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2015

Aareal Bank AG – Annual Report 2015

Aareal Bank

This report contains rounded numbers, which may result in slight differences when aggregating figures and calculating percentages.

Management Report

Fundamental Information about the Group

The Group's business model

Aareal Bank AG, headquartered in Wiesbaden, Germany, is the parent company of the Group. Its shares are admitted to trading on the regulated market (Geregelter Markt) of the Frankfurt Stock Exchange, and are included in the mid-cap MDAX® index. Aareal Bank Group provides financing solutions and services, focusing on the property industry. It supports German and international clients, as a financing partner and service provider.

Aareal Bank is a member of the Association of German Banks (BdB) and the Association of German Pfandbrief Banks (vdp).

Aareal Bank Group's business model comprises two segments:

Structured Property Financing

The Structured Property Financing segment comprises all of the property financing and refinancing activities.

In this segment, Aareal Bank facilitates property projects for its domestic and international clients, and is active in this respect in Europe, North America and Asia. It offers commercial property financing solutions, especially for office buildings, hotels, retail, logistics and residential properties. The Bank's particular strength lies in it successfully combining local market expertise and sector-specific know-how. In addition to local experts, the Bank also has industry specialists at its disposal, to create financing packages for logistics properties, shopping centres and hotels. This enables Aareal Bank to offer tailor-made financing concepts that meet the special requirements of its national and international clients. What makes Aareal Bank special are its direct client relationships, which – in very many cases – it has maintained for many years.

Aareal Bank has a broad and solid refinancing base. It has established itself as an active issuer of Pfandbriefe, which account for a major share of the Bank's long-term funding. The quality of the cover assets pools is also confirmed by the "AAA"- rating of Aareal Bank's Pfandbrief issues. To cater to a broad investor base, Aareal Bank covers a wide range of other refinancing tools, including promissory notes and debt securities. Private placements are the focal point of the Bank's capital market activities. These are complemented by larger, public placements that are issued depending on market conditions. The Bank also generates deposits from the housing industry, which represent an important additional source of funding. Furthermore, it has recourse to institutional money market investor deposits. The success of our capital and money market activities, and the business with housing industry clients, are the results of a combination of a sustainable business model with a sound understanding of the capital markets, and the quality of the cover assets pool.

Consulting/Services

The Consulting/Services segment offers the housing and commercial property industries services and products for managing property portfolios and processing payment flows. Within this segment, our subsidiary Aareon AG and the Bank's Housing Industry division work together closely.

We operate the IT systems consultancy and related advisory services for the housing and commercial property industries through our Aareon AG subsidiary, which looks back at almost 60 years of experience. Aareon offers its customers secure, standard-setting solutions in the areas of consultancy, software and services to optimise IT-based business processes in the digital age. Its Enterprise Resource Planning (ERP) systems, which are tailored to meet the requirements of the respective target market may be supplemented by other digital solutions for process optimisation. Together, the large variety of these integrated systems constitute Aareon's digital ecosystem – the "Aareon Smart World", which links property companies with their customers, staff, and business partners, and also connects technical devices in apartments and buildings to one another. Aareon Smart World helps to re-design and optimise processes. Its applications help reduce costs; they facilitate new business models by connecting all participants, and provide more comfort in the dialogue between tenants and staff members of housing industry companies.

Aareon offers software solutions – both in Germany and internationally – that can be used in a variety of operating environments: in-house, via hosted solutions, or a software-as-a-Service (SaaS), from the exclusive Aareon Cloud. Data from Aareon's Cloud Computing is held in Aareon's certified data-processing centre in Mainz, which guarantees data security and protection at the highest level. Following successful advice, implementation and training, customers usually opt for a maintenance model covering regular support services.

In its Housing Industry division, Aareal Bank offers its clients process optimisation, electronic banking, and facility management services, and markets its BK01 software which is the leading procedure for automated mass payments in the German housing and property industries. Thanks to BK01 being integrated into licensed accounting systems, clients in Germany are able to process their payments and account maintenance directly from the management software they use. In addition to the German housing and commercial property industries, the German energy and waste disposal industries are a second major client group of the Bank's Housing Industry division. This enables the Bank to offer additional products which facilitate the collaboration of target groups across industries, with seamless digital processes helping to achieve synergies. The use of Aareal Bank's payments software products generates deposits that contribute significantly to Aareal Bank Group's refinancing base.

Management system

Aareal Bank Group is managed using key financial performance indicators, taking the Group's risk-bearing capacity into account. Management takes place primarily at Group level, and is additionally differentiated by business segment. Group management is based on medium-term Group planning, prepared annually, which is geared towards the Group's long-term business strategy. An extensive (management) reporting system regularly provides the information required for management and monitoring purposes.

The indicators set out below are key financial performance indicators for Aareal Bank Group; they are used for the purposes of managing the business and the Group's profitability.

- **Group/consolidated**

  Net interest income (in accordance with IFRSs)
  Allowance for credit losses (in accordance with IFRSs)
  Net commission income (in accordance with IFRSs)
  Administrative expenses (in accordance with IFRSs)
  Operating profit (in accordance with IFRSs)
  Return on equity (RoE; before taxes)[1]
  Earnings per ordinary share (EpS)[2]
  Common Equity Tier 1 ratio (CET 1 ratio)
  Liquidity Coverage Ratio (LCR)

- **Structured Property Financing segment**

  New business[3]
  Credit portfolio of Aareal Bank's core business

- **Consulting/Services segment**

  Aareon's contribution to consolidated operating profit (in accordance with IFRSs)

The preservation of capital and the ability to distribute dividends are additional financial performance indicators applicable to Aareal Bank AG.

The Group's existing risk management system is used to manage and monitor the various risk exposures of Aareal Bank Group entities, in a centralised manner. All management-relevant information is systematically collected and analysed, to develop suitable strategies for risk management and monitoring. We also employ forecasting models for balance sheet structure, liquidity and portfolio development for strategic business and revenue planning.

In addition to business-related management tools, we also use other instruments to optimise our organisation and workflows. These include comprehensive cost management, centralised management of project activities and Human Resources controlling, for example.

[1] RoE before taxes = $\frac{\text{Operating profit ./. consolidated net income attributable to non-controlling interests ./. AT1 coupon}}{\text{Average equity (IFRS) excluding non-controlling interests, other reserves, AT1 bond, and dividends}}$

[2] EpS = $\frac{\text{Operating profit ./. income taxes ./. consolidated net income attributable to non-controlling interests ./. AT1 coupon (net)}}{\text{Number of ordinary shares}}$

[3] New business = newly-originated loans plus renewals

Structured Property Financing also deploys supplementary management tools and indicators. For example, we manage our lending business in this segment using lending policies which are specific to the relevant property type and country, and which are monitored within the scope of the lending process.

The property financing portfolio as a whole is actively managed throughout Aareal Bank Group, with the aim of optimising its risk diversification and profitability. To develop risk and return-oriented strategies for our portfolio, we evaluate market and business data, using this as a basis to simulate potential lending strategies, and to identify a target portfolio, which is part of Group planning. This helps us to identify – and to respond to – market changes at an early stage. Active portfolio management makes it possible for us to optimally allocate equity to the most attractive products and regions from a risk/return perspective, within the scope of our three-continent strategy. By taking into consideration maximum allocations to individual countries, products and property types, we ensure a high level of diversification and avoid risk concentrations.

In the Consulting/Services segment, management of the Group entities allocated to the segment is oriented on specific indicators, depending on each entity's business focus – primarily Aareon's contribution to consolidated operating profit. We also use specific performance indicators that are typical for consulting and services in the IT business, the focus of this segment. These include indicators relating to regular client satisfaction surveys, as well as capacity utilisation indicators in the consultancy business. The volume of deposits is a key performance parameter in the Bank's Housing Industry division.

Report on the Economic Position

Macro-economic environment

The economic environment in 2015 was defined by the persistent environment of extremely low interest rates stemming from monetary policy that remains highly expansionary, as well as cautious to moderate economic development.

Economy

The global economy grew by around 2.5% in the year under review, therefore weakening slightly compared with the previous year (2.7%).

Real gross domestic product in the euro zone increased but remained moderate at 1.5%. Burdens and uncertainty factors, such as continuing high unemployment in many places, macro-economic imbalances and structural problems were too pronounced to permit a stronger upward momentum. Nonetheless, the economy in the euro zone was supported by low oil prices, which improved the purchasing power of private households, better price competitiveness because of the comparatively low external value of the euro vis-à-vis other important currencies, a fiscal policy that is no longer inhibitory in many places, and the extremely loose monetary policy. Among the euro zone member states, Belgium, France, Germany and the Netherlands posted moderate economic growth, while the economy in Spain was particularly lively. Low growth rates in real gross domestic product were observed, however, in Italy, ending a recession that lasted about three years, as well as in Austria. The economy in Finland, which was adversely affected by the recession in Russia, stagnated in the year under review, having declined the year before.

Developments in Greece, and the negotiations between the country and its creditors, played a significant role in economic policy. After the support programme for Greece – which expired in early spring – was extended to the end of June, no new agreement was reached initially until the new expiry date. As a result, Greece felt initially unable to make an outstanding payment to the International Monetary Fund (IMF), and later saw temporary capital controls and bank closures. However, an agreement was reached consequently on a third bailout package, to be provided by the European Stability Mechanism (ESM). These developments did not lead to any contagion beyond Greece.

The previous year's recovery continued in various European Union (EU) countries that are not members of the euro zone, including the United Kingdom, albeit with a slightly lower growth rate, as well as Poland and Sweden. Particularly high growth rates in real gross domestic product were achieved in the Czech Republic; whereas the economic recovery in Denmark was subdued. Switzerland's economy was noticeably muted because of the strong Swiss franc. Economic growth in Turkey picked up slightly compared with the previous year. The collapse in domestic demand in Russia led to a severe recession, as the gas and crude oil producer's economy was burdened by low commodity prices and their consequences, as well as by uncertainty arising in conjunction with the conflict in Ukraine.

The economy in the US got off to a slow start to the year, as a result of temporary factors such as adverse weather conditions and the lengthy dockworkers' strike. However, it subsequently returned to its solid growth path and real gross domestic product growth matched that of the previous year. Private consumption, as well as corporate investment, proved to be the growth drivers, while the current account deficit widened. Moreover, fiscal policy ended its consolidation phase. Corporate investment in Canada collapsed in the first half of the year. Because of the low oil price, it did not seem to be a lucrative measure to invest in the oil and gas producing industry that is important for Canada, so that real gross domestic product declined initially. However, when demand picked up from the US as well, economic growth posted a slight increase for the year 2015 as a whole, even though this was considerably lower than in the previous year.

The Japanese economy was supported by expansive monetary and fiscal policies. Real gross domestic product increased only marginally and was subject to noticeable fluctuations during the course of the year. Growth in real gross domestic product in Singapore was moderate and remained below the previous year's level.

The decline in global demand for commodities, and substantial structural problems on the supply side, weighed on growth in various emerging economies. The decline in Chinese growth rates – already seen in the previous year – continued. The Chinese equity markets experienced a very pronounced correction in the summer months, following the sharp rise in prices since mid-2014. This prompted the Chinese government to implement a series of measures aimed at stabilising the markets.

Annual rate of change in real gross domestic product in %

	2015	2014		2015	2014		2015	2014
Europe						***North America***		
			Other European countries					
Euro zone	1.5	0.9	Czech Republic	4.5	2.0	Canada	1.2	2.5
Austria	0.8	0.5	Denmark	1.2	1.3	US	2.4	2.4
Belgium	1.4	1.3	Poland	3.6	3.4			
Finland	0.0	-0.4	Russia	-3.8	0.6			
France	1.1	0.2	Sweden	3.4	2.4	***Asia***		
Germany	1.5	1.6	Switzerland	0.7	1.9			
Italy	0.7	-0.4	Turkey	3.5	2.9	China	6.9	7.3
Luxembourg	3.6	4.1	United Kingdom	2.2	2.9	Japan	0.7	-0.1
Netherlands	1.9	1.0				Singapore	2.1	2.9
Portugal	1.5	0.9						
Spain	3.2	1.4						

The trend of a slightly declining unemployment rate (to 10.4% in December 2015) continued in the euro zone in 2015. Despite a very pronounced decline, unemployment in Spain remained at a high level of above 20% at the end of the year. Unemployment fell in other countries too (including Belgium, Germany, France and Italy), while slight increases were reported in some countries, including Finland and Austria. Outside the euro zone, unemployment fell in various countries, such as Denmark, the UK, Poland, Sweden and the Czech Republic. In the course of the ongoing economic recovery in the US, the increase in employment levels in the year under review were accompanied by a simultaneous marked decline in the unemployment rate. The fact that the unemployment rate in Japan remained low – despite the country's economic weakness – was noteworthy.

Financial and capital markets, monetary policy and inflation

A very distinct low interest rate environment, with negative interest rates in some countries, characterised the financial and capital markets of the developed economies in 2015. Although these markets were receptive, there were signs of marked volatility during the course of the year.

Aareal Bank was able to successfully conduct its funding operations in this environment and placed a USD 500 million Mortgage Pfandbrief issue, among other things.

As expected, rating agency Fitch Ratings ("Fitch") downgraded the Issuer Default Rating of numerous banks around the world on 19 May 2015, against the background of the lower willingness of many countries to support banks in the event of a crisis and the regulatory measures introduced in this context, such as the EU Single Resolution Mechanism. Within the scope of this measure, Aareal Bank AG's Issuer Default Rating, too, was changed from A- (with a negative outlook) to BBB+ (with a stable outlook). The Bank's short-term Issuer Rating was adjusted from F1 to F2. Fitch had raised Aareal Bank AG's stand-alone Viability Rating from bbb to bbb+ as early as on 24 February 2015, citing the Bank's robust development throughout the financial markets crisis and the continuous strengthening of its capital base, amongst other factors. However, this did not lead to any material changes with regard to the Bank’s access to the financial and capital markets.

Risk spreads on German Pfandbrief issues remained on a poor level throughout 2015, reaching their low in July. Besides the lower volume of outstanding issues, these spreads also reflected the continued high level of confidence Pfandbrief investors place in the solidity of this type of debt security. The importance of Mortgage Pfandbriefe has grown consistently over recent years, both in terms of gross new issuance and aggregate Pfandbrief issues outstanding. The decline in the outstanding amounts of Public Sector Pfandbriefe reflects the changed business models of some mortgage banks and Landesbanken, amongst other factors. The volume of public finance business has been in decline with many Pfandbrief issuers for some years now – which also cut the cover assets pools for Public Sector Pfandbriefe. Furthermore, legacy portfolios of receivables against German savings banks and Landesbanken, which were eligible for inclusion in cover prior to the abolition of state guarantees for the public-sector banks (the so-called Gewährträgerhaftung), gradually shrank. Prior to the abolition of state guarantees, receivables from such public-sector banks were frequently used as cover assets for Public Sector Pfandbriefe.

Overall, Mortgage Pfandbriefe benefited from a general shift towards this type of debt security, which was supported by the launch of corresponding issuance programmes – especially by commercial banks – over the past years.

The decision by the European Central Bank (ECB) to purchase € 60 billion in securities each month as part of its quantitative easing (QE) measures already had a big impact in the year under review. European central banks were the most conspicuous investors in German Pfandbriefe and European covered bonds, buying an aggregate amount of around € 110 billion on the primary and secondary markets during the year. This also led to a further marked reduction in the credit spreads for Pfandbriefe. However, these spreads widened slightly again in the second half of the year, as general interest rate levels fell further, with no primary market buyers for Pfandbriefe with a negative yield.

The bail-in debate dominated the market for senior unsecured bank bonds during the year under review. Participants' discussions focused on how holders of unsecured bank bonds would be held liable in future if a bank were to fail. Given the different concepts in this respect throughout Europe, this will remain an important topic in 2016.

Although government bond yields in the developed economies fluctuated severely during the year under review, they remained very low. The decline in long-term government bond yields continued at the start of the year – as seen in the previous year. The extremely low yields dampened demand for bonds; in conjunction with profit taking, this triggered a spike in bond yields during the second quarter. Yields trended downwards again in the third quarter, followed by a mixed performance in the final quarter. The yields on long-term government bonds were slightly lower in part at the year-end 2015 (for example, in Italy and Switzerland) than at the start of the year. Others deviated only marginally (such as in Germany, France, Spain, and the US) while in some countries, they were slightly higher (e.g. in the UK and Sweden)[1]. Yield differentials in the euro zone – between government bonds of countries that are considered riskier by investors (such as Italy and Spain), and those viewed as safe havens, such as Germany – fluctuated in line with the yield development. The differential widened when yields were rising and tightened during phases of falling yields. Therefore, the yield spread between Spanish and German government bonds was largely unchanged at year-end compared with the start of the year, while it tightened for Italy[2].

Long-term interest rates[3] in the most important currencies for Aareal Bank portrayed a similar pattern to that of government bond yields during the year under review. At year-end 2015, long-term interest rates were slightly higher than at the end of 2014, not only for the euro but for the pound sterling and the Danish krone as well. The increase in relation to the Swedish krona was somewhat more pronounced, where the year-end 2015 values vis-a-vis the US dollar and Japanese yen corresponded to year-end 2014. Lower rates were seen on the other hand for the Canadian dollar and the Swiss franc. Short-term interest rates[4] were very low – and significantly negative in some cases, such as for the Swedish krona and the Swiss franc. The patterns here were less consistent. They were markedly lower – compared to the beginning of the year – for the Danish krone, the Canadian dollar, the Swedish krona and the Swiss franc, as well for the euro (albeit not as pronounced), while remaining virtually unchanged from the start of the year for the pound sterling and Japanese yen, and rising for the US dollar. Negative interest rates played a role in several currencies. These were particularly pronounced for the Swiss franc, in terms of their level and duration. Negative interest rates were also observed for the euro, the Danish krone and the Swedish krona, in the short to medium-term maturities.

The external value of the euro eased relative to several currencies that are relevant for Aareal Bank, with the pound sterling and the US dollar being the most important ones. Exchange rates fluctuated sharply during the course of the year. The euro exchange rate, relative to the two aforementioned currencies, fell significantly

[1] Based on the ten-year government bond yields for all the countries listed
[2] Each in comparison with 10-year German government bonds
[3] Based on the 10-year swap rate
[4] Calculated on the basis of the 3-month Euribor/LIBOR, or comparable rates (depending on the currency)

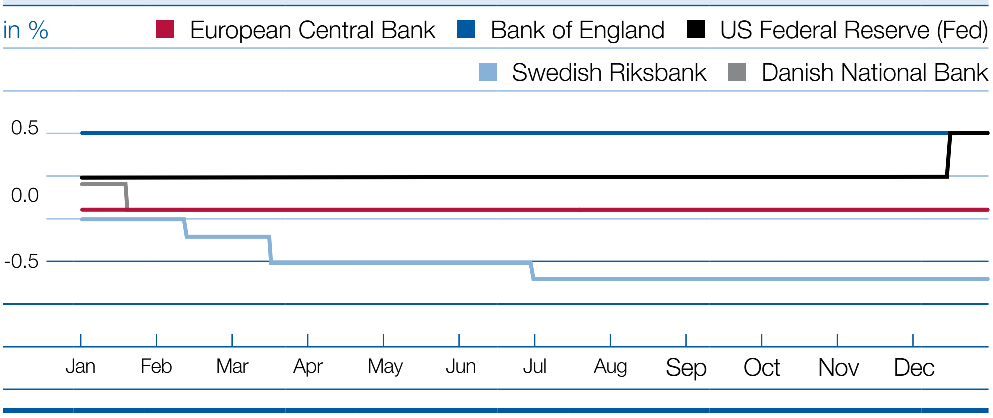
at the start of the year. It subsequently stabilised again and appreciated temporarily. The euro exchange rate versus pound sterling and the US dollar at year-end 2015 was lower year-on-year. The euro also declined against the Japanese yen and the Swiss franc. In this context, the Swiss franc strongly appreciated against the euro, following the Swiss National Bank's decision in January to stop maintaining (and enforcing) a minimum EUR/CHF exchange rate. Following a brief correction, the euro exchange rate stabilised against the Swiss franc and remained significantly below the level seen at the start of the year, which was close to the original minimum EUR/CHF rate. The Danish National Bank maintained its currency peg against the euro; as a result, the EUR/DKK exchange rate hardly moved. The development of the euro exchange rate against the Swedish krona was defined by a series of ups and downs, and it ended the year 2015 slightly below the level at year-end 2014. On the other hand, the euro succeeded in making significant gains against the Canadian dollar from the mid-year point onwards.

Monetary policies in the developed economies remained very expansive in the year under review, even though the US Federal Reserve raised its key rate slightly in December 2015 for the first time in seven years. The ECB significantly expanded its already loose monetary policy stance. It decided on a programme in January 2015 – implemented from March onwards – to buy government and public sector bonds (the Public Sector Purchase Programme – PSPP) on the secondary market. Together with the two existing programmes to buy covered bonds (CBPP3) and asset-backed securities (ABSPP), the aggregate volume of the ECB's buying programmes amounts to €60 billion each month. In January 2015, the ECB set the duration of the purchase programme until at least September 2016, but extended this to March 2017 at the earliest at the Governing Council meeting held at the start of December. However, the ECB's bond purchases are set to continue beyond this date if necessary, until the ECB Governing Council acknowledges a sustained correction of the inflation trend which conforms with the medium-term 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 again. By extending the purchase programme, the ECB agreed at the same time to reinvest the redemption amounts from the securities acquired within the scope of the purchase programme at maturity, and to extend the range of eligible debt securities to include regional and local authorities. The ECB also lowered its negative deposit rate for commercial banks further, to -0.3%. The ECB's set of expansive policy tools include the low main refinancing rate of 0.05% and the continuation of its targeted longer-term refinancing operations (TLTROs).

Other central banks also further intensified their expansive monetary policy during the year. The Swedish Riksbank led its key interest rate into negative territory, to -0.35% most recently. It also launched a bond purchase programme that was tapped several times. During the year under review, key rates were also lowered by the central banks of Canada, Denmark, Poland and Switzerland (SNB reducing its target range). The People's Bank of China significantly lowered its key interest rate as well, in several steps, to 4.35%. It also reduced the minimum reserve requirements for commercial banks. The Bank of Japan also followed an expansive track with an ongoing securities purchase programme.

Monetary policy in the UK and the US adopted a different trend. Although the Bank of England kept its key interest rate low, it did not ease its monetary policy further. The increase of the Fed Funds rate was the subject of much debate during the course of the year. The US central bank raised its Fed Funds rate corridor by 0.25 percentage points in December 2015, to between 0.25% and 0.50%, in response to positive economic development and declining unemployment.

Key rate developments in 2015[1)]



1) For the Fed Funds rate, the upper level of the corridor of between 0.00 % and 0.25 % was set.

Inflationary pressure in the developed economies was negligible in the year under review. In fact, slight deflation prevailed in the euro zone at the start of the year. Prices stabilised during the course of the year and annual average inflation was marginally above zero per cent. Inflation was close to or only slightly above this level in the US and the UK as well. In some countries, such as Poland and Switzerland (in the latter case, brought about by the low import prices as a consequence of the strong Swiss franc), the annual average reverted to deflation. The rate of inflation in Japan fell to just above zero per cent, as the basis effect from the increase in value-added tax as at 1 April 2014 no longer applied. Inflation remained moderate in China, averaging at 1.4%. The absence of inflationary pressure in numerous countries is down in particular to the low oil prices, brought about by a large supply of crude oil. Restrained to moderate macro-economic demand also contributed to the absence of inflation. However, high inflation rates were observed in Turkey, with Russia showing an even higher level.

Regulatory environment

The environment in which banks have been operating was defined in recent years by an ever-increasing rise in regulatory requirements, as well as by changes in banking regulation. By way of example, these developments included the implementation of the comprehensive Basel III reform package in the EU (CRR/CRD IV), multiple amendments to the Minimum Requirements for Risk Management in Banks ("MaRisk"), as well as the introduction of the Single Supervisory Mechanism (SSM) in the EU.

On 4 November 2014, the ECB assumed responsibility for supervising banks within the euro zone. The ECB directly supervises the significant banking groups in Europe, including Aareal Bank Group.

The Supervisory Review and Evaluation Process (SREP) ensures a common approach is taken by the ECB on the supervisory review of banks, within the framework of Pillar II. The SREP is built around a business model analysis, an assessment of governance and controls, as well as of the capital and liquidity risks. The results of the individual components are aggregated in a score value, from which the ECB derives supervisory measures on holding additional capital (via an SREP assessment notice) and/or additional liquidity requirements. The SREP requirement for Aareal Bank Group at the end of 2015 was a Common Equity Tier 1 (CET1) ratio of 8.75%, including the capital conservation buffer.

Sector-specific and business developments

Structured Property Financing segment

In 2015 the transaction markets for commercial property were defined by a high degree of investor liquidity and the prevailing low interest rate environment. Commercial property, as an asset class, continued to be in demand in this environment. Global transaction volumes – defined as the sum of capital invested directly in newly-acquired commercial property – once again reached high volumes (only marginally lower than in the previous year when expressed in US dollars). However, this denomination, which is commonly used to standardise the presentation of volumes, has a material impact: if the weak euro were taken into account for the markets concerned, the year-on-year comparison would indicate an increase for 2015. Investor interest covered the various types of property, covering office, retail, hotels and logistics, and had a broad geographical spread. Portfolio investments played a significant role during the year under review. Strong investment demand for commercial property put downside pressure on investment yields[1]. Combined with a shortage of supply of first-class properties in corresponding locations, this raised the willingness of investors to put their money into properties with a higher risk profile, e.g. with regard to location, quality and rental situation. The key trends from 2014 thus remained intact.

The rental markets showed signs of a slight recovery, and new rentals for first-class commercial properties in corresponding locations were stable to higher. The hotel markets in several important economic hubs were positive too, as average revenues per available hotel room increased.

When assessing the description of fundamental market trends below, it should be noted that commercial property markets do not represent homogeneous markets. Individual properties differ – even within a regional market or for a given property type – with regard to the factors that determine their value and rents, such as construction quality, modernity, floor space and energy efficiency, flexibility and property management. The location – within regional or local markets – is of course an important factor as well. Hence, rents, income, vacancies, yields and values of individual properties from the same regional market or property type may develop differently.

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

Competition in the market for commercial property financings remained intense, and margins came under the level of pressure expected during the year under review. Despite a simultaneous trend towards higher loan-to-value ratios, these were markedly lower than in the boom years up to 2007, thanks to a greater number of investors with strong equity positions which were active in the market in 2015. A marked willingness to finance large-volume projects was also evident, thus driving up competition in this area. Providers of finance focused in particular on first-class properties. But owing to the limited supply in this market segment, their interest also shifted to other segments. These developments were largely evident in Europe, as well as in North America and in the Asian markets that are relevant for Aareal Bank. Alternative providers of finance also played a role in the competitive environment. In the US in particular, non-bank financing, such as from life assurance companies, commercial mortgage-backed securities (CMBS) and debt funds, was significant. Alternative sources of funding were also active in Europe, but not as pronounced as in the US.

Aareal Bank Group originated new business[1] of € 9.6 billion (2014: € 10.7 billion) in this highly competitive environment during the 2015 financial year, markedly exceeding its original target of between € 6 billion and € 7 billion as well as outperforming its adjusted target of between € 8 billion and € 9 billion which was set in the third quarter. The excess was largely due to a significant share of early renewals (included in new business), as well as an expansion of the volume of newly-originated loans in light of loan repayments that were higher than originally expected. This occurred against the background of an active transaction environment.

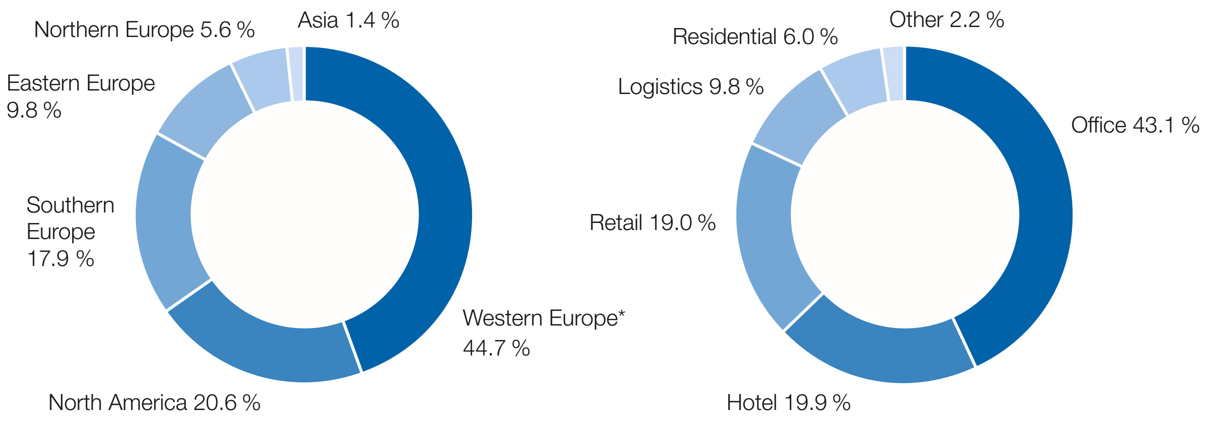
The share of newly-originated loans, relative to new business, amounted to 52.4% (2014: 60.2%) or € 5.0 billion (2014: € 6.4 billion). Renewals amounted to € 4.6 billion (2014: € 4.3 billion).

At 78.0% (2014: 76.1%), Europe accounted for the highest share of Aareal Bank Group's new business, followed by North America with 20.6% (2014: 21.6%) and Asia with 1.4% (2014: 2.3%)[2]. The Bank generated new business both through its regional sales units and through its teams of sector specialists, covering financing solutions for hotels, shopping centres, and logistics properties.

In terms of property type, office properties with 43.1% accounted for the largest share of new business (2014: 34.3%). This was followed by hotels, with 19.9% (2014: 25.6%), just ahead of retail properties with 19.0% (2014: 26.0%) and logistics properties with 9.8% (2014: 6.3%). The share of residential properties was 6.0% (2014: 6.0%) and 2.2% for other types of property and financings (2014: 1.8%).

New business 2015

by region | by type of property



* incl. Germany

[1] Excluding new business for private clients and local authority lending by WestImmo
[2] New business is allocated to the individual regions on the basis of the location of the property used as collateral. For exposures not collateralised by property, the allocation is based on the borrower's country of domicile.

Europe

In the prevailing low interest rate environment, commercial property in Europe was a sought-after asset class. Transaction volumes in newly-acquired commercial property (in euro terms) rose markedly in comparison with the previous year, with large-volume portfolio transactions contributing to this increase. Germany in particular, which was the second-largest European market according to transaction volumes executed, posted substantial growth rates. Various countries, such as the United Kingdom (as Europe's largest market), as well as Italy, Spain and Poland with its strong final quarter, also contributed to the marked growth in transaction volumes. Transaction volumes in 2015 in France, the third-largest European market, remained marginally below the previous year's level. Some of the Central and Eastern European markets also posted declines.

The strong demand ensured that the downside pressure on investment returns for newly acquired commercial property remained intact. In most of the European economic hubs by far, yields on first-class commercial property (including office, retail and logistics properties), which were already low, declined further in 2015. They remained virtually constant on some markets, such as the markets for high-quality office properties in Istanbul, for high-quality retail properties and shopping centres in Birmingham, Edinburgh, Istanbul and Prague, as well as for high-quality logistics properties in Istanbul and Moscow. However, yields in the premium segments of the European economic hubs hardly increased, for example, on the markets for first-class office and retail properties in Moscow. Investor interest also increased in properties located outside the prime locations, putting yields there under pressure.

Rents for first-class commercial property in Europe's economic centres were largely stable or developed positively for new rentals. This applied to office, retail and logistics properties. Examples of rising rents for first-class properties in European economic centres were broadly dispersed geographically: for example, in the Benelux countries this included the office markets in Amsterdam, the retail markets in Amsterdam and Brussels, as well as the logistics market in Brussels. In Germany, these were, for example, the office markets in Berlin, Frankfurt/Main, Hamburg and Munich, as well as the retail market in Munich. Other examples in France were the retail and logistics markets in Paris; in the UK, the office markets in London and Edinburgh, the retail market in London's West End and Edinburgh, as well as the logistics markets, also in London and Edinburgh. Finally, in Northern Europe the office markets in Helsinki, Copenhagen and Stockholm as well as the retail markets in Helsinki and Stockholm were noteworthy, for example. In Central and Eastern Europe, on the other hand, there were only few markets with rising rents, such as the retail market in Prague. In addition, numerous markets in the European economic centres saw virtually stable rents. Falling rents for first-class commercial properties were reported in only a few economic centres, including the office markets in Warsaw, Geneva and Zurich, the retail market in Cologne, and the logistics market in Gothenburg, as well as the markets for all three property types in Moscow, where sharp declines were seen in some cases.

The development of rents for properties that are not included in the first-class segment (in terms of their quality and location) was often subdued.

A positive trend was evident on the hotel markets of numerous economic centres, with the key indicator of average revenues per available hotel room showing increases in the year under review. Barcelona, Frankfurt/Main, Copenhagen, Madrid, Milan, Prague and Warsaw were examples of locations generating marked increases in revenues. Average revenues per available hotel room also increased in London, albeit only slightly. Revenues in Paris remained roughly at the previous year's level for quite some time. However, the terrorist attacks in mid-November appreciably impaired occupancy ratios. Declining revenues were also observed in Geneva, where the market was burdened by the strong Swiss franc.

Aareal Bank manages its sales activities in the individual regions via a network of sales centres (hubs); this excludes its WestImmo subsidiary. There are five regional hubs in Europe. In addition, the distribution centre for sector specialists covering hotels, shopping centres and logistics properties is located in Wiesbaden. Regional hubs are located at the following offices, and are specifically responsible for the following regions:

- Wiesbaden: Germany and Austria;
- London: United Kingdom, the Netherlands and the Northern European countries;
- Paris: Belgium, France, Luxembourg, Switzerland and Spain;
- Rome: Italy;
- Warsaw: Central and Eastern European countries.

In addition to these five locations, there were locations in another six countries (in Brussels, Copenhagen, Istanbul, Madrid, Moscow, Stockholm) that were each assigned to the corresponding regional distribution centre. The business in Turkey is an exception; it is allocated to the distribution centre of the sector specialists, reflecting the fact that international investors in Turkey are primarily active in shopping centres and hotels. Aareal Bank's market activity in Turkey is therefore most significant in these segments. The representative office in Copenhagen was closed after the end of the reporting year, in January 2016. We continue, however, to provide a service to clients in this market.

Moreover, Aareal Bank Group has a presence in Germany through its WestImmo subsidiary, which has twin registered offices in both Mainz and Münster. Furthermore, Structured Property Financing business is conducted from the Frankfurt/Main office, where sales activities related to renewals in the former Corealcredit portfolio.

Aareal Bank Group originated new business of € 7.5 billion (2014: € 8.1 billion) in Europe during the year under review. At € 4.3 billion (2014: € 5.3 billion), Western Europe accounted for the largest share of new business in 2015, as it had in previous years. The remaining new business was originated in Southern Europe (€ 1.7 billion; 2014: € 1.1 billion), followed by Eastern Europe (€ 1.0 billion; 2014: € 0.7 billion) and Northern Europe (€ 0.5 billion; 2014: € 1.0 billion).

North America (NAFTA states)

North America also experienced strong demand for commercial property, fuelled by the high levels of liquidity available to investors. Transaction volumes for newly-acquired commercial properties increased significantly in the US compared with the previous year, while falling sharply in Canada. Because of a shortage of property in the prime segment, greater investment interest was also shown in the US in properties with a higher risk profile in terms of location and quality. Thanks to the high demand, investment yields in the US fell on a national average in the office, retail and logistics property segments. This was also the case for the leading regional markets in the US. However, the downtrend in investment yields flattened during the final quarter.

A positive trend emerged on the rental markets, with new rentals posting a moderate to noticeable increase in average rents and the vacancy ratios declining slightly. This general trend applied for all three property types stated above. The increase in rents was particularly pronounced, for example on the office and retail markets of Los Angeles and San Francisco. The increase in rents on, for example, the office and retail markets of Washington D.C. was comparatively muted, while rents on the Chicago retail market were slightly lower.

Increases in the occupancy ratio and room rates drove up average revenues per available hotel room in the US hotel sector during the year under review.

Aareal Bank Group maintains an active presence in North America through its subsidiary Aareal Capital Corporation, which has an office in New York and also manages new business activities locally.

Aareal Bank Group originated new business of € 2.0 billion (2014: € 2.3 billion) in North America during the year under review, the large majority of which was conducted in the United States.

Asia

Transaction volumes (in US dollar terms) were down moderately in the Asia-Pacific region last year, with exchange rate effects playing a role, amongst other factors. A decline in property traded in Japan was particularly important in this context, whilst transaction volumes in China rose significantly. In the Chinese metropolitan areas of Beijing and Shanghai, investment yields for first-class properties in the three segments of office, retail and logistics properties were stable. In Tokyo, investment yields declined for the various property types in the premium segment. However, no clear trend was discernible in Singapore, where yields for high-quality office properties fell slightly, were stable for high-quality retail properties and increased slightly in the high-quality logistics segment.

The rental markets in the Asian metropolitan areas showed a mixed picture. While rents for first-class office premises in Beijing and Shanghai were unchanged (or increased slightly in some sub-markets), the increases were slight to moderate for high-quality retail and logistics properties. Rents increased significantly on the Tokyo market for first-class retail properties. New rentals for first-class office premises in Tokyo also rose but fell slightly for logistics properties. Rents in Singapore, especially in the office property segment, came under downside pressure, too.

Average revenues per available hotel room increased on the hotel markets of Beijing, Shanghai and particularly Tokyo. They decreased, however, in Singapore.

Aareal Bank Group's market activities in Asia are represented by the Group's Singapore subsidiary Aareal Bank Asia Limited. The Group also has a representative office in Shanghai.

New business generated in Asia amounted to € 0.1 billion (2014: € 0.3 billion) in the year under review, and was conducted in China and in a selected holiday destination.

Acquisition of Westdeutsche ImmobilienBank AG

As announced on 22 February 2015, Aareal Bank Group concluded the acquisition of all shares in Westdeutsche ImmobilienBank AG ("WestImmo"), which specialises in commercial property financing. The purchase was completed with effect from 31 May 2015 (the closing date). WestImmo is therefore now a legally independent subsidiary of Aareal Bank Group. The purchase price paid amounted to € 337 million. As part of the integration of WestImmo into Aareal Bank Group, a control and profit and loss transfer agreement was concluded.

Integration of former Corealcredit's operating business

Former Corealcredit's banking operations were transferred to Aareal Bank AG during the second quarter of 2015. From a legal perspective, the integration took place through splitting off Corealcredit's operative banking business, and merging it into Aareal Bank AG. This process was concluded upon the entry into the Commercial Register and the transfer of operations, at which point Corealcredit's office in Frankfurt/Main turned into Aareal Bank AG's new branch. Following the split-off of the banking operations, former Corealcredit was turned into a subsidiary with no operative activities, and is now called Aareal Beteiligungen AG. Its banking licence has therefore lapsed.

In this context, prior to this transaction, Aareal Finanz und IT Beteiligungen GmbH was merged into Aareal Bank AG. This mainly involved acquiring shares in Corealcredit Bank AG and Aareon AG.

Consulting/Services segment

Bank division Housing Industry

The Housing Industry division's clients are part of the housing and commercial property industries, as well as of the utilities and waste disposal industries.

Business development in the German housing and commercial property industries proved solid in 2015 as well. The largely constant rental income and long-term financing structures ensure a sound foundation. Corporate investments continued to focus on the maintenance and modernisation of the housing stock. The housing and property companies organised in the German Federation of German Housing and Real Estate Enterprises (Bundesverband deutscher Wohnungs- und Immobilienunternehmen – "GdW") and its regional federations invested more than € 12 billion in sustainable quality of living.

The German housing market proved largely immune to short-term economic fluctuations, since market developments here tend to be determined to the greatest extent by long-term factors such as population and income perspectives. In October, rents throughout Germany were some 3.5% higher than in the previous year.

The housing market continued to develop heterogeneously. While structurally weak regions reported a fall in population and hence higher vacancies, demand for affordable living space increased in the prospering economic centres. The vacancy ratio on the housing market has remained stable, at just over 2% in the former West German Federal states and approximately 9% in the new Federal states.

The Bank’s Housing Industry division further strengthened its market position in 2015 through acquiring new customers as well as intensifying business relationships with existing customers, bringing in more business partners – managing around 250,000 residential units between them – for the payments and deposit-taking businesses. Moreover, new business partners were acquired in commercial property management, and our existing business partners connected more managed units to our payment transaction processes year-on-year. More companies from the utilities and waste disposal industries opted for Aareal Bank's payment transaction systems and/or investment products. We also have an established customer base in this sector and therefore a solid base for further growth.

At present, more than 3,200 business partners are using our process-optimising products and banking services. The volume of deposits from the housing industry remained at a high level of € 9.0 billion on average in the 2015 financial year (2014: € 8.6 billion). Deposits also averaged € 9.0 billion in the fourth quarter of 2015. This reflects the strong trust clients place in Aareal Bank.

Aareon

Aareon Group is pursuing a profitable growth strategy and continued to grow organically in the 2015 financial year. It also extended its market presence through two acquisitions: The Dutch Square DMS Groep B.V., Grathem in the international business, and phi-Consulting GmbH, Bochum in Germany. In addition, Aareon acquired all non-controlling interests in Aareon Immobilien Projekt Gesellschaft mbH as at 1 October 2015. A project focused on efficiency and performance enhancements was carried out in 2015, as well as further improvements to quality, in order to continue supporting the growth trend.

Research and development activities form the basis for Aareon's pioneering portfolio of products and services. Systematic, joint development activities of the various country-specific teams of experts facilitate synergies to the benefit of individual national products and services. Digitalisation in the property industry took centre stage again in 2015. Aareon's Smart World range of solutions for digital property management helps the property industry in Europe to utilise the opportunities offered by digitalisation. Processes can be restructured and optimised, costs reduced and sales increased.

The Aareon data centre plays a central role in this context, as a growing number of customers use the Aareon solutions provided from the exclusive Aareon Cloud. Data protection and data security are therefore of great importance to Aareon, and are ascertained through regular certifications, among other things.

Aareon recorded a positive business development in 2015 in its Germany and International Business divisions, as planned. Overall, sales revenues rose from € 178 million to € 187 million. Year-on-year, Aareon posted a slightly higher contribution to Aareal Bank Group's consolidated operating profit, at € 27 million (2014: € 26 million).

Germany

Aareon distributes the Wodis Sigma ERP solutions, SAP® solutions and Blue Eagle, as well as GES. Business activities in 2015 were focused on the ERP migration of existing customers from GES to Wodis Sigma and to SAP® solutions and Blue Eagle. Business volumes generated with GES continued to decline slightly, as planned in the context of the migrations. The number of migration projects for Wodis Sigma increased over the previous year. As expected, the favoured version for the migration is the one that uses Wodis Sigma as a service from the exclusive Aareon Cloud. In the area of SAP® solutions and Blue Eagle, Aareon supported two large-sized implementation projects in 2015, among other things. This led to a significant increase in the advisory business. The licence and maintenance business also expanded. All release changes were conducted as planned in 2015. Aareon presented the new Wodis Sigma release at the Aareon Forum in November. Aareon has been awarded 'gold' status as SAP Channel Partner, recognising its specific expertise, quality, and distribution performance.

Demand for Aareon Smart World digital solutions was focused on the Mareon service portal, Aareon Archiv kompakt, Aareon CRM, Aareon immoblue+ and Mobile Services. The digital solutions were also able to benefit at the same time from the growing migration business related to the ERP solutions. Aareon immoblue+ also reported marked growth due to the conversion of the distribution model.

The volume of insurance business with BauSecura and in IT outsourcing increased.

Aareon extended its business activities in Germany as of 1 October 2015 to include the energy industry with the 100% acquisition of phi-Consulting GmbH. Clients in the property as well as the energy industry will benefit in future from the integrated portfolio of products and services offered in Aareal Bank Group. The integration in Aareon Group of phi Consulting GmbH that was acquired on 1 October 2015 is proceeding on schedule and should be concluded in 2016.

International Business

Aareon reported strong organic growth through the acquisition of new customers, especially on the French, Dutch and Scandinavian markets. Incit Group in Norway concluded an important contract with Helse Vest, Stavange that manages approximately 45 public-sector hospitals and other institutions providing medical services to around one million inhabitants. The market in the United Kingdom was defined by intense competition. This led to delays with regard to customer decisions. Nonetheless, additional new customers were acquired in the area of ERP products for Aareon UK's QL solution. In addition to the increased volume of business thanks to important new customers, International Business also posted strong growth with its existing client base.

The expansion of Aareon Smart World's digital solutions in International Business continued in 2015 and was enhanced by the 100% acquisition of Square DMS Groep B.V. on 1 October 2015, so that Aareon Smart World now offers a case management solution including the associated process consulting service in the Netherlands and Belgium.

The digital solutions and services also generated organic growth. Numerous customers have opted for the Aareon Smart World solutions, in particular Aareon CRM and Mobile Services. The 1st Touch digital solution was developed further in the course of the year to become 1st Touch 360°. This product now offers its customers significantly enhanced rental service functionalities, based on the French Aareon CRM solution. BIM (Building Information Modelling) is a key trend in the Scandinavian market, which is already offered by the Incit Group.

The international profile of the co-operation with partners is also intensifying: the energy service provider ista and Aareon extended their successful long-standing collaboration in Germany to Europe in September.

Moreover, Aareon Nederland was appointed a member of the 2015 Microsoft Dynamics President's Club and is therefore one of the highest-performing 5% Microdynamics partners worldwide.

Net Assets, Financial Position, and Financial Performance

Financial performance

Aareal Bank AG closed the financial year 2015 – which was characterised by a challenging market and competitive environment, as in the previous year – with an operating profit (excluding loan loss provisions) of € 239.0 million (2014: € 262.8 million).

The aggregate of net interest income and net commission income amounted to € 605.1 million, up € 78.6 million compared to the previous year. Interest income from lending and money-market transactions rose by € 14.7 million year-on-year, whilst interest income from securities declined by € 38.5 million. Interest expenses were down by € 60.2 million. Current income of € 37.3 million during the year under review (2014: € 0.0 million) was attributable to interests in affiliated companies. Net commission income of € 12.8 million was up € 4.9 million year-on-year.

Administrative expenses (including depreciation and amortisation of intangible assets and tangible fixed assets) of € 349.1 million were € 93.9 million higher than in the previous year, The main driving factors for the significant increase compared to the previous year were, among other factors, the integration of the split-off banking operations of former Corealcredit Bank AG, integration costs for Westdeutsche ImmobilienBank AG (WestImmo), increased expenses for the bank levy as well as compensation payments in connection with the changes on the Management Board.

Net other operating income/expenses deteriorated by € 8.5 million year-on-year, to € -17.0 million.

The balance of provisions for loan losses and the result from securities held as liquidity reserve amounts to € -139.0 million (2014: € -191.3 million). This figure includes expenditure for specific and general loan loss provisions. Securities held as liquidity reserve were revalued strictly at the lower of cost or market; the item also includes capital gains and losses realised on this portfolio.

The integration of the split-off banking operations of the former Corealcredit Bank AG yielded extraordinary income of € 68.5 million, whilst the preceding merger of Aareal Finanz und IT Beteiligungen GmbH into Aareal Bank AG, whereby carrying amounts were maintained in accordance with section 24 of the German Act Regulating the Transformation of Companies (Umwandlungsgesetz – "UmwG") had no impact on income.

Net other income and expenses of € -74.1 million (2014: € -32.6 million) includes the results and revaluation of subsidiaries, the results from investment securities and non-income taxes.

Taking into account a net income tax liability of € 4.9 million (2014: € 37.9 million), the Bank posted net income of € 99.3 million (2014: € 76.8 million), which permitted Aareal Bank AG to achieve its targets of preserving capital, and its ability to distribute dividends.

Net assets

Aareal Bank AG's total assets as at 31 December 2015 amounted to € 43.2 billion, after € 43.1 billion as at 31 December 2014. Lower securities investments largely offset the higher volume of the property finance portfolio, which includes the integration of the split-off banking operations of the former Corealcredit Bank AG as well as the merger of Aareal Finanz und IT Beteiligungen GmbH into Aareal Bank AG.

Net assets are dominated by the property financing business and securities investments.

The book value of debt securities and other fixed-income securities amounted to € 9.3 billion as at 31 December 2015 (31 December 2014: € 10.3 billion). These securities holdings comprise four asset classes: public-sector borrowers, covered bonds and Pfandbriefe, bank bonds and asset-backed securities (ABS).

Property financing portfolio

Portfolio structure

The volume of Aareal Bank AG's property financing portfolio stood at € 25.3 billion as at 31 December 2015, an increase of approximately 5% over the 2014 year-end figure of € 24.1 billion.

Aareal Bank AG's property financing portfolio comprises financings of office, residential and retail properties, as logistics properties, hotel properties and other financings; the portfolio is distributed across the regions of Europe, North America and Asia.

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

Financial position

Interbank and repo business

Generally, in addition to customer deposits, Aareal Bank AG also uses interbank and repurchase transactions for short-term refinancing, the latter being used primarily to manage liquidity and cash positions.

There were no liabilities vis-à-vis Deutsche Bundesbank or the ECB as at 31 December 2015.

Customer deposits

As part of our business activities, we generate deposits from housing industry customers, and from institutional investors. Deposits from the housing industry remained stable at high levels during the period under review. As at 31 December 2015, they amounted to € 8.4 billion (31 December 2014: € 8.3 billion). Deposits from institutional investors amounted to € 4.8 billion as at 31 December 2015, unchanged from the previous year.

Funding and equity

Funding structure

Aareal Bank AG's funding remains very solid indeed, as evidenced by the high proportion of long-term refinancing. This encompasses registered and bearer Pfandbriefe, promissory note loans, medium-term notes, other bonds and subordinated issues. The latter include subordinated liabilities, profit-participation certificates, silent participations, trust preferred securities as well as regulatory Additional Tier 1 instruments.

The long-term refinancing portfolio totalled € 24.6 billion as at 31 December 2015 (31 Dec 2014: € 24.5 billion), comprising € 16.6 billion (2014: € 15.3 billion) in Mortgage Pfandbriefe and Public Sector Pfandbriefe, € 6.7 billion (2014: € 7.6 billion) in unsecured funding, € 1.0 billion (2014: € 1.3 billion) in subordinated funding, plus € 0.3 billion (2014: € 0.3 billion) in Additional Tier 1 capital.

Refinancing activities

During the period under review, Aareal Bank raised a total of € 1.4 billion of medium- and long-term funds on the capital market. The issue volume of our unsecured funds amounted to € 0.65 billion; Mortgage Pfandbriefe made up € 0.75 billion of the total volume.

Given the good market conditions for Mortgage Pfandbriefe, the Bank was able to place the first USD-denominated benchmark Pfandbrief on the international capital markets in March 2015. The four-year, USD 500 million issue will mature on 1 April 2019.

In addition, we were able to place a two-year senior unsecured bond with a volume of USD 300 million, which brought our total USD funding for the year under review to USD 0.8 billion.

Thanks to persistently strong demand for Pfandbriefe and senior unsecured bonds of solid issuers, we were able to realise all planned issues, and even brought forward initial refinancing activities planned for 2016.

Equity

Aareal Bank AG’s total equity, as disclosed in the balance sheet, amounted to € 1,921.6 million as at 31 December 2015 (31 Dec 2014: € 1,894.1 million).

Regulatory capital[1]

	31 Dec 2015 [2)]	31 Dec 2014
€ mn		
Common Equity Tier 1 (CET1)	2,298	2,109
Tier 1 (T1)	2,882	2,735
Total capital (TC)	3,977	3,826
%		
Common Equity Tier 1 ratio (CET1 ratio)	13.8	13.6
Tier 1 ratio (T1 ratio)	17.2	17.7
Total capital ratio (TC ratio)	23.8	24.7

[2] After confirmation of Aareal Bank AG’s financial statements for 2015.
The inclusion of retained earnings transferred as part of Aareal Bank AG's liable equity as at 31 December 2015 is subject to approval by the Annual General Meeting.

Our Employees

Personnel data as at 31 December 2015

	31 Dec 2015	31 Dec 2014	Change
Number of employees of Aareal Bank Group	2,861	2,548	12.3%
Number of employees of Aareal Bank AG	1,009	882	14.4%
of which: outside Germany	84	88	
of which: proportion of women	45.5%	45.9%	
Proportion of women in executive positions	21.7%	25.0%	
Years of service	14.0 years	14.1 years	-0.1 years
Average age	46.1 years	45.4 years	0.7 years
Staff turnover rate	1.6%	3.1%	
Part-time ratio	20.5%	20.7%	
Retired employees and surviving dependants	728	550	32.4%

Age structure and fluctuation

Aareal Bank's fluctuation ratio for 2015 was 1.6%. The average number of years in service for the Company is 14.0. These two figures are a reflection of the strong relationship between Aareal Bank and its employees. The average age of employees is 46.1 years.

Remuneration system

The remuneration systems are based on remuneration principles that apply throughout Aareal Bank Group. The Supervisory Board and the Management Board carried out the annual review of the remuneration systems, involving the Human Resources division, the Remuneration Officer, and internal control units in line with their respective functions, supported by external legal and remuneration advisors. External advisors were retained, amongst other things, for examining the appropriateness of remuneration systems, and remuneration for members of the Management Board and employees, as well as regarding the design of the Group-wide remuneration strategy.

[1] Aareal Bank AG utilises the rules set out in section 2a of the KWG in conjunction with Article 7 of the CRR pursuant to which regulatory indicators of own funds may only be determined at Group level. In this respect, the following disclosures relate to Aareal Bank Group.

In addition to the fixed remuneration that is paid in twelve monthly instalments, all employees receive a variable remuneration. These variable remuneration components are performance-related and are generally paid directly with the salary for the month of April. The variable remuneration of a limited number of employees (senior executives and so-called risk takers) comprises a short-term and a long-term component. The limitation of variable remuneration components is designed to avoid negative incentives for taking disproportionately high risks.

Salaries are reviewed annually, to ensure that individual remuneration packages are appropriate. The objective is to offer a remuneration level that is both appropriate and attractive to all Group employees.

Qualification and training programmes

A company's success largely depends on its employees. Qualified and motivated employees make a decisive contribution to a company's economic performance and are thus a key factor to its success as well as a competitive advantage. For this purpose, Aareal Bank Group operates a human resources approach aimed at the further qualification of its managers, experts and employees.

Aareal Bank invests in its employees on an ongoing basis, and in a targeted manner. The emphasis is on supporting specialist, entrepreneurial and communicative skills over the long term. The international orientation is particularly important to the Bank in relation to continuing professional development (CPD). Specifically, this involves training to achieve and expand linguistic and cultural competencies.

Aareal Bank Group believes that promoting qualification and continued professional development (CPD) is one of the fundamental principles of professional development. This is underlined by a broad range of management, qualification and training programmes offered by the internal corporate university "Aareal Academy", which are available to the employees at all locations. It offers a broad range of internal and external seminars, language and IT training courses, vocational qualifications and study courses, complemented by the opportunity for individual development planning.

Aareal Bank Group views its training and CPD activities as an investment in its own employees, and therefore in the future of the entire Group. The "Structured Appraisal and Target Setting Dialogue" is the starting point for individual development plans at Aareal Bank. Every year, each employee discusses his or her personal development with the responsible manager, agreeing upon concrete measures. Once again, more than 1,000 development measures were agreed in this manner at the start of 2015. As a result of these plans, 2,821 employees participated in Aareal Bank's training measures during the year under review.

Aareal Bank Group supports every employee willing to develop themselves throughout the different phases of their professional paths, by establishing a culture of lifelong learning within the Company. Beyond the time window of the annual employee review, more than 70 employees received an individual development and training plan, tailored to their specific needs. This was triggered by organisational changes, a shifting of tasks or participation in an internal potential method that Aareal Bank has conducted since 2010.

This tool is used to systematically select employees and introduce them as managers or experts to new fields of activity, by way of seminars and coaching measures that are tailored to the individuals and their development requirements. The number of employees, experts and managers whose individual CPD has been supported in the Company has more than doubled since 2012.

The outcome of this systematic Human Resources development approach is that Aareal Bank employees invested an average of 3.3 days in professional development seminars and workshops during 2015.

Aareal Bank's cooperation with the Real Estate Management Institute (REMI) of the EBS University of Business and Law expired in the year under review.

Subsidiary Aareon AG already promotes young talent and the sciences with a chair for business informatics at EBZ Business School in Bochum, as agreed by both parties in November 2014. Dr Thomas Königsmann was appointed to this chair in August 2015 so that it started in the 2015 winter semester, as scheduled. Aareon has endowed the professorship for five years.

In addition, the University of Applied Sciences Mainz and Aareon agreed in July on a practice-oriented partnership in the area of facilities management.

Aareon also continued to focus on the CPD of its managers during the 2015 financial year. Within the scope of the Professional individual executive development ("ProFI") initiative, the managers were offered training (including labour law for managers), diagnostics (including a development centre for new executives) and advisory measures (including individual coaching and managerial circles). Another focus was to continue supporting the international profile of Aareon by means of language courses and training sessions to expand inter-cultural competencies. The training programme to become a certified property manager at the Hochschule für Wirtschaft und Umwelt in Nürtingen-Geislingen was also continued in 2015.

Promoting the next generation

Promoting the next generation through training is a central element of the HR work of Aareal Bank Group. The specialist knowledge required in our business divisions requires us to invest continuously – and in a targeted manner – in training the next generation. To this end, Aareal Bank has been offering a tailored trainee programme for university graduates since 2000, which provides comprehensive development opportunities within the Company. There are five in the current class, from Special Property Finance, Risk Controlling/Finance, Operations and Human Resources. Apart from this programme, Aareal Bank AG also started implementing a new talent concept in the year under review. The concept that was developed in cooperation with the Works Council, and Human Resources is planning to reintroduce the dual course of study at Aareal Bank. The concept aims to ensure that knowledge and expertise are transferred to the next generations. With this goal in mind, the first dual study students already started the "Business Informatics" course in the year under review, in cooperation with the Duale Hochschule Baden-Württemberg (university of cooperative education, DHBW) in Mannheim.

Alongside the trainee programme that was relaunched in 2013, Aareon also offers a trainee programme for new entrants to the profession. Aareon AG offers vocational training in various careers: office management, IT applications developer, IT system integrator. It also offers the dual course of study: "Business Administration – Property Manager", in cooperation with the College of Advanced Vocational Studies in Leipzig and Aareon cooperated with DHBW Mannheim to set up the "Business Administration – Exhibition, Congress and Event Management" and “Business Informatics – Software Engineering” dual courses of study. During their training, participants benefit from additional education and take over responsibilities early on. As at year-end 2015, Aareon employed 21 trainees and 3 students from the College of Advanced Vocational Studies.

Aareal Bank and Aareon held the Girls’ Day and the Boys’ Day as part of its measures for promoting the next generation. The Girls’ Day was held at Aareon for the eighth consecutive year, where 21 female students aged between 9 and 15 were given an insight into the wide variety of careers in IT. A further 11 students aged between 11 and 14 years took the opportunity presented by the Girls’ and Boys’ Days at Aareal Bank to gain more comprehensive impressions of occupations that they would have not taken into account in their choice of career otherwise.

A total of 66 boys and girls aged between 8 and 12 years visited the Aareon Science Camps “Experiencing the speed of light”, which aim at stimulating and promoting interest in technology at an early age. This was the third anniversary for Aareon Science Camps, which have now been attended by a total of 200 participants.

Within the scope of promoting the next generation, Aareal Bank Group also offers students the opportunity to gain their first impressions of the professional world and Group divisions by actively participating in internships. The work placement programme was continued successfully during the year under review.

Work-life balance

Aareal Bank Group places great importance on supporting its employees to achieve compatibility of career and family. Employees are supported in many ways.

Since July 2012, the Bank has cooperated with the non-profit organisation "Fit For Family Care", which operates two childcare facilities in Wiesbaden. This cooperation agreement offers employees childcare places for children aged between ten months and six years. Aareal Bank also cooperates with the City of Wiesbaden to offer childcare facilities to its employees during the school holidays. Since summer 2013 it has cooperated with the Biberbau children and youth farm in the city, where employees’ children can take advantage of educational and leisure opportunities. These offers are supplemented by flexible working hours – provided the respective position allows it. During the year under review, 207 employees (20.5%) worked part-time (2013: 183 or 20.7%), and 65 employees (6.4%) worked from home during parts of their working hours (2013: 38 or 4.3%). To provide particular support to those employees based outside Wiesbaden in balancing the demands of family and career, we installed a new service in 2014 offering help in finding private childcare solutions. This service is available all over Germany and includes finding childminders, nannies, 'rent-a-grandma/grandpa' schemes, as well as caregivers for emergencies via external service providers. This offer was enhanced in the year under review with the provision of various presentations covering the topic of career & family.

Another component for improving the work-life balance of Aareal Bank's staff consists of services that make it easier to combine working life with the care of close relatives. This includes the opportunity to use statutory family caregiver leave, and in particular advisory and support services where close relatives are ill or in need of care, all over Germany. During the year under review, our employees also had the opportunity to participate in trainings to develop and hone the skills needed to successfully combine care and career, offered by Bündnis für Familie, Wiesbaden.

For the last eight years, Aareon has been certified as a family-friendly company by berufundfamilie gemeinnützige GmbH, a non-profit organisation. Aareon's staff policy services include the promotion of workplace flexibility through part-time work and home working. At the end of 2015, Aareon had 136 (17.0%) part-time positions (2014: 132, 17.0%) and 87 (10.9%) home working places (2014: 88, 11.3%). Aareon also works together with a family service company that supports its employees by providing an advisory service on the topics of childcare, care situation and psychosocial concerns. Together with another company, Aareon offers places at a day nursery and nursery school at a daycare centre in Mainz, where the nursery school places are free of charge for Aareon employees.

In response to the changing requirements in a digital working world, Aareon is one of the first 100 pilot companies to conduct the INQA (Initiative Neue Qualität der Arbeit – New Quality of Work Initiative) audit. In July, the Bertelsmann foundation awarded Aareon the so-called new entry certification. This certification confirms that Aareon deals comprehensively with the INQA topics of human resources management, equal opportunity & diversity, health, knowledge & competence, which it develops in line with target agreement. This also implies the development of human resources policy being aligned towards the various life phases – something that started already the year before. The INQA audit is an initiative of the Bertelsmann foundation and is supported by the Federal Ministry of Labour and Social Affairs.

Besides the various measures for promoting the compatibility of career and family, parent/child offices have been set up at Aareal Bank in Wiesbaden and at various locations of Aareon. The objective is to support employees that are faced with short-term bottlenecks in the provision of care for their children.

Healthcare

Aareal Bank practices Company Health Management to promote employee health. This includes information and trainings on preventative healthcare, physical activity & ergonomics, nutrition, as well as mental health & relaxation.

The health portal of BAD occupational health service offers information on a variety of health-related topics. Additionally, we provide a forum on the intranet for our employees to engage in discussions about health-related topics, share experiences and bring forward suggestions. During the year under review, Aareal Bank once again invited its staff – via this permanent information portal – to various specialist presentations, including the topics of stress, mindfulness, resilience and relaxation techniques. Recordings of these talks have been made available online to all employees globally.

In the area of preventative healthcare, we have provided our employees with the opportunity to utilise the Employee Assistance Program (EAP), a phone service for employees designed to assist in overcoming crises in the professional and private sphere. This facility is available 24 hours a day and 365 days a year. The Bank also continued to provide influenza vaccinations and skin cancer screenings, as well as health advice through a company doctor.

The movement classes initiated in the previous year were continued and extended in 2015. The Bank for example once again offered its employees running courses for beginners and returning runners, which are led by trained employees of the Bank as part of a multiplier programme. To make it easier for the employees to reconcile work and sport, the Bank installed showering facilities that are used especially after sporting activeties in the morning or at lunchtime.

The activities in company health management focused on the area of nutrition in 2015. In addition to basic healthy food in the in-house canteen, the Bank offered its employees the opportunity to take part in a weight management programme over a period of several months.

Particular emphasis was placed on mental health & relaxation during the year under review, whereby the 'Health Day' was held under this slogan in 2015 on the one hand. Besides a comprehensive range of tests and messages, various presentations and workshops on the topic of stress and relaxation were offered. On the other hand, Aareal Bank in Wiesbaden not only offered massages to help employees relax but also arranged Qigong classes again, which will be continued in 2016 due to popular demand. This offer was rounded off with an in-house mindfulness training course for employees, as well as a seminar on "Mindful Leadership" aimed specifically at managers. This follows on from the management seminar "Healthy Leadership" that was introduced already in 2013 and held again in 2015.

In collaboration with a corporate health management consultancy, and on the basis of legal regulations, during the year under review the Bank conducted an employee survey on the impacts at the workplace of corporate health management, as well as the expectations and assessments thereon: the results were very positive overall.

For its dedication to health and individual performance of its employees as well as for its forward-looking and sustainable personnel strategy, Aareal Bank was distinguished with the Certificate of Excellence at the Corporate Health Awards 2014.

Subsidiary Aareon operated its corporate health management in 2015 under the motto "Back health", since the employee survey and previous campaigns had shown that this topic is of particular interest. A mixture of movement classes, presentations and checkups counteract health issues and support a healthy work environment at Aareon.

Diversity

During 2013, the Management Board made an express commitment to diversity in Aareal Bank Group, publishing it on the Internet and the Intranet. This defines diversity as follows:

- An appreciation for the uniqueness of every individual and respect for their differences,
- equal opportunities at all levels,
- the prevention of discrimination of any kind, along with
- actively representing and living the belief that diversity enriches corporate culture and also represents a success factor in reaching strategic goals.

The goals are to promote Aareal Bank's image as a modern employer, to strengthen employee commitment and increase employee motivation, to ensure skills and competencies are fostered individually in a way that promotes employee performance, to react to demographic change and an ageing workforce, and to take into account individual circumstances and stages of life.

In order to highlight the significance of diversity and document the fact that the concept of diversity is very important to Aareal Bank Group, the Bank signed the Charter of Diversity (an initiative launched by German industry in 2006) in 2013.

Aareal Bank Group currently employs people from more than 30 different countries. Staffing at the Bank's international locations is drawn from local people as far as is possible.

The share of female employees in Aareal Bank AG was 45.5% in the 2015 financial year, with women accounting for 21.7% of executive positions. Within Aareon Group, the figures were 32.5% and 18.8% respectively.

Severely disabled persons made up 3.7% of Aareal Bank's staff base in 2015. This employee group is represented in the Group's German entities by a disability representative.

Equal treatment

It is very important for Aareal Bank Group that men and women are treated equally, in relation to recruitment decisions and further development through qualification measures, as well as with regard to remuneration in the Company. As a rule, all vacant positions below executive staff level are filled within the scope of an internal recruitment procedure. All employees may apply for the advertised positions. The employees' remuneration is, so to speak, not differentiated by gender, but – aside from the individual performance – solely on the basis of aspects such as qualification, experience and education.

The employee representative bodies regularly check within the scope of their co-determination rights that qualification is the decisive criteria for filling positions. In addition, recruitment decisions at Management Board and executive staff levels must take into account primarily the qualifications and experience at international level, when selecting a suitable candidate.

In Germany, Aareal Bank and Aareon apply the German General Equal Treatment Act (Allgemeines Gleichbehandlungsgesetz – "AGG"), with specially-appointed AGG Officers overseeing compliance. Special AGG-related training measures are carried out for all employees. In the US, the employee manual contains rules designed to avoid harassment at the workplace ("Anti-Harassment Rules").

Report on Material Events after the Reporting Date

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

Risk Report

Aareal Bank AG is the parent company of Aareal Bank Group. Aareal Bank AG has entered into profit and loss transfer agreements, or control and profit and loss transfer agreements, with numerous Group entities. The economic risks of these entities are thus reflected in Aareal Bank AG's risk profile. Moreover, the funding of Aareal Bank Group is managed centrally by Aareal Bank AG. The parent company therefore monitors and manages the Group's risks, based on uniform, Group-wide policies. Against this background, the risk report provided below outlines the risk management system at Group level.

Aareal Bank Group Risk Management

The ability to correctly assess risks, and to manage them in a targeted manner, is a core skill in banking. Accordingly, being able to control risks in all their relevant variations is a key factor for a bank's sustainable, commercial success. Besides this purely economic motivation for a highly-developed risk management system, extensive regulatory requirements apply to the risk management as well. We therefore continued to drive the development of our processes for identifying, measuring, limiting and managing risks in the financial year under review, too. When WestImmo was merged into Aareal Bank Group, it was integrated into the Group's risk management at the same time. Moreover, former Corealcredits's banking operations were transferred to Aareal Bank AG during 2015.

Risk management – scope of application and areas of responsibility

Aareal Bank Group' business activities comprise the Structured Property Financing and Consulting/Services segments. Aareal Bank AG, as the parent entity of the Group, has implemented extensive systems and procedures to monitor and manage the Group's risk exposure.

Uniform methods and procedures are deployed to monitor the risks generally associated with banking business across all entities of Aareal Bank Group. Since the risks the Consulting/Services segment is exposed to differ profoundly from those of the banking business, specific risk monitoring methods have been developed and deployed to suit the relevant risk exposure at the respective subsidiary. In addition, risk monitoring for these subsidiaries at Group level is carried out via the relevant control bodies of the respective entity, and equity investment controlling.

Overall responsibility for risk management and risk monitoring remains with the Management Board and the Supervisory Board of Aareal Bank AG. The adjacent diagram provides an overview of the responsibilities assigned to the respective organisational units.

**Overall responsibility:
Management Board and Supervisory Board of Aareal Bank AG**

Type of risk		Risk management	Risk monitoring
Market price risks		Treasury, Dispo Committee	Risk Controlling
Liquidity risks		Treasury	Risk Controlling
Credit risks	Property Finance Single exposures	Business & Syndication Management, Credit Management	Risk Controlling, Credit Management
Credit risks	Property Finance Portfolio risks	Credit Management, Portfolio Management & Controlling	Risk Controlling
Credit risks	Treasury business	Treasury, Counterparty and Country Limit Committee	Risk Controlling
Credit risks	Country risks	Treasury, Credit Management, Counterparty and Country Limit Committee	Risk Controlling
Operational risks		Process owners	Risk Controlling
Investment risks		Acquisitions & Subsidiaries	Risk Controlling, Acquisitions & Subsidiaries, Controlling bodies

Process-independent monitoring: Audit

Strategies

The business policy set by the Management Board, and duly acknowledged by the Supervisory Board, provides the conceptual framework for 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 strategies are designed to ensure a professional and conscious management of risks. Accordingly, these strategies include general policies, to ensure a uniform understanding of risks across all parts of the Group. They also provide a cross-sectional, binding framework applicable to all divisions. The Bank has implemented adequate risk management and risk control processes to implement these strategies, and to safeguard the Bank's risk-bearing capacity. During the financial year under review, risk strategies as well as the Bank's business strategy were adapted to the changed environment, and the new strategies were adopted by the Management Board and duly acknowledged by the Supervisory Board.

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 1 ratio (calculated in accordance with the CRR) equivalent to 8% of forecast risk-weighted assets (RWA), plus buffer. Only free own funds exceeding this level are applied as potential risk cover, of which a further minimum of 10% (currently 15%) 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).

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 following table summarises the Group's overall risk-bearing capacity as at 31 December 2015.

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

€ mn	31 Dec 2015	31 Dec 2014
Own funds for risk cover potential	2,937	2,530
less 8% of RWA (Tier 1 capital (T1))	1,606	1,442
Freely available funds	**1,331**	**1,088**
Utilisation of freely available funds		
Credit risks	313	246
Market risks	244	205
Operational risks	100	52
Investment risks	65	38
Total utilisation	**721**	**542**
Utilisation as a percentage of freely available funds	**54%**	**50%**

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'.

Stress testing

Stress testing, and the analysis of stress test results, form an additional focal aspect of our risk management system. This involves conducting stress tests for all material risks, using both plausible historical parameters as well as hypothetical stress testing scenarios. To also be able to assess cross-relationships between the various types of risk, we have defined multi-factor stress scenarios, so-called ”global” stress tests. For instance, the impact of a crisis affecting financial markets and the economy on individual types of risk and aggregate risk is analysed within the scope of a historical scenario. An escalation of the financial markets and economic crisis is modelled as a hypothetical scenario. The stress testing methodology implemented also takes into account the impact of any risk concentrations. We compare the aggregate risk cover available in a stress situation with the result of stress tests, thus assessing Aareal Bank's ability to bear risk in a stressed environment. Regular quarterly reports on the results of such stress analyses are submitted to the Management Board.

Organisational structure and workflows

Lending business

Division of functions and voting

Aareal Bank Group's structural organisation and business processes are consistently geared towards Group-wide effective and professional risk management. This includes the extensive implementation of regulatory requirements regarding the structural organisation and workflows in the credit business.

Processes in the credit business are designed to consistently respect the clear functional division of Sales units (“Markt”) and Credit Management (“Marktfolge”), up to and including senior management level. In addition, the Risk Controlling division, which is not involved in making lending decisions, is responsible for monitoring all material risks whilst ensuring an adequate and targeted risk reporting system at a portfolio level.

Lending decisions regarding credit business classified as relevant for the Bank's risk exposure require two approving votes submitted by a Sales unit and a Credit Management unit. The Bank's Assignment of Approval Powers defines the relevant lending authorities within Sales units and Credit Management. Where authorised persons are unable to come to a unanimous lending decision, the loan involved cannot be approved, or must be presented to the next-highest decision-making level for a decision.

The Counterparty and Country Limit Committee (CCC), which consists of executives from non-Sales units, is responsible for the Credit Management vote regarding the approval of counterparty, issuer, or country limits.

We have implemented and documented the clear separation of Sales and Credit Management processes across all relevant divisions.

Process requirements

The credit process comprises the credit approval and further processing phases, each governed by a control process. Credit exposures subject to increased risks involve supplementary processes for intensified handling, the handling of problem loans, and – if necessary – for recognising allowance for credit losses. The corresponding processing principles are laid down in the Bank's standardised rules and regulations. Important factors determining the counterparty credit risk of a credit exposure are identified and assessed on a regular basis, adequately taking into account sector and (where appropriate) country risks. Critical issues regarding an exposure are highlighted, and analysed assuming different scenarios where appropriate.

Suitable risk classification procedures are applied to evaluate risks for lending decisions, as well as for regular or event-driven monitoring of exposures. This classification scheme is reviewed at least once a year; depending on the risk situations, the review cycle may be shortened significantly. Furthermore, the risk assessment results influence pricing.

The organisational guidelines contain provisions governing escalation procedures and further handling in the event of limit breaches, or of a deterioration in individual risk parameters. Measures involved may include the provision of extra collateral, or an impairment test.

Early risk detection procedures

The early identification of credit risk exposure, using individual or combined (early warning) criteria is a core element of our risk management approach.

In particular, the procedures applied for the early detection of risks serve the purpose of identifying borrowers or exposures where higher risks start emerging, at an early stage. For this purpose, we generally monitor individual exposures and the parties involved (such as borrowers or guarantors) regularly throughout the credit term, assessing quantitative and qualitative factors, using instruments such as periodic monitoring and internal ratings. The intensity of the ongoing assessments is based on the risk level and size of the exposure. The Group's risk management processes ensure that counterparty credit risk is assessed at least once a year.

An "On-watch Committee" has been established in order to enhance the Bank's procedures for the early detection of risks. Whenever there are indications of specific risks, this Committee has global authority – regardless of exposure size – to classify exposures as 'normal' or 'subject to intensified handling', and to decide on the measures to be taken as well as the composition of the Deal Team handling the exposure. The transfer of know-how is enhanced through the cross-divisional representation on the Committee.

Extensive IT resources are deployed to identify risk positions, and to monitor and measure risks. Overall, the existing set of tools and methods enable the Bank to adopt suitable risk management measures, where required, at an early stage.

Actively managing client relationships is crucially important in this context: approaching clients in time to jointly develop a solution to any problems which may arise. Where necessary, we muster the support of experts from the independent restructuring and recovery functions.

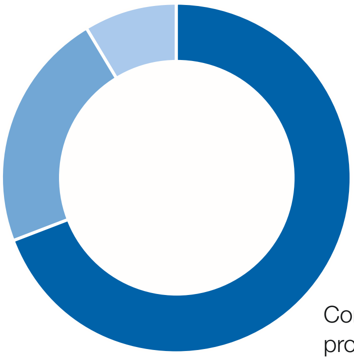
Risk classification procedures

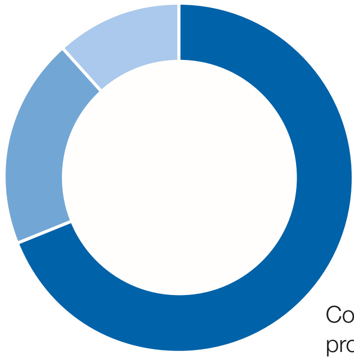
Aareal Bank employs risk classification procedures tailored to the requirements of the respective asset class for the initial, regular, or event-driven assessment of counterparty credit risk. The rating scales and exposure definitions have been customised to match the respective methods. Responsibility for development, quality assurance, and monitoring implementation of risk classification procedures, is outside the Sales units. These units are responsible for the annual validation of the risk classification procedure.

The ratings determined using internal risk classification procedures are an integral element of the Bank's approval, monitoring, and management processes, and on its pricing.

Breakdown of exposure by rating procedure

31 Dec 2015 | 31 Dec 2014 100 % = € 46.4 bn | 100 % = € 44.2 bn





Note: The rating procedures for financial institutions also apply to development and promotional banks. Such institutions accounted for 46 % of all rated financial institutions as at 31 December 2015.

Property financing business

The Bank employs a two-level risk classification procedure for large-sized commercial property finance exposures, specifically designed to match the requirements of this type of business.

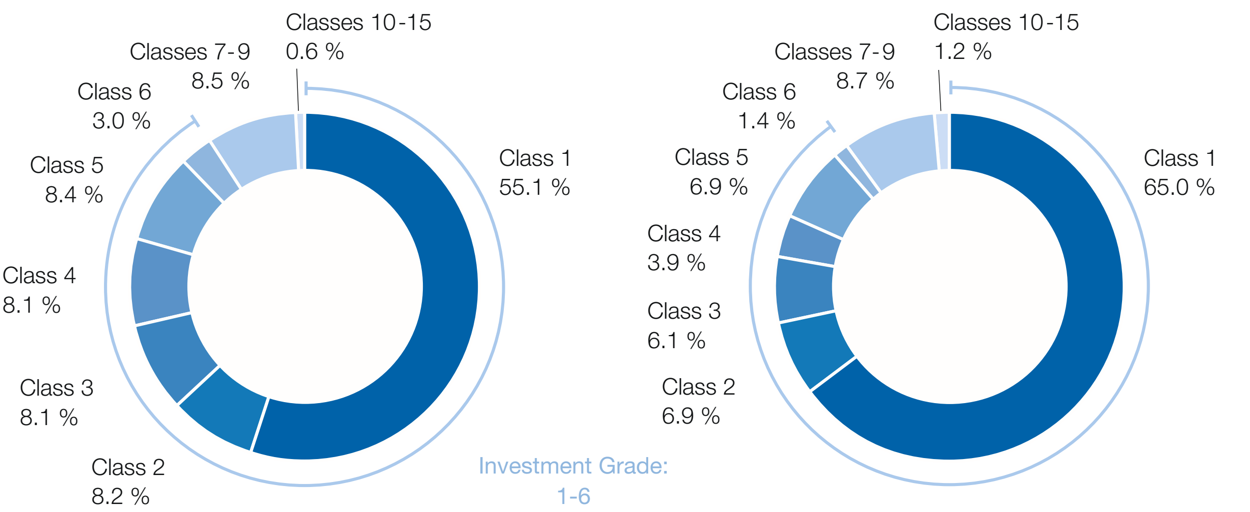
In a first step, the client's probability of default (PD) is determined using a rating procedure. The method used in this context comprises two main components, a property rating and a corporate rating.

The relative impact of the two components on the rating result is determined by the structure of the exposure concerned. The client's current and future default probability is determined based on specific financial indicators, together with qualitative aspects and expert knowledge.

The second step involves calculating the loss given default (LGD). The LGD estimates the extent of the economic loss in the event of a borrower defaulting. In simple terms, this is the amount of the claim not covered by the proceeds from the realisation of collateral.

Large-sized commercial property finance

by internal expected loss classes — as at 31 Dec 2015 | as at 31 Dec 2014



When evaluating collateral, haircuts are applied or recovery rates used, depending on the type of collateral involved and specific realisation factors. For financings of domestic properties, recovery rates are taken from a pool of data used across the Bank, whilst recovery rates for international properties are derived using statistical methods, given the low number of realisations.

The expected loss (EL) in the event of default of an exposure is determined as the product of PD and LGD. As a risk parameter related to the financing, EL is used as an input factor for the tools used to manage the property financing business.

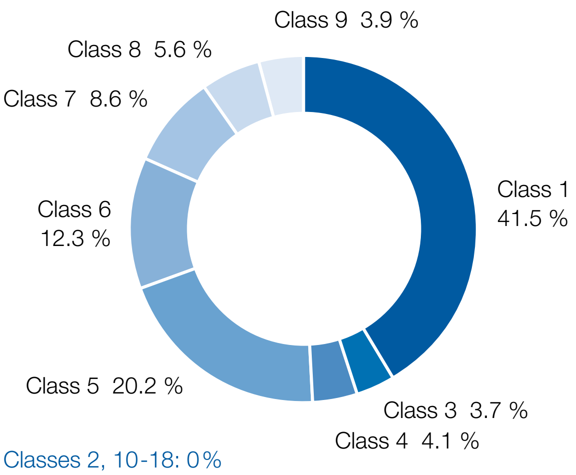
The diagrams shown above depict the distribution of lending volume by EL classes as at 31 December 2014 and 31 December 2015, based on the maximum current or future drawdown. The distribution excludes exposures for which no rating has been concluded, or which are in default (as defined under the CRR).

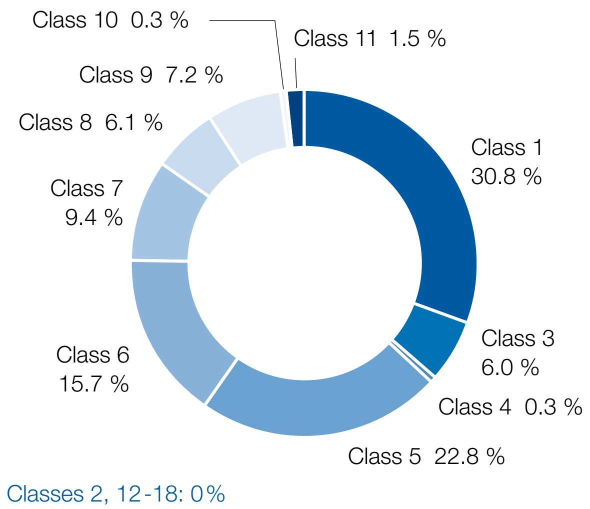
Financial institutions

Aareal Bank employs an internal rating procedure for financial institutions, which incorporates qualitative and quantitative factors as well as our client's group affiliation, to classify the risk exposure to banks, financial services providers, securities firms, public-sector development banks, and insurance companies. Financial institutions are assigned to a specific rating grade by way of assessing relevant financial indicators and taking into account expert knowledge.

Financial institutions

by rating class | as at 31 Dec 2015 | as at 31 Dec 2014





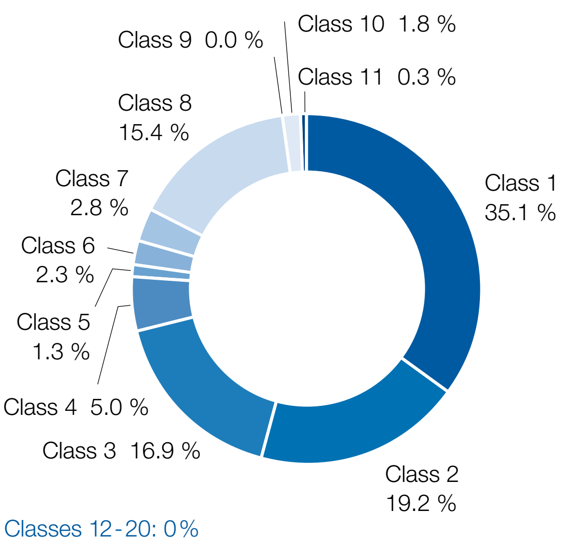
Sovereign states and local authorities

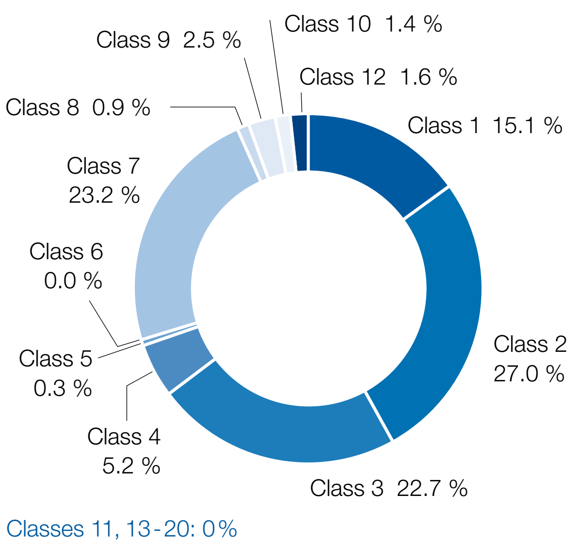
In addition, Aareal Bank Group employs internal rating methods for sovereign borrowers and regional governments, local and other public-sector entities. In this context, rating grades are assigned using clearly-defined risk factors, such as fiscal flexibility or the level of debt. The expert knowledge of our rating analysts is also taken into account for the rating.

In general, the risk classification procedures employed by the Bank are dynamic methods which are permanently adapted to changing risk structures and market conditions.

Sovereign states and local authorities

by rating class | as at 31 Dec 2015 | as at 31 Dec 2014





Trading activities

Functional separation

We have implemented a consistent functional separation between Sales units and Credit Management for the conclusion, settlement and monitoring of trading transactions, covering the entire processing chain.

On the Sales side, the processing chain comprises the Treasury division, whilst Credit Management tasks are carried out by the independent Operations and Risk Controlling divisions. Beyond this, Finance and Audit are responsible for tasks not directly related to processes.

We have laid down organisational guidelines providing for binding definitions of roles and responsibilities along the processing chain; with clearly defined change processes.

The detailed assignment of responsibilities is outlined below.

Treasury is responsible for risk management and trading activities as defined by the Minimum Requirements for Risk Management ("MaRisk") set out by BaFin. Treasury is also responsible for asset/liability management, and for managing the Bank's market and liquidity risk exposures. In addition, we have established a Transaction Committee, to develop strategies for the Bank's asset/liability management and proposals for their implementation. The Committee, which comprises the Management Board member responsible for Treasury, the Head of Treasury, and other members appointed by the Management Board, meets on a weekly basis.

Operations is responsible for controlling trading activities, confirming trades to counterparties, and for trade settlement. The division is also responsible for verifying that trades entered into are in line with prevailing market conditions, as well as for the legal assessment of non-standard agreements, and of new standard documentation / master agreements.

To assess counterparty credit risk in the trading business, Operations prepares a rating for all counterparties and issuers on a regular or event-driven basis. The rating is a key indicator used to determine the limit for the relevant counterparty or issuer.

The Bank has also established a Counterparty and Country Limit Committee that votes on all limit applications, and is responsible for conducting the annual review of limits. Where required by current developments, the Committee may reduce or revoke counterparty or issuer limits.

The tasks of the Risk Controlling division comprise identifying, quantifying and monitoring market price, liquidity and counterparty credit risk exposure from trading activities, and the timely and independent risk reporting to senior management.

Process requirements

Processes are geared towards ensuring end-to-end risk management, from conclusion of the trade right through to monitoring portfolio risk. The monitoring and reporting function comprises deploying adequate risk measurement systems, deriving limit systems, and ensuring the transparency of Aareal Bank Group's overall risk exposure from trading activities, in terms of scope and structure.

Moreover, processes and systems are designed in a way that allows to incorporate new products into the risk monitoring system swiftly and adequately, in order to ensure the flexibility of the Sales units in their business activities.

A standardised process exists for the intensified handling of counterparties and issuers, and for dealing with problems. This process comprises identifying early warning indicators, applying them for the purposes of risk analysis, and determining further action to be taken. In the event of counterparty or issuer default, the Counterparty and Country Limit Committee will coordinate an action plan in cooperation with the Bank's divisions involved.

Escalation and decision-making processes have been set out to deal with limit breaches.

Risk exposure by type of risk

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.

Credit risk strategy

Based on the Bank's overall business strategy, Aareal Bank's credit risk strategy sets out all material aspects of the Group's credit risk management and policies. Proposals for the credit risk strategy are prepared jointly by the Sales units and Credit Management, adopted by the entire Management Board and duly acknowledged by the Supervisory Board. The credit risk strategy will be reviewed, at least once a year, as to its suitability regarding the Bank's risk-bearing capacity and its business environment; amendments will be made as necessary. This process is instigated by management, and implemented by the Sales units and Credit Management, who submit a proposal (on which they both agreed) to management. Designed in principle for a medium-term horizon, the credit risk strategy is adapted when necessary to reflect material changes in the Group's credit risk and business policies, or in the Group's business environment (as in the case of the financial markets crisis).

Aareal Bank's credit risk strategy comprises the Group credit risk strategy (as a general guideline) plus individual sub-strategies called Lending Policies. Given the hierarchical structure of the credit risk strategy, the Group credit risk strategy overrides individual sub-strategies. These rules serve as a guideline for generating new business.

Risk measurement and monitoring

The credit business is subject to a variety of risk measurement and monitoring processes. This includes the application of two different credit risk models incorporating concentration and diversification effects at a portfolio level, from which both the expected and unexpected loss (credit-value-at-risk) are derived. Credit value-at-risk corresponds to the maximum amount by which the actual loss can exceed the anticipated loss, at portfolio level, for a given confidence interval.

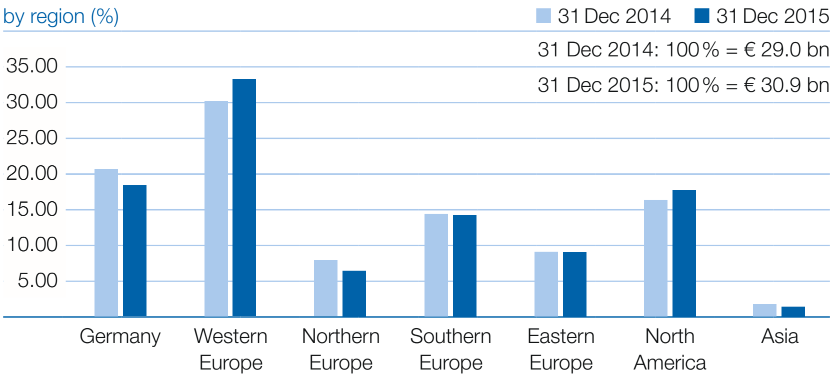
Based on the results of these models, the Bank's decision-makers are regularly informed of the performance and risk content of property finance exposures, and of business with financial institutions. The models permit to identify, measure, monitor and manage risks at a portfolio level.

The Bank focuses in particular on the identification, monitoring and management of risk concentrations, where both quantitative and qualitative methods are being used. With regard to counterparty credit risk, these include for example, the regular analysis of our largest borrower units and the analysis of the portfolios by countries (covering risk classes and categories of collateral). Thresholds are set within this system for individual sub-markets and product groups. Risk Controlling uses a "red-amber-green" indicator system to assess the utilisation of the limits on a monthly basis, which it submits to the Management Board. The thresholds are reviewed annually within the scope of the target portfolio and Group planning.

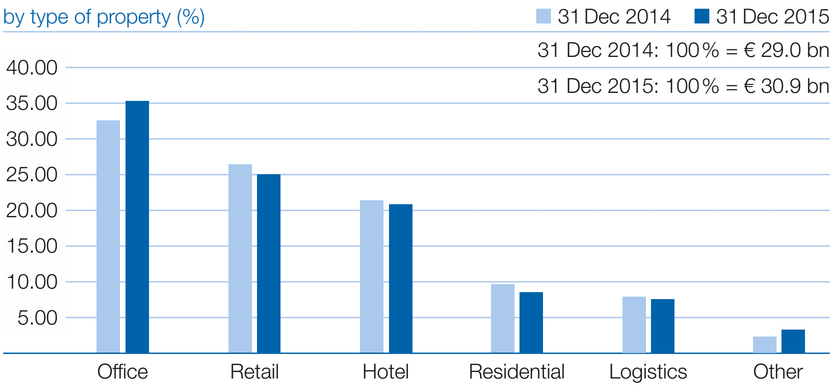
The model-based review and monitoring of risk concentrations is carried out on the basis of the credit risk models used in the Bank. The models in question allow the Bank to include in particular, rating changes and diversification effects in the model-based assessment of the risk concentrations.

Within the process-oriented monitoring of individual exposures, the Bank uses specific tools to monitor exposures on an ongoing basis: 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.

Property financing volume[1] (amounts drawn)



Property financing volume[1] (amounts drawn)



[1] Excluding € 1.5 billion in private client business and € 0.6 billion in local authority lending business by WestImmo

A risk report that complies with the Minimum Requirements for Risk Management (MaRisk) is prepared and submitted to the Bank's senior management 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 types of collateral), with a particular focus on risk concentrations.

Trading activities are generally restricted to counterparties for whom the requisite limits are in place. Replacement and settlement risks are taken into account when determining counterparty limit usage. Persons holding position responsibility are informed about relevant limits and their current usage without delay. Trading activities also require the establishment of issuer limits.

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. Any limit breaches are documented, together with action taken in response. Where limit transgressions exceed an amount defined in line with risk considerations, these are escalated to the responsible members of senior management, using a standardised escalation process.

Credit risk mitigation

The Bank accepts various types of collateral to reduce default risk exposure. This includes impersonal collateral, such as liens on immobile (property) and mobile assets; liens on receivables, such as rents; and third-party undertakings, such as guarantees.

As an international property finance house, Aareal Bank focuses on property when collateralising loans and advances. Loans are granted and the security interest perfected in accordance with the jurisdiction in which the respective property is located.

Market values and mortgage lending values are set in accordance with the responsibilities for decision-making on lending, and form an integral part of the lending decision. The values to be determined by the Bank are generally pegged on the valuation prepared by an independent appraiser; any discrepancies must be substantiated in writing. In any case, the market and mortgage lending values determined by the Bank must not exceed the values assessed by independent internal or external appraisers.

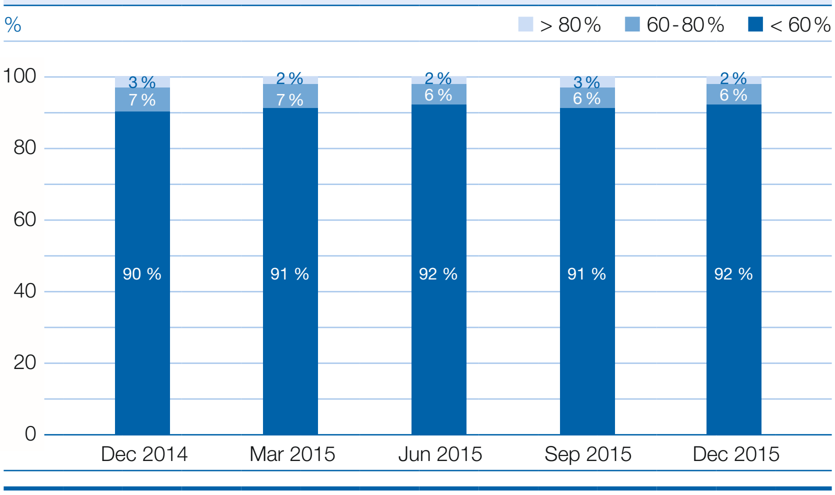
To mitigate credit risk, the Bank also accepts collateralisation through a pledge of shareholdings in property companies or special-purpose entities not listed on a stock exchange. The Bank has set out detailed provisions governing the valuation of such collateral.

The Bank also accepts guarantees or indemnities as well as financial collateral (such as securities or payment claims) as standard forms of collateral. The collateral value of the indemnity or guarantee is determined by the guarantor's credit quality. For this purpose, the Bank differentiates between banks, public-sector banks, and other guarantors. The value of financial collateral is determined according to the type of collateral. Haircuts are generally applied when determining the value of guarantees/indemnities and financial collateral.

The credit processes provide for the regular review of collateral value. The risk classification is adjusted in the event of material changes in collateral value, and other measures taken as deemed appropriate. An extraordinary review of collateral is carried out where the Bank becomes aware of information indicating a negative change in collateral value. Moreover, the Bank ensures that disbursement is only made after the agreed conditions for payment have been met.

Collateral is recorded in the Bank's central credit system, including all material details.

Property financing portfolio by LtV range (quarterly comparison)



Note that the loan-to-value ratios are calculated on the basis of the market values, including supplementary collateral.

To reduce counterparty credit risk in Aareal Bank's trading business, the master agreements for derivatives and securities repurchase transactions (repos) used by the Bank provide for various credit risk mitigation techniques.

The derivatives master agreements used by the Bank contain mutual netting agreements to reduce prepayment risk at a single transaction level (payment netting), and arrangements for the termination of individual or all transactions under a master agreement (close-out netting). For repo transactions, depending on the counterparty, payment or delivery netting is agreed upon.

To further reduce default risks, the provision of collateral is agreed upon.

Prior to entering into agreements, and on a regular basis following conclusion of an agreement, the responsible legal services unit within the Operations division assesses the legal risks, and the legal effectiveness and enforceability. The Bank uses an internal rating system to assess the credit quality of counterparties. For derivatives transactions entered into with financial institutions, where the Bank is looking for capital adequacy relief in accordance with the CRR, a clause providing for a review of eligibility is added to the netting agreements. This review is carried out in accordance with the CRR, particularly through obtaining regular legal opinions, using a database developed for this purpose.

Operations is responsible for the daily valuation of the Bank's trades, including collateral accepted or pledged, and using validated valuation procedures. Collateral for derivatives transactions is transferred on a regular basis, as provided for in the respective agreements. Margin calls for repo transactions are determined on a daily basis. Haircuts are applied to account for potential fluctuations in collateral value.

Only cash collateral is accepted for derivatives, whereas collateral for repos can be provided in cash or in securities. Some of the collateral agreements the Bank has entered into provide for a higher amount of collateral to be provided in the event of a downgrade of the Bank's external rating.

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 used on a selective basis, and/or by selling parts of exposures. Loan syndication is used as an active element of portfolio management.

Any assets acquired upon the realisation of collateral are predominantly properties. The consideration received upon disposal is applied to repay the underlying financing. An immediate sale is generally sought for such properties.

Country risk

Definition

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). These types of risks arise only if the borrower is located in a different country from the lender, or if the financed property is located in another country.

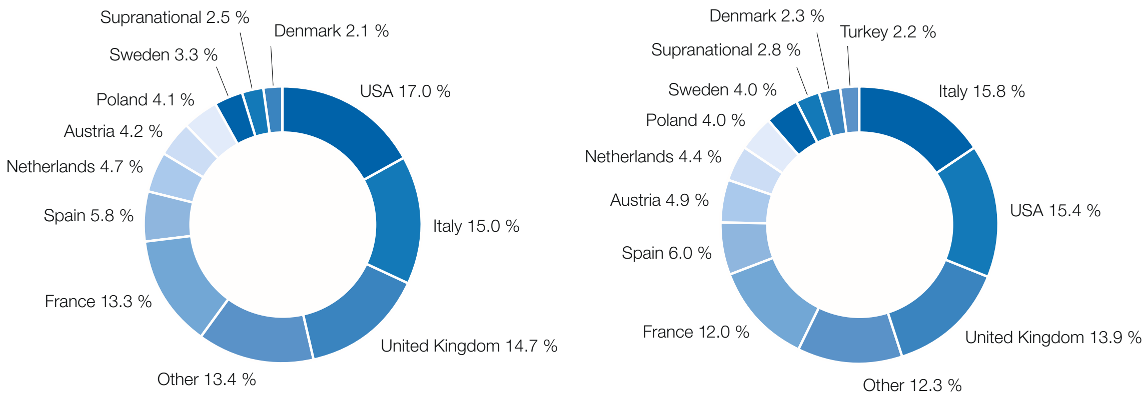
Country risk measurement and monitoring

Country risk exposure is managed using a cross-divisional process. The Counterparty and Country Limit Committee carries out a risk assessment of the relevant countries, grades them in country risk groups, and conducts an annual review in terms of country rating. The limits are set by the Management Board. The Risk Controlling division is responsible for the continuous monitoring of country limits and limit utilisation, and for monthly reporting. Country limits defined for the purposes of risk management were always observed during the financial year under review.

The diagram below illustrates the risk exposure by country in the Bank's international business, at year-end. In the property financing business, country exposures are allocated by location of the property used as collateral. For exposures not collateralised by property, the allocation is based on the borrower's country of domicile. This reflects the exposure of the property finance business, as well as the activities of Treasury.

Breakdown of country exposure in the international business

% 31 Dec 2015 | 31 Dec 2014



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 curves) are 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 counter-measures 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. Hence, the analysis provided represents a very extensive disclosure of market price risks by industry standards.

€ mn	MAX	MIN	Mean	Limit
Year-to-date (full previous year), 95 %, 250-day holding period				
Aareal Bank Group – general market price risk	422.3 (224.4)	187.5 (109.1)	263.3 (148.5)	- (-)
Group VaR (interest rates)	404.4 (212.8)	119.5 (95.7)	216.5 (135.3)	- (-)
Group VaR (FX)	170.5 (58.8)	61.0 (45.3)	114.7 (51.8)	- (-)
VaR (funds)	4.7 (2.8)	2.8 (0.0)	3.7 (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)	92.0 (135.6)	72.3 (86.6)	83.8 (102.8)	- (-)
Aggregate VaR – Aareal Bank Group	428.7 (240.9)	207.5 (142.9)	277.4 (181.9)	435.0 (390.0)

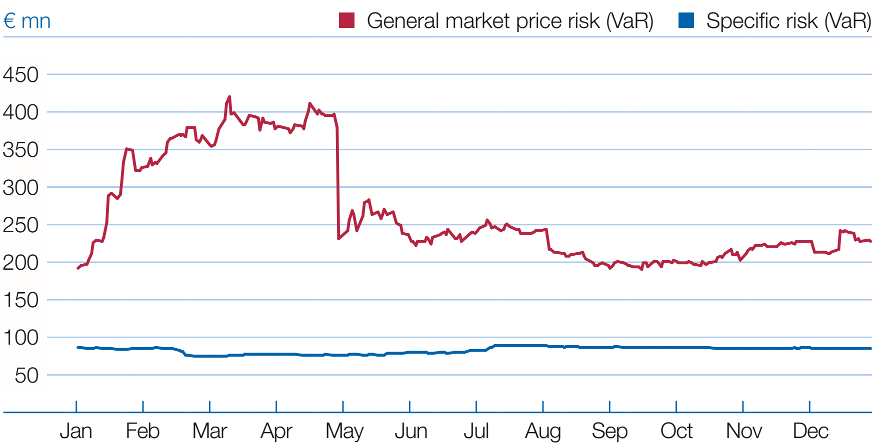
To ensure that Aareal Bank's figures are comparable to those published by other institutions, the risk parameters shown below were determined for a one-day holding period:

€ mn	MAX	MIN	Mean	Limit
Year-to-date (full previous year), 95 %, 1-day holding period				
Aareal Bank Group – general market price risk	26.7 (14.2)	11.9 (6.9)	16.7 (9.4)	- (-)
Group VaR (interest rates)	25.6 (13.5)	7.6 (6.1)	13.7 (8.6)	- (-)
Group VaR (FX)	10.8 (3.7)	3.9 (2.9)	7.3 (3.3)	- (-)
VaR (funds)	0.3 (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)	5.8 (8.6)	4.6 (5.5)	5.3 (6.5)	- (-)
Aggregate VaR – Aareal Bank Group	27.1 (15.2)	13.1 (9.0)	17.5 (11.5)	27.5 (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. These limits were adjusted during the second quarter, due to the consolidation of Westdeutsche Immobilien-Bank AG into Aareal Bank Group. No limit breaches were detected even after this re-calibration.

General market price risk and specific risk during 2015

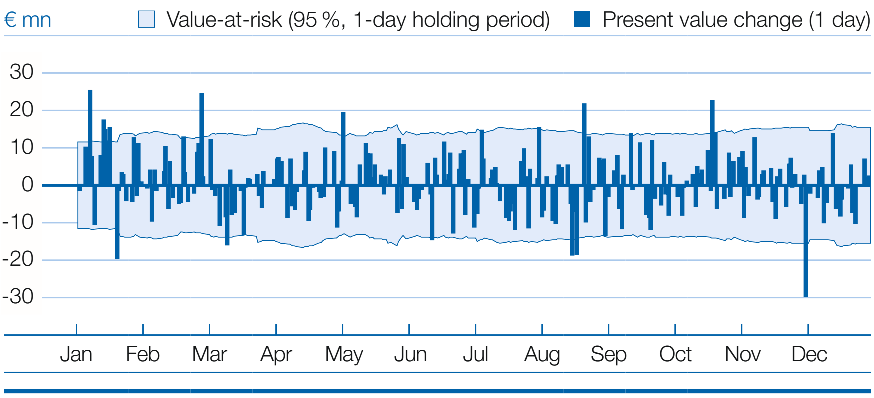


The decline in general market price risk at the end of April 2015 was driven by the regular update of statistical data and the associated decline in historical volatility for EUR/USD basis spreads.

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). Six negative outliers at Group level occurred during the last 250 trading days, affirming the high forecasting quality of the VaR model we use. During the year under review, the statistical model was expanded, in order to better reflect the development of market data – specifically, the low-interest rate environment.

Present values and 1-day VaR during the course of 2015



Stress testing

Although VaR has become a standard tool, the concept may fail to adequately project the actual risk in extreme situations – for example, the end-2008 phase of the financial markets crisis. For this reason, the VaR projection is supplemented by simulating stress scenarios on a monthly basis.

Aareal Bank Group calculates present value fluctuations both on the basis of real extreme market movements over recent years, and also using simulated market movements (parallel shifts, structural changes, steepening of the yield curve). This analysis requires that all positions are revalued fully on the basis of these market scenarios. The resulting impact on present value is compared against a special stress limit within the scope of weekly and monthly stress test reporting.

The worst-case scenario used in the financial year under review was a hypothetical scenario, where a deteriorating financial markets crisis caused bond and CDS spreads to widen due to rating downgrades, combined with an appreciation of the euro and unchanged interest rate markets. This scenario implied a present value loss of 24% of the stressed aggregate risk cover limit as at year-end 2015. No breach of set limits occurred during the year under review.

Interest rate sensitivity

An additional instrument used to quantify interest rate risk exposure is the calculation of interest rate sensitivity, expressed by the so-called 'delta' parameter. The first step to determine this parameter requires calculating the present values of all asset and equity/liability items on the statement of financial position. In a second step, the interest rates of yield curves used for this calculation are subjected to a one basis point parallel shift up (a method known as the 'key rate method'). Delta is the present value of the profit or loss resulting from this yield curve change.

Interest rate gap analysis

Further, the gap analysis per currency provides information on all of the Bank's positions in respect of which the interest rate has been fixed. In addition to disclosing the net gap positions in the respective maturity bucket, this data allows for specific analyses concerning the risks and returns from the current portfolio.

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 2015, trading book risks played a negligible role in the overall risk scenario.

Liquidity risks

Definition

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.

Risk measurement and monitoring

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 following tools are used for this purpose:

a) Cash flow forecast

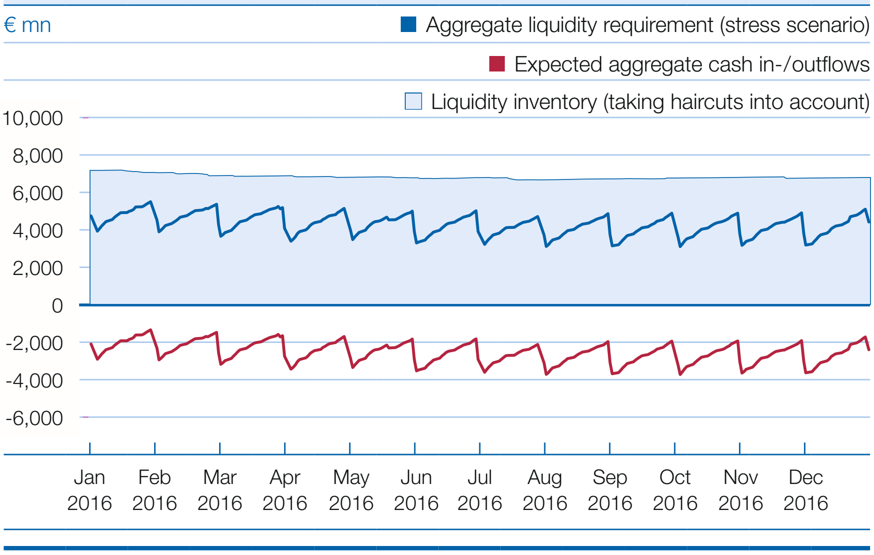
We have developed a cash flow forecast, tracking cash flows from all balance sheet items and derivatives, on a daily basis, over a ten-year period. This liquidity risk information helps to assess the Bank's short-term liquidity position, broken down by currency or product. Strategic liquidity is taken into account using this ten-year cash flow profile. We use statistical modelling to incorporate the expected cash flow profile of products without a fixed contractual lifetime.

b) Liquidity run-off profile

The appropriateness of the Bank's liquidity is assessed using a liquidity run-off profile: the aggregate of all potential cash inflows and outflows over a three-month period is compared to the liquidity stock. This liquidity stock comprises all assets that can be liquidated at very short notice. The difference of both figures (in absolute terms) indicates excess liquidity, once all claims assumed in the run-off profile have been fulfilled through the liquidity stock. There were no liquidity shortages throughout the period under review.

The following chart shows the planned development of the liquidity stock, expected aggregate cash inflows and outflows, and the total liquidity requirements (based on stressed assumptions) until the end of 2016. This presentation demonstrates that the liquidity stock will always exceed liquidity requirements, even under unfavourable conditions.

Liquidity



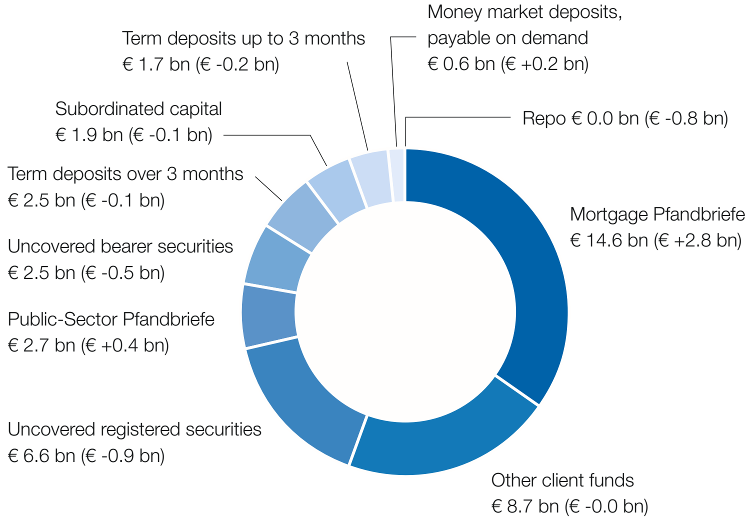
Further details are provided in the comments on the Bank's liquidity in the section on "Refinancing and Equity".

c) Funding profile

Diversifying the Bank's refinancing profile by type of investor, and by product, represents a further key aspect of our approach to liquidity risk management. Core sources of funding such as customer deposits and funds invested by institutional clients - alongside covered and uncovered bond issues - constitute the foundation of our liability profile.

Refinancing portfolio diversification by product

as at 31 Dec 2015 versus 31 Dec 2014 Total: € 41.7 bn



Stress testing

Moreover, we employ stress tests and scenario analyses to assess the impact of sudden stress events onto the Bank's liquidity situation. The various standardised scenarios used are evaluated on the basis of the liquidity run-off profile.

We generally consider the withdrawal of customers' current account balances as the most significant scenario. Even in this stress scenario, liquidity is sufficient to cover the expected liquidity needs under stress conditions.

Operational risks

Definition

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 and model risks. In contrast, strategic, reputational and systematic risks are not included.

Risk measurement and monitoring

It is the objective of the policy pursued by Aareal Bank to achieve a risk-minimising or loss-limiting effect at an early stage by employing a pro-active approach.

The Bank currently uses the following tools to manage operational risks:

- Self-assessments: analysis thereof can provide management with indicators of any potential risks within the organisational structure.
- Risk inventories that include a periodic systematic identification and compilation of all relevant risks.
- A loss database, in which relevant damages incurred are reported, and in which they can be monitored until they are officially closed.

By means of this control toolkit, decentralised data capture as well as centralised and timely compilation of all material operational risks across the Group are ensured.

The three tools described above are used to prepare the regular risk reporting to the Bank's senior management. The responsibility for implementing operative risk-reducing measures rests with those responsible for the Bank's risk management. The utilisation of freely available funds for operational risks – as part of the Bank's risk-bearing capacity – are determined using the regulatory standardised approach.

In addition to the reports prepared from the tools stated above, suitable and plausible stress tests are conducted every quarter. These are hypothetical scenarios and sensitivity analyses on the risk inventories. The results of the stress tests are reported regularly to the Management Board and serve as an indicator for potential developments within the operational risks that could jeopardise the continued existence of the Group.

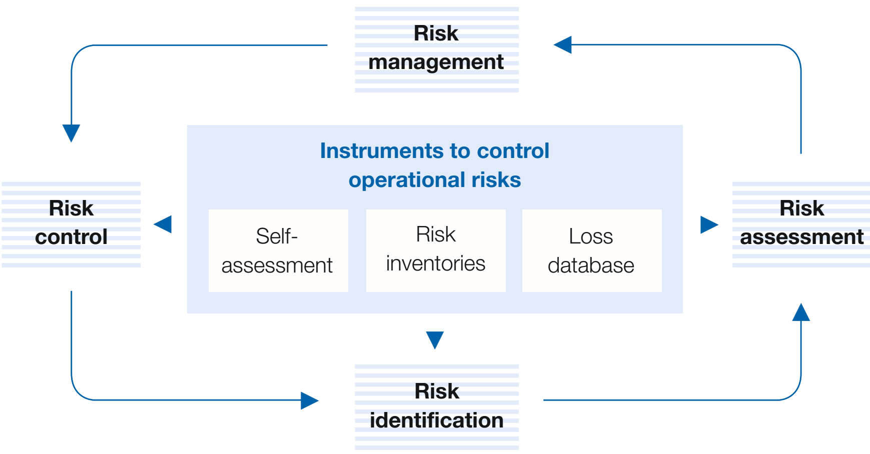
Aareal Bank's legal department (Corporate Development – Legal) deals with any litigation the Bank is involved in, as well as with any legal issues of fundamental importance – where necessary, using the support of external lawyers.

CD-Legal also compiles all information concerning any legal disputes involving Aareal Bank Group, whether in or out of court. To this extent, 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 quarterly reports on legal risks identified to Aareal Bank's legal department; where particular risks have occurred, such reports are submitted on an event-driven basis. When required, Aareal Bank's legal department discusses and coordinates any concrete measures with the reporting unit.

The legal department reports to the Management Board, (at least) on a quarterly basis, as well as on an event-driven basis. Moreover, information about legal risks is included in operational risk reporting.

Analyses conducted using the instruments employed have shown that the Bank is not exposed to disproportionate operational risks; nor did they indicate any material risk concentration. There were cases reported in the loss database during the financial year under review, but there were no losses involving significant monetary damages.

Management of operational risks



Further to these tools, the Bank reviews relevant individual scenarios, and implements any measures required, on the basis of external data. Taken together, these tools for managing operational risks result in an integrated control circuit which leads to risk identification, evaluation, and management – through to risk control.

Tools to control operational risk are supplemented by a system to manage and monitor outsourced activities and processes (outsourcing), whereby the relevant organisational units regularly assess the performance of outsourcing providers, using defined criteria. The results of this process, and actions taken, are communicated to the Bank's senior management within the scope of operational risk reporting, thus allowing for risk-mitigating steps to be taken where needed.

Investment risks

Aareal Bank Group's risk exposure is largely concentrated on risks generally associated with banking, such as credit risk, market price risk, liquidity risk, and operational risk. Some Group subsidiaries, however, are exposed to a variety of other types of risk outside typical banking risk, which we include in our centralised risk management system through an Investment Risk Control concept.

Aareal Bank Group acquires equity investments strictly for the purpose of positioning the Group as an international property financing specialist and provider of property-related services.

Definition

Aareal Bank defines 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.

Risk measurement and monitoring

All relevant Group entities are subject to regular audits, including a review and assessment of their risk situation within the framework of risk measurement and monitoring. Due to the special character of some exposures (e.g. marketing risks), special methods and procedures are employed to deal with investment risk. The Bank uses an internal valuation method to quantify investment risk, and to include it in the calculations of the Bank's ability to carry and sustain risk, and for the purpose of limitation. The limit defined for investment risk was always complied with during the financial year under review.

The existing procedures used to measure and monitor risk exposure are supplemented by subjecting the equity portfolio to regular stress testing.

The Acquisitions & Subsidiaries and Risk Controlling divisions are jointly responsible for measuring and monitoring investment risk exposure.

Risk Controlling is responsible for submitting a quarterly equity investment risk report to the Bank's Management Board.

Other risks

Definition

Aareal Bank uses the category of ”other risks” to aggregate those types of risk that cannot be quantified exactly: primarily, this includes reputational and strategic risks.

Reputational risk is defined as the risk of events that negatively affect the Bank's reputation with investors, analysts, or clients.

Strategic risk is typically associated with the threat of incorrect assumptions regarding market developments, burdening a bank's performance as a result.

Risk measurement and monitoring

The Bank has defined a suitable early-warning system – focusing on media observation/social media, client/staff and investors/analysts – that is designed to assess reputational risks. By analysing the early-warning indicators and deploying experiences already gained by the Bank, the Management Board can take a proactive stance in relation to potential reputational risks.

Other risks are predominantly managed and monitored through qualitative measures. A Group-wide Code of Conduct sets the framework regarding integrity and professional conduct for all activities. The Code provides a standard that is binding for all employees of Aareal Bank Group – regardless of position, and hence, including members of the Management Board or supervisory bodies. Accordingly, the Code defines the fundamental standards for the conduct of each individual employee. Each employee or member of an executive body is personally responsible for complying with this Code of Conduct. Aareal Bank Group ensures compliance with these standards, employing its internal facilities and organisational units (including, in particular, Internal Audit and Compliance/Anti-Money Laundering/Data Protection). Managers are responsible for raising staff awareness within their area of responsibility.

Aareal Bank's Management Board is responsible for managing strategic risk; it coordinates its actions with the Supervisory Board. The Management Board is supported in this task by the various divisions, for instance, via the continuous monitoring of trends which may be relevant to business policy.

Accounting-related Internal Control and Risk Management System

Tasks of the accounting-related Internal Control System (ICS) and the Risk Management System (RMS)

The accounting-related Internal Control and Risk Management System includes principles, procedures and measures to ensure the effectiveness and the efficiency of internal and external accounting, in accordance with applicable legal provisions. The tasks of the accounting-related Internal Control System mainly include ensuring proper conduct of business activities, guaranteeing proper internal and external accounting, as well as ensuring compliance with relevant statutory and legal requirements applicable to the Company.

The objective of the accounting-related Risk Management System is to identify, assess and limit risks which may impede the compliance of the financial statements with applicable rules and regulations, and to ensure that such risks are properly reflected in the financial statements. As with any other Internal Control System, the accounting-related ICS and RMS may only provide reasonable – but not absolute – assurance with regard to achieving this objective, regardless of how much care is used to design this system.

Organisation of the accounting-related ICS and RMS

The Internal Control System of Aareal Bank takes into account the principles established by the Minimum Requirements for Risk Management (MaRisk) related to company-specific design of the ICS. The design of this internal control system comprises organisational and technical measures to control and monitor the Company's activities. The Management Board of Aareal Bank AG is responsible for designing, implementing, applying, developing and reviewing an appropriate accounting-related Internal Control System. The Management Board makes decisions as regards the scope and the design of specific requirements; it has defined the responsibilities for the individual process steps in connection with accounting by means of organisational guidelines, and has delegated these responsibilities to individual organisational units.

Primary responsibility for accounting and financial reporting lies with the Finance division. Finance manages the centralised processes for preparing Aareal Bank AG's annual and interim financial statements. Amongst other tasks, Finance is responsible for preparing the financial statements (including the management report) in accordance with the German Commercial Code (German GAAP – "HGB"), and monthly reporting packages; the division is also responsible for developing accounting guidelines in accordance with the HGB, and IT guidelines.

The number of employees within Aareal Bank AG's Finance division is adequate, as are their qualifications. Furthermore, they possess the necessary knowledge and experience relevant for their functions.

The Supervisory Board is responsible for monitoring the Management Board. It approves both the single-entity financial statements of Aareal Bank AG and the consolidated financial statements. Measures taken by the Supervisory Board to ensure an efficient performance of its control functions include the establishment of an Accounts and Audit Committee, which is primarily responsible for financial reporting issues and monitors the effectiveness of Aareal Bank's Internal Control System. The Committee analyses and assesses the financial statements submitted to it, the internal risk reports, and the annual Internal Audit report. In addition, the Audit Committee is responsible for determining the focal points of the audit, as well as for evaluating the auditors' findings. The Audit Committee includes an independent finance expert, pursuant to section 100 (5) of the German Public Limited Companies Act (Aktiengesetz – "AktG").

Internal Audit also has a process-independent monitoring function. It reports directly to the Management Board, and provides objective and risk-oriented auditing and consulting services which are designed to optimise Aareal Bank AG's business processes with regard to accuracy, safety and efficiency. The Internal Audit division supports the Management Board by evaluating the effectiveness and appropriateness of the process-dependent Internal Control System and of the risk management system in general. The review of the risk management's effectiveness and appropriateness covers the risk management and risk control systems, reporting, information systems, and the accounting process. Any detected weaknesses regarding the identification, evaluation and reduction of risks are reported and addressed within the context of specific action plans.

To perform its tasks, Internal Audit has full and unrestricted information rights with respect to activities, processes and IT systems of Aareal Bank AG. Internal Audit is informed on a regular basis about material changes related to the Internal Control and Risk Management System.

The review of process-integrated controls conducted by Internal Audit is based on a set of internal regulations, procedural instructions and guidelines of Aareal Bank AG. The audit activities of Internal Audit comprise all of the Group's operational and business processes (including the accounting and financial reporting process), and are carried out using a risk-based approach.

Components of the accounting-related ICS and RMS

Within Aareal Bank AG, various measures related to the Bank's organisational structures and workflows help to fulfil the monitoring duties concerning the accounting and financial reporting process within the framework of its internal control system.

A prerequisite for the monitoring system to work efficiently is a written set of procedural rules governing the distribution of tasks between the individual divisions and the scope of the respective activities. The organisational structure of the Finance division is set out in the Bank's organisational guidelines. Aareal Bank AG's accounting system is structured observing the principle of separation of functions. The functional separation makes for a split between operative and administrative roles, and is designed to ensure a sufficient level of control. In addition, the preparation of the single-entity and the consolidated financial statements is carried out in distinct units.

Various guidelines exist for activities and processes. These guidelines are set out in the Written Set of Procedural Rules of Aareal Bank AG and are available for inspection to all employees. There are requirements as regards data entry and control – as well as data storage – which have to be observed in general by all of the Bank's posting units. If necessary, results are reconciled across divisions or companies.

Activities required within the scope of preparing the financial statements are defined by internal accounting instructions. Aareal Bank AG's voucher documentation rules set out the rules governing accounting vouchers for all of the Bank's posting entities. Legal requirements and the relevant accounting standards are set out in detail in the accounting instructions, and by reference to the plan of accounts. The Finance division regularly reviews these documents, and updates them if necessary. The valuation techniques used, as well as the underlying parameters, are controlled regularly, and adjusted if necessary. Where valuation units (Bewertungseinheiten) are used for measurement purposes, defined criteria are reviewed on a regular basis. For further information on measurement, please refer to the relevant Notes to the consolidated financial statements.

In addition, the Bank's Risk Manual summarises the material elements of Aareal Bank Group's Risk Management System. Specifically, the Manual describes the organisational workflows as well as methods and instruments used in the context of risk management. In this context, reference is made to our explanations in the Risk Report.

Clearly-defined rules as regards delegation of authorities facilitating the allocation of professional responsibilities also contribute to reliable financial reporting. Any decisions taken are always based on relevant authorities. Internal controls defined on the basis of risk considerations are embedded in the accounting process. Compliance with the principle of dual control in all material processes is one of the principles for ensuring accurate accounting. Where no integrated approval system/dual control feature has been implemented in the accounting IT systems for material transactions, this has been integrated and documented in the workflows for material manual processes.

Adherence of accounting to generally accepted accounting principles is ensured by both preventive and detective controls within the accounting process itself, as well as through a comprehensive review of processed data. The preparation of the financial statements is characterised by multiple analyses and plausibility checks. Besides the evaluation of individual accounting issues, these include comparisons of periods, and between plan and actual data. Reconciliation of balances and positions with clients and counterparties is carried out in line with existing regulations. Control processes in accordance with MaRisk have been implemented for credit risk provisioning. Reconciliations take place between the main ledger and upstream position-management systems, as well as on the level of individual accounts. Adequate control processes have been implemented for both manual and automated accounting transactions. Additional control processes are in place to ascertain the complete recording of all transactions in the Bank's accounting systems.

In order to increase the level of control quality, all relevant divisions are involved in the reconciliation process. An example of cross-divisional reconciliation is the process for the preparation of annual and interim reports. All divisions involved must ensure and (prior to preparation by the Management Board) confirm the quality of the sections of the reports they are responsible for. This represents an additional control level for the data to be disclosed.

In terms of organisational workflows, the accounting-related Internal Control and Risk Management System is based on a comprehensive standardisation of processes and software. Aareal Bank AG uses both standard and customised software. The Bank's accounting-related IT systems were designed in such a way that both manual controls and automatic plausibility checks are performed for material technical and procedural system steps of the applications used. The controls in relation to processing within the IT systems are also integrated in the processes, as well as being independently performed. Process-integrated controls comprise, for example, the review of error and exception reports or the regular analysis of internal service quality. In contrast, IT reviews are conducted independently from processes, by Internal Audit.

Data and IT systems must be protected from unauthorised access. A differentiated access authorisation concept is in place for the systems used for finance and accounting, preventing any unauthorised access. Authorisations are allocated to responsible employees, reviewed regularly, and adjusted if necessary in accordance with internal criteria.

Aareal Bank AG reviews its accounting-related Internal Control and Risk Management System on an ongoing basis. Necessary adjustments are made with respect to the accounting process based on the Bank's reviews. Adjustments may have to be made, for example, in connection with changes in the Bank's organisational structure, to the business model, or new legal requirements.

Aareal Bank AG has to comply with legal requirements. If these requirements change, for example in the form of new laws or changes in accounting standards, the processes or IT systems will be adjusted as required in separate projects across divisions – based on a clearly-defined allocation of functions, and the accounting-related Risk Management System will be adjusted to take the amended rules into account. Current developments of statutory and legal provisions applicable for Aareal Bank AG are constantly monitored and reported, not only by the responsible division, but also by a steering committee established by the Bank. This committee also initiates any required adjustments to be made to systems and processes, and reports the results to the Management Board.

Report on Expected Developments

Macro-economic environment

The world economy, financial and capital markets are currently exposed to significant uncertainty factors, risks and threats which also have an impact on the development on the commercial property markets.

One material factor is the persistent low interest rate environment. In particular in the euro zone, interest rates are expected to remain low in 2016, posing a systemic threat to financial stability as market participants may be encouraged to take on higher levels of risk. The danger of capital misallocation and overstatement of assets keeps rising, and may result in prices and values plummeting, should the need for asset revaluations arise or if interest rates rise unexpectedly swiftly. The longer the low interest rate environment persists (or the longer an interest rate hike is delayed), the higher the danger of distortions in the financial and capital markets, and the risks to the stability of the financial markets. Low interest rates may also encourage various sectors to reduce their reform and consolidation efforts.

Higher interest rates, as are expected to follow the US Federal Reserve's first hike of its key interest rate at the end of 2015, are also associated with significant risks. When rising too fast, they may hamper investments in the US, put pressure on asset values and lead to capital outflows from other regions – particularly emerging markets – possibly forcing these regions to follow suit with increasing interest rates themselves. Whilst expected in the financial markets for quite some time, the scope of the interest rate hike in the US for 2016 and corresponding financial markets volatilities remains uncertain. Turmoil in the financial and capital markets may still hurt the global economy.

While uncertainty surrounding the European sovereign debt crisis has diminished after Greece secured a third bailout, it has not disappeared altogether, and might even see a resurgence in the wake of further divergence between US and euro zone monetary policies.

Further burdens and uncertainty factors include a jam of overdue reforms, and structural economic issues in certain countries across the euro zone. Geopolitical risks, such as the crisis in Ukraine, may also dampen economic momentum – as may terrorist threats, especially on a temporary basis.

Emerging economies are expected to continue losing steam during 2016, further curbing global economic development. China also poses major risks to the world economy and the financial and capital markets, due to excessive levels of macro-economic debt – that has risen strongly in the past – and the recent residential property boom.

Economy

Against existing burdens and uncertainty factors, the global economy is expected to show only modest economic performance during 2016, and the growth rates of real global economic performance should remain at the levels seen during 2015. The major risks mentioned above could, were they to materialise to a substantial extent, further mute the already subdued economic development that is expected, or even cause a recession. Emanating from individual regions, such developments could spread, via the financial and capital markets and the trade channels, to the global economy as a whole.

Positive triggers for developed economies might include gradually increasing wages, a mildly invigorated public sector and low oil prices, all of which may fall on fertile ground as deleveraging advances in the private sector. The impact of commodity prices and their further development remains ambivalent and tied to risks. While low commodity prices generally provide support to countries importing commodities – including numerous developed markets – they place a heavy strain on the economies of commodity exporters. In addition to their dependence upon commodity prices, various emerging economies are also struggling with structural economic issues.

The outlook on 2016 in detail: in the euro zone, the economic development is expected to remain subdued, with an average real GDP growth rate slightly above the previous year's level. Low oil prices and a favourable euro exchange rate are the main drivers. However, a dynamic, self-sufficient upturn is likely to remain elusive. Growth perspectives for the euro zone are restricted, amongst other things, by limited global trade and supply restrictions on goods and factor markets in some member states. Expectations for only modest growth in real economic output also hold true for various member states, including Belgium, France, Italy and Austria. For Germany, a slightly more animated economy is expected when compared to the previous year. Similar real economic growth is anticipated for the Netherlands. For Spain, we project the economy to grow faster than in other countries, albeit at a slightly slower pace than in the strong previous year. In Finland, however, economic growth is – again – bound to barely pass the point of stagnation in 2016.

The economic development of the UK is expected to remain intact, with growth rates similar to those registered in 2015. A relatively dynamic economy is also expected in Poland and Sweden. For the Czech Republic, we anticipate real gross domestic product to post noticeable growth rates, albeit distinctly lower than in 2015. In Denmark, a moderate growth trend was reported for 2015, and is likely to continue at a slightly accelerated pace. Economic development in Switzerland continues to be hampered by the strong local currency, resulting in dampened growth prospects for 2016; still, they are slightly more positive than in the previous year. The Russian economy continues to be severely impacted by low crude oil prices and uncertainty surrounding the conflict in Ukraine, amongst other factors. Against this background, it seems unlikely that Russia will overcome recession this year: on the contrary, the country’s real gross domestic product is expected to decrease significantly. For Turkey, we anticipate a positive growth rate, moderately below the level achieved in 2015.

In December 2015, the US Federal Reserve raised its key interest rate for the first time in seven years. However, we do not expect the hike to seriously endanger continuation of the robust momentum we have witnessed in the US. Private consumption should remain the main driver for the economy, and is expected to benefit from an improvement on the labour markets, as well as higher wage increases. At the same time, better sales opportunities will bolster a rise in corporate investments. Against this background, we expect US real gross domestic product to grow in 2016 at a rate similar to that of the previous year. In Canada, we anticipate a slight acceleration in what has been – to date – moderate growth.

In Japan, there is currently no evidence of a self-sufficient upturn – without massive intervention in the form of monetary and fiscal policies. We expect growth rates in 2016 at slightly above last year’s subdued level. The Chinese economy has been losing steam for some time now, and is likely to continue to do so this year, with growth rates moderately below those registered in 2015. Curbing factors are the limitation of the housing boom, the transition to an overall lower investment ratio, and uncertainties regarding the increased level of debt in the overall economy. As we see it, growth of real gross domestic product in Singapore will be unchanged from the previous year's level.

Given a moderate expansion of the economy, we expect most labour markets within the euro zone, but also in other European countries, to post slowly declining to stagnating unemployment rates. In the US, unemployment should continue to fall; in view of past decreases, possibly at a slower pace.

Financial and capital markets, monetary policy and inflation

Financial and capital markets are exposed to material risks. These include, in particular, the low interest rate environment and the Fed’s departure from its zero interest policy, which may grow more pronounced during 2016. We therefore assume that volatility in the financial and capital markets will remain noticeable this year. However, they remain receptive for securities issues and refinancings.

The international divergence in monetary policy indicated during the past year is bound to grow more pronounced during 2016. The ECB is expected to abide by its extremely expansive policy, with interest rates close to zero and continuing bond purchases until March 2017 at least. The Bank of Japan maintains a similar stance. The US, however, is slowly turning its back on expansionary monetary measures, with the first hike in its key interest rate. Further cautious uplifts during 2016 are possible. The Bank of England has also been paving the way for a first interest rate hike in 2016.

Against this background, a moderate interest rate rise for the US dollar, but also for pound sterling, is reasonable to expect and might also entail moderate upside pressure on interest rates in the euro zone and in other currencies relevant to Aareal Bank – for example the Danish krone and the Swedish krona. In spite of these possible rises, we expect the low interest rate environment to continue in 2016, as the ECB adheres to an extremely expansive monetary policy and other European central banks also keep their key interest rates low. The differences in monetary policies pursued in the US and the euro zone might amplify the euro's weakness against the US dollar.

Low oil prices were the main reason for inflation hovering around zero per cent in many major economies during the financial year under review. As oil prices remain low, we expect inflation in the euro zone to be minimal to marginal, and a temporary slight deflation cannot be ruled out. Expectations for various member states of the EU, for China and the US are similar. In Japan, we anticipate inflation close to zero per cent.

Regulatory environment

The trend towards a tighter regulatory framework in the banking business is set to persist during the coming years. Numerous initiatives from 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. EBA also consulted on its Guidelines on the collection of information related to the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). Finalised regulatory requirements such as the "Principles for effective risk data aggregation and risk reporting" (BCBS 239), published by the Basel Committee, are implemented through projects. On ESCB level (European System of Central Banks), the introduction of a standardised granular credit reporting system within the framework of AnaCredit (Analytical Credit Dataset) has taken shape by now. 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 – the Minimum Requirement for Eligible Liabilities (MREL), and Total Loss Absorbing Capacity (TLAC, according to the current state of discussion only for global institutions of systemic relevance) – 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; likewise, various technical standards, guidelines and regulations still have to be finalised, e.g. another revision to the Minimum Requirements for Risk Management in Banks (MaRisk). To nevertheless facilitate the timely implementation, we have already continued to pursue the individual issues in numerous projects – devoting considerable resources to this task.

For the first time, Aareal Bank published its Leverage Ratio, as at 30 June 2015, in its Regulatory Disclosure Report. Regulators, however, still need to finalise the corresponding calibration.

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

An abundance of investor liquidity and the existing low interest rate environment are currently fuelling investor demand for commercial property. This trend will most likely remain intact during the current year. Global transaction volumes should therefore remain high, but have probably hit a ceiling. Investors are on the hunt for yield, and first-class properties are in short supply – thus, investors will probably remain prepared to shift away from the top segments. Although ongoing vigorous demand for commercial properties will bolster property values during the current year, the prevailing environment also entails major risks and dangers. On the one hand, there is the risk of capital misallocation and bubble-building in commercial property markets, which may send property values into a dive in case of a fundamental revaluation. On the other hand, the interest rate turnaround in the US bears a certain risk potential that might have a distinctly negative impact on demand and consequently on commercial property values, in particular in case of further uplifts well above the projected, moderate level. Furthermore, the uncertainty factors and risks listed for the macro-economic environment of course also apply to the Structured Property Financing segment. Should they materialise to a substantial extent, they could place significant pressure on property markets.

In short, the factors influencing the development of commercial property values[1] this year are mixed. While healthy investor demand and low interest rates provide support, the first steps out of the low interest rate environment often collide with very low investment yields for commercial properties; also, in various regions economic growth is expected to be subdued to moderate.

Against this background, we are assuming commercial property values to remain stable this year on average for many countries, but also anticipate slight increases for some markets. Especially in Europe, however, a stable average performance should prevail, for example in Belgium, Denmark, Finland, France, Italy, the Netherlands, Poland and Turkey. As Germany and the UK seem to hold the investors' focus, we expect values to slightly rise – on average – in these countries. We also expect a slight rise in property values for Spain, as economic momentum there is forecasted to be noticeably positive to a certain extent. We also assume a slight average increase in values for Sweden. On the Russian commercial property market, however, economic issues arising from low commodity prices and uncertainty related to the crisis in Ukraine are bound to remain a burden. Against this background, we anticipate the Russian market to deviate from the overall trend and record a slight drop in property values.

In the US, where liquidity is abundant and the economic outlook is relatively favourable, commercial property values are expected to rise slightly on average. At the same time, interest rates are expected to rise in this region, posing a risk for the development of said values. The outlook for Canada for 2016 is stable. We also expect a stable development for China and Singapore, while Japan is anticipated to post a slight average increase in values this year.

The trends described above are expected, in our view, to apply to office, retail and logistics property markets. The hotel markets of key economic centres in Europe will continue to see a slight revival – measured in terms of average revenues per available hotel room – in 2016. It remains to be seen if and how the Paris and Istanbul terror attacks, and worries about further attacks, will have a negative effect in 2016. North American hotels are also expected to record a slight increase in average revenues per available hotel room, while a largely stable development is assumed for the leading economic centres in Asia, with deviations on individual markets, but seasonal fluctuations are also likely during the course of 2016.

The past year was one of intense competition for commercial property financing, and we expect this level of competition to prevail during 2016. The readiness of finance providers to accept lower margins is likely to increase markedly this year, and loan-to-value ratios are expected to increase slightly.

While finance providers are expected to show a clear preference for first-class properties in top locations, given the lack of availability of such properties they will most likely also supply financings for properties with developmental potential and/or in locations outside the top segment. These developments are likely to apply for the vast majority of markets relevant to Aareal Bank, in Europe, North America and Asia.

Aareal Bank takes property market developments into account for its ongoing risk monitoring. Within the framework of orienting its lending policies Aareal Bank monitors expected diverging developments in different countries. It also analyses the regions within these countries.

We have incorporated various market aspects, amongst other factors, in our assessment of new business volumes for the current year. For the Structured Property Financing segment, we anticipate new business of between € 7 billion and € 8 billion for the 2016 financial year. The credit portfolio of Aareal Bank's core business should amount to between € 25 billion and € 27 billion at the end of 2016, subject to currency fluctuations.

We want to continue to use club deals and syndicated financing in the future too, also to allow us to participate in large-volume financings and to diversify risk. This may imply a moderate broadening of access to various exit markets.

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

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

Consulting/Services segment

Bank division Housing Industry

The German housing and commercial property industries are expected to continue showing solid development in 2016, on the back of stable rents and a high degree of stability in property values.

Expectations for residential space have become more differentiated, as a consequence of demographic change and the trend towards a more individual and differing lifestyle. The housing and commercial property industries will continue to pursue a sustainable portfolio development and promote new construction of residential space beyond 2016.

Energy-efficient and age-appropriate renovation, as well as technical assistance systems, are the trends currently shaping the industry's future. Political developments and their impact on the profitability of individual measures are and will be affecting corporate investment activities. Increasing specification requirements for new buildings and stiffer regulations with regard to energy-efficiency in renovations might curtail overall investment volumes, particularly those for new buildings.

The positive development on the residential property market is expected to prevail in the next two years. Due to the ongoing urbanisation trend, we expect demand for apartments to rise further, especially in economically strong metropolitan areas. Property investors and potential sellers within the housing and commercial property industries should continue to be able to benefit from these market developments.

We see good opportunities during 2016 to acquire new clients and to intensify the business relationships with our existing client base. This also applies to our payments services for utilities and the waste disposal industry.

Looking at the volume of deposits taken, we expect the positive trend to continue, particularly in relation to current account balances and rent deposits. 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

Aareon's strategy is one of growth, and for the 2016 financial year we plan to considerably increase both consolidated sales revenues and consolidated EBIT, on the back of an ongoing migration to state-of-the-art ERP systems and the Group-wide expansion of digital solutions from the "Aareon Smart World" range. Growth in 2016 will be driven by organic activities and acquisitions made in 2015.

Both in Germany and in International Business, efficiency enhancements in cost and organisational structures will result in increased sales revenues and results contribution. For Aareon France, we expect the positive trend in maintenance seen during 2015 to continue. In the UK, we expect Aareon UK's advisory business for its ERP solution, QL, to expand. Further, Aareon UK plans to launch its next ERP product generation QL.net. The Swedish Incit Group is expected to increase sales revenues stemming from its ERP solution Incit Xpand, in particular through a rise in business with new clients and, as a consequence, a more dynamic advisory business. Further potential lies in the intended expansion into the Finnish market.

Aareon anticipates its advisory business to expand both in Germany as the migration of GES clients to the Wodis Sigma ERP solution advances proceeds as planned and in the Netherlands where the volumes of migration to Tobias AX, another ERP solution, rise. As we expect that most new clients will choose to use the software as a service (SaaS) from the exclusive Aareon Cloud, SaaS sales revenues are likely to rise sustainably. Revenues for ERP solutions GES and Tobias (predecessor product to Tobias AX) are expected to decline, as planned.

Expanding Aareon Smart World is a major factor for success in our endeavour to further penetrate the market with digital solutions. For France and the Netherlands, we expect market penetration to advance (Aareon CRM, Aareon Archiv kompakt and Mareon). Demand for digital solutions provided by the subsidiary 1st Touch should continue to increase on the back of the 1st Touch Mobile and the 1st Touch 360° products, together with the tenant portal.

In view of the aforesaid, Aareon expects a marked increase in sales revenues for 2016, together with a higher (year-on-year) contribution to consolidated operating profit of between € 33 million and € 35 million.

Company and Group targets

Key targets of Aareal Bank AG are the preservation of capital and the ability to distribute dividends. These are taken into account in Group planning; no single-entity planning is prepared for Aareal Bank AG. Accordingly, the following statements refer to Group planning in accordance with IFRSs.

In spite of the prevailing uncertainty factors and challenges, we remain generally optimistic for the 2016 financial year.

Net interest income will be burdened by a projected decline in the impact from early loan repayments, which had strongly influenced the net figure in the past year. Together with a planned reduction of non-strategic portfolios belonging to the units acquired over the past two years, net interest income is expected to decline to a range between € 700 million and € 740 million. For 2016, we once again anticipate material positive effects from early loan repayments, in a range between € 35 million and the previous year's figure of € 75 million.

We forecast allowance for credit losses to fall to a range between € 80 million and € 120 million, reaping the benefits of a prudent risk policy over recent years. Net commission income is projected to be in a range between € 190 million and € 200 million – a marked increase over the previous year, mainly driven by the expected positive developments at Aareon. Administrative expenses are expected to decline to a range between € 520 million and € 550 million, in spite of high one-off effects of investments as well as project and integration costs.

All in all, we see good opportunities to achieve consolidated operating profit of between € 300 million and € 330 million for the current year. The upper end of this range thus slightly exceeds the record level of the past year, as adjusted for negative goodwill from the acquisition of WestImmo. We expect RoE before taxes of around 11% for the current financial year, with earnings per share between € 2.85 and € 3.19 based on an expected tax ratio of around 31%.

In the Structured Property Financing segment, the credit portfolio attributable to Aareal Bank's core business should amount to between € 25 billion and € 27 billion, subject to currency fluctuations. New business is targeted between € 7 billion and € 8 billion in 2016. In the Consulting/Services segment, we expect our IT subsidiary Aareon to contribute a significantly higher amount of between € 33 million and € 35 million to consolidated operating profit.

Given prevailing uncertainty with regard to future regulatory requirements, we consider a Common Equity Tier 1 ratio (CET1 – assuming full implementation of Basel III) of at least 13% (including a management buffer of 2.25%) to be appropriate. The Liquidity Coverage Ratio (LCR) should be at least 100%.

Corporate Governance Statement Pursuant to Section 289a of the HGB

The Corporate Governance Statement, including the Declaration of Compliance pursuant to section 161 of the AktG, disclosures regarding Corporate Governance standards, the description of work processes for the Management Board and the Supervisory Board, as well as Aareal Bank AG's Corporate Governance Report, are publicly available on the Company's website, at http://www.aareal-bank.com/investor-relations/corporate-governance/. Reference is made to the details disclosed there.

Principles of Remuneration of Members of the Management Board and the Supervisory Board

The Supervisory Board determines the structure and amount of remuneration for members of the Management Board.

The Remuneration Control Committee (Vergütungskontrollausschuss) fulfils the requirements according to section 25d (12) of the German Banking Act (Kreditwesengesetz – "KWG") and section 15 of the Instituts-VergV, and held five meetings throughout the 2015 financial year.

The Supervisory Board defines – before the beginning, but no later than immediately after the beginning of every financial year – the Management Board members' targets with respect to performance-related remuneration components. The Supervisory Board assesses Management Board members' success and performance after the end of every financial year.

Aareal Bank AG has entered into fixed-term service contracts with the members of its Management Board. Besides their fixed annual salary, Management Board members receive a performance-related remuneration that is determined using an assessment basis extending over several years.

The level of this performance-related remuneration is determined by reference to the personal performance of each Management Board member, which is measured by the degree to which targets set in advance by the Supervisory Board are achieved, based on contractually agreed initial values for a 100% target achievement. The targets which are relevant for performance-related remuneration include annual targets and multiple-year targets. The measurement of multiple-year targets is undertaken retrospectively, over a time period of three years. The weighting of annual to multiple-year targets is fixed for each financial year, with a weighting of 45% (annual target) to 55% (multiple-year target) taken as a guideline. Until now, the target system envisaged a weighting of 60% for the annual target and 40% for the preceding three-year target period.

For each financial year, the Supervisory Board sets a target level for the Common Equity Tier 1 ratio (CET1 ratio) as the measurement threshold in order to secure adherence of the regulatory capital adequacy and, starting with the 2015 financial year, a suitable liquidity measure (Liquidity Coverage Ratio – LCR). No variable remuneration will be determined for any financial year where these two targets have not been achieved. The Supervisory Board also defines the sectional and individual targets for every member of the Management Board, for each financial year.

Annual targets and multiple-year targets are integrated into the Bank's overall strategy and are geared toward achieving the objectives set out in the Bank's business and risk strategies. The targets comprise quantitative components and qualitative components, which are also related to non-financial parameters. In this context, the Group’s overall performance, the performance of the section the Management Board member is responsible for, and the individual performance contributions of the Management Board member concerned, are all taken into consideration, with a weighting of one-third for every component towards the annual target. Aareal Bank Group's overall performance is determined using the categories of consolidated operating profit/loss before taxes and risk-weighted assets.

The initial value of the performance-related remuneration may increase – depending on the Management Board member's degree of target achievement – up to a maximum of 150% of the target value. If the overall target achievement level exceeds 150%, the initial value of the performance-related remuneration will not increase any further (cap). If the overall target achievement level is 0%, no performance-related remuneration will be awarded for the financial year concerned. Unconscionable behaviour or behaviour in breach of duties cannot be balanced out by positive performance contributions in other areas and will automatically lead to an appropriate reduction in the variable remuneration. The variable remuneration generally depends on the Supervisory Board's decision to provide for the applicable financial year an amount (mathematically) sufficient for all variable remuneration components to be paid out accordance with section 45 (2) sentence 1 no. 5a of the KWG and section 7 of the InstitutsVergV.

To ensure that the remuneration system provides long-term incentives, variable remuneration is awarded at the end of the financial year, according to the following principles:

20% of the variable remuneration is disbursed as a cash bonus after the Supervisory Board has determined the overall target achievement level.A further 20% of the variable remuneration is awarded as a share bonus subject to a holding period (and forms part of the share-based bonus plan), in the form of virtual shares, also after the Supervisory Board has determined the overall target achievement level. 30% of the variable remuneration is retained (cash deferral) and disbursed in equal proportions over a three-year period. The remaining 30% of variable remuneration is credited, as a cash amount, to a virtual account maintained on behalf of each Management Board member, and forms part of the share deferral plan.

With regard to the portion of the variable remuneration that is deferred initially as a cash deferral or a share deferral, the Supervisory Board makes a decision regarding the granting of one third of the amount, as well as the associated interest, in the three years following the determination of the performance-related remuneration (retention period). Until the end of the retention period, there is no right to the relevant remuneration components. Once the deferred remuneration components for Management Board members are vested, the cash deferral is paid out in cash and the share deferral is converted into phantom shares, subject to a two-year holding period.

In making its determination about the amount to be awarded, the Supervisory Board particularly takes into account any negative aspects of the Management Board member's performance, that of his section, as well as any weakness in the performance of Aareal Bank Group (backtesting). The existence of a negative aspect in the performance of a Management Board member is to be assumed, in particular, if serious breaches of duty and/or performance deficiencies are discovered, which lead to the performance contributions – which were initially assumed to be positive – being later shown to have not been sustained. A negative performance contribution on the part of the section within the respective Management Board member's responsibility, or of

Aareal Bank Group, is to be assumed if significant assumptions which formed the basis of the calculation of the variable remuneration are later proven to be incorrect or unsustainable. The Supervisory Board may award the deferred variable remuneration components in full, partially, or not at all. If the full amount of the bonus is not awarded, the remaining sum is forfeited, i.e. it is not carried forward into subsequent years. An award of the deferred variable remuneration components will not be made insofar and for so long as the German Federal Financial Supervisory Authority ("BaFin") forbids this according to section 45 (2) sentence 1 nos. 5a and 6 of the KWG. The entitlement no longer exists if BaFin so orders by way of a final and conclusive decision pursuant to section 45 (5) sentences 5 to 8 of the KWG.

A variable remuneration component may not be vested (share deferral) or disbursed (cash deferral) if the Supervisory Board believes that the Management Board member's performance on the whole was so poor that it would make awarding performance-related remuneration inappropriate. In particular, this is to be assumed if significant breaches of the duty of care have been determined, which would give rise to an extraordinary termination of the appointment to the Management Board contract. Further, this is to be assumed if the member of the Management Board was causally and negligently actively involved in behaviour which has led to considerable losses, or for which losses the Management Board member was causally and negligently responsible.

The contracts of Management Board members prohibit them from undertaking to limit or override the risk orientation of their remuneration by initiating personal protection or countermeasures (hedging ban).

Remuneration for the services of the Supervisory Board members is specified in Article 9 of the Memorandum and Articles of Association of Aareal Bank AG. The Annual General Meeting held on 20 May 2015 passed a resolution for adjustments to the remuneration system for Supervisory Board members, with effect from 1 January 2015.

The remuneration system for the Supervisory Board only comprises a fixed remuneration, supplemented by a compensation for attending meetings. In addition, the Supervisory Board members will be reimbursed for their expenses. Where membership in the Supervisory Board falls short of an entire financial year, said remuneration shall be paid on a pro rata temporis basis. Any value-added tax invoiced will also be deemed to be a refundable expense.

The fixed remuneration is € 50,000.00 p.a. for each Supervisory Board member. The Chairman of the Supervisory Board shall receive three times this amount, while the deputy shall receive one and a half times as much as a normal member. The fixed remuneration is increased for each membership in a committee (with the exception of the Committee for Urgent Decisions, which is part of the Risk Committee). This additional fixed remuneration amounts to € 20,000 p.a. for membership of the Risk Committee and the Audit Committee; fixed remuneration is increased by € 40,000 p.a. for the chairmanship of one of these committees.

The additional fixed remuneration for membership of other committees amounts to € 15,000 p.a.; or € 30,000 p.a. for the chairmanship of such other committee. The meeting attendance compensation amounts to € 1,000.00 for each meeting attended (except for meetings of the Committee for Urgent Decisions).

The remuneration for any financial year shall be due and payable one month after the end of the respective financial year.

Please refer to the Notes to the financial statements (Remuneration Report) for further details about the remuneration system for members of the Management Board and the Supervisory Board of Aareal Bank AG as well as on the existing change-of-control regulations.

Explanatory Report by the Management Board in Accordance with Section 289 (4) of the German Commercial Code (Handelsgesetzbuch)

Composition of subscribed capital

The composition of Aareal Bank AG's subscribed capital is shown in the Notes to the financial statements. Each share casts one vote at a General Meeting. There are no shares with special rights granting supervisory powers to any shareholder or shareholder group. The Company currently does not hold any treasury shares, which would not be entitled to vote.

Restrictions affecting voting rights or the transfer of shares

The transfer and exercise of voting rights is governed exclusively by legal restrictions. Voting rights are not limited to a certain number of shares, or of votes. All shareholders who have registered to attend a General Meeting in good time, and who have provided the Company with evidence of their shareholding and their right to vote, are entitled to attend the General Meeting, and to exercise their voting rights from all shares held and so registered. The exercise of voting rights from the shares concerned is precluded by law in the cases where section 136 of the AktG applies. Where the company holds treasury shares, section 71b of the AktG prohibits the exercise of rights vested in such shares. We are not aware of any other restrictions affecting voting rights or the transfer of shares.

Shareholdings exceeding 10% of voting rights

Details regarding any shareholdings exceeding 10% of voting rights are provided in the notes to the financial statements.

Shares with special rights granting the holder supervisory powers

Aareal Bank AG's Memorandum and Articles of Association do not grant any shareholder the right to nominate members to the Supervisory Board, nor are there any other shares with special rights granting the holder supervisory powers.

Type of control of voting rights regarding shares held by employees with their rights of control not being directly exercised

There are no Aareal Bank AG shares held by employees where the rights of control cannot be directly exercised.

Statutory provisions, and provisions in the Memorandum and Articles of Association regarding the appointment and removal of members of the Management Board, and regarding amendments to the Memorandum and Articles of Association

The appointment and removal of members of the Management Board of Aareal Bank AG is carried out in accordance with sections 84 and 85 of the AktG and Article 7 of the Memorandum and Articles of Association, according to which the Management Board must have a minimum of two members. The Supervisory Board shall appoint the Members of the Management Board and determine their number. The Supervisory Board may appoint deputy members, and may appoint one member of the Management Board to be the Chairman of the Management Board. The members of the Management Board are appointed for a maximum term of five years. This term of office may be renewed or extended for a maximum of five years in each case.

Pursuant to section 179 of the AktG, the Memorandum and Articles of Association may be amended by way of resolution passed by the General Meeting. To the extent permitted by law, resolutions of the General Meeting regarding amendments to the Memorandum and Articles of Association are passed by a simple majority of the votes cast, or by the majority of the issued share capital present at the Meeting. In accordance with section 181 (3) of the AktG, such amendments become effective upon their entry in the Company's Commercial Register. In the event of a capital change, the Supervisory Board is authorised to modify the wording of the Articles of Association in line with the amount of the capital change (Article 5 (7) of the Memorandum and Articles of Association).

Authorisation of the Management Board to issue or repurchase shares

Authorised capital

The Annual General Meeting held on 23 May 2012 resolved to authorise the Management Board to increase, on one or more occasions, the Company’s share capital, subject to the approval of the Supervisory Board, by up to a maximum total amount of € 89,785,830 by issuance of new shares for contribution in cash or in kind; the Management Board is also authorised, within defined limits, to disapply pre-emptive rights, given the fulfilment of certain conditions. This authorisation will expire on 22 May 2017. When exercising this authorisation, the Management Board will restrict any exclusion of shareholders' pre-emptive rights to a total of 20% of the Company's share capital. The authorised capital has not been utilised to date.

Conditional capital

Based on a resolution passed by the General Meeting on 21 May 2014, the Management Board was authorised to issue, on one or more occasions until 20 May 2019, profit-participation rights with a limited or unlimited term for contribution in cash or in kind in a total nominal amount of € 1,000,000,000. Holder or creditor conversion rights may be attached to such profit-participation rights, provided they are not issued against contribution in kind. Conversion rights may be attached exclusively to no-par value bearer shares and are limited to a maximum amount of € 89,785,830 of the Company's share capital. Issuance of profit-participation rights may also be effected by domestic or foreign enterprises in which the Company either directly or indirectly holds a majority interest. In such cases, the Company may itself assume guarantees and offer shares of Aareal Bank AG, subject to the approval of the Supervisory Board, in order to meet the resulting conversion rights. Subject to the approval of the Supervisory Board, the Management Board may exclude shareholders' pre-emptive rights for profit-participation rights in certain cases.

The issued share capital is subject to a conditional capital increase not exceeding € 89,785,830 by issuance of up to 29,928,610 new no-par value bearer shares ("Conditional Capital 2014"). The conditional capital increase shall be implemented only insofar as (i) the holders or creditors of conversion rights from convertible profit-participation rights issued by the Company (or by an enterprise in which the Company either directly or indirectly holds a majority interest) until 20 May 2019 on the basis of the Annual General Meeting's authorisation resolution of 21 May 2014 exercise their conversion rights or (ii) the holders or creditors of convertible profit-participation rights issued by the Company (or by an enterprise in which the Company either directly or indirectly holds a majority interest) until 20 May 2019 on the basis of the Annual General Meeting's authorisation resolution of 21 May 2014 and who are obliged to exercise those rights fulfil their obligation or (iii) the Company makes use of alternative performance; insofar as treasury shares are not used to service the rights or, in the aforementioned cases (i) and (ii), no cash compensation is granted. The new shares shall be entitled to a share in the profits from the beginning of the financial year in which they come into existence, through the exercise of conversion rights or the fulfilment of conversion obligations. The Management Board is authorised to determine the details of the conditional capital increase.

Authorisation to purchase or use treasury shares

The General Meeting held on 20 May 2015 authorised the Management Board, pursuant to section 71 (1) no. 7 of the AktG, to purchase and sell treasury shares for the purposes of securities trading, at a price not falling below or exceeding the average closing price of the Company's share in Xetra trading (or a comparable successor system) during the three trading days on the Frankfurt Stock Exchange prior to the relevant transaction by more than 10%. This authorisation expires on 19 May 2020. The volume of shares acquired for this purpose must not exceed 5% of the issued share capital of Aareal Bank AG at the end of any given day.

Furthermore, the General Meeting held on 20 May 2015 authorised the Management Board, pursuant to section 71 (1) no. 8 of the AktG, to purchase treasury shares with a volume of up to 10% of the issued share capital for purposes other than securities trading. This authorisation expires on 19 May 2020. Shares may be acquired via the stock exchange or by means of a public offer to buy, directed at all shareholders, and at purchase prices stipulated in the authorisation and based on the prevailing market price of the Company's shares. This authorisation may be exercised, in full or in part, on one or more occasions.

Subject to the approval of the Supervisory Board, the shares acquired under this or an earlier authorisation may be sold outside stock exchanges and without an offer to all shareholders, thereby excluding shareholders' pre-emptive rights, provided that the shares sold do not exceed the threshold value of 10% of the Company's share capital and that the issue price is not significantly lower than the stock exchange price, or if the sale of such shares is made against contribution in kind, or if the shares are given to the holders of conversion or option rights, even if they had been issued by subsidiaries. The treasury shares may also be given to the holders of conversion or option rights in lieu of new shares from a contingent capital increase. The shares can be withdrawn, without this withdrawal or its implementation requiring a further resolution by the Annual General Meeting.

In addition, the Management Board was authorised to purchase treasury shares using put or call options. However, any and all share purchases involving the use of derivatives shall be limited to a maximum threshold value of 5% of the Company's share capital. Moreover, such share purchases shall be taken into account with the 10% threshold value for the purchase of treasury shares as specified in the Annual General Meeting's resolution. Where treasury shares are acquired using equity derivatives, the shareholders' right to enter into any option transactions with the Company is excluded in analogous application of section 186 (3) sentence 4 of the AktG.

Material agreements which are subject to change of control clauses triggered in the event of a takeover offer

There are no material agreements which are subject to change of control clauses triggered in the event of a takeover offer. Any public offers to acquire the Company's shares are governed exclusively by the law (including the provisions of the German Securities Acquisition and Takeover Act), and the Memorandum and Articles of Association.

Compensation agreements entered into with members of the Management Board or employees in the event of a takeover offer

For details regarding compensation agreements entered into with members of the Management Board or employees in the event of a takeover bid, please refer to the Remuneration Report, which forms part of the Notes to the financial statements.

Annual Financial Statements

Income Statement of Aareal Bank AG
for the period from 1 January to 31 December 2015

€mn			2015		2014
Expenses					
Interest expenses			**818.0**		878.2
Commission expenses			**9.4**		10.9
General administrative expenses					
a) Staff costs					
aa) Wages and salaries	144.1			95.0	
ab) Social security contributions, pensions and other employee benefits	31.7	175.8		22.5	
including for pensions 19.4 (2014: 12.3)					
b) Other administrative expenses		168.9	**344.7**	134.2	251.7
Amortisation, depreciation and write-downs of intangible and tangible fixed assets			**4.4**		3.5
Other operating expenses			**41.9**		26.7
Write-downs and valuation allowances of loans and advances and specific securities, as well as additions to loan loss provisions			**139.0**		191.3
Amortisation and write-downs on participating interests, interests in affiliated companies and securities held as fixed assets			**1.2**		-
Expenses for assumption of losses			**78.0**		40.6
Net income taxes			**-4.9**		-37.9
Other taxes not reported under other operating expenses			**0.6**		1.0
Net income			**99.3**		76.8
Total expenses			**1,531.6**		**1,442.8**
Net income / net loss			**99.3**		76.8
Profit carried forward from the previous year			-		-
Withdrawals from retained earnings					
from the reserve for shares in a parent or majority investor			-		-
from other retained earnings			-		-
Transfer to retained earnings					
to the reserve for shares in a parent or majority investor			-		-
to other retained earnings			-		-
Net retained profit			**99.3**		**76.8**

€mn		2015		2014
Income				
Interest income from				
a) Lending and money market transactions	1,077.6		1,062.9	
b) Fixed-income securities and debt register claims	295.4	**1,373.0**	333.9	1,396.8
Current income from				
a) Equities and other non-fixed-income securities	-		-	
b) Participating interests	-		0.0	
c) Interests in affiliated companies	37.3	**37.3**	-	0.0
Income from profit pools, profit transfer agreements or partial profit transfer agreements		**5.7**		4.4
Commission income		**22.2**		18.8
Income from write-ups to participating interests, shares in affiliated companies and securities held as fixed assets		-		4.6
Other operating income		**24.9**		18.2
Extraordinary income		**68.5**		-
Total income		**1,531.6**		**1,442.8**

Balance Sheet of Aareal Bank AG as at 31 December 2015

€mn			2015		2014
Assets					
Cash funds					
a) Cash on hand		0.0		0.0	
b) Balances with central banks		1,281.1	**1,281.1**	179.2	179.2
including: with Deutsche Bundesbank 1,255.7 (2014: 144.2)					
Loans and advances to banks					
a) Loans secured by charges on real property		40.4		31.7	
b) Loans to local authorities		76.6		76.6	
c) Other loans and advances		2,292.5	**2,409.5**	3,610.0	3,718.3
including: payable on demand 1,376.8 (2014: 2,647.6)					
collateralised by pledged securities - (2014: 1,765.0)					
Loans and advances to customers					
a) Loans secured by charges on real property		24,112.9		22,927.1	
b) Loans to local authorities		1,145.3		1,180.7	
c) Other loans and advances		3,035.8	**28,294.0**	3,007.5	27,115.3
including: collateralised by pledged securities - (2014: -)					
Debt and other fixed-income securities					
a) Money market instruments		-		-	
b) Bonds and notes					
ba) Public-sector issuers	7,000.3			7,489.1	
including: with Deutsche Bundesbank 6,539.6 (2014: 6,731.4)					
bb) Other issuers	1,404.7	8,405.0		1,923.2	
including: with Deutsche Bundesbank 1,262.5 (2014: 1,753.6)					
c) Own bonds		899.3	**9,304.3**	879.0	10,291.3
Nominal amount: 896.2 (2014: 874.2)					
Equities and other non-fixed-income securities			**103.0**		110.1
Participating interests			**0.7**		1.3
including: interests in banks - (2014: 0.8)					
interests in financial services providers - (2014: -)					
Interest in affiliated companies			**1,187.4**		1,099.5
including: interests in banks 9.1 (2014: 9.0)					
interests in financial services providers - (2014: -)					
Trust assets			**41.8**		49.0
including: trustee loans 40.3 (2014: 47.5)					
Intangible assets					
a) Internally generated industrial property rights and similar rights and assets		-		-	
b) Purchased concessions, industrial property rights and similar rights and assets as well as licences in such rights and assets		2.4		2.0	
c) Goodwill		-		-	
d) Advance payments made		-	**2.4**	-	2.0
Tangible fixed assets			**13.4**		11.0
Other assets			**88.4**		27.1
Prepaid expenses					
a) From new issues and lending		136.5		146.7	
b) Other		69.2	**205.7**	56.1	202.8
Deferred tax assets			**311.4**		256.3
Total assets			**43,243.1**		**43,063.2**

€mn			2015		2014
Equity and liabilities					
Liabilities to banks					
a) Outstanding registered mortgage Pfandbriefe		356.1		304.4	
b) Outstanding registered public sector Pfandbriefe		19.8		19.8	
c) Other liabilities		1,265.2	**1,641.1**	1,825.4	2,149.6
including: payable on demand 750.8 (2014: 837.5)					
Liabilities to customers					
a) Outstanding registered mortgage Pfandbriefe		2,999.1		2,599.3	
b) Outstanding registered public sector Pfandbriefe		2,134.4		2,043.7	
c) Savings deposits					
ca) With an agreed notice period of three months	-			-	
cb) With an agreed notice period of more than three months	-	-		-	
d) Other liabilities		19,547.9	**24,681.4**	19,969.5	24,612.5
including: payable on demand 7,091.2 (2014: 6,553.2)					
Certificated liabilities					
a) Bonds issued					
aa) Mortgage bonds	8,632.5			8,248.3	
b) Public sector Pfandbriefe	45.0			45.0	
ac) Other debt securities	2,866.1	11,543.6		3,189.8	
b) Other certificated liabilities		-	**11,543.6**	-	11,483.1
including: money market instruments - (2014: -)					
Trust liabilities			**41.8**		49.0
including: trustee loans 40.3 (2014: 47.5)					
Other liabilities			**956.0**		623.9
Deferred income					
a) From new issues and lending		85.3		76.5	
b) Other		72.2	**157.5**	72.5	149.0
Deferred tax liabilities			**27.4**		18.0
Provisions					
a) Provisions for pensions and similar obligations		172.2		92.6	
b) Tax provisions		33.9		34.0	
c) Other provisions		203.1	**409.2**	97.5	224.1
Subordinated liabilities			**1,331.6**		1,322.9
including: maturing within two years 91.0 (2014: 74.5)					
Profit-participation certificates			**48.9**		66.8
including: maturing within two years 35.0 (2014: 17.0)					
Additional Tier 1 capital instruments			**315.4**		302.6
Fund for general banking risks			**167.6**		167.6
Equity					
a) Subscribed capital		179.6		179.6	
Contributions by silent partners		190.2		190.2	
b) Capital reserve		727.8		727.8	
c) Retained earnings					
ca) Legal reserve	4.5			4.5	
cb) Reserve for treasury shares	-			-	
cc) Statutory reserves	-			-	
cd) Other retained earnings	720.2	724.7		715.2	
d) Net retained profit		99.3	**1,921.6**	76.8	1,894.1
Total equity and liabilities			**43,243.1**		**43,063.2**

€mn		2015		2014
Contingent liabilities				
a) Contingent liabilities from discounted forwarded bills	-		-	
b) Liabilities from guarantees and indemnity agreements	169.5		165.2	
c) Liability from the pledging of collateral for third-party liabilities	-	**169.5**	-	165.2
Other commitments				
a) Repurchase obligations from securities repurchase agreements	-		-	
b) Placement and underwriting obligations	-		-	
c) Irrevocable loan commitments	3,088.8	**3,088.8**	4,641.0	4,641.0

Notes

Basis of accounting

The financial statements of Aareal Bank AG for the financial year 2015 were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – ”HGB”), the supplementary regulations of the German Public Limited Companies Act (Aktiengesetz – ”AktG”), the German Accounting Directive for Banks and Financial Services Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – ”RechKredV”) and the German Pfandbrief Act (Pfandbriefgesetz – “PfandBG”).

Accounting and valuation principles

Loans and advances

Loans and advances to banks and customers are carried at amortised cost, including deferred interest. Premiums and discounts are shown under deferred items, in accordance with section 340e (2) of the HGB. Credit risks are accounted for by setting aside provisions in the amount of the expected loss, using prudent estimates.

Portfolio-based valuation allowances are recognised for risks which have already materialised, but which cannot be allocated to individual loans and advances due to lack of knowledge. For this purpose, groups of financial assets with comparable default risk profiles are combined in portfolios. The valuation allowances are calculated using a formula-based procedure, based on the following Basel III parameters used in the advanced IRB Approach: expected loss given default (LGD), probability of default (PD) and the LIP (Loss Identification Period) factor. The LIP factor is a correction factor to adjust the one-year probability of default (used in Basel III) to the estimated time period, between the date the loss is incurred and the identification of the actual loss.

Securities

Bonds and other fixed-income securities, as well as equities and other non-fixed income securities, are measured strictly at the lower of cost or market value, as prescribed for current assets (strenges Niederstwertprinzip). Bonds and other fixed-income securities that are intended to be held permanently, are carried at the lower of cost or market value; the carrying amount needs to be written down to the lower market value only if the impairment is permanent (gemildertes Niederstwertprinzip). Where the reasons for the write-down no longer apply, write-ups are made in accordance with section 253 (5) of the HGB.

Participating interests, interests in affiliated companies, intangible assets and tangible assets

Participating interests and interests in affiliated companies are stated at cost. Tangible assets and purchased intangible assets are stated at cost less depreciation/amortisation. Write-downs are required in the event of impairments in value deemed to be other than temporary.

Where the reasons for the write-down no longer apply, write-ups are recognised for participating interests, interests in affiliated companies, intangible assets and tangible assets in accordance with section 253 (5) of the HGB. Where land and buildings were acquired to salvage loans and have been in the possession of the Bank for more than five years, these are reported under tangible fixed assets. Additions of low-value commercial goods (geringwertige Wirtschaftsgüter) of not more than € 150 are fully written off in the year of acquisition, and accounted for as disposals. In addition, Aareal Bank AG made use of the simplification rule pursuant to section 6 (2a) of the German Income Tax Act (Einkommensteuergesetz – "EStG").

The option to disclose a net amount, pursuant to section 340c (2) of the HGB has been exercised.

Deferred taxes

If there are differences between the book value of assets, liabilities, deferred income and prepaid expenses and their related tax bases which are expected to be reversed in later financial years, any resulting net tax burden is recognised as a deferred tax liability and any resulting net tax benefit is recognised as a deferred tax asset, in accordance with section 274 of the HGB. Tax loss carryforwards are taken into account in the calculation of deferred tax assets, based on the level of the potential losses to be offset within the next five years. Deferred taxes are measured using the company- and country-specific tax rates expected to apply at the time of the realisation of temporary differences and the offsetting of loss carryforwards. The Bank discloses deferred taxes on a gross basis, in accordance with section 274 (1) sentence 3 of the HGB.

Liabilities

Liabilities are shown on the balance sheet at the settlement amount. The difference between the settlement amount and the initial book value of liabilities is recognised under deferred items, and amortised over the term of the liability.

Provisions

Provisions are recognised in the amount of the required settlement amount, as determined based on prudent commercial judgement. Pursuant to section 253 (2) sentence 1 of the HGB, provisions with a remaining term of more than one year have to be discounted using the market interest rate of the past seven years applicable for their average remaining term.

Provisions for pensions and similar obligations are determined based on actuarial principles. Provisions for pensions are recognised at the settlement amount taking into account future wage, salary and pension trends and applying the average market interest rate applicable for an assumed remaining term of 15 years as disclosed by Deutsche Bundesbank, except where the applicable remaining term of the respective pension plan is shorter. In accordance with section 240 (2) of the HGB, pension obligations are generally determined based on inventory records established as at the balance sheet date. Pursuant to section 241 (3) of the HGB, the relevant group of eligible persons may also be recorded as at a date within the last three months prior to, or within the first two months after, the balance sheet date, provided that the pension obligations may be measured properly as at the balance sheet date. This is ensured by using forecast interest rates. Reference is made to the Notes to the balance sheet.

Provisions for taxes and other provisions have been set aside for existing legal or constructive obligations in the settlement amount, as required by prudent commercial judgement.

Currency translation

Currency translation complies with the principles set out in sections 256a and 340h of the HGB.

Assets that are denominated in foreign currency and treated as fixed assets and that are not hedged specifically in the same currency (specific cover), are carried at historical cost, unless the exchange rate change is of a permanent nature, in which case a write-down has to be recognised.

Other assets and liabilities denominated in foreign currency or forward foreign exchange transactions are classified as specific cover and are measured at the middle spot rate (ECB reference middle rate) on the balance sheet date. Hence, income and expenses from currency translation were recognised in the income statement.

The Bank decomposes foreign exchange forward transactions which are used to hedge interest-bearing balance sheet items into an agreed spot base and the swap rate, recognising a deferred asset or liability equivalent to the net aggregate difference between the spot base and the same currency’s exchange rates prevailing on the reporting date. Forward premiums or discounts are amortised in net interest income over the term of the transaction.

Currency translation income and expenses are reported in net other operating income/expense.

Trading portfolio

The Bank held no financial instruments for trading as at the balance sheet date.

Hedging relationships

The Bank establishes hedging relationships within the meaning of section 254 of the HGB. Accordingly, fixed-income securities of the liquidity reserve in the amount of € 4,449.0 million are hedged against changes in value attributable to interest rate risk, on the basis of so-called "micro hedges". In this context, the underlying transaction and the hedge generally are acquired within the framework of so-called "asset swap packages", i.e. they are so-called "perfect hedges" where all value-affecting factors between the hedged portion of the underlying transaction substantially correspond to the hedging portion of the hedge. The prospective effectiveness of the hedging relationship, which refers to the period until the security's final maturity, is proven, based on the so-called "Critical Terms Match Method". Regression and correlation coefficients are used as criteria to measure retrospective effectiveness.

This is presented in the financial statements using the so-called "Net Hedge Presentation Method" (Einfrierungsmethode). Under this method, the cumulative change in the value of the underlying transaction is determined on the basis of the hedged risk, and compared to the changes in the value of the hedge. The hedged risk amounts to € 559.8 million and corresponds to the cumulative increase of the fair value of assets since inception of the hedging relationship. This increase is not shown in the income statement on a net basis, after including hedge transactions. Any previously existing ineffectiveness based on the hedged risk is reflected in a provision for hedging relationships. The changes in value attributable to the hedged risk are reflected on a portfolio basis, in the form of a write-down on the security concerned.

The Bank continues to establish hedging relationships between repurchased own bonds in a nominal amount of € 896.9 million and the corresponding securitised liabilities.

Fair value measurement of interest rate instruments of the banking book

In addition, the Bank uses derivative financial instruments of the banking book (non-trading book), above all interest rate swaps, for the purpose of controlling interest rate risk (interest spread risk) as part of the overall management of the Bank. In accordance with HGB, these instruments represent "pending transactions" which are not recognised in the balance sheet. They form a "hedging relationship", together with the recognised interest-bearing assets and liabilities of the banking book. In accordance with IDW RS BFA 3, this hedging relationship has to be reviewed as to whether losses are anticipated, taking into account expected expenses required for funding, risk management and administration in relation to managing the banking book. Currently, the Bank has two equally suitable methods available to determine provisions for anticipated losses: the P&L based approach referring to certain time periods, and the (static) present value method. The Bank uses the present value method. Under this method, a provision has to be recognised when the book value of the banking book exceeds the present value of the banking book, i.e. if there are net unrealised losses in the banking book. The present value is derived from the cash flows of the financial instruments included in the banking book, discounted to the balance sheet date. Potential future risk costs are considered by adjusting the applicable interest rate used for the discounting of cash flows. The administrative expenses relating to the banking book are derived from cost accounting and deducted on a lump-sum basis. No provision for anticipated losses had been recognised as at the balance sheet date, since the present value of the banking book is higher than the book value as at 31 December 2015.

Derivatives

Derivative financial instruments are considered pending transactions, and are therefore generally not recorded in the balance sheet.

Exchange-traded derivatives are measured at their quoted market price. The market price of over-the-counter (OTC) derivatives is determined using standard valuation models commonly accepted in the financial industry, such as the present value technique and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates.

Acquired as well as issued structured products are generally accounted for as groups of uniform assets and liabilities in accordance with IDW RS HFA 22.

Structured products subject to significantly higher or additional risks or rewards are accounted for separately as individual receivables or liabilities.

Integration of the split-off banking operations of the former Corealcredit Bank AG

In the course of the 2015 financial year, the split-off banking operations of former Corealcredit Bank AG were merged into Aareal Bank AG, with effect from 1 January 2015. The income statement includes the income and expenses of the split-off banking operations of former Corealcredit Bank AG as from 1 January 2015. The previous year's figures do not include income and expenses or assets and liabilities from former Corealcredit Bank AG’s banking operations; therefore, the respective financial statements and indicators for the financial position and financial performance of Aareal Bank AG for the financial years 2014 and 2015 are comparable only to a limited degree.

The assets and liabilities of the split-off banking operations of former Corealcredit Bank AG are recognised, according to the principle of prudence, at cost within the meaning of section 253 (1) of the HGB, determined using the book values reported in the closing balance sheet of the transferring legal entity in accordance with section 24 of the German Transformation Act (Umwandlungsgesetz – “UmwG”). The profit resulting from the difference between the book value of the absorbed shares and the book value of the acquired net assets (€ 68.5 million) is recognised as extraordinary income.

The integration of the split-off banking operations resulted in an increase of total assets of Aareal Bank AG as at the split-off date by approx. € 4.6 billion. The major effects from the integration of the split-off banking operations were an increase in loans and advances to customers (€ 2.7 billion) as well as the balance of debt and other fixed-income securities (€ 1.3 billion). On the equity and liabilities side of the balance sheet, liabilities to banks and customers increased (by € 0.6 billion and € 1.8 billion, respectively), while certificated liabilities were up by € 1.7 billion.

Following the split-off of the banking operations, Corealcredit Bank AG was turned into a subsidiary with no operative activities, and is now called Aareal Beteiligungen AG. Hence, the Banking licence of former Corealcredit Bank AG expired.Previously, Aareal Finanz und IT Beteiligungen GmbH was merged into Aareal Bank AG using the established book values within the meaning of section 24 of the UmwG. This mainly involved acquiring shares in former Corealcredit Bank AG (€ 350.3 million) and Aareon AG (€ 140.0 million).

Notes to the income statement

Income by geographical segment

The aggregate of (i) interest income, (ii) current income on equities and other non-fixed income securities, and on participating interests and interests in affiliated companies, (iii) commission income and (iv) other operating income is broken down by the following regions, in accordance with section 34 of the RechKredV.

€ mn	2015	2014
Germany	529.6	583.0
Europe/Americas/Asia	927.8	850.8
Total	**1,457.4**	**1,433.8**

Interest income and expenses include immaterial negative interest from deposits and borrowing, as well as from money market and securities lending transactions.

Administration and intermediation services rendered to third parties

Administration and intermediation services rendered to third parties concerned the administration and intermediation of loans and trust assets.

Other operating income and expenses

Other operating income totals € 24.9 million (2014: € 18.2 million) and comprises income from the reversal of provisions in the amount of € 18.1 million as well as income under agency contracts for other Group subsidiaries in the amount of € 3.0 million.

Other operating expenses total € 41.9 million (2014: € 26.7 million) and include expenses for subsidiaries in the amount of € 14.1 million, which are largely attributable to agency contracts for other Group companies. The result from currency translation amounts to € -7.4 million (2014: € -10.3 million). In addition, the item includes expenses in the amount of € 8.8 million from unwinding of discounts for provisions, after offsetting with income from plan assets used for pension obligations pursuant to section 246 (2) sentence 2 of the HGB.

Extraordinary income

Extraordinary income of € 68.5 million resulted from the integration of the split-off banking operations of former Corealcredit Bank AG.

Net income taxes

The net income tax position amounts to an income of € 4.9 million (2014: income of € 37.9 million), of which an expense of € 32.1 million included in current taxes is payable in Germany: this figure comprises

€ 12.6 million in corporation tax and solidarity surcharge and € 12.1 million in trade tax payable for the current year, as well as € 7.4 million in tax expense for previous years. The net income tax position also includes € 34.5 million in income from the capitalisation of deferred taxes and € 2.5 million in expenses for the Bank's foreign branch offices.

The tax reconciliation is used to determine why the tax expense (current taxes and deferred taxes) reported in the income statement differs from the expense calculated using the expected tax rate. The expected tax rate of 31.4% (2014: 31.4%), including a trade tax rate of assessment of 446%, comprises trade taxes (15.6%), corporation taxes (15%) and the solidarity surcharge (0.825%; 5.5% of corporation tax).

€ mn	31 Dec 2015	31 Dec 2014
Income before income taxes	94.4	38.9
Expected income tax expense rate: 31.4% (2014: 31.4%) (including 15.6% trade tax, 15.0% corporation tax and 0.8% solidarity surcharge)	29.6	12.2
Reconciliation		
Different foreign tax burden	7.0	-2.9
Tax attributable to tax-exempt income	-46.4	-50.7
Tax attributable to non-deductible expenses	15.1	8.0
Remeasurement of deferred taxes	6.8	0.0
Prior-period actual taxes	-18.2	18.5
Effect of changes in tax rates	0.0	0.1
Other tax effects	1.2	-23.1
Reported income tax expenses	-4.9	-37.9
Effective tax rate (%)	-5.2	-97.6

Prohibition of distribution

A total amount of € 287.5 million in profits is subject to a prohibition of distribution, pursuant to section 268 (8) of the HGB, of which € 284.0 million is attributable to the balance resulting from recognised deferred tax assets and recognised deferred tax liabilities. A prohibition of distribution applies to a net amount of € 3.5 million (after fair-value netting of assets), pursuant to section 246 (2) sentence 2 of the HGB.

Notes to the balance sheet

Securities negotiable at a stock exchange

The following table is a breakdown of securities negotiable at a stock exchange included in the balance sheet line items, including accrued interest.

€ mn	Listed 31 Dec 2015	Unlisted 31 Dec 2015
Debt and other fixed-income securities	9,304.3	0.0
Equities and other non-fixed-income securities	0.0	0.0
Participating interests	-	-
Investments in affiliated companies	0.0	3.2

**including accrued interest*

Hedging relationships as defined by section 254 of the HGB have been created with respect to negotiable securities in an aggregate amount of € 5,436.33 million (2014: € 5,792.31 million).

Bonds and notes of € 9,304.3 million (2014: € 10,291.3 million) (including accrued interest) reported under debt and other fixed-income securities include € 979.9 million (2014: € 1,337.5 million) in securities which are not eligible as collateral with Deutsche Bundesbank. Of that amount, € 132.4 million (2014: € 298.6 million) relate to sovereign foreign-currency bonds, which are eligible for securities lending.

The total amount of the balance sheet item ”interests in affiliated companies“ consists of interests in Aareal First Financial Solutions AG and Deutsche Bau- und Grundstücks-Aktiengesellschaft.

Bonds of selected European countries

The following table is an overview of the bonds issued by public-sector entities and bank bonds of selected European countries, included in the item "debt securities and other fixed-income securities":

2015

€ mn		Greece	Ireland	Italy	Portugal	Spain	Total
Bonds issued by public-sector entities (liquidity reserve)*							
	Nominal amount	0	0	85	0	25	**110**
	Book value	0	0	87	0	26	**113**
	Fair value	0	0	109	0	33	**142**
Bonds issued by public-sector entities (securities held as fixed assets) *							
	Nominal amount	0	0	949	155	312	**1,416**
	Book value	0	0	970	157	314	**1,441**
	Fair value	0	0	1,336	168	327	**1,831**
Covered bank bonds (liquidity reserve)							
	Nominal amount	0	0	35	0	115	**150**
	Book value	0	0	35	0	119	**154**
	Fair value	0	0	37	0	120	**157**
Covered bank bonds (securities held as fixed assets) *							
	Nominal amount	0	0	0	0	247	**247**
	Book value	0	0	0	0	260	**260**
	Fair value	0	0	0	0	264	**264**
Senior unsecured bank bonds (liquidity reserve)							
	Nominal amount	0	0	0	0	0	**0**
	Book value	0	0	0	0	0	**0**
	Fair value	0	0	0	0	0	**0**
Senior unsecured bank bonds (securities held as fixed assets) *							
	Nominal amount	0	0	0	0	0	**0**
	Book value	0	0	0	0	0	**0**
	Fair value	0	0	0	0	0	**0**
Total	**Nominal amount**	**0**	**0**	**1,069**	**155**	**699**	**1,923**

* All bonds issued by public-sector debtors, including government-guaranteed bonds.

2014

€ mn		Greece	Ireland	Italy	Portugal	Spain	Total
Bonds issued by public-sector entities (liquidity reserve)*							
	Nominal amount	0	0	430	0	25	**455**
	Book value	-	0	431	0	26	**457**
	Fair value	-	0	507	0	33	**540**
Bonds issued by public-sector entities (securities held as fixed assets) *							
	Nominal amount	-	0	839	155	312	**1,306**
	Book value	-	0	858	156	314	**1,328**
	Fair value	-	0	1,105	170	298	**1,573**
Covered bank bonds (liquidity reserve)							
	Nominal amount	-	0	70	60	165	**295**
	Book value	-	0	71	62	173	**306**
	Fair value	-	0	74	72	176	**322**
Covered bank bonds (securities held as fixed assets) *							
	Nominal amount	-	0	0	0	283	**283**
	Book value	-	0	0	0	291	**291**
	Fair value	-	0	0	0	315	**315**
Senior unsecured bank bonds (liquidity reserve)							
	Nominal amount	-	0	0	0	0	**-**
	Book value	-	0	0	0	0	**-**
	Fair value	-	0	0	0	0	**-**
Senior unsecured bank bonds (securities held as fixed assets) *							
	Nominal amount	-	0	0	0	0	**-**
	Book value	-	0	0	0	0	**-**
	Fair value	-	0	0	0	0	**-**
Total	**Nominal amount**	**-**	**-**	**1,339**	**215**	**785**	**2,339**

* All bonds issued by public-sector debtors, including government-guaranteed bonds.

Investment fund units

The following table is an analysis of investment fund assets, where more than 10% of the fund units are held.

€ mn	Book value 31 Dec 2015	Market value 31 Dec 2015	Book value 31 Dec 2014	Market value 31 Dec 2014
DBB INKA	101.3	101.3	100.9	100.9
Aareal Altersvorsorge BV 97	38.4	38.4	34.2	34.2
Arsago Multistrategie	1.7	1.9	9.2	9.7
Total	**141.4**	**141.6**	**144.3**	**144.8**

DBB INKA is an investment fund as defined under German law (Sondervermögen) which invests in assets permitted under the German Investment Act (Investmentgesetz - "InvG"), observing the principle of risk diversification.

Aareal Altersvorsorge BV 97 is an investment fund as defined under German law (Sondervermögen), which invests in assets permitted under the Investment Directive, observing the principle of risk diversification. This investment fund is protected from access by all creditors, and is only intended to settle liabilities from retirement benefit obligations vis-à-vis employees.

The Arsago Multistrategie fund was a multi-strategy hedge fund which uses derivative instruments to gain exposure to various interest rate, currency and macro strategies.

In the year under review, a second partial redemption of the Arsago Multistrategie fund was effected, which lead to a considerable decrease of the fund's assets and the cessation of fund activities.

Daily fund unit redemption is subject to certain restrictions. The value of investment fund units as defined by sections 168 and 278 of the German Capital Investment Act (Kapitalanlagegesetzbuch – "KAGB") is € 141.6 million. During the financial year under review, no distributions were made under the fund. There are € 0.2 million of hidden reserves from the Arsago Multistrategie fund.

Subordinated assets

The following items comprise subordinated assets in the amount shown:

€ mn	31 Dec 2015	31 Dec 2014
Loans and advances to banks	-	-
Loans and advances to customers	1.6	4.6
Debt and other fixed-income securities	-	-
Equities and other non-fixed-income securities	-	-
Other assets	-	-

Movements in fixed assets

The changes in fixed assets are presented in the fixed assets development schedule shown below.

The values shown for debt and other fixed-income securities include additions and disposals, as well as changes in inventory due to the amortisation of premiums and discounts (excluding accrued interest).

€ mn	Debt and other fixed-income securities	Participating interests	Investments in affiliated companies	Intangible assets	Tangible fixed assets: Office furniture and equipment	Tangible fixed assets: Land and buildings
Cost						
Balance as at 1 Jan 2015	**3,474.7**	**2.3**	**1,167.5**	**38.7**	**34.0**	**0.1**
Addition Merger / Split	622.4	0.6	490.3	7.7	3.3	0.0
Additions	86.4	0.0	434.4	1.5	3.9	0.0
Disposals	938.9	0.9	876.9	1.3	2.0	0.0
Changes in inventory / transfers	0.0	0.0	0.0	0.0	0.0	0.0
As at 31 Dec 2015	**3,244.6**	**2.0**	**1,215.3**	**46.6**	**39.2**	**0.1**
Depreciation, amortisation and write-downs						
Balance as at 1 Jan 2015	**0.0**	**1.0**	**68.0**	**36.7**	**23.1**	**0.0**
Addition Merger / Split	0.0	0.4	0.0	6.8	1.9	0.0
Depreciation and amortisation	0.0	0.0	0.0	1.6	2.8	0.0
Write-downs	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.1	27.1	0.9	1.9	0.0
Transfers	0.0	0.0	0.0	0.0	0.0	0.0
Write-ups	0.0	0.0	13.0	0.0	0.0	0.0
As at 31 Dec 2015	**0.0**	**1.3**	**27.9**	**44.2**	**25.9**	**0.0**
Book value as at 31 Dec 2015	**3,244.6**	**0.7**	**1,187.4**	**2.4**	**13.3**	**0.1**
Book value as at 31 Dec 2014	**3,474.7**	**1.3**	**1,099.5**	**2.0**	**10.9**	**0.1**

The assets of the split-off banking operations of former Corealcredit Bank AG are recognised at cost within the meaning of section 253 (1) of the HGB, determined using the book values reported in the closing balance sheet of the transferring legal entity in accordance with section 24 of the German Transformation Act (Umwandlungsgesetz – "UmwG"). The same applies to the assets of Aareal Finanz und IT Beteiligungen GmbH in connection with the merger into Aareal Bank AG. The original cost and any accumulated depreciation, amortisation and write-downs of the transferring legal entity are shown separately in the statement of fixed assets as an addition to historical cost and an addition to accumulated depreciation, amortisation and write-downs.

As at 31 December 2015, the securities held as fixed assets include an ABS portfolio of high credit quality, bonds of North American financial institutions as well as securities issued by Eastern and Southern European debtors. The following performance was recognised:

€ mn	Book value 31 Dec 2015	Market value 31 Dec 2015	Book value 31 Dec 2014	Market value 31 Dec 2014
Asset-backed securities	123.6	118.0	142.1	137.2
Bank bonds	335.7	351.9	446.2	470.6
Covered bonds	372.3	390.6	403.4	446.9
Public-sector issuer	2,413.0	3,074.2	2,483.0	3,081.7
Total	**3,244.6**	**3,934.7**	**3,474.7**	**4,136.4**

Securities with a nominal amount of € 3,241.0 million were not measured at the lower of cost or market. For some of the securities issued by public-sector entities and the ABS portfolio, the book value in the amount of € 223.5 million and € 123.6 million, respectively, is higher than the market value of € 213.8 million and € 118.0 million, respectively. The measurement at the lower of cost or market as at 31 December 2015 did not result in impairments of a permanent nature.

The option to aggregate non-trading assets, pursuant to section 34 (3) of the RechKredV, has been exercised.

The Bank has rented the majority of business land and buildings used for its business operations from one of its subsidiaries.

Other assets

Other assets include, in particular, receivables from profit distributions (€ 39.2 million), tax receivables (€ 10.1 million), as well as the asset item recognised from currency translation (€ 31.1 million). In addition, other assets include the cash-collateralised and irrevocable payment obligation to the German Federal Agency for Financial Market Stabilisation (Finanzmarktstabilisierungsanstalt – “FMSA”) in the amount of € 4.8 million resulting from the bank levy.

In the previous year, other assets mainly included, in particular, € 4.4 million in receivables from profit distributions as well as € 19.2 million in tax receivables.

Deferred taxes

As at 31 December 2015, € 311.4 million (2014: € 256.3 million) in deferred tax assets and € 27.4 million (2014: € 18.0 million) in deferred tax liabilities were reported on the balance sheet. Deferred taxes are recorded in the amount of the assumed tax burden or relief in coming financial years, and are measured using the company- and country-specific tax rates expected to apply at the time of the realisation of temporary differences and the offsetting of loss carryforwards.

For Germany, we generally used a corporate income tax rate (including solidarity surcharge) of 15.8% and a municipal trade tax rate, depending on the multiplier set by the relevant local authorities. This results in an overall tax rate of 31.4% for Germany.

Deferred tax assets were largely recognised for valuation differences for loans and advances to customers compared to their tax base, provisions for impending losses from executory contracts, as required under German commercial law, prepaid expenses for collected loan fees as well as on provisions for pensions. Deferred tax assets in the amount of € 17.9 million (2014: € 11.6 million) were recognised for loss carryforwards, relating exclusively to foreign permanent establishments of Aareal Bank AG. Westdeutsche Immobilien-Bank AG's deferred tax assets were initially recognised in 2015, in the amount of € 11.1 million. The investment was acquired in 2015, and an income tax group established under a profit and loss transfer agreement with Aareal Bank AG. In the course of the 2015 financial year, the split-off banking operations of former Corealcredit Bank AG were merged into Aareal Bank AG. This transaction was recognised at the fair market value for tax purposes and resulted in deferred tax assets of € 34 million.

Deferred tax liabilities were recognised primarily for flat-rate specific provisions on receivables of the Bank’s permanent establishment in Rome.

Other liabilities

Other liabilities include profit entitlements from silent participations in the amount of € 3.6 million. In addition, other liabilities include € 840.4 million in liabilities recognised from currency translation, € 78.0 million in liabilities from profit and loss transfer agreements and € 8.5 million in tax liabilities.

In the previous financial year, other liabilities largely included € 34.8 million in profit entitlements from silent participations, of which € 8.3 million became legally payable only after the balance sheet date, in accordance with the profit appropriation decision of the Annual General Meeting. In addition, € 40.1 million in liabilities from profit and loss transfer agreements and tax liabilities of € 6.4 million were recognised.

Provisions for pensions and similar obligations

The values determined in the actuarial pension report are based on the methods and assumptions described below. In this context, the collection of personnel data and the determination of the forecast interest rate were made as at 1 October 2015 (cut-off date), not as at the balance sheet date:

	31 Dec 2015	31 Dec 2014
Actuarial method applied:	Projected unit credit method	Projected unit credit method
Fundamental assumptions for calculation:		
Discount rate in %	3.89	4.55
Expected wage and salary increases in %	2.25	2.25
Mortality tables used	"Richttafeln 2005G" mortality tables by Prof Dr Klaus Heubeck	"Richttafeln 2005G" mortality tables by Prof Dr Klaus Heubeck

Assets which are held exclusively for the purpose of fulfilling pension obligations are netted against provisions for pensions, within the framework of a Contractual Trust Agreement (CTA) where the trustee is acting on behalf of both parties (in the capacity of an administrative trustee and security trustee).

€ mn	31 Dec 2015	31 Dec 2014
Pension obligation	235.1	148.8
Fair value of plan assets	62.9	56.2
Cost of plan assets	59.4	54.0
Provisions for pensions and similar obligations	**172.2**	**92.6**

The plan assets comprise the following items, all of which are exclusively reserved to meet Aareal Bank AG's pension obligations vis-à-vis its active and retired employees in Germany.

€ mn	31 Dec 2015	31 Dec 2014
Fund units	38.4	34.2
Bonds	-	-
Reinsurance cover	24.5	22.0
Fair value of plan assets	**62.9**	**56.2**

The following table shows the income and expenses in relation to pension obligations and the associated plan assets that were offset and recognised in the income statement of the reporting year.

€ mn	31 Dec 2015	31 Dec 2014
Interest cost on pension obligations	9.3	6.5
Income from plan assets	1.5	3.5
Net interest cost	**7.8**	**3.0**

Subordinated liabilities

Subordinated funds raised do not provide for any early repayment obligation for Aareal Bank AG. In the event of liquidation or insolvency, claims on interest and principal from these liabilities are subordinated to the claims of all other creditors of Aareal Bank AG, which are not themselves subordinated. This also applies to those subordinated funds raised that are not specified in detail.

Interest expenses for all subordinated liabilities totalled € 64.5 million, including an amount of € 27.4 million for accrued interest payments not yet due.

Aareal Bank AG has € 250.0 million in subordinated equity from Aareal Capital Funding LLC, Delaware, USA, at its disposal. The amount exceeds 10% of the aggregate nominal value of all subordinated liabilities; this bears interest at 7.135%. These subordinated funds are due for repayment on 31 December 2026. The Bank has had a right to terminate, on a quarterly basis, since 31 December 2006; the creditors do not have any early termination rights.

Profit-participation certificates

Profit-participation certificates issued comprise the following certificates issued by Aareal Bank AG.

The profit-participation certificates recognised on the balance sheet are eligible as own funds pursuant to Article 63 in conjunction with Article 484 et seq. of the Capital Requirements Regulation (CRR) in the amount of € 11.2 million.

€ mn	Nominal amount	Issue currency	Interest rate (% p.a.)	Maturity
Registered profit-participation certificates:	5.0	EUR	7.22	2002 - 2016
	5.0	EUR	7.22	2002 - 2016
	5.0	EUR	6.31	2003 - 2017
	5.0	EUR	5.38	2004 - 2016
	20.0	EUR	5.95	2004 - 2016
	6.0	EUR	5.83	2005 - 2017
	46.0			

Pursuant to the terms and conditions of issue, holders of profit-participation certificates have a claim on interest payments which takes precedence over the profit entitlements of shareholders. Where a distribution during the term of the profit-participation certificates would cause a net loss, said interest claim would be reduced, possibly down to zero, creating a claim for backpayment during the term of the certificates at the same time.

Repayment takes place at the nominal amount (subject to any loss sharing), after the Annual General Meeting passes resolutions regarding the relevant financial year. The profit-participation certificates evidence creditors' rights; they do not grant any share in the liquidation proceeds.

€ 3.3 million in interest expenses were incurred in 2015 with respect to profit-participation certificates issued.

Additional Tier 1 capital instruments

Additional Tier 1 bond (AT1 bond)

On 13 November 2014, the Management Board issued notes in an aggregate nominal amount of € 300 million with a denomination of € 200,000 and an initial interest rate of 7.625%, based on the authorisation granted by the Annual General Meeting on 21 May 2014.

The notes bear interest of 7.625% per annum from the interest commencement date to 30 April 2020. The rate of interest for any interest period commencing on or after 30 April 2020 shall be equal to the reference rate (one-year EUR swap rate) determined on the relevant interest determination date plus a margin of 7.18% per annum.

The notes constitute unsecured and subordinated obligations of the issuer.

Upon the occurrence of a trigger event, the redemption amount and the principal amount of each note shall be reduced by the amount of the relevant write-down. The write-down shall be effected pro rata with all other Additional Tier 1 instruments within the meaning of the CRR, the terms of which provide for a write-down upon the occurrence of the trigger event. A "trigger event" occurs if the Common Equity Tier 1 capital ratio, pursuant to Article 92 (1) (a) CRR or a successor provision, and determined on a consolidated basis, falls below 7.0%. After a write-down has been effected, the principal amount and the redemption amount of each note may – subject to certain conditions – be written up in each of the financial years of the issuer subsequent to such write-down until the full initial principal amount has been reached.

The notes may be redeemed, in whole but not in part, at any time at the option of the issuer, subject to prior consent of the competent supervisory authority, upon not less than 30 and not more than 60 days' prior notice of redemption at their redemption amount (taking into account a potential write-down) together with interest accrued until the redemption date (to the extent that interest payment is not cancelled or ruled out in accordance with the terms and conditions of the notes), when the tax or regulatory reasons set out in the terms and conditions of the notes apply. The issuer may also redeem the notes, in whole but not in part, at any time, subject to the prior consent of the competent supervisory authority, upon not less than 30 days' notice of redemption with effect as at 30 April 2020 for the first time and, thereafter, with effect as at each interest payment date at their redemption amount together with interest (if any) accrued to the redemption date.

Interest expenses for all notes totalled € 22.8 million, including an amount of € 15.4 million for accrued interest payments not yet due.

Purchase of treasury shares

The General Meeting held on 20 May 2015 authorised the Management Board, pursuant to section 71 (1) No. 7 of the AktG, to purchase and sell treasury shares for the purposes of securities trading, at a price not falling below or exceeding the average closing price of the Company's share in Xetra trading (or a comparable successor system) during the three trading days on the Frankfurt Stock Exchange prior to the relevant transaction by more than 10%. This authorisation expires on 19 May 2020. The volume of shares acquired for this purpose must not exceed 5% of the share capital of Aareal Bank AG at the end of any given day.

Furthermore, the Management Board was authorised by means of a resolution of the General Meeting on 20 May 2015, pursuant to section 71 (1) no. 8 of the AktG, to purchase own shares up to a total volume of 10% of the share capital for purposes other than trading in treasury shares, until 19 May 2020. Shares may be acquired via the stock exchange or by means of a public offer to buy, directed at all shareholders, and at purchase prices stipulated in the authorisation and based on the prevailing market price of the Company's shares. This authorisation may be exercised, in full or in part, on one or more occasions.

The shares acquired in accordance with this or an earlier authorisation may be sold, subject to Supervisory Board approval, outside the stock exchange and without an offer directed at all shareholders, subject to the exclusion of shareholders' pre-emptive rights, when the shares sold do not exceed 10% of the share capital and the issue price is not significantly below the prevailing stock exchange price or in the event of a sale against contributions in kind, or when the shares sold are used to service rights from convertible bonds or bonds with warrants. This also applies to shares issued by subsidiaries. The treasury shares may also be given to the holders of conversion or option rights in lieu of new shares from a contingent capital increase. The shares can also be withdrawn, without such a withdrawal or its implementation requiring a further resolution by the General Meeting.

The Management Board was also authorised to effect the acquisition of treasury shares by using put or call options. Any acquisition of shares using derivatives is limited to a maximum of 5% of share capital. In addition, any acquisition of shares shall count towards the 10% threshold for the authorisation for the acquisition of treasury shares. Where treasury shares are acquired using equity derivatives, the shareholders' right to enter into any option transactions with the Company is excluded in analogous application of section 186 (3) sentence 4 of the AktG.

Development of shareholders' equity reported on the balance sheet

	Sub-scribed capital	Capital reserves	Retained Earnings		Net retained profit	Equity
			Legal reserve	Other retained earnings		
€ mn						
As at 1 Jan 2015	**369.8**	**727.8**	**4.5**	**715.2**	**76.8**	**1,894.1**
Capital increase	0.0	0.0	-	-	-	0.0
(of which: contributions by silent partners)	(190.2)	-	-	-	-	(190.2)
Transfer from net retained profit 2014	-	-	-	5.0	-5.0	-
Dividends distributed in 2015	-	-	-	0.0	-71.8	-71.8
Transfer from net income 2015	-	-	-	-	99.3	99.3
As at 31 Dec 2015	**369.8**	**727.8**	**4.5**	**720.2**	**99.3**	**1,921.6**
(of which: contributions by silent partners)	(190.2)	-	-	-	-	(190.2)

Subscribed capital amounts to € 179.6 million (2014: € 179.6 million) and is divided into 59,857,221 (2014: 59,857,221) bearer shares with a proportionate share in the share capital of € 3.00 per share.

The Bank utilises the rules set out in section 2a of the KWG in conjunction with Article 7 of the CRR pursuant to which regulatory indicators of own funds can only be determined at Group level. As a result, regulatory details no longer need to be disclosed at a single-entity level in this context.

Authorised capital

Aareal Bank has authorised capital, pursuant to the resolution by the Annual General Meeting held on 23 May 2012. Accordingly, the Management Board is authorised to increase, on one or more occasions, the Company's share capital by up to a maximum total amount of € 89,785,830 (Authorised Capital 2012) by issuance of new no-par value bearer shares for contribution in cash or in kind, subject to the approval of the Supervisory Board; this authority will expire on 22 May 2017. In the event of a capital increase against cash contributions, the shareholders shall be granted a subscription right, unless the Management Board exercises its authority to exclude shareholder's pre-emptive subscription rights. The Management Board may exclude shareholders' subscription rights, subject to approval by the Supervisory Board and the conditions set out below:

a) In the event of a capital increase against cash contributions, provided that the issue price of the new shares is not significantly below the prevailing stock exchange price of the Company's listed shares at the time of the final determination of the issue price. However, this authorisation shall be subject to the proviso that the aggregate value of shares sold to the exclusion of shareholders' subscription rights, in accordance with section 186 (3) sentence 4 of the AktG, shall not exceed ten per cent (10%) of the share capital at the time said authorisation comes into effect or - if lower - at the time it is exercised. Any shares that were issued or sold during the term and prior to the exercising of said authorisation, in direct or analogous application of section 186 (3) sentence 4 of the AktG, shall count towards the above threshold of ten per cent (10%) of the share capital. Said ten-per-cent threshold shall also include shares, the issuance of which is required under the terms of debt securities with embedded conversion or option rights on shares issued pursuant to section 186 (3) sentence 4 of the AktG (excluding shareholders' subscription rights), which were (or may be) issued during the validity of this authorisation.

b) for fractional amounts arising from the determination of the applicable subscription ratio;

c) where this is necessary to grant subscription rights to the holders of bonds with warrants or convertible bonds issued (or to be issued) by the Company or its affiliated companies, which subscription rights are required to entitle these holders to the same extent as they would have been entitled to upon exercising their conversion or option rights or upon performance of a conversion obligation, if any, thus protecting such holders against dilution;

d) for an amount of up to € 4,000,000, to offer employees (of the Company or its affiliated companies) shares for subscription.

In the event of a capital increase against contributions in kind, the Management Board is authorised to exclude shareholders' subscription rights, subject to the approval by the Supervisory Board.

When exercising this authorisation, the Management Board will restrict the exclusion of shareholders' pre-emptive rights to a total of 20% of the Company's share capital. Accordingly, the aggregate exclusion of shareholders' subscription rights upon exercise of this authorisation must not exceed 20% of the share capital at the time said authorisation comes into effect or is exercised. This limit also includes shares issued by the Company on the basis of the authorisation by the General Meeting on 23 May 2012, under convertible bonds and/or bonds with warrants issued excluding the pre-emptive rights of shareholders.

The authorised capital has not been utilised.

Conditional capital

Based on a resolution passed by the General Meeting on 21 May 2014, the Management Board was authorised to issue, on one or more occasions until 20 May 2019, profit-participation rights with a limited or unlimited term for contribution in cash or in kind in a total nominal amount of € 1,000,000,000. If the profit-participation rights are not issued against contribution in kind, they may be linked to a conversion right for the holder or creditor. Conversion rights may be attached exclusively to bearer no-par value shares and are limited to a maximum amount of € 89,785,830 of the Company's share capital. The issue of profit-participation rights may also be effected by domestic or foreign companies in which the Company either directly or indirectly holds a majority interest. In this case, the Company, subject to Supervisory Board approval, may guarantee such issues as well as issue shares on its own to fulfil the conversion rights. Subject to the approval of the Supervisory Board, the Management Board may exclude shareholders' pre-emptive rights in relation to the profit-participation rights in certain cases.

The purpose of the authorisation passed by the Annual General Meeting on 21 May 2014 is to create Tier 1 capital that is eligible for regulatory purposes; it also provides for the issue of profit-participation rights with conversion obligations. It is in accordance with the various structuring alternatives for Additional Tier 1 capital instruments, pursuant to the Capital Requirements Regulation[1]. For instance, a conversion obligation may be provided for if the Bank falls short of certain capital ratios (to be defined in the terms of convertible profit-participation certificates) or other financial indicators; conversion is required, in the opinion of the Company's Management Board and Supervisory Board, to safeguard the Company's continued existence; or if conversion is instructed by a supervisory authority within the scope of its powers.

The share capital is subject to a conditional capital increase not exceeding € 89,785,830 by issuance of up to 29,928,610 new bearer no-par value shares ("Conditional Capital 2014"). The conditional capital increase shall be implemented only insofar as (i) the holders or creditors of conversion rights from convertible profit participation rights issued by the Company (or by an enterprise in which the Company either directly or indirectly holds a majority interest) until 20 May 2019, on the basis of the Annual General Meeting's authorisation resolution of 21 May 2014, exercise their conversion rights or (ii) the holders or creditors of convertible profit participation rights issued by the Company (or by an enterprise in which the Company either directly or indirectly holds a majority interest) until 20 May 2019, on the basis of the Annual General Meeting's authorisation resolution of 21 May 2014, and who are obliged to exercise those rights, fulfil their obligation or (iii) the Company makes use of alternative performance; insofar as treasury shares are not used to service the rights or, in the aforementioned cases (i) and (ii), no cash compensation is granted. The new shares shall be entitled to a share in the profits from the beginning of the financial year in which they come into existence, through the exercise of conversion rights or the fulfilment of conversion obligations. The Management Board is authorised to determine the details of the conditional capital increase.

The new shares will be issued at the conversion price to be set as defined in the resolution passed by the Annual General Meeting on 21 May 2014.

To date, the Conditional Capital has not yet been utilised.

Contingent liabilities and other commitments

The Bank has off-balance contingent liabilities and irrevocable loan commitments. During the term of these obligations, the Bank regularly reviews whether any losses can be expected from the utilisation of such contingent liabilities. This assessment is primarily made due to the credit risk analysis. Any losses that can be expected according to this analysis are recognised in the balance sheet as provisions.

The contingent liabilities primarily result from guarantee and indemnity agreements with banks in the amount of € 84.4 million (2014: € 88.0 million). These include € 22.5 million (2014: € 26.5 million) in maximum default guarantees extended to DEPFA Deutsche Pfandbriefbank AG (within the scope of splitting the former DEPFA Group), for the purpose of providing cover against risks of default with respect to the property loan portfolio held by pbb Deutsche Pfandbriefbank AG.

[1] Regulation 575/2013/EU

Liabilities did not have to be recognised for obligations from indemnity agreements vis-à-vis third parties and other obligations, which were entered into in favour of affiliated companies, as the underlying liabilities are likely to be fulfilled by the affiliated companies. Therefore, we do not expect any utilisation in this regard.

Irrevocable loan commitments are made up of credit and loan commitments, of which € 1,136.1 million (2014: € 2,862.9 million) are granted to domestic borrowers and € 1,952.7 million (2014: € 1,778.1 million) to foreign borrowers.

Unrecognised transactions and other obligations

Aareal Bank AG is the lessee mainly of operating leases. Rental and lease contracts relate to the buildings of the Bank's head office in Wiesbaden used for the Bank's operations, and of the foreign branch offices and representative offices, as well as to the vehicle fleet and certain operating and office equipment. In all cases, the contracts are so-called operating leases which are not recognised in the financial statements of the Bank. The key benefit of such contracts is a lower amount of capital lock-up compared to an acquisition, and the elimination of realisation risk. At the moment, there are no indications that risks may result from the lease term.

Disclosures on repurchase agreements and derivatives are presented in the following section of the notes.

The financial amounts subject to legal disputes are within the mid two-digit million range. Based on a legal analysis, successful outcome of these disputes is more likely than not, and therefore, no liabilities are recognised in the financial statements.

The bank levy led to a fully cash-collateralised and irrevocable payment obligation to the FMSA. The corresponding cash collateral is recognised in other assets.

Maturity groupings

€ mn	31 Dec 2015	31 Dec 2014
Loans and advances to banks	**2,409.5**	**3,718.3**
With a residual term of		
Payable on demand	1,376.8	2,647.6
Up to 3 months	555.1	288.0
Between 3 months and 1 year	106.4	344.2
Between 1 year and 5 years	27.5	88.2
More than 5 years	48.2	32.4
Pro rata interest	295.5	317.9
Loans and advances to customers	**28,294.0**	**27,115.3**
With a residual term of		
Payable on demand	641.9	259.4
Up to 3 months	626.8	1,052.2
Between 3 months and 1 year	2,980.2	3,205.7
Between 1 year and 5 years	17,893.8	16,331.1
More than 5 years	6,014.5	6,110.6
Indefinite maturity	-	-
Pro rata interest	136.8	156.3
Debt and other fixed-income securities maturing in the following year (nominal amount)	**1,018.0**	**1,226.0**
Liabilities to banks	**1,641.1**	**2,149.6**
With a residual term of		
Payable on demand	750.8	837.4
Up to 3 months	18.1	325.0
Between 3 months and 1 year	44.4	157.8
Between 1 year and 5 years	284.3	289.0
More than 5 years	337.5	311.2
Pro rata interest	206.0	229.2
Savings deposits with an agreed notice period of more than three months	**0.0**	**0.0**
With a residual term of		
Up to 3 months	0.0	0.0
Between 3 months and 1 year	0.0	0.0
Between 1 year and 5 years	0.0	0.0
Pro rata interest	0.0	0.0
Other deposits from customers	**24,681.4**	**24,612.5**
With a residual term of		
Payable on demand	7,091.2	6,553.1
Up to 3 months	3,463.8	3,497.4
Between 3 months and 1 year	3,459.5	3,741.0
Between 1 year and 5 years	4,103.4	3,888.7
More than 5 years	6,341.1	6,697.2
Pro rata interest	222.4	235.1
Bonds issued maturing in the following year (nominal amount)	**3,209.8**	**2,056.8**
Other certificated liabilities	**0.0**	**0.0**

The integration of the split-off banking operations of the former Corealcredit Bank AG led to an increase in loans and advances to customers (€ 2.7 billion) as well as of the balance of debt and other fixed-income securities (€ 1.3 billion) as at the split-off date. On the equity and liabilities side of the balance sheet, liabilities to banks and customers increased (by € 0.6 billion and € 1.8 billion, respectively), while certificated liabilities were up by € 1.7 billion.

Prepaid expenses and deferred income

Prepaid expenses and deferred income primarily include upfront payments as well as any premiums and discounts on registered bonds, claims under promissory note loans, issued bonds and other loans as well as fee portions with interest-paying characteristics, which have been amortised over the relevant terms.

Prepaid expenses in the amount of € 205.7 million (2014: € 202.8 million) primarily include € 2.7 million (2014: € 3.2 million) in premiums on originated loans, in accordance with section 340e (2) sentence 3 of the HGB and € 133.8 million (2014: € 143.5 million) in discounts on bonds issued and borrowings pursuant to section 250 (3) of the HGB. The item also includes €62.4 million (2014: € 50.2 million) from upfront payments/option premiums in connection with derivatives.

€ 157.5 million (2014: € 149.0 million) of deferred income refers to upfront payments/option premiums in connection with derivatives (€ 72.1 million; 2014: € 72.4 million), while € 11.7 million (2014: € 11.0 million) refers to discounts on originated loans, in accordance with section 340e (2) sentence 2 of the HGB, and to fee portions with interest-paying characteristics in the amount of €69.0 million (2014: € 65.1 million).

Trust business

€ mn	31 Dec 2015	31 Dec 2014
Trust assets		
Loans and advances to banks	0	0
Loans and advances to customers	40.3	47.5
Equities and other non-fixed-income securities	1.5	1.5
Total trust assets	**41.8**	**49.0**
Trust liabilities		
Liabilities to banks	13.2	13.8
Liabilities to customers	28.6	35.2
Total trust liabilities	**41.8**	**49.0**

Notes on affiliated companies and enterprises with a participatory interest

	Affiliated companies 2015		Enterprises with a participatory interest 2015		Affiliated companies 2014		Enterprises with a participatory interest 2014	
€ mn	Certifi-cated	Not certificated	Certifi-cated	Not certificated	Certifi-cated	Not certificated	Certifi-cated	Not certificated
Loans and advances to banks	-	549.4	-	-	-	481.0	-	-
Loans and advances to customers	-	2,963.5	-	-	-	2,843.4	-	-
Debt and other fixed-income securities	-	-	-	-	-	-	-	-
Liabilities to banks	-	35.7	-	-	-	379.1	-	-
Liabilities to customers	-	630.2	-	-	-	616.2	-	-
Certificated liabilities	-	-	-	-	-	-	-	-
Subordinated liabilities	-	250.0	-	-	-	250.0	-	-

Transactions with related parties are carried out on an arm's length basis. Our relationships to related parties are detailed in the section "Loans to executive bodies of Aareal Bank AG" as well as in the Remuneration Report.

Shareholdings

The following disclosures are made pursuant to section 285 (11) of the HGB:

No.	Company name	Registered office	Share in capital	Equity	Results
			in %	€ mn	€ mn
1	Aareal Bank AG	Wiesbaden	100.0		
2	1st Touch Ltd	Southampton	100.0	GBP 2.4 mn	GBP 0.2 mn [2)]
3	Aareal Bank Asia Limited	Singapore	100.0	SGD 17.2 mn	SGD 2.2 mn [1)]
4	Aareal Bank Capital Funding LLC	Wilmington	100.0	250.0	0.0
5	Aareal Bank Capital Funding Trust	Wilmington	100.0	0.0	0.0
6	Aareal Beteiligungen AG	Frankfurt	100.0	297.8	0.0 [3)]
7	Aareal Capital Corporation	Wilmington	100.0	USD 217.8 mn	USD 12.0 mn [1)]
8	Aareal Estate AG	Wiesbaden	100.0	2.8	0.0 [3)]
9	Aareal First Financial Solutions AG	Mainz	100.0	3.2	0.0 [3)]
10	Aareal Gesellschaft für Beteiligungen und Grundbesitz Erste mbH & Co. KG	Wiesbaden	94.9	2.3	0.1 [1)]
11	Aareal Immobilien Beteiligungen GmbH	Wiesbaden	100.0	229.7	0.0 [3)]
12	Aareal Valuation GmbH	Wiesbaden	100.0	0.5	0.0 [3)]
13	Aareon AG	Mainz	100.0	94.9	10.3
14	Aareon Deutschland GmbH	Mainz	100.0	33.9	0.0 [3)]
15	Aareon France S.A.S.	Meudon-la Forêt	100.0	6.2	2.7 [2)]
16	Aareon Immobilien Projekt GmbH	Essen	100.0	0.7	0.0 [3)]
17	Aareon Nederland B.V.	Emmen	100.0	17.8	2.3 [2)]
18	Aareon UK Ltd.	Coventry	100.0	GBP 4.1mn	GBP 0.8 mn [2)]
19	AHBR-Grundstücksverwaltungs-gesellschaft mit beschränkter Haftung	Frankfurt	100.0	0.9	0.0 [3)]
20	AHBR Projektentwicklung GmbH	Frankfurt	100.0	0.7	0.0 [1)]
21	Aqvatrium AB	Stockholm	100.0	SEK 338.9 mn	SEK -43.5 mn [1)]
22	arsago Alternative Investments SPC	Grand Cayman	67.0	n/a	n/a
23	BauContact Immobilien GmbH	Wiesbaden	100.0	26.3	-0.6
24	BauGrund Immobilien-Management GmbH	Bonn	100.0	0.5	0.0 [3)]
25	BauGrund TVG GmbH	Munich	100.0	0.1	0.0 [1)]
26	BauSecura Versicherungsmakler GmbH	Hamburg	100.0	3.1	3.0 [1)]
27	BGS-Beteiligungsgesellschaft mit beschränkter Haftung	Frankfurt	100.0	0.8	0.0 [3)]
28	BVG - Grundstücks- und Verwertungs-gesellschaft mit beschränkter Haftung	Frankfurt	100.0	216.6	0.0 [3)]
29	Capital Funding GmbH & Co. KG	Frankfurt	100.0	0.0	0.0 [5)]

[1] Preliminary figures as at 31 December 2015; [2] Equity and results as at 31 December 2014

[3] Profit transfer agreement / control and profit transfer agreement; [4] Different financial year

[5] 10% of voting rights, diverging from the equity interest held; n/a no data

No.	Company name	Registered office	Share in capital	Equity	Results
			in %	€ mn	€ mn
30	Deutsche Bau- und Grundstücks-Aktiengesellschaft	Berlin	100.0	1.4	0.1 [1)]
31	Deutsche Structured Finance GmbH	Wiesbaden	100.0	4.5	0.2 [1)]
32	DSF Elfte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [2)]
33	DSF Flugzeugportfolio GmbH	Wiesbaden	100.0	0.0	0.0 [3)]
34	DSF German Office Fund GmbH & Co. KG	Wiesbaden	94.0	1.0	-1.0 [1)]
35	DSF Neunte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.0	0.0 [2)]
36	DSF Solar Italien GmbH & Co. KG	Wiesbaden	100.0	0.0	0.0 [4)]
37	DSF Vierte Verwaltungsgesellschaft mbH	Wiesbaden	100.0	2.2	0.0 [3)]
38	DSF Zwölfte Verwaltungsgesellschaft mbH	Frankfurt	100.0	0.3	0.0 [2)]
39	Facilitor B.V.	Enschede	100.0	1.3	0.3 [2)]
40	GEV Besitzgesellschaft mbH	Wiesbaden	100.0	30.0	0.0 [3)]
41	GEV Beteiligungen GmbH	Wiesbaden	100.0	0.1	0.0 [1)]
42	GEV GmbH	Wiesbaden	100.0	18.0	0.0 [3)]
43	GFI Gesellschaft für Investitionsberatung in Immobilien mit beschränkter Haftung	Frankfurt	100.0	0.1	0.0 [3)]
44	GPP-Grundstücksgesellschaft Pariser Platz 6a mit beschränkter Haftung	Frankfurt	100.0	0.1	0.0 [3)]
45	GVN-Grundstücks- und Vermögensverwaltungs-gesellschaft mit beschränkter Haftung	Frankfurt	100.0	52.5	0.0 [3)]
46	IMMO Consulting S.r.l.	Rome	100.0	0.5	0.1 [1)]
47	Incit AB	Mölndal	100.0	SEK 20.7 mn	SEK 5.3 mn [2)]
48	Incit AS	Oslo	100.0	NOK -0.9 mn	NOK -1.9 mn [2)]
49	Incit Nederland B.V.	Gorinchem	100.0	-0.5	0.1 [2)]
50	IV Beteiligungsgesellschaft für Immobilieninvestitionen mbH	Wiesbaden	100.0	2.3	0.0 [1)]
51	Izalco Spain S.L.	Madrid	100.0	11.1	0.0 [3)]
52	Jomo S.p.r.l.	Brussels	100.0	6.7	-0.4 [1)]
53	La Sessola Holding GmbH	Wiesbaden	100.0	96.9	-33.0 [1)]
54	La Sessola S.r.l.	Rome	100.0	126.1	-9.8 [1)]

[1] Preliminary figures as at 31 December 2015; [2] Equity and results as at 31 December 2014

[3] Profit transfer agreement / control and profit transfer agreement; [4] Different financial year

[5] 10% of voting rights, diverging from the equity interest held; n/a no data

No.	Company name	Registered office	Share in capital in %	Equity € mn	Results € mn
55	La Sessola Service S.r.l.	Rome	100.0	2.7	-2.4 [1)]
56	Mercadea S.r.l.	Rome	100.0	6.9	0.0 [1)]
57	Mirante S.r.l.	Rome	100.0	13.4	-0.5 [1)]
58	Participation Achte Beteiligungs GmbH	Wiesbaden	100.0	0.0	0.0 [3)]
59	Participation Neunte Beteiligungs GmbH	Wiesbaden	100.0	0.0	0.0 [3)]
60	phi-Consulting GmbH	Bochum	100.0	1.1	0.2 [1)]
61	Real Verwaltungsgesellschaft mbH	Schönefeld	100.0	26.9	0.1 [1)]
62	Sedum Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG	Mainz	94.9	-0.9	-0.2 [1)]
63	Solon 1. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0
64	Solon 2. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0
65	Solon 3. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0
66	Solon 4. Immobilienbeteiligungs GmbH	Frankfurt	100.0	0.0	0.0
67	Square DMS Groep B.V.	Grathem	100.0	-0.1	0.8 [2)]
68	Square Document Management Systems B.V.	Grathem	100.0	1.9	0.8 [2)]
69	Square Document Management Systems Research B.V.	Grathem	100.0	0.1	0.0 [2)]
70	Sustainable Solar Thermal Future East-Crete Limited Liability Company	Heraklion	99.0	0.5	0.0 [2)]
71	Terrain-Aktiengesellschaft Herzogpark	Wiesbaden	99.9	4.7	0.0 [3)]
72	Terrain Beteiligungen GmbH	Wiesbaden	94.0	49.8	18.2 [1)]
73	Westdeutsche ImmobilienBank AG	Mainz	100.0	451.9	0.0 [3)]
74	CredaRate Solutions GmbH	Cologne	25.9	2.2	0.2 [2)]
75	DSF PP Justizzentrum Thüringen GmbH & Co. KG	Frankfurt	48.4	0.4	0.0 [2)]
76	Konsortium BauGrund/TREUREAL	Bonn	50.0	0.0	0.0 [1)]
77	Rathaus-Carrée Saarbrücken Verwaltungs GmbH i.L.	Cologne	25.0	0.1	0.0 [2)]
78	Rathaus-Carrée Saarbrücken Verwaltungs GmbH & Co. KG i.L.	Cologne	25.0	0.1	0.0 [2)]
79	Rehabilitationsklinik Uckermark GmbH i.L.	Templin	49.0	n/a	n/a
80	SG2ALL B.V.	Huizen	50.0	0.3	0.2 [2)]
81	Westhafen Haus GmbH & Co. Projektentwicklungs KG i.L.	Frankfurt	25.0	-0.2	0.0 [2)]
82	Westhafen-Gelände Frankfurt am Main GbR i.L.	Frankfurt	33.3	0.1	0.0 [2)]

[1] Preliminary figures as at 31 December 2015; [2] Equity and results as at 31 December 2014

[3] Profit transfer agreement / control and profit transfer agreement; [4] Different financial year

[5] 10% of voting rights, diverging from the equity interest held; n/a no data

Assets pledged as collateral

Assets in the amount stated were pledged for the following liabilities:

€ mn	31 Dec 2015	31 Dec 2014
Liabilities to banks	1,556.3	1,801.8
Liabilities to customers	0.0	0.0
Total	**1,556.3**	**1,801.8**

Other assets include the cash-collateralised and irrevocable payment obligation to the FMSA resulting from the bank levy, for which € 4.8 million in cash collateral has been pledged.

Repurchase agreements

As at 31 December 2015, no bonds were used as part of repurchase agreements (2014: € 249.5 million).

Assets and liabilities in foreign currencies

The aggregate equivalent amount of assets denominated in foreign currencies was € 12,574.72 million (2014: € 12,698.7 million) at the balance sheet date, while liabilities totalled € 1,663.1 million (2014: € 1,180.1 million). Foreign currency balances are partly offset by equivalent foreign exchange forwards and currency swaps.

Forward transactions

The following forward transactions had been entered into as at 31 December 2015:

- **Transactions based on interest rates**
  Caps, floors, swaptions, interest rate swaps
- **Transactions based on exchange rates**
  Spot and forward foreign exchange transactions, cross-currency interest rate swaps
- **Other transactions**
  Credit default swaps, other forward transactions

Interest-rate based transactions and cross-currency interest rate swaps are primarily used to hedge against interest rate and exchange rate fluctuations. Spot and forward foreign exchange transactions are almost exclusively used for refinancing purposes. Credit derivatives are primarily used to assume credit risks for the purpose of portfolio diversification. The credit default swaps entered into for that purpose are regularly reviewed as to whether a provision for anticipated losses shall be recognised based on pre-determined criteria.

Remaining terms and future cash flows of derivatives are broken down in the following table:

31 Dec 2015

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total as at 31 Dec 2015
Interest rate instruments					
Interest rate swaps					
Cash inflows	191.6	532.1	1,799.6	671.0	3,194.3
Cash outflows	180.6	356.8	1,450.3	584.0	2,571.7
Forward rate agreements					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Swaptions					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Caps, floors					
Cash inflows	0.2	1.3	7.9	3.3	12.7
Cash outflows	0.2	1.3	8.0	3.3	12.8
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	2,071.8	269	-	-	2,341.1
Cash outflows	2,067.4	270	-	-	2,337.1
Cross-currency swaps					
Cash inflows	11.4	730.0	5,779.1	1,513.9	8,034.4
Cash outflows	24.5	909.7	6,720.1	1,574.7	9,229.0
Other transactions					
Credit default swaps					
Cash inflows	-	0.4	-	-	0.4
Cash outflows	-	-	-	-	-
Options, futures					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Other derivative transactions					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Total cash inflows	**2,275.0**	**1,533.1**	**7,586.6**	**2,188.2**	**13,582.9**
Total cash outflows	**2,272.7**	**1,537.5**	**8,178.4**	**2,162.0**	**14,150.6**

31 Dec 2014

€ mn	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total as at 31 Dec 2014
Interest rate instruments					
Interest rate swaps					
Cash inflows	205.7	563.3	2,032.6	783.0	3,584.6
Cash outflows	202.8	387.4	1,682.6	632.9	2,905.7
Forward rate agreements					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Swaptions					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Caps, floors					
Cash inflows	0.2	1.7	7.6	2.5	12.0
Cash outflows	0.2	1.7	7.6	2.5	12.0
Currency-related instruments					
Spot and forward foreign exchange transactions					
Cash inflows	3,343.2	245	-	-	3,588.4
Cash outflows	3,382.1	245	-	-	3,626.6
Cross-currency swaps					
Cash inflows	97.7	1,370.6	6,413.8	798.1	8,680.2
Cash outflows	125.0	1,534.0	6,941.2	869.8	9,470.0
Other transactions					
Credit default swaps					
Cash inflows	0.0	0.4	0.4	-	0.8
Cash outflows	-	-	-	-	-
Options, futures					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Other derivative transactions					
Cash inflows	-	-	-	-	-
Cash outflows	-	-	-	-	-
Total cash inflows	**3,646.8**	**2,181.2**	**8,454.4**	**1,583.6**	**15,866.0**
Total cash outflows	**3,710.1**	**2,167.6**	**8,631.4**	**1,505.2**	**16,014.3**

The following overview shows positive and negative market values, aggregated by product level (without taking into account collateral or netting agreements):

Unless a quoted market price is available, derivatives are measured using generally accepted methods on the basis of current market parameters (yield curves, volatility factors, etc.). Methods used include standard methods and models such as discounted cash flow analyses and option pricing models. Structured products are measured after they have been split into their individual components. Fair values including accrued interest are given for derivative financial instruments not recognised at fair value as at 31 December 2015.

€ mn	Nominal amount as at 31 Dec 2015	Market value as at 31 Dec 2015		Market value as at 31 Dec 2014	
		positive	negative	positive	negative
Interest rate instruments					
OTC products					
Interest rate swaps	46,555.0	2,311.2	2,175.5	2,720.3	2,568.4
Swaptions	-	-	-	-	-
Caps, floors	6,476.2	12.6	12.5	11.8	11.7
Forward rate agreements	-	-	-	-	-
Total interest rate instruments	**53,031.2**	**2,323.8**	**2,188.0**	**2,732.1**	**2,580.1**
Currency-related instruments					
OTC products					
Spot and forward foreign exchange transactions	2,342.3	13.2	8.5	17.8	55.0
Cross-currency swaps	8,014.0	101.1	930.7	70.0	667.6
Total currency-related instruments	**10,356.3**	**114.3**	**939.2**	**87.8**	**722.6**
Other transactions					
OTC products [1)]					
Credit default swaps	65.0	0.5	-	0.2	-
Credit-linked notes	-	-	-	-	-
Other derivative transactions	-	-	-	-	-
Exchange-listed contracts	-	-	-	-	-
Futures	-	-	-	-	-
Total other transactions	**65.0**	**0.5**	**0.0**	**0.2**	**0.0**
Total	**63,452.5**	**2,438.6**	**3,127.2**	**2,820.1**	**3,302.7**

[1] This includes derivatives subject to the country risk of Hungary and embedded in an Austrian bank bond.

The year-on-year increase in market values of hedging derivatives carried as liabilities is attributable to exchange rate developments, in addition to the changes in interest rates. Currency hedges are largely used to hedge foreign exchange risk in the lending business.

Derivatives have been entered into with the following counterparties:

€ mn	Market value as at 31 Dec 2015		Market value as at 31 Dec 2014	
	positive	negative	positive	negative
OECD public-sector authorities				
OECD banks	2,160.4	3,103.6	2,513.9	3,275.6
Non-OECD banks				
Companies and private individuals	278.2	23.6	306.2	27.1
Total	**2,438.6**	**3,127.2**	**2,820.1**	**3,302.7**

Remuneration report

The remuneration report for the 2015 financial year contains detailed information on the remuneration of Aareal Bank AG Management Board members, its senior executives, and its employees. As a significant institution, Aareal Bank provides details about its remuneration systems (qualitative disclosure) in the Group Annual Report for the financial year 2015 in accordance with section 16 (1) of the amendment to the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – "InstVergV"), as amended on 16 December 2013, as well as the Capital Requirements Regulation (CRR). The Supervisory Board and the Management Board carried out the annual review of the remuneration systems, involving the Human Resources division, the Remuneration Officer, and internal control units in line with their respective functions, and supported by external legal and remuneration advisors. External advisors were retained, amongst other things, for examining the appropriateness of remuneration systems, and remuneration for members of the Management Board and employees, as well as regarding the design of the Group-wide remuneration strategy. The quantitative disclosures on the remuneration of Management Board members, employees as well as senior executives required according to the CRR will be disclosed by the end of June in the following year, on Aareal Bank AG's homepage at the latest.

According to Article 450 (1) of the CRR, institutions shall additionally disclose the information specified in the Regulation regarding the remuneration policy and practices of the institution for those categories of staff whose professional activities have a material impact on their risk profile (so-called risk takers). The following section provides information on the remuneration system for Management Board members of Aareal Bank AG applicable as at 1 January 2014.

Remuneration system for the Management Board

Responsibilities and procedures of Aareal Bank AG regarding remuneration policies

The Supervisory Board determines the structure and amount of remuneration for members of the Management Board.

The Remuneration Control Committee (Vergütungskontrollausschuss) fulfils the requirements according to section 25d (12) of the German Banking Act (Kreditwesengesetz – "KWG") and section 15 of the InstitutsVergV, and held five meetings throughout the 2015 financial year.

The Supervisory Board defines before the beginning, but no later than immediately after the beginning of every financial year, the Management Board members' targets regarding the performance-based remuneration components. The Supervisory Board assesses Management Board members' success and performance after the end of every financial year.

Success criteria and parameters

Aareal Bank AG has entered into fixed-term service contracts with the members of its Management Board. Besides their fixed annual salary, Management Board members receive a performance-related remuneration that is determined using an assessment basis extending over several years.

Performance-related remuneration

Remuneration parameters

The level of this performance-related remuneration is determined by reference to the personal performance of each Management Board member, which is measured by the degree to which targets set in advance by the Supervisory Board are achieved, based on contractually agreed initial values for a 100% target achievement. The targets which are relevant for performance-related remuneration include annual targets and multiple-year targets. The measurement of multiple-year targets is undertaken retrospectively, over a time period of three years. The weighting of annual to multiple-year targets is fixed for each financial year, with a weighting of 45% (annual target) to 55% (multiple-year target) taken as a guideline. Until now, the target system envisaged a weighting of 60% for the annual target and 40% for the preceding three-year target period.

For each financial year, the Supervisory Board sets a target level for the Common Equity Tier 1 ratio (CET1 ratio) as the measurement threshold in order to secure adherence of the regulatory capital adequacy and, starting with the 2015 financial year, a suitable liquidity measure (Liquidity Coverage Ratio – LCR). No variable remuneration will be determined for any financial year where these two targets have not been achieved. The Supervisory Board also defines the sectional and individual targets for every member of the Management Board, for each financial year.

Annual targets and multiple-year targets are integrated into the Bank's overall strategy and are geared toward achieving the objectives set out in the Bank's business and risk strategies. The targets comprise quantitative components and qualitative components, which are also related to non-financial parameters. In this context, the Group's overall performance, the performance of the section the Management Board member is responsible for, and the individual performance contributions of the Management Board member concerned, are all taken into consideration, with a weighting of one-third for every component towards the annual target. Aareal Bank Group's overall performance is determined using the categories of consolidated operating profit/loss before taxes and risk-weighted assets.

The initial value of the performance-related remuneration may increase – depending on the Management Board member's degree of target achievement – up to a maximum of 150% of the target value. If the overall target achievement level exceeds 150%, the initial value of the performance-related remuneration will not increase any further (cap). If the overall target achievement level is 0%, no performance-related remuneration will be awarded for the financial year concerned. Unconscionable behaviour or behaviour in breach of duties cannot be balanced out by positive performance contributions in other areas and will automatically lead to an appropriate reduction in the variable remuneration. The variable remuneration generally depends on the Supervisory Board's decision to provide for the applicable financial year an amount sufficient for all (computed) variable remuneration components to be paid out according to section 45 (2) sentence 1 no. 5a of the KWG and section 7 of the InstitutsVergV.

Retention of variable remuneration components and penalty criteria

To ensure that the remuneration system provides long-term incentives, variable remuneration is awarded at the end of the financial year, according to the following principles:

- 20% of the variable remuneration is disbursed as a cash bonus after the Supervisory Board has determined the overall target achievement level.
- A further 20% of the variable remuneration is awarded as a share bonus subject to a holding period (and forms part of the share-based bonus plan), in the form of virtual shares, also after the Supervisory Board has determined the overall target achievement level.
- 30% of the variable remuneration is retained (cash deferral), with interest accruing pro rata temporis, and disbursed in equal proportions over a three-year period.
- The remaining 30% of variable remuneration is credited, as a cash amount, to a virtual account maintained on behalf of each Management Board member, and forms part of the share deferral plan.

With regard to the portion of the variable remuneration that is deferred initially as a cash deferral or a share deferral, the Supervisory Board makes a decision regarding the granting of one third of the amount, as well as the associated interest, in the three years following the determination of the performance-related remuneration (retention period). Until the end of the retention period, there is no right to the relevant remuneration components. Once the deferred remuneration components for Management Board members are vested, the cash deferral is paid out in cash and the share deferral is converted into phantom shares, subject to a two-year holding period.

In making its determination about the amount to be awarded, the Supervisory Board particularly takes into account any negative aspects of the Management Board member's performance, that of his section, as well as any weakness in the performance of Aareal Bank Group (backtesting). The existence of a negative aspect in the performance of a Management Board member is to be assumed, in particular, if serious breaches of duty and/or performance deficiencies are discovered, which lead to the performance contributions – which were initially assumed to be positive – being later shown to have not been sustained. A negative performance contribution on the part of the section within the respective Management Board member's responsibility, or of Aareal Bank Group, is to be assumed if significant assumptions which formed the basis of the calculation of the variable remuneration are later proven to be incorrect or unsustainable. The Supervisory Board may award the deferred variable remuneration components in full, partially, or not at all. If the full amount of the bonus is not awarded, the remaining sum is forfeited, i.e. it is not carried forward into subsequent years. An award of the deferred variable remuneration components will not be made insofar and for so long as the German Federal Financial Supervisory Authority ("BaFin") forbids this according to section 45 (2) sentence 1 nos. 5a and 6 of the KWG. The entitlement no longer exists if BaFin so orders by way of a final and conclusive decision pursuant to section 45 (5) sentences 5 to 8 of the KWG.

A variable remuneration component may not be vested (share deferral) or disbursed (cash deferral) if the Supervisory Board believes that the Management Board member's performance on the whole was so poor that it would make awarding performance-related remuneration inappropriate. In particular, this is to be assumed if significant breaches of the duty of care have been determined, which would give rise to an extraordinary termination of the appointment to the Management Board contract. Further, this is to be assumed if the member of the Management Board was causally and negligently actively involved in behaviour which has led to considerable losses, or for which losses the Management Board member was causally and negligently responsible.

The contracts of Management Board members prohibit them from undertaking to limit or override the risk orientation of their remuneration by initiating personal protection or countermeasures (hedging ban).

Share Bonus Plan

According to the rules for the share bonus plan, a portion of the variable remuneration will be converted into an equivalent number of virtual shares and credited to the beneficiary. The calculation of the number of virtual shares is henceforth based on the weighted average price on the basis of five (Xetra®) exchange trading days after publication of the preliminary results for the respective financial year (subscription price). The date of publication of the preliminary results is used as the reference date. The virtual shares so determined are paid into a virtual account and are automatically and without delay converted into a cash amount and paid out following the Supervisory Board meeting which resolves to accept the annual financial statements for the third financial year following the financial year for which the virtual shares were granted ("holding period"). The conversion will be effected using the weighted average price calculated on the basis of the five (Xetra®) exchange trading days following the publication of the preliminary business figures for the year preceding the payout. Since the 2013 financial year, the payout amount of the share bonus of a given financial year may vary depending on the share price development and has been limited to a maximum of 300% of the agreed initial value (ceiling).

The virtual shares granted for the financial years prior to the 2014 financial year will continue to have as the applicable subscription price the weighted average price on the basis of the five (Xetra®) exchange trading days following publication of the annual financial statements for the respective financial year. The ceiling is not applicable to these virtual shares, with the exception of those virtual shares granted for the 2013 financial year.

If dividends are paid on the Company's shares during the time period between the reference date and the conversion, a payout is made as a salary component in an amount equivalent to the dividends and the proportion of the phantom shares.

Share Deferral Plan

Under the Share Deferral Plan, a portion of the variable remuneration is credited to the beneficiary. This credit, however, does not convey an entitlement or a claim regarding a later payout or grant of virtual shares. Interest accrues on the amount credited in the form of a share deferral. The reference rate is the interest rate of the European Central Bank for deposits from private households with a term of up to one year. As above, the credit of interest does not convey an entitlement or a claim regarding the interest amount. In the three years following the credit (retention period), the Supervisory Board decides whether in each case a third of the share deferral, including interest, should be converted.

The question as to whether a third of the virtual shares is converted and, if yes, in which amount, is based on the principles set out above (see section on Retention of variable remuneration components and penalty criteria). In particular, the Supervisory Board checks the application of the penalty rules provided. Equivalent provisions to the share bonus plan are applied in the calculation of the amount of the virtual shares – except for the holding period, which is reduced from three years to two years. The ceiling value is applicable for the conversion of the virtual shares which were granted for the 2013 financial year and the following financial years, with the proviso that the payout amount following the conversion of the virtual shares of a tranche (plus interest) into a cash payment must not exceed 300% of the share deferral (30% of the granted variable remuneration) set for the respective financial year (which may have been reduced following the application of a penalty rule or as a result of an instruction by BaFin). The payout amount for virtual shares which were granted for prior financial years or are yet to be granted, respectively, are not subject to any ceiling.

Remuneration

Following the appointment of Mr Merkens as Deputy Chairman of the Management Board by the Supervisory Board on 4 December 2014, his salary components were adjusted effective 1 January 2015. The appointment of Mr Merkens as Chairman of the Management Board, effective 17 September 2015, required a further adjustment. Upon Dr Schumacher's resignation, effective 30 September 2015, the reference value was adjusted pro rata temporis, in line with his years of service. The target remuneration of the Management Board members (fixed annual salary and variable remuneration, given a 100% target achievement) has remained unchanged. The requirements according to section 25a (5) of the KWG – regarding a ratio of variable to fixed remuneration of 1:1 and the maximum target achievement threshold – are complied with at all times.

The following table shows the remuneration granted in the year under review, as defined in sections 4.2.4 and 4.2.5 of the Code. The variable remuneration components are indicated as a degree of target achievement.

Remuneration granted	Hermann J. Merkens [1] - Chairman of the Management Board				Dagmar Knopek - Management Board			
	2014 [3]	2015	2015 (Min)	2015 (Max)	2014 [3]	2015	2015 (Min)	2015 (Max)
€								
Fixed remuneration	880,000.00	1,214,666.67	1,214,666.67	1,214,666.67	880,000.00	880,000.00	880,000.00	880,000.00
Ancillary benefits	58,128.36	46,593.69	46,593.69	46,593.69	34,477.93	34,086.92	34,086.92	34,086.92
Total	**938,128.36**	**1,261,260.36**	**1,261,260.36**	**1,261,260.36**	**914,477.93**	**914,086.92**	**914,086.92**	**914,086.92**
Variable remuneration based on a single-year assessment	202,400.00	299,544.39	-	339,106.86	201,920.00	212,640.00	-	240,000.00
Variable remuneration based on a multiple-year assessment								
Cash deferral 2015 (March 2019)	-	449,316.59	-	508,660.29	-	318,960.00	-	360,000.00
Share bonus 2015 (March 2019)	-	299,544.39	-	339,106.86	-	212,640.00	-	240,000.00
Share deferral 2015 (March 2021)	-	449,316.59	-	508,660.29	-	318,960.00	-	360,000.00
Cash deferral 2014 (March 2018)	303,600.00	-	-	-	302,880.00	-	-	-
Share bonus 2014 (March 2018)	202,400.00	-	-	-	201,920.00	-	-	-
Share deferral 2014 (March 2020)	303,600.00	-	-	-	302,880.00	-	-	-
Total	**1,012,000.00**	**1,497,721.96**	**-**	**1,695,534.30**	**1,009,600.00**	**1,063,200.00**	**-**	**1,200,000.00**
Benefit expense	334,369.00	329,035.00	329,035.00	329,035.00	217,560.00	357,210.00	357,210.00	357,210.00
Total remuneration	**2,284,497.36**	**3,088,017.32**	**1,590,295.36**	**3,285,829.66**	**2,141,637.93**	**2,334,496.92**	**1,271,296.92**	**2,471,296.92**

Remuneration granted	Thomas Ortmanns - Management Board				Dr Wolf Schumacher [2]			
	2014 [3]	2015	2015 (Min)	2015 (Max)	2014 [3]	2015	2015 (Min)	2015 (Max)
€								
Fixed remuneration	880,000.00	880,000.00	880,000.00	880,000.00	1,350,000.00	1,012,500.00	1,012,500.00	1,012,500.00
Ancillary benefits	29,284.82	33,258.86	33,258.86	33,258.86	28,223.89	26,176.67	26,176.67	26,176.67
Total	**909,284.82**	**913,258.86**	**913,258.86**	**913,258.86**	**1,378,223.89**	**1,038,676.67**	**1,038,676.67**	**1,038,676.67**
Variable remuneration based on a single-year assessment	200,800.00	211,360.00	-	240,000.00	353,360.00	7,129,648.95	6,853,708.95	7,168,708.95
Variable remuneration based on a multiple-year assessment								
Cash deferral 2015 (March 2019)	-	317,040.00	-	360,000.00	-	413,910.00	-	472,500.00
Share bonus 2015 (March 2019)	-	211,360.00	-	240,000.00	-	275,940.00	-	315,000.00
Share deferral 2015 (March 2021)	-	317,040.00	-	360,000.00	-	413,910.00	-	472,500.00
Cash deferral 2014 (March 2018)	301,200.00	-	-	-	530,040.00	-	-	-
Share bonus 2014 (March 2018)	200,800.00	-	-	-	353,360.00	-	-	-
Share deferral 2014 (March 2020)	301,200.00	-	-	-	530,040.00	-	-	-
Total	**1,004,000.00**	**1,056,800.00**	**-**	**1,200,000.00**	**1,766,800.00**	**8,233,408.95**	**6,853,708.95**	**8,428,708.95**
Benefit expense	442,635.00	363,678.00	363,678.00	363,678.00	770,232.00	4,639,618.00	4,639,618.00	4,639,618.00
Total remuneration	**2,355,919.82**	**2,333,736.86**	**1,276,936.86**	**2,476,936.86**	**3,915,255.89**	**13,911,703.62**	**12,532,003.62**	**14,107,003.62**

[1] Mr Merkens was appointed Chairman of the Management Board effective 17 September 2015.

[2] Dr Schumacher resigned with effect from 30 September 2015. € 275,940 in variable remuneration was granted to Dr Schumacher in 2015, as one-year variable remuneration for the 2015 financial year. For the remaining term of the Management Board contract, the contractually agreed fixed remuneration of € 3,354,045.95, lost variable remuneration components of € 3,433,663.00, as well as the equivalent of company-car use of € 66,000 were disbursed as one-off payments. Due to the resignation of Dr Schumacher, with effect from 30 September 2015, € 4,023,736 was recognised in benefit expenses, in line with his pension agreement, thus increasing the Bank's pension obligations.

[3] The disclosures differ slightly from the previous year's figures, due to the fact that the variable remuneration components payable to members of the Management Board were slightly corrected downwards after preparing the annual report.

[4] Minimal amount of the remuneration component granted in the year under review.

[5] Maximum amount of the remuneration component granted in the year under review.

The following table shows the remuneration disbursed in the year under review, as defined in sections 4.2.4 and 4.2.5 of the Code. It also outlines disbursements under variable remuneration components related to multiple years, which expired during the year under review.

Remuneration paid out in 2015 €	Hermann J. Merkens [1)] Chairman of the Management Board	Dagmar Knopek	Thomas Ortmanns	Dr Wolf Schumacher [2)]	Dirk Große Wördemann [3)]
Fixed remuneration	1,214,667.00	880,000.00	880,000.00	1,012,500.00	-
Ancillary benefits	46,594.00	34,087.00	33,259.00	26,177.00	-
Total	**1,261,261.00**	**914,087.00**	**913,259.00**	**1,038,677.00**	**-**
Variable remuneration based on a single-year assessment	202,400.00	201,920.00	200,800.00	7,207,069.00	-
Variable remuneration based on a multiple-year assessment					
Cash deferral 2011 (April 2015)	-	-	-	-	97,015.00
Cash deferral 2012 (April 2015)	102,411.00	-	102,411.00	172,779.00	83,143.00
Cash deferral 2013 (April 2015)	109,269.00	63,740.00	109,269.00	184,350.00	-
Share bonus 2011 (May 2015)	370,183.00	-	370,183.00	370,183.00	488,267.00
Share deferral 2011 (April 2015)	-	-	-	-	250,492.00
Dividends	47,428.00	13,228.00	47,380.00	80,378.00	39,471.00
Total	**831,691.00**	**278,888.00**	**830,043.00**	**8,014,759.00**	**958,388.00**
Benefit expense	329,035.00	357,210.00	363,678.00	4,639,618.00	-
Total remuneration	**2,421,987.00**	**1,550,185.00**	**2,106,980.00**	**13,693,054.00**	**958,388.00**

[1] Mr Merkens was appointed Chairman of the Management Board effective 17 September 2015.
[2] Dr Schumacher resigned with effect from 30 September 2015. € 353,360 in variable remuneration was disbursed to Dr Schumacher in 2015, as one-year variable remuneration for the 2014 financial year. For the remaining term of the Management Board contract, the contractually agreed fixed remuneration of € 3,354,045.95, lost variable remuneration components of € 3,433,663.00, as well as the equivalent of company-car use of € 66,000 were disbursed as one-off payments. Due to the resignation of Dr Schumacher, with effect from 30 September 2015, € 4,023,736 was recognised in benefit expenses, in line with his pension agreement, thus increasing the Bank's pension obligations. This was not an allocation for the financial year under review.
[3] Mr Große Wördemann resigned as at 31 May 2013.

The following initial values for variable remuneration at an overall target achievement level of 100% were agreed upon in the service contracts of the Management Board members:

€	Reference values for variable remuneration 2015	Reference values for variable remuneration 2014
Hermann J. Merkens [1)]	1,130,356.19	800,000.00
Dagmar Knopek	800,000.00	800,000.00
Thomas Ortmanns	800,000.00	800,000.00
Dr Wolf Schumacher [2)]	1,050,000.00	1,400,000.00
Total	**3,780,356.19**	**3,800,000.00**

[1] Mr Merkens was appointed Deputy Chairman of the Management Board, effective 4 December 2014, at which time the reference value for his variable remuneration was adjusted to €1,020,000. This reference value was raised further, to € 1,400,000, upon his appointment to Chairman of the Management Board, effective 17 September 2015.
[2] Dr Schumacher resigned with effect from 30 September 2015.

No benefits were granted to any member of the Management Board by third parties with respect to his/her Management Board activities during the year under review.

The following table shows the portion of the variable component attributable to share-based payment arrangements as well as the corresponding number of virtual shares granted in 2015/2014:

	Year	Share-based payments	
		Value (€)	Quantity (number) [1]
Hermann J. Merkens [2)]	2015	748,860.98	25,698.73
	2014 [4)]	506,000.00	15,199.76
Dagmar Knopek	2015	531,600.00	18,242.96
	2014 [4)]	504,800.00	15,163.71
Thomas Ortmanns	2015	528,400.00	18,133.15
	2014 [4)]	502,000.00	15,079.60
Dr Wolf Schumacher [3)]	2015	689,850.00	23,673.64
	2014 [4)]	883,400.00	26,536.50

[1] The stated number of virtual shares granted for 2015 is a preliminary figure, based on the price of Aareal Bank AG's share on 31 December 2015 (€ 29.14). The final conversion rate may only be determined after publication of preliminary results for 2015.
[2] Mr Merkens was appointed Chairman of the Management Board effective 17 September 2015.
[3] Dr Schumacher resigned with effect from 30 September 2015.
[4] The disclosures differ slightly from the previous year's figures, due to the fact that the variable remuneration components payable to members of the Management Board were slightly corrected downwards after preparing the annual report.

Other remuneration

Aareal Bank AG provides a company car to every Management Board member, which may also be used for private purposes.

Every Management Board member is covered by the group accident insurance in case of death or invalidity.

In addition, Aareal Bank AG bears the costs incurred for certain security expenses.

The ancillary benefits shown in the tables are equivalent to the total of such other remuneration.

Pensions, retirement benefits and severance pay

The benefit regulations as agreed in the service contract apply to the members of the Management Board. Management Board members who were appointed prior to 1 January 2013 are entitled to claim pension benefits upon completion of their 60th year of age. For members of the Management Board who were appointed [on or] after 1 January 2013, claims arise upon completion of their 62nd year of age. In the event of permanent disability, a Management Board member may be entitled to claim benefits prior to turning 60 or 62, respectively.

	2015			2014		
€ 000's	Pension claims p.a.[1)]	Balance of pension obligations as at 31 Dec 2015	Increase of pension obligations in 2015	Pension claims p.a.[1)]	Balance of pension obligations as at 31 Dec 2014	Increase of pension obligations in 2014
Hermann J. Merkens [2]	244	3,031	809	230	2,221	500
Dagmar Knopek	125	839	324	-	515	286
Thomas Ortmanns	241	3,176	760	230	2,416	535
Dr Wolf Schumacher [3)]	441	9,306	4,515	394	4,791	951
Total	**1,051**	**16,352**	**6,408**	**854**	**9,943**	**2,272**

[1] The pension claims were calculated for pension benefits paid at the earliest possible date.
[2] Mr Merkens was appointed Chairman of the Management Board effective 17 September 2015.
[3] Due to the resignation of Dr Schumacher, with effect from 30 September 2015, € 4,023,736 was recognised in benefit expenses, in line with his pension agreement.

The pension claims are adjusted to take account of the development of standard wages within the private banking sector as from the beginning of actual payments of pensions, to the extent that these are based on defined benefit plans. If the payments refer to defined contribution plans, the guaranteed amount is adjusted by 1% p.a. The pension paid to widows amounts to 60% of the pension of the member of the Management Board, while pensions to half-orphans and orphans amount to 10% and not more than 25%, respectively. Service cost incurred (including expenses incurred for interest rate changes) in the 2015 financial year in connection with the pension claims of members of the Management Board totalled € 6.9 million (2014: € 2.0 million). The pension obligations for current members of the Management Board as well as for former members of the Management Board and their surviving dependants increased by € 7.2 million in the year under review (2014: € 3.1 million). The total amount of pension obligations was € 33.3 million (2014: € 26.1 million). Of that amount, € 26.2 million related to former members of the Management Board and their surviving dependants (2014: € 16.1 million). Payments to former Management Board members of Aareal Bank AG and their surviving dependants totalled € 0.8 million (2014: € 0.8 million).

The agreements concluded with members of the Management Board do not include any obligation to make severance payments in case of an early termination of employment relationships. However, severance payments may be included in individual termination agreements. In the case of an early termination of a Management Board position without good cause within the meaning of section 4.2.3. of the DCGK, payments (including contractually agreed benefits) are limited to twice the annual remuneration (severance cap) as well as to the remainder of the term of the contract in accordance with the Management Board contracts.

In the case of a termination of a Management Board position due to a change of control, the following provisions are applicable: in the case of a compulsory loss of a Management Board position, the Management Board members are to be paid the fixed remuneration component, the performance-based remuneration as well as the contractually-agreed benefits for the remainder of the term of the contract. The performance-related remuneration is subject to the above-mentioned conditions; that is, in particular the deferral periods, the holding periods and the penalty rules are applicable. In addition, the extent to which sectional and individual targets were achieved on average during the last three years prior to the termination of the Management Board position will be used as a basis to determine the target achievement level for the remaining term of the contract. In the case of a voluntary termination of the Management Board position following a change of control, the members of the Management Board merely receive the fixed remuneration and the contractually agreed benefits. In this case, there is no entitlement to the variable remuneration component.

The total amount of payments in the case of termination due to a change of control is limited to 150% of the severance cap of an employment contract, in accordance with section 4.2.3. of the Code.

Risk takers (employees and senior executives who exert a material influence on the institution's overall risk profile according to section 18 (1) and (2) of the InstitutsVergV).

The remuneration system for risk takers is subject to the same basic conditions as the remuneration system for Management Board members, and is also aligned with the business and risk strategy of Aareal Bank AG or Aareal Bank Group, respectively. These remuneration systems form part of Aareal Bank AG's efforts to ensure that employees' remuneration is in line with market conditions and the performance achieved. At the same time, they help to align the Bank's remuneration intentions with current regulatory requirements. In this context, Aareal Bank aims to respect the interests of employees, management and shareholders alike, while safeguarding the positive development of the Bank on a sustainable basis. The structure of the variable remuneration does not provide incentives to assume inappropriately high risks: it promotes the performance, target and results orientation of employees and senior executives.

The remuneration of all employee groups consists of a fixed and a variable remuneration, plus other contractually agreed benefits, if applicable. Regarding the group of risk takers, the variable component features particular characteristics in order to provide for the specific requirements of the InstitutsVergV.

The Management Board decides on the total amount of the variable remuneration for employees at the end of the financial year in a formalised, transparent and conceivable process. This total amount also includes the variable remuneration components for risk takers. The pool for the variable remuneration consists of a performance component and a profit component. The performance component takes into account the target-dependant remuneration of all employees, while the profit component takes into account the Group's overall profit by means of including the profit factor. The Group's overall profit depends on Aareal Bank Group's sustainable business results by taking into consideration the operating profit before taxes as well as underlying risk (measured as risk-weighted assets). The so-called profit factor is calculated by multiplying the target achievement regarding the operating profit before taxes with the target achievement regarding risk-weighted assets, finally influencing the profit component. The Bank's Management Board and Supervisory Board jointly determine the target values for the operating profit before taxes and the risk-weighted assets based on the Bank’s medium-term planning no later than at the beginning of every financial year. Maximum target achievement regarding operating profit before taxes is limited to 150%; regarding risk-weighted assets, it is limited to 125%. In the case of a negative target achievement regarding operating profit before taxes and risk-weighted assets, not only the profit component might be cancelled, but the performance component might also be set to nil. This being the case, the pool for the variable remuneration would be entirely cancelled.

Performance measurement on Group level additionally requires the Common Equity Tier 1 ratio as a measurement threshold in order to ensure adherence of the regulatory capital adequacy. In the case of a negative overall success of the Bank in the current financial year or an insufficient capital adequacy or liquidity situation, the Management Board may set the pool for the variable remuneration to nil. The capital and liquidity indicators eventually used by the Management Board to gradually reduce the pool for the variable remuneration will be applied according to the requirements of a recovery plan going forward.

The Management Board may take additional quantitative and/or qualitative success factors into account for the adjustment of the overall pool if exceptional and unexpected market developments occur, or substantial special projects need to be conducted during the year.

Cornerstones of the risk analysis carried out

The InstitutsVergV stipulates that the remuneration system of Aareal Bank AG (as a significant institution) needs to fulfil special requirements regarding "employees who exert a material influence on the institution's overall risk profile" (so-called risk takers). In order to identify this group of employees, Aareal Bank carries out an independent risk analysis, selecting the respective employees based on a uniform set of criteria. In addition, Aareal Bank AG (as a parent institution) has to identify risk takers on Group level.

Aareal Bank carried out a risk analysis to identify risk takers in the financial year 2015, covering all employee groups below Management Board level, i.e. senior executives, non-tariff employees and tariff employees of Aareal Bank AG including its branches, representative offices and subsidiaries in Germany and abroad.

The identification of the entities and risk takers affected is being repeated annually to ensure the fulfilment of the InstitutsVergV's requirements at all times. Additional checks are carried out for newly hired employees and in the case of internal changes of function.

Remuneration model for risk takers

The determination of the variable remuneration (total incentive) for risk takers takes into account the Group's overall profit, the individual employee's performance contribution as well as the performance contribution of the organisational unit. The target for risk takers whose activities can clearly be allocated to a single business segment shall be assigned as the pro-rata share of their business segment (Structured Property Financing or Consulting/Services) in the operating profit before taxes. Risk takers whose activities can be allocated to staff and corporate services divisions, or to Credit Management, shall be assigned as target the cost-reduction target of the respective division.

Risk takers' variable remuneration consists of four components:

- cash component,
- share component,
- restricted cash award and
- restricted virtual share award.

The amount of the contractually agreed individual variable remuneration (target total incentives) of a risk taker is limited to 50% of the fixed remuneration; in case of certain sales functions, it is limited to 100% of the fixed remuneration following a resolution of the Annual General Meeting pursuant to section 25a (5) of the KWG. This ensures that the variable remuneration of an individual employee does not exceed 100% of his/her fixed remuneration (or in the case of certain international sales functions, the ratio of 1:2 is respected) if a target achievement of 200% is achieved.

Risk takers of the second-tier management level are entitled to receive 40% of the individual total incentives immediately at the end of the reference period (other risk takers: 60%). The immediate entitlement refers to an amount of 50% to the cash component, which shall be disbursed in the year following the end of the reference period, and to an amount of 50% to the share component, which consists of virtual shares entitled to dividends (and forming the ground for cash disbursement claims). However, such cash amounts may only be disbursed after a two-year holding period. The payout amount corresponds to the weighted average price of Aareal Bank AG shares on Xetra® (as shown on Bloomberg) on the five exchange trading days following the publication of the preliminary results for the financial year preceding the payout date. The ceiling value is applicable for the conversion of the virtual shares which were granted for the 2014 financial year and the following financial years, with the proviso that the payout amount following the conversion of the virtual shares of a tranche (plus dividends) into a cash payment must not exceed 300% of the share component of a given financial year.

An option right shall be given to the risk taker regarding the actual payout date; after the end of the holding period and after the regular payout date, the risk taker may determine further payout dates within a period of three years.

Risk takers of the second-tier management level shall initially be promised (but not granted) 60%, other risk takers 40%, of their individual total incentives. 50% thereof relates to the restricted cash award, which shall be disbursed in equal proportions over a three-year period (interest shall be calculated pro rata temporis) (cash deferral). The remaining 50% will be included in the restricted virtual share award (share deferral), representing virtual shares entitled to dividends in form of a share component. The risk taker is entitled to receive one third of his claims after one, two and three years, respectively; the earliest possible payout of each tranche takes place after a holding period of at least one year after creation of the entitlement. An option right will be given to the risk taker regarding the actual payout date of each tranche; after the end of the holding period and after the regular payout date, the risk taker may determine further payout dates within a period of three years for each tranche. The payout amount of a tranche is limited to 300% of the share deferral promised (but not granted) to the risk taker for the respective year under evaluation. The payout amount is calculated based on the number of virtual shares and the corresponding share price (= weighted average price of Aareal Bank AG shares on Xetra® (as shown on Bloomberg) on the five exchange trading days following the publication of the preliminary results for the financial year preceding the first/second/third payout year).

Regarding the creation of entitlements of deferred portions of the variable remuneration, i.e. the tranches of the cash deferral including accrued interest and the tranches of the share deferral including virtual dividends, penalty rules have to be considered. For the purpose of these regulations, a penalty-triggering event shall be defined as a negative performance contribution of the risk taker him/herself, his/her organisational unit or a negative overall performance of the institution or Aareal Bank Group, which may result in a reduction or cancellation of the deferred portions of the variable remuneration. For the purpose of these regulations, a risk taker's negative performance contribution is to be assumed, for instance, if serious breaches of duty and/or performance deficiencies are discovered, which lead to the performance contributions – which were initially assumed to be positive – being later shown to have not been sustained (backtesting). Serious breaches of duty could be, for instance, misconduct giving rise to an extraordinary termination of the employment relationship with the risk taker, a breach of the hedging ban or violations of other fundamental regulations, such as the Code of Conduct or compliance guidelines.

Remuneration governance

Remuneration Control Committee

The Remuneration Control Committee supports the Supervisory Board, according to section 15 of the Instituts-VergV in conjunction with section 25d (12) of the KWG, regarding the appropriate structuring of remuneration systems for Management Board members, as well as for the supervision of the remuneration systems for employees. One of the duties of the Remuneration Control Committee is to monitor the remuneration systems' influence on the risk, capital, and liquidity situation of Aareal Bank - and to ensure an appropriate alignment of the business, risk and remuneration strategies. The Remuneration Control Committee also monitors the appropriateness of the remuneration systems, responds to Supervisory Board enquiries, and reports on the appropriateness of the remuneration system's structure at least once a year by producing a remuneration report. The Remuneration Control Committee shall be convened whenever necessary, but at least four times a year. The composition of the Remuneration Control Committee is outlined in more detail in the chapter "Report of the Supervisory Board/Description of Management Board and Supervisory Board work processes".

Risk Committee

The Risk Committee verifies whether the incentives created by the remuneration system take the Company's risk, capital and liquidity structure into account, as well as the probability and timing of income. The Remuneration Control Committee's duties remain unaffected.

Remuneration Officer

Aareal Bank has appointed a Remuneration Officer, to carry out duties in accordance with section 24 of the InstitutsVergV. These duties include supporting the Supervisory Board and the Remuneration Control Committee in structuring and monitoring the remuneration system. The Remuneration Officer is obliged to respond to queries of the Remuneration Control Committee's Chairman. The Remuneration Officer reports on the appropriate structure of the remuneration systems in the form of a remuneration report at least once a year. Due to the responsibility of monitoring the appropriateness of the remuneration systems on a continuing basis, the Remuneration Officer is being included in the conceptional new drafting (and future development), as well as in the application of the remuneration systems. In particular, the Remuneration Officer plays an active part in the transparent and conceivable process for the determination of the total amount available for variable remuneration, the annual review of penalty rules, the regularly carried out (at least spot checks) review of appropriate compliance structures, the monitoring of the hedging ban (and potential violations), the drafting of the annual remuneration report (pursuant to section 16 of the InstVergV in connection with art. 450 of the CRR) as well as the review of the risk taker analysis.

Remuneration of the Supervisory Board

Remuneration for the services of the Supervisory Board members is specified in Article 9 of the Memorandum and Articles of Association of Aareal Bank AG. The Annual General Meeting held on 20 May 2015 passed a resolution for adjustments to the remuneration system for Supervisory Board members, with effect from 1 January 2015.

The remuneration system for the Supervisory Board only comprises a fixed remuneration, supplemented by a compensation for attending meetings. In addition, the Supervisory Board members will be reimbursed for their expenses. Where membership in the Supervisory Board falls short of an entire financial year, said remuneration shall be paid on a pro rata temporis basis. Any value-added tax invoiced will also be deemed to be a refundable expense.

The fixed remuneration is € 50,000.00 p.a. for each Supervisory Board member. The Chairman of the Supervisory Board shall receive three times this amount, while the deputy shall receive one and a half times as much as a normal member. The fixed remuneration is increased for each membership in a committee (with the exception of the Committee for Urgent Decisions, which is part of the Risk Committee). This additional fixed remuneration amounts to € 20,000 p.a. for membership of the Risk Committee and the Audit Committee; fixed remuneration is increased by € 40,000 p.a. for the chairmanship of one of these committees. Additional fixed remuneration for membership of the other committees amounts to € 15,000 p.a.; or € 30,000 p.a. for the chairmanship of such other committee.

The meeting attendance compensation amounts to € 1,000.00 for each meeting attended (except for meetings of the Committee for Urgent Decisions).

The remuneration for any financial year shall be due and payable one month after the end of the respective financial year.

The individual amount of the remuneration for the Supervisory Board is shown in the following table. Statutory value-added tax in the amount of 19% will be reimbursed on top of the figures shown in the table.

€	Year	Fixed remuneration	Attendance fees	Total remuneration
Marija Korsch	2015	332,257.92	39,270.00	371,527.92
Chairman	2014	180,000.00	35,000.00	215,000.00
Erwin Flieger	2015	57,847.22	14,280.00	72,127.22
Deputy Chairman (until 20 May 2015)	2014	90,000.00	29,000.00	119,000.00
Prof Dr Stephan Schüller	2015	148,750.00	29,750.00	178,500.00
Deputy Chairman (since 20 May 2015)	2014	75,000.00	23,000.00	98,000.00
York-Detlef Bülow	2015	148,750.00	29,750.00	178,500.00
Deputy Chairman	2014	90,000.00	28,000.00	118,000.00
Christian Graf von Bassewitz	2015	41,650.00	8,330.00	49,980.00
(until 20 May 2015)	2014	60,000.00	15,000.00	75,000.00
Manfred Behrens	2015	23,138.89	3,570.00	26,708.89
(until 20 May 2015)	2014	30,000.00	7,000.00	37,000.00
Thomas Hawel	2015	70,457.92	10,710.00	81,167.92
	2014	30,000.00	7,000.00	37,000.00
Dieter Kirsch	2015	101,150.00	19,040.00	120,190.00
	2014	60,000.00	20,000.00	80,000.00
Dr Herbert Lohneiß	2015	32,394.44	4,760.00	37,154.44
(until 20 May 2015)	2014	45,000.00	11,000.00	56,000.00
Joachim Neupel	2015	50,905.56	8,330.00	59,235.56
(until 20 May 2015)	2014	75,000.00	17,000.00	92,000.00
Richard Peters	2015	96,026.39	17,850.00	113,876.39
	2014	30,000.00	7,000.00	37,000.00
Dr Hans-Werner Rhein	2015	62,094.86	11,900.00	73,994.86
(since 20 May 2015)	2014	-	-	-
Sylvia Seignette	2015	51,136.94	8,330.00	59,466.94
(since 20 May 2015)	2014	-	-	-
Elisabeth Stheeman [1)]	2015	52,180.56	9,000.00	61,180.56
(since 20 May 2015)	2014	-	-	-
Hans-Dietrich Voigtländer	2015	84,010.69	14,280.00	98,290.69
(since 20 May 2015)	2014	-	-	-
Helmut Wagner	2015	23,138.89	3,570.00	26,708.89
(until 20 May 2015)	2014	30,000.00	7,000.00	37,000.00
Prof Dr Hermann Wagner	2015	80,358.06	11,900.00	92,258.06
(since 20 May 2015)	2014	-	-	-
Beate Wollmann	2015	36,526.39	4,760.00	41,286.39
(since 20 May 2015)	2014	-	-	-
Total	**2015**	**1,492,774.73**	**249,380.00**	**1,742,154.73**
	2014	**795,000.00**	**206,000.00**	**1,001,000.00**

[1] Income tax plus solidarity surcharge for the Supervisory Board member subject to limited tax liability was declared pursuant to section 50a (1) no. 4 of the German Income Tax Act (Einkommensteuergesetz – "EStG"), and paid to the German Central Tax Offfice (Bundeszentralamt für Steuern).

Depending on the period of service on the Supervisory Board, remuneration is paid on a pro-rata basis.

The members of the Supervisory Board did not provide any consulting or agency services, or other personal services in 2015. Therefore, no additional remuneration was paid.

Additional disclosure on share-based remuneration

Valuation model and valuation assumptions

The obligations resulting from all of the described share-based payment arrangements as at the balance sheet date correspond to the remuneration granted, discounted to the balance sheet date. The discount period corresponds to the period from the balance sheet date to the earliest exercise or payout date per plan and per tranche. The discount is based on the Euribor swap rate applicable as at the relevant balance sheet date, depending on the term.

Amount of cash-settled share-based payment transactions

The total amount of outstanding virtual shares in relation to the above-mentioned share-based payment arrangements changed as follows:

Quantity (number)	2015	2014
Balance (outstanding) as at 1 January	**529,887**	**790,176**
Granted	383,330	135,575
of which: vested	294,034	98,972
of which: awarded on a provisional basis	89,297	36,603
Expired	-	-
Exercised	170,940	395,864
Balance (outstanding) as at 31 December	**742,277**	**529,887**
of which: exercisable	-	-

The fair value of the virtual shares granted during the reporting period amounts to € 14,665,882.84 (2014: € 6,345,981.42) as at the balance sheet date.

The virtual shares exercised during the reporting period were converted at a weighted average price of the Aareal Bank AG share of € 38.30 (2014: € 31.38).

The virtual shares outstanding at 31 December 2015 have a limited contract term. The weighted average remaining contract term of these virtual shares amounts to 389.43 days (2014: 429.26 days).

Effects on financial position and performance

The total amount expensed for share-based payment transactions was € 10.0 million during the financial year 2015 (2014: € 13.3 million). The portion of the total amount expensed attributable to members of the Management Board amounted to € 3.3 million (2014: € 3.7 million) and can be broken down to the individual members of the Management Board as follows.

€	2015	2014
Herrmann J. Merkens [1)]	860,758	974,595
Dagmar Knopek	593,536	517,672
Thomas Ortmanns	717,971	748,244
Dr Wolf Schumacher [2)]	1,018,459	1,305,912
Dirk Große Wördemann [3)]	125,615	179,102

[1] Mr Merkens was appointed Chairman of the Management Board effective 17 September 2015.
[2] Dr Schumacher resigned with effect from 30 September 2015.
[3] Mr Große Wördemann resigned as at 31 May 2013.

The intrinsic value of the virtual shares exercisable at the reporting date amounted to € 0 (2014: € 0), since there were no exercisable virtual shares at that date. The obligation from share-based payment transactions as at 31 December 2015 amounted to € 28.4 million (2014: € 31.3 million). It is reported in the statement of financial position in the line item "Provisions".

Remuneration for key executives

The definition of executives in key positions within Aareal Bank Group includes members of management or supervisory bodies of Aareal Bank AG. To ensure a presentation that is in line with industry standards, members of management or supervisory bodies of the Bank's subsidiaries, as well as members of Aareal Bank AG's first management or expert levels are no longer deemed to be other related parties, as defined by IFRSs.

Total remuneration of executives in key positions is analysed below:

€ 000's	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014[1)]
Short-term benefits	6,848	6,100
Post-employment benefits	5,690	6,884
Other long-term benefits	1,468	1,438
Termination benefits	6,854	-
Share-based payments	2,446	2,396
Total	**23,306**	**16,818**

[1] The previous year's figures were adjusted due to the introduction of a more restrictive definition.

Provisions for pension obligations concerning key executives totalled € 7.0 million as at 31 December 2015.

Other disclosures

Declaration pursuant to section 28 of the German Pfandbrief Act (Pfandbriefgesetz – "PfandBG")

Public-sector lending

Total volume of outstanding public-sector Pfandbriefe and of the related cover assets in terms of nominal value and present value (section 28 (1) nos. 1 and 3 of the PfandBG):

€ mn	31 Dec 2015			31 Dec 2014		
	Cover assets pool	Pfandbriefe outstanding	Excess cover	Cover assets pool	Pfandbriefe outstanding	Excess cover
Nominal value	2,493.4	2,151.4	342.0	2,348.4	2,061.1	287.3
of which: Derivatives	-	-	-	-	-	-
Present value	3,248.3	2,830.0	418.3	3,120.6	2,801.0	319.6
of which: Derivatives	135.9	-	-	161.0	-	-
Risk-adjusted net present value *	3,051.3	2,709.5	341.8	3,007.8	2,697.4	310.4

* dynamic method pursuant to section 5 PfandBarwertV / static method pursuant to section 6 PfandBarwertV

Maturity structure of outstanding public-sector Pfandbriefe and fixed-interest periods of the related cover assets (section 28 (1) no. 2 of the PfandBG):

€ mn	31 Dec 2015 Cover assets pool	31 Dec 2015 Pfandbriefe outstanding	31 Dec 2014 Cover assets pool	31 Dec 2014 Pfandbriefe outstanding
Up to 6 months	106.6	49.7	47.6	-1.8
Between 6 months and 12 months	59.2	56.0	112.2	73.4
Between 12 months and 18 months	54.1	82.3	99.7	49.5
Between 18 months and 2 years	72.4	125.7	57.9	47.2
Between 2 years and 3 years	343.6	426.1	213.1	163.8
Between 3 years and 4 years	154.5	118.5	253.0	389.8
Between 4 years and 5 years	176.7	123.6	153.0	93.8
Between 5 years and 10 years	673.9	609.2	638.7	565.7
More than 10 years	852.4	560.3	773.2	679.7
Total	**2,493.4**	**2,151.4**	**2,348.4**	**2,061.1**

Breakdown of assets used as cover for public-sector Pfandbriefe (based on their nominal value) by their amount (section 28 (3) sentence 1 of the PfandBG):

Amount classes	2015
Up to € 10 million	57.9
More than € 10 million up to € 100 million	653.6
More than € 100 million	1,781.9
Total	**2,493.4**

Breakdown of assets used as cover assets for public-sector Pfandbriefe (based on their nominal value), by borrower's/guarantor's country of domicile, in line with section 28 (3) no. 2 of the PfandBG:

31 Dec 2015

€ mn	Sovereigns	Public-sector entities regional	Public-sector entities municipal	Other	Total	Guarantees due to promotion of export activities
Germany	9.1	1,439.7	32.3	319.1	1,800.2	-
EU institutions	-	-	-	149.9	149.9	-
France	55.0	-	2.9	-	57.9	-
Italy	39.0	-	-	-	39.0	-
Japan	-	-	20.0	-	20.0	-
Austria	217.4	25.0	-	44.0	286.4	-
Poland	25.0	-	-	-	25.0	-
Spain	-	115.0	-	-	115.0	-
Total	**345.5**	**1,579.7**	**55.2**	**513.0**	**2,493.4**	**-**

31 Dec 2014

€ mn	Sovereigns	Public-sector entities regional	municipal	Other	Total
Germany	12.4	1,357.2	18.3	337.9	1,725.8
EU institutions	-	-	-	121.4	121.4
France	55.0	-	-	-	55.0
Italy	39.0	-	-	-	39.0
Japan	-	-	20.0	-	20.0
Austria	197.2	25.0	-	25.0	247.2
Poland	25.0	-	-	-	25.0
Spain	-	115.0	-	-	115.0
Total	**328.6**	**1,497.2**	**38.3**	**484.3**	**2,348.4**

Additional cover assets (section 28 (1) nos. 4 and 5 of the PfandBG)

31 Dec 2015

€ mn	Equalisation claims pursuant to section 20 (2) no. 1	Money claims pursuant to section 20 (2) no. 2 Total	of which: covered bonds within the meaning of Art. 129 of EU Regulation No. 575/2013	Total
Countries				
	-	-	-	-
Total	-	-	-	-

31 Dec 2014

In accordance with section 28 (5) of the PfandBG, the aggregate amount of additional cover assets pursuant to section 20 (2) no. 2 of the PfandBG was € 0.0 million.

Additional figures for outstanding Pfandbriefe and related cover assets:

	2015	2014
Outstanding Pfandbriefe	**2,151.4 € mn**	**2,061.1 € mn**
of which: share of fixed-income Pfandbriefe	77.6 %	76.1 %
Cover assets pool	**2,493.4 € mn**	**2,348.4 € mn**
of which: total volume of receivables above the percentage limits set out in section 20 (2) of the PfandBG	- € mn	- € mn
of which: share of fixed-income cover assets	85.3 %	80.0 %

Net present value pursuant to section 6 of the German Regulation of the Net Present Value of Pfandbriefe (Pfandbrief-Barwertverordnung) per foreign currency:

€ mn	Balance of assets and liabilities 2015	Balance of assets and liabilities 2014
Currency		
EUR	341.8	310.5
GBP	-0.1	-0.1

There were no such payment arrears of 90 days or more in the reporting period, nor in the comparable period of the previous year.

Mortgage lending

Total volume of outstanding public-sector Pfandbriefe and of the related cover assets in terms of nominal value and present value (section 28 (1) nos. 1 and 3 of the PfandBG):

	31 Dec 2015			31 Dec 2014		
€ mn	Cover assets pool	Pfandbriefe outstanding	Excess over	Cover assets pool	Pfandbriefe outstanding	Excess over
Nominal value	14,684.3	11,670.2	3,014.1	13,492.4	10,770.9	2,721.5
of which: Derivatives	-273.0	-	-	-219.0	-	-
Present value	16,104.9	12,447.3	3,657.6	14,859.9	11,570.3	3,289.6
of which: Derivatives	-	49.4	-	38.3	-	-
Risk-adjusted net present value *	16,003.5	12,418.2	3,585.3	14,873.1	11,670.2	3,202.9

* dynamic method pursuant to section 5 PfandBarwertV / static method pursuant to section 6 PfandBarwertV

Maturity structure of outstanding mortgage Pfandbriefe and fixed-interest periods of the related cover assets (section 28 (1) no. 2 of the PfandBG):

	31 Dec 2015		31 Dec 2014	
€ mn	Cover assets pool	Pfandbriefe outstanding	Cover assets pool	Pfandbriefe outstanding
Up to 6 months	1,313.9	1,463.7	886.7	800.9
Between 6 months and 12 months	1,081.5	1,089.5	783.2	263.4
Between 12 months and 18 months	737.3	1,185.6	1,160.5	1,388.7
Between 18 months and 2 years	1,003.2	839.8	1,276.3	1,009.0
Between 2 years and 3 years	2,229.2	2,302.5	1,971.2	1,900.1
Between 3 years and 4 years	3,041.6	1,850.5	2,338.0	1,997.1
Between 4 years and 5 years	2,158.0	494.9	2,055.4	1,179.1
Between 5 years and 10 years	2,711.1	2,044.0	2,836.1	1,819.4
More than 10 years	408.5	399.7	185.0	413.2
Total	**14,684.3**	**11,670.2**	**13,492.4**	**10,770.9**

Breakdown of assets used as cover (based on their nominal value) by their amount (section 28 (2) sentence 1 no. 1a of the PfandBG)

€ mn	Cover assets pool 2015	Cover assets pool 2014
Distribution of the amounts measured at nominal value by volume		
Up to € 300 thousand	24.9	12.5
Between € 300 thousand and € 1 million	78.0	73.2
Between € 1 million and € 10 million	910.3	849.1
More than € 10 million	12,356.2	11,341.3
Total	**13,369.4**	**12,276.1**

Additional cover assets pursuant to section 28 (1) nos. 4, 5 and 6 of the PfandBG:

31 Dec 2015

€ mn	Equalisation claims pursuant to section 19 (1) no. 1	Money claims pursuant to section 19 (1) no. 2		Debt securities pursuant to section 19 (1) no. 3	Total
		Total	of which: covered bonds within the meaning of Art. 129 of EU Regulation No. 575/2013		
Countries					
Germany	-	-	-	833.9	**833.9**
EU institutions	-	-	-	160.0	**160.0**
France	-	-	-	220.0	**220.0**
Austria	-	-	-	374.0	**374.0**
Total	**-**	**-**	**-**	**1,587.9**	**1,587.9**

31 Dec 2014

In the previous year, the aggregate amount of the receivables recorded in the cover register within the meaning of section 19 (1) nos. 2 and 3 of the PfandBG totalled € 1,435.4 million.

Additional figures for outstanding Pfandbriefe and related cover assets:

	2015		2014	
Outstanding Pfandbriefe	**11,670.2**	**€ mn**	**10,770.9**	**€ mn**
of which: share of fixed-income Pfandbriefe	49.5	%	48.0	%
Cover assets pool	**14,684.3**	**€ mn**	**13,492.4**	**€ mn**
of which: total volume of receivables above the limits set out in section 13 (1) of the PfandBG	-	€ mn	-	€ mn
of which: total volume of receivables above the percentages set out in section 19 (1) no. 2 of the PfandBG	-	€ mn	-	€ mn
of which: total volume of receivables above the percentages set out in section 19 (1) no. 3 of the PfandBG	-	€ mn	-	€ mn
of which: share of fixed-income cover assets	39.8	%	37.3	%
Volume-weighted average age of receivables (seasoning)	**4.6**	**years**	**4.3**	**years**
Weighted average mortgage lending value ratio based on mortgage lending value	**57.2**	**%**	**56.3**	**%**
Weighted average mortgage lending value ratio based on market value	**39.4**	**%**	**37.5**	**%**

Net present value pursuant to section 6 of the German Regulation of the Net Present Value of Pfandbriefe (Pfandbrief-Barwertverordnung - "PfandBarwertV") per foreign currency:

€ mn	Balance of assets and liabilities 2015	Balance of assets and liabilities 2014
Currency		
CAD	25.3	19.8
CHF	17.8	-17.7
CZK	6.9	12.1
DKK	78.6	32.2
EUR	3,338.6	3,088.2
GBP	119.5	-0.5
NOK	0.5	-4.4
SEK	29.1	54.3
USD	5.0	57.4

Distribution of the amounts measured at nominal value and used to cover mortgage Pfandbriefe by countries in which the real property collateral is located (section 28 (2) sentence 1 no. 1b,c of the PfandBG):

31 Dec 2015

€ mn	Commercial property							Residential property						Total cover assets pool
	Building plots only	New buildings not yet yielding returns	Office buildings	Retail property	Industrial	Other	**Total**	Building plots only	New buildings not yet yielding returns	Condomi-niums	One- and two-family homes	Multi-family homes	**Total**	
Belgium			147.1	99.3	9.0	33.4	**288.8**							288.8
Denmark		38.9	33.8	7.9	25.5	45.8	**151.9**		7.1			7.6	**14.7**	166.6
Germany		43.8	813.3	432.9	347.5	306.5	**1,944.0**			1.4	8.6	858.7	**868.7**	2,812.7
Estonia				18.7			**18.7**							18.7
Finland			57.6	141.1	11.8		**210.5**							210.5
France		30.0	1,041.4	179.9	397.4	288.6	**1,937.3**							1,937.3
UK			372.4	843.0	110.7	565.6	**1,891.7**							1,891.7
Italy			378.8	304.3	112.9	66.6	**862.6**					85.7	**85.7**	948.3
Canada						113.9	**113.9**							113.9
Netherlands		14.9	141.8	154.4	80.4	193.3	**584.8**					137.8	**137.8**	722.6
Norway					5.1		**5.1**							5.1
Austria				102.3			**102.3**							102.3
Poland			204.8	343.2	22.9	39.9	**610.8**							610.8
Sweden	0.1		171.0	278.8	200.9	22.4	**673.2**							673.2
Switzerland						203.1	**203.1**							203.1
Spain		13.0	105.1	310.4	19.8	62.4	**510.7**							510.7
Czech Republic	3.8		47.6		11.8	59.2	**122.4**							122.4
US		121.2	1,059.9	471.6		287.1	**1,939.8**		21.3			69.6	**90.9**	2,030.7
Total	**3.9**	**261.8**	**4,574.6**	**3,687.8**	**1,355.7**	**2,287.8**	**12,171.6**		**28.4**	**1.4**	**8.6**	**1,159.4**	**1,197.8**	**13,369.4**

31 Dec 2014

€ mn	Commercial property: Building plots only	Commercial property: New buildings not yet yielding returns	Commercial property: Office buildings	Commercial property: Retail property	Commercial property: Industrial	Commercial property: Other	Commercial property: Total	Residential property: Building plots only	Residential property: New buildings not yet yielding returns	Residential property: Condominiums	Residential property: One- and two-family homes	Residential property: Multi-family homes	Residential property: Total	Total cover assets pool
Belgium			49.7	95.2	9.0	109.4	263.3							263.3
Denmark		19.6	78.2	10.4	3.7	46.5	158.4		6.5				6.5	164.9
Germany			562.7	280.6	321.7	214.4	1,379.4	0.8		0.4	3.9	541.5	546.6	1,926.0
Finland			62.5	134.4			196.9							196.9
France		15.1	1,011.7	147.8	343.2	246.4	1,764.2					4.7	4.7	1,768.9
UK			390.9	847.3	147.9	538.7	1,924.8							1,924.8
Italy			561.8	318.5	35.4	49.5	965.2					86.2	86.2	1,051.4
Canada			47.5			89.7	137.2							137.2
Netherlands			99.6	154.4	87.7	225.8	567.5					155.0	155.0	722.5
Austria				102.3			102.3							102.3
Poland			164.2	481.9	22.9	11.0	680.0							680.0
Sweden	0.1		218.6	327.0	123.8	44.6	714.1							714.1
Switzerland						183.0	183.0							183.0
Slovakia					2.2		2.2							2.2
Spain		20.6	20.0	465.3	19.8	62.4	588.1							588.1
Czech Republic			52.4		14.5	50.8	117.7							117.7
US		262.6	703.3	504.3		200.2	1,670.4					62.4	62.4	1,732.8
Total	**0.1**	**317.9**	**4,023.1**	**3,869.4**	**1,131.8**	**2,072.4**	**11,414.7**	**0.8**	**6.5**	**0.4**	**3.9**	**849.8**	**861.4**	**12,276.1**

Arrears from mortgage loans used to cover mortgage Pfandbriefe (section 28 (2) no. 2 of the PfandBG)

€ mn	Aggregate payments which are at least 90 days overdue 2015	Total amount of these receivables, to the extent that the relevant amount overdue is not less than 5% of the receivable 2015	Aggregate payments which are at least 90 days overdue 2014	Total amount of these receivables, to the extent that the relevant amount overdue is not less than 5% of the receivable
Belgium	-	-	-	0.0
Denmark	-	-	-	0.0
Germany	0.3	0.3	-	0.0
Estonia	-	-	-	0.0
Finland	-	-	-	0.0
France	-	-	-	0.0
UK	-	-	-	0.0
Italy	-	-	1.0	0.0
Canada	-	-	-	0.0
Netherlands	-	-	-	0.0
Norway	-	-	-	0.0
Austria	-	-	-	0.0
Poland	-	-	-	0.0
Sweden	-	-	-	0.0
Switzerland	-	-	-	0.0
Slovakia	-	-	-	0.0
Spain	0.3	-	0.1	0.0
Czech Republic	-	-	-	0.0
US	-	-	-	0.0
Total	**0.6**	**0.3**	**1.1**	**0.0**

Additional disclosures on mortgage receivables (section 28 (2) no. 4 of the PfandBG)

During the financial year 2015, the Bank did not acquire any properties for the purpose of loss prevention (2014: –).

As at 31 December 2015, there were no foreclosures or forced administration procedures pending, and neither had any foreclosures been carried out (2014: –).

As at 31 December 2015, interest payments were overdue in the amount of € 1.6 million (2014: € 2.9 million) for commercial property and in the amount of € 0.0 million (2014: € 0.0 million) for residential property.

Contingencies

By means of a letter of comfort, Aareal Bank AG ensures that Aareal Bank Capital Funding LLC, Wilmington, is able to fulfil its contractual obligations.

By means of a letter of comfort in favour of the Monetary Authority of Singapore, Aareal Bank AG has undertaken to ensure that Aareal Bank Asia Ltd. is able to fulfil its obligations at any time.

Consolidated financial statements

As the parent company of Aareal Bank Group, Aareal Bank AG, Wiesbaden, prepares consolidated financial statements. The consolidated financial statements will be deposited with the Register of Companies at the Wiesbaden District Court (Amtsgericht, HRB 13 184) and will also be available from Aareal Bank AG in Wiesbaden, Germany.

Loans to executive bodies of Aareal Bank

Throughout the financial year 2015, the Bank has reported transactions subject to reporting requirements within the meaning of section 15a of the German Securities Trading Act (WpHG) to BaFin, the German financial services regulatory agency, without delay, and also published such details on its website. Furthermore, Aareal Bank AG has undertaken in its extended principles related to the German Corporate Governance Code to disclose on its website, without delay, each reported purchase or sale of the shares of the Company and its subsidiaries, as well as options and other derivatives related to these, by members of the Management Board or the Supervisory Board.

The following list provides an overview of existing loans to related parties:

€ mn	31 Dec 2015	31 Dec 2014
Management Board	-	-
Supervisory Board	0.0	0.0
Other related parties	-	-
Total	0.0	0.0

The credit line granted to a Supervisory Board member in the amount of € 0.04 million has a term of ten years and bears interest at a (nominal) rate of 5.12%. Collateral was provided in line with usual market practice.

Employees

The average staffing level is shown below:

Yearly average	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Salaried employees	928	844
Executives	36	28
Total	**964**	**872**
of which: Part-time employees	200	176

Auditors' fees

The total fees charged by the auditor for the financial year 2015 are as follows:

€ 000's	1 Jan-31 Dec 2015	1 Jan-31 Dec 2014
Category		
Audit services	2,942.7	2,288.2
Other assurance services	144.5	186.6
Tax advisory services	235.2	35.3
Other services	3,769.7	2,945.0
Total	**7,092.1**	**5,455.1**

Other services include, in particular, services in conjunction with the integration projects for former Corealcredit, as well as due diligence services regarding WestImmo, related to audits concerning credit risk, risk management, and accounting. Access was largely restricted to persons holding clearance for accessing confidential information.

Disclosures pursuant to section 160 (1) no. 8 of the AktG

Pursuant to the German Securities Trading Act (WpHG), any investor whose shareholding in a listed company reaches, exceeds or falls short of certain threshold values in terms of voting rights (whether by purchase, sale or by any other means) must notify the Company and the German Federal Financial Supervisory Authority. The lowest threshold for this notification requirement is 3%. 100% of Aareal Bank AG shares are held in free float.

As at 31 December 2015, we were aware of the following shareholders holding a share in the voting rights of at least 3% pursuant to section 21 (1) of the WpHG:

	Location	Total [1)]	Notification date
Responsible entity			
VBL	Karlsruhe	6.50%	3 February 2015
DEKA	Frankfurt	5.58%	3 February 2015
Dimensional Fund	Austin	3.04%	29 May 2012
Allianz Global Investors GmbH	Frankfurt	4.88%	13 November 2015
FMR LLC, Boston (Fidelity Group)	Boston	3.45%	29 May 2015
Deutsche Asset & Wealth Management Investment GmbH	Frankfurt	4.80%	11 November 2015

[1] Direct and indirect holdings of voting rights

Corporate Governance Code

The declaration regarding the German Corporate Governance Code, pursuant to section 161 of the AktG, has been submitted and published on our website: http://www.aareal-bank.com/en/investor-relations/corporate-governance/declaration-of-compliance-within-the-meaning-of-section-161-of-the-german-public-limited-companies-act-aktiengesetz-aktg/

Proposal on the appropriation of profits

The Management Board of Aareal Bank AG proposes to the Annual General Meeting that a partial amount of € 98,764,414.65 of Aareal Bank AG's net retained profit of € 99,264,414.65 for the financial year 2015, as reported under the German Commercial Code (HGB), be used to distribute a dividend of € 1.65 per no-par value share.

The Management Board also proposes to the Annual General Meeting to carry forward the remaining distributable profit of € 500,000.00.

Executive bodies of Aareal Bank AG
Offices held in accordance with section 285 no. 10 of the German Commercial Code (HGB) in Conjunction with section 125 (1) sentence 5 of the German Public Limited Companies Act (AktG)

Supervisory Board

Marija Korsch, Chairman of the Supervisory Board		
Former Executive at Bankhaus Metzler seel. Sohn & Co. Holding AG		
Aareal Bank AG	Chairman of the Supervisory Board	
Just Software AG	Member of the Supervisory Board	

Erwin Flieger, Deputy Chairman of the Supervisory Board (until 20 May 2015)		
Chairman of the Supervisory Boards of Bayerische Beamten Versicherungsgruppe		
Aareal Bank AG	Deputy Chairman of the Supervisory Board	until 20 May 2015
Bayerische Beamten Lebensversicherung a.G.	Chairman of the Supervisory Board	
Bayerische Beamten Versicherung AG	Chairman of the Supervisory Board	
BBV Holding AG	Chairman of the Supervisory Board	
DePfa Holding Verwaltungsgesellschaft mbH	Chairman of the Supervisory Board	
Neue Bayerische Beamten Lebensversicherung AG	Chairman of the Supervisory Board	

Prof Dr Stephan Schüller, Deputy Chairman of the Supervisory Board (since 20 May 2015)		
Spokesman of the General Partners of Bankhaus Lampe KG		
Aareal Bank AG	Member of the Supervisory Board	until 20 May 2015
Aareal Bank AG	Deputy Chairman of the Supervisory Board	since 20 May 2015
DePfa Holding Verwaltungsgesellschaft mbH	Deputy Chairman of the Supervisory Board	
Universal-Investment-Gesellschaft mbH	Member of the Supervisory Board	
Howaldt & Co. Investmentaktiengesellschaft TGV	Member of the Supervisory Board	since 20 November 2015

York-Detlef Bülow*, Deputy Chairman of the Supervisory Board		
Aareal Bank AG		
Aareal Bank AG	Deputy Chairman of the Supervisory Board	

Christian Graf von Bassewitz (until 20 May 2015)		
Banker (retired); former Spokesman of the General Partners of Bankhaus Lampe KG		
Aareal Bank AG	Member of the Supervisory Board	until 20 May 2015
Bank für Sozialwirtschaft Aktiengesellschaft	Member of the Supervisory Board	
Deutscher Ring Krankenversicherungsverein a.G.	Deputy Chairman of the Supervisory Board	
SIGNAL IDUNA Allgemeine Versicherung AG	Member of the Supervisory Board	
SIGNAL IDUNA Holding AG	Member of the Supervisory Board	
Societaet CHORVS AG	Member of the Supervisory Board	

Manfred Behrens (until 20 May 2015)		
Former CEO/Chairman of the Management Board of Swiss Life Deutschland Holding GmbH		
Aareal Bank AG	Member of the Supervisory Board	until 20 May 2015

Thomas Hawel*		
Aareon Deutschland GmbH		
Aareal Bank AG	Member of the Supervisory Board	
Aareon Deutschland GmbH	Deputy Chairman of the Supervisory Board	
Dieter Kirsch*		
Aareal Bank AG		
Aareal Bank AG	Member of the Supervisory Board	
Dr Herbert Lohneiß (until 20 May 2015)		
Former Chief Executive Officer of Siemens Financial Services GmbH (retired)		
Aareal Bank AG	Member of the Supervisory Board	until 20 May 2015
UBS Global Asset Management (Deutschland) GmbH	Member of the Supervisory Board	
Joachim Neupel, Chairman of the Audit Committee of the Supervisory Board (until 20 May 2015)		
German Public Auditor and tax advisor		
Aareal Bank AG	Member of the Supervisory Board	until 20 May 2015
Richard Peters		
President and Chairman of the Management Board of Versorgungsanstalt des Bundes und der Länder		
Aareal Bank AG	Member of the Supervisory Board	
DePfa Holding Verwaltungsgesellschaft mbH	Member of the Supervisory Board	
Dr Hans-Werner Rhein (since 20 May 2015)		
German Lawyer (Rechtsanwalt)		
Aareal Bank AG	Member of the Supervisory Board	since 20 May 2015
Deutsche Familienversicherung AG	Chairman of the Supervisory Board	
Gothaer Allgemeine Versicherung AG	Member of the Supervisory Board	
Sylvia Seignette (since 20 May 2015)		
Former CEO for Germany and Austria, Calyon		
Aareal Bank AG	Member of the Supervisory Board	since 20 May 2015
Elisabeth Stheeman (since 20 May 2015)		
Senior Advisor, Bank of England, Prudential Regulation Authority		
Aareal Bank AG	Member of the Supervisory Board	since 20 May 2015
TLG Immobilien AG	Member of the Supervisory Board	
Courno	Member of the Supervisory Board	
Redefine International PLC	Member of the Supervisory Board	from 22 April 2015 to 30 August 2015

Hans-Dietrich Voigtländer (since 20 May 2015)		
Senior Partner of BDG Innovation + Transformation GmbH & Co. KG		
Aareal Bank AG	Member of the Supervisory Board	since 20 May 2015

Helmut Wagner* (until 20 May 2015)		
Aareon Deutschland GmbH		
Aareal Bank AG	Member of the Supervisory Board	until 20 May 2015

Prof Dr Hermann Wagner, Chairman of the Audit Committee (since 20 May 2015)		
German Public Auditor and tax advisor		
Aareal Bank AG	Member of the Supervisory Board	since 20 May 2015
btu beraterpartner Holding	Member of the Supervisory Board	
PEH Wertpapier Deutschland	Member of the Supervisory Board	
Deutsche Mittelstand Real Estate AG	Chairman of the Supervisory Board	
Squadra Immobilien GmbH & Co. KGaA	Member of the Supervisory Board	

Beate Wollmann* (since 20 May 2015)		
Aareon Deutschland GmbH		
Aareal Bank AG	Member of the Supervisory Board	since 20 May 2015

* Employee representative member of the Supervisory Board of Aareal Bank AG

Composition of Supervisory Board committees

Executive and Nomination Committee	
Marija Korsch	Chairman
Prof Dr Stephan Schüller	Deputy Chairman
York-Detlef Bülow	Deputy Chairman
Richard Peters	
Dr Hans-Werner Rhein	

Technology and Innovation Committee	
Hans-Dietrich Voigtländer	Chairman
Marija Korsch	Deputy Chairman
Thomas Hawel	
Richard Peters	
Elisabeth Stheeman	

Audit Committee	
Prof Dr Hermann Wagner	Chairman
Prof Dr Stephan Schüller	Deputy Chairman
York-Detlef Bülow	
Marija Korsch	
Richard Peters	
Hans-Dietrich Voigtländer	

Remuneration Control Committee	
Marija Korsch	Chairman
Prof Dr Stephan Schüller	Deputy Chairman
York-Detlef Bülow	Deputy Chairman
Dieter Kirsch	
Hans-Dietrich Voigtländer	

Risk Committee	
Marija Korsch	Chairman
Elisabeth Stheeman	Deputy Chairman
Dieter Kirsch	
Dr Hans-Werner Rhein	
Sylvia Seignette	
Prof Dr Hermann Wagner	

Committee for Urgent Decisions
Marija Korsch
Elisabeth Stheeman
Dieter Kirsch
Dr Hans-Werner Rhein
Sylvia Seignette
Prof Dr Hermann Wagner

Management Board

Dr Wolf Schumacher, Chairman of the Management Board (until 17 September 2015)		
Corporate Communications, Investor Relations, Corporate Development, Human Resources, Legal, Compliance, Audit and Operations		
Aareon AG	Member of the Supervisory Board	until 17 September 2015
Aareal Beteiligungen AG (former Corealcredit)	Chairman of the Supervisory Board	until 17 September 2015
Westdeutsche ImmobilienBank AG	Chairman of the Supervisory Board	from 1 June 2015 to 18 September 2015

Hermann Josef Merkens, Chairman of the Management Board (until 17 September 2015 Deputy Chairman of the Management Board)		
Finance, Risk Controlling, Participating Interests, Credit Management, Portfolio Management and Workout, since 17 September responsible for the following divisions: Corporate Communications, Investor Relations, Corporate Development incl. Sustainability, Human Resources, Legal, Compliance and Operations		
Aareal Estate AG	Chairman of the Supervisory Board	
Aareal Bank Asia Limited	Member of the Board of Directors	
Aareal Capital Corporation	Member of the Board of Directors	
Aareal First Financial Solutions AG	Member of the Supervisory Board	
Aareon AG	Deputy Chairman of the Supervisory Board	until 26 March 2015
Aareon AG	Chairman of the Supervisory Board	since 26 March 2015
Aareal Beteiligungen AG (former Corealcredit)	Deputy Chairman of the Supervisory Board	until 21 December 2015
Aareal Beteiligungen AG (former Corealcredit)	Chairman of the Supervisory Board	since 21 December 2015
CredaRate Solutions GmbH	Deputy Chairman of the Supervisory Board	
Westdeutsche ImmobilienBank AG	Deputy Chairman of the Supervisory Board	from 1 June 2015 to 16 October 2015
Westdeutsche ImmobilienBank AG	Chairman of the Supervisory Board	since 16 October 2015

Dagmar Knopek, Member of the Management Board		
Sales Units Structured Property Financing		
Aareal Bank Asia Limited	Member of the Board of Directors	
Aareal Bank Asia Limited	Chief Executive Officer (Chairman)	
Aareal Capital Corporation	Chairman of the Board of Directors	
Aareon AG	Member of the Supervisory Board	
Westdeutsche ImmobilienBank AG	Member of the Supervisory Board	since 16 October 2015

Thomas Ortmanns, Member of the Management Board		
Housing Industry, Treasury, Organisation, Information Technology and Organisation, Audit		
Aareal First Financial Solutions AG	Chairman of the Supervisory Board	
Aareon AG	Chairman of the Supervisory Board	
Deutsche Bau- und Grundstücks-Aktiengesellschaft	Chairman of the Supervisory Board	
HypZert GmbH	Member of the Supervisory Board	
Westdeutsche ImmobilienBank AG	Member of the Supervisory Board	since 16 October 2015

Offices held by employees of Aareal Bank AG pursuant to section 340a (4) no. 1 of the HGB

Disclosures made include all mandates held by employees of Aareal Bank AG in statutory supervisory bodies of large corporations.

Dr Stefan Lange, Bank Director		
Westdeutsche ImmobilienBank AG	Member of the Supervisory Board	since 16 October 2015

Responsibility statement

Statement pursuant to section37v (2) no. 3 of the WpHG

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Wiesbaden, 1 March 2016

The Management Board

Hermann J. Merkens Dagmar Knopek Thomas Ortmanns

Auditors' Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Aareal Bank AG, Wiesbaden, for the business year from 1 January to 31 December, 2015. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § (Article) 317 HGB ("Handelsgesetzbuch": "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany – IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Frankfurt/Main, 2 March 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Stefan Palm	**ppa. Kay Böhm**
German Public Auditor (Wirtschaftsprüfer)	**German Public Auditor (Wirtschaftsprüfer)**

Report of the Supervisory Board of Aareal Bank AG, Wiesbaden

Dear shareholders,

In a highly volatile market environment, as well as an increasingly demanding competitive and regulatory environment, Aareal Bank succeeded in further expanding its market position and generated a set of very good results during the financial year under review. In the view of the Supervisory Board, the positive business performance in 2015 underscores the fundamental strength of Aareal Bank Group, and the strong position the Group holds for continuing this success story.

During the financial year under review, the Supervisory Board continually advised, monitored, and supervised the management of the Company. The Management Board informed the Supervisory Board regularly, without delay and comprehensively, both orally and in writing, upon all the issues important to the Bank. The Management Board reported on the Group's situation, business development, key financial indicators and market developments. In addition, detailed reports and explanations were given to the Supervisory Board regarding the current liquidity status and liquidity management measures taken, the prevailing risk situation, and on risk control and risk management measures taken within the Group. The Supervisory Board also received comprehensive reports on the development of the business segments, and on operative and strategic planning. The Supervisory Board was informed about, and involved in, all important decisions. All material events were discussed and examined in detail; where a Supervisory Board resolution was required, the decision proposals were submitted to the Supervisory Board and a decision taken. In cases where resolutions needed to be passed in between scheduled Supervisory Board meetings, such resolutions were passed by way of circulation or via conference calls.

Furthermore, between the meetings of the Supervisory Board, the Chairman of the Management Board kept the Chairman of the Supervisory Board informed, on a continuous and regular basis, both orally and in writing, on all material developments of the Company. The Chairman of the Management Board maintained close contact with the Chairman of the Supervisory Board, in order to discuss key issues and important decisions personally.

Activities of the Plenary Meeting of the Supervisory Board

Seven plenary meetings of the Supervisory Board were held during the year under review, During the meetings, the members of the Supervisory Board received reports and explanations from the members of the Management Board, and discussed these in detail. One of the focal working and reporting aspects during all scheduled meetings was the approach to be taken by the Bank concerning the market environment, as well as the acquisition and integration of the subsidiaries taken over.

In its discussions, the Supervisory Board also concerned itself with changes to the regulatory framework, in great detail. This also included the new regulatory environment: since November 2014, Aareal Bank AG has been directly supervised by the European Central Bank.

Throughout the financial year, in the course of all meetings as well as during the periods between meetings, the Management Board informed the Supervisory Board about economic and market developments and their potential impact on Aareal Bank Group, in a timely, complete and comprehensible manner. This included detailed explanations of the appropriate measures taken in response to the challenges arising from general market developments, in particular the prevailing low interest rate environment.

During the plenary meetings of the Supervisory Board, the Management Board reported to the Supervisory Board regularly and comprehensively; these reports also covered the development of the Structured Property Financing and Consulting/Services segments, focusing on current economic developments. At regular intervals, the Supervisory Board was informed of the Bank's liquidity status and the related steps taken by the Bank's Treasury. In addition, the Supervisory Board was informed about the business development of the entire Aareal Bank Group. The Management Board also reported regularly on the quality of the property financing portfolio, against the background of general market trends and expected changes on the various property markets.

The focal points of the individual meetings are outlined below.

During the February meeting, the Supervisory Board discussed candidates for election to the Supervisory Board.

In the March meeting, the Supervisory Board concerned itself in detail with the financial statements and consolidated financial statements presented for the 2014 financial year, and with the auditors' report. The relevant facts were presented in the Supervisory Board report for the previous year. In addition, the proposal regarding the selection and subsequent appointment of the external auditor for the Annual General Meeting was discussed. This also included the scope and focal points of the audit for the 2015 financial year, as defined by the Supervisory Board. Other issues covered in the meeting in March included the preparations for the Annual General Meeting in May 2015. This meeting also discussed the annual reports submitted by Internal Audit and by the Compliance Officer.

Besides being the constituting meeting, the purpose of the May meeting of the Supervisory Board was to follow up on the Annual General Meeting of Aareal Bank AG, which preceded the meeting.

The focus of the July meeting was on the strategic options available to Aareal Bank Group, and on potential future challenges the Group might be faced with.

At the September meeting, the resignation of Dr Schumacher from his offices as Chairman and member of the Management Board was discussed in detail.

During the same meeting, the Supervisory Board discussed and resolved the appointment of Mr Merkens as Chairman of the Management Board, who had held the function of Deputy Chairman since December 2014.

In the December meeting, the Management Board reported on the Group's corporate planning. The Management Board submitted and explained the corporate planning in detail to the Supervisory Board. Corporate governance issues were discussed as well. The requisite resolutions were passed and implemented. Furthermore, the Supervisory Board adopted the regular Declaration of Compliance, pursuant to section 161 of the German Public Limited Companies Act (Aktiengesetz – "AktG"), which was subsequently published on the Bank's website.

In accordance with section 25c and d of the German Banking Act (Kreditwesengesetz – "KWG"), the Supervisory Board carried out the required evaluations, for the second time. The results of the evaluation, conducted in January 2016 for the 2015 financial year, were discussed in detail by the members of the Supervisory Board in March 2016. The Supervisory Board will incorporate these findings into its work. Given the election of new Supervisory Board members at the Annual General Meeting 2015, the evaluation was postponed in order to give the new members sufficient time to sufficiently familiarise themselves with the work of the Supervisory Board – especially in connection with the 2015 financial statements.

Strategy documents were regularly submitted to, and discussed by the Supervisory Board, in accordance with the Minimum Requirements for Risk Management in Banks (MaRisk). The results of the regular review of the Company's remuneration system were reported to the Supervisory Board. The Supervisory Board determined that the Company's remuneration system is appropriate.

The Chairmen of Supervisory Board committees regularly gave account of the work in the committees to the plenary meeting, answering all related questions submitted by the plenary meeting in detail.

Any Supervisory Board decisions which were taken by way of circulation were discussed at the subsequent meeting, to ensure that the members were able to reconcile the implementation of such decisions.

As part of preparing Supervisory Board decisions, a routine examination is carried out as to whether there are any conflicts of interest. No potential conflicts of interest that would need to be considered in the context of decision-making processes were identified during the financial year under review. The members of the Supervisory Board have declared in writing that no conflicts of interest pursuant to section 5.5.2 of the Corporate Governance Code arose during the financial year under review.

In addition to its regular meetings, the Supervisory Board convened for a separate meeting during which auditors PricewaterhouseCoopers provided information on current changes and deliberations in the regulatory and legal framework.

Activities of Supervisory Board Committees

The Supervisory Board has established six committees in order to perform its supervisory duties in an efficient manner: in addition to the existing committees – the Executive and Nomination Committee, the Risk Committee, the Committee for Urgent Decisions, the Audit Committee, and the Remuneration Control Committee, the Technology and Innovation Committee was established.

The Executive and Nomination Committee of the Supervisory Board convened for seven scheduled meetings and two extraordinary meetings. In the scheduled meetings, the Executive and Nomination Committee prepared the proposed resolutions of the plenary meetings of the Supervisory Board. Topics discussed at extraordinary meetings included the acquisition of Westdeutsche ImmobilienBank AG. Two meetings were held without the participation of the employee representative, since these meetings were concerned with the nomination process of shareholder representatives on the Supervisory Board to be elected at the 2015 Annual General Meeting.

The Risk Committee held four meetings during the year under review. The Management Board submitted detailed reports to the committee, covering all markets in which the Bank is active in the property finance business, as well as supplementary reports regarding the Bank's investments in securities portfolios. The committee members discussed these reports and market views in detail. The committee discussed the banking and regulatory environment of the Bank. The committee also regularly dealt with loans requiring approval, and transactions subject to reporting requirements. The committee discussed individual exposures of material importance to the Bank, which were presented and explained by the Management Board. In addition, reports on current political developments and related market responses were provided to the committee. Also, detailed reports were given regarding the Bank's liquidity status and management as well as its funding.

The committee regularly discussed reports on the Bank's risk situation, which were submitted and explained by the Management Board. Having discussed the contents with the Management Board, these were duly noted and approved by the members of the committee. Besides credit and country risks, the committee concerned itself with market risks, liquidity risks, and operational risks. The committee concerned itself with the risk-bearing capacity and the capital ratios of Aareal Bank, as well as with the Bank's cooperation with regulators, within the scope of the Single Supervisory Mechanism (SSM) under the auspices of the ECB. The committee also decided on any other transactions requiring the Supervisory Board’s approval pursuant to the Company’s Memorandum and Articles of Association or the internal rules of procedure.

The Committee for Urgent Decisions is a sub-committee of the Risk Committee. It approves loans subject to approval requirements by way of circulation; for this reason, it did not hold any meetings. Any decisions which were taken between meetings of the Risk Committee were discussed at the subsequent meeting.

The Audit Committee held six meetings during the year under review. During its meeting in February 2015, the Audit Committee received and discussed the preliminary results for the 2014 financial year. During its March meeting, the committee received the external auditors' report on the 2014 financial year and discussed the results with the auditors in detail. The committee members read the audit reports provided; they formed their own judgement of the audit results on the basis of these reports, and by way of meetings held with the external auditors. In accordance with its duties under the Memorandum and Articles of Association, the Audit Committee also discussed the selection of external auditors and the focal aspects of the audit for 2015 during the same meeting.

Proceedings at the meetings in August and November included information given to the committee on supplementary topics, such as measures to implement changed regulatory requirements. In addition to a report on the audit progress, the Management Board presented and explained the updated Group planning to the committee during its December meeting. The committee also received reports submitted by Internal Audit and by the Compliance Officer, requesting and receiving detailed explanations. It discussed and duly noted the review of the Internal Control System, which was carried out in accordance with applicable law.

Furthermore, during the committee meetings in February, May, August and November 2015, the Management Board presented the quarterly results for the financial year, as well as the preliminary full-year results for 2014 prior to publication, in accordance with the German Corporate Governance Code; the committee members discussed the reports with the Management Board. As in the financial year under review, the preliminary results for 2015 were discussed at a meeting in February 2016.

In its meeting on 14 March 2016, the Audit Committee received the external auditors' detailed report on the audit and audit results for the 2015 financial year, and discussed these results extensively with the auditors and the Management Board.

During its five meetings, the Remuneration Control Committee discussed issues related to remuneration, fulfilling its original assignment.

The newly-established Technology and Innovation Committee convened for two meetings. The first meeting in September was the committee's constituting meeting. Both meetings were characterised by detailed reports provided on the technological basis and products, especially for the clients of the Consulting/Services segment.

Attendance of Supervisory Board members at meetings is shown in the table below.

Member of the Supervisory Board	Number of meetings attended / number of meetings (plenary and committee meetings)		
Marija Korsch	33	of	33
Erwin Flieger**	12	of	12
Prof Dr Stephan Schüller	25	of	27
York-Detlef Bülow*	25	of	25
Christian Graf von Bassewitz**	7	of	7
Manfred Behrens**	3	of	3
Thomas Hawel*	9	of	9
Dieter Kirsch*	16	of	16
Dr Herbert Lohneiß**	4	of	4
Joachim Neupel**	7	of	7
Richard Peters	15	of	15
Dr Hans-Werner Rhein**	10	of	10
Sylvia Seignette**	7	of	7
Elisabeth T. Stheeman**	9	of	9
Hans-Dietrich Voigtländer**	12	of	12
Helmut Wagner* **	3	of	3
Prof Dr Hermann Wagner**	10	of	10
Beate Wollmann*	4	of	4

* Employee representative

** Term of office for only a part of the year;
the number of meetings was adjusted accordingly.

Financial Statements and Consolidated Financial Statements

The Supervisory Board instructed PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, who were elected as auditors by the Annual General Meeting 2015, with the audit of the financial statements. The external auditors appointed submitted a statement regarding their independence to the Supervisory Board, who duly noted it. The Supervisory Board has no reason to doubt the accuracy of this statement of independence. Fulfilling their duties as commissioned by the Supervisory Board, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the financial statements prepared in accordance with the German Commercial Code (HGB) and the consolidated financial statements prepared in accordance with IFRSs, as well as the Management Report and the Group Management Report. Based on the results of their audit, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft issued an unqualified audit opinion for the financial statements and consolidated financial statements.

All members of the Supervisory Board received the audit reports regarding the financial statements and the consolidated financial statements, including all annexes thereto, in good time before the meeting during which the audit results were discussed. Having examined the documents provided, the Supervisory Board members formed their own judgement of audit results. The representatives of the external auditor participated in the meeting of the Supervisory Board, during which the financial statements were discussed, and gave a detailed account of the results of their audit. The representatives of PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft were available to the Supervisory Board to answer further questions, and to provide additional information. All questions were answered to the full satisfaction of the Supervisory Board.

The financial statements and management report of Aareal Bank AG, prepared in accordance with the HGB, and the consolidated financial statements prepared in accordance with IFRSs, and the proposal of the Management Board regarding the appropriation of profit, and the audit report, were all examined in detail. No objections were raised to the audit results. In its meeting on 23 March 2016, the Supervisory Board approved the results of the audit. The Supervisory Board approved the financial statements and Management Report of Aareal Bank AG, prepared in accordance with the HGB, together with the consolidated financial statements and the Group Management Report prepared in accordance with IFRSs, and thus confirmed the financial statements of Aareal Bank AG. The Supervisory Board examined and discussed with the Management Board its proposal regarding the appropriation of profit. On the basis of the discussion, the Supervisory Board endorsed the proposal for the appropriation of profit submitted by the Management Board.

Special Transactions

The banking operations of former Corealcredit Bank AG were transferred to Aareal Bank AG during the second quarter of 2015. From a legal perspective, integration was carried out through a split-off of Corealcredit's operative banking business, and merging it into Aareal Bank, at which point Corealcredit's office in Frankfurt/Main turned into Aareal Bank AG's new Frankfurt branch.

On 22 February 2015, Aareal Bank Group announced the acquisition of all of the shares of Westdeutsche ImmobilienBank AG ("WestImmo"), which specialises in commercial property financing. Following the acquisition of Corealcredit Bank AG in the spring of 2014, Aareal Bank has once again effected a targeted investment in its core Structured Property Financing business by acquiring WestImmo, expanding its strong position on key target markets. The Supervisory Board is convinced that the Bank exploited another promising opportunity with this acquisition.

Personnel Matters

In July, the Supervisory Board of Aareal Bank AG resolved to extend the contract with Ms Dagmar Knopek, ahead of its expiry, and to re-appoint her as a member of the Management Board of Aareal Bank AG, with effect from 1 June 2016 and for a term until 31 May 2021. Ms Knopek has been a member of the Management Board since 1 June 2013, with responsibility for the Sales units within the Structured Property Financing segment. With this step, the Supervisory Board has committed a female executive, from the Bank's own ranks, and with decades of experience in international commercial property finance, to Aareal Bank for the long term. The Supervisory Board is convinced that Ms Knopek will continue to make an important contribution to successfully strengthening the position of Aareal Bank Group on the major global property markets, as part of its successful three-continent strategy.

During its regular meeting on 17 September 2015, the Supervisory Board of Aareal Bank AG resolved to effect a change at the top of the Management Board. After ten years of office, Dr Wolf Schumacher retired as Chairman of the Management Board of Aareal Bank AG. The Supervisory Board thanks Dr Schumacher for his outstanding services to the development of Aareal Bank Group, in which he played a decisive role throughout the last decade. Dr Schumacher had headed Aareal Bank Group since April 2005. Under his stewardship, the Bank first undertook a successful realignment and was afterwards steered safely through the financial crisis. The Supervisory Board is convinced that this point in time was appropriate for a change at the top of the Company, given that Aareal Bank is well-positioned to master the challenges of the future.

During the same meeting, and with immediate effect, the Supervisory Board appointed the former Deputy Chairman of the Management Board and Chief Financial Officer of Aareal Bank AG, Mr Hermann J. Merkens, as successor to Dr Schumacher as Chairman of the Management Board. Mr Merkens has been a member of Aareal Bank AG's Management Board since 2001; to date, he was responsible for Finance, Risk Control, and Credit Management. In December 2014, Mr Merkens also became Deputy Chairman of the Management Board. In his role as Chief Financial Officer, he held particular responsibility for taking successful measures to strengthen the capital base over the last few years, and contributed significantly to the success of Aareal Bank's most recent acquisitions. The Supervisory Board is convinced that, under his guidance, Aareal Bank will continue writing its success story in the future.

At its meeting on 19 February 2016, the Supervisory Board discussed the appointment of Ms Christiane Kunisch-Wolff as a member of the Management Board of Aareal Bank, effective 15 March 2016. To date, Ms Kunisch-Wolff was a member of the Management Board of Westdeutsche ImmobilienBank AG, where her responsibilities included accounting and financial reporting as well as anti-money laundering and Compliance. The Supervisory Board is delighted to have won another Management Board member from within the Group, and wishes Ms Kunisch-Wolff every success for her mandate.

During the financial year under review, Christian Graf von Bassewitz, Manfred Behrens, Erwin Flieger, Dr Herbert Lohneiß, Joachim Neupel and Helmut Wagner retired from the Supervisory Board, having served as members for many years. The Supervisory Board thanks all retired members for their commitment and constructive contributions to Aareal Bank AG's Supervisory Board.

The Annual General Meeting 2015 has elected Dr Hans-Werner Rhein, Sylvia Seignette, Elisabeth Stheeman, Dietrich Voigtländer and Prof Dr Hermann Wagner as shareholder representatives to the Supervisory Board. Since the day of the Annual General Meeting, Beate Wollmann has represented employees on Aareal Bank's Supervisory Board. Prof Dr Stephan Schüller was re-elected as a member. The Supervisory Board welcomes its new members, and wishes them every success in their work.

In conclusion, the Supervisory Board would like to thank the Management Board and all of the Group's employees for their strong commitment during the eventful 2015 financial year. That commitment – and strong motivation – from all employees of Aareal Bank Group made the Company's success possible.

Frankfurt, March 2016

For the Supervisory Board

Marija Korsch

Marija Korsch (Chairman)

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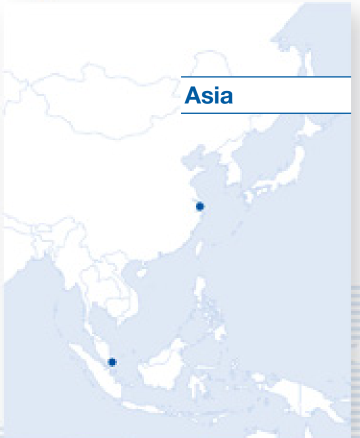
Financial Calendar

10 May 2016	Presentation of interim report as at 31 March 2016
25 May 2016	Annual General Meeting – Kurhaus Wiesbaden
11 August 2016	Presentation of interim report as at 30 June 2016
10 November 2016	Presentation of interim report as at 30 September 2016

Structured Property Financing

Structured Property Financing

Consulting / Services



Structured Property Financing

Aareal Bank, Real Estate Structured Finance: Brussels, Dublin, Frankfurt/Main, Istanbul, London, Madrid, Moscow, New York, Paris, Rome, Shanghai, Singapore, Stockholm, Warsaw, Wiesbaden | **Aareal Estate AG:** Wiesbaden | **Aareal Valuation GmbH:** Wiesbaden | **Westdeutsche ImmobilienBank AG:** Mainz

Aareal Bank, Housing Industry: Berlin, Essen, Hamburg, Leipzig, Munich, Stuttgart, Wiesbaden | **Aareon AG:** Berlin, Coventry, Dortmund, Emmen, Enschede, Essen, Gorinchem, Hamburg, Hilversum, Hückelhoven, Karlskrona, Leipzig, Lund, Mainz, Meudon-la-Forêt, Mölndal, Munich, Nantes, Norrtälje, Orléans, Oslo, Piteå, Southampton, Stockholm, Stuttgart, Swansea, Toulouse | **Aareal First Financial Solutions AG:** Mainz | **Deutsche Bau- und Grundstücks-AG:** Berlin, Bonn, Dresden, Frankfurt/Main, Freiburg, Hannover, Leipzig, Moscow, Munich, Wuppertal

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03/2016

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