

(E) Segment Reporting

In the financial year 2008, segment reporting by Aareal Bank was prepared for the first time in accordance with IFRS 8 "Operating Segments", using the early application option.

In accordance with the "Management approach" set out in IFRS 8, the segment report discloses, on a segment-specific basis, financial information which is relevant for internal control of an entity and which is also used by such entity's management to make decisions on the allocation of resources, as well as to measure the financial performance of segments.

The methodological approaches to segment reporting in accordance with IFRS 8 are consistently applied to the comparative figures for the previous year.

Operating segments of Aareal Bank

Two operating segments are defined within Aareal Bank in line with internal management reporting, based on the organisational structure established according to the various products and services offered.

The **Structured Property Financing** segment combines all domestic and international property financing and refinancing activities. These include structured commercial property finance, portfolio financing of various types of properties, and related advisory services.

Refinancing via the capital market is of crucial significance for the bank as an international provider of property finance. Aareal Bank offers a wide range of refinancing instruments, including the issue of German asset-covered bonds (Pfandbriefe).

The **Consulting/Services** segment offers comprehensive services for managing residential property portfolios and processing payment flows for the institutional housing sector. Close cooperation between the two subsidiaries Aareon AG and Aareal First Financial Solutions AG, as well as with the bank's Institutional Housing Sector division, is the basis of this segment. Aareon AG focuses its business activities on optimising IT-based business processes of companies in the property sector. The range of services comprises consulting, software, IT services and support.

The Institutional Housing Sector division, together with the subsidiary Aareal First Financial Solutions AG, offers dedicated banking services for process optimisation for bulk payments.

Management reporting of Aareal Bank is generally based on IFRS accounting policies. These reports are used to define the segment information to be disclosed in the segment report.

Income and expenses within the Aareal Bank Group are predominantly attributable to transactions with third parties, and are directly allocated to the responsible operating segment. The transactions between operating segments are always executed in line with prevailing market conditions, allocated to the relevant segment and consolidated. Significant sales revenue generated from transactions between Aareal Bank's segments did not occur.

Administrative expenses not directly attributable to any of the operating segments are segmented in line with the internal cost allocation, based on the principle of causation.