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Aareal Bank Group – Interim Report
1 January to 31 March 2015

Aareal Bank Group

Key Indicators

	1 Jan-31 Mar 2015	1 Jan-31 Mar 2014
Results[1)]		
Operating profit (€ mn)	67	219
Consolidated net income (€ mn)	45	199
Consolidated net income attributable to ordinary shareholders (€ mn)[2)]	36	189
Cost/income ratio (%)[3)]	48.3	34.3
Earnings per ordinary share (€)[2)]	0.60	3.16
RoE before taxes (%)[2) 4)]	10.3	40.3
RoE after taxes (%)[2) 4)]	6.6	36.7

	31 Mar 2015	31 Dec 2014
Statement of financial position		
Property finance (€ mn)	29,314	28,987
of which: international (€ mn)	23,692	22,894
Equity (€ mn)	2,800	2,723
Total assets (€ mn)	50,878	49,557
Regulatory indicators		
Risk-weighted assets (€ mn)	15,815	15,492
Common Equity Tier 1 ratio (CET1 ratio) (%)	13.1	13.6
Tier 1 ratio (T1 ratio) (%)	16.7	17.7
Total capital ratio (TC ratio) (%)	23.8	24.7
Common Equity Tier 1 ratio (CET1 ratio) (%) – fully phased –	12.6	12.9
Employees	2,546	2,548
Rating		
Fitch Ratings, London		
long-term[5)]	A- (outlook: negative)	A- (outlook: negative)
short-term[5)]	F1 (outlook: negative)	F1 (outlook: negative)
Fitch Pfandbrief ratings	AAA	AAA
oekom	prime	prime

1) The figures for the comparative period include negative goodwill (day-one gain) in the amount of € 154 million from the acquisition of COREALCREDIT BANK AG (Corealcredit) on 31 March 2014. Corealcredit's operating results have been included in the Income Statement of Aareal Bank Group since the beginning of Q2 2014.

2) The allocation of earnings is based on the assumption of pro-rata temporis accrual of net interest payments on the AT1 bond. SoFFin's silent participation was repaid on 30 October 2014. To facilitate comparison, and for the purposes of economic analysis, net interest paid on the SoFFin silent participation (in the amount of € 5 million) was deducted in the calculation of the comparative figure as at 31 March 2015 when determining the EpS attributable to ordinary shareholders and RoE. Likewise, the SoFFin silent participation (in the amount of € 300 million) was deducted from equity when calculating RoE.

3) Structured Property Financing segment only

4) On an annualised basis

5) At the end of the first quarter of 2014, rating agency Fitch Ratings changed its outlook for the Long-Term Issuer Default Rating (IDR) of 18 banks within the European Union from "stable" to "negative". The corresponding outlook for an additional 18 European commercial banks remained "negative". This revision reflected a global re-assessment of government support for banks.

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Letter from the Management Board

Dear Shareholders,
business associates and Aareal Bank staff,

The market environment for Aareal Bank Group remained challenging during the first three months of the 2015 financial year. At the start of the year, the situation on the international financial markets remained under significant influence from the decisions of the major central banks. For instance, the euro remained under massive pressure – especially against the US dollar – as a consequence of the European Central Bank's decision to keep interest rates at historically low levels, reinforcing its expansive monetary policy stance through quantitative easing. The surprise decision by the Swiss National Bank to give up the peg of the Swiss franc against the euro also created turbulence on the foreign exchange markets. Moreover, the increasingly evident divergence in monetary policy stance between the European Central Bank (ECB) on the one hand, and the US Federal Reserve and the Bank of England on the other hand, is likely to place further burdens on the euro. Equity markets continued to benefit from the high level of liquidity, however – likewise, the ability of capital markets to absorb issues placed by banks as well as corporate and sovereign issuers remained high.

At the same time, economic developments continued to show a mixed picture, with persistent and significant differences amongst the various world regions. Whilst the economic outlook for the US has now improved, it is too early to tell whether the ECB's expansive monetary policy will in fact trigger sustainable momentum in the euro zone – persisting beyond the short-term boost provided by factors such as lower oil prices. The euro zone continues to be burdened by the risk of Greece leaving the euro, and the uncertain impact that such a "Grexit" would have.

During the first months of the year, the focus of the banking sector was – on the one hand – upon the manifold consequences of the extreme low-interest rate policy. This also further intensified competition in commercial property finance, one of the few remaining attractive business areas for banks. On the other hand, the banking sector continued to be affected by various regulatory issues. Moreover, a decision from the Austrian banking supervisory authority caused irritation: the regulator imposed a moratorium for the repayment of bonds issued by the former Hypo Alpe Adria Bank (now Heta Asset Resolution AG – "Heta") and covered by a guarantee of the Austrian state of Carinthia. This move, which frustrated Heta's creditors, triggered increased impairment charges for some institutions. Given that Aareal Bank has very little exposure to Heta's issues, the resulting burdens for the Bank were also very limited.

In this environment, Aareal Bank succeeded in posting another good set of results for the first quarter of 2015. Aareal Bank Group's consolidated operating profit stood at € 67 million in the first quarter, a slight increase over the same period of the previous year (€ 65 million, adjusted for the negative goodwill from the acquisition of COREALCREDIT BANK AG (Corealcredit)). Net interest income increased and allowance for credit losses declined year-on-year. On the other hand, income was burdened by higher expenses – incurred as a result of the integration of Corealcredit – and the first-time recognition of the European bank levy. Once again, the good results confirm the robustness of our business model and provide a successful track record for our sustainable business policy – even more so since competition in the international commercial property financing business has further intensified recently.

Aareal Bank Group is ideally placed to deal with a rapidly-changing market and competitive environment. This was not least evidenced by the acquisition of Westdeutsche Immobilienbank (WestImmo), Aareal Bank's second major acquisition within just over twelve months – a purchase which we are financing completely from the Bank's own funds, as with the Corealcredit acquisition. The WestImmo transaction is expected to be completed during the first half of 2015. We have thus exploited an attractive opportunity, since it creates value and is also in line with our strategic objectives. At the same time, the acquisition demonstrates the Bank's ability to take strategic action. The acquisition will again give rise to a one-off negative goodwill which – according to preliminary calculations – is expected to amount to some € 150 million. On top of this non-recurring effect, WestImmo – which is operating profitably – will provide a positive contribution to Aareal Bank Group's consolidated operating profit, and the transaction is expected to generate a cumulative contribution to Aareal Bank's earnings per share (EpS) of more than € 3.00 over the next three years.

At € 74 million, the operating profit achieved in the Structured Property Financing segment exceeded the figure for the same quarter of the previous year (adjusted for the one-off effect from the Corealcredit acquisition). The increase was mainly driven by a strong rise in net interest income.

At the beginning of the year, Aareal Bank pursued a deliberately selective policy regarding new business in the Structured Property Financing segment – especially in view of the intensified competition and the acquisition of WestImmo, which will lead to inorganic growth in lending volume. New business of € 1.8 billion slightly exceeded the same quarter of the previous year, with margins remaining stable overall. Newly-originated loans accounted for 47 % of new business volume. We affirm our communicated target for new business in 2015, at € 6 billion to € 7 billion.

At € 18 million (Q1 2014: € 37 million), allowance for credit losses for the quarter under review was within the anticipated range. The development of allowance for credit losses is not least evidence of Aareal Bank's ability to integrate newly-originated lending business – whether through organic growth, or by way of acquisitions – into existing processes, and to manage these exposures in a sustainable, value-oriented and risk-aware manner.

As in the previous periods, results in our Consulting/Services segment continued to be influenced by partially opposing factors during the first quarter of 2015. Our subsidiary Aareon AG has continued to perform in line with plans. With many property companies having decided in favour of the Wodis Sigma ERP system in the fourth quarter of 2014 – just before year-end – the number of new customers acquired during the first quarter was, as expected, lower. Yet digitisation continues to offer great opportunities for Aareon. Hence, our IT subsidiary's development activities will continue to focus on that topic during the course of this year. Aareon has combined its offers in its new Aareon Smart World platform, helping customers to better exploit the opportunities available through digitisation. International business remained positive during the first quarter: Aareon's subsidiaries successfully rolled out new customer installations at the start of the year, winning new customers in the process.

In the segment's banking business, the volume of customer deposits from the housing industry remained at a high level, averaging € 9.3 billion during the quarter under review. It is gratifying to see the high level of confidence our clients continue to place in Aareal Bank, as the long-standing lead bank to the German housing industry. However, sustained historically low interest rates continued to weigh on results generated from deposits this quarter, leading to a negative segment contribution to operating profit of € 7 million.

Given the ECB's most recent decisions, the burden on segment results from the low interest rate environment is expected to prevail for the time being. Nonetheless, the importance of the deposit-taking business in the Consulting/Services segment goes far beyond the interest margin generated from the deposits – which is under pressure in the current market environment. For Aareal Bank, deposits from the housing industry are a strategically important additional source of funding for the property financing business, and one that is largely independent of developments on the capital markets. In addition to the German Pfandbrief and unsecured bank bonds, they represent an important pillar in the Bank's long-term funding mix.

With an aggregate volume of approximately € 0.9 billion, we continued to successfully pursue our capital market funding operations during the first quarter of 2015. As at 31 March 2015, the Bank's Tier 1 ratio was 16.7 %, which is comfortable on an international level. The Common Equity Tier 1 ratio stood at 13.1 %. Aareal Bank thus remains very solidly capitalised.

We can thus be satisfied with the Bank's performance during the first quarter of the 2015 financial year: Aareal Bank Group continued its positive development. Successful progress has been made with the integration of Corealcredit, we announced the acquisition of WestImmo, and – not least – we once again generated good results. Against this background, we look ahead to the remainder of the year with confidence. We confirm the forecasts we communicated for the year 2015 as a whole. Overall, we believe there is a good chance that we can achieve consolidated operating profit of between € 400 million and € 430 million for the current financial year, including the non-recurring effect (negative goodwill) from the announced acquisition of WestImmo.

However, it is equally clear is that many challenges will persist. For instance, we anticipate the material economic and market trends to persist throughout the remainder of the year – specifically: a continuation of the extreme low-interest rate environment (which raises the threat of a mis-allocation of capital and a latent deflation risk); continued subdued growth of the world economy, combined with persistent geopolitical risks; as well as the still-present risk of escalation in the European sovereign debt crisis – along with a still-unresolved lack of structural reforms in Europe. In addition, we anticipate competition in commercial property finance to remain intense.

We have proven our ability to deal with a volatile environment in the past, and are well-equipped for the future. Aareal Bank Group has taken the right strategic decisions. It is in an excellent position to leverage its decisive strengths – client proximity, in-depth market knowledge, and fast decision-making – to the benefit of all its stakeholders. We count on your support along this path.

For the Management Board

Yours Sincerely, Wolf Schumacher

Dr Wolf Schumacher
Chairman

Group Management Report

Report on the Economic Position

Macro-economic environment

Economy

Key factors influencing the macro-economic environment changed to a considerable extent in the spring of 2015, compared to the summer of 2014: there have been significant shifts in exchange rates between the major currency areas, and crude oil prices have fallen considerably – even though the oil price slump came to a halt during the first quarter of 2015.

Following stronger economic development during the second half of 2014, sentiment indicators for the first quarter of 2015 have shown a slightly lower momentum. The global economic development thus remained subdued at the beginning of 2015.

The deteriorating sentiment in the US was relevant here; however, this was likely attributable to temporary factors, in particular, such as industrial action and the cold weather. As a result, real economic output in the US rose only marginally in the first quarter 2015, achieving 0.2 %.

For the euro zone, sentiment indicators point towards a continuation of the slow economic recovery during the first quarter of 2015 – therefore, the euro zone economy is likely to have posted slight real gross domestic product growth, as it did during the last quarter of 2014. The situation in Greece continued to play a major role in the euro zone, as agreement concerning a short-term extension of the support programme was only reached at the end of February, just before the end of the existing scheme. Outside the euro zone, too, economic growth momentum that prevailed at the end of 2014 is likely to have continued in many economies.

Economic growth in numerous emerging markets was moderate. Likewise, the outlook for the Chinese economy deteriorated at the turn of the year, with major economic indicators in decline. Hence, the momentum of economic growth in China was muted during the quarter under review. The Chinese economy has slowed.

In Japan, industrial production increased quite strongly at the beginning of the year, pointing towards an increase in economic output during the first quarter of 2015.

The average unemployment rate in the euro zone changed only slightly during the first quarter of 2015: in the various member states, the rate declined slightly or remained virtually unchanged. Germany and Austria continued to post the lowest unemployment rates in the euro zone. Even though unemployment remained particularly high in Spain, it continued to decline, following up on the trend seen in the previous year. Employment in the US continued to rise, with the unemployment rate falling to 5.5 %.

Financial and capital markets, monetary policy and inflation

As in the previous quarter, numerous banks and sovereign issuers were able to place securities at favourable terms on the international financial and capital markets of the advanced economies during the quarter under review. Aareal Bank successfully placed a USD 500 million Mortgage Pfandbrief issue.

Uncertainty surrounding the extension of the support programme for Greece, which was extended just before its expiry in February, had hardly any effect upon the financial and capital markets.

Monetary policy has remained very expansive in the advanced economies. The European Central Bank (ECB) further boosted its extremely expansive monetary policy stance in January, with the decision to purchase substantial quantities of sovereign bonds on the secondary markets: together with the two existing programmes to buy asset-backed securities (ABS) and covered bonds, the aggregate volume of the ECB's buying programmes amounts to € 60 billion each month. The ECB's sovereign bond purchases started in March and are set to continue at least until September 2016; in any case, the central bank will continue buying until inflationary developments have come into line with their inflation target of just under 2 %. According to the ECB, the objective of its bond-buying programme is to stimulate the economy, and to achieve said inflation target.

Other central banks also increased their expansive monetary policy stance. The Swedish Riksbank lowered its key interest rate, in two steps, to a negative interest rate of -0.25 %. In addition, it launched a moderately sized bond-buying programme, limited to SEK 10 billion. The Danish national bank lowered its key interest rate to 0.05 % (down 0.15 percentage points), the Polish national bank to 1.50 % (down 0.50 percentage points), and the Bank of Canada to 0.75 % (down 0.25 percentage points).

Against the background of this expansive monetary policy stance, long-term yields[1] for the currencies most relevant to Aareal Bank declined during the quarter under review. They only remained virtually unchanged for the Japanese yen. Short-term interest rates[2] declined significantly for the Canadian dollar, the Danish krone, the Swedish krona and the Swiss franc – for the euro, the decline was only marginal, given the already very low interest rate level. For pound sterling, the Japanese yen and the US dollar, short-term rates only moved marginally.

Interest rates hit extremely low levels, in some cases even turning negative. At the very short end of the curve, Euribor moved marginally into negative territory; the Swedish krona[3] showed a similar development. Rates for the Danish krone[4] were somewhat more clearly negative, however. The situation for the Swiss franc was distinctly different: negative interest rates for short-term maturities were close to one per cent, and even yields for long-term maturities (of up to eight years) were still slightly negative.[5]

Sovereign bond yields also continued to fall during the first quarter of 2015 – in some countries such as Italy, the yield decline was even quite significant. 10-year yields in many euro zone countries (including Italy and Spain) were lower than for UK or US government bonds. The current orientation of monetary policy, combined with expected further divergence in monetary policy between the euro zone on the one hand and the UK and the US on the other may have played a major role in this respect.

Divergence in monetary policy also led to remarkable exchange rate fluctuations. The euro depreciated significantly against the US dollar and pound sterling, but also vis-à-vis the Japanese yen and the Swiss franc. Devaluation against the Swiss franc occurred when the Swiss National Bank gave up its EUR/CHF exchange rate floor of 1.20 in January. The Swiss National Bank has been unable to prevent the marked appreciation of the Swiss currency through the further lowering of its target range for money-market rates, to negative rates (-1.25 % to -0.25 %). The euro's decline versus the Canadian dollar and the Swedish krona was relatively moderate. Denmark maintained its currency peg against the euro; as a result, the EUR/DKK exchange rate hardly changed.

Monetary policy in emerging economies diverged – quite considerably in some cases. The People's Bank of China lowered both its key interest rate (to 5.35 %) and its minimum reserve rate, whilst the key interest rate in Russia remained high (at 14.0 % at the end of the first quarter), even though the Russian central bank cut the rate during the quarter.

Numerous regions, including the euro zone and other European economies such as Poland and Switzerland, moved into deflation during the first quarter of 2015. The average annualised euro zone inflation rate stood at -0.3 % (in February 2015).

[1] Based on the 10-year swap rate
[2] Calculated on the basis of 3-month Euribor or the corresponding LIBOR or other comparable rates for other currencies
[3] Based on the Stibor reference rate
[4] Based on the Cibor reference rate
[5] Based on CHF Libor for short-term rates, and on swap rates for long-term maturities, respectively

Collapsing crude oil prices, which hit very low levels in January and slightly recovered afterwards, played a major role in this context. Without the lower energy prices, euro zone inflation would have been slightly positive, whereas the muted overall economic development prevented a higher ex-energy inflation rate. In the US, the inflation rate was close to zero during the first quarter. Whilst annualised inflation in Japan was above 2 %, the rate was still influenced by statistical effects from last year's VAT hike; these effects will soon cease to apply. On a monthly level, price levels were down here, too. Inflation in China was low, at just above 1 %.

Regulatory environment

The environment in which the banks were operating continued to be defined in recent years by a rapid rise in regulatory requirements. These include the comprehensive Basel II framework and its implementation in the EU (CRD I), the implementation of the "Sydney Press Release" in the EU and the revision of the regulation on large-volume loans (CRD II), the implementation of the short-term package of measures of the Basel Committee (CRD III) and the Basel III reform package (CRR/CRD IV), their implementation in national law, as well as the various amendments to the Minimum Requirements for Risk Management (MaRisk).

Aareal Bank has also been directly supervised by the ECB since 4 November 2014.

Sector-specific and business developments

Structured Property Financing segment

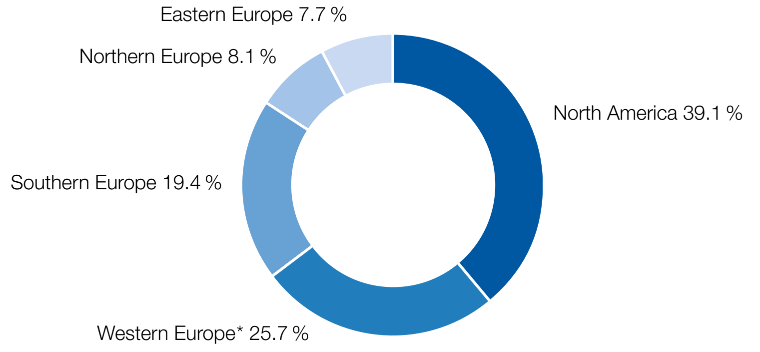
The following material trends seen during the previous year prevailed on the commercial property markets and the corresponding financing markets during the first quarter of 2015: high liquidity on transaction markets, pressure on investment returns, stable to slightly higher rents, and intense competition for commercial property financings.

In the prevailing low interest rate environment, commercial property continued to be a sought-after asset class. Commercial property markets were thus characterised by an unrestricted inflow of liquidity; global transaction volumes for newly-acquired commercial property moderately increased compared to the same quarter of the previous year. In their search for yield, more and more investors were prepared to assume higher risks. Driven by strong demand, pressure on investment yields for newly-acquired, high-quality commercial property persisted; yields on the various markets were virtually unchanged to slightly lower compared with the previous quarter.[1)] At the same time, developments on the new rental markets for first-class commercial property were stable to slightly positive in most cases.

As in the previous year, competition for commercial property financing could be characterised as intense in the vast majority of markets, with persistent pressure on margins and a trend towards higher mortgage lending value ratios. These trends were evident on many markets in Europe, North America, as well as in Asia.

New business 1 January-31 March 2015

by region (%) Total volume: € 1.75 bn



* Including Germany

[1)] Falling yields are usually associated with rising property market values, whilst rising yields correspondingly produce falling values, all other things remaining equal.

In this environment, Aareal Bank Group originated new business of € 1.75 billion (Q1 2014: € 1.6 billion) during the first quarter of 2015. At € 0.83 billion or 47.4 % (Q1 2014: € 1.1 billion or 67.4 %), newly-originated loans accounted for a slightly lower portion than renewals. Successfully concluded renewals totalled € 0.92 billion (Q1 2014: € 0.5 billion). Europe accounted for 60.9 % of new business (Q1 2014: 74.5 %), followed by North America (39.1 % – Q1 2014: 18.0 %).[1)] Aareal Bank Group concluded no new business in Asia in the first quarter of 2015 (Q1 2014: 7.5 %).

Aareal Bank Group's volume of property financing under management rose to € 29.3 billion as at 31 March 2015, up by around 1 % from the 2014 year-end. The portfolio development during the first quarter 2015 was characterised by exchange rate fluctuations in particular.

Europe

In Europe, interest in commercial property remained strong, with transaction volumes moderately higher in local currency compared with the same quarter of the previous year. However, Central and Eastern Europe saw a marked fall in transaction volumes. Yields for newly-acquired first-class commercial property in the European economic centres were virtually unchanged – or declined slightly – compared to the last quarter of the previous year. This applied to office, retail and logistics properties. There was hardly any evidence of increasing yields for high-quality commercial properties during the first quarter.

Rental developments remained subdued in many places during the first quarter of 2015. In numerous European economic centres, rents for first-class commercial properties were hardly changed from their year-end 2014 levels. Diverging from this trend, rents for high-quality properties only rose in few cases, such as on the London markets for office and logistics properties, as well as on the markets for office properties in Helsinki and the markets for retail properties in Barcelona, Milano and Paris. There were only very few isolated cases of declining rents for first-class commercial property in the European economic centres, such as the markets for retail and logistics properties in Moscow, which experienced significant rent declines.

Whilst the hotel markets in the big European cities presented a mixed picture during the first quarter, average revenues per available hotel room – an important indicator in this industry – predominantly saw increases, compared to the first quarter of 2014. Markets where this indicator rose markedly included Copenhagen, Hamburg, Madrid, Munich, Prague and Warsaw; in London it rose marginally. However, there were also some markets with decreasing average revenues per available hotel room. The markets in Paris and Rome, for example, were moderately affected by this.

Aareal Bank Group originated new business of € 1.07 billion (Q1 2014: € 1.2 billion) in Europe during the first quarter of 2015. Western Europe accounted for the highest share, followed by Southern, Northern, and Eastern Europe, with the latter accounting for the lowest share.

North America (NAFTA states)

Transaction volumes in North America rose considerably during the first quarter of 2015, having already reached remarkable levels in the same quarter of 2014. Compared to the last quarter of 2014, investor yields for newly-acquired properties in the US fell marginally for office properties, and to a slightly stronger extent for retail properties, whereas they were almost stagnant for logistics properties.

Developments on rental markets remained subdued in the US: on a national average, rents increased only gradually quarter-on-quarter – for office, retail as well as logistics properties. Rent increases were somewhat stronger on the markets for office properties in New York and San Francisco, for example, and for logistics properties in Los Angeles. The

[1)] New business is allocated to the individual regions on the basis of the location of the properties used as collateral. For exposures not collateralised by property, the allocation is based on the borrower's country of domicile.

markets for office properties in Washington DC as well as for retail properties in Boston and Chicago were examples of virtually stable rents. Likewise, average vacancy ratios in the US hardly changed either, compared to the previous quarter.

The trend of rising average revenues per available hotel room in the US continued at the beginning of 2015, with average revenues exceeding the levels seen in the same quarter of the previous year. This indicator also improved slightly in Canada.

Aareal Bank Group originated new business of € 0.68 billion (Q1 2014: € 0.3 billion) in North America during the first quarter of 2015. The largest part of this was originated in the US, with Canada accounting for the remainder of new business.

Asia

Transaction volumes in the Asia/Pacific region increased slightly compared to the first quarter of 2014. Investment yields for newly-acquired, high-quality commercial property remained virtually stable in Beijing, Shanghai, and Tokyo; this applied to office, retail and logistics properties. Developments in Singapore showed a mixed picture. Whilst investment yields for first-class office properties also remained constant, the markets for retail and logistics properties saw moderate increases.

Rents for first-class commercial property changed rather gradually in the four Asian metropolitan areas mentioned. In contrast, larger rent increases were seen on the markets for high-quality office properties in Shanghai, for example, or for high-quality retail properties in Beijing.

Average revenues per available hotel room were markedly higher in Shanghai and Tokyo, compared with the first quarter of 2014. Average revenues declined in Singapore, whilst they increased slightly in Beijing.

Aareal Bank Group did not originate any new business in Asia during the quarter under review (Q1 2014: € 0.1 billion).

Acquisition of Westdeutsche Immobilien-Bank AG (WestImmo)

On 22 February 2015, Aareal Bank Group entered into a sales and purchase agreement with Erste Abwicklungsanstalt AöR (EAA) to acquire all of the shares of Westdeutsche ImmobilienBank AG ("WestImmo"), which specialises in commercial property financing. The purchase price amounts to € 350 million, subject to contractually agreed adjustments until the closing date. Furthermore, Aareal Bank will provide a liquidity facility to WestImmo. According to current planning, the transaction – which is subject to approval from the respective authorities – is expected to be completed during the first half of 2015. At the time of closing, WestImmo will be included in the consolidated financial statements of Aareal Bank Group for the first time (first-time consolidation).

Aareal Bank has effected a targeted investment in its core Structured Property Financing business by acquiring WestImmo, expanding its strong position on key target markets. Based on a pro-forma extrapolation as at 31 March 2015, WestImmo has total assets of € 8.1 billion. The volume of commercial property financings amounts to € 4.3 billion, with around one-third in Germany, approx. 38 % in Western Europe, and around 9 % in North America. The remainder of the portfolio is related to selected other markets.

According to the agreement entered into, Aareal Bank Group is acquiring WestImmo at a price reflecting a discount compared to WestImmo's equity in accordance with IFRSs. This leads to negative goodwill, which will amount to approximately € 150 million on a preliminary basis. Aareal Bank will be able to realise this negative goodwill, as a one-off profit, on the closing date. On top of this non-recurring effect, WestImmo – which is operating profitably – will provide a positive contribution to Aareal Bank Group's consolidated operating profit and is expected to generate a cumulative contribution to earnings per share (EpS) of more than € 3.00 over the next three years. Aareal Bank affirms its medium-term target return on equity (RoE) before taxes of approximately 12 %, even taking effects of the transaction into account. After completion of the transaction, Aareal Bank will also continue to significantly exceed the various regulatory requirements concerning equity and liquidity, as well as its own medium-term target of 10.75 % for its Common Equity Tier 1 ratio.

Consulting/Services segment

Bank division Housing Industry

In a geopolitical environment that remains challenging, developments in the German housing and commercial property industries have been stable overall. This was evidenced in particular by largely constant rental income and long-term financing structures.

At the start of the year, the industry continued to focus on a sustainable development of portfolios, with an emphasis on increasing energy efficiency. The housing and property companies that are organised in the German Federation of German Housing and Real Estate Enterprises ("GDW") are regarded as pioneers in the transition of the German energy sector (the Energiewende); they modernise their properties much more frequently than other owner groups.

Even though the residential property market continued to be characterised by regional differences, the German housing market held on to its positive performance during the first quarter of 2015. Reflecting a robust economic environment and the high level of employment, advertised rents in Germany were 1.7 % higher on average in January 2015 than in the first quarter of 2014. During the same period, rent increases in rural districts (Landkreise) amounted to 2.5 %, slightly above the 2 % recorded for those cities independent from district administration (kreisfreie Städte).

Against the background of the solid economic environment and the stability of the housing market, demand for German residential property portfolios persisted, predominantly from public limited property companies. Given limited investment opportunities, transaction activity was broadly dispersed, with a growing trend towards high-growth mid-sized cities in North and East Germany.

One of the biggest transactions during the first quarter of 2015 was the merger of property companies Deutsche Annington and GAGFAH, which created one of the largest listed property companies in Europe, managing some 350,000 units. Our clients continue to make strong use of the combination of our specialist services in conjunction with automated mass electronic payments processing, together with the related advice we offer, as well as cash investment schemes. This enables us to maintain a strong position in the market, despite strong competitive pressure – as evidenced in new client acquisition; the business partners acquired in the first quarter of 2015 currently manage just under 30,000 residential units between them. The software solutions we offer are now well-established in the energy, utilities and waste disposal sectors.

The volume of deposits remained high, averaging € 9.3 billion during the quarter under review (Q4 2014: € 9.1 billion).

At the same time, the persistently low interest rate environment in the quarter under review burdened income generated from the deposit-taking business, and therefore the segment result. Yet the importance of the deposit-taking business in the Consulting/Services segment goes far beyond the interest margin generated from the deposits – which is under pressure in the current market environment. For Aareal Bank, deposits from the housing industry are a strategically important additional source of funding for the lending business, and one that is largely independent of capital markets developments. In addition to the German Pfandbrief and unsecured bank bonds, they represent an important pillar in the Bank's long-term funding mix. Especially in the current capital market environment, Aareal Bank therefore sees this business as representing a particular competitive advantage.

Aareon

Against the background of the digital transformation process affecting society and business, Aareon continues to focus on digitisation. Connected living has increasingly become a matter of everyday life. Aareon supports the housing industry in exploiting the opportunities of digitisation, allowing them to re-design and optimise processes, cut costs, boost revenues – and to find more comfortable solutions for customers, business partners and staff. Aareon further capitalised on this trend with the creation of Aareon Smart World, which was integrated into Aareon Group's new website during the first quarter. The 25th Aareon Congress – scheduled to take place during the second quarter – will also address the opportunities digitisation offers to the housing industry.

With many property companies having decided in favour of the Wodis Sigma ERP system in the fourth quarter of 2014 – just before year-end – the number of new customers acquired during the first quarter was, as expected, lower. Development of Wodis Sigma Release 7, which is expected to be launched during the fourth quarter – at the Aareon Forum – is on schedule.

Business volumes generated with the GES ERP solution continued to decline, as planned in the context of the migration process to Wodis Sigma. Numerous GES customers are in the process of reviewing their long-term IT strategy with a view to technological upgrade, or have already done so. Generally, this goes hand in hand with the decision to migrate from GES to Wodis Sigma. Aareon is usually involved in such processes as the preferred partner and consultant. Aareon is duly prepared for future migrations of GES customers, to ensure that such migrations are executed smoothly and safely.

In the area of SAP® solutions and Blue Eagle, besides two large implementation projects, customer focus is on Aareon's SAP® advisory solutions and consultancy services.

In the Integrated Services area, the Mareon service portal, insurance management from BauSecura, and Aareon's invoicing services, all met with demand. The Aareon Archiv kompakt digital archiving solution continues to to meet with a high level of interest, whilst Aareon's CRM and mobile services are being expanded further, in response to increasing demand.

With Nanterre Habitat, a company managing 10,000 residential units, Aareon France SAS acquired an additional important customer for its Prem Habitat ERP solution. Moreover, the software solutions of Aareon's French subsidiary were rolled out to numerous customers – including major enterprises such as Reims Habitat, Colombes Habitat as well as Les Résidences de l'Orléanais, managing more than 70,000 units between them. New applications for the expansion of Aareon's portfolio of CRM solutions were developed on schedule.

The Dutch subsidiary Aareon Nederland B.V. acquired additional customers, successfully rolling out its Tobias AX ERP solution, including to Huizen-based de Alliantie, a major customer managing 63,500 units. In addition, numerous customers renewed their contracts.

In the UK, an additional customer opted for QL Housing, the solution provided by the Aareon UK subsidiary.

In Sweden and Norway, further new customers were acquired for the ERP solutions offered by Incit AB and Incit AS, including Helse Vest, a major Norwegian healthcare company that manages approximately 45 public-sector hospitals and other institutions providing medical services to around one million inhabitants.

Aareon's contribution to consolidated operating profit amounted to € 5 million during the quarter under review (Q1 2014: € 5 million).

Financial position and performance

Financial performance

Group

Aareal Bank Group's consolidated operating profit stood at € 67 million in the first quarter, a slight increase over the same period of the previous year (€ 65 million, adjusted for the negative goodwill from the acquisition of Corealcredit).

Consolidated net income of Aareal Bank Group

€ mn	1 Jan-31 Mar 2015	1 Jan-31 Mar 2014
Net interest income	178	144
Allowance for credit losses	18	37
Net interest income after allowance for credit losses	**160**	**107**
Net commission income	41	40
Net result on hedge accounting	11	2
Net trading income/expenses	-7	2
Results from non-trading assets	-3	0
Results from investments accounted for using the equity method	0	–
Administrative expenses	132	102
Net other operating income/expenses	-3	16
Negative goodwill from acquisitions	–	154
Operating profit	**67**	**219**
Income taxes	22	20
Consolidated net income	**45**	**199**
Consolidated net income attributable to non-controlling interests	5	5
Consolidated net income attributable to shareholders of Aareal Bank AG	40	194

As expected, net interest income of € 178 million was up significantly on the same period of the previous year (€ 144 million). A high level of early loan repayments, low funding costs, a considerable increase in lending volume, which was partly due to the acquisition of Corealcredit, as well as stable margins in the lending business, all had a positive effect. The net figure was burdened, however, by a lack of attractive investment opportunities for liquidity reserves, due to the persistent low interest rate environment.

Allowance for credit losses amounted to € 18 million (Q1 2014: € 37 million) and was thus in line with our expectations. Net additions to specific allowance for credit losses in the amount of € 48 million were partly offset by corresponding reversals of portfolio-based allowance for credit losses and reversals of portfolio-based provisions for off-balance sheet risks from the lending business in an aggregate amount of € 25 million.

Net commission income of € 41 million was roughly in line with the previous year's figure of € 40 million.

Net trading income/expenses and the net result on hedge accounting, in the aggregate amount of € 4 million, resulted largely from the measurement of derivatives used to hedge interest rate and currency risk.

The net result from non-trading assets in the amount of € -3 million was burdened by an impairment loss on securities issued by HETA Asset Resolution AG (HETA), which are now carried at their current fair value of € 7 million; this was partly offset by income from securities disposals in a favourable market environment.

At € 132 million (Q1 2014: € 102 million), administrative expenses were significantly higher than in the previous year, as expected. The increase was due, amongst other factors, to the running costs for Corealcredit, included in expenditure since the second quarter of 2014, as well as one-off effects and the bank levy.

Net other operating income/expenses of € -3 million did not include one-off effects, as opposed to the same period of the previous year.

This results overall in consolidated operating profit of € 67 million for the first quarter (Q1 2014: € 219 million). Taking into consideration income taxes of € 22 million and non-controlling interest income of € 5 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 40 million. Assuming the pro rata temporis accrual of net interest payments on the AT1 bond, earnings attributable to ordinary shareholders stood at € 36 million (Q1 2014: € 189 million).

Structured Property Financing segment

Operating profit in the Structured Property Financing segment amounted to € 74 million, an increase compared to the same period of the previous year (€ 71 million, adjusted for the negative goodwill from the acquisition of Corealcredit).

Segment net interest income amounted to € 178 million in the first quarter of 2015, markedly higher year-on-year (Q1 2014: € 143 million). A high level of early loan repayments, low funding costs, a considerable increase in lending volume, which was partly due to the acquisition of Corealcredit, as well as stable margins in the lending business, all had a positive effect. The net figure was burdened, however, by a lack of attractive investment opportunities for liquidity reserves, due to the persistent low interest rate environment.

Allowance for credit losses amounted to € 18 million (Q1 2014: € 37 million) and was thus in line with our expectations. Net additions to specific allowance for credit losses in the amount of € 48 million were partly offset by corresponding reversals of portfolio-based allowance for credit losses and reversals of portfolio-based provisions for off-balance sheet risks from the lending business in an aggregate amount of € 25 million.

At € 84 million (Q1 2014: € 56 million), segment administrative expenses were significantly higher than in the previous year, as expected. The increase was due, amongst other factors, to the running costs for Corealcredit, included in expenditure since the second quarter of 2014, as well as one-off effects and the bank levy.

Overall, operating profit for the Structured Property Financing segment was € 74 million (Q1 2014: € 225 million). Taking tax expenses of € 24 mil-

Structured Property Financing segment result

€ mn	Quarter 1 2015	Quarter 1 2014
Net interest income	178	143
Allowance for credit losses	18	37
Net interest income after allowance for credit losses	**160**	**106**
Net commission income	0	1
Net result on hedge accounting	11	2
Net trading income/expenses	-7	2
Results from non-trading assets	-3	0
Results from investments accounted for using the equity method	–	–
Administrative expenses	84	56
Net other operating income/expenses	-3	16
Negative goodwill from acquisitions	–	154
Operating profit	**74**	**225**
Income taxes	24	22
Segment result	**50**	**203**

lion into consideration (Q1 2014: € 22 million), the segment result for the quarter under review was € 50 million (Q1 2014: € 203 million).

Consulting/Services segment

Sales revenue generated in the Consulting/Services segment during the first quarter of 2015, which amounted to € 46 million, was in line with the corresponding figure from the previous year. The persistent low interest rate environment continued to burden margins from the deposit-taking business that are reported in sales revenues.

Staff expenses in the quarter under review amounted to € 34 million and were therefore slightly higher than in the same period of the previous year (Q1 2014: € 32 million).

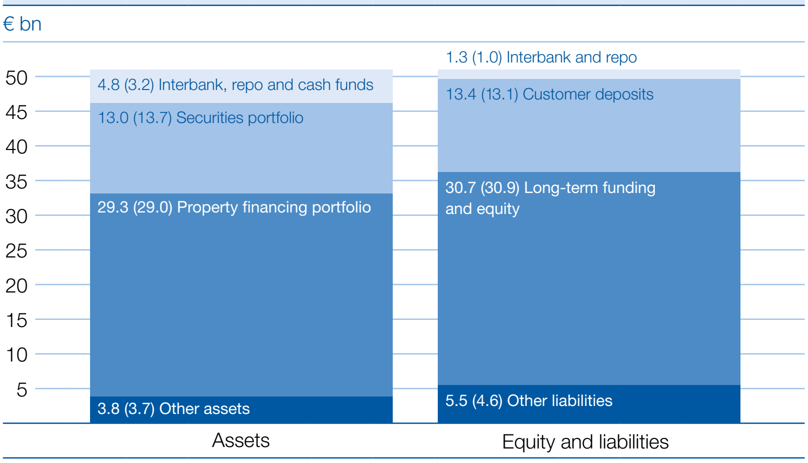
Other items were unchanged from the previous year's levels.

Overall, segment operating profit in the first quarter of 2015 was € -7 million (Q1 2014: € -6 million). Aareon's contribution was € 5 million (Q1 2014: € 5 million).

Consulting/Services segment result

€ mn	Quarter 1 2015	Quarter 1 2014
Sales revenue	46	46
Own work capitalised	1	1
Changes in inventory	0	0
Other operating income	1	1
Cost of materials purchased	5	6
Staff expenses	34	32
Depreciation, amortisation and impairment losses	3	4
Results from investments accounted for using the equity method	0	–
Other operating expenses	13	12
Interest and similar income/expenses	0	0
Operating profit	**-7**	**-6**
Income taxes	-2	-2
Segment result	**-5**	**-4**

Statement of financial position – structure as at 31 Mar 2015 (31 Dec 2014)



After taking taxes into consideration, the segment result for the first quarter amounted to € -5 million (Q1 2014: € -4 million).

Financial position

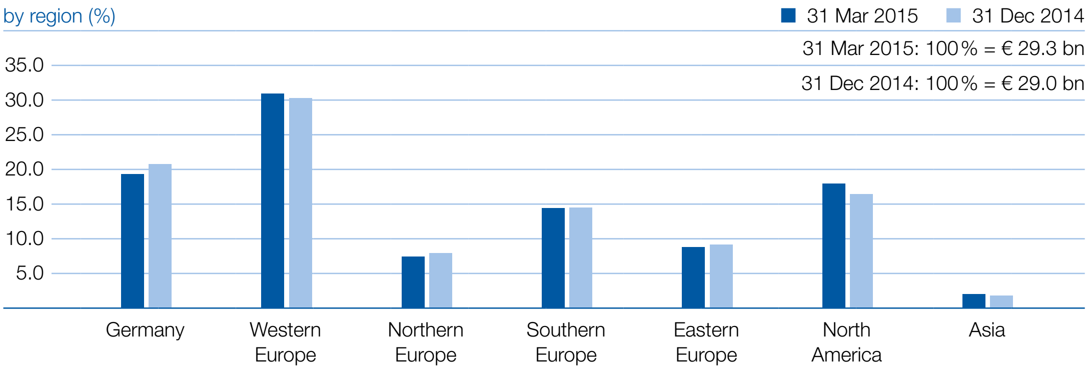
Consolidated total assets as at 31 March 2015 amounted to € 50.9 billion, after € 49.6 billion as at 31 December 2014.

Property financing portfolio

The volume of Aareal Bank Group's property financing portfolio stood at € 29.3 billion as at 31 March 2015, an increase of approximately 1 % over the 2014 year-end figure of € 29.0 billion.

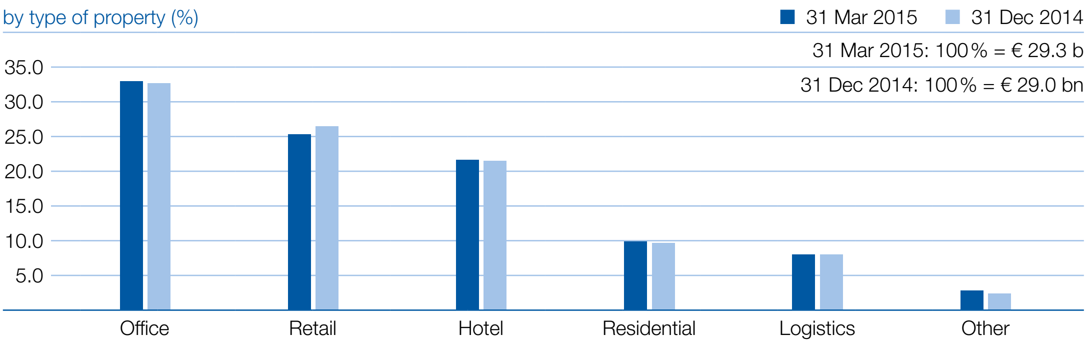
Property financing volume (amounts drawn)

by region (%)



Property financing volume (amounts drawn)

by type of property (%)



The international share of the portfolio increased slightly to 80.8 % (31 December 2014: 79.4 %). The portfolio development during the first quarter 2015 was characterised by exchange rate fluctuations in particular.

At the reporting date (31 March 2015), Aareal Bank Group's property financing portfolio was composed as indicated beside, compared with year-end 2014.

While Germany's portfolio share declined slightly, it saw a small increase in North America and remained virtually unchanged for Western Europe, Southern Europe, Northern Europe, Eastern Europe and Asia.

The allocation of the portfolio by property type remained largely unchanged during the period under review, whereby the share of retail property financings slightly decreased. The shares of residential, logistics, office and hotel properties, as well as other financings, remained virtually stable.

All in all, the high degree of diversification by region and property type within the property financing portfolio was maintained during the period under review.

Securities portfolio

As at 31 March 2015, the nominal volume of the securities portfolio[1] was € 10.5 billion (31 December 2014: € 11.3 billion). It comprises four asset classes: public-sector borrowers, covered bonds

[1] As at 31 March 2015, the securities portfolio was carried at € 13.0 billion (31 December 2014: € 13.7 billion).

and Pfandbriefe, bank bonds and asset-backed securities (ABS).

97 %[1] of the overall portfolio is denominated in euros. 98 %[1] of the portfolio has an investment grade rating.[2]

Financial position

Refinancing and equity

Refinancing

Aareal Bank Group continued to successfully conduct its funding activities in the first quarter of 2015, thereby securing a very solid liquidity situation. Total long-term funding as at 31 March 2015 amounted to € 28.4 billion (31 December 2014: € 28.7 billion). comprising Pfandbrief issues as well as unsecured and subordinated issues. As at the reporting date, Aareal Bank also had € 8.5 billion at its disposal from deposits generated from the business with the housing industry (31 December 2014: € 8.3 billion). Institutional money market investors' deposits amounted to € 4.9 billion (31 December 2014: € 4.8 billion).

Aareal Bank Group raised € 0.9 billion in long-term funds on the capital market during the first quarter. This comprises Mortgage Pfandbriefe in the amount of € 0.7 billion as well as unsecured refinancing of € 0.2 billion. Aareal Bank has therefore maintained its long-term funding at a high level.

Notable amongst these activities was the successful issue of a four-year, USD 500 million Mortgage Pfandbrief.

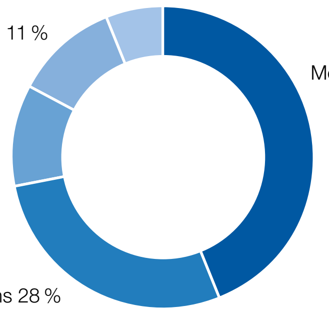
Since we conduct our business activities in a range of foreign currencies, we have secured our foreign currency liquidity over the longer term by means of appropriate measures.

Equity

Aareal Bank Group's total equity as disclosed in the statement of financial position amounted to € 2,800 million as at 31 March 2015 (31 December 2014: € 2,723 million), comprising € 300 million in the Additional Tier I (AT1) bond and € 243 million in non-controlling interests.

Capital market funding mix as at 31 March 2015

% Total volume: € 28.4 bn



Regulatory capital

	31 Mar 2015[3]	31 Dec 2014[3]
€ mn		
Common Equity Tier 1 (CET1)	2,067	2,109
Tier 1 (T1)	2,647	2,735
Total capital (TC)	3,758	3,826
%		
Common Equity Tier 1 ratio (CET1 ratio)	13.1	13.6
Tier 1 ratio (T1 ratio)	16.7	17.7
Total capital ratio (TC ratio)	23.8	24.7

The regulatory measurement of risk-weighted assets (RWAs) in the area of credit risks is based on both the Advanced Internal Ratings Based Approach (AIRBA) and on the standardised approach (CRSA).

[1] Details based on the nominal volume
[2] The rating details are based on the composite ratings.
[3] After confirmation of Aareal Bank AG's financial statements for 2014. The calculation of regulatory capital takes into account the Management Board's proposal for the appropriation of net profit for the financial year 2014. The appropriation of profits is subject to approval by the Annual General Meeting.

Analysis of risk-weighted assets (RWA)

31 Mar 2015

€ mn	EAD	Risk-weighted assets (RWA) AIRBA	CRSA	Total	Regulatory capital requirements
Credit risks	**51,963**	**11,644**	**2,382**	**14,026**	**1,122**
Companies	32,392	9,198	1,534	10,732	858
Institutions	7,467	703	118	821	66
Public-sector entities	10,705	–	44	44	4
Other	1,399	1,743	686	2,429	194
Market price risks				**476**	**38**
Operational risks				**1,313**	**105**
Total	**51,963**	**11,644**	**2,382**	**15,815**	**1,265**

31 Dec 2014

€ mn	EAD	Risk-weighted assets (RWA) AIRBA	CRSA	Total	Regulatory capital requirements
Credit risks	**50,659**	**11,146**	**2,542**	**13,688**	**1,095**
Companies	32,089	8,667	1,884	10,551	844
Institutions	6,103	674	86	760	61
Public-sector entities	11,218	0	14	14	1
Other	1,249	1,805	558	2,363	189
Market price risks				**497**	**40**
Operational risks				**1,307**	**104**
Total	**50,659**	**11,146**	**2,542**	**15,492**	**1,239**

RWAs acquired through the takeover of Corealcredit were determined in accordance with the Credit Risk Standard Approach (CRSA).

Events After the Reporting Date

There have been no other material events subsequent to the end of the interim reporting period under review that need to be disclosed at this point.

Risk Report

Aareal Bank Group Risk Management

The Annual Report 2014 contains a comprehensive description of Aareal Bank Group's risk management approach, including the corresponding organisational structure and workflows in the lending and trading businesses, as well as the methods and procedures used for measuring and monitoring risk exposure. Within the scope of this interim report, we will once again briefly outline the key components of our risk management structure, together with the key developments during the period under review.

The business policy set by the Management Board, and approved by the Supervisory Board, provides the conceptual framework for Aareal Bank Group's risk management. Taking this as a basis, and strictly considering the Bank's risk-bearing capacity, we have formulated detailed strategies for managing the various types of risk. These risk strategies, as well as the Bank's business strategy, are adapted to the changed environment at least once a year, and adopted by the Management Board and the Supervisory Board. Suitable risk management and risk control processes are deployed to implement the risk strategies, and to ascertain the Bank's ability to bear risk.

Risk-bearing capacity and risk limits

The Bank's ability to carry and sustain risk is a core determining factor governing the structure of its risk management system. To ascertain its uninterrupted risk-bearing capacity, Aareal Bank Group has adopted a dual management approach whereby its risk management is primarily based on the assumption of a going concern. This approach ensures that risk positions are only established to an extent that the institution's continued existence will not be threatened should the risks materialise. A secondary management process ensures that risk positions are only established to an extent that even in the event of liquidation there will still be sufficient potential risk cover in order to service all liabilities (the "gone concern" approach). The statements below relate to the going-concern approach which the Bank has implemented as a primary management process.

In accordance with this approach, potential risk cover is determined using data derived from the income statement and from the statement of financial position; this derivation also forms the basis for determining regulatory capital. This involves setting aside the maximum amount of own funds required as potential risk cover to offset risks without causing a breach of minimum requirements pursuant to the Capital Requirements Regulation (CRR). Aareal Bank has decided to considerably exceed this minimum requirement, and to prudently apply a Tier I ratio (calculated in accordance with Basel III) equivalent to 8 % of risk-weighted assets (RWA). Only free own funds exceeding this level are applied as potential risk cover, of which a further 12 % is retained as a risk cushion. This cushion is not applied to risk limits, and is thus available for risk types that cannot be quantified (for example, reputational or strategic risks).

Risk-bearing capacity of Aareal Bank Group as at 31 March 2015
– Going-concern approach –

€ mn	31 Mar 2015	31 Dec 2014
Own funds for risk cover potential	2,530	2,530
less 8 % of RWA (Tier 1 capital (T1))	1,442	1,442
Freely available funds	**1,088**	**1,088**
Utilisation of freely available funds		
Credit risks	215	246
Market risks	395	205
Operational risks	53	52
Investment risks	40	38
Total utilisation	**702**	**542**
Utilisation as a percentage of freely available funds	**65 %**	**50 %**

We adopt an equally conservative stance with respect to setting risk limits. The aggregation of individual limits is based on the assumption that no risk-mitigating correlation effects exist amongst different types of risk. Taking into account the prior deduction of a minimum Tier 1 ratio of 8 % of RWA, the value-at-risk models used to quantify risks are based on a confidence interval of 95 % and a one-year holding period (250 trading days). A monthly report submitted to the Management Board provides information regarding the utilisation of individual limits for the material types of risk, as well as on the overall limit utilisation. The table on page 20 summarises the Group's overall risk-bearing capacity as at 31 March 2015.

Since aggregate risk cover is an inadequate measure to assess the risk-bearing capacity for liquidity risk, we have defined special tools for managing this type of risk. These tools are described in detail in the section "Liquidity risks".

Credit risks

Definition

Aareal Bank defines credit risk – or counterparty credit risk – as the risk of losses being incurred due to (i) a business partner defaulting on contractual obligations; (ii) collateral being impaired; or (iii) a risk arising upon realisation of collateral. Both credit business and trading activities may be subject to counterparty credit risk. Counterparty credit risk exposure from trading activities may refer to risk exposure vis-à-vis counterparties or issuers. Country risk is also defined as a form of counterparty credit risk.

Risk measurement and monitoring

Aareal Bank's structural organisation and business processes are consistently geared towards effective and professional risk management. Regulatory requirements are fully taken into account for the organisation of operations and workflows in the credit and trading business.

Processes in the credit and trading businesses are designed to consistently respect the clear functional division of Sales units ("Markt") and Credit Management ("Marktfolge"), up to and including senior management level. The independent Risk Controlling division is responsible for identifying, quantifying and monitoring all material risks at portfolio level, and for maintaining a targeted risk reporting system.

Aareal Bank employs various risk classification procedures for the initial, regular, or event-driven assessment of counterparty credit risk; these procedures are adapted specifically to meet the requirements of the relevant business activity and are subject to permanent review and improvement. Responsibility for development, quality assurance, and monitoring implementation of risk classification procedures, is outside the Sales units.

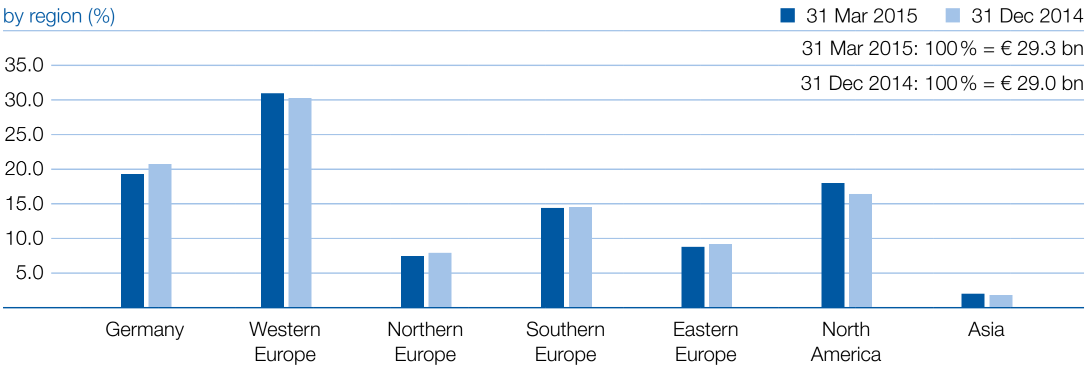
Methods used to measure, control and monitor concentration and diversification effects on a portfolio level include two different credit risk models. Based on these models, the Bank's decision-makers are regularly informed of the performance and risk content of property financing exposures, and of business with financial institutions. The models in question allow the Bank to include in particular, rating changes and correlation effects in the assessment of the risk concentrations.

The Bank uses specific tools to monitor individual exposures on an ongoing basis where this is required: besides the tools already described, this includes rating reviews, monitoring of construction phase loans or residential property developers, the monitoring of payment arrears, and the regular, individual analysis of the largest exposures.

A credit risk report that complies with the Minimum Requirements for Risk Management (MaRisk) is prepared and submitted to the Bank's Management Board and Supervisory Board on a regular basis, at least quarterly. This report contains extensive information on the development of the credit portfolio (covering countries, types of property and product types, risk classes and categories of collateral), with a particular focus on risk concentrations.

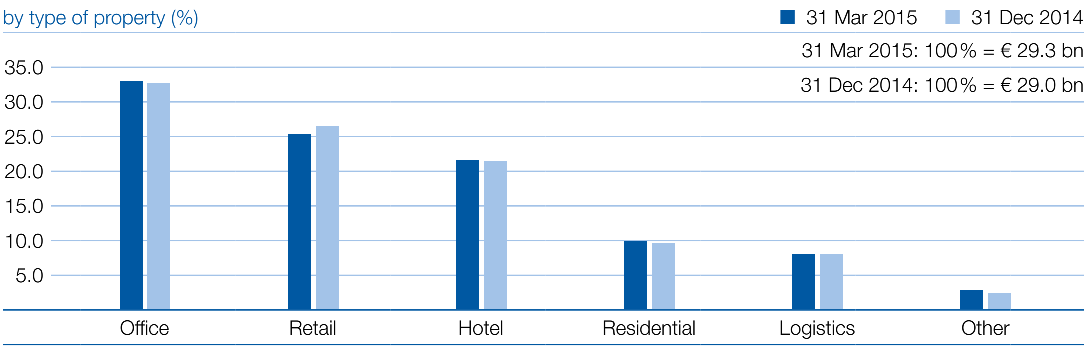
Property financing volume (amounts drawn)

by region (%)



Property financing volume (amounts drawn)

by type of property (%)



Trading activities are generally restricted to counterparties for whom the requisite limits are in place. All trades are immediately taken into account for the purposes of borrower-related limits. Compliance with limits is monitored in real time by Risk Controlling. Persons holding position responsibility are informed about relevant limits and their current usage, regularly and without delay.

In principle, Aareal Bank pursues a "buy, manage and hold" strategy in managing its credit portfolio: this means that loans are generally held until maturity; sales of loans to third parties during their term are only used on a selective basis. Loan syndication is used as an active element of portfolio management.

In summary, during the period under review, the existing set of tools and methods continued to enable the Bank to adopt suitable risk management or risk mitigation measures, where required, at an early stage.

Country risks

Our comprehensive approach to risk management also includes measuring and monitoring country risk exposure. When defining country risk, in addition to the risk of sovereign default or default of state entities, Aareal Bank also considers the risk that a counterparty could become unable to meet its payment obligations as a result of government action, despite being willing and able to pay, due to restrictions being imposed on making payments to creditors (transfer risk). Country risk exposure is managed using a cross-divisional process. The respective country limits are determined on the basis of a country risk assessment by the Bank's senior management. The Risk Controlling division is responsible for the continuous monitoring of country limits and limit utilisation, and for periodical reporting.

Market price risks

Definition

Market price risk is broadly defined as the threat of losses due to changes in market parameters. Aareal Bank Group's market price risk exposure predominantly comprises interest rate risks, whilst currency risks are largely eliminated through hedges. Commodity and other price risks are irrelevant for the Bank's business. Hence, the primary market price risk exposures are related to the relevant risk parameters of interest rates, equity prices, exchange rates, and implied volatilities. All relevant parameters are covered by our management and monitoring tools.

Derivative financial instruments are primarily used as hedging instruments. Spread risks between the various yield curves (e.g. government, Pfandbrief and swap curve) are also taken into account. The risk exposure from bonds that is not related to market price or interest rate risks is managed as part of "specific risk", in particular, credit and liquidity risk exposure of the bond portfolio.

Risk measurement and monitoring

Risk Controlling informs the members of the Management Board responsible for Treasury and risk monitoring about the risk position and the market price risk exposure on a daily basis. In addition, the entire Management Board is informed on a monthly basis, within the scope of an extensive risk report. A quarterly report is submitted to the Supervisory Board.

Value-at-risk (VaR) has been broadly accepted as the predominant method for measuring general market price risk. The VaR for market price risk quantifies the exposure as a negative divergence from the current aggregate value of the Bank's financial transactions. This absolute amount indicates the potential loss incurred before countermeasures take effect. Since this is a statistical approach, the forecast for the potential loss that may be incurred within a specific period of time is for a given confidence interval only.

A variance-covariance approach (delta-normal method) is used throughout the Group to determine the VaR indicator. Determined on a daily basis for the Group and all its operating units, the VaR figure takes into account the correlation between individual risk types. Statistical parameters used in the VaR model are calculated directly from a 250-day historical data pool maintained within the Bank. The loss potential is determined applying a 95 % confidence interval and a 250-day holding period.

By their very nature, VaR calculations are based on numerous assumptions regarding the future development of the business, and the related cash flows. Key assumptions used include current account balances which are factored into calculations for a period of up to five years, using the average residual amount of deposits observed in the past. Loans are taken into account using their fixed-interest period (for fixed-rate exposures), or using their expected maturity (variable-rate exposures). Aareal Bank Group's consolidated equity is not taken into account as a risk-mitigating item. This tends to overstate VaR, demonstrating the conservative approach adopted in our risk measurement processes.

The limit set for the VaR figure is derived from the analysis of the Bank's risk-bearing capacity, which is carried out at least once a year. Limits are defined at Group level, as well as for the individual Group entities. Being authorised to maintain a trading book, Aareal Bank AG has defined an additional trading book limit, plus a separate value-at-risk limit for fund assets held.

When interpreting the VaR figures stated below, it should be taken into account that these refer to the overall portfolio (thus including all non-trading positions as defined in IFRSs). Hence, the analysis provided represents a very extensive disclosure of market price risks by industry standards.

€ mn	MAX	MIN	Mean	Limit
Q1 2015 (2014 year-end values) **95 %, 250-day holding period**				
Aareal Bank Group – general market price risk	422.3 (224.4)	189.4 (109.1)	337.2 (148.5)	– (–)
Group VaR (interest rates)	404.4 (212.8)	174.0 (95.7)	320.3 (135.3)	– (–)
Group VaR (FX)	88.1 (58.8)	61.0 (45.3)	74.7 (51.8)	– (–)
VaR (funds)	3.8 (2.8)	2.8 (0.0)	3.5 (0.9)	20.0 (20.0)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	5.0 (5.0)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	88.7 (135.6)	72.3 (86.6)	80.9 (102.8)	– (–)
Aggregate VaR – Aareal Bank Group	428.7 (240.9)	209.1 (142.9)	347.4 (181.9)	490.0 (390.0)

To ensure that Aareal Bank's figures are comparable to those published by other institutions, the risk parameters shown below were determined for a one-day holding period:

€ mn	MAX	MIN	Mean	Limit
Q1 2015 (2014 year-end values) **95 %, 1-day holding period**				
Aareal Bank Group – general market price risk	26.7 (14.2)	12.0 (6.9)	21.3 (9.4)	– (–)
Group VaR (interest rates)	25.6 (13.5)	11.0 (6.1)	20.3 (8.6)	– (–)
Group VaR (FX)	5.6 (3.7)	3.9 (2.9)	4.7 (3.3)	– (–)
VaR (funds)	0.2 (0.2)	0.2 (0.0)	0.2 (0.1)	1.3 (1.3)
Aggregate VaR in the trading book (incl. specific VaR)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	0.3 (0.3)
Trading book VaR (interest rates)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Trading book VaR (FX)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
VaR (equities)	0.0 (0.0)	0.0 (0.0)	0.0 (0.0)	– (–)
Group VaR (specific risks)	5.6 (8.6)	4.6 (5.5)	5.1 (6.5)	– (–)
Aggregate VaR – Aareal Bank Group	27.1 (15.2)	13.2 (9.0)	22.0 (11.5)	31.0 (24.7)

Aggregate VaR – Aareal Bank Group

Group-wide limits are being continuously monitored as part of the analysis of the Bank's risk-bearing capacity. In the course of this regular review, we adjusted the limits in line with risk calculation parameters, against the background of markedly higher interest rate volatility during the course of the year. No limit breaches were detected even after this re-calibration.

Backtesting

The quality of forecasts made using this statistical model is checked through a weekly backtesting process. The quality of the statistical procedure used to measure risk is checked using a binomial test, whereby daily profits and losses from market fluctuations are compared with the upper projected loss limit (VaR) forecast on the previous day (known as "clean backtesting"). In line with the selected confidence level of 95 %, only a small number of events are expected to break out of the VaR projection (≤ 17 for a 250-day period). Three negative outliers at Group level occurred during the last 250 trading days, affirming the high forecasting quality of the VaR model we use.

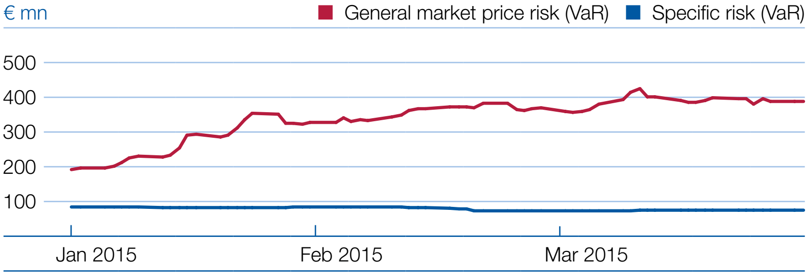
Trading book

Being authorised to maintain a trading book, Aareal Bank AG is the Group entity that is in a position to assign transactions to the trading portfolio as defined by the German Banking Act. Given that no such trades were concluded during the period under review, trading book risks played a negligible role in the overall risk scenario.

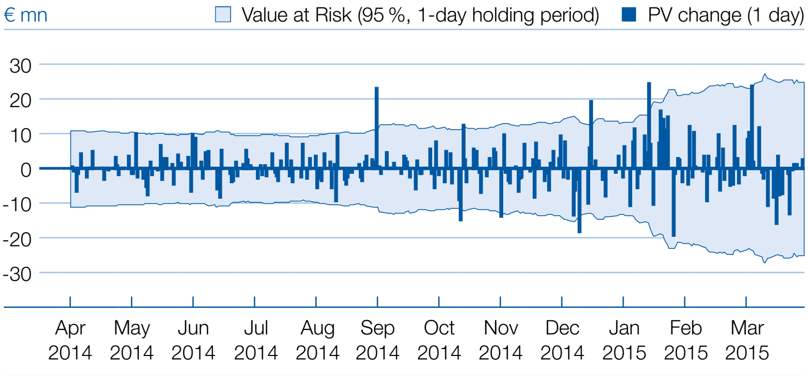
Liquidity risks

Liquidity risk in the narrower sense is defined as the risk that current or future payment obligations cannot be met in full or on time. Aareal Bank Group's liquidity risk management system is designed to ensure that the Bank has sufficient cash and cash equivalents to honour its payment obligations at any future point in time. The risk management and monitoring processes have been designed to cover refinancing and market liquidity risks in addition to liquidity risk in the narrower sense.

General market price risk and specific risk during 2015



Present values and 1-day VaR during 2014/2015



Treasury is responsible for managing liquidity risks, whilst Risk Controlling ensures the continuous monitoring, including a daily liquidity report submitted to Treasury, and a contribution to the monthly risk report to the entire Management Board.

The appropriateness of the Bank's liquidity is assessed in a liquidity report prepared using an internal liquidity risk model: the aggregate of all potential cash inflows and outflows over a three-month period is compared to the liquidity stock. There were no liquidity shortages throughout the period under review. The requirements of the liquidity ratio in accordance with the Liquidity Ordinance, which is relevant to liquidity management, were always complied with, as were the limits set by reference to the liquidity run-off profile. Further details are provided in the comments on the Bank's liquidity in the section on "Refinancing and Equity".

Operational risks

The Bank defines operational risk as the threat of losses caused by inappropriate internal procedures, human resources and systems (or their failure), or through external events. This definition also includes legal risks. Aareal Bank's legal department (Corporate Development – Legal) compiles all information concerning any legal disputes involving Aareal Bank Group, whether in or out of court. The involvement of the legal department is based on corresponding Group-wide guidelines. The Bank's decentralised operating legal entities, as well as the legal departments of subsidiaries submit semi-annual as well as event-driven reports on legal risks identified to Aareal Bank's legal department, which reports to the Management Board, also (at least) on a semi-annual basis. Moreover, information about legal risks is included in operational risk reporting. Strategic, reputational and systematic risks are not covered by operational risk management. These risks are managed largely through qualitative measures.

Aareal Bank's policy for managing and monitoring operational risks is geared to achieving a risk-minimising or loss-limiting effect at an early stage, by employing a pro-active approach. The Risk Report in the 2014 Annual Report contains a detailed description of controlling tools employed by the Bank to manage operational risk, plus the relevant responsibilities.

The current analysis conducted using these control instruments has shown that the Bank is not exposed to disproportionate operational risks; nor did it indicate any material risk concentration.

Operational risk management also includes the reporting to the Bank's Management Board about outsourced activities and processes.

Investment risks

We define investment risk as the threat of unexpected losses incurred due to an impairment of the investment's carrying amount, or a default of loans extended to investees. The concept of investment risk also encompasses additional risks arising from contingencies vis-à-vis the relevant Group entities.

Due to the special character of some exposures (e.g. marketing risks), special methods and procedures are employed to deal with investment risk. All relevant Group entities are subject to regular audits, including a review and assessment of their risk situation. A quarterly investment risk report is submitted to the Bank's Management Board. There were no significant changes in investment risk during the period under review.

Report on Expected Developments

Macro-economic environment

Economy

In an environment characterised by strong pressure and major uncertainties, the world economy is likely to lack dynamism during the current year. We expect muted growth, at rates similar to those registered in 2014. In view of a variety of risks and uncertainty factors the global economic development is likely to remain susceptible to disruption. These factors include geopolitical tensions such as the Ukraine crisis, risk of deflation and the uncertainty concerning the development of the sovereign debt crisis in Europe – reinforced by the developments in Greece – amongst others. The financial support programme for Greece, extended at short notice, is now set to expire at the end of June. The amount of Greece's debt due to international creditors during the summer is relatively high. There is a risk that the ongoing negotiations with Greece may reinforce doubts about the continued existence of the euro zone in its current form, and weigh heavily upon the euro zone economy. At present, a Greek default - even before the summer – cannot be ruled out.

Also, structural economic problems and the lack of reforms in some euro zone countries hamper economic development and the effectiveness of monetary policy.

Other significant, growing threats and side effects are tied to the solidifying low interest rate environment in the euro zone. For instance, in the hunt for yield, market participants are seeking higher risk exposure. Also, capital misallocation leads to the building of bubbles on asset markets – which may lead to asset values taking a nosedive if re-assessed. In addition, the low interest rate environment might compromise reform and consolidation efforts undertaken in the public sector, as well as in the private and banking sectors. There is a lack of broad fundamental support for economic development. That is why overly slow or inadequate risk defences, particularly in the euro zone, are increasing the threat that systemic risks pose to monetary stability or the stability of the euro system.

Although the above-mentioned risks and uncertainty factors relate especially to the euro zone, they may feed through global financial and capital markets and trade channels, thus significantly expanding into other regions of the world economy.

The possibility that the US Federal Reserve (Fed) may end its zero interest rate policy this year, as is currently expected, poses another risk for the world economy, especially for emerging economies, where capital outflows with negative effects cannot be ruled out. In China, macroeconomic debt has risen strongly in the past. Combined with high investments in construction, this poses the threat of corrections that might impair the economy and the financial system.

While it is impossible to provide a reliable forecast regarding the consequences of the low oil price for the global economy, it seems likely that oil-importing economies are likely to benefit, while oil exporting countries are likely to be burdened.

Specifically, our forecast for 2015 is as follows: given the multitude of burdens and uncertainty factors explained above, we expect only subdued economic development for the euro zone, with a slight rise in real gross domestic product over the previous year's level. Low oil prices and exchange rate developments may provide support. The anticipation of a restrained economic output with limited growth also applies to many euro member states – including, for example, Austria, Belgium, France, and the Netherlands. In Finland and Italy, real gross domestic product will presumably stagnate or grow only marginally. In Germany and Spain, we expect growth rates to clearly exceed the euro zone average. We also anticipate economic growth in numerous European countries outside the euro zone to achieve more dynamic growth than the euro zone average. This holds true in particular for the Czech Republic, Poland, and the United Kingdom, while growth is expected to only slightly exceed the euro zone average in Denmark and Sweden. Based on the strong appreciation of the Swiss franc against the euro, we anticipate economic growth in Switzerland to be weak.

We expect moderate growth rates above the levels registered in 2014 for Turkey. At the same time, the Ukraine crisis, its consequences, and low oil prices, will all place major strains on the Russian economy, and we anticipate a very significant decline in the country's real gross domestic product this year.

The US offers a favourable outlook for the current year, with an economic growth rate that might even exceed the previous year's figure. This expectation is particularly supported by rising employment and private-sector consolidation processes apparently being completed, bolstering private consumption. Another likely driver, however, is investment activity. Monetary and financial policy will present risks once the government debt ceiling is reached again during the course of the year. For Canada, we assume growth rates marginally below 2014's levels.

A significant recovery is unlikely for the Japanese economy in 2015 – only marginal to slight growth in real gross domestic product is expected for this year. Growth momentum in China is expected to slow down moderately this year, given the major uncertainty factors mentioned before. Singapore's economy is likely to grow at equivalent or slightly higher rates than in the previous year.

We expect stagnating or slowly falling unemployment rates on numerous labour markets in Europe. The reduction in unemployment is likely to continue in the UK and the US, even though the speed of this decline will probably slow down, given the levels already reached.

Financial and capital markets, monetary policy and inflation

The situation on the financial and capital markets is clearly more relaxed than in the previous years. It is fair to assume that this situation will largely prevail during the current year. However, the uncertainty factors mentioned in connection with economic developments are also relevant to the financial and capital markets, and might cause distortions if they were to materialise to a considerable extent.

Looking at monetary policy, some major central banks are likely to embark upon different directions. It is mainly the ECB that is associated with an extremely expansive monetary policy, a stance it underlined by launching its bond purchase programme, but the same applies to the Bank of Japan. The Fed and the Bank of England on the other hand are expected to gradually tighten their monetary policies, and start increasing their key interest rates during this year. Unemployment in the US had fallen to 5.5 % in February and March reaching the upper end of what the Fed had initially deemed "normal". However, the Fed has since cut this forecast range for long-term unemployment to between 5.0 % and 5.2 %.

Given this environment, US interest rates for short-term maturities might rise slightly, while they are likely to remain at a low level in the euro zone and some other European countries such as Sweden or Switzerland. Combined with weak economic data, a widening interest rate differential between the US and the euro zone might also burden the financial and capital markets of some countries particularly affected by the sovereign debt crisis.

The divergence in monetary policy has also been reflected in exchange rate fluctuations over the last few months. These trends, in particular the weakness of the euro, are likely to continue throughout 2015.

Changes in price levels are supposed to be only marginal this year with an annual average inflation rate for the euro zone of around zero. A temporary moderate deflation cannot be ruled out, and is even anticipated as an annual average in some countries, such as Spain. In all other member states, inflation is likely to show a slight increase at best. For European countries outside the euro zone, inflation expectations mostly also centre around zero. Turkey, in contrast, is likely to experience high inflation, and Russia even more so. We anticipate inflation to be close to zero in the US, and make similar assumptions about Japan, where the rise in value-added tax planned for October 2015 has been postponed until 2017. Slight inflation, moderately below the previous year's level, is seen to be the most probable outcome for China.

Regulatory environment

The trend towards a tighter regulatory framework in the banking business is set to persist during the coming years. Numerous initiatives by the Basel Committee on Banking Supervision – such as the revision of the Credit Risk Standard Approach and the basic approaches for operational risk, the capital floor rules or the handling of interest rate risk exposure in the banking book – are currently being discussed, or are in a consultation process. In addition, the European Banking Authority (EBA) published a consultation paper on the future of the Internal Ratings Based Approach (IRBA); the paper discusses various methodological points and aims at harmonising the supervisory assessment methodology across all EU member states. Accordingly, Aareal Bank will continue to focus on the related measures for implementation and how these will affect the Bank's business activities.

Furthermore, additional regulatory requirements of the Single Resolution Mechanism (SRM) need to be fulfilled. These include, for example, the Minimum Requirements for the Design of Recovery Plans (MaSan) on a national level, as well as the EU Bank Recovery and Resolution Directive (BRRD) at a European level. The new metrics – Total Loss Absorbing Capacity (TLAC, probably only for global institutions of systemic relevance), and Minimum Requirement for Eligible Liabilities (MREL) – that are currently being developed, also need to be applied.

Regulators have yet to come up with final details for some of these additional regulatory requirements; and various technical regulatory standards still have to be finalised. To nevertheless facilitate timely implementation, we have already started to deal with – and pursue – the various issues in numerous projects. Considerable resources are being devoted to this task.

Moreover, the increasing volatility of requirements presents an additional challenge for institutions: besides the new requirements mentioned by way of example, this volatility is particularly a function of the concrete specifications for instruments to be newly introduced (or already implemented) by the ECB and/or the national supervisory authorities. For instance, the capital buffers to be set on a national level (the anticyclical buffer and especially the buffer for systemic risks), or the annual results of the Supervisory Review and Evaluation Process (SREP) for individual banks can only be planned to a certain extent. Moreover, these instruments may lead to changes in a bank's individual capital requirements, at short notice.

Sector-specific and business developments

Structured Property Financing segment

It is fair to assume that competition in commercial property financing will remain intense this year in the vast majority of markets relevant to us, in Europe, North America and Asia. The readiness of finance providers to accept lower margins and higher loan-to-value ratios is expected to rise moderately. Given the limited availability of first-class properties in corresponding locations, finance providers and investors are likely to show a noticeably higher interest in properties with a slightly higher risk profile, which will presumably translate into higher capital flows to such properties. Transaction volumes on the commercial property markets are expected to continue to grow moderately in 2015.

Commercial property markets[1)] continue to be exposed to contrasting influencing factors. On the one hand, muted economic development, high unemployment in many countries, as well as a remarkable level of macro-economic uncertainties may burden the performance of commercial property, in particular the rental markets. On the other hand, high investor liquidity – which leads to a distinct search for yield in the persistent low interest rate environment – will bolster investor demand for commercial property and thus support the development of property values. With this in mind, we cannot rule out the threat of a bubble building on property markets.

Against this background, we anticipate average property values to rise in 2015 in numerous commercial property markets relevant to us, although this performance may differ across countries. In France and Italy, average property values will probably rise slightly, while Denmark, Germany, Poland, Sweden and Spain might see somewhat stronger increases thanks to the more favourable economic outlook in those countries. Noticeable value increases are expected in the UK, given the popularity of the market for investment and the favourable outlook for the economy there. On some other European markets – such as Belgium, Finland, the Netherlands, Switzerland and Turkey – property values are likely to remain stable on average. For the Russian market, however, we anticipate a significant decline in property values, dependent upon the further developments of the Ukraine conflict.

[1)] Assessments of individual sub-markets and properties may deviate from the general description of developments on commercial property markets outlined below.

In the US, high liquidity combined with good prospects for the economy indicates notable growth in average commercial property values, possibly slowed somewhat by slightly rising interest rates. We assume average property values in Canada to rise slightly. Given that economic momentum in China has become less dynamic, and also considering the high level of investments in the past as well as a possible slight increase in US dollar interest rates, we take a reluctant stance concerning Chinese commercial property markets, anticipating a moderate decline in property values. We expect a virtually stable performance for Singapore and a moderately positive performance for Japan in the current year.

The trends described above are expected, in our view, to apply to office, retail and logistics property markets.

A mixed picture is expected in the hotel markets. Our view on European and Asian markets is cautious: we assume largely stable development in the leading economic centres – with deviations on individual markets and seasonal fluctuations during the course of the year. While regional and seasonal fluctuations are also expected to apply to the North American markets, we consider a continuation of the positive trend on average to be probable during 2015.

Macro-economic risks and uncertainties will also be relevant to the further development of commercial property markets. Should they materialise to a considerable extent, they might endanger the development in the markets. The current low interest rate environment is of particular importance as it holds the risk that a flight to tangible assets might enhance the development of bubbles, as well as a misallocation of capital. Another risk is that in the context of tightening monetary policy in the US, interest rates might rise faster than anticipated – putting pressure on property values.

We have incorporated various market aspects, amongst other factors, in our assessment of new business volumes for the current year. We estimate new business originated by Aareal Bank Group to range between € 6 billion and € 7 billion for 2015.

The forecasts are based on the assumption that the risks and uncertainty factors described above for the property markets and the macro-economic environment will not materialise to a significant extent; otherwise, they might influence business development, for example, in terms of new business.

Consulting/Services segment

Bank division Housing Industry

We expect the development for the German housing and commercial property industries to be characterised by a high degree of stability in the current year.

Companies will continue to pursue a sustainable development of their portfolios, largely aimed at improving energy efficiency in the properties. Together with adapting properties so as to meet the needs of an ageing population, the sustainable development of larger residential areas is also increasing in importance.

Demographic change and macro-economic outlook suggest that positive sentiment in the housing market will continue throughout the year, even though growth momentum is expected to decrease. For 2015 we anticipate rent increases of 1.8 % for housing stock and of up to 3 % for new-built properties.

In the following months, investor demand in the housing market is likely to persist, against a background of continued moderate interest rate levels and a stable rental market. Foreign investors, in particular, are likely to show increasing interest in housing investments.

The lack of core properties on offer will probably expand the scope of transaction activities to include opportunistic investments. For the current year, further restructurings of listed companies are on the horizon. Against this background, we envisage transaction volumes to be in line with the previous year's level.

We see good opportunities during 2015 to acquire new clients and to intensify the business relationships with our existing client base. This also applies to our payments services for the energy, utilities and waste disposal sectors. We see further growth potential in payment support services and process optimisation – also on the basis of discussions with customers. At present, therefore, we invest particularly in the further development of our products designed for the management and settlement of rental deposits.

We expect the volume of deposits taken to remain on a high level. The persistent low interest rate environment, which is relevant for the results from our deposit-taking business, will continue to place a significant burden on segment results. However, the importance of this business goes way beyond the interest margin generated from the deposits, which is under pressure in the current market environment. This is because the deposits from the housing industry represent a strategically important additional source of funding for Aareal Bank.

Aareon

Key factors for Aareon's development are the trend topic of digitisation in the housing industry – which will remain in the focus of Aareon's research and development activities – as well as the expansion of international cooperation, increasing migration of GES customers to Wodis Sigma, and growth in the International Business segment. Aareon expects a marked increase in consolidated sales revenues, with a slightly higher consolidated EBIT for 2015.

Sales revenues and EBIT in Aareon's domestic operations are forecast to remain virtually unchanged from 2014's levels: higher staff expenses and additional project costs related to strategic programmes can be offset by efficient cost management.

In the ERP products segment, Aareon anticipates a slight increase in sales revenues for the 2015 financial year, particularly due to the consistent implementation of the digitisation strategy. A strong increase in sales revenues is expected for the Wodis Sigma product line, driven by progressing migration of GES customers to Wodis Sigma – which will translate into higher advisory and license income and higher fees. Product results are therefore expected to increase. Accordingly, considering this planned migration effect, Aareon anticipates markedly lower sales revenues – and hence, clearly lower product results – for GES in 2015. Significant increases in sales revenue and profit contributions are expected for SAP® solutions and Blue Eagle, thanks to growing individual advisory services to new and existing customers.

Aareon expects a stable sales revenue performance in its Integrated Services segment for 2015. Overall, the company anticipates stable product results, as high development costs for Mobile Services and Aareon CRM will be offset by savings on other costs.

In its International Business segment, Aareon expects positive effects from the investments into strategic measures made in the previous year, with a focus on international expansion and digitisation. Sales revenues and EBIT are expected to rise significantly. Aareon Nederland B.V. is expected to generate a marked increase in sales revenues, due in particular to the expansion of its range of digital solutions for the Dutch market, through the Aareon Archiv kompakt CRM solution and the Mareon portal. Notwithstanding the associated increase in development work, strong results growth is expected for the unit. We forecast a slight increase in sales revenues for Aareon France SaS. The positive trend seen in the previous year will continue, especially in terms of maintenance fees. Likewise, whilst market response to the French CRM system is expected to increase further, the results will decline year-on-year, due to the fact that 2014's results were positively influenced by one-off effects. Aareon anticipates significant increases in sales revenues and EBIT on the UK market, due in particular to expected high licence and advisory revenues following the market launch of the QL.net new product generation by Aareon

UK, as well as increasing demand for mobile services by 1st Touch. This will, however, be associated with higher costs, mainly due to new hires. Great potential is seen for Incit AB, particularly in the Norwegian and Dutch markets. High project volumes, accompanied by a stronger advisory business, are seen as indications for significant increases in sales revenues and results, alongside higher staff expenses and staff-related costs.

Pioneering new growth areas were identified in the course of the strategy process carried out in 2014. The focal issues identified during this process will provide the foundation for numerous new projects in 2015. Examples include the development of solutions facilitating collaboration between housing companies and energy utilities, and the stronger international focus on commercial property and properties owned by public-sector entities. Moreover, additional activities focused on enhancements of quality, efficiency and performance were launched in 2014 and will be continued during 2015.

In summary, we expect Aareon to generate significantly higher sales revenues next year, together with a slightly higher (year-on-year) contribution to consolidated operating profit of around € 27 million.

Group targets

In spite of substantial uncertainties and numerous risk factors, we remain generally optimistic for the 2015 financial year.

Net interest income is expected in a range between € 720 million and € 760 million.

Despite a larger loan portfolio, we continue to forecast allowance for credit losses in a range of € 100 million to € 150 million. As in the previous years, the Bank cannot rule out additional allowance for unexpected credit losses that may be incurred during the current year.

Net commission income for 2015 is projected to be in a range between € 170 million and € 180 million.

Administrative expenses, including one-off effects related to the takeover of WestImmo and the integration of Corealcredit, are expected in the region of € 520 million to € 550 million.

Negative goodwill (day-one gain) from the acquisition of WestImmo is expected to amount to approximately € 150 million.

All in all, we see good opportunities, including negative goodwill from the acquisition of WestImmo, to achieve consolidated operating profit of between € 400 million and € 430 million for the current year.

The Bank expects return on equity (RoE) before taxes to be around 16 %, and earnings per (ordinary) share (EpS) between € 4.80 and € 5.20, based on an assumed tax rate of 31.4 %. Adjusted for negative goodwill from the acquisition of WestImmo, we expect RoE before taxes of around 10 %, with EpS in a range between € 2.30 and € 2.70.

New business of between € 6 billion and € 7 billion is anticipated for the Structured Property Financing segment during the 2015 financial year.

In the Consulting/Services segment, we expect our IT subsidiary Aareon to contribute approximately € 27 million to consolidated operating profit.

Consolidated Financial Statements
Statement of Comprehensive Income

Income Statement

€ mn	Notes	1 Jan-31 Mar 2015	1 Jan-31 Mar 2014
Interest income		244	226
Interest expenses		66	82
Net interest income	1	**178**	**144**
Allowance for credit losses	2	18	37
Net interest income after allowance for credit losses		**160**	**107**
Commission income		47	48
Commission expenses		6	8
Net commission income	3	**41**	**40**
Net result on hedge accounting	4	11	2
Net trading income/expenses	5	-7	2
Results from non-trading assets	6	-3	0
Results from investments accounted for using the equity method		0	–
Administrative expenses	7	132	102
Net other operating income/expenses	8	-3	16
Negative goodwill from acquisitions		–	154
Operating profit		**67**	**219**
Income taxes		22	20
Consolidated net income		**45**	**199**
Consolidated net income attributable to non-controlling interests		5	5
Consolidated net income attributable to shareholders of Aareal Bank AG		40	194
Earnings per share (EpS) [1]			
Consolidated net income attributable to shareholders of Aareal Bank AG		40	189
of which: attributable to ordinary shareholders [2]		36	189
of which: attributable to AT1 investors		4	–
Earnings per ordinary share (€) [2] [3]		0.60	3.16
Earnings per AT1 unit (€) [4]		0.04	–

[1] The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

[2] SoFFin's silent participation was repaid on 30 October 2014. In order to facilitate comparability and for the purpose of an economic analysis, net interest payable on the SoFFin silent participation was deducted when determining the comparative figure as at 31 March 2014 (€ 5 million) in the EpS calculation.

[3] Earnings per ordinary share are determined by dividing the earnings attributable to ordinary shareholders of Aareal Bank AG by the weighted average of ordinary shares outstanding during the financial year (59,857,221 shares). Basic earnings per ordinary share correspond to diluted earnings per ordinary share.

[4] Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of € 3 each) are determined by dividing the earnings attributable to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Earnings per AT1 unit (basic) correspond to (diluted) earnings per AT1 unit.

Statement of Comprehensive Income

Reconciliation from Consolidated Net Income to Total Comprehensive Income

€ mn	1 Jan-31 Mar 2015	1 Jan-31 Mar 2014
Consolidated net income	**45**	**199**
Items that will not be reclassified subsequently to profit or loss		
Changes in the reserve from defined benefit plans	**-32**	**-9**
Remeasurements	-46	-13
Taxes	14	4
Items that are reclassified subsequently to profit or loss		
Changes in revaluation surplus	**47**	**29**
Gains and losses on remeasuring AfS financial instruments	55	39
Reclassifications to the income statement	11	–
Taxes	-19	-10
Changes in hedging reserves	**18**	**-3**
Profit/loss from derivatives used to hedge future cash flows	27	-4
Reclassifications to the income statement	–	–
Taxes	-9	1
Changes in currency translation reserves	**3**	**0**
Profit/loss from translating foreign operations' financial statements	3	0
Reclassifications to the income statement	–	–
Taxes	–	–
Other comprehensive income	**36**	**17**
Total comprehensive income	**81**	**216**
Total comprehensive income attributable to non-controlling interests	5	5
Total comprehensive income attributable to shareholders of Aareal Bank AG	76	211

Segment Reporting

Segment Results

	Structured Property Financing		Consulting/Services		Consolidation/ Reconciliation		Aareal Bank Group	
€ mn	1 Jan-31 Mar 2015	1 Jan-31 Mar 2014	1 Jan-31 Mar 2015	1 Jan-31 Mar 2014	1 Jan-31 Mar 2015	1 Jan-31 Mar 2014	1 Jan-31 Mar 2015	1 Jan-31 Mar 2014
Net interest income	178	143	0	0	0	1	178	144
Allowance for credit losses	18	37					18	37
Net interest income after allowance for credit losses	**160**	**106**	**0**	**0**	**0**	**1**	**160**	**107**
Net commission income	0	1	41	40	0	-1	41	40
Net result on hedge accounting	11	2					11	2
Net trading income/expenses	-7	2					-7	2
Results from non-trading assets	-3	0					-3	0
Results from investments accounted for using the equity method			0				0	
Administrative expenses	84	56	48	46	0	0	132	102
Net other operating income/expenses	-3	16	0	0	0	0	-3	16
Negative goodwill from acquisitions		154						154
Operating profit	**74**	**225**	**-7**	**-6**	**0**	**0**	**67**	**219**
Income taxes	24	22	-2	-2			22	20
Consolidated net income	**50**	**203**	**-5**	**-4**	**0**	**0**	**45**	**199**
Consolidated net income attributable to non-controlling interests	4	4	1	1			5	5
Consolidated net income attributable to shareholders of Aareal Bank AG	46	199	-6	-5	0	0	40	194
Allocated equity	1,526	1,258	120	103	542	699	2,188	2,060
Cost/income ratio (%)	48.3	34.3	117.7	114.5			61.0	49.8
RoE before taxes (%) [1] [2]	16.9	68.3	-27.1	-26.4			10.3	40.3
Employees (average)	**878**	**806**	**1,664**	**1,642**			**2,542**	**2,448**
Segment assets	**41,308**	**41,156**	**9,570**	**8,576**			**50,878**	**49,732**

[1] On an annualised basis

[2] The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis. SoFFin's silent participation was repaid on 30 October 2014. In order to facilitate comparability and for the purpose of an economic analysis, net interest payable on the SoFFin silent participation (€ 5 million) was deducted when determining the comparative figure as at 31 March 2014 in the RoE calculation. Likewise, the SoFFin silent participation (€ 300 million) was deducted from equity used when calculating the RoE.

Segment Reporting

Consulting/Services segment – Reconciliation of the Income Statement

Reconciliation of the segment result from the income statement classification aligned to an industrial enterprise to a bank income statement classification (which is used for the purposes of segment reporting)

€ mn			Income statement classification – bank									
			Net interest income	Net commission income	Results from non-trading assets	Results from investments accounted for using the equity method	Administrative expenses	Net other operating income / expenses	Impairment of goodwill	**Operating profit**	Income taxes	**Segment result**
	Q1 2015		0	41		0	48	0		**-7**	-2	**-5**
	Q1 2014		0	40			46	0		**-6**	-2	**-4**
Income statement classification – industrial enterprise												
Sales revenue	Q1 2015	46		46								
	Q1 2014	46		46								
Own work capitalised	Q1 2015	1					1					
	Q1 2014	1					1					
Changes in inventory	Q1 2015	0						0				
	Q1 2014	0						0				
Other operating income	Q1 2015	1						1				
	Q1 2014	1						1				
Cost of materials purchased	Q1 2015	5		5								
	Q1 2014	6		6								
Staff expenses	Q1 2015	34					34					
	Q1 2014	32					32					
Depreciation, amortisation and impairment losses	Q1 2015	3					3					
	Q1 2014	4					4					
Results from investments accounted for using the equity method	Q1 2015	0				0						
	Q1 2014											
Other operating expenses	Q1 2015	13					12	1				
	Q1 2014	12					11	1				
Interest and similar income / expenses	Q1 2015	0	0									
	Q1 2014	0	0									
Operating profit	**Q1 2015**	**-7**	**0**	**41**		**0**	**48**	**0**				
	Q1 2014	**-6**	**0**	**40**			**46**	**0**				
Income taxes	Q1 2015	-2									-2	
	Q1 2014	-2									-2	
Segment result	**Q1 2015**	**-5**										
	Q1 2014	**-4**										

Statement of Financial Position

€ mn	Notes	31 Mar 2015	31 Dec 2014
Assets			
Cash funds		121	184
Loans and advances to banks	9	4,835	3,178
Loans and advances to customers	10	30,899	30,549
Allowance for credit losses	11	-499	-480
Positive market value of derivative hedging instruments		2,672	2,565
Trading assets	12	477	467
Non-trading assets	13	11,288	12,002
Investments accounted for using the equity method		1	1
Intangible assets	14	111	110
Property and equipment	15	96	96
Income tax assets		14	35
Deferred tax assets		217	240
Other assets	16	646	610
Total		**50,878**	**49,557**
Equity and liabilities			
Liabilities to banks	17	2,104	1,807
Liabilities to customers	18	27,556	27,483
Certificated liabilities	19	11,477	11,483
Negative market value of derivative hedging instruments		3,666	2,928
Trading liabilities	20	808	659
Provisions	21	771	713
Income tax liabilities		114	124
Deferred tax liabilities		23	21
Other liabilities	22	105	127
Subordinated capital	23	1,454	1,489
Equity	24, 25, 26		
Subscribed capital		180	180
Capital reserves		721	721
Retained earnings		1,397	1,357
AT1 bond		300	300
Other reserves		-41	-77
Non-controlling interests		243	242
Total equity		2,800	2,723
Total		**50,878**	**49,557**

Statement of Changes in Equity

					Other reserves						
€ mn	Subscribed capital	Capital reserves	Retained earnings	AT1 bond	Reserve from defined benefit plans	Revaluation surplus	Hedging reserves	Currency translation reserves	Total	Non-controlling interest	Equity
Equity as at 1 Jan 2015	**180**	**721**	**1.357**	**300**	**-95**	**15**	**-1**	**4**	**2.481**	**242**	**2.723**
Total comprehensive income for the period			40		-32	47	18	3	**76**	5	**81**
Payments to non-controlling interests										-4	**-4**
Dividends											
Issue of AT1 bond											
Issue costs of AT1 bond											
AT1 coupon											
Other changes											
Equity as at 31 Mar 2015	**180**	**721**	**1.397**	**300**	**-127**	**62**	**17**	**7**	**2.557**	**243**	**2.800**

				Other reserves							
€ mn	Subscribed capital	Capital reserves	Retained earnings[1]	Reserve from defined benefit plans	Revaluation surplus	Hedging reserves	Currency translation reserves	Silent participation by SoFFin	Total	Non-controlling interest	Equity
Equity as at 1 Jan 2014	**180**	**721**	**1.112**	**-40**	**-50**	**-17**	**2**	**300**	**2.208**	**242**	**2.450**
Total comprehensive income for the period			194	-9	29	-3	0		**211**	5	**216**
Payments to non-controlling interests										-4	**-4**
Dividends											
Silent participation by SoFFin											
Costs associated with the silent participation by SoFFin			-5						**-5**		**-5**
Other changes											
Equity as at 31 Mar 2014	**180**	**721**	**1.301**	**-49**	**-21**	**-20**	**2**	**300**	**2.414**	**243**	**2.657**

[1] Adjustment of previous year's figures due to completion of purchase price allocation in accordance with IFRS 3 as at 31 December 2014

Statement of Cash Flows (condensed)

€ mn	2015	2014
Cash and cash equivalents as at 1 January	**184**	**1,222**
Cash flow from operating activities	-741	-129
Cash flow from investing activities	713	-204
Cash flow from financing activities	-35	513
Total cash flow	**-63**	**180**
Effect of changes in exchange rates	0	0
Cash and cash equivalents as at 31 March	**121**	**1,402**

Notes (condensed)

Basis of Accounting

Legal framework

Aareal Bank AG is a listed public limited company incorporated under German law, with its registered office in Wiesbaden, Germany. It is the parent company of an international property finance and services group.

This quarterly financial report for the period ended 31 March 2015 was prepared pursuant to the provisions of section 37y no. 3 of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG") in conjunction with section 37x (3) of the WpHG. It comprises the present interim condensed consolidated financial statements, as well as an interim group management report (see Group Management Report), and was approved for publication by the Management Board on 30 April 2015.

Aareal Bank AG prepares its condensed interim consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) applicable within the European Union (EU) as at the reporting date, in connection with the provisions pursuant to section 315a (1) of the German Commercial Code (Handelsgesetzbuch – "HGB"). In particular, the interim consolidated financial statements comply with the requirements for interim financial reporting set out in IAS 34. The reporting currency is the euro (€).

Reporting entity structure

Subsidiaries of Aareal Bank AG are included in the consolidated financial statements by way of full consolidation. Companies over which Aareal Bank AG may exercise a significant influence ("associates") are included in the consolidated financial statements, using the equity method.

There were no material changes to the scope of consolidation during the period under review.

Accounting Policies

Unless specifically indicated otherwise, the accounting policies applied in preparation of the consolidated financial statements 2014 were also applied in preparation of these condensed interim consolidated financial statements, including the calculation of comparative figures.

The following financial reporting standards (IASs/IFRSs) were required to be applied for the first time in the reporting period:

Annual Improvements to IFRSs 2011-2013 Cycle

The Annual Improvements to IFRSs 2011-2013 Cycle amends IFRS 1 by clarifying the meaning of effective date in the basis for conclusions. In IFRS 3 Business Combinations, the existing exception for joint ventures from the scope of IFRS 3 is reformulated. On the one hand, this is to clarify that the exception applies to any joint arrangements within the meaning of IFRS 11; on the other hand, this is to clarify that the exception only refers to the financial statements of the joint venture or the joint operation itself, but not to the accounting by the parties involved in such joint operation. In addition, the Annual Improvements include a clarification in relation to IFRS 13 Fair Value Measurement. The so-called "portfolio exception" used for measuring fair value applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32. The Annual Improvements to IFRSs 2011-2013 Cycle include another clarification as regards IAS 40 Investment Property. The amendment clarifies that the application of IAS 40 and IFRS 3 within the framework of an acquisition of investment property are not mutually exclusive. Instead, it has to be examined – based on the criteria set out in IFRS 3 – whether such acquisition is the acquisition of a single asset, a group of assets or a business operation within the scope of IFRS 3.

The revised standards do not have any material consequences for the consolidated financial statements of Aareal Bank Group.

Notes to the Statement of Comprehensive Income

(1) Net interest income

€ mn	1 Jan-31 Mar 2015	1 Jan-31 Mar 2014
Interest income from		
Property loans	216	174
Public-sector loans	3	3
Other lending and money market operations	8	26
Debt securities and other fixed-income securities	17	23
Current dividend income	0	0
Total interest income	**244**	**226**
Interest expenses for		
Bonds issued	20	28
Registered mortgage bonds	6	8
Promissory note loans	16	21
Subordinated capital	9	7
Term deposits	7	10
Payable on demand	4	7
Other interest expenses	4	1
Total interest expenses	**66**	**82**
Total	**178**	**144**

(2) Allowance for credit losses

€ mn	1 Jan-31 Mar 2015	1 Jan-31 Mar 2014
Additions	53	43
Reversals	30	3
Direct write-offs	0	1
Recoveries on loans and advances previously written off	5	4
Total	**18**	**37**

Allowance for credit losses amounted to € 18 Mio. € (Q1 2014: € 37 Mio. €) and was thus in line with our expectations. Net additions to specific allowance for credit losses in the amount of € 48 million were partly offset by corresponding reversals of portfolio-based allowance for credit losses and reversals of portfolio-based provisions for off-balance sheet risks from the lending business in an aggregate amount of € 25 million. Please also refer to our explanations in Note (11).

(3) Net commission income

€ mn	1 Jan-31 Mar 2015	1 Jan-31 Mar 2014
Commission income from		
Consulting and other services	44	43
Trustee loans and administered loans	0	1
Securities transactions	–	–
Other lending and money market operations	2	2
Other commission income	1	2
Total commission income	**47**	**48**
Commission expenses for		
Consulting and other services	5	6
Securities transactions	0	0
Other lending and money market transactions	0	1
Other commission expenses	1	1
Total commission expenses	6	**8**
Total	**41**	**40**

Commissions from consulting and services primarily include commissions for IT services.

(4) Net result on hedge accounting

€ mn	1 Jan-31 Mar 2015	1 Jan-31 Mar 2014
Ineffective portion of fair value hedges	8	-1
Ineffective portion of cash flow hedges	3	3
Ineffective portion of net investment hedges	0	0
Total	**11**	**2**

(5) Net trading income/expenses

€ mn	1 Jan-31 Mar 2015	1 Jan-31 Mar 2014
Net income/expenses from positions held for trading	5	3
Currency translation	-11	-1
Total	**-6**	**2**

Net trading income/expenses are primarily attributable to the measurement of derivatives used to hedge interest rate and currency risks.

(6) Results from non-trading assets

€ mn	1 Jan-31 Mar 2015	1 Jan-31 Mar 2014
Result from debt securities and other fixed-income securities	-3	0
of which: Loans and receivables (LaR)	6	0
Held to maturity (HtM)	–	–
Available for sale (AfS)	-9	–
Result from equities and other non-fixed income securities	0	0
of which: Available for sale (AfS)	0	1
Designated as at fair value through profit or loss (dFVtPL)	–	-1
Results from equity investments (AfS)	0	0
Total	**-3**	**0**

(7) Administrative expenses

€ mn	1 Jan-31 Mar 2015	1 Jan-31 Mar 2014
Staff expenses	77	59
Other administrative expenses	50	38
Depreciation, amortisation and impairment of property and equipment and intangible assets	5	5
Total	**132**	**102**

(8) Net other operating income/expenses

€ mn	1 Jan-31 Mar 2015	1 Jan-31 Mar 2014
Income from properties	4	4
Income from the reversal of provisions	0	0
Income from goods and services	1	1
Miscellaneous	3	20
Total other operating income	**8**	**25**
Expenses for properties	4	4
Expenses for services used	0	0
Write-downs of trade receivables	0	0
Expenses for other taxes	1	1
Miscellaneous	6	4
Total other operating expenses	**11**	**9**
Total	**-3**	**16**

Notes to the Statement of Financial Position

(9) Loans and advances to banks

€ mn	31 Mar 2015	31 Dec 2014
Money market receivables	2,781	1,737
Promissory note loans	121	120
Securities repurchase agreements	1,901	1,284
Other loans and advances	32	37
Total	**4,835**	**3,178**

Loans and advances to banks are allocated to the measurement category ”Loans and receivables” (LaR).

(10) Loans and advances to customers

€ mn	31 Mar 2015	31 Dec 2014
Property loans	27,966	27,856
Promissory note loans	1,633	1,584
Other loans and advances	1,300	1,109
Total	**30,889**	**30,549**

Loans and advances to customers are allocated to the measurement category ”Loans and receivables” (LaR).

(11) Allowance for credit losses

31 March 2015

€ mn	Specific valuation allowances	Portfolio impairment allowance	Total allowance for credit losses for recognised items	Provisions in the lending business for unrecognised items	Total allowance for credit losses and provisions in the lending business
Allowance for credit losses as at 1 January	**333**	**147**	**480**	**18**	**498**
Additions	53	–	**53**	–	**53**
Write-downs	4	–	**4**	–	**4**
Reversals	5	24	**29**	1	**30**
Unwinding	4	–	**4**	–	**4**
Changes in basis of consolidation	–	–	**–**	–	**–**
Currency adjustments	3	0	**3**	0	**3**
Allowance for credit losses as at 31 March	**376**	**123**	**499**	**17**	**516**

31 March 2014

€ mn	Specific valuation allowances	Portfolio impairment allowance	Total allowance for credit losses for recognised items	Provisions in the lending business for unrecognised items	Total allowance for credit losses and provisions in the lending business
Allowance for credit losses as at 1 January	**296**	**65**	**361**	**10**	**371**
Additions	11	31	**42**	1	**43**
Write-downs	19	–	**19**	–	**19**
Reversals	3	0	**3**	–	**3**
Unwinding	3	–	**3**	–	**3**
Changes in basis of consolidation[1)]	–	18	**18**	7	**25**
Currency adjustments	0	0	**0**	0	**0**
Allowance for credit losses as at 31 March	**282**	**114**	**396**	**18**	**414**

[1)] Adjustment of previous year's figures due to completion of purchase price allocation in accordance with IFRS 3 as at 31 December 2014

The allowance for risks associated with unrecognised items relates to loans and advances to customers, and loans and advances to banks classified as "Loans and receivables" (LaR). These allowances are reported under allowance for credit losses on the asset side of the statement of financial position. The provisions recognised for risks associated with unrecognised items relate to contingent liabilities and loan commitments. These provisions are reported under provisions on the liability side of the statement of financial position.

(12) Trading assets

€ mn	31 Mar 2015	31 Dec 2014
Positive market value of trading assets	477	467
Total	**477**	**467**

Trading assets are allocated to the measurement category "Held for trading" (HfT). They are mainly used to hedge economic market price risks.

(13) Non-trading assets

€ mn	31 Mar 2015	31 Dec 2014
Debt and other fixed-income securities	11,278	11,992
of which: Loans and receivables (LaR)	4,261	4,313
Held to maturity (HtM)	865	833
Available for sale (AfS)	6,152	6,846
Equities and other non-fixed income securities	8	8
of which: Available for sale (AfS)	8	8
Designated as at fair value through profit or loss (dFVtPL)	–	–
Interests in affiliated companies (AfS)	–	–
Other investments (AfS)	2	2
Total	**11,288**	**12,002**

The item "Debt and other fixed-income securities" mainly consists of public-sector bonds as well as asset-covered bonds (Pfandbriefanleihen) and bank bonds.

(14) Intangible assets

€ mn	31 Mar 2015	31 Dec 2014
Goodwill	66	66
Proprietary software	18	17
Other intangible assets	27	27
Total	**111**	**110**

(15) Property and equipment

€ mn	31 Mar 2015	31 Dec 2014
Land and buildings and construction in progress	75	75
Office furniture and equipment	21	21
Total	**96**	**96**

(16) Other assets

€ mn	31 Mar 2015	31 Dec 2014
Properties	462	444
Trade receivables (LaR)	37	38
Miscellaneous	147	128
Total	**646**	**610**

(17) Liabilities to banks

€ mn	31 Mar 2015	31 Dec 2014
Money market liabilities	1,176	855
Promissory note loans	340	374
Registered Mortgage Pfandbriefe	414	362
Registered Public-Sector Pfandbriefe	41	41
Other liabilities	133	175
Total	**2,104**	**1,807**

Liabilities to banks are allocated to the measurement category ”Liabilities measured at amortised cost” (LaC).

(18) Liabilities to customers

€ mn	31 Mar 2015	31 Dec 2014
Money market liabilities	13,381	13,071
Promissory note loans	7,666	7,970
Registered Mortgage Pfandbriefe	3,525	3,476
Registered Public-Sector Pfandbriefe	2,982	2,966
Other liabilities	2	–
Total	**27,556**	**27,483**

Liabilities to customers are allocated to the measurement category "Liabilities measured at amortised cost" (LaC).

(19) Certificated liabilities

€ mn	31 Mar 2015	31 Dec 2014
Bearer Mortgage Pfandbriefe	8,581	8,690
Bearer Public-Sector Pfandbriefe	45	45
Other debt securities	2,851	2,748
Total	**11,477**	**11,483**

Certificated liabilities are allocated to the measurement category "Liabilities measured at amortised cost" (LaC).

(20) Trading liabilities

€ mn	31 Mar 2015	31 Dec 2014
Negative market value of trading assets	808	659
Total	**808**	**659**

Trading liabilities are allocated to the measurement category "Held for trading" (HfT). They are mainly used to hedge economic market price risks.

(21) Provisions

€ mn	31 Mar 2015	31 Dec 2014
Provisions for pensions and similar obligations	339	295
Other provisions and contingent liabilities	432	418
Total	**771**	**713**

(22) Other liabilities

€ mn	31 Mar 2015	31 Dec 2014
Liabilities from outstanding invoices	4	6
Deferred income	11	12
Liabilities from other taxes	13	17
Trade payables (LaC)	16	13
Other liabilities (LaC)	61	79
Total	**105**	**127**

(23) Subordinated capital

€ mn	31 Mar 2015	31 Dec 2014
Subordinated liabilities	1,185	1,222
Profit-participation certificates	73	73
Contributions by silent partners	196	194
Total	**1,454**	**1,489**

Items of subordinated capital are allocated to the measurement category "Liabilities measured at amortised cost" (LaC).

(24) Equity

€ mn	31 Mar 2015	31 Dec 2014
Subscribed capital	180	180
Capital reserves	721	721
Retained earnings	1,397	1,357
AT1 bond	300	300
Other reserves		
Reserve from remeasurements of defined benefit plans	-127	-95
Revaluation reserve	62	15
Hedging reserves	17	-1
Currency translation reserves	7	4
Non-controlling interests	243	242
Total	**2,800**	**2,723**

(25) Treasury shares

No treasury shares were held during the period under review.

(26) Dividend

The Management Board of Aareal Bank AG proposes to the Annual General Meeting to pay a dividend of € 1.20 per no-par value share, totalling € 71,828,665.20, from net retained profit of € 76,828,665.20 as reported under the German Commercial Code (HGB) for the financial year 2014. The Management Board also proposes to the Annual General Meeting to transfer the remaining distributable profit of € 5,000,000.00 to other retained earnings.

Within Aareal Bank Group's consolidated statement of financial position, a dividend payment reduces the retained earnings item within consolidated equity.

Reporting on Financial Instruments

(27) Presentation of the fair value hierarchy in accordance with IFRS 13

The following table shows the carrying amounts of financial instruments held by Aareal Bank Group which are reported at fair value in the statement of financial position, according to the three-tier fair value hierarchy pursuant to IFRS 13.72 et seq. The classification into individual hierarchy levels is based on the inputs used for fair value measurement.

31 March 2015

€ mn	Fair value total	Fair value level 1	Fair value level 2	Fair value level 3
Positive market value of derivative hedging instruments	**2,672**	**–**	**2,672**	**–**
Assets held for trading	**477**	**–**	**477**	**–**
Trading derivatives	477	–	477	–
Non-trading assets available for sale	**6,160**	**6,074**	**86**	**–**
Fixed-income securities	6,152	6,070	82	–
Equities/funds	8	4	4	–
Negative market value of derivative hedging instruments	**3,666**	**–**	**3,666**	**–**
Liabilities held for trading	**808**	**–**	**808**	**–**
Trading derivatives	808	–	808	–

31 December 2014

€ mn	Fair value total	Fair value level 1	Fair value level 2	Fair value level 3
Positive market value of derivative hedging instruments	**2,565**	**–**	**2,565**	**–**
Assets held for trading	**467**	**–**	**467**	**–**
Trading derivatives	467	–	467	–
Non-trading assets available for sale	**6,854**	**6,802**	**52**	**–**
Fixed-income securities	6,846	6,798	48	–
Equities/funds	8	4	4	–
Negative market value of derivative hedging instruments	**2,928**	**–**	**2,928**	**–**
Liabilities held for trading	**659**	**–**	**659**	**–**
Trading derivatives	659	–	659	–

The fair value of financial instruments is allocated to Level I of the fair value hierarchy if it is determined on the basis of unadjusted quoted prices in active markets for identical assets or liabilities. The determination of the fair value is based on the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. Another factor to be taken into account is whether Aareal Bank can enter into a transaction for the relevant asset or liability at the price in that market at the measurement date.

Fair values determined using inputs other than quoted prices included within Level I that are observable for the financial instrument, either directly or indirectly, are included in Level 2 of the fair value hierarchy. Financial instruments whose fair value is allocated to Level 2 of the fair value hierarchy are measured using various valuation techniques.

In case of fixed-income securities or equities for which no current market price is available, the fair value is determined on the basis of comparable market prices to the extent possible. To this end, quoted prices on active markets for largely identical or quoted prices on inactive markets for identical or similar securities are used by adjusting the last available market price or the current fair value of another largely identical instrument, to take into account any changes in risk or new information known as at the measurement date. In the absence of comparable market prices for securities, they are measured through an analysis of future payments using the fully-capitalised earnings value approach, where the inputs are based on observable market data. These approaches include the discounted cash flow (DCF) method which is used to determine the present value of contractual cash flows until the expected end of the term. The present value is determined based on the benchmark curve applicable for the relevant market, taking into account mark-ups based on credit quality and liquidity. The valuation model used for options included in the transaction is the commonly used Black-Scholes model or appropriate numerical procedures.

The fair value of OTC derivatives included in the trading portfolio, as well as of OTC hedging derivatives, is determined on the basis of sector-specific standardised measurement models, such as the present value method or option pricing models. These techniques are based on inputs quoted on active markets, such as interest rates, yield curves and credit spreads. The fair value of foreign exchange forwards is generally based on current forward exchange rates quoted on active markets. Fair values determined using valuation techniques where one or more material inputs are not based on observable market data are assigned to Level 3 of the fair value hierarchy. Products that are allocated to this level are currently not held by Aareal Bank Group.

In the first three months of 2015, there were no material transfers between the hierarchy levels for the various financial instruments.

Aareal Bank reviews the allocation of a financial instrument in the fair value hierarchy on the previous year's balance sheet date of the preceding quarter in comparison with the allocation on the current reporting date, to determine whether reclassifications occurred between the individual levels of the fair value hierarchy. The date for recognising reclassifications into the hierarchy levels and for recognising reclassifications from the hierarchy levels is the same.

(28) Comparison of carrying amounts and fair values of the financial instruments

The following table is a comparison of the fair values of the financial instruments with their carrying amounts. The presentation is made for each class of financial instrument.

€ mn	Carrying amount 31 Mar 2015	Fair value 31 Mar 2015	Carrying amount 31 Dec 2014	Fair value 31 Dec 2014
Cash on hand and balances with central banks	**121**	**121**	**184**	**184**
Loans and advances to banks (LaR)	4,835	4,838	3,178	3,177
Loans and advances to customers (LaR)	30,400	32,699	30,069	32,309
Non-trading assets (LaR)	4,261	4,150	4,313	4,125
Other assets (LaR)	111	117	86	91
Total loans and receivables	**39,607**	**41,804**	**37,646**	**39,702**
Non-trading assets held to maturity	**865**	**864**	**833**	**836**
Non-trading assets available for sale	**6,160**	**6,160**	**6,854**	**6,854**
Positive market value of derivative hedging instruments	**2,672**	**2,672**	**2,565**	**2,565**
Assets held for trading	**477**	**477**	**467**	**467**
Liabilities to banks (LaC)	2,104	2,123	1,807	1,824
Liabilities to customers (LaC)	27,556	27,694	27,483	27,563
Certificated liabilities (LaC)	11,477	11,591	11,483	11,595
Other liabilities (LaC)	82	82	98	101
Subordinated capital (LaC)	1,454	1,506	1,489	1,517
Total liabilities measured at amortised cost	**42,673**	**42,996**	**42,360**	**42,600**
Negative market value of derivative hedging instruments	**3,666**	**3,666**	**2,928**	**2,928**
Liabilities held for trading	**808**	**808**	**659**	**659**
Financial guarantee contracts	**138**	**138**	**140**	**140**
Loan commitments	**1,439**	**1,439**	**1,466**	**1,466**

(29) Day-one profit or loss

Aareal Bank Group has entered into transactions that were not effected on the principal market or the most advantageous market for the asset or liability concerned. In these cases the transaction price does not correspond to the fair value of the asset or liability, because the determination of the fair value using a valuation technique which assumes a transaction on a principal market results in a fair value that deviates from the transaction price. The financial instruments are carried at the transaction price upon initial recognition. The difference between the transaction price and the fair value measured based on the valuation model (the so-called day-one profit or loss) is amortised over the term of the transaction in the income statement, since the fair value of these financial instruments of the trading portfolio is determined using valuation models whose inputs are not fully based on observable market factors.

The table below shows the development of the day-one profit during the quarter under review. The day-one profit is recognised as an item to be deducted from the carrying amount of trading assets:

€ mn	2015	2014
Balance as at 1 January	**43**	**27**
Additions from new transactions	0	2
Reversals through profit or loss in the period	2	1
Changes in basis of consolidation	–	9
Balance as at 31 March	**41**	**37**

(30) Reclassification of financial assets

In 2008 and 2009, Aareal Bank Group took advantage of the opportunity to reclassify certain financial assets into another measurement category. Specifically, securities with an aggregate volume of € 6.2 billion were reclassified from the IFRS measurement categories ”Available for sale” (AfS) and ”Held for trading” (HfT), to ”Loans and receivables” (LaR). In all cases, we opted for reclassification since there was no longer an active market for the securities concerned (in spite of their good quality), and due to our intention to hold these issues for a longer term. Depending on prevailing market conditions, Aareal Bank Group may use this reclassification option again in the future.

The following table compares the carrying amounts of the reclassified assets to their fair values:

€ mn	Carrying amount 31 Mar 2015	Fair value 31 Mar 2015	Carrying amount 31 Dec 2014	Fair value 31 Dec 2014
from AfS to LaR	**3,907**	**3,774**	**3,938**	**3,727**
Asset-backed securities	29	30	27	28
Senior unsecured bank bonds	272	276	277	282
Covered bank bonds	302	314	428	447
Public-sector issuers	3,304	3,154	3,206	2,970
from HfT to LaR	**99**	**106**	**101**	**109**
Asset-backed securities	99	106	101	109
Total	**4,006**	**3,880**	**4,039**	**3,836**

If the Bank had not opted for reclassification, this would have resulted in a € 0 million profit (before taxes) for the first three months of the current financial year (Q1 2014: profit of € 4 million), and € 54 million (after taxes) (Q1 2014: € 33 million) would have been recognised in the revaluation surplus.

(31) Bond and property financing portfolio in selected European countries

The following table is a breakdown of the bonds included in non-trading assets that are issued by public-sector entities and bank bonds of selected European countries:

Bond portfolio as at 31 March 2015

	Carrying amount			Revaluation surplus[1]			Unrealised gains / losses[1]
€ mn	LaR + HtM	AfS	Total	LaR	AfS	Total	
Greece	–	–	**–**	–	–	**–**	–
Ireland	–	–	**–**	–	–	**–**	–
Italy	1,332	362	**1,694**	-44	23	**-21**	-72
Portugal	68	116	**184**	0	2	**2**	-5
Spain	583	154	**737**	-1	6	**5**	-30
Total	**1,983**	**632**	**2,615**	**-45**	**31**	**-14**	**-107**
Total as at 31 Dec 2014	2,013	1,135	**3,148**	-48	17	**-31**	-155

[1] figures given on an after-tax basis

The revaluation surplus for bonds of the "Loans and receivables" (LaR) category is attributable to securities which were reclassified in the years 2008 and 2009 from the measurement category "Available for sale" (AfS) to the measurement category "Loans and receivables" (LaR). Unrealised gains and losses refer to securities accounted for at amortised cost (LaR + HtM). When determining such unrealised gains and losses, the effects from interest rate-driven measurement of hedged securities were taken into account.

The maturities of the bonds set out above are mainly within the long-term range.

The presented AfS securities with a carrying amount of € 632 million (31 December 2014: € 1,135 million) were allocated to Level 1 of the fair value hierarchy pursuant to IFRS 7 and measured based on quoted prices on active markets. No Level 2 securities were allocated to the fair value hierarchy as at the current record date (31 December 2014: € – million). No quoted market prices of the fair value hierarchy level 1 are available for Level 2 securities as at the balance sheet date; however, measurement is also directly or indirectly based on observable market prices. Aareal Bank Group does not hold securities measured according to Level 3 of the fair value hierarchy.

The following table is a breakdown of property financing in selected European countries included in loans and advances to customers:

Property finance portfolio as at 31 March 2015

	Carrying amount[1]	Average LTV	Non-performing loans
	€ mn	%	€ mn
Greece	–		–
Ireland	–		–
Italy	3,107	72.1	650
Portugal	–		–
Spain	1,048	86.3	79
Total	**4,155**		**729**
Total as at 31 Dec 2014	4,140		599

[1] Not including valuation allowances

Other Notes

(32) Contingent liabilities and loan commitments

€ mn	31 Mar 2015	31 Dec 2014
Contingent liabilities	138	140
Loan commitments	1,439	1,466
of which: irrevocable	886	920

(33) Employees

The number of Aareal Bank Group employees at 31 March 2015[1] is shown below:

	31 Mar 2015	31 Dec 2014
Salaried employees	2,383	2,386
Executives	163	162
Total	**2,546**	**2,548**
of which: Part-time employees	454	441

The average number of Aareal Bank Group employees in 2015[2] is shown below:

	1 Jan-31 Mar 2015	1 Jan-31 Dec 2014
Salaried employees	2,379	2,374
Executives	163	143
Total	**2,542**	**2,517**
of which: Part-time employees	449	435

(34) Related party disclosures in accordance with IAS 24

In the first three months of the 2015 financial year there were no material transactions with related parties that would have to be reported here.

(35) Events after the interim reporting period

There have been no material events subsequent to the end of the interim reporting period under review that need to be disclosed at this point.

[1] This number does not include 143 employees of the hotel business La Sessola Service S.r.l. (31 December 2014: 20 employees)
[2] This number does not include 82 employees of the hotel business La Sessola Service S.r.l. (2014: 2 employees)

Executive Bodies of Aareal Bank AG

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Marija G. Korsch [1) 2) 3) 4) 5)], Frankfurt/Main
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Former partner of Bankhaus Metzler seel.
Sohn & Co. Holding AG

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Christian Graf von Bassewitz [3) 4) 5)], Hamburg
Banker (ret'd.); former Spokesman of the General
Partners of Bankhaus Lampe KG

Manfred Behrens, Hannover
Former CEO/Chairman of the Management Board
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Thomas Hawel [6)], Saulheim
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Dieter Kirsch [2) 4) 6)], Nackenheim
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Dr. Herbert Lohneiß [4) 5)], Gräfelfing
Former Chief Executive Officer of
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Joachim Neupel [3) 4) 5)], Dreieich
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Hermann Josef Merkens
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Dagmar Knopek
Member of the Management Board

Thomas Ortmanns
Member of the Management Board

[1)] Member of the Executive and Nomination Committee; [2)] Member of the Remuneration Control Committee; [3)] Member of the Audit Committee;
[4)] Member of the Risk Committee; [5)] Member of the Committee for Urgent Decisions; [6)] Employee representative

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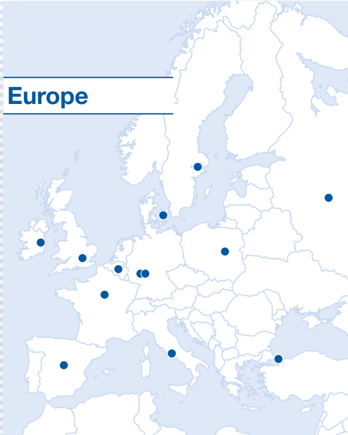
Financial Calendar

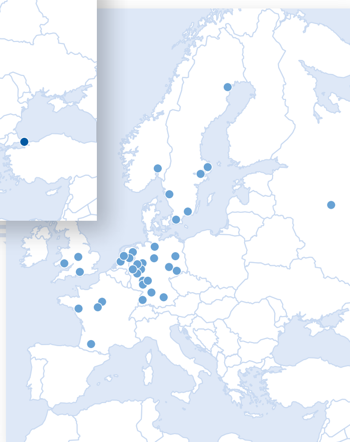
20 May 2015	Annual General Meeting – Kurhaus, Wiesbaden
11 August 2015	Presentation of interim report as of 30 June 2015
10 November 2015	Presentation of interim report as of 30 September 2015

Locations

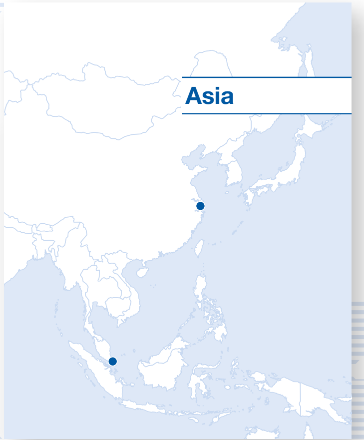
Structured Property Financing



Structured Property Financing



Consulting/Services



Structured Property Financing

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as of 31 March 2015

Imprint
Contents:
Aareal Bank AG, Corporate Communications
Design / Layout:
S/COMPANY · Die Markenagentur GmbH, Fulda, Germany

Corporate Responsibility Prime
rated by oekom research

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