, ist der Angewandte EURIBOR-Satz der Angebotssatz oder das arithmetische Mittel der Angebotssätze auf der Bildschirmseite, wie vorstehend beschrieben, am letzten Tag vor dem Festsetzungstag, an dem diese Angebotssätze angezeigt wurden.

Der Angewandte EURIBOR-Satz für den Ersten Zahlungszeitraum wird durch Bezugnahme auf jenen auf der Bildschirmseite gezeigten Satz ermittelt, der hinsichtlich seiner Laufzeit der tatsächlichen Anzahl der Tage im Ersten Zahlungszeitraum entspricht. Soweit die tatsächliche Anzahl der Tage im Ersten Zahlungszeitraum zwischen zwei auf der Bildschirmseite angesprochenen Laufzeiten liegt, wird der Angewandte EURIBOR-Satz durch lineare Interpolation der Sätze ermittelt, die der nächstkürzeren bzw. der nächstlängeren auf der Bildschirmseite angezeigten Laufzeit entsprechen. Der Angewandte EURIBOR-Satz für jeden Nachfolgenden Zahlungszeitraum entspricht dem jeweiligen Satz, der einer Laufzeit von 12 Monaten entspricht.

Die Berechnungsstelle wird unverzüglich dem Stillen Gesellschafter den Satz mitteilen, nach dem sich die Gewinnbeteiligung in einem Zahlungszeitraum errechnet.

3. Sollte während des Bestehens dieses Beteiligungsvertrags eine Änderung der Gewerbeertragsteuer oder eine Einführung einer sonstigen Ertrag- oder Vermögensteuer beim Stillen Gesellschafter zur Erhöhung seiner Steuerschuld führen oder hat der Stille Gesellschafter aufgrund einer Kapitalertrag- oder einer sonstigen Abzugssteuer in bezug auf Zinszahlungen für die Teilschuldverschreibungen zusätzliche Beträge an die Inhaber der Teilschuldverschreibungen zu leisten, wird die prozentuale Gewinnbeteiligung gemäß § 2(2) auf Verlangen des Stillen Gesellschafters (soweit zulässig rückwirkend, andernfalls für künftige Gewinnzeiträume) soweit erhöht, dass durch die Erhöhung die zusätzliche Belastung des Stillen Gesellschafters (einschließlich etwaiger Zwischenfinanzierungskosten) vollständig ausgeglichen wird. Das Anpassungsverlangen muss vom Stillen Gesellschafter bei Steueränderungen innerhalb von 30 Tagen ab deren Wirksamwerden mit eingeschriebenem Brief gegenüber der Bank geltend gemacht werden. Ein entsprechendes Recht auf Anpassung der prozentualen Gewinnbeteiligung steht der Bank bei einer Verminderung der

The Applied EURIBOR for the First Payment Period will be calculated by reference to that rate appearing on the Screen Page which, in terms of maturity, corresponds to the actual number of days of the First Payment Period. If and to the extent that the actual number of days in the First Payment Period is in between two maturities as shown on the Screen Page, the Applied EURIBOR will be calculated by way of linear interpolation of the rates conforming to the nearest shorter or the nearest longer maturity as displayed on the Screen Page, as the case may be. The Applied EURIBOR for each Subsequent Payment Period corresponds to the applicable rate offered for 12-month maturities.

The Calculation Agent will immediately inform the Silent Partner of the rate by reference to which the Profit Participation with respect to each Payment Period is calculated.

3. In the event that, during the term hereof, changes in trade income tax or the introduction of any other income or property tax leads to a higher tax liability of the Silent Partner, or if the Silent Partner, on account of investment income or any other withholding tax in respect of interest payments on the Capital Notes, has to pay additional amounts to the holders of the Capital Notes, the Profit Participation pursuant to Section 2(2) hereof will, at the request of the Silent Partner, be increased (with retroactive effect, if and to the extent that this is permissible, and otherwise for future Profit Periods) to the extent that, as a result of such increase, any additional liability of the Silent Partner (including any interim financing costs) is fully covered. In the event of any such taxation-related changes, the Silent Partner shall, within a period of 30 days from the date of effectiveness of such changes, request the Bank by registered mail to adjust its Profit Participation. The Bank shall be entitled to have the Profit Participa-tion adjusted where the burden of the Silent Partner is reduced due to any changes in the taxes specified in sentence 1 of this subsection.

Belastung des Stillen Gesellschafters aufgrund einer Änderung der in Satz 1 dieses Absatzes genannten Steuern zu.

4. Eine Gewinnbeteiligung für einen Gewinnzeitraum entfällt, solange die Stille Einlage nach einer Herabsetzung des Buchwerts der Stillen Einlage gemäß § 5(1) (die **„Herabsetzung“**) noch nicht wieder vollständig gemäß § 5(3) aufgefüllt wurde.

5. Die Gewinnbeteiligung für einen Gewinnzeitraum entfällt ferner ganz oder teilweise, soweit durch sie in Bezug auf einen Gewinnzeitraum ein Jahresfehlbetrag bei der Bank entsteht oder sich erhöht. Wird in einem solchen Fall an die Aktionäre der Bank eine Dividende ausgeschüttet oder werden Zahlungen auf (a) andere Kernkapitalinstrumente der Bank, (b) nachrangige Garantien, Patronatserklärungen oder ähnliche von der Bank gestellte Sicherheiten (Gewährleistungen) für Kernkapitalinstrumente von Tochtergesellschaften oder (c) Kernkapitalinstrumente von Tochtergesellschaften, deren Bedienbarkeit maßgeblich von der Ertrags- oder Vermögenssituation der Bank bestimmt wird, erbracht (zusammen **„Andere Kernkapitalinstrumente“**) und erreicht der Solvabilitätskoeffizient der Bank auf Instituts- und Gruppenebene mindestens 9 %, so kann die Bank nach Maßgabe von § 301 Satz 2 AktG aus vorhandenen Gewinnrücklagen die erforderlichen Beträge entnehmen, um eine etwaige Herabsetzung zu vermeiden oder einen etwaigen herabgesetzten Buchwert der Stillen Einlage vollständig wieder aufzufüllen. Sofern die Bank von der vorgenannten Möglichkeit der Entnahme aus Gewinnrücklagen Gebrauch gemacht hat und ein etwaiger herabgesetzter Buchwert vollständig wieder aufgefüllt ist, kann hieran anschließend die Gewinnbeteiligung für den betreffenden Gewinnzeitraum gezahlt werden.

   Für den Fall, dass die Gewinnbeteiligung auf die Stille Gesellschaft auch nach Maßgabe der vorstehenden Bestimmung nicht gezahlt werden kann, verpflichtet sich die Bank, keine Zahlungen auf Andere Kernkapitalinstrumente zu erbringen, sofern die Bank nicht zu solchen Zahlungen verpflichtet ist.

6. Die Bank ist nicht verpflichtet, entfallene Gewinnbeteiligungen nachzuzahlen.

4. No Profit Participation shall be payable for a Profit Period until the Capital Contribution has been replenished in full pursuant to Section 5(3) subsequent to a reduction of the Book Value of the Capital Contribution in accordance with Section 5(1) (the **“Reduction”**).

5. In addition, a Profit Participation shall not be payable, in whole or in part, for a Profit Period if and to the extent that, in respect of a Profit Period, such payment would cause or increase an annual net loss *(Jahresfehlbetrag)* of the Bank. If in such case dividends are paid to the shareholders of the Bank, or if payments are made in respect of (a) other Tier 1 Capital instruments of the Bank, (b) subordinated guarantees, support undertakings or similar security instruments provided by the Bank for Tier 1 Capital instruments of subsidiaries or (c) Tier 1 Capital instruments of subsidiaries the serviceability of which depends to a material extent on the income or asset position of the Bank (hereinafter collectively referred to as **“Other Tier 1 Capital Instruments”**), and if the Bank’s solvency ratio is at least 9 % on an individual as well as a consolidated basis, the Bank may, in compliance with § 301 sentence 2 German Stock Corporation Act, withdraw the required amounts from existing revenue reserves in order to avoid any Reduction, or to fully replenish any reduced Book Value of the Capital Contribution, as the case may be. If the Bank has opted for the aforementioned withdrawal from revenue reserves and any reduced Book Value has been replenished in full, payment of the Profit Participation for the relevant Profit Period may be made subsequent thereto.

   In the event that the Profit Participation payable in respect of the Silent Partnership cannot be paid in accordance with the above provision, the Bank undertakes not to make any payments on any Other Tier 1 Capital Instruments unless the Bank is legally required to make such payments.

6. The Bank is not obliged to subsequently pay any Profit Participations that were not paid.

§ 3 Zahlung der Gewinnbeteiligung

1. Gewinnbeteiligungen werden am 30. April des Geschäftsjahres, welches auf das dem Gewinnzeitraum entsprechende Geschäftsjahr der Bank folgt (der **„Ausschüttungstag“**), zur Auszahlung fällig. Handelt es sich bei diesem Tag nicht um einen Geschäftstag (wie nachfolgend definiert), werden Gewinnbeteiligungen am ersten auf den 30. April folgenden Geschäftstag fällig (der jeweils nach diesem Satz und dem Satz 1 dieses Paragraphen einschlägige Tag der **„Fälligkeitstag“**), wobei für diese Verschiebung keine zusätzlichen Zinsen zu zahlen sind. Sollte am jeweiligen Fälligkeitstag der Jahresabschluss der Bank für das dem Gewinnzeitraum entsprechende Geschäftsjahr noch nicht festgestellt sein, verschiebt sich die Auszahlung der Gewinnbeteiligung auf den ersten Geschäftstag nach dem Tag der Feststellung des Jahresabschlusses der Bank für das dem Gewinnzeitraum entsprechende Geschäftsjahr. **„Geschäftstag“** bezeichnet jeden Tag, an dem das Trans-European Automated Real-Time Gross Settlement Express Transfer-Zahlungssystem (oder ein entsprechendes Nachfolgesystem) geöffnet ist und Geschäftsbanken und Devisenmärkte in Frankfurt im allgemeinen Geschäftsverkehr Zahlungen abwickeln.

2. Erfolgt die Zahlung der Gewinnbeteiligung nach dem Fälligkeitstag, weil am Fälligkeitstag der Jahresabschluss der Bank für das dem Gewinnzeitraum entsprechende Geschäftsjahr noch nicht festgestellt war, ist die Gewinnbeteiligung vom Fälligkeitstag (einschließlich) bis zum Tag der tatsächlichen Auszahlung (ausschließlich) mit 5 % p. a. über dem jeweils gültigen Basiszinssatz im Sinne des § 288 BGB zu verzinsen.

§ 4 Rangstellung der Stillen Einlage

Forderungen gegenüber der Bank aufgrund dieses Beteiligungsvertrags:

(a) sind nachrangig gegenüber Forderungen aller bestehenden und künftigen Gläubiger der Bank (einschließlich Forderungen aus Genussrechten und ggf. anderen Kapitalinstrumenten des Ergänzungskapitals sowie sonstigen nachrangigen Verbindlichkeiten gemäß § 10 Abs. 5, Abs. 5a und Abs. 7 KWG);

Section 3 Payment of Profit Participation

1. Profit Participations shall become due for payment on 30 April of the Fiscal Year following the Fiscal Year of the Bank which corresponds to the Profit Period (the **“Distribution Date”**). If this day is not a Business Day (as hereinafter defined), Profit Participations shall be due and payable on the first Business Day following 30 April (the relevant date as per this sentence and sentence 1 of this subsection are each referred to as **“Due Date”**) with no additional interest being payable in respect of such postponement. If, at the relevant Due Date, the annual accounts of the Bank for the Fiscal Year corresponding to the Profit Period have not yet been determined, payment of the Profit Participation shall be postponed to the first Business Day following the day the annual accounts of the Bank for the Fiscal Year corresponding to the Profit Period are determined. **“Business Day”** means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer System (or a corresponding successor system) is operating, and payments are settled by commercial banks and foreign currency markets in Frankfurt in the ordinary course of business.

2. If payment of the Profit Participation is made after the Due Date on account of the fact that the annual accounts of the Bank for the Fiscal Year corresponding to the Profit Period had not yet been determined on the Due Date, interest shall be payable at a rate of 5 % p.a. above the then applicable base rate within the meaning of § 288 of the German Civil Code (**“BGB”**) on the Profit Participation from (and including) the Due Date up to (but excluding) the actual payment date.

Section 4 Ranking of the Capital Contribution

Claims against the Bank hereunder shall:

(a) be subordinated to claims of any existing and future creditors of the Bank (including claims under profit participation rights *(Genussrechte)* and, where applicable, any Tier 2 Capital Instruments *(Ergänzungskapital)* as well as any other subordinated debt pursuant to § 10 (5), (5a) and (7) KWG);

(b) sind (prozentual zum fälligen Betrag) mindestens gleichrangig mit allen Forderungen aus bestehenden und künftigen stillen Gesellschaften sowie mit Anderen Kernkapitalinstrumenten, die nach Maßgabe ihrer Bedingungen gleichrangig mit Gewinnbeteiligungen in Form von stillen Gesellschaften sind;

(c) sind vorrangig vor allen Forderungen aus Aktien der Bank.

§ 5 Verlustbeteiligung, stille Reserven

1. An einem Jahresfehlbetrag nimmt der Stille Gesellschafter im Verhältnis des Buchwerts der Stillen Einlage zum Gesamtbuchwert des haftenden Eigenkapitals der Bank, das am Verlust teilnimmt, (**„Haftkapital“**) teil. **„Buchwert“** bezeichnet dabei den Buchwert der Stillen Einlage nach Maßgabe der Bilanz der Bank für das jeweilige Geschäftsjahr. Wenn sich bei Aufstellung der Bilanz der Bank die Entstehung eines Jahresfehlbetrags abzeichnet, so wird dieser Jahresfehlbetrag anteilig nach Maßgabe dieses § 5 vom Buchwert abgezogen.

   Somit nehmen alle Stillen Gesellschafter, alle Inhaber von Genussrechten und alle Aktionäre der Bank am Jahresfehlbetrag mit dem gleichen Prozentsatz des Buchwertes ihrer Einlagen bzw. ihrer Rückzahlungsansprüche oder des sonstigen ausgewiesenen Eigenkapitals teil.

2. Die Gesamtverlustbeteiligung des Stillen Gesellschafters ist auf seine Vermögenseinlage beschränkt.

3. Nach einer etwaigen Herabsetzung wird die Stille Einlage in den der Herabsetzung nachfolgenden Geschäftsjahren der Bank bis zur vollständigen Höhe des Einlagenennbetrags wieder aufgefüllt, wenn hierdurch kein Jahresfehlbetrag entsteht oder sich erhöht. § 2 Abs. 5 bleibt unberührt.

   Die Auffüllung der Stillen Einlage nach einer Herabsetzung geht der Auffüllung des Grundkapitals, der Zahlung von Dividenden und Einstellungen in Rücklagen (außer gesetzlich zu bildender Rücklagen) vor. Im Verhältnis zu Anderen Kernkapitalinstrumenten erfolgt die Auffüllung gleichrangig und im gleichen Verhältnis wie die Verlustbeteiligung.

(b) rank at least *pari passu* (pro rata to the amount payable) with all claims under any existing and future silent partnerships as well as with Other Tier 1 Capital Instruments which, in accordance with their terms, rank *pari passu* with profit participations in the form of silent partnerships;

(c) rank senior to all claims under shares of the Bank.

Section 5 Loss Participation, Hidden Reserves

1. The Silent Partner shall participate in an annual net loss in the proportion which the Book Value of the Capital Contribution bears in relation to the aggregate Book Value of all loss-participating components of the Bank's regulatory capital (**“Regulatory Capital”**). **“Book Value”** means the Book Value of the Capital Contribution in accordance with the balance-sheet of the Bank for the relevant Fiscal Year. When, in the course of preparing the balance-sheet of the Bank, it becomes apparent that there will be an annual net loss, such loss will be deducted from the Book Value on a pro rata basis in accordance with this Section 5.

   Accordingly, all silent partners, all holders of profit participation rights as well as all shareholders of the Bank participate in any annual net loss with the same percentage of the book value of their contributions, repayment claims or any other stated equity capital, respectively.

2. The Silent Partner’s aggregate loss participation shall be limited to his asset contribution.

3. Subsequent to a Reduction, if any, the Capital Contribution shall be replenished during the Fiscal Years of the Bank following any such Reduction until the Nominal Contribution Amount has been replenished in full, provided that such replenishment does not cause or increase any annual net loss. The above shall apply without prejudice to Section 2(5).

   Any replenishment of the Capital Contribution subsequent to a Reduction shall take priority over the replenishment of the share capital, the payment of dividends as well as any allocations to reserves (with the exception of statutory reserves). In relation to Other Tier 1 Capital Instruments, any such replenishment shall be effected on a *pari passu*

Im Verhältnis zu Inhabern von Genussrechten (§ 10 Abs. 5 KWG) ist die Auffüllung nachrangig, soweit die Genussrechtsbedingungen nicht einen Gleichrang vorsehen.

basis and in the same proportion as the loss participation. In relation to holders of profit participation rights (§ 10 (5) KWG), any such replenishment shall be effected on a subordinated basis unless the terms and conditions of the profit participation rights provide for a *pari passu* ranking.

4. Auf die vor oder während der Laufzeit der Stillen Gesellschaft gebildeten stillen Reserven hat der Stille Gesellschafter kein Anrecht.

4. The Silent Partner shall not be entitled to a share in the hidden reserves created prior to or during the term of the Silent Partnership.

5. Die Bank ist nicht verpflichtet, stille Reserven aufzudecken, um eine Gewinnbeteiligung gemäß § 2 auszahlen zu können oder eine Verlustbeteiligung zu vermeiden.

5. The Bank shall not be obliged to disclose any hidden reserves in order to pay a Profit Participation in accordance with Section 2 hereof or to avoid a loss participation.

§ 6 Dauer der stillen Gesellschaft, Kündigung

Section 6 Duration of the Silent Partnership, Termination

1. Dieser Beteiligungsvertrag wird auf unbestimmte Zeit abgeschlossen.

1. This Silent Partnership Agreement shall be concluded for an indefinite period of time.

2. Die Kündigung dieses Beteiligungsvertrags durch den Stillen Gesellschafter ist ausgeschlossen. Für den Fall der Unwirksamkeit des Kündigungsausschlusses wird vereinbart, dass die Kündigung nur mit vorheriger Zustimmung der Bundesanstalt für Finanzdienstleistungsaufsicht (BAFin) erfolgen kann. Für den Fall der Unwirksamkeit des vorstehenden Zustimmungsvorbehaltes wird vereinbart, dass die Kündigung des Stillen Gesellschafters mit einer Frist von zwei Jahren, erstmals zum Ende des Geschäftsjahres 2032, erfolgen kann.

2. The Silent Partner shall be precluded from terminating this Silent Partnership Agreement. In the event such preclusion is invalid, the parties agree that this Agreement may only be terminated with the prior consent of the German Financial Services Supervisory Agency *(Bundesanstalt für Finanzdienstleistungsaufsicht* – **"BAFin"**). Should the above consent requirement be invalid, the parties agree that the Silent Partner may terminate this Agreement by giving two years' prior notice, no earlier, however, than with effect at the end of the Fiscal Year 2032.

3. Die Bank kann diesen Beteiligungsvertrag gegenüber dem Stillen Gesellschafter mit einer Frist von zwei Jahren zum Ende eines jeden Geschäftsjahres kündigen, wobei eine Kündigung keinesfalls vor dem 31. Dezember 2007[3] wirksam wird und zu ihrer Wirksamkeit der vorherigen Zustimmung durch die BAFin bedarf. Wenn eine Veränderung gemäß § 11 eintritt, kann die Bank diesen Beteiligungsvertrag unbeschadet des ersten Satzes dieses § 6(3) jederzeit mit einer Frist von zwei Jahren zum Monatsende gegenüber dem Stillen Gesellschafter kündigen mit der Maßgabe, dass eine Kündigung keinesfalls vor dem 31. Dezember 2007[1] wirksam wird und

3. The Bank may terminate this Silent Partnership Agreement by giving two years' notice to the Silent Partner with effect at the end of each Fiscal Year provided that any such termination shall not become effective prior to 31 December, 2007[3], and shall require the prior consent of the BAFin. In the event that any changes referred to in Section 11 hereof shall occur, the Bank may terminate this Silent Partnership Agreement at any time, notwithstanding the first sentence of this Section 6(3), by giving two years' prior notice with effect at the end of any month provided that any such termination shall not under any circumstances become effective before 31

[3] Die Aareal Bank hat sich gegenüber der Deutschen Bank verpflichtet, das Kündigungsrecht nicht früher als mit Wirkung zum 31. Dezember 2013 auszuüben. Sie hat außerdem mit dem stillen Gesellschafter eine Änderungsvereinbarung zum Beteiligungsvertrag abgeschlossen, derzufolge die Aareal Bank die stille Beteiligung frühestens mit Wirkung zum 31. Dezember 2013 kündigen kann (siehe „Risikofaktoren" – „Kein fester Rückzahlungstermin" und „Beschreibung der Emissionsstruktur" – „Überblick" – „Beteiligungsvertrag").

[3] Aareal Bank has undertaken with Deutsche Bank to exercise its termination right no earlier than with effect as of 31 December 2013. Aareal Bank has, in addition, entered into an agreement amending the Silent Partnership Agreement pursuant to which Aareal Bank may terminate the Silent Partnership Agreement no earlier than with effect as of 31 December 2013 (see "Risk Factors" – "No Fixed Repayment Date" and "Description of Offering Structure" – "Overview" –"Silent Partnership Agreement").

zu ihrer Wirksamkeit der vorherigen Zustimmung durch die BAFin bedarf. Falls die Stille Einlage nicht mehr als haftendes Eigenkapital (Kernkapital) im Sinne des KWG anerkannt wird, kann die Bank diesen Beteiligungsvertrag jederzeit mit einer Frist von zwei Monaten zum Ende eines jeden Geschäftsjahres kündigen.

December, 2007[3], and shall require the prior consent of the BAFin. In case the Capital Contribution no longer qualifies as regulatory capital (Tier 1 Capital) as defined in the KWG, the Bank may terminate this Silent Partnership Agreement at any time by giving two month's notice with effect at the end of any Fiscal Year.

4. Endet dieser Beteiligungsvertrag im Laufe eines Geschäftsjahres, ist die Stille Einlage vom Beendigungstag (ausschließlich) bis zum Ende des Geschäftsjahres (einschließlich), in dem die Beendigung erfolgt, in Höhe der nach Maßgabe des § 2(2) für das laufende Geschäftsjahr bereits festgesetzten und ggf. gemäß § 2(3) erhöhten Gewinnbeteiligung zu verzinsen.

4. In the event that this Silent Partnership Agreement shall terminate during a Fiscal Year, interest shall be payable on the Capital Contribution from (but excluding) the Termination Date up to (and including) the end of the Fiscal Year during which the Silent Partnership Agreement terminates in an amount equal to the Profit Participation, as determined for the current Fiscal Year in accordance with Section 2(2) and, where applicable, as increased pursuant to Section 2(3).

5. Die Kündigung dieses Beteiligungsvertrags bedarf der Schriftform. Der Stille Gesellschafter behält bis zum Wirksamwerden einer Kündigung seine vollen Rechte unter diesem Beteiligungsvertrag. Unterschreitet der Buchwert den Einlagenennbetrag, gilt der Beteiligungsvertrag im Falle einer Kündigung erst dann als beendet, wenn die Stille Einlage nach § 5(3) bis zur vollständigen Höhe des Einlagenennbetrags wieder aufgefüllt ist.

5. Any termination of this Silent Partnership Agreement shall be made in writing. The Silent Partner shall retain its rights hereunder without any limitation until the termination becomes effective. If and for so long as the Book Value is less than the Nominal Contribution Amount, this Silent Partnership Agreement shall be deemed not terminated until the Capital Contribution is replenished pursuant to Section 5(3) hereof up to the full Nominal Contribution Amount.

6. Am Rückzahlungstag zahlt die Bank an den Stillen Gesellschafter den Rückzahlungsbetrag sowie die eventuell entstandene Gewinnbeteiligung bzw. Zinsen gemäß § 6(4). **„Rückzahlungstag“** bezeichnet dabei den Fälligkeitstag in dem Geschäftsjahr, welches auf das Geschäftsjahr der Bank folgt, in das der Beendigungstag fällt bzw. – im Fall der Wiederauffüllung der Stillen Einlage bis zum vollen Einlagenennbetrag – den Fälligkeitstag in dem Geschäftsjahr, welches auf das Geschäftsjahr der Bank folgt, zu dessen Ende sich ein Jahresüberschuss ergibt, der zur Wiederauffüllung der Stillen Einlage führt. **„Rückzahlungsbetrag“** bezeichnet den Buchwert der Stillen Einlage zum Ende des Geschäftsjahres, in dem die Stille Einlage endet. § 6(5) Satz 2 bleibt unberührt. Vorbehaltlich der Regelung in § 6(4) wird die Stille Einlage bzw. der Rückzahlungsbetrag für den Zeitraum vom Beendigungstag bis zum Rückzahlungstag nicht verzinst. Erfolgt die Zahlung des Rückzahlungsbetrags sowie der eventuell entstandenen Gewinnbeteiligung bzw. gemäß § 6(4) eventuell aufgelaufener Zinsen nach dem Rückzahlungstag, weil am Rückzahlungstag der Jahresabschluss der Bank für das (zur Ermittlung des Rück-

6. On the repayment date, the Bank shall pay to the Silent Partner the Repayment Amount, the Profit Participation which may have accrued and/or any interest in accordance with Section 6(4). **“Repayment Date”** means the Due Date in the Fiscal Year following the Fiscal Year of the Bank in which the Termination Date has occurred, or – in the event the Capital Contribution needs to be replenished up to the full Nominal Contribution Amount – the Due Date in the Fiscal Year following the Fiscal Year of the Bank as of the end of which an annual net income is reported which results in the complete replenishment of the Capital Contribution. **“Repayment Amount”** means the Book Value of the Capital Contribution as of the end of the Fiscal Year in which the Silent Partnership terminates. The above shall apply without prejudice to Section 6 (5) sentence 2. Subject to the provisions contained in Section 6(4), no interest will be payable on the Capital Contribution and/or the Repayment Amount for the period commencing on the Termination Date and ending on the Repayment Date. Where payment of the Repayment Amount, the Profit Participation which may have accrued and/or any interest accrued pursuant to Sec-

zahlungsbetrags maßgebliche) Geschäftsjahr noch nicht festgestellt war, sind der Rückzahlungsbetrag sowie die eventuell entstandene Gewinnbeteiligung bzw. eventuell gemäß § 6(4) aufgelaufene Zinsen vom Rückzahlungstag (einschließlich) bis zum Tag der tatsächlichen Zahlung (ausschließlich) mit 5 % p. a. über dem jeweils gültigen Basiszinssatz entsprechend § 288 BGB zu verzinsen.

tion 6(4) is made after the Repayment Date because, on the Repayment Date, the annual accounts of the Bank for the Fiscal Year (relevant for determining the Repayment Amount) had not yet been determined, interest shall be payable on the Repayment Amount, the Profit Participation which may have accrued and/or any interest accrued pursuant to Section 6(4) from (and including) the Repayment Date up to (but excluding) the actual payment date at a rate of 5 % p.a. above the then applicable base rate in accordance with § 288 BGB.

7. Von Maßnahmen nach dem Umwandlungsgesetz, (Teil-)Vermögensübertragungen, Änderungen der Rechtsform oder des Stammkapitals der Bank bleibt die Stille Gesellschaft unberührt.

7. Any corporate action taken in compliance with the German Transformation Act (*Umwandlungsgesetz*), any (partial) asset transfers, changes in the legal form or the share capital of the Bank shall not affect the Silent Partnership.

8. Im Falle der Insolvenz oder Liquidation der Bank wird der Rückzahlungsbetrag der Stillen Einlage erst nach Befriedigung aller Gläubiger der Bank einschließlich der Inhaber von Genussrechten sowie der Gläubiger von längerfristigen nachrangigen Verbindlichkeiten und kurzfristigen nachrangigen Verbindlichkeiten, jedoch vor der Rückzahlung von Grundkapital zugunsten der Aktionäre ausgezahlt.

8. In the event of an insolvency or liquidation of the Bank, the Repayment Amount of the Capital Contribution will not be paid until all creditors of the Bank, including the holders of profit participation rights as well as the holders of long-term and short-term subordinated debt have been fully satisfied; however, payment of the Repayment Amount will be made prior to repayment of share capital for the benefit of the shareholders.

§ 7 Gesellschafterrechte

Section 7 Partnership Rights

1. Der Stille Gesellschafter ist berechtigt, (i) eine Abschrift des Jahresabschlusses der Bank (Bilanz mit Gewinn- bzw. Verlustrechnung sowie Anmerkungen) einschließlich Lagebericht sowie Konzernabschluss und Konzernlagebericht sowie Abschriften etwaiger Zwischenberichte der Gruppe zu verlangen und (ii) den Prüfungsbericht durch einen Wirtschaftsprüfer oder vereidigten Buchprüfer überprüfen zu lassen.

1. 1. The Silent Partner shall be entitled (i) to request a copy of the annual accounts of the Bank (balance-sheet, profit and loss account and notes) including the directors' report, the consolidated accounts and the consolidated directors' report as well as copies of any interim reports of the group, and (ii) to have the auditors' report reviewed by an auditor or a chartered accountant.

2. Zusammen mit dem Jahresabschluss erhält der Stille Gesellschafter eine Aufstellung über seine Gewinn- und Verlustbeteiligung. Auf Anfrage des Stillen Gesellschafters hat die Bank hierzu weitere Auskünfte zu erteilen.

2. The Silent Partner shall, together with the annual accounts, receive a statement of his profit/loss participation position. Upon request by the Silent Partner, the Bank shall furnish further information in this respect.

3. Weitere Gesellschafterrechte stehen dem Stillen Gesellschafter nicht zu.

3. The Silent Partner shall have no further partnership rights.

§ 8 Hinweis gemäß § 10 Abs. 4 Satz 1 Ziffer 6 KWG

Nach Abschluss dieses Vertrages können (i) weder die Verlustbeteiligung zum Nachteil der Bank verändert (ii) noch die Nachrangigkeit eingeschränkt noch (iii) die Laufzeit oder Kündigungsfrist verkürzt werden.

Eine vorzeitige Rückzahlung ist der Bank ohne Rücksicht auf entgegenstehende Vereinbarungen zurückzugewähren, sofern nicht das Kapital durch die Einzahlung anderen, zumindest gleichwertigen haftenden Eigenkapitals ersetzt worden ist oder die BAFin der vorzeitigen Rückzahlung zustimmt.

§ 9 Begebung weiteren Haftkapitals

Die Bank behält sich das Recht vor, Verträge über Andere Kernkapitalinstrumente zu gleichen oder anderen Bedingungen, insbesondere mit einer anderen Gewinnbeteiligung, oder Verträge über Genussrechte oder andere Verbindlichkeiten einzugehen, die Eigenmittel im Sinne des KWG und/oder der Eigenmittelempfehlungen des Basler Ausschusses für Bankenaufsicht sind oder nachrangige bzw. mit dieser Stillen Gesellschaft gleichrangige Garantien, Patronatserklärungen oder andere Gewährleistungen (Sicherheiten) für entsprechende Instrumente von Tochtergesellschaften der Bank einzugehen. Forderungen künftiger stiller Gesellschafter (bzw. der Inhaber von Sicherheiten für Kernkapitalinstrumente bei Tochtergesellschaften) dürfen den Forderungen des Stillen Gesellschafters aus diesem Beteiligungsvertrag nicht im Rang vorgehen.

§ 10 Übertragungsrechte des Stillen Gesellschafters

Jede Abtretung oder anderweitige Verfügung (z.B. durch Verpfändung) über Forderungen des Stillen Gesellschafters aus diesem Beteiligungsvertrag bedarf der vorherigen schriftlichen Zustimmung der Bank. Die Abtretung oder anderweitige Verfügung darf nicht zu einer erhöhten Belastung des Stillen Gesellschafters mit Kapitalertrag- oder sonstiger Abzugssteuer, etwaiger Vermögensteuer, Gewerbeertrag- oder sonstiger Ertragsteuer führen.

§ 11 Änderungen steuerlicher oder aufsichtsrechtlicher Vorgaben; Änderung des Geschäftsjahres

1. Im Falle wesentlicher Änderungen in der steuerlichen oder aufsichtsrechtlichen Behandlung der Einlagen und ihrer Gewinn- und Verlustbeteiligung oder im Falle einer Erhöhung der Gewinnbeteiligung gem. § 2(3)

Section 8 Notice in accordance with § 10(4) sentence 1 No. 6 KWG

Subsequent to conclusion hereof, (i) the loss participation may not be amended to the detriment of the Bank, (ii) the subordination may not be restricted, and (iii) the term or the notice period may not be shortened.

Any early repayment must be repaid to the Bank regardless of any agreements to the contrary unless the capital has been replaced by other regulatory capital of least equal quality, or the BAFin agrees to such early repayment.

Section 9 Issue of Additional Regulatory Capital

The Bank reserves the right to conclude agreements on Other Tier 1 Capital Instruments on identical or different terms, in particular with a different profit participation, or to enter into agreements on profit participation rights or other liabilities qualifying as regulatory funds within the meaning of the KWG and/or of the capital adequacy recommendations published by the Basle Committee for Banking Supervision, or to issue guarantees, support undertakings or any other security instruments subordinated to or ranking *pari passu* with this Silent Partnership for corresponding instruments of subsidiaries of the Bank. Claims of any future silent partners (or of holders of security provided for Tier 1 Capital Instruments of subsidiaries) may not rank prior to the claims of the Silent Partner hereunder.

Section 10 Silent Partner's Transfer Rights

Any claims of the Silent Partner hereunder may only be assigned or otherwise disposed of (e.g. by way of a pledge) with the prior written consent of the Bank. Any such assignment or other disposal may not result on any increased liability of the Silent Partner on account of investment income or other withholding taxes or any property, trade income or any other income tax.

Section 11 Changes in the Tax or Regulatory Environment; Change of Fiscal Year

1. In the case of material changes in relation to the tax or regulatory treatment of the contributions and their profit and loss participation, or in the event of any increase in the Profit Participation in accordance with Section 2(3)

werden die Parteien dieses Beteiligungsvertrags in einvernehmliche Verhandlungen zum Zweck einer Anpassung dieses Beteiligungsvertrags an die veränderte Rechtslage eintreten, sofern die Bank diesen Beteiligungsvertrag nicht wirksam gem. § 6(3) Satz 2 kündigt.

2. Im Falle einer Änderung des Geschäftsjahres der Bank werden die Parteien diesen Vertrag anpassen, soweit dies erforderlich ist, um der Änderung des Geschäftsjahres Rechnung zu tragen. Dabei ist der Ausschüttungstag jeweils so anzupassen, dass als Zeitpunkt für den Ausschüttungstag der letzte Tag des vierten Monats nach Ende des betreffenden Geschäftsjahres bzw. Rumpfgeschäftsjahres festzulegen ist.

§ 12 Besteuerung

Alle aufgrund dieses Vertrages fälligen Zahlungen werden ohne Einbehaltung oder Abzug aufgrund derzeitiger oder künftiger Steuern oder Abgaben gleich welcher Art geleistet, die durch Einbehaltung oder Abzug durch die oder im Auftrag der Bundesrepublik Deutschland, ihrer politischen Untergliederungen oder der zur Erhebung von Steuern befugten Behörden auferlegt oder erhoben werden, es sei denn, die Einbehaltung oder der Abzug sind gesetzlich vorgeschrieben.

§ 13 Geltendes Recht, Erfüllungsort und Gerichtsstand

Das Gesellschaftsverhältnis und alle sich aus diesem Beteiligungsvertrag ergebenden Rechte und Pflichten unterliegen ausschließlich dem Recht der Bundesrepublik Deutschland. Erfüllungsort und Gerichtsstand ist Frankfurt am Main.

§ 14 Salvatorische Klausel

Sollte eine Vertragsbestimmung ganz oder teilweise unwirksam oder unvollständig sein oder werden, so wird hierdurch die Wirksamkeit der übrigen Bestimmungen nicht berührt. Anstelle der unwirksamen oder unvollständigen Bestimmung tritt eine Regelung, die dem wirtschaftlichen Zweck der unwirksamen Bestimmung in rechtlich zulässiger Weise am nächsten kommt bzw. die Bestimmung in Übereinstimmung mit dem mutmaßlichen Parteiwillen so gut wie möglich ergänzt.

of this Silent Partnership Agreement, the parties hereto shall enter into *bona fide* negotiations with a view to amending this Agreement to reflect the changes in the legal situation, unless this Silent Partnership Agreement is effectively terminated by the Bank pursuant to Section 6(3) sentence 2.

2. In case of any changes made to the Fiscal Year of the Bank, the parties shall amend this Agreement if and to the extent required to reflect the changes made to the Fiscal Year. For these purposes, the Distribution Date is to be adjusted, as the case may be, to the effect that the last day of the fourth month following the end of the relevant Fiscal Year or, where applicable, short Fiscal Year shall be determined as the Distribution Date.

Section 12 Taxation

All amounts due and payable hereunder shall be made without any withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by way of withholding or deduction by or on behalf of the Federal Republic of Germany or any political subdivision or any authority thereof or therein having power to tax unless such withholding or deduction is required by law.

Section 13 Applicable Law, Place of Performance and Jurisdiction

The Silent Partnership as well as all rights and obligations arising from this Silent Partnership Agreement shall exclusively be governed by German law. Place of performance and jurisdiction shall be Frankfurt am Main, Federal Republic of Germany.

Section 14 Severability

In the event that any provision hereof is or becomes ineffective or incomplete in whole or in part, the effectiveness of the remaining provisions shall not be affected thereby. Any such ineffective or incomplete provision shall be replaced by a provision which, to the extent legally permissible, comes as close as possible to the economic purpose of the ineffective provision or best supplements the provision in accordance with the presumed intentions of the parties hereto.

Fiduciary Agreement

The German text of the Fiduciary Agreement is legally binding. The English translation is for convenience only.

The provisions of the following contract will be attached to, and shall be deemed to constitute one document together with, the Terms and Conditions of Issue and the Global Certificate, respectively.

Fiduciary Agreement entered into between Real Fünfte Grundstücksgesellschaft mbH[1] (the "Silent Partner), Deutsche Bank Luxembourg S.A. (the "Fiduciary") and Aareal Bank AG (the "Bank")

Recitals

1. On 24/25 September 2002, the Silent Partner and the Bank have entered into an Agreement on the establishment of a Silent Partnership (the **"Silent Partnership Agreement"** which is attached to this Fiduciary Agreement as Annex 1) under which the Silent Partner makes a capital contribution (the **"Capital Contribution"**) to the Bank. The contribution in the amount of € 180,000,000 (Euro one hundred eighty million) is to serve the Bank as liable regulatory capital. Pursuant to the Silent Partnership Agreement and as consideration for its contribution, the Silent Partner shall be entitled to a profit participation in each Profit Period (the **"Profit Participation"**) for the term of the Silent Partnership Agreement. The Profit Participations accruing in each Profit Period shall be calculated annually and distributed on the relevant Due Date in accordance with the Silent Partnership Agreement (after deduction of the withholding as per No. 2 below, each an **"Annual Profit Participation"**). In the event the distribution of the Annual Profit Participation is effected after the relevant Due Date due to delayed determination of the annual accounts relevant for the calculation of the respective Annual Profit Participation, the Silent Partner shall, in accordance with the Silent Partnership Agreement, have a claim against the Bank for interest on the Annual Profit Participation (the **"Delayed Payment Interest Claim"**). Upon termination of the Silent Partnership Agreement, the Silent Partner shall, pursuant to the terms of the Silent Partnership Agreement, have a claim against the Bank for repayment of his contribution, for payment of any Profit Participation and/or interest in accordance with Section 6(4) of the Silent Partnership Agreement accrued (the **"Termination Claims"**).

2. Upon distribution of the Profit Participation to the Silent Partner or the replenishment of the Capital Contribution following a reduction of its Book Value, the Bank has to withhold investment income tax on the distributed amounts and/or on the amount of replenishment pursuant to § 43(1) No. 3 German Income Tax Act *(EStG).* This withholding (the **"Withholding"**) is deducted as prepayment from the corporate income tax liability of the Silent Partner. To the extent any such prepayment exceeds the actual income tax liability of the Silent Partner, the Silent Partner may claim refund from the tax authorities (each a **"Tax Refund Claim"**). On 24/25 September 2002, the Silent Partner and the Bank have entered into an agreement on the purchase of the Tax Refund Claims of the Silent Partner by the Bank (the **"Receivables Purchase Agreement"** which is attached to this Fiduciary Agreement as Annex 2) pursuant to which the Silent Partner sells and assigns to the Bank its Tax Refund Claims against the tax authorities. In consideration thereof, the Silent Partner is entitled to payments from the Bank, which payments become due at the time of the distribution of the Annual Profit Participation and equal the amount of the respective Withholding (the **"Payment Claims"**).

3. To finance his contribution, the Silent Partner issues capital notes in the total nominal amount of € 180,000,000) (Euro one hundred eighty million) (the **"Capital Notes"**). Pursuant to the Terms and Conditions of Issue (the **"Terms and Conditions of Issue"** which are attached hereto as Annex 3), the holders of the Capital Notes (the **"Investors"**) shall be entitled to interest on the Capital Notes (the **"Interest Claims").** Upon repayment of the Capital Contribution and/or redemption of the Capital Notes, the Investors may claim repayment of the Capital Notes and payment of any interest accrued on the Capital Notes as well as, in case of repayment of the Contribution, payment of any interest which may have accrued pursuant to Section 6(4) of the Silent Partnership Agreement (the **"Repayment Claims"**).

[1] After change of name: Capital Funding GmbH

4. To secure payments in respect of the Interest Claims and the Repayment Claims payable to Investors under the Capital Notes, the Silent Partner is to assign to the Fiduciary all present and future claims for the Annual Profit Participations (the **"Profit Participation Claims"**) to the extent as described in the following, Delayed Payment Interest Claims, Payment Claims and Termination Claims which the Silent Partner has against the Bank in accordance with the terms hereof. Such claims are to be held in trust by the Fiduciary for the benefit of the Investors. On the relevant Due Date, the amounts paid in respect of the respective claims will be paid to the Investors pursuant to the Terms and Conditions of Issue.

THE PARTIES NOW AGREE AS FOLLOWS:

Section 1 Definitions

Unless otherwise stipulated, the terms used in this Fiduciary Agreement shall have the same meaning as used in the Silent Partnership Agreement, the Receivables Purchase Agreement or in the Terms and Conditions of Issue.

Section 2 Assignment

1. The Silent Partner hereby assigns to the Fiduciary all (present and future, conditional and unconditional) Profit Participation Claims, Delayed Payment Interest Claims, Payment Claims and Termination Claims which the Silent Partner has against the Bank. If and to the extent that the Annual Profit Participation together with the respective Payment Claim and any Delayed Payment Interest Claim exceeds the Interest Claim of the Investors for the relevant Payment Period, the assignment of the respective Profit Participation Claim is reduced by the excess amount.

2. Upon entering into this Fiduciary Contract, any existing Profit Participation Claims (to the extent as set forth in Section 2(1) sentence 2 above) and any existing Payment Claims shall pass to the Fiduciary. Any and all future Profit Participation Claims, Delayed Payment Interest Claims, Payment Claims and Termination Claims shall pass to the Fiduciary upon their accrual (and, with respect to the Profit Participation Claims, to the extent as set forth in Section 2(1) sentence 2).

Section 3 Security

The assignment of claims as provided in Section 2 above shall serve to secure the Interest Claims and Repayment Claims of the Investors under the Capital Notes.

Section 4 Legal Status of the Fiduciary

1. The Fiduciary shall hold the claims assigned to it in accordance with Section 2 (the **"Assigned Claims"**) in trust for the benefit of the Investors to secure payments to be made to Investors in respect of the Interest Claims and Repayment Claims under the Capital Notes.

2. Subject to the provisions hereof, the Fiduciary shall not dispose of the Assigned Claims without the prior written consent of the Silent Partner and the Bank.

3. The Fiduciary shall provide assistance to the effect that the payments to be made in respect of the Assigned Claims on the relevant Due Date are properly effected to the Investors in accordance with the Terms and Conditions of Issue. In particular, the Fiduciary shall, in due time and in compliance with formal requirements, give all notices as well as take all steps necessary to properly effect the payments to be made in respect of the Assigned Claims through the Paying Agent to the Investors pursuant to Section 6(1) of the Terms and Conditions of Issue. In case the payments due in respect of the respective Assigned Claims are not made on the relevant Due Date, the Fiduciary shall immediately assert any such Claims against the Bank.

4. The Fiduciary shall be entitled to take judicial and extra-judicial action relating to the Assigned Claims which serve the security purpose described in Section 3 hereof.

5. The Fiduciary does not assume any obligations towards the Investors other than expressly stipulated in this Fiduciary Agreement.

6. The Fiduciary shall be liable to perform of its obligations hereunder with the due care of a prudent businessman.

Section 5 Legal Status of the Silent Partner

1. Subsequent to the execution of this agreement, the Silent Partner shall not dispose of the Assigned Claims. In particular, the Silent Partner shall not encumber the Assigned Claims with any third-party rights and shall not take any action which might adversely affect or jeopardise the Assigned Claims.

2. The Silent Partner shall immediately notify the Fiduciary in writing in the event that the rights of the Fiduciary in the Assigned Claims are adversely affected or jeopardised by any third-party acts. In addition, the Silent Partner shall make available to the Fiduciary any and all information and documentation required by the Fiduciary to protect its rights. The Silent Partner shall notify any such third parties in writing about the rights of the Fiduciary in the Assigned Claims.

3. The Silent Partner shall permit the Fiduciary to inspect at any time all documents relating to the Assigned Claims and available to the Silent Partner.

4. The Silent Partner retains the right to claim an increase of its Profit Participation in accordance with Section 2(3) of the Silent Partnership Agreement.

5. The Silent Partner shall provide assistance to secure that payments to be made to Investors in respect of the Assigned Claims on the relevant Due Date are duly effected in conformity with the Terms and Conditions of Issue. In particular, the Silent Partner shall, in due time and in compliance with formal requirements, give all notices and take all steps necessary to duly effect the payments to be made to Investors in respect of the Assigned Claims through the Paying Agent pursuant to Section 6(1) of the Terms and Conditions of Issue.

Section 6 Warranties of the Silent Partner

The Silent Partner warrants and guarantees towards the Fiduciary by way of an independent guarantee *(selbständiges Garantieversprechen)* that

(a) the Silent Partner is the absolute owner of the Assigned Claims and that the Silent Partner may freely dispose of the Assigned Claims unless otherwise stipulated herein;

(b) the Assigned Claims have not already been assigned or pledged to a third party, and that no third-party rights or claims exist in respect of the Assigned Claims.

Section 7 Pleas and Defences

The Silent Partner and the Bank hereby expressly waive repudiation and set-off as well as any other pleas and defences which the Silent Partner or the Bank might have in connection with the Assigned Claims.

Section 8 Costs

The Silent Partner undertakes to indemnify the Fiduciary against any and all costs and expenses incurred by the Fiduciary in connection with enforcing and exercising any rights hereunder on condition that the Fiduciary provides evidence thereof to the Silent Partner by submitting a receipt.

Section 9 Legal Succession

Neither party shall be entitled to assign its rights hereunder without the prior written consent of the other parties. Any disposals made in respect of the Capital Notes shall not affect this Fiduciary Agreement.

Section 10 Severability

In the event that any provision of this Fiduciary Agreement is or becomes void or ineffective in whole or in part, the other provisions hereof shall remain unaffected thereby. Any such void or ineffective provision shall be replaced by a valid provision coming as close as possible to the economic purpose of the void or ineffective provision. The same shall apply in case this Fiduciary Agreement lacks certain provisions which would have been included herein by the parties, however, if they had been aware of any such lacking provisions at the time they entered into this Fiduciary Agreement.

Section 11 Miscellaneous

1. This Fiduciary Agreement shall be governed by German law.

2. The Regional Court *(Landgericht)* Frankfurt am Main shall have jurisdiction in respect of all lawsuits or court proceedings arising from or in connection with this Fiduciary Agreement.

3. Any amendment to this Fiduciary Agreement must be made in writing.

4. Only the German version of this Fiduciary Agreement shall be legally binding. Any translation into the English language is for convenience only.

Annexes

Annex 1: Silent Partnership Agreement[2]

Annex 2: Receivables Purchase Agreement[3]

Annex 3: Terms and Conditions of Issue[4]

Material Provisions of the Receivables Purchase Agreement

The Receivables Purchase Agreement will be attached to, and shall be deemed to constitute one document together with, the Terms and Conditions of Issue and the Global Certificate, respectively. A copy of the Receivables Purchase Agreement is available for inspection at the offices of the Paying Agent.

Upon distribution of the Profit Participation to the Issuer or the replenishment of the Capital Contribution following a Reduction of its Book Value, Aareal Bank has to withhold amounts on account of investment income tax *(Kapitalertragsteuer)* payable on the distributed amounts and/or on the amount of replenishment pursuant to § 43 (1) No. 3 German Income Tax Act *(EStG),* unless the tax authorities have granted a tax exemption for payments to the Issuer.

The Withholding is treated as a prepayment towards the corporate income tax liability of the Issuer. To the extent that any such prepayment exceeds the definitive amounts of corporate income tax payable by the Issuer, the Issuer will have a refund claim against the tax authorities.

On 24/25 September 2002, the Issuer and Aareal Bank have entered into an agreement on the purchase by Aareal Bank of Tax Refund Claims of the Issuer pursuant to which the Issuer sells and assigns to Aareal Bank its Tax Refund Claims against the tax authorities.

[2] See in this Prospectus "Description of Offering Structure" – "Silent Partnership Agreement"
[3] See in this Prospectus "Description of Offering Structure" – Material Provisions on the Receivables Purchase Agreement". The Agreement has not been included in its entirety in this Prospectus.
[4] See in this Prospectus "Description of Offering Structure" – "Terms and Conditions of the Issue".

As consideration, the Issuer will have payment claims against Aareal Bank, which claims become due for payment in the amount of the respective Withholding at the time of distribution of the Annual Profit Participation. Where a Withholding is effected at the time the Capital Contribution is replenished following Reduction of its Book Value, the Amount of the Purchase Price is to be used for the purpose of replenishing of the Capital Contribution and will directly be credited to the Capital Contribution.

If the tax authorities shall deduct corporate income tax payable by the Issuer from the amount of tax to be refunded, the Issuer must repay the relevant amount to Aareal Bank.

Material Provisions of the Agreement on the Reimbursement of Expenses

The business operations of the Silent Partner will be restricted to the holding and administration of the Silent Participation as well as to such activities as may be required in the context of the issue of the Capital Notes.

Pursuant to the Agreement on the Reimbursement of Expenses entered into on 24/25 September 2002 between the Issuer and Aareal Bank, Aareal Bank has undertaken with the Issuer to make annual payments to the Issuer in reimbursement of certain current expenses required for the continuation of its business operations. Payments of the Silent Partner on the Capital Notes are not deemed expenses to be reimbursed under this agreement.

On account of the annual reimbursement, the Silent Partner will receive monthly advance payments from Aareal Bank. In the event of any unexpected additional costs, the Issuer may demand adjustment of the monthly advance payment. The Silent Partner has agreed to conduct the business operations in an economically responsible and efficient way.

General Information on the Issuer

Incorporation, Domicile, Duration and Object

Capital Funding GmbH was established on 26 June 2001 under the name Real Fünfte Grundstücksgesellschaft mbH and registered with the Commercial Register in Wiesbaden, Germany, no. 21 HRB 12716, on 9 October 2001. It is established for an indefinite period of time.

By resolution of its shareholders' meeting on 15 August 2002, the Issuer has changed its name to "Capital Funding GmbH" and has transferred its registered office from Wiesbaden to Norderfriedrichskoog, Germany. The name change has been registered with the commercial register in Wiesbaden on 23 August 2002. The registration of the transfer of the registered office to Norderfriedrichskoog took place at the Husum commercial register on 17 September 2002.

The business purpose of the Issuer is, pursuant to its Articles of Association, to participate as silent partner in the business of a credit institution within the meaning of § 1 KWG and, for this purpose, to raise capital by the issue of Capital Notes. Any agency transactions are excluded. The Issuer is further entitled to engage in any ancillary businesses which promote the business purpose of the company. The business of the Issuer is not subject to any authorisation pursuant to the KWG or § 34c of the Trade, Commerce and Industry Regulation Act *(GewO).*

Share Capital

The share capital of the Issuer amounts to € 25,000.

Shareholder

Sole shareholder of the Issuer is Deutsche International Corporate Services Limited, acting as trustee for Capital Funding Charitable Trust, an independent non-profit trust domiciled in Jersey. The shareholder has acquired from Aareal Bank all shares of the Issuer pursuant to an agreement dated 19 August 2002.

Principal Activities

The principal activities of the Issuer correspond with the business object stipulated in the Issuer's Articles of Association. The Issuer has no employees.

Management

The Issuer acts through its managing director *(Geschäftsführer).* The managing director always acts as the sole representative of the company. The current managing director is:

Name	**Age**	**Function**
Margret Dircks	49	Geschäftsführerin (managing director)

The managing director can be contacted at the address of the Issuer, Koogstraat 4, 25870 Norderfriedrichskoog, Germany.

Fiscal Year

The fiscal year of the company corresponds to the calendar year.

Auditor

The auditors of the Issuer are NORD-TAX Revisions- und Treuhandgesellschaft mbH Wirtschaftsprüfungsgesellschaft, Rathausplatz 15, 24937 Flensburg.

Litigation

The Issuer is not involved in any litigation or arbitration proceedings which may have any material adverse effect on the financial position of the Issuer's business since 31 December 2001. Furthermore, the Issuer is not aware that any such proceedings or arbitration proceedings are imminent or threatened.

Material Changes

Unless otherwise stated in this Prospectus, the financial position of the Issuer has not materially changed since 31 December 2001.

Opening Balance Sheet as per 26 June 2001

Assets		**Liabilities**	
	26.06.01 EUR		**26.06.01 EUR**
A. current assets		A. capital	
1. receivables from affiliated companies, including receivables with a residual maturity of more than one year	25,000.00 0,00	I. subscribed capital	25,000.00
	25,000.00		25,000.00

Annual Balance Sheet as per 31 December 2001

Assets		**Liabilities**	
	31.12.01 EUR		**31.12.01 EUR**
A. current assets		A. capital	
1. receivables from affiliated companies, including receivables with a residual maturity of more than one year	24,001.21 0,00	I. subscribed capital	25,000.00
		II. annual net loss	–998.79
	24,001.21		24,001.21

Profit and Loss Account for the period from 26 June 2001 until 31 December 2001

	2001 EUR
1. other operating expenses	–998.79
2. results from ordinary business activity	–998.79
3. annual net loss	–998.79

General Informationen on Aareal Bank AG

Corporate History, Registered Office and Object

Aareal Bank was founded on 20 July 1923 under the name of "Deutsche Wohnstättenbank Aktiengesellschaft" *by Reichsverband der preußischen Wohnungsfürsorgegesellschaften and Preußische Landespfandbriefanstalt*, the predecessor of today's DePfa Deutsche Pfandbriefbank AG, to promote and finance residential construction projects. In 1926, Aareal Bank was renamed Deutsche Bau- and Bodenbank AG. The subsidiary Deutsche Bau- und Grundstücks-AG was founded in 1929. Subsequently, a number of *German Laender*, the German state railroad *(Reichsbahn),* the German postal services *(Reichspost)* and other banks became shareholders of Aareal Bank. In 1945, the German *Reich* held a majority stake of about 83 %.

After the second world war, this shareholding passed into the ownership of the German Federal Government. At that time, the Aareal Bank was forced to discontinue its business activities. In 1949, the Berlin-based company Deutsche Bau- and Bodenbank AG was founded in West Berlin to continue business in West Germany. In 1955, Aareal Bank was once again licensed as a bank and permitted to resume business operations. In those days, Aareal Bank's focus was on expanding its bridging loan business for mortgages under home loan savings schemes. In the 1960s, a new system for start-up financing was developed for larger construction projects as well as a solution for the pre-financing of homeowners' equity, funded by subsequent savings. In addition, Aareal Bank commenced the refinancing of government-sponsored housing programmes, which it undertook in a fiduciary capacity on behalf of the public sector up until the early 1980s. Aareal Bank also expanded its range of products to include other services to the property sector, which it offered via subsidiaries and its in-house data-processing centre.

In 1970, Aareal Bank included long-term financing in its financial services in close co-operation with the former DePfa Group. In early 1979, Deutsche Pfandbriefanstalt (now: DePfa Deutsche Pfandbriefbank AG) acquired a majority holding in Aareal Bank. Thus, Aareal Bank became a company of the DePfa Group and, as the management company for DePfa's property activities, became a key member within the Group. On 21 July 1998, Aareal Bank entered into a partial profit transfer agreement, in the form of an agreement establishing an atypical silent partnership, with DePfa Deutsche Pfandbriefbank AG as the parent company. This agreement was terminated via the contract dated 3 January 2002, through the inclusion of the atypical silent partnership in Aareal Bank as part of the split of public finance and property activities.

At the General Meeting held on 20 July 1998, the shareholders resolved to change the name of Aareal Bank to "DePfa Bank AG". This change was registered with the Commercial Register on 5 January 1999.

In order to implement the split in terms of the legal corporate structure, DEPFA BANK plc (formerly DePfa Holding plc) was incorporated in Dublin, Ireland, on 9 October 2001 to manage the public finance activities of the DePfa Group. During the period from 19 January 2002 to 20 February 2002 and/or 13 March 2002, DEPFA BANK plc offered all shareholders of DePfa Deutsche Pfandbriefbank AG the exchange of their shares for shares of DEPFA BANK plc at a ratio of 1:1. 98.1 % of the DePfa Deutsche Pfandbriefbank AG shareholders accepted this offer, thereby making DEPFA BANK plc the parent company of the DePfa Group.

During the course of the split of DePfa Group's public finance and property activities, DePfa Deutsche Pfandbriefbank AG sold its stake in Aareal Bank to the Irish Parent company DEPFA BANK plc in accordance with the contract dated 19 April 2002. The subsequent reduction in the capital of DEPFA BANK plc resulted in a distribution of the Aareal Bank shares to the shareholders of DEPFA BANK plc in the form of a distribution in kind, with the purpose of turning Aareal Bank into an independent Property Bank. This capital reduction became effective upon registration of the decision of the Irish High Court, together with the court-approved endorsement, by the Registrar of Companies in Dublin with the Irish commercial register on 6 June 2002, resulting in the final separation between public finance and property activities.

At Aareal Bank's General Meeting held on 3 January 2002, it was resolved to change the company name to "Aareal Bank AG". This change of the company name was registered with the Commercial Register on 22 January 2002.

On 14 June 2002, the entire share capital of Aareal Bank, divided into 35,334,843 bearer unit shares, was admitted to Official Trading (*amtlicher Handel*) at the Frankfurt Stock Exchange. Listing commenced on 17 June 2002.

Aareal Bank's registered office is in Wiesbaden. The address of the company's head office is Paulinenstraße 15, 65189 Wiesbaden.

The object of Aareal Bank shall be the operation of banking business of whatever kind, the performance of financial and other services as well as the promotion of international business relationships. Aareal Bank may conduct business in these areas directly or indirectly via participations held in other companies. Aareal Bank may perform services of whatever kind and may establish branch offices in Germany or abroad and form, acquire or hold interests in other companies. Aareal Bank may alter the structure of companies it holds an interest in, combine these under unified management, or limit itself to the management of these companies, or dispose of their shareholdings. Moreover, Aareal Bank may transfer its operation, in full or in part to non-affiliated enterprises.

Aareal Bank is a public limited company under German law and incorporated for an indefinite period of time.

The Silent Partnership Agreement contained elsewhere in this Prospectus (see "Description of Offering Structure" – Silent Partnership Agreement") as well as the Receivables Purchase Agreement and the Agreement Regarding Reimbursement of Expenses between Aareal Bank and the issuer (see "Description of Offering Structure" – "Material Provisions of the Receivables Purchase Agreement" and "Material Provisions of the Agreement Regarding Reimbursement of Expenses") were the subject matter of the Extraordinary General Meeting of Aareal Bank held on 4 June 2002. The above agreements, which were submitted to the General Meeting in draft form, were unanimously approved. As a partial profit transfer agreement within the meaning of Sec. 292 (1) No.2 of the German Stock Act *(Aktiengesetz,* "AktG"), the Silent Partnership Agreement requires entry in the Commercial Register in which Aareal Bank is registered. The agreement was signed on 24/25 September 2002 and was registered with the commercial register on 4 October 2002.

Financial Year

The financial year corresponds with the calendar year.

Capital Structure

Share capital

By resolution of the General Meeting of 8 May 2000, the existing share capital of Aareal Bank totalling DEM 160,000,000 (which had been unchanged since 1994) was converted to euro and at the same time increased by € 1,393,299 to a total amount of € 83,200,000 out of retained earnings.

The Extraordinary General Meeting of Aareal Bank held on 3 January 2002 approved an increase of Aareal Bank's share capital totalling € 83,200,000.00 to € 91,000,000.00 by way of a contribution in kind of € 7,800,000.00. On the same date, DePfa Deutsche Pfandbriefbank AG and Aareal Bank entered into a contribution agreement approved by the supervisory boards of both companies. This contribution agreement provided for the inclusion and transfer of DePfa Deutsche Pfandbriefbank AG's atypical silent partnership in Aareal Bank to Aareal Bank against subscription and acquisition of a total of 300,000 new bearer shares, each having a notional value of € 26, to be created as part of the capital increase against contribution in kind. The new bearer shares were issued at par. The balance between the book value of the included atypical silent partnership and the notional value of the Aareal Bank bearer shares, issued in return for the inclusion, was transferred to capital reserves in accordance with Sec. 272 (2) No. 1 of the HGB.

In its decision of 20 November 2001, the Berlin-Charlottenburg District Court *(Amtsgericht Berlin-Charlottenburg)* appointed PwC Deutsche Revision AG as auditors of the contribution in kind pursuant to Sec. 183 (3) of the "AktG". The report of PwC Deutsche Revision AG dated 10 December 2001 contains the following statement:

> "Based on an audit performed in accordance with our professional duties pursuant to Sections 183 (3) and 34 (2) of the AktG on the instruments, accounting records, documents and supporting material presented to us and the explanations provided, we hereby confirm that the value of the contribution in kind made by *Pfandbriefbank* reaches the notional value of Aareal Bank's bearer shares to be granted in return."

The execution of the capital increase was registered with the Commercial Register at the Berlin-Charlottenburg District Court on 4 January 2002.

The Annual General Meeting of Aareal Bank held on 29 April 2002 approved a conversion of Aareal Bank's share from registered shares into bearer unit shares, having a notional value of € 3.00 each, and a capital increase from € 91,000,000 to € 106,004,529, to be effected out of retained earnings in the amount of € 870,591.80 (by the issuance of 334,843 new bearer shares) and by conversion of a portion of the capital reserve (without issue of new bearer shares) in the amount of € 14,133,937.20. The entry in the Commercial Register was effected on 13 May 2002.

Aareal Bank's current share capital therefore amounts to € 106,004,529, divided into 35,334,843 freely transferable unit shares. All shares are bearer shares and are vested by a global share certificate which has been deposited with Clearstream Banking AG, Frankfurt/Main.

The company may issue global certificates. The right of shareholders to demand the issue of certificates vesting their shares (including profit shares) is excluded, unless the issue of certificates is required pursuant to the rules and regulations of any exchange market on which the bearer shares are admitted to trading.

Authorised capital

The Management Board is authorised to increase, on one or more occasions, Aareal Bank's share capital by up to a maximum notional amount of € 40,000,000 (authorised capital) via the issuance of new bearer shares for contribution in cash or in kind, subject to the approval of the Supervisory Board. This authority will expire on 30 November 2006. Subject to approval by the Supervisory Board, the Management Board may exclude shareholders' subscription rights. However, the exclusion of subscription rights is only permissible for a total amount not exceeding € 8,000,000, where the issue price of the shares is not significantly below the stock exchange price; for fractional amounts arising from the determination of the applicable subscription ratio; for the issuance of new shares in connection with convertible bonds or bonds with warrants issued; for a total amount not exceeding € 4,000,000 in connection with a stock offer to staff of Aareal Bank (or related parties); and for a total amount not exceeding € 8,000,000 in connection with a capital increase against contributions in kind for the acquisition of participations.

Conditional capital

The share capital is subject to a conditional capital increase of up to € 20,000,000. The conditional capital increase will be executed only to the extent that the holders of convertible bonds and/or bonds cum warrants or warrants to be issued by 30 November 2006 exercise their conversion or option rights.

The Management Board is authorised to issue by 30 November 2006, on one or more occasions, convertible bonds and/or bonds cum warrants and/or convertible profit-participation certificates with an aggregate value of € 500.000.000, which grant option and/or conversion rights to ordinary shares of Aareal Bank, equivalent to a share of the equity capital of up to € 20,000,000. The Management Board is authorised to exclude shareholders' subscription rights (a) to the extent necessary to compensate for fractional amounts; (b) to the extent necessary to ensure that holders of existing conversion and/or option rights with regard to convertible bonds and/or bonds cum warrants already issued or yet to be issued by Aareal Bank and/or one of its affiliated companies will be granted a subscription right that would entitle such holders to the same extent as they would have been entitled on exercising their conversion or option rights; and (c) where the relevant issue is effected at a price which is not significantly below the theoretical market value of the Bonds ascertained in accordance with recognised mathematical valuation methods.

Shareholders of Aareal Bank

To the best knowledge of Aareal Bank, its shareholder structure as at 6 June 2002 (immediately after the execution of the capital reduction of DEPFA BANK plc by way of a distribution in kind of the shares of Aareal Bank to the shareholders of DEPFA BANK plc) was essentially as follows:

59.24 % free float (institutional and private investors)

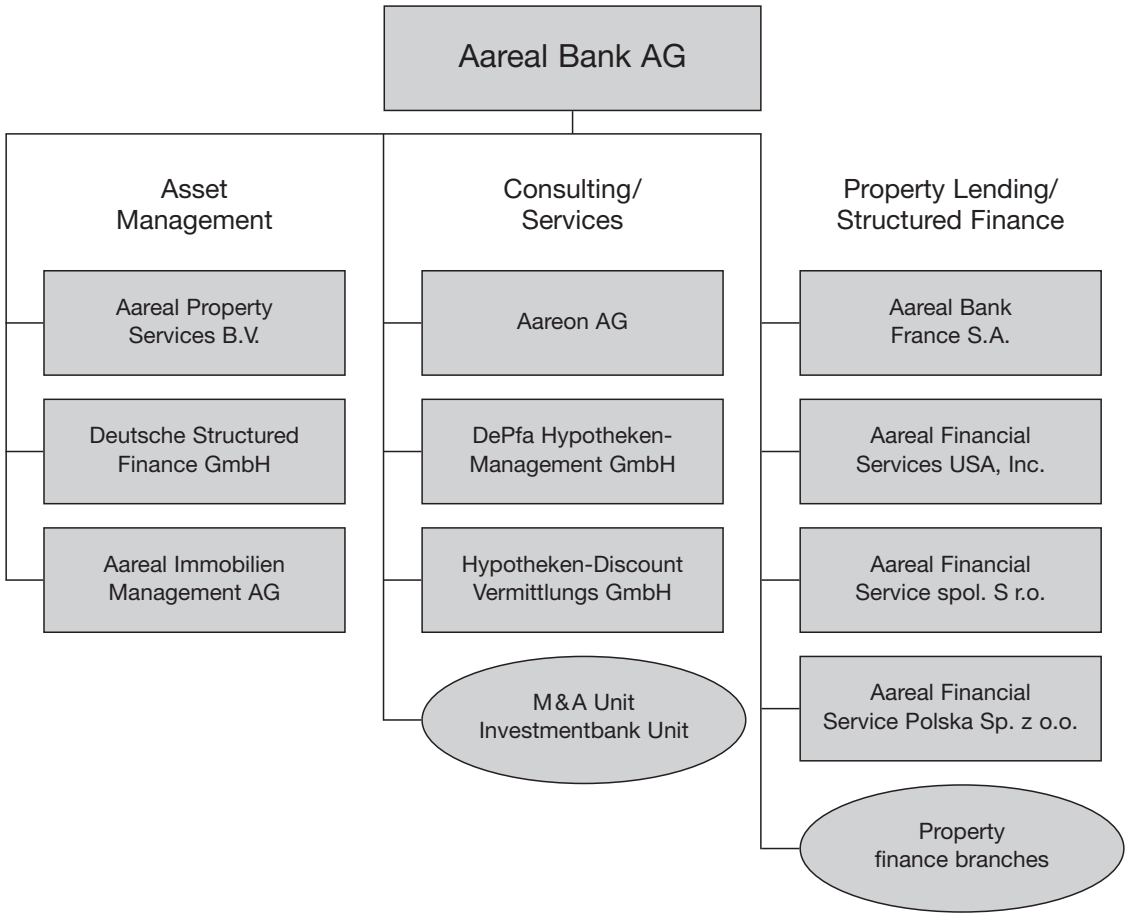
40.76 % DePfa Holding Verwaltungsgesellschaft mbH

thereof (i.e. indirect shareholding in Aareal Bank):

- 8.50 % Bayerische Beamten-Lebensversicherung aG
- 8.50 % Schweizerische Lebensversicherungs- und Rentenanstalt
- 6.36 % Federal and Länder Government-Service Supplementary Pension Agency
- 5.78 % Bankhaus Lampe KG
- 4.99 % Deutscher Ring Beteiligungs-Holding
- 2.73 % Schmidt-Bank
- 2.61 % Entenial S.A.
- 1.29 % Condor Lebensversicherungs-AG

Group Structure

Aareal Group's structure as at 30 June 2002 is shown below:



The following table provides an overview of the participating interests held directly or indirectly by Aareal Bank as at 31 December 2001.

No.	Company Name	Registered office	Interest held (%)		Held via No. (AB = held by Aareal Bank AG)		Shareholders' equity (purs. to Sec. 266 HGB) 31.12.2001 € mn
1	Aufbaugesellschaft Prager Straße mbH	Dresden	100.0	49			1.2
2	B & P/DSF Windpark GbR	Frankfurt	50.0	62			5.8
3	Barnimer Grundstücksgesellschaft mbH	Frankfurt	100.0	7			0.0
4	Barnimer Grundstücksgesellschaft mbH & Co. Erste KG	München	100.0	7	124		0.0
5	Barnimer Grundstücksgesellschaft mbH & Co. Zweite KG	München	100.0	7	124		0.0
6	Bau- und Bodenverwaltungs-gesellschaft GbR	Wiesbaden	100.0	7	AB		1.9
7	BauBo Bau- und Bodenverwertungs- und -verwaltungsgesellschaft mbH Berlin	Berlin	100.0	AB			50.4
8	BauBo-Immobilien Projekt GmbH	Frankfurt	100.0	7			0.0
9	BauConsult DV- und Unternehmens-beratung Bayern GmbH	München	50.0	51			0.7
10	BauConsult DV- und Unternehmens-beratung Hannover GmbH	Hannover	51.0	51			1.6
11	BauConsult DV- und Unternehmens-beratung Mainz GmbH	Mainz	51.0	51			2.0
12	BauConsult DV- und Unternehmens-beratung Stuttgart GmbH	Stuttgart	74.0	51			0.6
13	BauContact Immobilien GmbH	Wiesbaden	100.0	AB			22.0
14	BauSecura Versicherungsmakler GmbH	Hamburg	51.0	51			1.4
15	BGB-Gesellschaft Friedrichshain Block-A-Nord	Berlin	100.0	49	47		–0.8
16	BGB-Gesellschaft Friedrichshain Block-A-Süd	Berlin	100.0	49	47		–7.1
17	BGB-Gesellschaft Friedrichshain Block-B-Nord	Berlin	100.0	49	47		2.3
18	BGB-Gesellschaft Friedrichshain Block-B-Süd	Berlin	100.0	49	47		2.0
19	BGB-Gesellschaft Friedrichshain Block-E-Nord	Berlin	100.0	49	47		1.8
20	BGB-Gesellschaft Friedrichshain Block-E-Süd	Berlin	100.0	49	47		2.9
21	BGB-Gesellschaft Friedrichshain Block-G-Nord	Berlin	100.0	49	47		–1.1
22	BGB-Gesellschaft Friedrichshain Block-G-Süd (1)	Berlin	100.0	49	47		–0.8
23	BGB-Gesellschaft Friedrichshain Block-G-Süd (2)	Berlin	100.0	49	47		0.6
24	BGB-Gesellschaft Spindlers Hof Berlin	Berlin	100.0	7	47	49	–18.5
25	BGB-Gesellschaft Wohnpark Stralau VI	Berlin	42.4	45			0.1
26	BHG Gesellschaft zur Betreuung von Haus- und Grundbesitz mbH	Bonn	100.0	61			0.0
27	BioTechPark Charlottenburg GmbH & Co. KG	Berlin	50.0	64			n/a
28	BioTechPark Charlottenburg Management GmbH	Berlin	25.0	73			n/a
29	BioTechPark Charlottenburg Verwaltung GmbH	Berlin	50.0	74			n/a

No.	Company Name	Registered office	Interest held (%)		Held via No. (AB = held by Aareal Bank AG)		Shareholders' equity (purs. to Sec. 266 HGB) 31.12.2001 € mn
30	BOUYGUES Immobilien - DEPFA Bank Objekt Main Triangel GmbH	Frankfurt	50.0	AB			8.8
31	Bürozentrum Parkstadt München-Schwabing KG	München	33.3	AB			12.7
32	Centimanen Vastgoed B.V.	Rotterdam	100.0	7			n/a
33	Chariton Vastgoed B.V.	Velp	100.0	7			–0.6
34	Conti Bau Gesellschaft mit beschränkter Haftung	Bonn	100.0	61			0.0
35	Delphi Vastgoed B.V.	Velp	100.0	7			–0.9
36	Delphi Vastgoed B.V.-Meteora Vastgoed B.V. GbR	Frankfurt	100.0	35	100		1.6
37	DePfa Bank Capital Funding LLC	Wilmington	100.0	AB			n/a
38	DePfa Bank Capital Funding Trust	Wilmington	100.0	AB			n/a
39	DePfa Bau-,Verwaltungs- und Controlling GmbH	Hamburg	100.0	AB			1.7
40	DePfa Capital Japan K.K.	Tokio	66.7	AB			470.9 JPY mn
41	DePfa Financial Service Polska Sp.z o.o.	Warschau	100.0	AB			1.8 PLN mn
42	DePfa Financial Service spol sr.o.	Prag	100.0	AB			9.9 CZK mn
43	DePfa Financial Services USA. Inc.	Wilmington	100.0	AB			n/a
44	DePfa Hypotheken-Management GmbH	Mannheim	100.0	AB			0.6
45	DePfa Immobilien Anlagen GmbH	Wiesbaden	100.0	49			0.0
46	DePfa Immobilien Beteiligungs GmbH	Wiesbaden	100.0	49			0.0
47	DePfa Immobilien Fonds GmbH	Wiesbaden	60.0	49			0.2
48	DePfa Immobilien Fonds GmbH & Co. Dresden-Klotzsche Baufeld C/D KG	Berlin	93.2	AB	47	49	22.1
49	DePfa Immobilien Management AG	Wiesbaden	100.0	AB			15.4
50	DePfa Immobilien Projektentwicklungs GmbH	Wiesbaden	50.0	49			0.0
51	DePfa IT Services AG	Mainz	100.0	AB			34.6
52	DePfa IT Services Italia S.r.l.	Rom	100.0	51	55		0.9
53	DePfa IT Services Polska sp.z.oo	Posen	100,0	51			0.9
54	DePfa IT Services UK Ltd.	Coventry	100.0	51			2.0
55	DePfa Systems GmbH	Mainz	100.0	51			26.5
56	DePfa UK Ltd.	London	100.0	57			0.3 GBP mn
57	DePfa USA Inc.	Wilmington	100.0	AB			3,0 USD mn
58	DePfa Partecipazioni S.p.A.	Rom	100.0	AB			6.6
59	DePfa-Bank France S.A.	Paris	100.0	AB			44.5
60	Deutsche Aircraft Leasing GmbH	Frankfurt	100.0	62			0.0
61	Deutsche Bau- und Grundstücks-Aktiengesellschaft	Berlin	94.9	AB			9.4
62	Deutsche Structured Finance GmbH	Frankfurt	100.0	AB			9.4
63	Deutsche Structured Finance GmbH & Co. Ataier KG	Frankfurt	100.0	62			0.0
64	Deutsche Structured Finance GmbH & Co. Denebola KG	Frankfurt	100.0	62			0.0
65	Deutsche Structured Finance GmbH & Co. Io KG	Frankfurt	100.0	66			n/a
66	Deutsche Structured Finance GmbH & Co. Phönix KG	Frankfurt	100.0	62			–1.6
67	Deutsche Structured Finance GmbH & Co. Skorpion KG	Frankfurt	100.0	62			0.8
68	Deutsche Structured Finance GmbH & Co. Titan KG	Frankfurt	100.0	62			n/a

No.	Company Name	Registered office	Interest held (%)	Held via No. (AB = held by Aareal Bank AG)		Shareholders' equity (purs. to Sec. 266 HGB) 31.12.2001 € mn
69	DP Consult S.A.	Buenos Aires	100.0	57		n/a
70	Dresden-Klotzsche Baufeld B GbR	Berlin	99.0	AB	47 49	–12.1
71	Dresden-Klotzsche Baufeld F GbR	Berlin	99.0	AB	47 49	–7.7
72	DSF Beteiligungsgesellschaft mbH	Frankfurt	100.0	62		0.1
73	DSF Immobilienverwaltung GmbH	Frankfurt	100.0	62		n/a
74	DSF Verwaltungsgesellschaft mbH	Frankfurt	100.0	62		0.0
75	DSF Zweite Verwaltungs-gesellschaft mbH	Frankfurt	100.0	62		n/a
76	Edilbox S.r.l.	Rom	60.0	52		–0.4
77	EUROPA-Forum II Gesellschaft für Immobilienentwicklung mbH	Grünwald	33.3	13		0.4
78	Fachklinik Lenggries für Neurologie und Physikalisch-rehabilitative Medizin GmbH	Lenggries	100.0	AB		–1.3
79	Friedrich-Ebert-Allee Bonn GbR	Bochum	22.5	49		96.6
80	GbR Melchendorfer Straße	Wiesbaden	75.0	45	50	–1.5
81	GbR STADTEINGANG ESCHBORN SÜDOST	Wiesbaden	65.0	49		n/a
82	GbR Wienerplatz MK 4 Dresden	Wiesbaden	100.0	49	46	0.0
83	GbR Wienerplatz MK 5 Dresden	Wiesbaden	100.0	49	46	n/a
84	GbR Wienerplatz MK 6 W 1 Dresden	Wiesbaden	100.0	49	46	n/a
85	GbR Wienerplatz MK 6 W 2 Dresden	Wiesbaden	100.0	49	46	n/a
86	GbR Wienerplatz MK 6 W 3 Dresden	Wiesbaden	100.0	49	46	n/a
87	GbR Wienerplatz MK 6 W 4 Dresden	Wiesbaden	100.0	49	46	n/a
88	GbR Wienerplatz MK 6 W 5 Dresden	Wiesbaden	100.0	49	46	n/a
89	Grundstücksgesellschaft Heidenkampsweg 74–76 GmbH & Co.KG	Hamburg	49.0	AB		n/a
90	GWE Gesellschaft für Wohnen im Eigentum AG	Stuttgart	30.0	AB		0.0
91	HM DePfa-Service GmbH	Wiesbaden	100.0	44		n/a
92	Hypotheken-Discount Vermittlungs GmbH	Mannheim	92.9	AB		–0.4
93	IBS Innovative Banking Solutions AG	Wiesbaden	49.0	AB		1.5
94	IMMO Consulting S.p.A.	Rom	70.0	AB		0.2
95	Immobilien Scout GmbH	Berlin	30.2	13		0.5
96	InfraLease Leasinggesellschaft für Infrastruktureinrichtungen mbH	Wiesbaden	100.0	AB		5.3
97	IVC Immobilienverwaltungs- und Controlling GmbH	Hamburg	100.0	39		0.0
98	Lucascribe Participations S.A.R.L.	Paris	100.0	59		–0.2
99	Mareon AG	Mainz	100.0	51		–2.2
100	Meteora Vastgoed B.V.	Velp	100.0	7		–0.3
101	Objektgesellschaft FFA-Wohnungen Freiburg GbR	Wiesbaden	100.0	49	47	–1.0
102	Parkhotel Altenburg GbR	Stuttgart	100.0	AB	7	–3.2
103	Participation Fünfte Beteiligungs AG	Wiesbaden	100.0	AB		0.0
104	Participation Sechste Beteiligungs AG	Wiesbaden	100.0	AB		0.0
105	Participation Siebte Beteiligungs AG	Wiesbaden	100.0	AB		0.0
106	Participation Vierte Beteiligungs AG	Wiesbaden	100.0	AB		0.0
107	PREM S.A.S	Orléans	70.0	51		1.0
108	Real Erste Grundstücksgesellschaft mbH	Frankfurt	100.0	AB		0.0

No.	Company Name	Registered office	Interest held (%)		Held via No. (AB = held by Aareal Bank AG)	Shareholders' equity (purs. to Sec. 266 HGB) 31.12.2001 € mn
109	Real Fünfte Grundstücksgesellschaft mbH	Wiesbaden	100.0	AB		0.0
110	Real Neunte Grundstücksgesellschaft mbH	Wiesbaden	100.0	AB		0.0
111	Real Siebte Grundstücksgesellschaft mbH	Wiesbaden	100.0	AB		0.0
112	Real Zweite Grundstücksgesellschaft mbH	Wiesbaden	100.0	AB		–0.2
113	Regenerative Energien Verwaltungs-gesellschaft Nummer Eins mbH	Frankfurt	100.0	62		n/a
114	Regenerative Energien Verwaltungs-gesellschaft Nummer Drei mbH	Frankfurt	100.0	62		n/a
115	Rimo Consulting AG	Ried-Neerach	100.0	51		–0.8
116	RusBauTec	Moskau	80.0	55		0.0 RUR mn
117	RusKomBauConsult GmbH	Moskau	50.0	51		–10.8 RUR mn
118	SCI rue de Genéve	Bobigny	50.0	98		0.0
119	SEMU Beteiligungsgesellschaft mbH	Frankfurt	33.0	7		3.9
120	Stadtentwicklungsgesellschaft Weimar mbH	Weimar	50.0	61		0.1
121	Suhl I GbR	Wiesbaden	100.0	AB	7	–0.3
122	Terrain Herzogpark und Partner Erschließungs-GmbH	München	67.0	123		0.8
123	Terrain-Aktiengesellschaft Herzogpark	München	99.8	7		1.6
124	Terrain-Verwaltungs-GmbH Herzogpark	München	100.0	123		0.1
125	Tower Plaza Limited	London	67.0	59		0.0 GBP mn
126	Treu Verwaltungsgesellschaft mbH	Bad Salzungen	49.0	AB		0.0
127	Treu Verwaltungsgesellschaft mbH Heimstatt & Co.KG	Bad Salzungen	49.0	AB		0.0
128	Verwaltung DePfa Euro-Immobilienfonds 1 GmbH	Hamburg	100.0	AB		0.0
129	Westhafen-Gelände Frankfurt am Main GbR	Frankfurt	25.0	49		4.0
130	Westhafen Haus GmbH & Co. Projektentwicklungs KG	Frankfurt	25.0	49		0.7
131	Windpark Ahlerstedt Verwaltungs-gesellschaft mbH	Frankfurt	20.0	62		0.0
132	Windpark Borsum Verwaltungs-gesellschaft mbH	Frankfurt	20.0	62		0.0
133	Windpark Rhede Verwaltungs-gesellschaft mbH	Frankfurt	20.0	62		n/a
134	WP Wohnpark Immobilien GmbH	Wiesbaden	100.0	AB		n/a
135	ZMP Zentral Messepalast Entwicklungs GbR	Leipzig	100.0	AB	7	–37.9

Following the completion of the restructuring measures in connection with the split of the Property and Public Finance activities of the former DePfa Group, Aareal Bank now has the following subsidiary who represented 10 % or more of the net income of the company. Stated are the company name, location of registered office, main activities, the amount of direct and indirect interest of Aareal Bank in the issued capital, the book value and Aareal Bank's loans and advances / liabilities to the subsidiary as at 31 December 2001 as well as the amount of dividends (income) paid to Aareal Bank during the 2001 financial year.

Aareon AG

Registered office	Mainz
Main activities	Software and IT Services for the real estate management sector
Share capital	€ 13 mn
Interest in share capital	100 %
Book value of interests held	€ 13 mn
Loans and advances	€ 61 mn[1]
Liabilities	€ 85 mn
Dividend payments in 2001	€ 0

[1] "Loans and advances" includes receivables from related parties in the amount of € 42.4 million, other assets in the amount of € 4 million and balances held with banks totalling € 0.8 million. Furthermore, the other loans and advances reported under "Non-trading assets" and totalling € 14 million were also added.

Executive Bodies

Aareal Bank's executive bodies are the Management Board, the Supervisory Board and the General Meeting. The competences of these bodies are laid down in the German Stock Corporation Act and Aareal Bank's Articles of Association.

The Management Board

The Management Board of Aareal Bank consists of a minimum of two Members. The Supervisory Board appoints the Members of the Management Board and determines their number. It may also appoint Deputy Members. The Supervisory Board may appoint one Member of the Management Board to be the Chairman of or the Spokesman for the Management Board. The representation of Aareal Bank may be carried out by two Members of the Management Board jointly or one Member of the Management Board jointly with an executive holding general power of attorney *(Prokurist).*

At present, the Management Board is comprised of the following persons:

Name	Age	Commencement of office term
Karl-Heinz Glauner (Chairman)	55	1 January 1999
Michael A. Kremer (Vice Chairman)	50	1 February 2000
Dr. Ralph Hill	40	2 April 2001
Hermann Josef Merkens	35	2 April 2001
Christof M. Schörnig	35	14 June 2002

Intragroup offices held

Karl-Heinz Glauner

Aareal Bank France S.A.	Président of the Conseil d'Administration and Président Directeur Général
Aareon AG	Chairman of the Supervisory Board
Aareal Property Services B.V.	Member of the Supervisory Board
Aareal Financial Service spol s.r.o.	Chairman of the Supervisory Board
Aareal Financial Service Polska Sp.zo.o.	Member of the Supervisory Board

Michael A. Kremer

Aareal Immobilien Management AG	Chairman of the Supervisory Board
Aareon AG	Member of the Superevisory Board
Deutsche Bau- und Grundstücks AG	Chairman of the Supervisory Board
Deutsche Structured Finance GmbH	Chairman of the Advisory Board
Aareal Property Services B.V.	Chairman of the Supervisory Board

Dr. Ralph Hill

Aareal Bank France S.A.	Member of the Conseil d'Administration
Aareal Financial Services USA Inc.	Chairman of the Board of Directors
Aareal Financial Service Polska Sp. z o.o.	Chairman of the Supervisory Board
Aareal Financial Service spol s r.o.	Member of the Supervisory Board

Hermann Josef Merkens

Aareal Immobilien Management AG	Member of the Supervisory Board
Deutsche Bau- und Grundstücks AG	Member of the Supervisory Board
Aareal Bau-, Verwaltungs- und Controlling GmbH	Member of the Advisory Board
Deutsche Structured Finance GmbH	Member of the Advisory Board

Christof M. Schörnig

Aareal Bank France S.A.	Member of the Conseil d'Administration
Aareon AG	Member of the Supervisory Board

Other offices held

Karl-Heinz Glauner

Deutsche Interhotel Holding GmbH & Co. KG	Member ot the Advisory Board
Entenial S.A.	Member of the Conseil d'Administration

Michael A. Kremer

AVECO Holding GmbH	Member of the Supervisory Board
DOL Deutsche Operating Leasing AG	Chairman of the Supervisory Board
Eurofactor AG	Member of the Supervisory Board

Dr. Ralph Hill

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Hermann Josef Merkens

Deutsche Interhotel Holding GmbH & Co. KG	Member of the Advisory Board

Christof M. Schörnig

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Service agreements

During 2001, Members of the Management Board of Aareal Bank, which became an independent company by splitting from the DePfa Group in June 2002 received ongoing remuneration and payments from DePfa Group companies, consisting of fixed salaries totalling € 895,862.09 and variable salary components totalling € 4,418,683.82.

In addition, the DePfa Group operated a long-term incentive plan in the past which is now intended to be continued by Aareal Bank in either a similar or modified manner.

The current Members of the Management Board held an aggregate amount of 303,644 bearer shares in Aareal Bank on 23 August 2002. At that time, Aareal Bank had extended loans in the total amount of € 3,696,915 (including the long-term incentive plan) to the current Members of the Management Board.

The Supervisory Board

At present, the Supervisory Board of Aareal Bank comprises 21 members.

The Supervisory Board is appointed for a period not exceeding the period until the end of the next General Meeting that resolves on the formal approval for the fourth financial year following commencement of the office term; the financial year in which the office commenced is not included in this calculation. Re-appointment is possible. Retiring Board Members are eligible for re-election. In the event of an election of a substitute, the office of the newly elected Member ends at the latest upon expiry of the office term of the retired Member. The Members of the Supervisory Board may resign from their office by addressing a written statement to this effect to the Chairman of the Supervisory Board or the Management Board, by giving one month's notice. Members may resign, for good cause, without giving notice.

All Members of the Supervisory Board receive an annual remuneration in addition to the reimbursement of their cash expenses. The General Meeting determines the amount of remuneration of the Members of the Supervisory Board. The Supervisory Board elects a Chairman and up to three Deputies from among its Members for the duration of their term of office on the Board. The Supervisory Board may set up committees from among its Members and delegate decision-making powers of the Supervisory Board to these committees to the extent permitted by law.

The meetings of the Supervisory Board are convened by the Chairman or a Deputy in writing or via telecommunications facilities. The Supervisory Board is deemed to have a quorum when at least 50% of its Members take part in the passing of a resolution. The resolutions of the Supervisory Board and its committees are passed by a simple majority vote.

At present, the members of the Supervisory Board are:

Dr. Jürgen Westphal[1), 3)], Hamburg
Chairman
Barrister and Solicitor; Judge at the Hamburg Constitutional Court

Christian Graf von Bassewitz[1), 3)], Düsseldorf
Deputy Chairman
General Partner of Bankhaus Lampe KG and Spokesman of the Management Board

Dr. Richard Brantner[1), 2), 3)], Schramberg
Management Board Member (ret'd.)

Lutz Briegel[1), 4)], Frankfurt
Aareal Bank AG

York-Detlef Bülow[4)], Katzenelnbogen
Deputy Chairman
Aareal Bank AG

Prof. Dr. Johann Eekhoff, Bonn
Undersecretary of State (ret'd.)

Wolfgang Fauter[3)], Hamburg
Chairman of the Management Boards of Deutsche Ring Versicherungen

Erwin Flieger, Geretsried
Chairman of the Management Boards of Bayerische Beamten Lebensversicherungen a.G. and of BBV Holding AG

Lutz Freitag, Berlin
President of GdW Bundesverband deutscher Wohnungsunternehmen e.V.

Dr. Friedrich-Adolf Jahn, Münster
President of Zentralverband der Deutschen Haus-, Wohnungs- und Grundeigentümer e.V.
(Central Association of German Home, Housing and Property Owners)

Ralf Kupka[3), 4)], Inning am Ammersee
Aareal Bank AG

Dr. Peter Lammerskitten[2), 3)], Königstein
Chairman of the Management Board of DePfa Deutsche Pfandbriefbank AG and Aareal Bank AG a. D. (ret'd.)

Jacques Lebhar, Paris
Président-Directeur Général of Entenial

Kurt Pfeiffelmann[2), 4)], Mainz
Aareal Bank AG

Hans W. Reich, Kronberg
Chairman of the Board of Managing Directors of Kreditanstalt für Wiederaufbau

Klaus-Peter Sell[3), 4)], Burkardroth
Aareal Bank AG

Jürgen Strauß[1), 2)], München

General Manager and Senior Representative for Germany of Schweizerische Lebensversicherungs- und Rentenanstalt a. G.

Professor Dr. Dr. h.c. mult. Hans Tietmeyer, Königstein
President of Deutsche Bundesbank (ret'd.)

Wolf R. Thiel, Berlin
President of the Federal and Länder Government-Service Supplementary Pension Agency
(Präsident der Versorgungsanstalt des Bundes und der Länder)

Reiner Wahl[3), 4)], Wiesbaden
Aareal Bank AG

Anja Wölbert[4)], Limburg
Aareal Bank AG

[1)] Member of the Executive Committee
[2)] Member of the Accounts and Audit Committee
[3)] Member of the Credit and Market Risk Committee
[4)] Employee representative

All Members of the Management Board and the Supervisory Board can accept service of process at Aareal Bank's business address.

The current Members of the Supervisory Board held an aggregate amount of 8,650 bearer shares in Aareal Bank. At that time, Aareal Bank had not extended any loans to the current Members of the Supervisory Board.

General Meeting

Pursuant to the Articles of Association, the General Meeting of Aareal Bank takes place at the company's registered office or at the registered office of a German stock exchange. The Annual General Meeting is convened by the Management Board within the first eight months of each financial year. Unless other persons are also authorised to do so by law, the General Meeting is only convened by the Management Board.

Profit Appropriation and Dividend Policy

The Annual General Meeting passes the resolutions on the distribution of dividends for the previous financial year, as well as on the dividend amount and actual time of distribution, based on the Financial Statements determined. The Annual General Meeting makes its decision after Management Board and Supervisory Board have submitted their proposal; however, the Annual General Meeting is not bound by their proposal.

Dividends may be determined and distributed only from the distributable profit, as regularly shown in the individual annual financial statements approved by both Management Board and Supervisory Board. When determining the amount available for distribution, the net income must be adjusted by the profits/losses carried forward from the previous year as well as any withdrawals from and/or transfers to retained earnings. The creation of certain types of retained earnings is required by law; these retained earnings must be deducted when calculating the distributable profit available for distribution.

The net income for the 1999 financial year was € 39,802,074, for the 2000 financial year € 10,152,000, and for the 2001 financial year € 151,023,301. For the 1999 financial year, Aareal Bank paid dividends totalling approximately € 8.2 million, for the 2000 financial year dividends totalling € 9.2 million, and for the 2001 financial year an extraordinary dividend totalling € 122 million was paid due to the restructuring of DePfa Group.

Past dividends are not indicative of any future dividend payments.

Aareal Bank proceeds on the assumption that, as was previously the case with DePfa Deutsche Pfandbrief-bank AG, future dividends will be paid depending on the results of operations and the capital requirements of Aareal Bank. Furthermore, it is intended to maintain a relatively high retention rate to help ensure a sufficient capital base for further growth via internal equity financing.

Auditors

Aareal Bank's annual financial statements for the financial years ending 31 December 1999, 31 December 2000 and 31 December 2001, prepared in accordance with the German Commercial Code (Handelsgesetz-buch, “HGB”), have been audited and provided with an unqualified audit opinion by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Olof-Palme-Straße 35, 60439 Frankfurt/Main (cf “Financial Information of Aareal Bank AG”).

Until the time of its split from the DePfa Group, Aareal Bank was not required to prepare consolidated financial statements, as the company was included in the consolidated financial statements of DePfa Deutsche Pfandbriefbank AG, resulting in an exemption of Aareal Bank in this regard (Sec. 291 (1) of the HGB).

Selected Financial Information of Aareal Bank AG

The following selected financial data of Aareal Bank should be read in conjunction with the financial statements and related notes of Aareal Bank included elsewhere in this Prospectus.

As a company of the DePfa Group, Aareal Bank was not required to prepare consolidated financial statements or interim consolidated financial statements. Instead, Aareal Bank prepared individual financial statements in accordance with the German Commercial Code (Handelsgesetzbuch, "HGB"). Therefore, material financial information from the profit and loss accounts and balance sheets of Aareal Bank for the financial years 2001, 2000 and 1999 as well as material unaudited pro-forma consolidated financial information of the Aareal Group for the financial years 2001 and 2000 are presented here. Such information was derived on the basis of US GAAP accounting standards. The presentation of the pro-forma consolidated financial information does not comply with the requirements of Article 11, Regulation S-X of the US Securities Act 1933; any such compliance is not intended.

Audited Financial Information for the Financial Years 2001, 2000 and 1999 in accordance with the HGB

The following financial data has been derived from Aareal Bank's audited individual financial statements for the financial years 2001 and 2000 contained in this Prospectus and presented in accordance with the German Commercial Code. The financial statements of Aareal Bank for the financial years 2001 and 2000 (including the comparative figures for the 1999 financial year) were each audited and provided with an unqualified audit certificates by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, as independent auditors (see "Financial Information of Aareal Bank AG").

The following tables show the main items of the profit and loss accounts and balance sheets for the financial years 2001, 2000 and 1999. The data was derived from Aareal Bank's annual financial statements prepared in accordance with the HGB.

Profit and Loss Account

(audited) (audited) (audited) (in million €)	1 January – 31 December 2001	2000	1999
Interest and similar income from			
– lending business and money market transactions	1,051.9	855.5	726.9
– fixed income securities	447.6	244.3	138.0
Interest and similar expenses	1,276.0	883.7	611.2
Net interest income	**223.5**	**216.1**	**253.7**
Income from non-fixed-income securities and equity interests	13.1	67.4	12.1
Commission income	105.3	90.3	90.3
Commission expenditure	20.2	5.0	5.3
Net other income and expenses	61.6	– 40.7	– 100.6
General administrative expenditure	185.2	164.6	144.9
Thereof:			
Staff costs			
Wages and salaries	64.1	52.3	46.9
Social security costs	14.0	14.7	12.0
other administrative expenses	107.1	97.6	86.0
Depreciation and amortisation of intangible assets and property and equipment	5.7	6.3	6.9
Operating results before provision for loan losses	**192.4**	**157.2**	**98.4**
Provision for loan losses	64.0	146.7	– 0.8
Income before income taxes	**128.4**	**10.5**	**99.2**
Income taxes	– 22.6	0.3	59.4
Net income	**151.0**	**10.2**	**39.8**
Transfer to retained earnings	**–**	**1.0**	**15.6**
Distributable profit	**–**	**9.2**	**24.2**

Balance Sheet

	As at 31 December		
	2001	2000	1999
	(audited)	(audited)	(audited)
Assets	**(in million €)**		
Cash and balances with central banks	839.3	831.3	762.4
Public sector debt instruments and bills of exchange eligible for refinancing at central banks	–	–	–
Loans and advances to banks	2,842.8	4,711.4	4,362.1
Loans and advances to customers	15,724.5	11,701.8	10,032.5
Debt securities and other fixed-income securities	10,105.3	6,207.1	3,820.4
Equities and other non fixed-income securities	383.7	358.0	395.0
Participations	230.9	528.3	455.8
Intangible assets	15.3	17.9	20.9
Property and equipment	19.3	19.2	21.3
Property and equipment	2,813.5	3,182.9	1,794.7
Interest deferral and prepaid expenses	21.3	15.8	18.6
Total assets	**32,995.9**	**27,573.7**	**21,683.7**
Shareholders' equity and liabilities			
Liabilities to banks	10,096.7	8,185.7	7,073.3
Liabilities to customers	10,089.4	8,606.1	7,548.0
Certificated liabilities	8,067.3	6,423.6	4,008.7
Other liabilities	2,697.6	2.860.4	1,732.2
Interest deferral and deferred income	63.9	55.4	57.7
Provisions	103.0	95.1	88.4
Hybrid capital	794.4	460.1	312.7
Equity			
Subscribed capital	458.3	403.9	379.9
Capital reserves	45.8	45.7	47.1
Retained earnings	428.5	428.5	411.5
Distributable profit	–	9.2	24.2
Net income	151.0	–	–
Total shareholder's equity and liabilities	**32,995.9**	**27,573.7**	**21,683.7**

Unaudited Pro-forma Consolidated Financial Information for Aareal Group as at 31 December 2001 and 31 December 2000 (US GAAP)

The unaudited pro-forma consolidated financial information for the Aareal Group was derived from the audited consolidated financial statements of DePfa Deutsche Pfandbriefbank AG, which were prepared in accordance with US GAAP. US GAAP differ in material aspects from German accounting standards. (Please refer to "Material differences between US GAAP and the German Commercial Code (HGB) accounting standards relevant to Aareal Group's unaudited pro-forma consolidated financial information".)

The following discussion and analysis of Aareal Group's financial information includes forward-looking statements that involve risks and uncertainties. For a variety of reasons, the factual financial condition and results of operations as well as the development of Aareal Bank may differ significantly from the description of the financial condition and results of operations and the company's development for the pro-forma reporting periods. Some of these reasons are explained in the section "Risk Factors" and elsewhere in this Prospectus.

The preparation of pro-forma consolidated financial information requires the making of estimates and assumptions, which influence the amounts of assets, liabilities, equity and other financial obligations at each pro-forma reporting date, as well as income and expenditure during the pro-forma periods under review. The main assumptions are detailed below. Moreover, the preparation of pro-forma consolidated financial information is based on assumptions with regard to the allocation of past business activities, assets, liabilities, income and expenses to either the Aareal Group or the DEPFA BANK plc Group. The Management Board believes that this allocation is appropriate. The pro-forma consolidated financial information does not purport to present the financial condition and results of operations of the Aareal Group that would have ensued in the event of an actual split having taken place prior to the beginning of the first period under review; neither are they intended to represent a projection of the future development of the Aareal Group. The presentation of the pro-forma consolidated financial information does not comply with the requirements of Article 11, Regulation S-X of the US Securities Act 1933; any such compliance is not intended. The pro-forma presentation in this Prospectus corresponds to German practice for which no standards exist.

The exchange listing prospectus of DEPFA BANK plc (which was then called DePfa Holding plc) of 15 January 2002 contained pro-forma consolidated financial information of Aareal Bank (which was then referred to as "Property Bank") and its subsidiaries (for the nine-month periods ending 30 September 2001 and 30 September 2000). As the planned restructuring measures have now been defined with a higher degree of precision when compared with the DEPFA BANK plc exchange listing prospectus of January 2002, the premises contained in the following pro-forma statements as at 31 December 2001 and 31 December 2000 have been updated with regard to the points listed below.

Fundamental assumptions

The unaudited pro-forma consolidated financial information of the Aareal Group was prepared in accordance with US GAAP, based on the audited consolidated financial statements of DePfa Deutsche Pfandbriefbank AG (DePfa Group) as at 31 December 2001 and 31 December 2000, which were also prepared pursuant to US GAAP.

With regard to the unaudited pro-forma consolidated financial information, Aareal Group is presented in such a way as if the split from the DEPFA BANK plc Group, and any transfers of subsidiaries under company law associated with the split, for which a resolution had been passed by the Extraordinary General Meeting held on 15 January 2001, had already been completed prior to the first pro-forma period under review.

Therefore Aareal Group's scope of consolidation as at 31 December 2001 and 31 December 2000 comprises those companies which are expected to be part of Aareal Group's future scope of consolidation. Changes in the scope of consolidation which are not related to DePfa Group's split are reflected in the pro-forma consolidated financial information at the same points in time as in the actual financial statements.

All intragroup claims and liabilities as well as income and expenses within the pro-forma Aareal Group have been eliminated. No elimination has been carried out for those items included in the unaudited pro-forma consolidated financial information which exist between companies of the pro-forma Aareal Group and other companies of the DePfa Group.

All assumptions made are based on facts known as at the reporting date of the unaudited pro-forma consolidated financial information and reflect the expectations existing at that time regarding events and decisions.

Future decisions may have the effect that the data contained in the unaudited pro-forma consolidated financial information would have been regarded differently, if such decisions had already been considered in the present unaudited pro-forma consolidated financial information. No assumptions have been made with respect to changes in the economic environment or customer behaviour.

The material assumptions on which the unaudited pro-forma consolidated financial information have been based, as well as the resulting pro-forma adjustments, are described in detail below.

Refinancing of pro-forma acquisitions/investment of pro-forma funds

The preparation of unaudited pro-forma consolidated financial information for the pro-forma Aareal Group is based on the assumption that additions to assets, which are the result of pro-forma adjustments, are funded within the Aareal Group by assuming liabilities (pro-forma liabilities) and that any cash inflows from the transfer of assets is invested in pro-forma assets. The balance of assets and liabilities resulting from the assumed refinancing are shown in the unaudited pro-forma statement under ”Pro-forma assets” or ”Pro-forma liabilities”, respectively. These items do not accrue interest.

Transfer of participations

The transfer of participations associated with DePfa Group’s split is shown at the market value (*Verkehrswert*) determined or, where the market value has not yet been determined, for the sake of simplicity, at book value (for Terrain Herzogpark und Partner AG, Berliner Allee, and Hatrium GmbH & Co. KG). In accordance with the “Transaction under Common Control” principles, the previous consolidated book values of the DEPFA BANK plc Group are also used for the unaudited pro-forma consolidated financial information of Aareal Group. The difference between any purchases prices paid and/or received and the book value carried is shown as a decrease or an increase in equity, respectively.

The major transfers included the sale of a 60 % stake in DePfa Investment Bank Ltd as well as the participating interest in DePfa Capital Japan K.K. and DePfa USA Inc. by the Aareal Group to the DEPFA BANK plc Group, and vice versa, the sale of the participating interest in Aareal Property Services B.V. and GEV GmbH (together with its subsidiaries) to Aareal Group. Further transfers involve companies, whose business activities are non-material, and participating interests of less than 50 % of the subscribed capital.

Inclusion of the atypical silent partnership

The atypical silent partnership of DePfa Deutsche Pfandbriefbank AG in Aareal Bank was contributed at book value in early 2002, by way of a capital increase against contributions in kind in accordance with German commercial law. At the same time, the obligation resulting from the silent participation, which had been in existence as at 31 December 2001, was eliminated. The present unaudited pro-forma consolidated financial information is based on the assumption that this transaction took place prior to the first pro-forma reporting period under review. Therefore, interest which had actually accrued on the silent participation is not shown as interest expenditure in the unaudited pro-forma consolidated financial information, but rather as distributed dividends.

Dividend distributions of Aareal Bank AG

As a rule, all dividend distributions that took place during the relevant financial years have been included. With regard to a dividend distribution of Aareal Bank to DePfa Deutsche Pfandbriefbank AG in 2002, amounting to € 122 million, for the purposes of equity allocation as part of DePfa Group’s split, it is assumed that this distribution took place prior to the first pro-forma reporting period under review. In addition, any changes in net assets resulting from profit and loss effects from pro-forma adjustments are accounted for by the relevant increase or decrease in dividend distribution.

Transfer of properties contained in the asset pool

In the year 2000, the DePfa Group combined land and buildings earmarked for sale in the so-called asset pool. Aareal Bank is in the process of selling these properties at short term on the basis of a detailed and well-defined schedule. Over one third of the properties owned as at 31 December 2001 have been sold during the period from 1 January 2002 until 14 June 2002. The unaudited pro-forma consolidated financial information shows the asset pool, which was still part of Aareal Bank’s portfolio as at 31 December 2001, under the item “Other assets”. Pro-forma adjustments were considered to the extent that the properties, including

the respective results, have been fully allocated to the Aareal Bank pro-forma Group as per the reporting date, irrespective of their legal ownership. At this point, no final statement can be made as to whether the sale can be completed in its entirety within the scheduled timeframe or that it will generate the expected proceeds.

Transfer of the property financing portfolio

As at 31 December 2001, DePfa Deutsche Pfandbriefbank AG held a property financing portfolio in the aggregate amount of approximately € 12 billion. To the extent that such a transfer is legally permitted and commercially sensible, it is proposed to transfer parts of this portfolio, and/or risks associated with this portfolio, to the Aareal Group or to third parties as part of the split of public finance and property activities. Due to the differing types of transfer, the loans transferred must be assessed on a case-by-case basis. In the present unaudited pro-forma consolidated financial information, no adjustments were made with regard to the property financing portfolio. Rather, only those loans were taken into consideration which had already been transferred to Aareal Bank by 31 December 2001 (€ 0.79 billion) and 31 December 2000 (€ 0.05 billion), respectively. At present, the total volume of additional transfers as from 2002 cannot be quantified. Where, in individual cases, financial derivatives are linked to property loans, these have also been transferred or will be transferred in the future.

Tax implications

The tax implications arising from differences between the results shown in the pro-forma consolidated financial information and in the actual financial statements are taken into consideration in the unaudited pro-forma consolidated financial information.

The aggregate effects of tax burdens and tax relief resulting from the corporate tax burden incurred on dividend distributions in connection with the special distribution in 2002 amounting to € 122 million are reflected in the equity capital shown in the unaudited pro-forma consolidated financial information for 2001 and 2000.

Pro-forma consolidated profit and loss accounts of Aareal Group:

	2001	**2000**
	(unaudited) (in million €)	
Extended net interest income	258	258
Net commission income	195	183
Trading result	79	–35
Total income	**532**	**406**
Administrative expenditure	–311	–283
Other income/expenses	23	–34
Operating results before provision for loan losses	**244**	**89**
Provision for loan losses	–96	–79
Income before income taxes	**148**	**10**
Income taxes	–27	–4
Minority interest income	–3	–1
Consolidated net income	**118**	**5**

Pro-forma consolidated balance sheets of Aareal Group as at 31 December 2001 and 2000:

Assets	2001	2000 (unaudited) (in million €)
Cash and balances with central banks	841	832
Loans and advances to banks	2,686	4,585
Loans and advances to customers	15,885	11,352
Debt securities and other fixed-income securities	10,413	6,258
Equities and other non-fixed income securities	295	342
Participations	108	333
Intangible assets	50	43
Property and equipment	65	8
Other assets	1,928	1,496
Interest deferral, and prepaid expenses	300	365
Total assets	**32,571**	**25,614**

Shareholders' equity and liabilities	2001	2000 (unaudited) (in million €)
Liabilities to banks	10,695	8,192
Liabilities to customers	10,041	8,570
Certificated liabilities	8,311	6,356
Other liabilities	1,103	448
Interest deferral, and deferred income	193	385
Provisions	209	143
Hybrid capital	626	521
Minority interest	257	8
Equity	1,136	991
Total shareholders' equity and liabilities	**32,571**	**25,614**
Contingent liabilities and irrevocable loan commitments		
Contingent liabilities on guarantees and indemnity agreements	1,140	701
Irrevocable loan commitments	4,822	1,963

Material differences between US GAAP and the German Commercial Code (HGB) accounting standards relevant to Aareal Group's unaudited pro-forma consolidated financial information

To the extent that they are relevant for Aareal Bank, the differences between German commercial law (HGB) and US GAAP are set out below.

Securities

In accordance with SFAS 115 (Accounting for Certain Investments in Debt and Equity Securities), securities must be classified into three categories depending on the purpose for which they were purchased: "held to maturity", "available for sale" and "trading".

Securities held to maturity are recorded at amortised cost. In connection with the valuation of available-for-sale securities, any changes in market value are reported, with no impact on the profit and loss account, under "Other comprehensive income", while changes in the market value of trading securities are recognised in the profit and loss account. Permanent diminutions in value result in the relevant book values being written down, with such write-downs being recognised in the profit and loss account. For held-to-maturity securities, these write-downs cannot be subsequently reversed (write-ups). Write-ups for available-for-sale securities must be recorded under "Other comprehensive income", and for trading securities in the profit and loss account.

Pursuant to German commercial law, securities are broken down in the categories non-trading portfolio *(Anlagebestand)*, liquidity reserve *(Liquiditätsreserve)* and trading portfolio *(Handelsbestand)*. Securities are

valued at cost. Where the value of securities of the non-trading portfolio is permanently impaired, they must be written down. Where the value is only temporarily impaired, there is no obligation to write down. Securities of the liquidity reserve and of the trading portfolio must be recorded in accordance with the provisions regarding the valuation of current assets, i.e. at the lower of acquisition cost or fair value. Where the reasons for the write-down no longer apply, such securities must be written up.

Repurchased own debt securities

Under US GAAP, repurchased debt securities will reduce outstanding liabilities in the balance sheet. This takes place irrespective of whether the securities are intended for resale or not. The difference between the cost of acquisition and the book value is reported in the profit and loss account. Any resale will be treated as a new issue in the balance sheet.

Under German commercial law, own debt securities are capitalised and valued strictly at the lower of cost or market. The repurchase of own debt securities itself therefore has no effect on the profit and loss account. The profit and loss account will only be affected upon the resale of such securities, if at all.

Treasury shares

Under US GAAP, treasury shares must be offset against equity without impact on the profit and loss account. In the event of resale, differences between purchase price and realisable value are reported in equity, having no impact on the profit and loss account.

The provisions of the HGB state that, upon repurchase, treasury shares must be capitalised, and that the difference between purchase price and realisable value must be recorded in the profit and loss account.

Derivative financial instruments and hedging relationships

Pursuant to SFAS 133, all derivatives must be recorded in the balance sheet and valued at fair value in the profit and loss account. Derivatives which are used as hedging instruments must comply with extensive effectiveness and documentation requirements before they may be recorded in accordance with the provisions applicable to hedge accounting. The effectiveness of the hedging relationship must be demonstrated on a quarterly basis at least. Contributions to the result of the underlying transaction and the hedge transaction will be determined in relation to the hedge effectiveness of the derivative used. Where the fair value of an underlying transaction is hedged using a fair value hedge, changes in the fair value of the derivative are recorded in the profit and loss account together with the fair value changes relating to the hedged risk of the underlying transaction. Future cash flows from an underlying transaction are hedged with cash flow hedges. Fair value changes of a derivative (effective portion) will be recorded under “Other comprehensive income” (using interim entries) with no impact on the profit and loss account, while the ineffective portion of fair value changes must be recorded in the profit and loss account immediately.

In accordance with German commercial law, derivative financial instruments are pending transactions and therefore must not be recorded in the balance sheet. Independent derivatives positions not used for hedging purposes will only be reflected to the extent that commercial law requires the creation of provisions for impending losses from pending transactions. When compared to US GAAP, the provisions of German commercial law regarding balance-sheet reporting of hedging underlying transactions are less stringent, i.e. to the extent that single valuation units are created for the purpose of accounting for derivatives. An impact on the balance sheet only occurs in cases where the derivative hedge transaction is expected to yield unrealised losses, which are not compensated for by unrealised profits from the underlying transaction. The underlying transactions must be valued to the extent that there are no offsetting effects from the derivative.

Loan loss provisions

For receivables within the scope of SFAS 114 (Accounting by Creditors for Impairment of a Loan), specific loan loss provisions must be determined on the basis of the present value of future cash flows discounted at the loan’s effective interest rate, or based on the fair value of the collateral provided. If available, the market value may be used as an alternative.

General loan loss provisions are created using a migration analysis to cover potential risks inherent in the on-balance sheet lending business that have not yet been specifically identified. General loan loss provisions are determined on the basis of the breakdown of the portfolio into different rating grades. The percentage of

loans expected to be non-performing in the following year will be determined taking into account the migration between the different rating grades during the financial year under review. The determination of general loan loss provisions takes into account historical loss data and additional macro-economic analyses.

In accordance with the provisions of the HGB, transfers to specific loan loss provisions are based on the expected future payments and take into consideration collateral provided. The potential credit risk is ascertained on the basis of historical loan loss data during the past five financial years, taking into consideration the parameters prescribed under tax legislation.

The provision for general banking risks as permitted pursuant to Sections 340 f and 340 g of the HGB is not permissible under US GAAP.

Property and equipment

Under US GAAP, property and equipment are carried at the historic cost less scheduled depreciation. Where the permanent impairment of value is probable, a special depreciation must be carried out. Pursuant to the provisions of US GAAP, a subsequent revaluation does not lead to any write-up.

With the exception of the write-up requirement following previous special depreciation and the permissibility of tax-induced depreciation, the provisions of the HGB correspond to those of US GAAP.

Taxation/deferred taxes

Under US GAAP, deferred taxes must be provided for all differences between tax reporting and commercial reporting in the consolidated financial statements, irrespective of when the differences are settled (temporary concept). In addition, a deferred tax asset must be recorded for tax losses carried forward. The tax effects resulting from the corporate tax burden on dividend distributions are taken into account when the corresponding claim is asserted against the tax authorities.

Under the HGB, a deferred tax asset must be created for differences in results which are likely to be reversed in the foreseeable future (timing concept) whereas deferred tax items may not be created on tax losses carried forward. The capitalisation of deferred taxes which are not related to Group taxation is optional. The tax effects resulting from the corporate tax burden on dividend distributions are already accounted for as soon as the Management Board has put forward the proposal for the attribution of profits.

Pension provisions

Under US GAAP, pension provisions are determined on the basis of forward-looking assumptions such as salary and pension developments as well as career expectations. Interest rates used for the valuation of benefit obligations are based on the prevalent capital market rate. The expenditure for the period is determined on the basis of the values forecasted at the beginning of the accounting period. Any changes to forecasts will only effect the amounts transferred to provisions in the following accounting period.

Pursuant to the HGB, forward-looking assumptions are not taken into account. The discount rate used for tax purposes is also used for accounting purposes. The amount of provisions and the resulting expenditure for the period are determined on the basis of the present value calculated at the end of the year.

Proprietary Software

Under US GAAP, certain costs associated with the development of software for own use must be capitalised, while the HGB prohibits such capitalisation.

Goodwill

Pursuant to SFAS 142, any goodwill acquired after 30 June 2001 will no longer be subject to scheduled amortisation. Instead, any such goodwill must be examined for impairment at least once a year.

An impairment test must be carried out at least once a year; any impairment must be reflected by a special depreciation.

Pursuant to German commercial law, any goodwill acquired is capitalised and amortised over its expected useful life.

Trust business

Trust assets and trust liabilities may not be recorded in the balance sheet pursuant to US GAAP.

Pursuant to the HGB, they are subject to a reporting obligation.

Foreclosed assets

Irrespective of the period of time during which such assets are held, foreclosed assets are subject to the rebuttable assumption that they are intended to be sold. Foreclosed assets are valued strictly at the lower of cost or market, taking into consideration costs expected to be incurred during the course of the sale.

Pursuant to German law, foreclosed assets are deemed to be intended for sale during the first five financial years and are valued strictly at the lower of cost or market during this period. Thereafter, foreclosed assets must be recorded under "Property and equipment" and valued in accordance with the provisions applicable to this item.

Cost and commissions from the origination of loans

Pursuant to SFAS 91, direct costs and commissions received from the origination of loans must be deferred and then credited to interest income during subsequent years over the entire life of the loan.

Pursuant to the HGB, the costs incurred for the lending approval process are recorded directly under "Staff costs". Commissions received must be recorded under "Commission income" upon receipt.

Future Accounting pursuant to IAS within the Aareal Group

Aareal Bank intends to switch its Group accounting to IAS (International Accounting Standards) during the course of 2002.

In addition to the preparation of both the balance sheet and the profit and loss account for 2002, this requires, to the same extent, the reconciliation of the financial data for the 2001 financial year, including the preparation of the opening balance as at the reporting date 1 January 2001.

Mandatory IAS rules materially differ in some aspects from US GAAP provisions. In some areas, US GAAP contain detailed provisions, whereas IAS allow for a certain degree of discretion. In addition, IAS rules provide certain options which do not exist under US GAAP where specific requirements are set. Based on facts currently known, this may result in deviations for Aareal Bank, for example, with regard to the scope of consolidation, the valuation of financial instruments pursuant to IAS 39 and/or US GAAP and the determination of transition adjustments, the creation of both provisions and loan loss provisions, the treatment of intangible assets (specifically the amortisation of goodwill), the determination of deferred taxes and the identification of individual balance sheet and profit and loss account positions. Furthermore, IAS does not explicitly provide for the balance sheet treatment of a company, or group of companies, spin-off. Depending on the concept that may be theoretically derived in this regard, differing implications may arise with regard to the future financial data in accordance with IAS when compared with the unaudited pro-forma consolidated financial information presented for 2001.

During the transition process, Aareal Group must prepare its balance sheets in such a manner as if its consolidated accounts had always been prepared in accordance with IAS. The changes in valuation in connection with the first-time application of IAS are expected to have an impact on both the amount of individual items in the profit and loss account and Aareal Group's equity capital, when compared with the profit and loss account and the equity capital shown in the unaudited pro-forma consolidated financial information presented.

The Business of Aareal Bank AG

Overview

At an Extraordinary General Meeting held on 15 October 2001, the shareholders of DePfa Deutsche Pfandbriefbank AG approved a proposal to split DePfa Group into two independent exchange-listed banks for the separate operation of public finance and property activities with a majority of 99.95% of the share capital represented at the meeting. Both sectors have increasingly grown into independent business units within the DePfa Group.

Since the split, all property activities have been grouped under the umbrella of Aareal Bank and its subsidiaries. Aareal Bank is a fully operative commercial bank that engages, both directly and through its subsidiaries, in the property lending business and other activities in the property sector. Aareal Bank and its subsidiaries offer financial and advisory services, asset management and information technology services to various client groups including major German and international investors in commercial property, residential property developers, clients in the housing sector and private clients. Over the past decade, Aareal Bank has increasingly focused its activities outside Germany and services clients in 17 countries via its international network.

The completion of the split has turned Aareal Bank into a separate bank which can pursue its strategic development free of the limitations imposed by the capital markets business line in public finance and the regulatory constraints that arise by virtue of being the subsidiary of a mortgage bank.

Aareal Bank sees and positions itself as a property bank of the new generation. The company is an international property specialist rather than a traditional lender. The difference between Aareal Bank and pure investment banks is the company's strong focus on long-term client relationships. The company's business segments Property Lending / Structured Finance and Consulting / Services are on an equal footing with the Property Asset Management business segment. Securitisation and syndication are key elements in Aareal Bank's strategy. The company's approach is to "Buy and Sell", with a view to fully exploit its abilities to generate new business.

The company's target groups include international investors and developers, but without excluding first league regional customers. Typical clients are exchange-listed or privately-owned property companies, plus property funds. In addition, the German housing sector is one of Aareal Bank's most important client groups.

Aareal Group's refinancing includes a wide range of activities supported by customary international instruments. These include Debt Issuance and commercial Paper programmes as well as non-asset-backed issues. Moreover, Aareal Bank is currently preparing for the incorporation of a mortgage bank; this bank is expected to considerably expand Aareal Bank's scope of refinancing tools during the course of 2002. The issue of bonds (Pfandbriefe) by the new subsidiary will provide additional options in refinancing.

Strategy

The strategic objective of the Property Bank is to expand in order to become one of the leading international property specialists for institutional investors. In addition to its European core market, the Aareal Group intends to increase its North American business. With its international network, client-focused service, extensive product range and efficient risk management infrastructure, the Aareal Group will focus on profit-oriented growth. Due to its high degree of geographic diversification, the Aareal Group is able to largely offset cyclical fluctuations in individual regional markets.

The main components of the strategic focus are:

- *Expansion of the international Property Lending / Structured Finance businesses* – Aareal Bank is an international property specialist which focuses on Europe and North America. The bank strives to meet the set medium-term profitability targets in each regional market segment and to exploit its growth potential to achieve the optimum business size from a commercial perspective. In addition, it is intended to further diversify the property portfolio in both regional and product terms; individual regions will be reflected in the portfolio in accordance with their economic potential. Securitisation and syndication are fundamental elements in this strategy.

- *Consistently pursuing the new focus in German property lending* – in Germany, Aareal Bank intends to continue its concentration on a small number of clearly defined and highly profitable segments. It is planned to apply the same tried and tested strategies, that brought successes in Aareal Bank's international activities, to the company's German business. The Aareal Group will withdraw from the private client business in the traditional sense.

- *Intensification of the "Buy and Sell" strategy to replace the "Buy and Hold" approach* – securitisation and syndication will not only assist the company in optimising its portfolio in terms of risks and returns, but also contribute to its having sufficient shareholders' equity at its disposal to exploit new business opportunities.

- *Expansion of the Consulting / Services business segment across Europe and establishment of new customer groups* as well as further development of existing customer groups – in the IT services area, the Aareal Group intends to increase its business in a variety of European countries (including Great Britain, France, Italy and Switzerland) via its subsidiary Aareon AG and step up marketing efforts for its range of services. The company also plans to offer its services and market its payment systems to new client groups using bulk payment transactions. The aim is to gain new customers specifically in the commercial property segment. The sales and development partnership with SAP AG will be especially important in this context. Although an internationalisation strategy has not yet been finalised, the adaptation of software to country-specific characteristics will be facilitated by existing local SAP solutions. See "Consulting / Services – IT Services and Consulting". In addition, it is planned to better exploit joint opportunities between Aareal Bank's financial advisory skills with the services provided by Aareon AG. Aareal Bank recognises potential for growth and profit in the expansion of the Mareon Internet portal.

- *Expansion of Property Asset Management and other service fields* – it is intended to offer a complete package of property services to institutional investors and other clients in the property arena. In doing so, the Aareal Group will focus on profit opportunities and growth potential.

Some of the change processes associated with this strategy have already been initiated; the implementation of these changes will be greatly facilitated by the creation of an independent Property Bank.

Market and Competitors

The property financing markets for institutional investors have been gradually moving away from its traditional, predominantly domestic structure, towards an international business. In the year 2000, new investments in commercial property in Western Europe totalled € 275 billion (Euroconstruct, December 2000) and an approximate € 232 billion in North America (US Department of Commerce, News Release, 29 March 2001). Aareal Bank believes that the size of the current overall market does not present any competitive disadvantage. Aareal Bank plays a major role in the European property finance market for institutional investors. In Aareal Bank's opinion, this is the result of its international scope, its presence in all the main Western European property markets and because of its broad international product know-how.

Large segments of the European property markets are currently undergoing a phase of stagnation, both in terms of rentals and turnover of space. This tendency is also prevalent in the German real estate market. For instance, in the most important German office markets, rentals are currently stagnating or slightly decreasing; only the offer of rent-free periods and other incentives is checking this downward trend.

At the same time, the turnover of space has significantly decreased when compared with the same previous-year period. The current levels of sale of space have been accompanied by a negative net take-up which led, in turn, to the corresponding increase in vacancy rates for office space in urban centres. It is expected that the total turnover in office space during 2002 will be lower than that of the previous two years.

However, investors and project developers recognised these market conditions at an early stage and adjusted their property investment activities accordingly. A speculative increase in rentable space as during the early 1990s is not expected; it is rather more likely that the German office market will coincide with a supply and demand structure in line with general market conditions once the economic situation improves.

The relevant market for Aareon AG is the distribution market for real estate management standard software and IT services. This market is a segment of the total IT market. In Aareal Bank's opinion, the German market for real estate management standard software and IT services is a mature market within which further growth is only possible by shutting out the competition, as it cannot be expected that the total stock of real estate owned or managed by the major real estate enterprises in Germany will increase significantly. Aareal Bank also believes that the German market for real estate management standard software and IT services is characterised by long-term customer relationships and high entry barriers resulting from the fact that, once customers have decided to purchase real estate management software from one particular supplier, there is little, if any, incentive to change to a different supplier, as such a change is often associated with high expenditure in terms of personnel and financial resources.

The German market for real estate management standard software and IT services is divided into the following three segments: general housing sector, other companies having real estate holdings, and the public sector. The market segment "general housing sector" constitutes the lion's share of the total German market and is, in turn, divided into two sub-segments: companies managing housing for low-income tenants ("state housing") and commercial housing companies.

Competitors in the markets, in which the Aareal Group operates, are primarily local banks within the individual countries, universal banks with their own property divisions, as well as German mortgage banks that increasingly expand into other European countries.

Aareal Group's main competitors in the German property lending market are the *Landesbanken* (regional state-owned banks), various mortgage banks and, to a lesser extent, the Sparkassen (country-wide network of savings banks). Outside Germany, the Aareal Group competes with the respective national commercial banks of other countries as well as German mortgage banks.

In the area of IT Services/Consulting and Integrated Banking, the Aareal Group predominantly competes with German and international providers of this type of software. Aareal Bank believes the competitive situation with regard to deposit-taking business for the real estate sector to be mainly characterised by co-operative banks and savings banks. In the area of consulting, the main competitors with regard to corporate finance advisory services to housing companies and portfolio management, are Deutsche Bank, Bankhaus Metzler, Sal. Oppenheim and international auditing firms.

The structure of the German suppliers of software solutions for the real estate sector is still highly heterogeneous. The spectrum ranges from providers of firm-wide standardised applications, such as SAP AG in co-operation with Aareon AG, through medium-size suppliers of industry-specific applications, such as CW Computer Wolff (part of the Techem group), Kirchhof and SpeedWare Software (which is part of the Nemetschek group), to solutions offered by specialised niche providers and consultancy firms for SAP products.

Aareal Bank believes that the competition in the market for real estate management IT services will increase and internationalise in the future. Aareal Bank is also of the opinion that three to five suppliers of real estate management standard software and IT services, operating on an international scale, will establish themselves in the European market in the medium term.

It is Aareal Bank's view that European banks such as Deutsche Bank, HypoVereinsbank, Sal. Oppenheim and fund specialists, such as Schroders and TMW Real Estate Group, as well as US investment banks are the company's key competitors in the area of property asset management, whereas GE Capital is a main competitor in structured finance.

Business Units

Property Lending / Structured Finance

This business unit brings together all Aareal Bank's domestic and international property financing activities. The product portfolio comprises structured commercial property and portfolio financing, complemented by advisory services.

In Germany, the Aareal Group continues both its restructuring process and its focus on a smaller number of clearly defined business segments that hold a higher profit potential. The tried and tested strategies which have brought successes in Aareal Bank's international activities are now also being applied to the housing sector, commercial property business and residential property developers.

The co-operation between regional and sector specialists enables the Aareal Group to offer suitable financing solutions to each client and for a large variety of properties. Aareal Bank has its own in-house special purpose financing teams of respected sector experts, who are dedicated to arranging finance for shopping complexes, hotels and special properties in the logistics business.

The International Retail Financing team, for example, concentrates on the specific needs of shopping complex owners and developers across Europe. This group of clients are provided with tailored financing for developing and investing in shopping centres, retail chains and similar properties.

The International Hotel Financing (IHF) team has arranged the financing for some prestigious hotels in Europe and the US and advises investors on all aspects of hotel investment. Depending on the location of the hotel in question, the IHF team joins forces with country teams, so that the Aareal Group can cluster its product and country know-how.

In response to the increasing complexity of the logistics industry, Aareal Bank has created an International Logistics Financing team to develop individual financing solutions for clients in this business. Comprising property finance and logistics experts, this team makes it possible for all three parties – investors, developers and the logistics companies – to flexibly optimise the individual finance structures and financing models available for logistics properties.

In practice, the concept of combining regional and sector expertise means that Aareal retail, hotel or logistics experts are supported by the company's local units.

The objective of splitting the DePfa Group into a Property Bank and a Public Finance Bank is to unite all the property activities under the umbrella of Aareal Bank and its subsidiaries (either "physically" or in economic terms), or to place them onto the market.

At the reporting date, some portions of DePfa Group's property financing portfolio were reported in the books of DePfa Deutsche Pfandbriefbank AG. As at 31 December 2001, this comprised a portfolio having a book value of some € 12 billion, € 8 billion of which originated in Germany and € 4 billion was related to international business. This volume was reduced to € 9.1 billion until 30 June 2002, with another € 1.1 billion reduction in early August, as a result of transfers to Aareal Bank. Until August 2002, a total volume of approximately € 2.6 billion had been securitized.

It is planned to further reduce the volume of property loans held on the balance sheet of DePfa Deutsche Pfandbriefbank AG to approximately € 5 billion, by way of transfers to Aareal Bank and third parties and also redemptions. The agreements provide for the risks to be borne by DePfa Deutsche Pfandbriefbank AG from these loans to be largely eliminated by securization to third parties and indemnities. In this process, Aareal Bank shall extend loans for a part of the volumes, and shall earn an interest margin on these volumes held by DePfa Deutsche Pfandbriefbank AG.

Legal or commercial obstructions to the transfer of the remaining portfolio will be taken into account by way of securitization. With regard to property loans not yet transferred at the time of the split, it is planned that – to the extent that this is possible, particularly from a regulatory point of view – Aareal Bank (and/or a third party outside the Group) assumes the property lending exposure through credit derivatives and that the administration of the relevant loans by Aareal Bank is provided for by way of an agency agreement. The transfer of property loans and risks will be conducted in accordance with a framework agreement entered into by DePfa Deutsche Pfandbriefbank AG and Aareal Bank.

International Lending

The strategy of combining sector and regional experts is also used in international lending; in fact, this model has been applied for several years to complex property financing packages and advisory mandates on an international scale. Aareal Group's range of products includes traditional property lending, structured transactions such as equity-linked and acquisition financing, financing structures with performance-related components, and short-term loans (senior, subordinated and mezzanine financing).

Aareal Group's intensive use of its international network has been an invaluable asset in expanding the company's international loan portfolio and in consistently raising the proportion of international lending which has proven to be very profitable indeed. To date, Aareal Bank has achieved a sustainable return on equity before taxes of 30–35 % in this area (derived on the basis of profit contributions determined pursuant to US GAAP and assuming capital allocation in accordance with regulatory provisions). To date, the company has not had to report any loan losses in this segment.

In 1999, the Aareal Group launched its lending business in the US by initially targeting the hotel sector. Almost all of the hotel financing projects acquired by the company in the US were securitised via the large-sized "Global Hotel One" transaction completed in June 2001. In August 2001, the Board of Governors of the US Federal Reserve System approved Aareal Bank's application to open a representative office in New York, from where it will serve its North American client base.

German lending business

German lending business In Germany, the Aareal Group focuses on lending to investors in the commercial property arena, to the German housing sector and to residential property developers, applying the strategy of combining sector and regional experts. The Group is withdrawing from the private client business in the traditional sense. The Group also plans to apply those strategies, which have proved successful in its international business, to the German lending business. The expert teams in the retail, hotel and logistics sectors are also responsible for the German market.

The Aareal Group has refocused on new products, higher transaction sizes and stricter risk parameters. As a result, the company is completely withdrawing from certain business sectors and scaling back or selling its lending portfolio. This applies especially to the small to medium commercial lending bracket and to the retail business. This process will result in adjustments to staff levels over a period of two years.

Investors in commercial property

Once the company has completed the realignment of its organisational structure, a significantly lower number of units will conduct its business with the commercial property sector. In future, seven regional branch offices will be responsible for business development, while the risks will be managed by four processing centres and the central loans department.

This will result in more responsibility for the head office, especially for larger structured finance transactions, portfolio financing, development financing and long-term financing. Target clients will be limited to institutional investors and international and regional property companies of the highest quality.

The German housing sector

The Aareal Group believes that it has a leading position in the institutional housing sector in Germany. In this sector, the company frequently acts as principal banker for its clients. This means that it serves as a contact for all financing needs as well as for taking deposits. There are also good cross-selling opportunities with regard to IT solutions for the management of residential and commercial property supplied by Aareon AG and for the Integrated Banking services of the Aareal Group. Over recent years, Aareal Bank has also expanded its investment banking and advisory services in this field.

The traditional client groups in the housing sector, many of whom were previously non-profit organisations, perceive that they are increasingly under pressure to show performance. Their need for high quality advice, coupled with the comprehensive experience and long-standing relationships which the Aareal Group can offer in this field, provides an excellent base for additional growth in this business. The Aareal Group intends to further expand its market position with the German housing sector, improving efficiency through more centralised management and by bringing the local presence in line with business requirements.

Residential property development business in Germany

The financing of residential property development and so-called conversion measures (purchase of real estate and its subsequent division pursuant to the German Act on Apartment Property *(Wohnungseigentumsgesetz)* is a traditional core business of the Aareal Group's branch offices in Germany. These branch offices have many years of experience in, as well as special IT programs for, overseeing construction and sale. Based on its experience, Aareal Bank believes that, while this is a local administration-intensive business, it can be very profitable when the appropriate risk prevention mechanisms are in place. Aareal Group's strategy in this business segment focuses on expansion, but with consistent minimisation of risk. The operating model being developed includes three measures designed to keep risks at an acceptable level: concentration of resources on reputable professional construction clients and "converters", the restriction of lending to medium to large-size projects in the order of € 2.5 million, or more, for each individual exposure, and the use of improved qualitative and organisational measures for risk management and prevention. Risk prevention entails, among other things, the concentration of business on a few high-revenue-turnover conurbations as well as maintenance and expansion of the company's comprehensive knowledge on market segments.

Retail business

Over the last few years, the business with private individuals showed little volume growth industry-wide. A lack of both critical mass and cross-selling opportunities, coupled with high production costs for sales through the branch network, led to low profitability in this customer segment. In addition, there has been a sharp deterioration in market conditions, particularly reflected in margins for standardised products. Aareal Bank will therefore pull out of private customer business in its traditional form.

The existing portfolio totalling approximately € 5.8 billion will be sold on, by way of synthetic securitisation, and the equity capital released will be committed to other core businesses. A portion of this portfolio in the amount of € 1.5 billion has already been securitised as part of the "PROVIDE HOME 2001-1" programme, in co-operation with the Reconstruction Loan Corporation *(Kreditanstalt für den Wiederaufbau).* In addition, € 550 million were placed privately. The securitisation of private customer loans was launched to free up capital for use in higher margin businesses. Securitisation allows Aareal Bank to use the capital previously tied up to cover loans and advances for other lending business where margins are frequently more attractive. This will allow the company to gradually boost the return on equity. The administration of the retail portfolio was transferred in its entirety to Aareal HM Service GmbH, a subsidiary of Aareal Hypotheken-Management GmbH, in May 2002.

Syndication and securitisation

The "Buy and Sell" strategy marks a departure from the traditional property bank concept of retaining the majority of property loans on Aareal Bank's balance sheet until maturity.

The Aareal Group pursues a diversified refinancing strategy by accessing a variety of segments in domestic and foreign capital and money markets – this includes syndication and securitisation techniques.

Using a special purpose entity, in June 2001 Aareal Bank arranged a synthetic mortgage-backed securities offering and credit default swaps having a total volume of € 1.1 billion to securitise a loan portfolio covering 36 hotels located in seven European countries and the United States.

Furthermore, Aareal Bank launched a € 5 billion programme for the securitisation of private customer loans with Kreditanstalt für Wiederaufbau (KfW), "PROVIDE HOME". As part of this programme, private customer loans of DePfa Group having a volume of € 1.5 million were placed in December 2001.

Refinancing

Whereas in the past the bank had resorted to DePfa Group's Debt Issuance and Commercial Paper programmes for refinancing purposes, the new Property Bank needs its own long-term refinancing strategy, as it is now an independent market player. Over the last months of the 2001 financial year, a team consisting of experienced capital market specialists laid the foundations for Aareal Bank's presence on the capital markets as an independent company. These preparations included, among other things, numerous meetings with international investment bankers, targeted sales force presentations in both London and Frankfurt, and extensive press coverage.

In the bond sector, the first bond, having a volume of € 150 million, was launched together with DZ Bank, with two thirds of this amount being placed in the co-operative banking sector. During the 2001 financial year, the course was set for Aareal Bank's refinancing activities to be increasingly in line with the international focus of Aareal Bank's lending operations. This includes, for example, Aareal Bank's first major public issue in excess of € 500 million and a bond issue in Polish zloty. In addition to ensuring liquidity, the bank's refinancing strategy targets the following objectives:

- to diversify its sources of financing;
- to raise long-term funds; and
- to internationalise its investor base.

Private placements accounted for the largest share of Aareal Bank's refinancing volume during the first half of 2002, including bond issues totalling approximately € 2.3 billion. The new Debt Issuance Programme, which is in the process of being set up, will add further momentum to this type of long-term refinancing. Using structured issues and foreign currency bonds, Aareal Bank will be in an even better position to respond more flexibly and competitively to the specific needs of different investor groups. The Debt Issuance Programme, having a volume of € 10 billion, was launched as at 24 June 2002 and is backed by ten renowned international investment banks acting as dealers. To date, nine tranches, having a volume of approximately € 263 million, have been launched.

Furthermore, Aareal Bank has issued a total of € 310 million in profit-participation certificates during the first eight months of this year.

The incorporation of a mortgage bank in the legal form of a subsidiary is intended to expand the refinancing range of the Aareal Group by the inclusion of a mortgage bank, which will play a significant role with regard to the refinancing of the German mortgage loan portfolio. Aareal Bank plans to issue mortgage bonds *(Hypothekenpfandbriefe)* totalling approximately € 1.5–2 billion by the end of the year 2002. These mortgage bonds are particularly suited for refinancing in the longer-term maturity range from 5 to 10 years.

Consulting / Services

IT Services and Consulting

Aareon AG is a leading provider of software solutions and IT services to the real estate sector. Aareon AG provides services to some 1,500 customers in Germany and other European countries. The business activities of Aareon AG are organised into four individual segments: IT Solutions, IT Services, Consulting and E-Business:

- The *IT Solutions* segment is characterised by the recent agreement for a development partnership with SAP AG. SAP AG will develop a standard software following the joint drafting of a development concept for this software with Aareon AG, to be used in professional real estate management. At the same time, Aareon AG will develop industry-specific supplementary software components, so-called add-ons, to be integrated into the SAP standard software. After completion and testing of the relevant software components, Aareon AG intends to distribute the products developed (and maybe also the SAP standard software to be developed, without any add-ons) in its own name and for its own account to medium-size companies and Aareon AG's existing customers in Germany. In some cases, the customer acquires the system and operates it independently; in other cases, Aareon AG acts as an applications service provider (ASP). At present, approximately 80% of customers are ASP users. Aareon AG benefits from the direct link to Aareal Bank's integrated accounting and payment transaction systems. IT solutions accounted for 32% of total revenues of Aareon AG for the 2001 financial year.

- The IT *services* segment primarily provides ASP services in connection with software solutions for the real estate industry. In connection with ASP, Aareon AG makes the GES software available in the Group's data-processing centre. In future, this will also apply to the SAP software. Customers can access this information via a data telecommunication line directly from their own in-house network. Customers, who pay a monthly fee for using the software, have access to customised IT solutions without having to establish and maintain their own costly EDP systems. After installing the relevant software at customers' sites, the support and implementation services include technical user support via hotlines and even encompass the establishment of help desks at clients' premises. It is planned to discontinue the GES offer by 2008 at the

latest. As of early 2004, this software will be gradually replaced by the new SAP software which will be introduced progressively. This segment contributed 22 % of the total revenue of Aareon AG in the 2001 financial year.

- Through regional units, the *Consulting* segment offers specialised consulting and implementation services for its existing and future software products for the real estate industry. This is complemented by special management consultancy services for the real estate industry, strategic industry advisory services, operations consulting and development, process optimisation, market analyses and location studies, tenant surveys and multimedia concepts. It is planned to offer consultancy and implementation services for these systems, once the development of the SAP AG standard software and the add-ons to be developed by Aareon AG has been completed. This requires appropriate preparation and SAP software training of in-house staff. Aareon AG covers a wide range of tasks, from an assessment of critical issues to systems development, network planning, software implementation and IT integration, plus the required consulting, as well as training and support services for customers' staff. This segment accounted for 16% of the total revenue of Aareon AG in the 2001 financial year.

- The *E-Business* segment focuses on Internet-based services. In addition, this segment offers on-line calorimetric/billing services for heating and other ancillary costs. This enables customers of Aareon AG to provide their tenants with integrated bills for hot and cold water, heating and other operating costs allocated on a pro-rata basis. In addition, facility management services, such as hiring trades people for building maintenance work, are also carried out on behalf of customers. The rendition of services by this segment is also supported by the close integration with Aareal Bank's Integrated Banking Services. BauSecura Versicherungsmakler GmbH, Hamburg, a joint venture of Aareon AG and a member of the Funk group, advises property management companies on insurance matters, brokers insurance policies and negotiates specific terms and conditions with insurance companies operating in the market. Insured losses are settled electronically and via the standard software of Aareon AG. Aareon AG plans to continuously expand the services of the Mareon Internet portal. The E-business segment contributed 28% of the total revenue of Aareon AG in the 2001 financial year. The Integrated Banking unit has been included in this segment.

2% of the total revenue was reported under Other in the 2001 financial year.

Including the software to be developed by SAP, Aareon AG's distribution units offer clients a fully integrated service range of software and IT infrastructure in order to enable them to handle all property administration and management services.

The target customers of Aareon AG are companies in the real estate business, managing a minimum of 500 residential or commercial real estate units. The key customer groups are commercial real estate management companies, housing project developers and housing companies, housing cooperatives, property funds, housing sector companies and municipalities (if they manage properties). Aareon AG estimates that it holds a relatively significant market share in its most important market, the German market for standard software and IT services for the housing sector. In addition, Aareon AG plans to increasingly acquire commercial real estate companies as its clients.

Headquartered in Mainz, Aareon AG maintains offices and subsidiaries in major cities throughout Germany. Aareon AG is currently expanding its offer of IT products and services to include other European countries. In 1999 and 2000, Aareon AG established and/or acquired companies or majority holdings in companies in France, Great Britain, Italy, Switzerland and Poland. Revenues generated outside Germany accounted for 8.4% of the total revenue of Aareon AG during 2001.

Integrated Banking Services

It was in 1958 that Aareal Bank commenced its services in the area of integrated payment transactions, with the creation of the first software program by Aareal Bank designed to facilitate the calculation and management of profit levies on residential mortgages. Since then, the company has continuously expanded its range of IT services for housing and property management.

Aareal Bank is able to offer housing companies a fully integrated spectrum of banking services via its accounts and payments software. Customers using Aareon AG's software may benefit of the considerable synergies resulting from a combination with the software services provided by this subsidiary. Moreover, the co-operation between Aareon AG and SAP AG is intended to ensure that Aareal Bank's services continue to

be a competitive integrated solution for the housing and property management market while using the software to be developed by Aareon AG and SAP AG.

Aareal Bank's key clients for its Integrated Banking Service are independent municipal or private housing companies who construct and manage housing estates. There are also property management companies managing properties on behalf of their owners, as well as housing construction co-operatives.

Mergers & Acquisitions/Property Consulting

Investment banking services to the institutional housing sector form a strategically important part of the Mergers & Acquisitions / Property Consulting segment. Several years ago, the Aareal Group was awarded an important consultancy mandate in the privatisation of housing assets owned by the German Federal Railways (BEV). Building on this mandate, Aareal Bank has established a team that generally focuses on advising the German housing sector on the valuation, sale, restructuring and privatisation of residential property portfolios, in which it sometimes takes equity positions on a temporary basis.

A demand for consultancy services also results from the strained financial situation in which public authorities show a higher level of willingness to privatise public sector property assets. In addition, as more and more industrial companies focus on their core businesses, they will increasingly dispose of their property assets. Furthermore, housing sector operators cannot escape the increasing performance pressure and, as a result, must reposition themselves.

The most important mandates in the year 2001 included:

- advising a municipal housing enterprise in the "Ruhr" region in North Rhine Westphalia on developing its portfolio strategy;

- managing the process of selecting purchasers for several tranches of housing, comprising a total of 420 homes, on behalf of a municipal housing company, also in the "Ruhr" region;

- advising an exchange-listed holding company on the financing issues involved in acquiring a housing company with 4,400 homes; as well as

- setting up a joint venture with a municipal housing enterprise in Thuringia, involving the restoration of old buildings comprising 250 homes.

In the year 2000, Aareal Bank extended these services to the Italian market by setting up a consultancy company: IMMO Consulting S.p.A.

Private customer services

Two subsidiaries, that truly demonstrate the Property Bank's power to innovate, conduct private customer activities on behalf of Aareal Bank. Hypotheken-Discount Vermittlungs GmbH is one of the leading German discount brokers for private client property financing and acts as a broker for pre-approved finance with a number of banks and insurance companies. Their IT infrastructure and customer care centre dovetail cost efficiency and quality of advice. Other banks and insurance companies are increasingly sub-contracting their mortgage advisory services to Hypotheken-Discount Vermittlungs GmbH.

Aareal Hypotheken-Management GmbH uses a highly-developed processing platform covering the entire processing chain for mortgages to private individuals. The service it offers to Aareal Bank, and indeed to institutions outside the Group, spans the entire process from automated lending approval through to the administration of the loan. In May 2002, Aareal HM Service GmbH took over the administration of Aareal Bank's retail portfolio.

Furthermore, Aareal Bank holds a 30,2 % stake in Immobilien Scout GmbH which, via its Internet platform "ImmobilienScout 24", advertises flats and houses for rent, offers a market place for the purchase and sale of property at low cost and provides further value-added services to its business partners. Its full-service offer for moving house and buying a home has been on-line since 1999. "ImmobilienScout24" is the best known Internet platform of this type; it is familiar to two thirds of all Internet users and to a majority of the German population (Emnid TNS, June 2001).

Property asset management

The reality of a single currency, coupled with liberalised investment regulations and ever higher performance expectations, means that insurance companies, publicly offered funds and other institutional investors are increasingly focusing on direct or indirect investments in assets outside their traditional market segments. More and more often this includes property at international locations.

Aareal Bank AG has set up a dedicated property asset management company, Aareal Property Services B.V., whose team of experts will primarily approach institutional investors. Its European network is particularly attractive to investors for whom the establishment of their own pan-European investment infrastructure is not viable.

Via Aareal Property Services B.V., the Aareal Group identifies and acquires properties which offer attractive initial returns and value appreciation through active asset management. Thanks to the close interaction with Aareal Bank's international network, the company achieves synergies and gains a competitive edge in the search for attractive investment projects.

In 1999, the first European property fund, Europa Fonds Nr. 1, was launched, a € 500 million offering which focused on retail property in Southern European countries such as Italy, France and Spain, and was placed with German institutional investors.

A second fund, Europa Fonds Nr. 2, which will invest € 500 to 600 million in Italian office buildings and shopping centres, is currently in the placement and investment phase. Due to its high degree of specialisation on an attractive market, the Europa Fonds Nr. 2 was popular with a number of international investors. Several years of experience as a provider of sophisticated property financing solutions in the Italian market were a tremendous advantage in structuring and assembling the fund. Europa Fonds Nr. 2 clearly demonstrates how synergy effects between various business units can be successfully exploited.

Further funds, with a different regional investment focus, are currently being planned. Among other things, it is intended to offer additional funds which will most likely focus on retail properties within Great Britain and EU accession countries.

To further enhance its expertise in structuring and placement, in November 2000 Aareal Bank acquired Deutsche Structured Finance GmbH, a specialist institution for initiating, arranging and structuring tax-optimised and project-based financing solutions. It also develops creative opportunities for entrepreneurial investment in tangible assets. At present, its activities focus on special purpose property offering above-average potential returns, but also on regenerative energy projects and aircraft.

In November 2000, Deutsche Structured Finance GmbH launched its first publicly offered fund investing in the field of regenerative energy and set new standards in structuring as well as documenting, and issuing prospectuses for, investments in wind energy.

The primary objective of aircraft funds initiated by Deutsche Structured Finance GmbH is to offer investors a stake in the entrepreneurial potential. Although tax-driven structures are used to enhance the returns, the clear focus is on the income generated through the aircraft. In 1996, Deutsche Structured Finance GmbH was the first issuer to offer investments based on operating leases. The cyclical nature of the aircraft market is reflected by the conservative structure of investments made. Overall, the team at Deutsche Structured Finance GmbH managed a portfolio of approximately € 924 million in 2001, looking after more than 5,000 investors.

It is intended to unite the Aareal Bank Group companies which are active in the asset management business under a joint strategic concept that will be implemented within the scope of the Group's realignment.

Real Property

Asset pool

As part of the preparations for the split, the DePfa Group decided in the year 2000 to pool real estate, to be sold in the short term, in the so-called “asset pool”. In some cases, the disposal requires the consent and/or co-operation of co-owners, or other third parties. In connection with the transfer of these properties into the asset pool, the DePfa Group carried out a revaluation of said properties which resulted in write-downs amounting to € 73 million for the 2000 financial year. As at 31 December 2001, the balance sheet items contained in the asset pool totalled € 634 million.

Some of the properties contained in the asset pool (the “Portfolio”) were offered for sale within the framework of an international tender. The Portfolio comprises 22 properties within Germany, having a total rentable space of approximately 280,000 m^2. 17 office buildings of various sizes are mainly located in the area of Hamburg, in the Rhine-Main region and the Munich area, while one office building is located in Leipzig and Erfurt, respectively. Two properties are residential developments, one in Munich and the other in Freiburg, and one property is a hotel in the Rhine-Main region. Some properties are rented out to Aareal Group companies.

For marketing purposes, the Portfolio has been subdivided into the following property classes: Office Prime (three office buildings in Hamburg, Frankfurt and Munich), Office Income (seven office buildings), Office Growth (nine office buildings), Hotel and Residential (two large residential complexes consisting of 38 buildings and 785 flats). 17 properties with a rentable space of approximately 155,000 m^2 were sold from this portfolio in the mean time. The selling process for other properties is already well underway.

In addition, the asset pool contains 25 properties that are not earmarked for disposal in connection with the sale of the Portfolio. 19 of these properties include land with buildings and a total rentable space of approximately 259,700 m^2, another property is a property subject to a hereditary building right (Erbbaugrundstück), and five properties having a total area of some 63,500 m^2 are either undeveloped or (in one case) condemned. Broken down into the different types of usage, these premises consist of approximately 122,200 m^2 of office space, approximately 83,100 m^2 of residential space, approximately 23,900 m^2 of hotel/restaurant space, approximately 21,800 m^2 of retail space, and approximately 8,600 m^2 for storage or other usage. Based on the predominant usage of these properties, they are classified as ten residential properties, six office buildings, two retail properties and one hotel. With the exception of one office building in Paris, all properties are located within Germany, 14 in the old federal states and ten in the new eastern states. In terms of location, the properties can be broken down as follows: ten properties in the economic hubs of Munich, Frankfurt, Hamburg and Berlin; another nine properties are located in Erfurt, Leipzig, Dresden, Hanover, Bonn and Freiburg i.Br.

Of the above 25 properties not offered for sale as part of the Portfolio, six properties have been sold in the meantime. The selling process for other properties is already well underway.

Further real property

In addition, the Aareal Group owns properties which are either used by the Group itself or, in a few individual cases, let out to third parties. The owner-occupied properties are mainly located in Wiesbaden. The rentable space of the properties contained in the Group’s fixed assets amounts to approximately 35,000 m^2.

The Aareal Group assumes property-related risks both by property lending and by acquiring stakes in property companies and other legal forms. To avoid the realisation of any credit collateral at unfavourable market prices, the Aareal Group sometimes purchases properties (financed by itself) from the borrower (such as office buildings, hotels or residential real estate, so-called foreclosed assets).

Employees

	As at 31.03.2002 (reporting date: unaudited)	2001	2000	1999
		(average number of employees)		
Aareal Group	**3,323**	**2,836**	**2,015**	**1,760**
of which Aareon AG	*1,171*	*1,176*	*966*	*786*
Staff employed by both Aaereal Bank and DePfa Deutsche Pfandbriefbank AG*			499	465

* Some DePfa Deutsche Pfandbriefbank AG staff also carried out duties on behalf of Aareal Bank AG. For the year 2001, the number of Aareal Bank AG employees can be determined by means of a distribution rate of expenses. This distribution does not imply an allocation of every individual employee.

The allocation of staff as at 31 March 2002 was carried out in accordance with the allocation planned for both banks at the time of the split. Every employee has been clearly allocated.

Investments

Aareal Bank's most important investment (in accordance with the individual financial statements prepared pursuant to the German Commercial Code) over the last three financial years as well as in the current financial year are shown in the table below.

(in million €)	As at 31.03. 2002 (unaudited)	2001	2000	1999
Securities	– 690.298	+ 3,923.853	+ 2,349.739	+ 1,654.182
Participations	+ 2.566	+ 17.401	+ 4,517	+ 257,139
Intangible assets	+/– 0	+/– 0	+/– 0	+ 23.211
Land and property (including foreclosed assets)	+/– 0	+ 0,664	+/– 0	+ 1,143
Fixtures and fittings	+ 7.639	+ 3.700	+ 1.9	+ 4.042
Total	– 680.093 (+ 10.205 w/o securities)	+ 3,945.618	+ 2,356.156	+ 1,939.717

The "**Investments in securities**" were determined by offsetting additions and disposals. All other items relate only to additions. The negative balance for the first quarter 2002 resulted from the fact that sales exceeded purchases. Excluding said negative balance from the total investments, the aggregate investment volume for the first quarter 2002 amounted to € 10.205 million.

The item **"Participations"** includes shareholdings in enterprises in accordance with Sec. 271 of the HGB (not including interests in affiliated companies).

The investments in participations during 1999 resulted mainly from Aareal Bank's acquisition of a 10 % participating interest in an investment company for the cost of € 256 million, which was subsequently sold in the year 2001. No decisions on other material investments for the current financial year have been made yet.

Legal Matters

Neither Aareal Bank nor any of its consolidated subsidiaries are currently (or have been since 1 January 2000) a party to any litigation or arbitration that could have a material adverse effect on Aareal Bank's or Aareal Group's business, financial condition or operating results. Furthermore, to the best of Aareal Bank's knowledge, there are no such proceedings pending or threatened.

Insurances

For protection against individual risks, Aareal Bank and its subsidiaries have taken out a number of insurance policies. Aareal Bank believes that the current insurance cover for the banks of the Aareal Group is sufficient.

Patents/Licences

In the course of the split of the DePfa Group, individual companies were renamed. Since 22 January 2002, DePfa Bank AG has been trading under the name of Aareal Bank AG. An application for the registration of the name "Aareal Bank" has been filed with the Trademark Office. In addition, trademark protection has been applied for in accordance with the Madrid Trade Marks Agreement and in third countries (Hong Kong, Canada, USA, Cyprus).

The eagle (DePfa Group's logo) is specifically protected as a trademark to the benefit of DePfa Deutsche Pfandbriefbank AG. It is planned to transfer this trademark to Aareal Bank and to register Aareal Bank as the new holder of this trademark.

Aareal Bank believes that, all in all, the Aareal Group is not dependent on any other patents, licences or trademarks.

Major Contracts

Co-operation of Aareon AG with SAP AG

Aareon AG has entered with SAP AG into a co-operation agreement, a development co-operation agreement and a distribution agreement, each having a term up until 31 December 2010. Being the framework agreement, the co-operation agreement emphasises specific stipulations contained in the other agreements and provides, among other things, the principles for a co-operation outside the Federal Republic of Germany. The development co-operation agreement lays down the principles for the development of a standard real estate management software by SAP AG and the development of add-ons by Aareon AG. Furthermore, the contract contains provisions on further developments, licences and rights of use as well as supply deadlines. This agreement has a term until 31 December 2010 and is automatically renewed for a further five years, unless terminated by the giving of four years' notice. Aareon AG's influence on the development of the standard software by SAP AG will be limited. At the same time, Aareon AG will be in charge of developing individual industry-specific supplementary components, so-called add-ons.

After completion and testing of the relevant software components, Aareon AG will distribute the products developed (and maybe also the SAP standard software without any add-ons) in its own name and for its own account to SAP AG customers as well as its own customers. For this purpose, the distribution agreement, which has the same term as the development co-operation agreement, grants Aareon AG the right to distribute and market the standard software, developed by SAP AG, in its own name and for its own account within the Federal Republic of Germany. In this context, Aareon AG is subject to a minimum purchase obligation, tiered into different annual brackets and involving a total amount of € 105 million which will be reached by 31 December 2009.

Agency agreements with DePfa Deutsche Pfandbriefbank AG

To ensure the performance of duties and functions, whose complete transfer to Aareal Bank was – for legal or economic reasons – not always possible, Aareal Bank has entered into comprehensive agency agreements with DePfa Deutsche Pfandbriefbank AG.

On this basis, Aareal Bank manages those loans of DePfa Deutsche Pfandbriefbank AG that cannot be transferred, or have not yet been transferred, and carries out any business associated with such loans on behalf of DePfa Deutsche Pfandbriefbank AG. Furthermore, Aareal Bank has taken over the archiving of some of DePfa Deutsche Pfandbriefbank AG's physical and electronic documents at its own premises.

To handle any problems arising in the course of establishing own units and systems, the banks have entered into a co-operation agreement for mutual support (subject to their own obligations and capacities) in case one of the banks is not able to meet its statutory and contractual obligations due to short-term bottlenecks for which the banks themselves are not responsible. As an interim measure, DePfa Deutsche Pfandbriefbank AG is currently being supported by the company pursuant to a fixed-term agency agreement.

Taxation

Taxation in the Federal Republic of Germany

This chapter "Taxation in the Federal Republic of Germany" contains a summary of some important German fiscal provisions that are relevant in connection with the acquisition, the holding and the sale or redemption of the Capital Notes. This summary is not intended to be a comprehensive and complete representation of all aspects under tax law that could be relevant to investors. This summary is based on German tax law in force at the time of preparing the Prospectus; it may be subject to changes at short notice which may even have a retrospective effect. We strongly recommend that potential investors seek advice from their professional tax consultant with regard to the tax implications of the acquisition, the holding and the sale or redemption of Capital Notes.

Investors resident within Germany

As a rule, all interest payments made by the bond debtor to investors domiciled within Germany are subject to income or corporate tax plus a solidarity surcharge in the amount of 5.5 % of the relevant income or corporate tax liabilities. Where bonds are held as assets of a German business, these interest payments are also subject to trade tax *(Gewerbesteuer)*. Where bonds are held in the custody of a domestic bank (including the German branches of foreign banks), interest income tax *(Zinsabschlagsteuer)* in the amount of 30 % (plus a 5.5% solidarity surcharge on the tax amount, i.e. a total of 31.65 %) will be withheld. The amount of withholding tax will be set off against the final income or corporate tax debt of the bond holder.

Profits from the sale or redemption of bonds, including the profits achieved by a second or subsequent purchaser, are deemed to be interest income and are subject to personal income or corporate tax plus solidarity surcharge. Where these assets are held as part of a German business, they are also subject to trade tax. Where bonds are held in the custody of a domestic bank or financial services provider (including the German branches of foreign banks), the paying agent will be required to withhold interest income tax in the amount of 30 % (plus a 5.5 % solidarity surcharge) on the difference between the sale or redemption amount and purchase price of the bond if said bond has been in the custody of the relevant bank or financial services provider since its acquisition. If the paying agent has changed since acquisition of the bond, the advance deduction of interest income tax *(Zinsabschlag)* will be 30 % on the sale or redemption proceeds. The advance deduction will in turn be set off against the personal income or corporate tax debt of the investor.

Investors domiciled outside Germany

Investors domiciled outside Germany are not subject to German taxation and there is no advance deduction of interest income tax (even if bonds are held in the custody of a German bank or financial services provider), unless the bonds are held as business assets of a German branch of the bond holder.

Inheritance and Gift Tax

In accordance with German law, inheritance or gift tax is not charged if, in the case of inheritance tax, neither the deceased nor the beneficiary is domiciled within Germany or, in the case of gift tax, neither the donor nor the donee is domiciled within Germany and the bond does not form part of German business assets for which an operation is being maintained within Germany or for which a permanent representative has been appointed in Germany. Exceptions apply to certain former tax residents.

Proposed EU Interest Taxation Directives

In accordance with a proposal which is currently being reviewed by the European Union as part of a larger set of measures, as of 2004 all EU member states may be required to direct, by national privilege, the paying agencies within the meaning of the Directive, that are based in the relevant EU member state, to withhold either (a) a tax deduction of 15 %, and as of 2007 of 20 %, on interests, issuing discounts or redemption premiums paid to individuals who are tax residents of another EU member state for their account, or (b) to notify that member state of such payment in which the payee is a tax resident. As of 2010, only notification as per (b) would be required and would replace any tax deduction as outlined under (a). As the implementation of this proposal depends on whether certain non-EU countries and associated overseas territories and non-self-

governing territories of non-EU countries will also introduce a tax deduction or agree to provide information, it is currently not foreseeable whether, and in what form, the draft proposal will ultimately be implemented.

Underwriting and Sale

Pursuant to an underwriting agreement dated 1 October 2002, Deutsche Bank AG London as well as Bayerische Hypo- und Vereinsbank AG, BCP Investimento – Banco Comercial Portugues de Investimento, S.A., BNP Paribas and Legg Mason Ltd. Spain (the "Managers") have agreed to underwrite and place with investors the Capital Notes of the Issuer in the aggregate nominal amount of € 180,000,000 at a price of 100 % of the Nominal Amount. The Managers are neither joint debtors nor joint creditors. Each of the Managers acquires exclusive ownership in the Capital Notes to be underwritten. Aareal Bank has agreed to pay to the Managers a management, underwriting and placement fee in the amount of 2 % of the aggregate nominal amount of the Capital Notes to be underwritten.

The Issuer has agreed to indemnify the Managers against certain liability risks in connection with the underwriting and offer of the Capital Notes. Under certain circumstances, Deutsche Bank AG London is entitled to cancel the underwriting agreement on behalf of the Managers prior to the underwriting of the Capital Notes and payment of the issue price.

Sales Restrictions

United States of America

The Capital Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "Securities Act"). Accordingly, the Capital Notes may not be offered or sold in the United States or to US Persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from registration requirements of the Securities Act.

United Kingdom

This document may only be delivered, and delivery of this document may only be arranged for, in circumstances in which Section 21(1) of the Financial Services and Markets Act 2000 does not apply.

The Issuer has not authorised any public offer of Capital Notes in the United Kingdom which provide for a term of maturity of one year or more within the meaning of the Public Offers of Securities Regulations of 1995 (as amended) (the "Regulations"). Such Capital Notes may not be offered or sold to any person in the United Kingdom unless in circumstances where such offer or sale does not qualify as a Public Offer in the United Kingdom within the meaning of the Regulations, or where such Capital Notes are otherwise offered or sold in accordance with all the requirements of such Regulations.

General

In jurisdictions where the sale or the distribution of the Capital Notes offered by this Prospectus is subject to legal restrictions, the Capital Notes may only be sold and/or distributed in compliance with such restrictions.

Stabilisation

Deutsche Bank AG London shall be entitled to take measures in order to maintain a certain market price of the Capital Notes which deviates from the price which would otherwise prevail. Any such measures may be terminated at any time and will only be taken in Germany in accordance with German law and market practice, which may differ significantly from the rules and market practices customarily applied in other countries in connection with the stabilisation of market prices.

Delivery of the Capital Notes

The Capital Notes are represented for their entire life by a global certificate in bearer form without interest coupons attached (the "Global Certificate"). The Global Certificate will be deposited for the entire life of the Capital Notes with Clearstream Banking AG, Frankfurt am Main, Germany, ("Clearstream Frankfurt"). The Global Certificate will also be held in custody by Clearstream Frankfurt on behalf of the holders of such Capital Notes which are held through Clearstream Banking S.A., Luxembourg, or Euroclear Bank S.A./N.V. in their capacity as operator of the Euroclear System. The Global Certificate will be personally signed by the management of the Issuer.

The Capital Notes may be transferred in book-entry form in accordance with the applicable rules of Clearstream Frankfurt. Delivery of the Capital Notes by book-entry against payment took place on 8 October 2002. Definite certificates representing individual Capital Notes or coupons will not be issued. A copy of the Global Certificate may be obtained free of charge at the Paying Agent specified below.

Admission to Official Listing

The Capital Notes have been admitted to trading on the official market of the Frankfurt Stock Exchange on 8 October 2002. It is envisaged to start trading of the Capital Notes immediately after admission to the official market of the Frankfurt Stock Exchange.

Recent Developments and Outlook of Aareal Bank AG

Given the overwhelmingly positive response to the Exchange Offer, the road is now clear for Aareal Bank to launch itself as an independent, new generation property bank. Aareal Bank views itself as one of the most respected international property specialists and will continue to enhance its position as one of the prime partners for institutional investors. With the overall change in the Group framework, Aareal Bank can now capitalise on business opportunities more effectively, which in turn makes it easier to grow. In addition to exploring new businesses, this also includes exploiting strategic options.

The very good position already achieved in its home European market will be further consolidated in the years to come. Aareal Bank AG will also concentrate its efforts on actively growing its business in North America.

Aareal Bank expects the stronger emphasis on target clients to have a positive impact on earnings during the current financial year. Continued growth in more profitable international business, concentrating on top class clients, the realignment of the German business (also by closing ten private customer centers and focussing the commercial activities on seven locations and the head office in Wiesbaden) as well as more frequent deployment of securitization instruments will be key drivers behind Aareal's projection of increasing operating income.

The financial statements as of 30 June 2002, the first financial statements according to IAS, contained in the interim report of Aareal Bank recently published are within the projections although – due to the split of the former DePfa Group in two independent and listed companies – the scope of comparability of the financial data for the first half of the year 2002 is limited.

The net interest income after net loan loss provisions was increased from € 85 million in the first half of the year 2001 to € 121 million. The net loan loss provisions created in the first half of the year 2002 contained in the net interest income amounts to € 49 million and, therefore, is within the projections for the Property Business of the former DePfa Group according to which last year's amount of € 116 million shall not be exceeded. It is assumed that due to further transfers of the property financing portfolio from DePfa Deutsche Pfandbriefbank AG to Aareal Bank based on the split Aareal Bank's portfolio will be further extended. The net commission income increased by 5,5 % to € 96 million. Other operating income amounted to € 80 million in the first half of the year 2002 compared to € 38 million in 2001.

The increase of administrative expenses by 23,1 % to € 176 million mainly results from the transfer of staff from DePfa Deutsche Pfandbriefbank AG to Aareal Bank due to the split as well as from the first-time consolidation of subsidiaries as of the end of the year 2001. Compared to the previous year's value of the former DePfa Group (for the segments Property Business and IT) on a pro rata time basis the increase of the administrative expenses amounts to 0.1 %. Profit before taxes of the Aareal Group was improved by 20.8 % to € 87 million, Group retained income (after minority interest) was increased by 11 % to € 49 million.

The cost/income ratio was improved from 70.6 % in the first half of the year 2001 to 58.9 % in the first half of the year 2002. Return on equity after taxes for a year increased from 8.9 % to 9.6 %. Therefore, Aareal Bank is within the projections of a return on equity after taxes of 9 % for 2002. Until the end of 2002 a total liable capital of approximately € 2 billion shall be achieved.

Income before taxes in the segment "Property Lending/Structured Finance" increased to € 79 million from € 38 million. Return on equity increased from 11.2 % to 19.4 %, the cost/income ratio was improved from 51.9 % to 40.4 %. Aareal Bank envisages the refocusing of the German business, in conjunction with the gradual reduction of existing portfolio volumes, to result in an improvement of profitability over the years to come. 81 % of the new business in an amount of € 3,101 million were attributed to the international sector. The new international business amounted to approximately € 2.5 billion, up 21 % against the comparative figures achieved in the Property Business of the old DePfa Group in 2001. The new business in Germany was significantly reduced by 55.8 % to € 574 million compared to approximately € 1.3 billion in the same period of the previous year. Approximately € 0.9 billion in property loans were syndicated during the first half of 2002.

The loss before taxes of the segment "Consulting/Services" of € –6 million (2001: € 3 million profit) is significantly based on the measures adopted for the realignment of Aareon AG based on the long-term cooperation with SAP AG. At Aareon AG, potential for product development has been reduced significantly, jobs were shed and depreciation of goodwill at international subsidiaries and their proprietary software have been conducted. Aareal Bank expects the impact from these measures to be felt as early as next year and strives for a break even of the segment's results for the second half of the year 2002.

The segment “Property Asset Management” achieved profit before taxes of € 4 million compared to € –5 million for the same period of the previous year. The return on equity after taxes amounted to 16.6 %.

The feedback received during the preparatory meetings held with the financial community, where Aareal Bank discussed its capital market debut, was a clear confirmation that its business model is a convincing one. The initial placement successes so far during 2002 also showed that Aareal Bank’s new name has been fully accepted by the capital markets. The Deutsche Börse AG added Aareal Bank to the MDAX as of 23 September 2002.

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Balance Sheets for the financial years 2001, 2000 and 1999

Assets	2001	As at 31 December 2000 (audited) (in €)	1999
1. Cash reserve	839,326,323	831,317,337	762,421,645
a) Cash on hand	726,971	854,197	793,580
b) Balances with central banks	838,599,352	830,463,139	761,628,065
Including: with Deutsche Bundesbank	766,878,352	785,674,139	757,604,065
2. Public sector debt instruments and bills of exchange eligible for refinancing at central banks	–	–	–
a) Treasury bills, non-interest bearing treasury notes and similar public debt instruments	–	–	–
Including: eligible for refinancing with Deutsche Bundesbank	–	–	–
b) Bills of exchange	–	–	–
Including: eligible for refinancing with Deutsche Bundesbank	–	–	–
3. Loans and advances to banks	2,842,827,942	4,711,437,166	4,362,046,726
a) Payable on demand	1,581,475,421	1,176,810,365	543,834,687
b) Other placements, loans and advances	1,261,352,521	3,534,626,801	3,818,212,039
4. Loans and advances to customers	15,724,516,476	11,701,791,361	10,032,470,983
Including:			
secured by real estate liens	5,719,687,498	4,012,708,160	5,667,159,211
Public sector loans	925,579,114	1,203,618,047	880,950,438
5. Debt securities and other fixed-income securities	10,105,231,210	6,207,115,041	3,820,394,260
a) Money market instruments	–	–	48,642,550
aa) of public issuers	–	–	–
Including: securities eligible as collateral with Deutsche Bundesbank	–	–	–
ab) of other issuers	–	–	48,642,550
Including: securities eligible as collateral with Deutsche Bundesbank	–	–	–
b) Bonds and notes	10,105,231,210	6,201,934,665	3,771,751,710
ba) of public issuers	959,035,342	2,254,426,148	1,353,207,267
Including: securities eligible as collateral with Deutsche Bundesbank	–	–	1,226,408,490
bb) of other issuers	9,146,195,868	3,947,508,516	2,418,544,443
Including: securities eligible as collateral with Deutsche Bundesbank	8,441,687,632	3,888,000,900	1,987,548,971
c) Own bonds	–	5,180,376	–
Nominal amount	–	5,112,919	–
6. Equities and other non-fixed income securities	383,709,256	357,972,818	394,954,316
7. Participations	23,201,694	262,563,915	258,046,840
Including: interests in banks	768,855	768,855	768,855
interests in financial services providers	–	42,437	–
8. Interests in affiliated companies	207,704,388	265,757,923	197,787,453
Including: interests in banks	29,302,288	98,260,494	98,260,494
interests in financial services providers	16,837,415	16,837,115	2,227,034

Assets	2001	As at 31 December 2000 (audited) (in €)	1999
9. Trust assets	2,567,458,011	2,753,488,094	1,614,504,574
Including: trustee loans	2,555,442,652	2,741,472,735	1,602,489,215
10. Equalisation claims on the public sector including debt securities after conversion	–	–	–
11. Intangible assets	15,329,808	17,873,808	20,932,403
12. Property and equipment	19,323,089	19,223,278	21,310,151
13. Unpaid contributions to subscribed capital	–	–	–
Including: called contributions	–	–	–
14. Treasury shares	–	–	–
Nominal amount/ If applicable, theoretical value	–	–	–
15. Other assets	236,995,322	429,357,573	180,172,551
16. Prepaid expenses	21,281,143	15,770,906	18,615,695
17. Deferred taxes	9,000,000	–	–
18. Deficit not covered by capital	–	–	–
Total assets	**32,995,904,662**	**27,573,669,219**	**21,683,657,597**

Shareholders' equity and liabilities	2001	As at 31 December 2000 (audited) (in €)	1999
1. Liabilities to banks	10,096,731,110	8,185,741,339	7,073,289,018
a) Payable on demand	1,831,631,872	1,813,960,206	918,702,165
b) With an agreed maturity or notice period	8,265,099,238	6,371,781,133	6,154,586,853
2. Liabilities to customers	10,089,380,847	8,606,116,516	7,548,026,940
a) Savings deposits	3,852,971	7,918,607	7,950,772
aa) with a withdrawal notice of three months	355,430	539,626	560,201
ab) with an agreed notice period of more than three months	3,227,541	7,378,982	7,390,571
b) Other liabilities	10,085,797,876	8,598,197,909	7,540,076,168
ba) payable on demand	3,344,825,705	3,080,441,899	2,740,688,483
bb) with agreed term or period of notice	6,740,972,171	5,517,756,010	4,799,387,686
3. Certificated liabilities	8,067,259,101	6,423,554,553	4,008,649,602
a) Bonds issued	8,067,259,101	6,423,554,553	4,008,649,602
b) Other certificated liabilities	–	–	–
Including: Money market instruments	–	–	–
Own acceptances and promissory notes outstanding	–	–	–
4. Trust liabilities	2,567,458,011	2,753,488,094	1,614,504,574
Including: trustee loans	2,555,442,652	2,741,472,735	1,602,489,215
5. Other liabilities	72,149,372	48,885,761	59,619,484
6. Deferred income	63,928,269	55,380,174	57,722,144
7. Provisions	103,042,519	95,091,850	88,370,756
a) Provisions for pensions and similar obligations	40,824,393	39,083,676	36,545,036
b) Tax provisions	–	11,718,417	27,261,958
Including: for deferred taxes	–	6,135,503	9,867,933
c) Other provisions	62,218,126	44,289,757	24,563,762
8. Special items with partial reserve character	–	–	–
9. Subordinated liabilities	717,285,902	382,940,822	235,597,221
10. Profit-participation certificates	77,125,185	77,125,185	77,125,185
Including: maturing within two years	–	–	–
11. Fund for general banking risks	58,000,000	58,000,000	58,000,000
12. Equity	1,083,544,346	887,344,925	862,752,673
a) Subscribed capital	83,200,000	83,200,000	81,806,701
Contributions by silent partners	375,061,082	320,732,962	298,112,040
b) Capital reserve	45,746,761	45,746,761	47,140,060
c) Retained earnings	428,513,202	428,513,202	411,513,202
ca) legal reserve	4,513,202	4,513,202	4,513,202
cb) reserve for treasury shares	–	–	–
cc) statutory reserves	–	–	–
cd) other retained earnings	424,000,000	424,000,000	407,000,000
d) Distributable profit	–	9,152,000	24,180,670
Net Profit	151,023,301	–	–
Total shareholders' equity and liabilities	**32,995,904,662**	**27,573,669,219**	**21,683,657,597**

	2001	1 January – 31 December 2000 (audited) (in €)	1999
1. Contingent liabilities	1,110,016,444	692,960,774	742,815,673
a) Contingent liabilities from discounted bills forwarded	–	–	–
b) Liabilities from guarantees and indemnities	1,110,016,444	692,960,774	742,815,673
c) Liability from the pledging of collateral for third-party liabilities	–	–	–
2. Other commitments	4,768,899,262	1,927,499,186	2,131,890,700
a) Repurchase obligations from securities repurchase agreements	–	–	–
b) Placement and underwriting obligations	–	–	–
c) Irrevocable loan commitments	4,768,899,262	1,927,499,186	2,131,890,700

Profit and Loss Accounts for the financial years 2001, 2000 and 1999

Income	1 January – 31 December 2001	2000 (audited) (in €)	1999
1. Interest income from	1,499,579,308	1,099,873,780	864,942,230
a) Lending and money market business	1,051,977,685	855,572,812	726,856,491
b) Fixed-income securities and government debt	447,601,623	244,300,968	138,085,739
2. Current income from	13,081,480	67,360,097	12,122,713
a) Equities and other non-fixed income securities	2,442,274	52,095,562	4,558,127
b) Participations	9,875,338	9,502,805	5,600,632
c) Interests in affiliated companies	763,868	5,761,730	1,963,954
3. Income from profit pools, profit transfer agreements and partial profit transfer agreements	–	–	–
4. Commission income	105,302,818	90,342,729	90,306,742
5. Net profit on financial operations	–	–	–
6. Income from amounts written back on claims and certain securities and from the reversal of loan loss provisions	–	–	787,877
7. Income from write-ups to participating interests, shares in affiliated companies and securities held as fixed assets	186,195,857	–	–
8. Other operating income	23,697,453	19,833,181	11,060,289
9. Income from the reversal of special items with partial reserve character	–	–	–
10. Extraordinary income	–	–	–
11. Income from transfer of losses	–	–	–
12. Net loss for the year	–	–	–
Total income	**1,827,856,916**	**1,277,409,787**	**979,219,851**

Expenses	2001	1 January – 31 December 2000 (audited) (in €)	1999
1. Interest paid	1,276,075,045	883,747,147	611,215,715
2. Commission expenditure	20,177,008	5,008,496	5,341,274
3. Net expenditure on financial operations	–	–	–
4. General administrative expenses, of which:	185,162,406	164,666,303	144,936,582
a) Personnel expenditure	78,071,638	67,058,850	58,954,543
aa) Wages and salaries	64,087,638	52,348,982	46,914,614
ab) Social security contributions and pensions and other employee benefits,	13,984,000	14,709,868	12,039,929
of which: retirement benefits	6,092,823	7,059,100	4,724,286
b) Other administrative expenses	107,090,768	97,607,453	85,982,039
5. Depreciation/write-offs of intangible and fixed assets	5,710,307	6,311,693	6,846,202
6. Other operating expenses	59,196,497	8,221,020	17,795,683
7. Depreciation/write-offs on claims and certain securities, additions to loan loss provisions	63,994,934	146,656,710	–
8. Depreciation of, and write-downs on participating interests, shares in affiliated companies and securities held as fixed assets	–	17,703,481	470,746
9. Expenditure for assumption of losses	34,329,618	20,723,000	1,509,233
10. Additions to special items with partial reserve character	–	–	–
11. Transfers to fund for general banking risks	–	–	58,000,000
12. Extraordinary expenses	–	10,000,000	–
13. Refunded income taxes	22,607,002	–	–
Income taxes	–	345,583	59,429,002
14. Other taxes not reported under item #6	466,682	19,833	132,482
15. Profits transferred under a profit-pooling agreement, profit transfer agreement or partial profit transfer agreement	–	–	–
16. Expenses for silent participation	54,328,120	3,854,521	33,740,858
17. Net income for the year	151,023,301	10,152,000	39,802,074
Total expenses	**1,827,856,916**	**1,277,409,787**	**979,219,851**

1. Net Income	151,023,301	10,152,000	39,802,074
2. Transfer to retained earnings	–	1,000,000	15,621,404
3. Net profit	–	9,152,000	24,180,670

Notes to the Accounts

Accounting and Valuation Principles

The financial statements of DePfa Bank AG were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – ''HGB'') and the supplementary regulations of the German Stock Corporation Act (Aktiengesetz – ''AktG'')and the German Accounting Directive for Banks (Verordnung über die Rechnungslegung der Kreditinstitute – ''RechKredV''). Furthermore, the provisions of the Law on Corporate Governance and Transparency (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich – ''KonTraG'') were applied.

Loans and Advances to Customers Assets – Item #4)

These have been allocated in full to current assets,and valued conservatively in accordance with normal banking practice. All recognizable individual risks have been accounted for in full by way of specific loan loss provisions. The general credit risk is covered by forming general loan loss provisions, the amount of which was determined on the basis of the average actual amount of loan defaults over the last five years, and in line with applicable tax regulations. Interest-free and low-interest loans are discounted to their cash value. Where the stated value of the loans differs from its acquisition cost, the amount of the difference is shown under deferred items in accordance with section 340e (2)of the HGB.

Debt Securities and other Fixed-Income Securities (Assets – Item #5)

These instruments are allocated to the liquidity reserve or fixed assets and are either valued strictly at the lower of cost or market value (section 253 [3] and section 280 [2] of the HGB) or in accordance with the principles applicable to fixed assets (section 253 [2] of the HGB). Any premiums or discounts accrued have been amortized over the term involved.

The book value of assets (bonds)pledged under repo agreements totalled € 2,249.9 million as at 31 December 2001.

Equities and other Non-Fixed Income Securities (Assets – Item #6)

In addition to the special fund units disclosed under this item, which are valued at their acquisition cost or lower attributable value, this item includes profit-participation certificates totalling € 16.3 million as well as equities having a book value of € 0.8 million.

Participating Interests, Interests in Affiliated Companies (Assets – Items ##7 and 8)

These are reported at their acquisition cost, less depreciation, pursuant to section 253 (2) of the HGB.

The list of the shareholdings pursuant to section 285 No. 11 of the HGB has been filed with the Commercial Register at the Berlin District Court, under registration number HRB 3975, and may also be obtained directly from DePfa Bank AG (trading under the firm of Aareal Bank AG with effect from 22 January 2002).

Intangible Assets, Fixed Assets (Assets – Items ##11 and 12)

The data processing programs purchased from third-party producers (EDP software) as well as office furniture and equipment reported under fixed assets are carried at their acquisition cost less amortization and depreciation allowed under applicable tax regulations. Low-cost assets are written off in full during the year of acquisition. Land and buildings, which are also reported under fixed assets, are carried at their acquisition or manufacturing costs, less depreciation allowed under applicable tax regulations. Where land and buildings were acquired to salvage loans and have been in the possession of the bank for more than five years, these are also reported under this item.

As part of the transfer of some of the business activities from DePfa Deutsche Pfandbriefbank AG to DePfa Bank AG, goodwill has been capitalized and will be amortized over a period of nine years.

Other Assets (Assets – Item #15)

The items identified under this header are reported at their nominal values.

Deferred Items (Assets – Item #16/Liabilities – Item #6)

This item primarily includes any premiums and discounts on registered bonds, claims under promissory note loans and loans, that have been spread over the relevant terms.

Liabilities

Liabilities are valued at their repayment amount. The difference between the nominal value and the initial carrying amount of liabilities is recognized under deferred items.

Provisions (Liabilities – Item #7)

Provisions for pensions and similar obligations have been determined using an interest rate of 6% based on the guideline tables issued by Heubeck in 1998 using the cost (''Teilwert'') method according to section 6a of the German Income Tax Act (Einkommensteuergesetz – ''EStG''). In the 2001 Financial Statements, the difference in valuation between these amounts and those stipulated by the 1983 guideline was recognized at the rate of 25% of the amounts transferred. Provisions for taxes and other provisions have been set aside for all recognizable risks and uncertain obligations, at the amount required by prudent commercial judgement.

Currency Translation

Receivables and liabilities in foreign currencies are translated, pursuant to section 340h (1) sentence 2 of the HGB, using the ECB reference rate on the balance sheet date. The resulting differences are treated in accordance with section 340h (2) HGB.

Outstanding hedging transactions are translated using the forward rate prevailing on the balance sheet date.

Breakdown of Maturities for Receivables and Liabilities (Residual Terms)

Loans and Advances to other Banks (Assets – Item #3) with a Residual Term of:

	€ m
Payable on demand	1,581.5
up to three months	484.9
more than three months up to one year	237.4
more than one year up to five years	266.7
more than five years	272.3
	2,842.8

Loans and Advances to Customers (Assets – Item #4) with a Residual Term of:

	€ m
up to three months	2,802.9
more than three months up to one year	1,148.3
more than one year up to five years	5,742.8
more than five years	6,030.5
	15,724.5

These figures do not include any receivables with an indefinite term.

Bonds and other Fixed-Income Securities (Assets – Item #5)

Bonds and debentures having a nominal value of € 1,057.6 million will mature in 2002.

Liabilities to Banks (Liabilities – Item #1) with a Residual Term of:

	€ m
Payable on demand	1,831.6
up to three months	5,615.1
more than three months up to one year	1,554.9
more than one year up to five years	334.7
more than five years	760.4
	10,096.7

Savings Deposits with an Agreed Notice Period (Liabilities – Item #2a) having a Residual Term of:

	€ m
up to three months	0.4
more than three months up to one year	0.0
more than one year up to five years	3.2
	3.6

Other Liabilities to Customers (Liabilities – Item #2b) with a Residual Term of:

	€ m
Payable on demand	3,344.8
up to three months	4,066.5
more than three months up to one year	538.2
more than one year up to five years	1,546.4
more than five years	589.9
	10,085.8

Receivables/Liabilities to/from Affiliated Companies and Associated Companies within the Meaning of Section 271(1) of the HGB

	Affiliated companies € m	Associated companies (pursuant to secion 271(1) HGB) € m
Loans and advances to banks (Assets – Item #3)	1,039.3	–
Loans and advances to customers (Assets – Item #4)	267.6	–
Bonds and other fixed-income securities (Assets – Item #5)	668.8	–
Liabilities to banks (Liabilities – Item #1)	2,304.2	–
Liabilities to customers (Liabilities – Item #2)	55.4	–
Certificated liabilities (Liabilities – Item #3)	0.0	–
Subordinated liabilities (Liabilities – Item #9)	374.0	–
Liabilities under guarantees	27.3	–

Certificated Liabilities (Liabilities – Item #3)

Own bonds issued with a nominal value of € 1,421.1 million will mature in 2002.

Movements in fixed assets

				Fixed Assets (Assets – item #12)	
	Participating interests (Assets – item #7) € m	Interests in affiliated companies (Assets – item #8) € m	Intangible assets (Assets – item #11) € m	Office furniture and equipment € m	Land and property € m
Acquisition/historical cost (01/01/2001)	263.3	284.7	23.0	39.3	13.4
Additions	17.4	18.0	0.0	3.7	0.0
Write-ups	0.0	0.0	0.0	0.0	0.0
Transfers	0.0	0.0	0.0	0.0	0.6
Disposals at acquisition costs	255.7	71.0	0.0	1.2	0.1
Amortisation/depreciation (accumulated)	1.8	24.0	7.7	35.4	1.0
Book value (31/12/2001)	23.2	207.7	15.3	6.4	12.3
Amortisation/depreciation during the year	1.0	5.0	2.5	2.0	0.9
Book value (31/12/2000)	262.6	265.8	17.9	5.9	13.3

Land and buildings and equivalent rights, having a book value of € 0.4 million, are used in the bank's own operations. The bank has rented almost all of the other business land and buildings from one of its subsidiaries.

Securities Negotiable at a Stock Exchange

	Bonds and other fixed-income securities (Assets – Item #5) € m	Equities and other non-fixed income securities (Assets – Item #6) € m	Participating interests (Assets – Item #7) € m	Interests in affiliated companies (Assets – Item #8) € m
Listed	9,910.6	17.2	0.0	0.0
Unlisted	0.0	0.0	0.0	0.0
Negotiable	9,910.6	17.2	0.0	0.0

Trust Assets/Trust Liabilities (Assets – Item #9/Liabilities – Item #4)

The total amounts are distributed across balance sheet items as follows:

Assets	**€ m**
4. Loans and advances to customers Including: Secured by charges on real property	2,555.5
6. Equities and other non-fixed income securities	12.0
	2,567.5

Liabilities	**€ m**
1. Liabilities to banks b) with an agreed maturity or notice period	2,358.2
2. Liabilities to customers b) Other liabilities bb) with agreed maturity or notice period	209.3
	2,567.5

Other Assets (Assets – Item #15)

In addition to claims not associated with the banking business and balances in clearing accounts,this item (reported at € 237 million) primarily includes land and buildings intended for sale as well as receivables from related parties arising from the provision of services.

Deferred Items (Assets – Item #16)

This item includes discounts totalling € 12.9 million, and premiums totalling € 0.4 million.

Deferred Taxes (Assets – Item #17)

This item includes deferred tax assets in the amount of € 9 million arising in connection with the 2001 Financial Statements.

Subordinated Assets

Other loans and advances to banks (Assets – item #3b)includes subordinated assets totalling € 15.2 million.

Other Liabilities (Liabilities – Item #5)

This item is reported at € 72.1 million and includes primarily liabilities from the assumption of losses, liabilities from silent participation, and tax liabilities. This item does not include any major accruals.

Deferred Items (Liabilities – Item #6)

This item mainly includes € 51.9 million in discounts and administration fees for claims arising under loan agreements.

Provisions (Liabilities – Item #7)

Provisions for pensions and similar obligations increased by € 1.7 million on the previous year.

Provisions for taxes decreased by € 11.7 million compared with the previous year.

Other provisions increased by € 17.9 million, to € 62.2 million. This includes provisions for the strategic realignment of the DePfa Group in the amount of € 6.8 million.

Subordinated Liabilities (Liabilities – Item #9)

Interest expenses totalled € 29.4 million. The funds raised comply with the provisions of section 10 (5a) of the German Banking Act (Gesetz über das Kreditwesen ''KWG'')

Profit-Participation Certificates (Liabilities – Item #10)

	€ m
Balance at]01/01/2001	72.1
New issues in 2001	–
Balance at 31/12/2001	72.1
Pro rata interest	5.0
Carried on balance sheet	77.1

The interest paid for profit-participation certificates amounted to € 5.0 million. The terms and conditions of the profit-participation certificates outstanding comply with the requirements of section 10 (5) of the KWG.

It is composed of the following tranches:

Tranche #1:

DM 75 million issued in 1993, comprising 75,000 bearer profit-participation certificates, each with a nominal value of DM 1,000.

The distribution rate is 7.125% p.a.; the maturity is 31 December 2005.

Tranche #2:

DM 36 million issued in 1994, comprising 36,000 bearer profit-participation certificates, each with a nominal value of DM 1,000.

The distribution rate is 6.5% p.a.; the maturity is 31 December 2005.

Tranche #3:

DM 10 million issued in 1994, comprising 10,000 bearer profit-participation certificates, each with a nominal value of DM 1,000.

The distribution rate is 8% p.a.; the maturity is 31 December 2003.

Tranche #4:

DM 20 million issued in 1996, comprising four bearer participation certificates with nominal values of DM 10 million each, one certificate of DM 6 million, and two certificates with a nominal value of DM 2 million each.

The distribution rate is 6.8% p.a.; the maturity is 31 December 2007.

Subscribed Capital

As at 31 December 2001, the subscribed capital amounted to € 83.2 million.

As a result of the acquisition of 0.01% of the issued share capital, the company's issued share capital has been wholly owned by DePfa Deutsche Pfandbriefbank AG since 19 June 2001.

The subscribed capital is composed of

1.050 shares	of €	52,000.-,
53.600 shares	of €	520.-,
9.000 shares	of €	52.-,
10.000 shares	of €	26.-.

The shares are registered shares.

Capital Reserve

The capital reserve in the amount of € 45,746,761 also includes the premiums from previous capital increases.

Assets and Liabilities in Foreign Currencies

The aggregate amount of assets denominated in foreign currencies is € 4,470.3 million, while liabilities total € 4,329.3 million. The difference has almost entirely been hedged using foreign exchange forwards and currency swaps.

Contingent Liabilities (Liabilities – Item #1 below the line)

Liabilities from guarantees and indemnities primarily comprise loan guarantees.

Other Liabilities (Liabilities – Item #2c below the line)

Irrevocable loan commitments are made up of credit and loan commitments. Of the total amount, € 2,816.6 million relates to domestic borrowers and € 1,952.3 million to foreign borrowers.

Transactions Subject to Market Risks

The following types of transactions were outstanding as of 31 December 2001:

Forward transactions in foreign currencies:

- Foreign exchange forwards
- Currency swaps

These were entered into exclusively for hedging purposes.

Forward transactions based on interest rates:

- Caps
- Floors
- Forward rate agreements
- Swaptions
- Interest rate swaps

These transactions were entered into exclusively for hedging purposes.

There were no forward transactions subject to other price risks on the balance sheet date. Derivatives transactions entered into to hedge against changes in interest rates have been included in the overall analysis of this type of risk and have thus not been dealt with separately. This also applies to derivatives that form single valuation units together with other items. No derivative transactions were concluded with a view to achieve profits from short-term fluctuations in market prices.

Derivative Transaction Volumes

	Nominal value (€ m)			
	Remaining term up to 1 year	Remaining term 1 up to 5 years	Remaining term more than 5 years	Total
Interest rate and currency swaps	7,037	6,708	4,152	17,897
Interest rate futures and FRAs	50			50
Other interest rate contracts	750	211	296	1,257
Foreign exchange forwards	2,146			2,146
Total	9,983	6,919	4,448	21,350

Counterparty Structure for Derivatives Transactions:

Type of counterparty	Counterparty risk (€ m)
OECD sovereign governments	
OECD banks	213
OECD financial services providers	8.8
Other companies/private individuals	
Non-OECD sovereign governments	
Non-OECD banks	
Non-OECD financial services providers	

Other Financial Commitments

The bank's interest in Liquiditäts – und Konsortialbank GmbH, Frankfurt/Main, with a stated value of € 1.2 million, has call commitments of up to € 6.0 million. In addition, the bank has a pro-rata principal liability in the event of non-fulfilment of call commitments by other co-shareholders, who hold aggregate interests of € 63.0 million.

In connection with the capital adjustments of DePfa European Property Beteiligungs GmbH, the bank is liable up to an amount of € 11.3 million, and with regard to DePfa European Property Holding up to an amount of € 12.2 million. In addition, the bank ensures that DePfa Bank Capital Funding LLC, Wilmington/Delaware, is able to fulfil its contractual obligations in connection with a TIER I model.

Total liabilities arising from leasing contracts amount to € 9.2 million.

As part of the acquisition of the companies of Deutsche Structured Finance GmbH, Frankfurt, the bank has agreed to guarantee the performance of the seller's obligations arising from letters of comfort issued by the seller for the subsidiaries purchased.

Explanatory Notes to the Profit and Loss Account

Other Operating Expenses (Expenses – Item #6)

This item predominantly includes expenses for real estate not used in banking business (€ 44.7 million) and use-of-money interest on tax back payments (€ 6.9 million).

Income Taxes (Expenses – Item #13)

In addition to current income taxes, this item also takes into consideration income from the release of deferred tax liabilities and the reduction of corporation tax on distributed dividends.

Interest Income (Income – Item #1)

€ 1,083 million of total interest income was generated within Germany, while € 417 million related to the rest of Europe.

Current Income (Income – Item #2)

€ 12.3 million of current income was generated within Germany, while € 0.8 million related to the rest of Europe.

Commissions Received (Income – Item #4)

This item primarily includes commissions received from fiduciary and lending business. € 100.2 million of the total commissions received was generated within Germany, while € 5.1 million related to the rest of Europe.

Other Operating Income (Income – Item #8)

€ 21.2 million of other operating income was generated in Germany, € 2.5 million in other European countries.

Other operating income is predominantly comprised of rental and property income (€ 11.5 million), interest on refunds, and income under agency contracts for Group subsidiaries.

Income to the tune of € 0.09 million was generated through property sales.

Consolidated Financial Statements

In its capacity as the parent company of the Group, DePfa Deutsche Pfandbriefbank AG, Wiesbaden, prepares consolidated financial statements which include the bank and its subsidiaries to be consolidated. Furthermore, the Group Management Report is also prepared by DePfa Deutsche Pfandbriefbank AG. In accordance with section 291 (3) sentence 2 HGB and section 291 (1) HGB, and as a result of authorization by other shareholders, the bank is exempt from preparing its own consolidated financial statements.

The Consolidated Financial Statements are available from DePfa Deutsche Pfandbriefbank AG in Wiesbaden, Germany.

Executive Bodies

Supervisory Board

Dr. Jürgen Westphal[1)3)], Hamburg
Chairman
Barrister and Solicitor; Judge at the Hamburg Constitutional Court

Christian Graf von Bassewitz[1) 3)], Düsseldorf
Deputy Chairman
General Partner of Bankhaus Lampe KG and Spokesman of the Management Board

York-Detlef Bülow[4)], Katzenelnbogen
(from 20 June 2001)
Deputy Chairman (from 20 June 2001) DEPFA Deutsche Pfandbriefbank AG

Lutz Briegel[1) 4)], Frankfurt
Deputy Chairman (until 20 June 2001) DePfa Bank AG

Georg Berres[4)], Essenheim
(until 20 June 2001)
DePfa Systems GmbH

Dr. Richard Brantner[1) 2) 3)], Schramberg

Prof. Dr. Johann Eekhoff, Bonn

Wolfgang Fauter[3)], Hamburg
Chairman of the Management Boards of Deutsche Ring Versicherungen

Erwin Flieger, Geretsried
Chairman of the Management Boards
Bayerische Beamten Lebensversicherung a.G.
BBV Holding AG

Lutz Freitag, Berlin
(from 1 March 2001)
President of GdW Bundesverband deutscher Wohnungsunternehmen e.V

Dr. Friedrich-Adolf Jahn, Münster
President of Zentralverband der Deutschen Haus-, Wohnungs- und Grundeigentümer e.V.

Dr. Thilo Köpfler, Wiesbaden

Ralf Kupka[3) 4)], Inning am Ammersee
DePfa Bank AG

Dr. Peter Lammerskitten[2) 3)], Königstein
(from 20 June 2001)

Jacques Lebhar, Paris
President and Chief Executive of Entenial S.A.

Kurt Pfeiffelmann[2) 4)], Mainz
DePfa Bank AG

Rolf Pfeil[4)], Frankfurt
(until 20 June 2001)

Dr. Rolf Schmid[3)], Baden-Baden
President of the Federal and Länder Government-Service Supplementary Pension Agency
(Versorgungsanstalt des Bundes und der Länder)

Klaus-Peter Sell[3) 4)], Burkardroth
DePfa Bank AG

Jürgen Steinert, Berlin
(until 28 February 2001)

Jürgen Strauß[1) 2)], Munich
General Manager and Senior Representative for Germany
of Schweizerische Lebensversicherungs- und Rentenanstalt a.G.

Professor Dr. Dr. h.c. mult. Hans Tietmeyer, Königstein

Reiner Wah1[3) 4)], Wiesbaden
(from 20 June 2001)
DEPFA Deutsche Pfandbriefbank AG

Anja Wölbert[4)], Limburg
(from 20 June 2001)
DEPFA Deutsche Pfandbriefbank AG

Helmut Wagner[4)], Hahnheim
(until 20 June 2001)
DePfa Bank AG

Management Board

Karl-Heinz Glauner
Chairman

Hans Jochen Erlebach

Dr. Ralph Hill
Deputy Chairman (from 2 April 2001)

Dr. Thomas M. Kolbeck

Michael A. Kremer

Hermann Josef Merkens
Deputy Chairman (from 2 April 2001)

Dr. Peter Lammerskitten
(until 20 June 2001)

1) Member of the Executive Committee
2) Member of the Accounts and Audit Committee
3) Member of the Credit and Market Risk Committee
4) Employee representative

Remuneration of the Executive Bodies

Total emoluments for members of the Management Board amounted to € 1,233,594.11; for members of the Supervisory Board these amounted to € 327,848. Emoluments paid to the bank's advisory council amounted to € 12,456, and for former members of the Management Board and their surviving dependants this totalled € 945,448. Pension provisions amounting to € 5,543,372 have been set aside for former members of the members of the Management Board and their surviving dependants.

Number of Employees

The average number of 899 employees was calculated using the figures from the end of the quarters in the year under review, and is broken down as follows:

	Male	Female	Total
Salaried employees	411	443	854
Vocational trainees	3	7	10
Temporary staff	9	10	19
Trainees	9	7	16
	432	467	899

Loans to Officers

No loans or advances were extended to members of the Supervisory Board or the Management Board. There are no contingent liabilities in favour of these officers.

Proposal on the Appropriation of Profits

We shall make a proposal to the Annual General Meeting to distribute the entire net profit of € 122,000,000 on the issued share capital. The Management Board will propose to the Annual General Meeting to use the net income of € 151,023,301 to other retained earnings and to distribute € 122,000,000 as dividends paid on the issued share capital.

Berlin, 26 March 2002

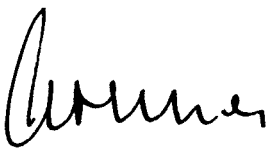
The Management Board

Glauner

Erlebach

Hill

Dr. Kolbeck



Kremer

Merkens

Business Policy

As one of the measures associated with the split of the DePfa Group, the former DePfa Bank AG has changed its name to Aareal Bank AG, effective 22 January 2002

In October 2001, shareholders representing 99.9% of the total voting rights in DePfa Deutsche Pfandbriefbank AG approved the strategic realignment of our Group. In future, the Property Bank (Aareal Bank AG, previously known as DePfa Bank AG prior to the name change in January 2002) and the Public Finance Bank (DEPFA Holding plc) will operate independently in the market and continue the success story of the previous DePfa Group. Accordingly, there will be two independent exchange-listed companies. With a more than 98% acceptance ratio, the share exchange was extremely successful, constituting yet another milestone in the separation process of the two banks. The final process will be completed for the two companies in June and July 2002, respectively.

Aareal Bank AG (formerly DePfa Bank AG) will be the parent company of the future Property Bank Group. Comprising the new business segments ''Property Asset Management'', ''Consulting/Services'' and ''Property Lending/Structured Finance'', Aareal Bank is a new generation property bank. The departure from the traditional blueprint of German mortgage banking has been quite deliberate. Being a commercial bank allows Aareal Bank to position itself as an international property specialist without being subject to the tight limitations of the German Mortgage Banking Act (''Hypothekenbankgesetz''). Since the first steps towards international expansion were taken by the Group in the early nineties, a network of 14 international hubs has emerged, servicing clients in 17 countries. These include large international property investors as well as top-quality national and regional clients.

The core of Aareal Bank's strategic orientation is a consistent ''Buy and Sell'' approach to the lending business. Loans extended no longer place a burden on the bank's equity until maturity, but are instead sold on, while still retaining a proportion of the margin. This gives us flexibility in achieving an optimal return on our equity. It is syndication and securitization, in particular, that contribute to the optimization of the property financing portfolio with regard to diversification of risk. With this strategic orientation, Aareal Bank can once again highlight its leading position as an innovative international property specialist.

The ''Global Hotel One'' securitization transaction, for example, which involved the first-ever securitization of loans originating from different continents in a single portfolio, was awarded the ''European Mortgage-Backed Deal of the Year'' accolade by the renowned trade magazine ''International Securitization Report''.

Transfer of the Property Financing Portfolio from DePfa Deutsche Pfandbriefbank AG

The objective in splitting the DePfa Group into a Property Bank and a Public Finance Bank was to unite all the Property activities under the umbrella of Aareal Bank and its subsidiaries (either ''physically'' or in economic terms), or to place them onto the market.

At the reporting date, some portions of DePfa Group's property lending portfolio were reported in the books of DePfa Deutsche Pfandbriefbank AG. As at 31 December 2001, this comprised some € 12 billion, € 8 billion of which originated in Germany, and € 4 billion was related to international business. During the period under review, approximately € 1 billion of the original portfolio was securitized.

As part of this process, in the first six months of 2002 loans totalling between € 4 and 4.5 billion will be transferred to the Aareal Bank Group. This amount is divided roughly equally between the German and international business. Aareal Bank's mortgage bank subsidiary, Aareal Hyp AG – which is in the process of incorporation – will play a key role in refinancing these loans.

Legal or commercial obstructions to the transfer of the remaining portfolio will be taken into account by way of securitization; the relevant transactions have already been initiated. Property loans that have still not been transferred at the time of the split will be temporarily collateralized by either Aareal Bank and/or third parties until the transfer has been completed. These deferred transfers will be conducted in accordance with a

framework agreement drawn up between DEPFA BANK plc and Aareal Bank AG. The agreement clarifies, for instance, the frequency for future transfers, in line with capital adequacy requirements laid down by the supervisory authorities.

Property Asset Management

This field promises considerable growth potential for Aareal Bank in the years to come. The reality of a single currency, coupled with liberalized investment regulations and ever higher performance expectations, means that insurance companies, mutual funds and other institutional investors are increasingly focusing on direct or indirect investments in assets outside their traditional market segments. More and more often this includes property in international locations.

The Aareal Bank Group will pay special attention to these business opportunities and use its existing expertise for the further expansion of this segment.

The main subsidiaries operating in the Property Asset Management segment include Amsterdam-based Aareal Property Services B.V. (formerly DePfa Property Services B.V.), Deutsche Structured Finance GmbH, Frankfurt, and Aareal Immobilien Management AG (formerly DePfa Immobilien Management AG) in Wiesbaden, Germany.

Consulting/Services

Aareal Bank primarily concentrates its IT activities in this division. Additional business activities of this segment include Investment Banking/M&A and services for private customers.

The subsidiary IT Services AG (also to be renamed) is a core element of this segment. IT Services AG is Germany's leading IT provider of software solutions for the management of residential and commercial property. Its services range from all major commercial and technical applications in this sector: software, integrated banking and e-business solutions, as well as outsourcing and consulting services. We recognized that there was a need to keep the risks involved in developing comprehensive software solutions in check, while driving simultaneously ahead with international business. Consequently, at the beginning of 2002, IT Services AG and SAP entered into a long-term partnership to develop and market a software solution for the property management sector. This new software is based on both the ''mySAP.com'' platform and ''mySAP Financials Real Estate'', to which IT Services has added numerous property management components. Under the ''Blue Eagle powered by SAP'' banner, we will provide comprehensive sector-specific solutions to the industry. IT Services will be responsible for the marketing and launch support for this new joint software.

1,500 corporate clients, with almost 50,000 users, across Europe use IT Services' software solutions to administer some 6.5 million homes and commercial premises. The company has numerous offices across Germany and Europe and employs approximately 1,000 staff members (of which 20% are outside Germany). The company is based in Mainz, Germany, and had revenues of € 175 million in 2001.

Property-related advisory services are increasingly gaining in importance. This is especially true in the commercial housing sector, where the Aareal Bank Group takes three different trends into consideration. The strained financial position in which public authorities find themselves leads to a higher level of willingness to privatize public sector property assets. In addition, as more and more industrial companies focus on their core businesses, they will increasingly dispose of their property assets. Furthermore, commercial housing operators cannot escape the increasing performance pressure, and as a result must reposition themselves.

By linking its many years of sector-specific expertise with investment banking, Aareal Bank offers its clients excellent opportunities for strategic realignment in response to changing circumstances.

Representing Aareal Bank's private customer business, there are two subsidiaries that highlight the innovative capacity of the Property Bank. The first, Hypotheken-Discount Vermittlungs GmbH, is the leading German discount broker for private client property financing and acts as a broker to a number of banks and insurance companies, for preapproved finance. Their state-of-the-art IT infrastructure and the customer care centre dovetail cost efficiency and quality of advice. Other banks and insurance companies are increasingly sub-contracting their mortgage advisory services to Hypotheken-Discount Vermittlungs GmbH.

The company uses a highly-developed processing platform covering the entire processing chain for mortgages to private individuals. The service it offers to Aareal Bank, and indeed to institutions outside the Group, spans the entire process from automated lending approval through to the administration of the loan. As of 2002, Hypotheken-Management GmbH will take over the management of the remaining Aareal Bank retail portfolio.

Property Lending/Structured Finance

This segment includes all of Aareal Bank's national and international property activities, with advisory services complementing the product range consisting of structured commercial property and portfolio finance. The cooperation between regional and sector specialists enables us to offer the optimal financing solution to each client, and for each property. Aareal Bank has its own in-house special purpose financing teams of respected sector experts, who are dedicated to arranging finance for shopping complexes, hotels and special properties in the logistics business.

In Germany, the bank continues both its restructuring process and its focus on a smaller number of clearly-defined sectors that hold higher profit potential. The tried and tested strategies which have brought successes in Aareal Bank's international activities are also being applied to the commercial housing sector, commercial property business and residential property development. Aareal Bank intends to withdraw from the private client business in the traditional sense.

Aareal Bank's business philosophy is to be an international property specialist focused on the European and North American markets. The bank strives to meet the medium-term profitability targets set in each region, and to exploit its growth potential to achieve the optimum business size from a commercial perspective. The property portfolio will therefore be further diversified by regions and products: the portfolio share attributable to each region is intended to be in line with that region's economic potential.

As part of the ''Buy and Sell'' strategy outlined above, syndication and securitization play an important role within the strategy pursued by our ''Property Lending/Structured Finance'' segment.

Refinancing

In this segment, the bank's activities during the second half of the year were largely characterized by the preparations for our own capital markets debut. Whereas in the past the bank had resorted to DePfa Group's CP and MTN programmes for funding purposes, the new Property Bank needs its own refinancing strategy, as it is now an independent market player. Over the last months of the previous financial year, a team consisting of experienced capital market specialists laid the foundations for Aareal Bank's presence on the capital markets as an independent company. These preparations included, among other things, numerous meetings with international investment bankers, targeted sales force presentations in both London and Frankfurt, and extensive press coverage.

In the public bond sector, the first bond under the bank's new name was launched, with a volume of € 150 million. Private placements of promissory note loans (Schuldscheine) and other securities indicated that the market was quick to respond very positively to the new name. This positive trend has been further confirmed during the first quarter of the current financial year.

During the financial year under review, the course was set for Aareal Bank's refinancing activities to be increasingly in line with the international focus on the bank's lending operations. In addition to ensuring liquidity, the bank's refinancing strategy targets the following objectives:

(1) To diversify its sources of financing;

(2) to raise long-term funds; and

(3) to internationalize its investor base.

Of particular importance are the Euro CP programmes for the diversification and internationalisation of short-term refinancing, as well as the Euro MTN programmes for the diversification and internationalisation of medium and long-term funding.

During the course of 2002, the incorporation of Aareal Hyp AG will expand the refinancing range of the Aareal Bank Group. This new mortgage bank will play a significant role with regard to the refinancing of the German mortgage loan portfolio. It is intended to issue mortgage bonds (Hypothekenpfandbriefe) in the amount of approximately € 1.5 - 2 billion by the end of the year 2002. These mortgage bonds are ideally suited for refinancing in the longer-term maturity range from 5 to 10 years.

It is expected that Aareal Bank will have a CP programme with a value of € 5 billion, and an MTN programme with a volume exceeding € 10 billion, in place by May 2002.

Results of Operations

The results of operations of DePfa Bank AG for the 2001 financial year (renamed Aareal Bank AG in January 2002) have been largely shaped by the preparations and measures in connection with the split of the DePfa Group.

Adjusted by any one-off effects that arose during 2000, the total net interest income for 2001 corresponds roughly with that of the previous year. In absolute terms, net interest income decreased by 16.5%, to € 237 million. At € 85 million, net commission income also remained at the previous year's level. The 12.4% increase in administrative expenditure was largely related to the split of the DePfa Group, the conversion of Aareal Bank's German business operations to SAP and a rise in staff costs. The unrealized profits of DePfa Investment Bank Ltd, totalling € 191 million, resulted in an increase of € 4 million to € 54 million in the return for DePfa Deutsche Pfandbriefbank AG's silent participation and allowed us to continue with our conservative valuation policy.

Compared with the 2000 financial year, loan loss provisions decreased by over 50%, to approximately € 64 million. All foreseeable risks arising in connection with the property financing portfolio are reflected in this figure.

Income before taxes was up significantly on the previous year, reaching € 128 million. Taking into account both the tax position and the corporate tax relief on distributed profits, the net income for the year rose to € 151 million.

Total Assets

As at year-end, total assets were € 33.0 billion; this corresponds to a 19.7% increase on the previous year. The business volume grew by 28.7%, to € 38.9 billion.

Lending Business

New Loan Business

During the reporting year, new lendings totalled € 10.3 billion, compared with € 6.3 billion during 2000. New property finance commitments grew by 43.3%, to € 6.5 billion. At € 3.7 billion, the international lending business made a significant contribution to this amount; the volume of new domestic lending was € 1.8 billion for residential properties and € 1 billion for commercial properties.

Taking DePfa Group's entire property business into account, for whose operating results DePfa Bank AG (renamed Aareal Bank AG in January 2002) is now responsible, it becomes clear that, at € 6.9 billion, new commitments are up 0.2% on the previous year. As in previous years, international business makes up the lion's share of financing operations; the international share of new lendings was 59% during the period under review.

Drawdowns

Drawings on loans were up 21.2%, to € 17.7 billion, during the reporting period. The increase in the volume of property finance was 50.5%, reaching a total of € 14.3 billion. The high growth rate on foreign markets was also reflected in the portfolio sizes. International lending now amounts to € 5.2 billion, up 126% on 2000. 36.2%

of all property finance is now made up of international lendings. At € 9.4 billion, the international portion now corresponds to 36.1% of all drawdowns (2000: 34.1%) within DePfa Group's entire property financing portfolio.

Funding

As at the balance sheet date, customer deposits stood at € 10.1 billion, 17.2% higher than the previous year. Liabilities to banks were up 23.3%, to € 10 .1 billion. Including loans taken up, new issue business amounted to € 2.3 billion.

Liable Capital

As at the balance sheet date, the liable capital of the public limited company (Aktiengesellschaft) was € 1.4 billion pursuant to section 10 of the German Banking Act (Kreditwesengesetz – ''KWG''), broken down into € 0.9 billion core capital and € 0.5 billion supplementary capital. The core capital ratio in accordance with Principle I is 6.3%, the aggregate ratio is 9.7%.

In the autumn of 2001, a € 227 million subordinated issue was successfully placed on the international capital markets in order to reinforce the bank's capital base. At the same time as taking over the property financing portfolio of DePfa Deutsche Pfandbriefbank AG, the bank's regulatory capital is being further increased by raising both core and supplementary capital. We are working towards an overall core capital ratio of at least 6%.

Subordinate Status Report

The Management Board's report on the bank's relationships with related parties pursuant to section 312 of the German Stock Corporation Act (Aktiengesetz – ''AktG'') has been submitted to the Supervisory Board. This report concludes as follows:

''Our company has received appropriate consideration whenever carrying out a legal transaction with related parties. This assessment is based on the circumstances known to us at the time of carrying out such legal transactions. No measures subject to reporting requirements were carried out or omitted in the reporting year.''

Outlook

Given the overwhelmingly positive response to the Exchange Offer, the road is now clear for Aareal Bank to launch itself as an independent, new generation property bank.

The bank is one of the most respected international property specialists and will continue to enhance its position as the first port of call for institutional investors. Since the overall framework has now changed, Aareal Bank can capitalize on business opportunities more effectively, which in turn makes it easier to grow. In addition to exploring new businesses, this also includes the realization of strategic opportunities.

The excellent position already achieved in its home European market will be consolidated further in the years to come. Aareal Bank will also concentrate its efforts on the accelerated expansion of its business in North America.

The bank expects the stronger emphasis on target clients to have a positive impact on earnings during the current financial year. Continued growth in more profitable international business, concentrating on top class clients, the realignment of the German business and more frequent deployment of securitization instruments are the key drivers for Aareal's projection of higher operating income.

Administrative expenses will also grow in the current year – albeit to a lesser extent as total revenues. Aareal Bank is an expanding enterprise that will continue to invest in promising markets.

We anticipate a continued easing in terms of risk provisioning.

The feedback we received during the preparatory meetings held with the financial community, where we discussed our capital market debut under the new name, was a clear confirmation that Aareal Bank's business model is convincing. The initial placement successes in 2002 also showed that the bank's new name has been fully accepted by the capital market, while at the same time allowing us to draw on DePfa Group's earlier successes.

The structure which is consistently oriented towards property clients will create significant added value for the shareholders.

Risk Report

1. The Risk Management System of the DePfa Group

One of the main features of banking business is the transformation of economic risk. The targeted handling of risk as part of professional risk management is therefore vital for ensuring the continued existence and profitability of any company. In addition, external groups (primarily investors, legislators, banking supervisory authorities, analysts, rating agencies and auditors) also increasingly demand appropriate risk management.

To meet both commercial and statutory requirements on one hand and the growing need for information on the part of capital market participants on the other hand, the DePfa Group has established a comprehensive system for identification, measurement, early recognition and control of risk as an integral part of its business processes. DePfa Bank is fully integrated into this system.

The split of the DePfa Group into Aareal Bank AG (once DePfa Bank AG) and DEPFA BANK plc also resulted in a division of the risk management systems. In parallel to the mainly technology-based separation process, new and/or supplementary risk measurement processes are currently being established that are more strongly focused on the relevant business specifics of the two future companies. However, the existing processes will be the principal components of the future risk management systems.

The following chapters of this risk report provide a detailed overview of all types of risk (counterparty risk, market risk, liquidity risk and operational risk) relevant to our business. Where the context requires, we also provide information on the planned future development.

The ultimate responsibility for the management of banking business risk rests with both the Management Board and the Supervisory Board. The organizational responsibilities for risk control and monitoring are summarized in the table below:

Counterparty Risk	Property Finance	Central Credit Department, Risk Controlling
	Infrastructure Finance	Public Sector Risk Management
	Treasury Business/Derivatives	Risk Controlling, Correspondent Banking
	Country Risk	Country Limit Committee,
	Risk Controlling Quantitative Risk Modeling	Risk Controlling
	Market Risk	Risk Controlling
	Liquidity Risk	Regulatory Reporting
	Operational Risk	Operative Units, Risk Controlling
	General Accordance With Rules	Audit Department

2. Measurement and Management of the Various Types of Risk

2.1. Credit Risk

Credit risk is defined as the risk of impairment and partial or total loss of a receivable due to deterioration of credit quality on the part of a business partner. The relevant receivable may be based on traditional on-balance sheet lending business or off-balance sheet business, e.g. counterparty risk arising from derivative financial instruments. Whereas in traditional lending business,risk arises from the creditworthiness of the borrower and the value of the collateral, the counterparty risk results from the counterparty's failure to perform the transaction in accordance with contractual obligations, leading to a loss when executing a substitute transaction in the market at less favourable terms.

2.1.1. Credit Risk in Property Business

The credit risk in DePfa Bank's property business results from either the deterioration of borrowers' creditworthiness or the impairment of collateral. When managing credit risk, the Bank therefore distinguishes

between the risk of default by the borrower and the risk that the collateral will lose in value. The risk of default by the borrower is present where the finance partner cannot meet his contractually agreed payment obligations in full and on time. By contrast, the risk of collateral impairment relates to losses in value of the collateral brought about by collateral-specific or market-induced factors.

Internal Rating (Credit Risk Control)

To measure individual exposures, the Bank uses an internal rating method customized for the specific features of the commercial property lending business. As a rule, the rating forms the basis for loan decisions and is also an important input factor for the monitoring and controlling of risk at portfolio level. The monitoring of individual risk exposures is ensured by regular rating updates carried out by credit experts.

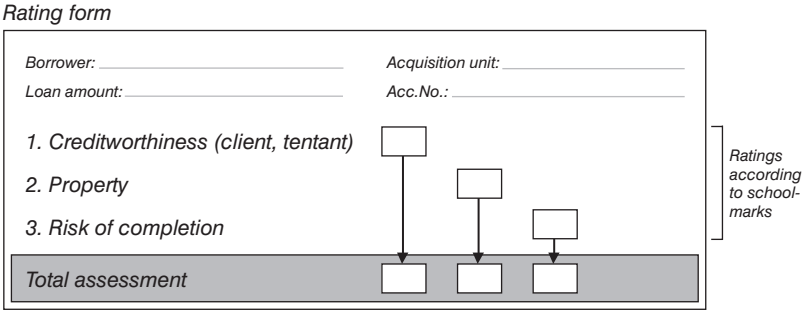
Our rating process, developed specifically for the commercial property lending business, includes detailed examination of the risk associated with the borrower's credit-worthiness, property, completion and/or marketability.

Credit Worthiness Ratings are carried out on the basis of a modular analytic process that takes both quantitative and qualitative factors into consideration to obtain a rating for the ''creditworthiness'' component. The quantitative factors are calculated on the basis of a balance sheet ratio analysis and form the framework for this rating component. The ratios ascertained are then complemented by qualitative factors such as management, market position or industry development. Additional credit factors are included for special types of borrowers; this relates, for example, to the analysis of joint liability schemes or tenants of larger tenanted properties.

The Property Rating plays a central role within the rating process. The loan-to-value ratio based on the lending value and the yield based on the rent collected are also included in the determination of the ''property'' component. The determination of both lending value and market value is carried out by professional valuers specialized in specific regions and types of real estate. Thus, the valuation process is separated from the organizational units deciding on loan approval. In connection with international property financing, external local valuers are instructed to carry out valuations.

The Completion and/or Marketability Rating relates to risks that may arise during the completion or marketing phase of a property. In addition to the borrower's experience and expertise, those risks directly associated with the construction and marketing of a property are evaluated under this rating category.

Rating form



The three-tier rating structure outlined facilitates separate analysis and evaluation of individual factors. Using historic default rates, internal ratings are grouped to form rating levels. The default probabilities for the individual rating levels are determined on the basis of mathematical statistical procedures.

Consistent use of the internal rating process has provided the Bank with many years of historical data which can now serve as the basis for the application of the IRB approach (Basel II Accord). However, to meet the increasing requirements of the internal rating process, the existing rating process is being continuously improved. This applies in particular to the increase in objectivity when assessing credit quality and the inclusion of additional market parameters in the determination of the property risk, that have a sustained impact on the value of the collateral (usually the property for which finance is provided). As part of this modification process, the Bank will also increasingly focus on the market value of the property for rating purposes.

Pricing

The pricing reflects the risk assumed. In addition to the calculatory standard risk costs determined by type of customer and property, the Bank's cost of equity is also included in the pricing process.

Monitoring

Depending on the class of risk and the size of lending, lending exposures are also subject to a periodic IT-supported monitoring process that identifies in particular any deviations between planning and realization. This process is used in addition to traditional monitoring by means of early warning systems. The rating is reviewed during the monitoring process and, where necessary, adjusted to the changed risk situation. Downgradings regularly result in a shorter monitoring interval.

Where significant market changes have taken place, (partial) portfolios are reviewed independent of their individual risk.

Any further treatment of lending exposures, that have been brought to our attention, is determined by specialists in accordance with the relevant risk content. These specialists are regularly informed of the exposure development. Where necessary, any further handling of the exposures in question is transferred to the Workout unit.

Loan Loss Provisions

As part of the property lending business, the Bank determines the potential default risk in accordance with Group-wide guidelines on a case-by-case basis and sets aside adequate specific loan loss provisions. The general loan loss provisions for potential risks are created on the basis of evaluated migrations between the individual classes of risk in accordance with US GAAP.

Portfolio Risk Management

Both the Management Board and the Supervisory Board are regularly informed of developments in the property portfolio. These evaluations, which are broken down by country, region, property type, customer group, loan-to-value ratio, lending size and risk class, form the basis of the management of both partial portfolios and the entire portfolio of property lending business.

Transfer of Credit Risk

In March 2001, the Syndication/Securitization unit was created to manage all securitization and syndication activities of the DePfa Bank Group. The intention behind the move towards securitization and syndication is to increase the Bank's return on equity (RoE) through the efficient use of its equity capital.

Three innovative securitization transactions were carried out successfully in the year under review. Credit risk totalling approx. € 3 billion were transferred to market participants. This makes the DePfa Bank Group the leading provider of mortgage-backed securities products within Germany. With ''Global Hotel One'', a hotel financing portfolio covering both Europe and the US was placed on the capital market for the first time. This transaction received the coveted international ''ISR Global Securitization Award'' from the trade magazine ''International Securitization Review (ISR)''. In addition, DePfa Bank securitized a private customer portfolio (''Provide Home 2001-1'') in co-operation with the Kreditanstalt für Wiederaufbau (KfW). With approx. € 1.5 billion, Provide Home 2001-1 was the largest securitization transaction for private customer loans within Germany during 2001 in terms of the amount involved (residential mortgage backed securities, RMBS). In addition, the DePfa Bank Group completed a further RMBS transaction as a so-called private placement (volume: approx. € 550 million).

During the reporting year,credit risk from both German and international lending was transferred to a significant extent to third parties (in some cases via syndication markets). It is planned to expand this segment during the current year.This will be another focus of the syndication/securitization unit, which will centrally coordinate the Group's activities in the syndication markets in co-operation with the relevant lending departments.The syndication/securitization activities will primarily focus on consolidating contacts with possible syndication

partners, early identification of market trends and the development of standards for the required business processes. The steps necessary to achieve these goals were initiated during the reporting year.

2.1.2. Credit Risk in Infrastructure Financing

Infrastructure finance risk control is currently assured by a senior risk manager, who assesses and runs scenario tests on each proposed infrastructure financing scheme.

Legal assessments are also carried out as well as the evaluation of risk mitigation (collateral, guarantees). Beyond discussion at a dedicated credit sub-committee, all decisions are presented to the current group management board for approval. The relevant activities are currently managed by DePfa Bank's Dublin branch, but will be transferred to the Public Finance Bank as part of the split.

2.1.3. Counterparty Risk related to Bank Counterparties

Within DePfa Bank, the counterparty risk from Treasury business results from securities transactions, money market transactions and interest rate derivatives entered into with bank counterparties. The extent of credit risk associated with these types of transactions depends on the structure of the relevant transaction. Whereas the credit exposure of balance-sheet instruments is determined by their current book or market value, the credit risk of derivative financial instruments corresponds to the ''potential cost'' resulting from the replacement of an equivalent position in the event of potential counterparty default.

To monitor the counterparty risk arising from Treasury business, the DePfa Group has a Group-wide counterparty limit system that directly accesses the front-office system used by the Treasury division, providing real-time information on limits and limit utilization. The credit exposure resulting from these transactions is calculated on a mark-to-market basis, taking into consideration the regulatory add-ons.

Furthermore, any existing netting master agreements and collateral agreements with business partners are taken into account to adequately map the counterparty risk. These agreements are used to reduce both the capital cover required and the utilization of bank-internal counterparty limits.

The monitoring of limit compliance is ensured by the Correspondent Banking unit. Any limit utilizations or transgressions are regularly reported to the Management Board and Treasury. The timely adjustment of limit transgressions is ensured by means of an escalation procedure.

Within the DePfa Bank, the Treasury business is geared towards high credit-quality counterparties.

In the near future, DePfa Bank will add Monte Carlo simulations and stress tests to the credit exposure calculation in accordance with the marking-to-the-market method. In addition, we are working on the implementation of a credit risk model in order to be able to achieve a more realistic quantification of credit risks from Treasury business, taking into consideration default probabilities, recovery rates and correlation effects.

2.1.4. Country Risk

For banks, country risks arise when extending loans to customers domiciled in another country than the units granting the loans. Such risks materialize whenever the country in which the borrower is domiciled issues a general moratorium or introduces exchange rate controls.

To assess and monitor country risks, the DePfa Group has established a country limit committee (LLK) which deals with the rating of individual countries and the determination of country limits, and prepares the relevant submissions for the Management Board. All countries relevant to business (primarily in connection with international public finance business) are covered in internal credit quality categories which serve as a basis for the determination of Euro-denominated country limits. For countries with lower rating grades, these limits are subdivided into sub-limits for the individual transaction types. All decisions with regard to credit rating/limit level are made by the Management Board.

The LLK updates the credit rating of all countries on a timely basis. The country assessments are primarily carried out using all available economic data, in-house country analyses and publications by international

rating agencies. The utilization of country limits is monitored by Controlling on a Group-wide level. During the reporting year, a total of 18 countries received new ratings with regard to credit quality or changes in country limit level. There are no concentrations of risk within the entire country exposure that require mentioning.

Unlike in traditional public finance business, the property lending business requires distinction between the default risk of an individual lending exposure (determined by client credit quality and collateral) and the country risk. As country risks constitute a specific form of cluster risks within portfolios (characterized by a close correlation between the relevant loans, an increase in default probabilities and a change in loss rates), these must be examined separately as part of credit risk management.

As the property lending business of DePfa Bank has been thus far geared towards Western European countries and the US, there are currently no significant country risks present. Therefore, after the split, we will initially continue to apply the principles of our tried and tested Group-wide process. With regard to the future development of the underlying system, a strict separation between property rating and country rating must be observed. This would require both rating categories to be sufficiently compatible to enable joint validation and to be used as input into the existing credit risk model of DePfa Bank.This would enable the determination of country limits in relation to the risk and the integration of country risks into the calculation base for individual transactions.

2.2. Market Risk

Market risks generally result from a wide range of different market movements which can be allocated to so-called risk factors. The fluctuation range of these individual risk factors, such as equity prices, interest rates, exchange rates and implicit volatilities, is the decisive metric for quantifying market risk (in addition to the correlation of risk factors).

Within DePfa Bank, market risk arises primarily in connection with asset/liability management. Currency risks, on the other hand, are not particularly significant.

For the quantification and control of market risk, the DePfa Bank determines the value at risk (VaR) on a daily basis in accordance with the variance/covariance approach. This statistical process permits an estimate of the loss potential for a specific holding period with a safety probability of 99%. The statistical parameters of this model (fluctuation range and correlation) are ascertained over a one-year period.

A rather conservative holding period of 20 days (when compared with the BIS parameter of 10 days) was selected for the position. With this assumption, which is highly conservative with regard to the possibilities of neutralizing positions, the specific activities of a non-trading-book institution are also taken into consideration as part of the risk analysis.

DePfa Bank includes the entirety of business activities into its value-at-risk calculations. This means that the VaR ascertained is based on the risk position of the entire portfolio.

Market risk limits are determined in accordance with a special approach, with the risk-carrying capability determined daily using the present value of risks. The present value of risks not only reflects the successes achieved with new business, but also any valuation changes of the Bank's existing business. The Management Board has set the VaR limit as a percentage of the present value of risks. The continuous adjustment of the present value of risks results in an automatic adjustment of risk limits – and thus of the Bank's risk-carrying capability – to new market conditions.

For reasons of consistency, the Risk Controlling function itself determines any volatilities and correlations required for the calculation of the value at risk on the basis of market data. The statistical parameters of different markets are only used in the calculation after detailed review and plausibility check. The quality of the statistical process employed for risk measurement is regularly checked by means of back testing. This entails the comparison of profits and losses incurred during the holding period with the upper limit for losses being forecast (VaR) at the beginning of the holding period. Accordingly, within a review period of one year (250 trading days), a maximum number of three transgressions of this upper limit for losses can be expected. The back tests for 2001 did not reveal any transgressions. This shows that the value-at-risk calculations carried out by the Bank did not underestimate the market risk. Furthermore, the VaR calculation is complemented by worst-case and stress testing scenarios to quantify the impact on extreme market movements.

The Management Board is informed on a daily basis of the limit levels and their utilization for the Bank; the relevant report also contains information on the development of market values. In addition to the VaR breakdown by risk factors (currency, interest rate per currency and maturities), the basis point value (BPV) is reported. This quantity provides important information for all maturity ranges on how sensitive the individual positions react to interest rate changes.

Moreover, the gap report supplies vital information on the fixed interest rate terms of all positions held by the Bank. In addition to the analysis of net lending and net borrowing positions in the relevant maturity ranges, this data permits analyses of the risk and profit development. On the basis of assumptions, potential losses arising from extreme or possible market movements (for example due to changes in yield curves or due to planned new business transactions) may therefore be quantified beforehand.

The market risk controlling division is responsible for developing and continuously verifying all measurement processes used as well as compliance with the limits set by company management. Great importance is attached to precise, complete and timely monitoring, as the proper performance of this task is a vital prerequisite for achieving the Bank's ambitious profitability and growth targets.

The interest rate risk will continue to play a significant role for the business of the future independent Aareal Bank (once DePfa Bank AG) as a specialized property financing bank. In addition, the currency risk will increase in profile, as business activities focus increasingly on regions outside Euroland.

To meet the requirements of this development, the necessary steps were already initiated in mid 2001. The early focus of all resources involved in the identification, quantification and monitoring on both the systematic redesign and further process optimization will ensure the adequate performance of these tasks to the benefit of DePfa Bank, even prior to the split of the banks.

Moreover, as a bank holding a trading portfolio in the future, we will also focus on the fast identification and timely reporting of all risk-relevant data. The integrated software solution for the risk controlling process, which was introduced in the first quarter of 2002, will provide us with the necessary flexibility to support and inform both Management and trading unit.

2.3. Operational Risk

Operational risk is defined as the risk of losses that may occur due to inadequacy or failure of internal processes, people or systems or due to external events. This also includes legal risks. In accordance with the draft of the new Basel capital adequacy agreement, in the future, the operational risks of banks (in addition to market and credit risks) must also be quantified and backed by capital.

The basis for the monitoring and control of operational risk is the systematic identification of all relevant processes and workflows, the identification of sources of error and weaknesses within the banking organization (including the associated determination of opportunity cost) and the establishment of a dedicated loss data base as the basic requirement for the implementation of a model for the quantification of operational risks.

DePfa Bank has documented all the main processes. Furthermore, possible error types have been identified and we have commenced categorizing these error types according to their type, time of occurrence and associated opportunity cost in monitoring tables. The data obtained will form the basis for the establishment of a dedicated loss data base to be set up within Aareal Bank (once DePfa Bank AG) in the near future. The systematic analysis of error sources and their implications have two consequences for the Bank: on one hand, it enables us to identify operational risks and their causes, creating the basis for the implementation of control systems for error-prone processes. On the other hand, the loss data base will be the foundation for the implementation of a model for measuring operational risks.

With regard to the introduction of such a model, we consider the processes for the calculation of equity capital requirements (as recommended by the second Basel consultative paper) in their current shape as not sufficiently thought out and not risk-adequate. The further developments within the third consultative paper will be directive in terms of whether a model recommended by the banking supervisory authorities will be implemented or whether own systems will be developed by the banks themselves.

The management of operational risks is carried out by the operative business lines themselves. Within the DePfa Bank, Risk Controlling will be responsible for the measurement and limitation of operational risks. The auditing department will complement and complete these monitoring methods.

2.4. Liquidity Risk

Liquidity risk is defined as the risk of being unable to fulfil current or future payment obligations in full and/or at the due date.

It is the task of liquidity management to control the cash flow in such a manner to ensure that efficient processes are maintained and earnings are optimized. To this end, the DePfa Group carries out Groupwide liquidity management, integrating all relevant units. The refinancing structure of the Group is based on several fundamental pillars: the issue of Pfandbriefe (asset-covered bonds), unsecured bearer bonds, certificates of indebtedness (Schuldscheine) and commercial papers (CPs), repurchase agreements (repos) as well as participation in open-market transactions of central banks and money market transactions. In addition, comprehensive liquid and high credit quality securities holdings are available for ensuring liquidity. Liquidity balance sheets and cash flow forecasts are used to ensure the Group's and its units' liquidity at all times and to control future liquidity risks.

Principle II – relevant for liquidity management – has been complied with at all times.

3. Preparation for Basel II

The Basel Banking Supervisory Committee is currently drafting a revision of the Basel capital adequacy agreements (Basel II) to ensure that loans are treated in line with risk-adequacy requirements. Preparation of a third Basel consultative paper are under way; these will be followed by a further consultation phase which will result in the publication of the final Basel II Accord.

The revised Basel capital adequacy agreement is made up of three mutually complementing pillars: the minimum capital requirements (1st pillar), the supervisory monitoring process (2nd pillar) and the reinforcement of market discipline (3rd pillar) via increased disclosure requirements of the banks.

Aareal Bank (former DePfa Bank AG) intends to use the advanced approach, based on internal ratings, for determining the capital required for regulatory purposes. This process will enable us to use parameters based on in-house estimates for all risk components.

The Bank is currently modifying its existing rating processes to comply with the strict requirements for using internal concepts.

The separate rating of credit worthiness, property and completion risks will be maintained as part of the internal rating process for the commercial property lending business. Adjustments will be carried out to increase objectivity and transparency of the process, while also taking specific market features into account. We are currently establishing the relevant units to ensure the monitoring of all new business ratings in accordance with the principle of dual control.

The internal rating process for Treasury business with banks and financial institutions will also be revised by the end of 2002. In addition, we are currently developing a new rating process modelled on the methodologies used by external rating agencies. Using discriminatory analyses, the rating external agencies is replicated and then validated by way of independent sampling. It is planned to classify banks and financial institutions over ten rating levels.

A data warehouse is currently being set up for both property lending and Treasury business. To comply with the comprehensive supervisory data requirements of Basel II, all relevant historic information is stored in the data warehouse.

The second Basel consultative paper requires that, as with credit risks, in the future operational risks must also be backed with capital. This necessitates the establishment of a dedicated loss data base. A decision as to which model will be used for the calculation of operational risks is yet to be made. We do not consider the methods recommended by Basel II thus far as risk-adequate. The further explanations given in the final consultative paper will be the decisive factor as to whether Aareal Bank (the former DePfa Bank AG) will implement a model recommended by the banking supervisory authorities or a system developed in-house.

Aareal Bank is currently in the process of revising its risk control processes. Two credit risk models have been developed in addition to the existing market risk management process:

- **Credit Risk+**
  for the property lending business

and

- **Credit Metrics**
  for Treasury business.

The market-oriented model of Credit Metrics is based on the recognition of losses resulting from rating changes, whereas Credit Risk+focuses solely on counterparty default.

Both models permit the adequate calculation of losses which, according to a preset level of probability, will not be exceeded within these two business segments.

We are already gathering and publishing a wide range of information whose disclosure is required by Basel II to reinforce market discipline.

4. Capital

A central feature of DePfa Bank's overall bank management is the consistent integration of risk and reward aspects. To this end, existing and prospective new business is reviewed for profitability on a risk-adjusted return-on-equity basis.

The amount of capital allocated to the individual businesses, profit centres and segments is primarily based on the regulatory provisions (Principle I). For the market risk associated with the non-trading portfolio, capital is allocated on the basis of the value-at-risk (VaR) limit.

Since the commencement of 2001, we have been using a proprietary credit risk model for the property lending business to determine the level of economic capital required for covering the credit risk. Using these mathematical-statistical processes, we determine the risk contained in selected portfolios on the basis of suitable input parameters.

Apart from general credit data such as lending volume, type of property, region/country, etc, the main determinants in this process are the default probabilities and charge-off rates ascertained by means of internal rating as well as macro-economic data. The results derived on the basis of our credit risk model are then used in the active management of our property loan portfolio, as this instrument enables us, among other things, to determine the optimum portfolio structure for securitization purposes.

It is our intention for the future to make the results from credit risk modelling an integral part of the overall bank management of Aareal Bank. The standard risk costs and cost of equity ascertained during this process are then included in the calculation base for individual transactions and credit pricing, rendering this method – from a commercial and business perspective – superior to the processes traditionally used by banks, as this method also takes into account any correlation effects.

In the future, equity allocation will be based on the results of the credit risk model (we are currently using different models for property lending customers and bank counterparties), the market risk model and the operational risk measurement processes currently under development. This means that the current regulatory perspective will be replaced by a perspective that is more in line with economic requirements.

In this way, Aareal Bank is establishing a consistent process for the allocation of economic capital during which all major risk types are measured in an identical fashion using the value-at-risk approach.

Auditors' opinion

Following the completion of our audit, we have certified the financial statements on 4 April 2002 without qualification:

Auditors' Report

We have audited the Financial Statements of DePfa Bank AG, Berlin, together with the accounting records, and the Management Report for the business year from 1 January to 31 December 2001. The company's Management Board is responsible for the accounting and the preparation of the Financial Statements and the Management Report in accordance with the German Commercial Code. Our responsibility is to express an opinion, having conducted an audit which included the accounting records, on the Financial Statements and the Management Report.

We conducted our audit in accordance with section 317 of the German Commercial Code, observing the generally accepted German auditing principles laid down by the German Institute of Auditors (IDW). These standards require that we plan and perform the audit to obtain reasonable assurance on whether the Financial Statements (based on generally accepted accounting principles) and the Management Report are free of material misrepresentations and present a true and fair view of the net worth, financial position and results of the company. In determining specific actions within the scope of our audit, we considered the company's business activities as well as its economic environment and legal structure. Expectations regarding potential sources of error were also taken into account. The conduct of an audit includes examining the efficiency of the company's internal controlling mechanisms for its accounting system, as well as, on a sample basis, evidence supporting the disclosures in the accounting records, the Financial Statements and the Management Report.

The scope of an audit also includes assessing the accounting principles used and significant estimates of the Management Board, as well as evaluating the overall presentation of the Financial Statements and the Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit led to no objections.

In our opinion, the Financial Statements present, in compliance with generally accepted accounting principles, a true and fair view of the company's net worth, financial position and results. The Management Report gives a true and fair overall view of the company's situation and of any risks inherent to future developments.

We have prepared this opinion in accordance with statutory provisions and the generally accepted principles of audit reporting (audit standard 450 of the Institute of Chartered Accountants in Germany [Institut der Wirtschaftsprüfer in Deutschland e.V.]).

Frankfurt/Main, 4 April 2002

PWC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rausch
Wirtschaftsprüfer
(German Chartered Accountant)

ppa. Hinz
Wirtschaftsprüfer
(German Chartered Accountant)

Auditors' report

We have audited the annual accounts, including the books and financial overview of DePfa Bank AG, Berlin for the financial year from 1 January to 31 December 2000. The Management Board of the Bank is responsible for the books and the preparation of the annual accounts, including the financial overview, in accordance with the provisions of German commercial law. It is our task to provide an assessment of the annual accounts, including the books, and the financial overview, based on the audit conducted by us.

We have audited the annual accounts in accordance with Section 317 of the German Commercial Code and in compliance with the principles of proper and correct auditing laid down by the IDW (German Institute of Accountants). In accordance with these principles, our audit must be planned and carried out in such way that there is sufficient certainty that inaccuracies and infringements which materially affect the true and fair view of the assets, liabilities, financial position and profit or loss presented by the annual accounts, in compliance with the generally accepted accounting principles, and the financial overview, will be recognised. Audit activities are planned in accordance with our knowledge of the company's business activities and economic and legal frame-work as well as the anticipated margin of error. Our audit has also assessed the effectiveness of the internal controlling system and the details provided in the books, annual accounts and the financial overview, mainly on the basis of random checks. The audit includes an assessment of the basic accounting principles used and of the material estimates made by the Management Board, as well as an assessment of the overall presentation of the annual accounts and the financial overview. We believe that our audit forms a sufficiently reliable basis for our opinion.

Our auditors' report is unqualified.

We are of the opinion that the annual accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank, using the principles of proper accounting. The financial overview as a whole provides a true and fair view of the position of the Bank and accurately portrays the risks inherent in future developments.

Frankfurt/Main, 29 March 2001

PWC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rausch
Auditor

ppa. Hinz
Auditor

Auditors' report

We have audited the annual accounts, including the books and financial overview of DePfa Bank AG for the financial year from 01.01 to 31.12.1999. The Management Board of the Bank is responsible for the books and the preparation of the annual accounts in accordance with the provisions of German commercial law. It is our task to provide an assessment of the annual accounts, including the books, and the financial overview, based on the audit conducted by us.

We have audited the annual accounts in accordance with Section 317 of the German Commercial Code and in compliance with the principles of proper and correct auditing laid down by the IDW (German Institute of Auditors). In accordance with these principles, our audit must be planned and carried out in such a way that there is sufficient certainty that inaccuracies and infringements which materially affect the true and fair view of the assets, liabilities, financial position and profit or loss presented by the annual accounts, in compliance with the principles of proper accounting, and the financial overview, will be recognised. Audit activities are planned in accordance with our knowledge of the company's business activities and economic and legal framework as well as the anticipated margin of error. Our audit has also assessed the effectiveness of the internal controlling system and assessed the details provided in the books, annual accounts and the financial overview, mainly on the basis of random checks. The audit includes an assessment of the basic accounting principles used and of the material estimates made by the Management Board, as well as an assessment of the overall presentation of the annual accounts and the financial overview. We believe that our audit forms a sufficiently reliable basis for our opinion.

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We are of the opinion that the annual accounts give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank, using the principles of proper accounting. The financial overview as a whole provides a true and fair view of the position of the Bank and accurately portrays the risks inherent in future developments.

Frankfurt/Main, 30 March 2000

PWC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rausch
Auditor

ppa. Hinz
Auditor

INCOME STATEMENT (ACCORDING TO IAS)

OF AAREAL BANK GROUP FOR THE PERIOD FROM 1 JANUARY 2002 TO 30 JUNE 2002

	1 Jan - 30 Jun 2002	*1 Jan - 30 Jun 2001*
	€ mn	***€ mn***
Net interest income	*170*	*114*
Net loan loss provisions	*49*	*29*
Net interest income after net loan loss provisions	***121***	***85***
Net commission income	*96*	*91*
Net trading income	*3*	*7*
Results from non-trading assets	*-4*	*31*
Other operating income	*80*	*38*
Administrative expenses	*176*	*143*
Other operating expenses	*30*	*33*
Operating profit	***90***	***76***
Depreciation of goodwill	*4*	*3*
Net other income/expenses	*1*	*-1*
Profit before taxes	***87***	***72***
Income taxes	*29*	*28*
Profit after taxes	***58***	***44***
Minority interest income (loss)	*9*	*0*
Group retained income	***49***	***44***
	€	***€***
Earnings per share	***1.40***	***1.24***
Diluted earnings per share	***1.40***	***1.24***

CONSOLIDATED BALANCE SHEET (ACCORDING TO IAS) AS AT 30 JUNE 2002

OF AAREAL BANK GROUP

	30 Jun 2002	31 Dec 2001
Assets	**€ mn**	**€ mn**
Cash funds	82	841
Loans and advances to banks	4,230	2,647
Loans and advances to customers	20,685	16,510
Net loan loss provisions	-519	-469
Trading assets	109	97
Non-trading assets	9,956	10,988
Intangible assets	40	38
Property and equipment	217	112
Deferred income tax assets	64	6
Other assets	1,200	1,200
Total	**36,064**	**31,970**

Shareholders' equity and liabilities	**€ mn**	**€ mn**
Liabilities to banks	11,595	10,348
Liabilities to customers	11,006	10,096
Certificated liabilities	10,530	8,361
Trading liabilities	47	52
Provisions	252	221
Deferred income tax liabilities	88	69
Other liabilities	607	678
Subordinated equity	667	1,170 [1)]
Minority interest	251	271
Shareholders' equity		
Subscribed capital	106 [1)]	83
Capital reserves	347 [1)]	46
Retained earnings	598	526
Revaluation surplus	-79	-43
Group retained income	49	92
Total shareholders' equity	1,021	704
Total	**36,064**	**31,970**

Contingent liabilities and irrevocable loan commitments	**€ mn**	**€ mn**
Contingent liabilities on guarantees and indemnity agreements	696	1,245
Irrevocable loan commitments	2,447	4,797

1) *The figure for subordinated equity as at 31 December 2001 includes a silent participation in the amount of € 324 million, which was converted to equity on 3 January 2002.*

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

The development of shareholders' equity for the Group during the first half of the 2002 financial year is analyzed below:

	1 Jan - 30 Jun 2002	1 Jan - 31 Dec 2001
	€ mn	€ mn
Shareholders' equity as at 1 January	**704**	**708**
Change during the current financial year		
a) Subscribed capital		
Capital increases	23	–
b) Capital reserves		
Capital increases	301	–
c) Retained earnings	-20	-9
d) Revaluation surplus	-36	-87
of which: Available-for-sale financial instruments	-34	-81
Cash flow hedges	-1	-6
Currency translation	-1	–
e) Group retained income	49	92
Shareholders' equity as at 30 June / 31 December	**1,021**	**704**

STATEMENT OF CASH FLOWS

	1 Jan - 30 Jun 2002	1 Jan - 30 Jun 2001
	€ mn	€ mn
Cash and cash equivalents as at 1 January	**841**	**832**
Cash flow from operating activities	288	-2,120
Cash flow from investing activities	-925	2,126
Cash flow from financing activities	-122	-9
Total cash flow	**-759**	**-3**
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 30 June	**82**	**829**

BASIS OF ACCOUNTING

Following the split of the former DePfa Group, Aareal Bank AG has assumed parent company function for the new Property Finance and Services Group. The completed split of the DePfa Group represents an internal restructuring process that is recorded in accordance with the "separate reporting entity" method.

Therefore, the consolidated financial statements of Aareal Bank do not constitute a part of the overall consolidated financial statements of DePfa Group. The new group will be presented as such that it will appear as if Aareal Bank had always prepared separate consolidated financial statements. The assets and liabilities acquired from DePfa Deutsche Pfandbriefbank AG will be carried at their current values, as recognized by DePfa Deutsche Pfandbriefbank AG. The difference between the consideration and the sum of consolidated book values of the assets and liabilities acquired will be offset against shareholders' equity (transaction under common control).

The present interim financial statements of Aareal Bank Group have been prepared in accordance with the International Accounting Standards (IAS). It complies with IAS 34 and the requirements of German Accounting Standard (GAS) No. 6 as laid down by the German Accounting Standards Board (GASB) for interim reports. The International Accounting Standards applicable as at 30 June 2002, and interpretations of International Accounting Standards by the Standing Interpretations Committee (SIC) were applied in preparing the interim report including the comparative figures.

Accounting policies

Scope of consolidation

The consolidated financial statements of Aareal Group include all domestic and international subsidiaries on which the bank exercises a controlling influence, and which were not acquired with the objective of immediate sale.

The share of the balance sheet total of companies that are not included in the consolidated financial statements for lack of materiality amount to less than 0.2 % of Aareal Group's consolidated total assets.

In the first half of 2002, 4 companies that were transferred to Aareal Bank in the course of the DePfa Group split were included in the consolidated financial statements of Aareal Group for the first time. As at 30 June 2002, the scope of consolidation comprises 56 fully-consolidated domestic and international subsidiaries, 2 subsidiaries consolidated on the basis of the respective stakes held, 5 securities funds (in the form of separate trust assets – Sondervermögen – under German investment law), a special purpose entity and 6 companies valued at equity. For all other record dates, the group of consolidated companies was in line with the legal company structure prevailing on the respective date.

Consolidation of participations transferred to DePfa BANK plc within the scope of the split was waived, since the associated expenses arising from information conveyed would not have been justified. The transfer of assets within the scope of the split was based on a valuation as provided by independent expert opinions.

Please refer to our website – www.aareal-bank.com – for a full overview of the consolidated subsidiaries.

The accounting policies used are detailed below.

Loans and advances

According to the German Commercial Code, loans and advances are valued at amortized cost.

The IAS classify loans and advances as original loans and advances granted directly by the company to the borrower, and as acquired loans and advances. Original loans and advances are valued at amortized cost unless they were granted for the purpose of trading such loans and advances. Acquired loans and advances must be categorized under "trading", "held-to-maturity" or "available-for-sale".

We have classified loans and advances acquired by the bank – predominately borrower's note loans – exclusively in the available-for-sale portfolio. These are valued at fair value. Until the position is disposed of, the net result from the revaluation of the acquired loans and advances is recorded as a component of shareholders' equity, as permitted by the Standard, in the revaluation surplus and has no effect on income.

Net loan loss provisions

According to the EU Bank Accounts Directive, banks may create general loan loss provisions from taxed funds, and deduct these in undisclosed form from the balance of loans and advances.

The creation of net loan loss provisions pursuant to IAS is directly reflected in the income statement. Hidden general risk provisions – as permissible under German commercial law – are not permitted. Specific loan loss provisions are set aside depending on the borrower's economic circumstances, the realizable value of collateral provided and the overall sectoral or macroeconomic scenario, using uniform provisions across Aareal Bank Group. General loan loss provisions are determined in accordance with IAS 30, in line with the procedures prescribed by the German Commercial Code, but without taking the German tax legislation into consideration. Net loan loss provisions are reported as an independent item on the assets side of the balance sheet, pursuant to common international procedure, immediately below loans and advances to customers.

Securities

According to German accounting rules, securities are categorized under trading portfolio, liquidity portfolio and investment portfolio. Valuation of the portfolios is subject to the strict principle of lower of cost or market, or a or less stringent variation.

In accordance with IAS, securities purchased are classified in three categories depending on the purpose of the purchase: trading, held-to-maturity or available for sale. Aareal Group classifies as investment securities all debt and other fixed-income securities, as well as equities and other non-fixed income securities, in the available-for-sale category (securities not acquired upon issuance). Changes in the market value of the available-for-sale portfolio are recorded in the revaluation surplus without effect on the income

statement. As a rule, the trading portfolio is marked to market with effect on the income statement – the valuation profits or losses are recorded in net trading income.

Derivative financial instruments and hedging relationships

In accordance with German commercial law, derivative financial instruments are pending transactions and therefore must not be recorded in the balance sheet. In keeping with the principle of prudence, provisions for impending losses from pending transactions are made in line with relevant market developments. According to the German Commercial Code, when derivatives are used as hedge transactions constituting valuation units (Bewertungseinheiten) with the hedged transaction, neither the underlying transaction nor the hedging transaction are included in the balance sheet. A deviation from this principle of non-valuation only occurs if the hedging transaction is expected to produce unrealized losses which are not compensated by unrealized profits from the underlying transaction. All derivative financial instruments must be recorded in the balance sheet at their market value pursuant to IAS 39.

The bulk of Aareal Group's derivatives positions have been entered into in order to hedge interest rate and currency risks. Where derivatives do not qualify adequately for the stringent requirements applicable to hedge relationships under hedge accounting, the profits and losses from marking to market are recorded in net trading income, with effect on the income statement. Such derivatives are carried in the balance sheet under trading assets or trading liabilities.

Derivative financial instruments are recorded differently, depending on their classification in connection with cash-flow or fair value hedges. Fair value hedges are identified on the balance sheet by including as income the valuation profits or losses from underlying or hedge transactions related to the hedged risk. Effective changes in valuation from derivatives that are used as hedge instruments within the scope of a cash flow hedge are recorded in the revaluation surplus. The ineffective portion of the valuation profits or losses is recorded immediately in net trading income, with effect on the income statement.

Proprietary software

According to German commercial law, recognition of proprietary software is not permitted.

IAS 38 requires that propriety software be recognized, if specific requirements are met. These are accounted for under intangible assets. Depreciation is on the basis of the estimated useful life.

Goodwill

According to the German Commercial Code, goodwill can be offset directly against retained earnings.

IAS 22 stipulates capitalization and scheduled amortization over a maximum period of 20 years of goodwill arising from the purchase of fully-consolidated subsidiaries, on the basis of the anticipated useful life. The bank has set the depreciation period at 7-10 years.

Income taxes and deferred taxes

Pursuant to the German Commercial Code, deferred taxes are calculated on the basis of the profit and loss account. Deferred taxes must be set aside for any differences between the accounting balance sheet and the tax balance sheet, unless such differences are permanent or deemed to be permanent (timing concept).

According to IAS 12, deferred tax liabilities must be set aside for all temporary differences between the tax balance sheet and the IAS carrying value of assets and liabilities which result in a future deferred tax liability. Deferred tax assets are recorded for those differences which, when reversed, will result in a tax credit. In addition, deferred tax assets are created on losses carried forward for tax purposes, provided that such tax assets can be realized. All deferred tax assets are continuously assessed as to whether they can be realized; if necessary, they are also subject to write-offs. Deferred taxes are calculated at local tax rates, which are expected to apply when valuation differences are released. Deferred taxes are adjusted accordingly in the event of legally promulgated changes in tax rates.

Pension liabilities

Pension provisions according to German commercial law are regularly determined on the basis of the "cost" (Teilwert) method of section 6a of the German Income Tax Act (EStG), which specifically does not take forward-looking assumptions into consideration. Provisions for pensions and similar obligations are determined in accordance with IAS 19 on the basis of the projected unit credit method. Projected economic and demographic developments must be applied to the calculations of the provisions. The discounting factor is based on the capital market rate of corporate bonds with impeccable credit rating at the balance sheet date. Calculating the amount of the provisions in the group is based on mathematical expertises on the basis of standard procedures set by Aareal Bank Group.

Provisions

Provisions are set aside for commitments to third parties if utilization is probable and the amount of the commitment can be reasonably estimated.

Minority interest

Minority interest is recorded separately within the shareholders' equity item in accordance with the German Commercial Code.

Minority shareholders' proportionate share in the equity is recorded pursuant to IAS 1 as a separate item between shareholders' equity and liabilities.

Revaluation surplus

The German Commercial Code does not permit revaluation of balance sheet above the purchase price.

In accordance with IAS, revaluation at fair value of certain balance sheet items is initially reported in the revaluation surplus (within shareholders' equity) without effect on the income statement.

This includes the revaluation of available-for-sale securities and the recorded effective changes in valuation from derivatives that are used as hedge instruments within the scope of cash flow hedges.

Treasury shares and debt securities issued

Repurchased treasury shares must be capitalized according to the German Commercial Code, and the appropriate amount transferred to the reserve for treasury shares. The profit and loss account is affected by changes in valuation and results from the resale of such securities. Repurchased debt securities issued are capitalized and valued, with effect on the profit and loss account, in accordance with the strict lower of cost or market principle. The results from the resale affect the profit and loss account.

Repurchased treasury shares that are held in the portfolio, and profit or losses from the resale, must be deducted from shareholders' equity in accordance with IAS and SIC-16 without effect on income. The repurchase of debt securities issued results in a reduction in the liabilities item with effect on the income statement. Profit and losses from the resale should also be included in income.

Trust business

In accordance with the German Commercial Code, trust assets and trust liabilities must be recorded in the balance sheet as pass-through items.

Trust business is not recorded in the balance sheet in accordance with IAS 30. The disclosure of corresponding items that are not owned by the bank are illustrated in the Notes.

Tax regulations

Valuations included in the financial statements pursuant to the German Commercial Code due to tax provisions are not permitted in the financial statements in accordance with IAS.

Effects arising from the split of DePfa Group

The split of the former DePfa Group's Public Finance and Property activities resulted in non-recurring effects. In so far as they have any material effect on the information presented in this interim report, the individual items will be explained separately.

NOTES ON THE INCOME STATEMENT (ACCORDING TO IAS)

FOR THE PERIOD FROM 1 JANUARY 2002 TO 30 JUNE 2002

(1) Net interest income

	1 Jan - 30 Jun 2002 € mn	1 Jan - 30 Jun 2001 € mn
Interest income from property lending	*362*	*303*
Other interest income from lending business and money market transactions	*207*	*236*
Interest income from fixed-income securities and debt register claims	*210*	*210*
Other interest income	*17*	*9*
Total interest income	***796***	***758***
Total interest expenses	***626***	***644***
of which: Interest expenses for hybrid capital	*22*	*20*
Total	***170***	***114***

(2) Provision for loan losses

	1 Jan - 30 Jun 2002 € mn	1 Jan - 30 Jun 2001 € mn
Additions	*50*	*32*
Amounts released	*0*	*2*
Balance of direct write-offs and recoveries on loans previously written-off	*-1*	*-1*
Total	***49***	***29***

(3) Net commission income

	1 Jan - 30 Jun 2002 € mn	1 Jan - 30 Jun 2001 € mn
Commission income from banking transactions	*48*	*44*
Commission expenses from banking transactions	*3*	*2*
Commission income from Consulting/Services	*75*	*76*
Commission expenses from Consulting/Services	*27*	*29*
Other commission income	*3*	*2*
Other commission expenses	*0*	*0*
Total	***96***	***91***

(4) Net trading income

Net trading income comprises € 1 million results from derivative financial instruments and € 2 million due to cash flow hedge effects.

(5) Results from non-trading assets

	1 Jan - 30 Jun 2002 € mn	*1 Jan - 30 Jun 2001 € mn*
Results from the sale of available-for-sale securities	*-3*	*31*
Results of the disposal of participations	*-1*	*0*
Total	***-4***	***31***

(6) Other operating income

Other operating income includes proceeds from the sale of foreclosed assets, revenues of consolidated subsidiaries and rental contracts.

(7) Administrative expenses

	1 Jan - 30 Jun 2002 € mn	*1 Jan - 30 Jun 2001 € mn*
Wages and salaries	*92*	*71*
Social security costs	*16*	*15*
of which: for pension provisions	*6*	*3*
Other administrative expenses	*57*	*49*
Depreciation and amortization of property and equipment and intangible assets	*11*	*8*
Total	***176***	***143***

(8) Other operating expenses

This item comprises costs for services used, and transfers to reserves.

(9) Segment reporting

	Property Lending/Structured Finance € mn		Consulting / Services € mn		Property Asset Management € mn		Consolidation / Reconciliation / Miscellaneous € mn		Aareal Bank Group € mn	
	30 June 2002	30 June 2001	30 June 2002	30 June 2001	30 June 2002	30 June 2001	30 June 2002	30 June 2001	30 June 2002	30 June 2001
Net interest income	137	87	-1	-1	-2	-1	36	29	170	114
Net loan loss provisions [1]	49	29		0	0				49	29
Net interest income after net loan loss provisions	**88**	**58**	**-1**	**-1**	**-2**	**-1**	**36**	**29**	**121**	**85**
Net commission income	45	42	73	75	2	1	-24	-27	96	91
Net trading income	3	7							3	7
Results from non-trading assets	-4	-5		0	0			36	-4	31
Other operating income	34	14	25	5	22	20	-1	-1	80	38
Administrative expenses	75	63	93	73	8	7	0	0	176	143
Other operating expenses	13	14	7	1	10	18	0	0	30	33
Operating profit	**78**	**39**	**-3**	**5**	**4**	**-5**	**11**	**37**	**90**	**76**
Depreciation of goodwill	0		3	2			1	1	4	3
Net other income / expenses	1	-1	0	0		0			1	-1
Profit before taxes	**79**	**38**	**-6**	**3**	**4**	**-5**	**10**	**36**	**87**	**72**
Allocated shareholders' equity [2]	815	679	90	83	47	33	73	228	1,025	1,023
Cost / income ratio (%)	40.4	51.9	102.3	92.3	79.0	125.2			58.9	70.6
RoE before taxes (in %)	19.4	11.2	-12.4	7.2	16.6	-30.6			17.0	14.1

[1] *The disclosed loan loss provisions are based on the assumption of the concurrent assumption of the property lending portfolio of DePfa Deutsche Pfandbriefbank; for this reason, the loan loss provisions of the Property activities of the old DePfa Group are provided for comparison. (For information: 6/12 of € 116 million = € 58 million, compared to a current level of € 49 million.)*

[2] *Including the silent partnership which was converted to shareholders' equity on 3 January 2002.*

NOTES TO THE BALANCE SHEET (ACCORDING TO IAS)

(10) Loans and advances to banks

	30 Jun 2002 € mn	31 Dec 2001 € mn
Term deposits and current account balances	*2,026*	*1,015*
Property loans to banks	*4*	*4*
Promissory note loans	*199*	*199*
Other loans and advances to banks	*1,989*	*1,408*
Net deferred items	*12*	*21*
Total	***4,230***	***2,647***
of which: Payable on demand	*1,404*	*1,049*

(11) Loans and advances to customers

	30 Jun 2002 € mn	31 Dec 2001 € mn
Property loans to customers originated by Aareal Bank	*17,749*	*14,259*
Available-for-sale property loans purchased	*690*	*690*
Promissory note loans purchased	*636*	*642*
Other loans and advances to customers	*1,557*	*898*
Net deferred items	*53*	*21*
Total	***20,685***	***16,510***

The portfolio of loans and advances to customers incudes approx. € 3.5 million of property loans transferred from DePfa Deutsche Pfandbriefbank AG to Aareal Bank AG within the scope of the split of the DePfa Group.

(12) Loan loss provisions

	First six month 2002 € mn	Full year 2001 € mn
Development of loan loss provisions		
1 January	***469***	***420***
Additions / Transfers	*117*	*162*
Reductions	*67*	*113*
of which: Drawdowns	*67*	*44*
Amounts released	*0*	*69*
Currency translation / reclassifications	*0*	*0*
Balance on 30 June / 31 December	***519***	***469***

Additions to loan loss provisions include specific loan loss provisions which were transferred alongside loans transferred from DePfa Deutsche Pfandbriefbank AG to Aareal Bank AG. These specific loan loss provisions were set aside in preceding financial years.

(13) Trading assets

	30 Jun 2002 € mn	31 Dec 2001 € mn
Positive market value of derivative financial instruments	*73*	*61*
Net interest deferral	*36*	*36*
Total	***109***	***97***

(14) Non-trading assets

	30 Jun 2002 € mn	31 Dec 2001 € mn
Debt and other fixed-income securities	*9,610*	*10,614*
Equities and other non-fixed-income securities	*248*	*297*
Interests in affiliated companies	*4*	*7*
Associated companies valued at equity	*21*	*19*
Other participations	*73*	*51*
Total	***9,956***	***10,988***

(15) Intangible assets

	30 Jun 2002 € mn	31 Dec 2001 € mn
Proprietary software	*7*	*6*
Other intangible assets	*6*	*7*
Goodwill	*27*	*25*
Total	***40***	***38***

(16) Property and equipment

	30 Jun 2002 € mn	31 Dec 2001 € mn
Land and buildings	*108*	*23*
Office furniture and equipment	*31*	*19*
Investment property	*75*	*67*
Leased items	*3*	*3*
Total	***217***	***112***

The increase in property and equipment is mainly attributable to the transfer of land and buildings, and of office furniture and equipment within the scope of the split of the DePfa Group.

(17) Other assets

	30 Jun 2002 € mn	31 Dec 2001 € mn
Positive market values (hedge accounting)	*159*	*170*
Net interest deferral from hedge derivatives	*216*	*198*
Foreclosed assets	*124*	*147*
Other	*701*	*685*
Total	***1,200***	***1,200***

(18) Liabilities to banks

	30 Jun 2002 € mn	31 Dec 2001 € mn
Deposits by banks payable on demand	*2,071*	*1,580*
Term deposits by banks	*7,832*	*6,972*
Promissory note loans borrowed	*1,241*	*1,022*
Net deferred items	*55*	*51*
Other	*396*	*723*
Total	***11,595***	***10,348***

(19) Liabilities to customers

	30 Jun 2002 € mn	31 Dec 2001 € mn
Savings deposits	*3*	*4*
Current account balances	*4,345*	*3,314*
Term deposits by customers	*5,141*	*5,360*
Net deferred items	*64*	*53*
Other	*1,453*	*1,365*
Total	***11,006***	***10,096***

(20) Certificated liabilities

	30 Jun 2002 € mn	31 Dec 2001 € mn
Bonds and medium-term notes	*2,093*	*2,093*
Other debt securities	*8,359*	*6,219*
Net deferred items	*78*	*49*
Total	***10,530***	***8,361***

(21) Trading liabilities

	30 Jun 2002 € mn	31 Dec 2001 € mn
Negative market value of derivative financial instruments	*35*	*33*
Net interest deferral	*12*	*19*
Total	***47***	***52***

(22) Provisions

	30 Jun 2002 € mn	31 Dec 2001 € mn
Provisions for pensions and similar liabilities	*80*	*78*
Other provisions	*172*	*143*
Total	***252***	***221***

(23) Other liabilities

	30 Jun 2002 € mn	31 Dec 2001 € mn
Negative market values (hedge accounting)	*202*	*197*
Other	*405*	*481*
Total	***607***	***678***

(24) Subordinated equity

	30 Jun 2002 € mn	31 Dec 2001 € mn
Subordinated liabilities	*326*	*707*
Profit-participation certificates	*272*	*72*
Contributions by silent partners	*52*	*376*
Net interest deferral	*17*	*15*
Total	***667***	***1,170***

(25) Property financing

a) Portfolio breakdown by country [1)]

	30 Jun 2002 € mn	*31 Dec 2001 € mn*
Germany	*10,138*	*9,120*
United Kingdom	*1,340*	*838*
US	*1,107*	*1,072*
Sweden	*951*	*574*
France	*934*	*297*
Denmark	*888*	*279*
Belgium	*800*	*464*
Netherlands	*795*	*618*
Switzerland	*454*	*335*
Other	*1,004*	*692*
Total	***18,411***	***14,289***

b) Portfolio breakdown by type of loan

	30 Jun 2002 € mn	*31 Dec 2001 € mn*
Commercial property financing	*11,737*	*6,850*
of which: international	*7,627*	*4,892*
Property finance for commercial housing	*6,674*	*7,439*
of which: international	*646*	*277*
Total	***18,411***	***14,289***

In addition, on 30 June 2002 we managed property loans totalling € 9.1 held on the balance sheet of DePfa Deutsche Pfandbriefbank AG. We receive commission income on the intermediation of these loans. € 2.6 billion of this volume is being securitized and placed in the market.

[1)] *Since the transfer of the international portfolio from DePfa Deutsche Pfandbriefbank to Aareal Bank was not completed on the record date 30 June 2002, certain countries (e.g. Italy) are missing in this list.*

(26) New property lending commitments

	30 Jun 2002 € mn	31 Dec 2001 € mn
Commercial property financing	*2,486*	*4,488*
of which: international	*2,352*	*3,472*
Property finance for commercial housing	*615*	*2,011*
of which: international	*175*	*233*
Total	***3,101***	***6,499***

(27) Employees (average)

	30 Jun 2002	31 Dec 2001
Total number of employees [2)]	***3,440***	***2,792***
Including: part-time employees	*353*	*244*

(28) Risk-weighted assets and capital ratios

	30 Jun 2002	31 Dec 2001
BIS rules	*%*	*%*
Core capital ratio	*5.7*	*6.1*
Own funds ratio	*8.1*	*7.7*
German Banking Act (KWG)		
Core capital ratio	*6.6*	*6.9*
Overall ratio	***9.5***	***9.0***

The ratios as at the record date 30 June 2002 have been significantly influenced by the en-bloc transfer of loans from DePfa Deutsche Pfandbriefbank AG to Aareal Bank AG. Given the measures already implemented to further strengthen our capital base, we expect the ratios to improve until year-end 2002.

[2)] *The increase in staff numbers was due to the transfer of employees from the old DePfa Group onto Aareal Bank, as well as the extension of the scope of consolidation.*

On the basis of the above Offering Circular/Listing Prospectus,

the € 180,000,000 Perpetual Floating Rate Notes

divided into 1,800,000 Perpetual Floating Rate Notes

with the payment of interest and principal

conditional upon receipt of profit participations in and repayment under

a Silent Partnership in the commercial enterprise of

Aareal Bank AG

Wiesbaden

– German Securities Code 707 008 –

of

Capital Funding GmbH

Norderfriedrichskoog

have been admitted to trading on the official market

at the Frankfurt Stock Exchange.

Frankfurt am Main, October 2002

Deutsche Bank Aktiengesellschaft

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